SMART INVESTMENTS

THE STATE OF CALIFORNIA'S DEBT AFFORDABILITY REPORT

IDEAS TO ACTION

PHILIP ANGELIDES

CALIFORNIA STATE TREASURER

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Treasurer

State of California

October 1, 2000

THE HONORABLE GRAY DAVIS
Governor

THE HONORABLE JOHN L. BURTON
President pro Tempore of the Senate

THE HONORABLE ROBERT M. HERTZBERG
Speaker of the Assembly

I am hereby transmitting for your consideration California's Debt Affordability Report which is statutorily required to be submitted by the Treasurer on October 1st of each year.

This report provides an analysis of the State's debt position and capacity to assist the Governor and the Legislature in making capital planning and financing decisions. In addition, it includes the following:

- A report on the recent credit rating upgrades received by the State of California which have brought our ratings to the highest levels since the early 1990's.
- An update on the significant progress which this office has made in implementing the policies articulated in ***Smart Investments***, the June 1999 special edition of the Debt Affordability Report, which called for state infrastructure investments that support livable communities, sustainable development, and sound environmental practices. Equally important, the report called for increased investment in the communities left behind in the wake of California's economic boom.
- Sensitivity analyses regarding the State's debt capacity - a look at how much the State can afford to borrow for infrastructure investment in the coming decade. The report's base case analysis projects General Fund debt capacity at approximately $38.9 billion.

I hope that the information in this report is of assistance in formulating sound capital financing policies. I look forward to working with you in pursuing investment policies and programs which help secure California's economic strength in the decades ahead.

Sincerely,

PHILIP ANGELIDES
State Treasurer

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EXECUTIVE SUMMARY

On October 1 of each year, the State Treasurer is required to submit a debt affordability report to the Governor and the Legislature (Government Code Section 12330). This report has been prepared in fulfillment of that statutory requirement. Here is a brief summary of the six sections which comprise the report.

SECTION I – SMART INVESTMENTS: FROM IDEAS TO ACTION

Smart Investments: From Ideas to Action provides an update on the actions taken over the past 17 months to further the policies set forth in the State Treasurer's June 1999 ***Smart Investments*** report, a special edition of ***California's Debt Affordability Report.*** Since release of ***Smart Investments***, the State Treasurer's Office has proceeded on a number of fronts to implement the objectives outlined in the report. This section reviews a set of initiatives, marking a fundamental shift in state policies, that direct more than $12 billion in state public program resources and investment capital over a three-year period in pursuit of the "smart investment" goals of sustainable growth and community revitalization.

SECTION II – A CALIFORNIA MARKET PERSPECTIVE: CREDIT RATINGS ON THE RISE

A California Market Perspective: Credit Ratings on the Rise reviews the four credit rating upgrades that California has received since January 1999. These upgrades have brought ratings to their highest levels since the early 1990s and will reduce the State's borrowing costs by over $100 million. This section also describes California's wide range of investors and their optimistic or "bullish" perspective on the California economy and the State's renewed fiscal discipline. Market interest in California's bonds remains high, according to investors, due to strong financial management by state officials, positive credit actions, and increased demand for the State's bonds.

SECTION III–CALIFORNIA'S CURRENT DEBT POSITION

The State's debt ratios remain low to moderate according to the rating agencies and relative to California's peer group of the ten most populous states. The State's current debt service as a percentage of General Fund revenues is 3.74 percent, compared to 4.42 percent in fiscal year 1998-99.

SECTION IV–CALIFORNIA'S UNISSUED DEBT

Nearly one-half of California's authorized but unissued $16.8 billion of net tax-supported debt is represented by bonds approved in March 2000 for parks, clean water, public libraries and other purposes or by Proposition 1A school bonds that were approved by voters, in November 1998, with the stipulation that certain expenditures could only commence on July 1, 2000. To meet real-time funding needs for critical infrastructure projects, the State Treasurer's Office has taken actions to provide interim financing opportunities to facilitate project delivery.

