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CALIFORNIA STATE TREASURER BILL LOCKYER

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Treasurer Lockyer Urges Rating Agencies to Stop Holding Government Bond Issuers to Higher Standard than Companies

Change Could Save State Budget Hundreds of Millions of Dollars

SACRAMENTO – State Treasurer Bill Lockyer today urged the three major bond rating agencies to stop holding government issuers to a higher standard than corporations, saying a more equitable system could save California's state budget hundreds of millions of dollars.

"The rating agencies' dual standard makes no sense and does a lot of harm," said Lockyer. "The system misleads investors by providing inaccurate information about risk, and costs American taxpayers billions of dollars in higher interest rates and bond insurance premiums.

"The State of California never has defaulted on its bonds. State and local governments across the country default at a far lower rate than corporations. Yet, the dual standard imposed by these agencies unfairly taints California and other municipal bond issuers with lower credit ratings. We need a system that better reflects the actual credit risk, and better serves investors, taxpayers and the market."

Lockyer sent a letter to Standard & Poor's, Moody's Investors Services and Fitch Ratings urging the agencies to abandon the dual standard and rate municipal bonds based on the actual risk of default. Ten other State Treasurers and representatives of four other large municipal bond issuers also signed the letter.

California, which sold $12.1 billion of general obligation bonds in 2007, is the largest municipal issuer in the nation. Lockyer wrote the letter and enlisted support from fellow Treasurers and other state and local public finance officials. Additional state and local municipal finance officers are expected to join the drive as the U.S. House of Representatives' Financial Services Committee gears up for a planned March 12 hearing on the municipal bond market. Lockyer also is seeking support from key institutional investors.

"We believe you share our desire to strengthen the municipal bond market that funds the infrastructure necessary to secure America's future," the letter states. "We respectfully request that you work with market participants – including issuers and investors – to develop a new rating approach that achieves that goal, and better serves investors and taxpayers."

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Recent market upheavals caused by radioactive subprime mortgage debt instruments and the crisis in the bond insurance industry have inflicted collateral damage on municipal issuers that can be traced back to the dual rating standard, according to the letter.

To finance infrastructure projects already approved by California voters, Lockyer noted the State must issue $61 billion in general obligation (GO) bonds. If those bonds received the triple-A rating Lockyer said they deserved, California taxpayers and the State's general fund could save up to $5 billion in interest rates over the 30-year life of the bonds. That estimate is based on last week's 0.38 percent market differential between the interest paid on single-A bonds – California's current GO rating – and triple-A bonds.

"While a sudden recalibration of your agencies' rating scale likely would not produce the full amount of those savings, even a portion would provide welcome relief to California taxpayers," the letter states. "Similar examples abound in states, cities and counties throughout the country, resulting in hundreds of billions of dollars in unnecessary costs to American taxpayers."

Aside from Lockyer, the other initial signatories to the letter include: State Treasurers of Connecticut, Idaho, Iowa, Maine, Nevada, New Jersey, New Mexico, Oregon, Rhode Island and Washington; City of Minneapolis; City of Los Angeles; East Bay Municipal Utility District; and New Jersey Educational Facilities Authority. Additionally, the State Treasurer of Pennsylvania and the Chief Financial Officer of Florida agreed to endorse the letter in separate correspondence to the rating agencies.

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