SECTION V – DEBT CAPACITY

The State's current General Fund debt capacity–how much the State can borrow for infrastructure investment–is approximately $38.95 billion over the next 10 years if 4 percent of General Fund revenues are committed to debt service.

If the State gradually increases, over the next five years, the portion of annual General Fund revenues committed to debt service to 5 percent, then debt capacity over the next 10 years rises to approximately $54.06 billion. If the State gradually increases its debt service commitment to 6 percent of General Fund revenues, then 10-year debt capacity reaches approximately $69.20 billion.

This section contains both a "base case" analysis of debt capacity–derived from the most recent 10-year revenue forecasts from the Department of Finance, as well as sensitivity analyses to develop ranges of debt capacity estimates over time.

SECTION VI – THE STATE'S APPROACH TO BOND SALES

Carefully managing its bond sales to maximize investor interest, the State Treasurer's Office is now selling general obligation bonds as often as six times per year, rather than three times. In fiscal year 1999-00, the State sold $2.75 billion in general obligation bonds, and plans to sell approximately $3.25 billion in general obligation bonds during fiscal year 2000-01.

The State also sold $293 million in lease-purchase revenue bonds in fiscal year 1999-00, with another $93 million in sales anticipated for fiscal year 2000-01.

In June 1999, the State Treasurer released a special edition of California's annual Debt Affordability Report, entitled ***Smart Investments***. In addition to providing an analysis of the State's debt capacity, the report articulated a state investment policy to help ensure California's long-term economic prosperity (to view the ***Smart Investments*** report, visit the State Treasurer's website at www.treasurer.ca.gov).

Smart Investments noted that California is on the cusp of an unprecedented wave of growth, with the State's population expected to increase by 12 million residents over the next 20 years. This surge in population will equal that experienced in the boom years of the 1950s, 1960s, and 1970s combined, and will come in the context of decades of underinvestment in the public fabric of the State.

Smart Investments recognized that, in the face of unprecedented growth, California cannot achieve sustained economic success if the environment is degraded and if there are pockets of poverty throughout the State.

The following initiatives... mark a fundamental shift in state policies, directing more than $12 billion in state public program resources and investment capital over a three year period in pursuit of "smart investment" goals.

The report outlined a strategic and fiscally prudent approach to investment that called for state infrastructure investments that support livable communities, sustainable development, and sound environmental practices. Equally important, it called for directing increased state investment to the communities left behind in the wake of California's economic boom.

Smart Investments noted that the growing gap between the "two Californias" is increasingly reflected in how and where we live–with the economic and social distance ever growing between our older cities, inner-ring suburbs, and struggling rural communities on one hand, and our wealthy urban enclaves and thriving suburbs on the other.

Smart Investments further recognized that the two central policy goals contained in the report–promoting sustainable development patterns and fostering community revitalization–are fundamentally linked.

Providing affordable housing, broadening economic opportunity, reaching a balance between jobs and housing, preserving the environment and quality of life, and sustaining economic progress are all matters that reach across neighborhood and community boundaries.

The preservation of open spaces beyond the urban perimeter is tied to the stabilization and renewal of communities within the urban fabric. Population growth in the years ahead dictates that no community can be viewed as expendable.

Air quality is affected by commutes across regions, including the travels of residents from urban core and inner-ring suburban communities to jobs being created on the urban edge. Urban reinvestment and more sustainable suburban growth patterns can reduce auto dependence, traffic congestion, and air pollution.

High unemployment in struggling communities is exacerbated by the distance between where potential workers live and where jobs are being created. In addition, regional economic growth can be threatened by labor force imbalances.

Smart Investments advanced the proposition that public investment policy could play a critical role in shaping the State's growth patterns and thus contribute to long-term sustainability and broadened equality of economic opportunity for struggling communities. The report recognized that public investment was only one tool in a wide array of state public policy initiatives that must be seriously pursued to make a difference. But it is an important tool, nonetheless, given that the State is likely to commit tens of billions of dollars in infrastructure investment alone in the years ahead, and that the State of California's pension and investment portfolios hold over $300 billion in assets (see ***The Double Bottom Line: Investing in California's Emerging Markets***–a report on pension and investment policy–at the State Treasurer's website, www.treasurer.ca.gov).

Since the release of ***Smart Investments***, the State Treasurer's Office has proceeded on a number of fronts to implement the policies outlined in the report.

The following initiatives, implemented during the past 17 months, mark a fundamental shift in state policies, directing more than $12 billion in state public program resources and investment capital over a three year period in pursuit of "smart investment" goals.

COMMUNITY DEVELOPMENT AND INFRASTRUCTURE INITIATIVES

In July 2000, The Orange County High School of the Arts was awarded a low-cost loan by the California Infrastructure and Economic Development Bank for its new campus located in downtown Santa Ana.

"Smart Investment" Criteria Adopted for Low-Cost Local Infrastructure Loans

The State Treasurer's Office advocated for a new set of criteria for awarding more than $1.4 billion in low-interest loans for local infrastructure projects at the California Infrastructure and Economic Development Bank, where the State Treasurer sits as a board member. The new rules, adopted in December, reward projects that help revitalize economically struggling communities and neighborhoods and support sound environmental practices.

Awarding Low-Cost Financing Based on "Smart Investment" Goals

The California Debt Limit Allocation Committee chaired by the State Treasurer, adopted new rules for the allocation of $1.6 billion annually in low-cost financing for affordable housing, pollution control, job creation, and student loans. The proposal replaces a "first come, first serve" allocation method. Under the new system, projects will be prioritized based on public policy objectives that target resources to lower income communities, support sustainable development, and leverage public dollars.

Cleaning up Contaminated Brownfield Sites

Senate Bill 1986 (Costa), proposed by the State Treasurer's Office and signed into law, enables the California Pollution Control Financing Authority, chaired by the State Treasurer, to finance environmental assessment and remediation of brownfields–contaminated sites in the midst of urban and rural communities. These properties–estimated to number in the tens of thousands across California–not only pose environmental and health risks, but also represent underutilized economic assets in local communities.

Financing of environmental assessment and remediation is a critical step in returning brownfield sites to productive use and in revitalizing economically struggling neighborhoods. The program is expected to be up and running with funding available by mid 2001.

The Extra Credit Teacher Home Purchase Program will make homeownership assistance available to teachers and principals beginning in December 2000.

- **Extra Credit Teacher Home Purchase Program**

  The Extra Credit Teacher Home Purchase Program was adopted by the California Debt Limit Allocation Committee (CDLAC), chaired by the State Treasurer, in January 2000. The program will provide $150 million in tax credits over the next four years to help more than 4,000 teachers, willing to serve in low performing schools, purchase a home. This program will provide teachers with a credit against taxes worth approximately $37,000 over the life of a 30 year, $150,000 mortgage–with an annual savings of up to $1,800 (local agencies administering the program may opt to provide low-interest mortgages in lieu of tax credits).

In September 2000, CDLAC awarded initial funding to seven local jurisdictions, with priority given to those local programs that matched state-awarded allocations with local homeownership assistance (such as assistance for down payments and closing costs). Local programs will begin making funding available to teachers and principals in December 2000.

3

- **"Smart Growth" Grant Program to Leverage Reinvestment Capital**

  Assembly Bill 779 (Torlakson), sponsored by the State Treasurer's Office and signed into law, authorizes the California Pollution Control Financing Authority, chaired by the State Treasurer, to make grants to local communities to create smart growth, community revitalization programs that leverage both private sector and foundation investment, as well as state and federal funding. These grants will provide communities with the capacity to access needed and available public and private capital resources.

- **Increased Aid to Community Health Clinics**

  The California Health Facilities Financing Authority (CHFFA), chaired by the State Treasurer, provides financing for health facilities and clinics in California. In 1999, the *HELP II Loan Program*–which provides low-interest (3 percent) loans to community health clinics serving low-income communities–was expanded with $10 million in additional funding. This year, the Cedillo-Alarcon Community Clinic Investment Act provided an additional $50 million to CHFFA to make grants to community clinics to expand health services for low-income families, recognizing that basic services, such as healthcare, are a key element of any effective strategy to bridge the growing gap between rich and poor in California.

- **"Smart Bonds" and Proposition 1A Provide Over $3 Billion for School Construction and Repair**

  From January 1999 to September 2000, the State Treasurer's Office made available over $3 billion in voter approved Proposition 1A funds for school construction and repair. In addition, the California School Financing Authority, chaired by the State Treasurer, launched the *Smart Bonds* program to help districts finance their facility needs at better terms than otherwise might be available to a district on its own.

The *Smart Bonds* program has provided nearly $50 million in "bridge financing" to help districts accelerate needed school repair and modernization projects that had been approved for Proposition 1A bond funding, but otherwise would have had to wait until the second phase of bond funds became available in July 2000.

The Swan's Market Hall project received financing from the California Tax Credit Allocation Committee to provide 18 units of affordable housing as part of a local revitalization effort.

Tax Credit Program Reformed to Assure Affordability, Achieve Sustainability Goals

In June 1999, the California Tax Credit Allocation Committee, chaired by the State Treasurer, adopted a new system for awarding $450 million annually in federal and state tax credits for the construction and rehabilitation of affordable rental housing–replacing the previous administration's lottery system. The reformed program establishes a point system that, among other things, prioritizes projects in struggling neighborhoods where the housing is part of a comprehensive revitalization effort and projects that meet a set of sustainable development goals–for example, projects within walking distance of transit, schools, parks, and shopping.

INVESTMENT INITIATIVES

$1 Billion in Home Loans for Californians Produces Strong Yields for State

One billion dollars has been committed by the State Treasurer's Office to purchase home loans made to low- and moderate-income Californians or in low- and moderate-income neighborhoods. The purchase of securitized Community Reinvestment Act loans provides new capital to lenders, allowing them to make additional loans to California homeowners.

The first purchase of $400 million, by the State's Pooled Money Investment Account (PMIA), is providing competitive yields to PMIA, while helping to stabilize neighborhoods through increased homeownership. Standing behind the securities is Freddie Mac, with assets of over $300 billion.

Over $1 Billion Invested in Urban Communities

As a member of the boards of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the State Treasurer has urged greater investment by the funds in real estate development within California's urban communities, consistent with the funds' fiduciary obligations.

In 1999, CalPERS added an urban core investment initiative to its Real Estate Portfolio and has allocated $500 million, as of August 2000, in new commitments to urban real estate ventures targeted to California. In addition, in January 2000, CalSTRS moved forward to create an urban real estate investment program resulting in an allocation of $750 million. Both investment programs are designed to give the pension funds market rates of return, while creating investment and economic activity in California's urban neighborhoods.

Investment in Business Enterprises in Communities of Economic Need

In June 2000, CalPERS approved the California Initiative, a $500 million investment fund targeted to businesses locating and expanding in underserved communities–with the double bottom line goals of achieving risk-adjusted, market returns for the pension system, while broadening economic opportunity. The initiative will be structured to engage strong private sector investment partners and to leverage additional capital.

Broadway Federal Bank, located in South Los Angeles, received its first state deposit in 1999, helping to boost small business and home mortgage lending.

Increased State Deposits in California Banks

The State Treasurer's Office has put more of the taxpayers' money–managed through the State's PMIA–to work here in California by increasing deposits of state funds in community banks. The program assures a yield to the State that is above the Treasury Bill rate, and deposits are more than fully collateralized. The state deposits provide lenders funds to boost small business and home mortgage lending in California communities.

From January 1999 through August 2000, an additional $1.8 billion was deposited in California financial institutions and the number of participating entities increased from 35 to 94.

Depositing Public Funds in Financial Institutions Committed to Community Reinvestment

Assembly Bill 2708 (Wesson), proposed by the State Treasurer's Office and signed into law, incentivizes investment in economically distressed neighborhoods by requiring state and local governments to deposit their funds in secure financial institutions that are investing in lower-income communities. This law ensures that taxpayers' moneys will help provide investment capital for those California communities that need it most.

SECTION II – A CALIFORNIA MARKET PERSPECTIVE: CREDIT RATINGS ON THE RISE

BACKGROUND

In the case of the State, the investment community continues to view its net tax-supported debt issues as high-quality investments due to its vibrant and diverse economy, strong fiscal condition, and prudent debt management.

Each year, investors ranging from individuals to large institutions purchase billions of dollars of municipal bonds issued by state and local governments throughout the United States. An investor's perception of a particular issuer will dramatically affect the price the investor is willing to pay for that issuer's bonds and thus, the interest rate paid by the state or local agency. The higher the perceived risk, the higher the interest rate, and the overall borrowing costs to the issuer.

In the case of the State, the investment community continues to view its net tax-supported debt issues as high-quality investments due to its vibrant and diverse economy, strong fiscal condition, and prudent debt management. Indeed, since January 1999, the State has received four upgrades in its credit ratings from the major rating agencies, bringing the State's credit rating to its highest level since the early 1990s. This section of the report is an overview of the market for the State's bonds from the perspective of the credit rating agencies and investors in California bonds.

FROM THE RATING AGENCIES' VIEWPOINT

A bond rating is an independent assessment of the relative credit risk associated with purchasing and holding a particular bond, and the likelihood that the obligation will be repaid. A bond rating is intended to focus on an issuer's ability and willingness to make full and timely payments on its outstanding debt. Bond ratings remain one of the most important indicators of financial performance readily available to the investment community and have a direct impact on the interest rates paid by the State to borrow. It is for this reason that the State Treasurer and other state officials are continually striving for rating upgrades and are committed to maintaining strong working relations with the bond rating agencies.

The three national bond rating agencies that track state and local governments are Fitch, Moody's Investors Service (Moody's), and Standard & Poor's (S&P). Taxpayers, investors, and the media all view bond ratings as an independent judgment of a government's fiscal performance and credit-worthiness. Although each of the rating agencies' rating categories are distinct, they all have the same broad rating categories, including single-A, double-A, and their strongest category, triple-A (see Appendix 1 for a comparison chart).

At the time of the last ***Debt Affordability Report*** in October 1999, the State's general obligation bond ratings were AA-, Aa3, and AA-, respectively, by Fitch, Moody's, and S&P.

Throughout 1999 and early 2000, the State Treasurer, the Director of Finance, and other state officials met several times with representatives of all three rating agencies, pressing for ratings upgrades based on a number of key factors, including:

- As reflected in ***Smart Investments***, a special edition of the State Treasurer's 1999 Debt Affordability Report, and the work of the Governor's infrastructure commission (The Commission on Building for the 21st Century), the State has improved its debt management practices and long-term planning for infrastructure needs;
- On-time adoption of the state budget with prudent reserves;
- The overall strength and diversity of California's economy; and
- Use of excess revenues for one-time expenses, such as infrastructure investment.

As noted above, the State's strategy paid triple dividends because all three rating agencies have upgraded the State's credit ratings, as further detailed below.

Fitch

On February 16, 2000, Fitch upgraded California's general obligation bond credit rating from AA- to AA. Also upgraded were ratings assigned to the State's lease-purchase revenue bonds, from A to A+[1].

According to Fitch, the rating upgrades were based on California's favorable economy and financial operations, the General Fund's strong year-end balance, and recent revenues that were well above estimates. Fitch indicated its belief that the state budget was based on conservative projections with a healthy level of reserves and that growth of debt has been matched to the increase in resources.

Moody's Investors Services

On February 22, 2000, Moody's revised the State's credit outlook[2], lifting it from "stable" to "positive." The positive outlook reflected Moody's belief that in the near to medium term, the California economy would continue to grow and to outpace the nation. It also reflected Moody's confidence in the State's ability to weather economic downturns, primarily because of the approach current state officials were taking to debt and budget management.

Moody's believes that the increased diversity of the economy has positioned the State well for future economic expansion, and that there is less likelihood of a statewide economic downturn absent a national recession.

Moody's February 22, 2000 revision to the State's credit outlook proved to be a precursor of good things to come. On September 7, 2000, Moody's upgraded the State's rating on its general obligation bonds from Aa3 to Aa2. Moody's also upgraded the State's lease revenue bond rating from A1 to Aa3[1]. Moody's believes that the increased diversity of the economy has positioned the State well for future economic expansion, and that there is less likelihood of a statewide economic downturn absent a national recession.

Moody's upgrades also reflect the State's increased fiscal prudence, particularly over the last two years. Moody's notes that despite a revenue windfall, the State's fiscal year 2000-01 budget does not overcommit revenues to recurring expenses. From Moody's perspective, this new budgeting approach positions the State to better weather economic cycles in spite of constraints such as voter-approved initiatives which can limit budget flexibility.

- **Standard & Poor's**

  On September 7, 2000, S&P upgraded its rating on the State's general obligation bonds from AA- to AA. S&P had upgraded the State's rating from A+ to AA- only one year earlier. On September 13, 2000, S&P also upgraded the State's lease revenue bond rating from A+ to AA-[1].

  The latest rating upgrades are primarily due to S&P's belief that the State has substantially improved its General Fund balances and has adopted sound budgeting policies.

  The following additional strengths were noted by S&P as support for its rating upgrade: a strong, diversified, and growing economy; two years of positive General Fund balances; and debt levels that are expected to remain moderate despite recent increases in bond authorizations. S&P also pointed out some areas for improvement, including budget reserves that are more substantial than in the past but still small relative to the State's budget.

SAVINGS FROM RATING UPGRADES

The rating upgrades will benefit the State by reducing the interest cost on future state borrowings. There is currently a spread of approximately 0.24 percent between the interest rates charged a borrower that is rated single-A and a borrower that is rated triple-A. Because there are five rating categories between these two ratings (see Appendix 1), each rating category has a value of approximately 0.05 percent. The 0.05 percent savings from the most recent upgrades will, therefore, result in a reduction in state borrowing cost over the life of the bonds of approximately $126 million on the $16.8 billion in authorized but unissued bonds as of July 1, 2000.

LESSONS LEARNED FROM RECENT RATING UPGRADES

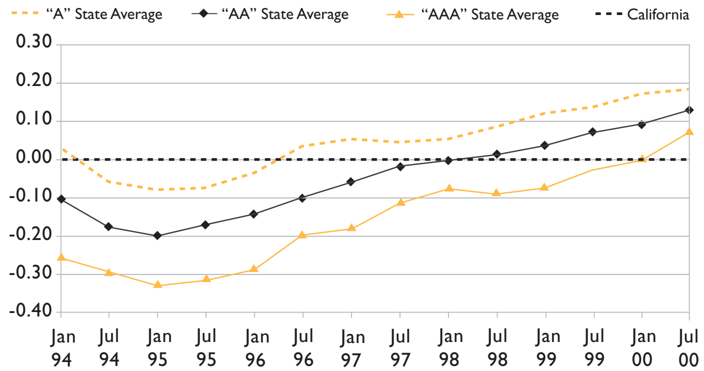
The State has not been at double-A levels since the early 1990s when a recession led to a series of downgrades. The State's leadership should take pride in its commitment to fiscal discipline, which will be an even more important ingredient to success if the economy slows down. The State's leadership also should take note of the rating agencies' suggestions for additional improvement as we strive toward a return to triple-A ratings.

HOW CALIFORNIA BONDS TRADE IN THE MARKETPLACE

As the State's credit picture has improved, so has the market's perception of the quality of its bonds. According to Moody's, in the first half of 2000, California recorded the lowest average general obligation bond interest rates of all 50 states.

Following is a graph that compares the interest rate yield differential between California's 20-year general obligation bond average interest rates (represented by the zero baseline on the graph) and Moody's composite 20-year general obligation bond averages for the last seven years[3].

State of California Relative Trading Value
Composite State 20-Year General Obligation Bonds



Source: The CHUBB Corporation and Moody's Investors Service

The graph clearly illustrates the progress the State has made in lowering interest rates on its general obligation bonds. In July 1995, the average interest rate on the State's 20-year general obligation bonds was estimated by Moody's to be 5.95 percent[4]. This was 0.33 percent higher than Moody's triple-A, 20-year state bond average. However, by July 2000, interest rates on the State's 20-year general obligation bonds had dropped to 5.58 percent, 0.06 percent lower than the average triple-A. This means that in only five years, California's cost of borrowing, relative to the triple-A 20-year state bond average, has dropped by a phenomenal 0.39 percent.

To put this in perspective, the State contemplates issuing approximately $6.35 billion of general obligation bonds over the next two fiscal years. An incremental rate reduction of only 0.10 percent would result in over $95.25 million in interest savings to the State over the life of these bonds. Viewed another way, had the State's credit-worthiness not improved since 1995, these bonds could have cost the State an additional $380 million.

PROFILE OF CALIFORNIA INVESTORS

California's Top 10 Institutional Investors
Ranked by Par Amount Held - as of September 25, 2000

Management Company	Amount
Franklin Advisors, Inc.	$673,120,000
Merrill Lynch Investment Managers (New Jersey)	$359,905,000
AIG Global Investment Group	$291,495,000
State Farm Insurance Companies	$277,825,000
Putnam Investment Management	$267,775,000
Hartford Investment Management Co., Inc.	$252,490,000
Vanguard Group	$218,570,000
Nuveen Advisory Corporation	$198,775,000
Citigroup Investments Inc.	$153,740,000
Wells Capital Management	$126,605,000
Total	**$2,820,300,000**

Source: First Call Corporation-BondWatch On-line

The State relies upon several types of key investors to purchase its debt. These investors are those for whom it is important to have both federal and state income tax-exemption for their investment earnings. In addition, the State relies upon investors that are seeking safe and reliable investments over a long period of time. These major investors include, but are not limited to, (1) California taxpayers in higher income tax brackets; (2) tax-exempt mutual funds; (3) casualty insurance companies; and (4) certain types of corporations.

The State's bonds attract a wide range of investors, including some of the largest institutional tax-exempt bond fund managers. The table lists the top 10 holders of the State's bonds as of September 25, 2000.

STATE TREASURER'S INVESTOR RELATIONS PROGRAM

The State Treasurer's Office realizes that an important part of successfully accessing the capital markets and obtaining the best financing terms possible is to keep investors well informed of the State's fiscal condition and planned bond sales. The Treasurer's Office maintains an active investor relations program and meets periodically with investors on pertinent issues ranging from the State's finances to the details of a particular bond sale. The monthly newsletter, ***The Treasury Note***, informs investors of current state issues and addresses commonly asked questions about the State's bond program. A toll-free telephone line, (800) 900-3873, also is maintained to answer state bond-related questions.

The State Treasurer's Office also has taken advantage of ever-growing electronic communication capabilities. The State Treasurer's website (www.treasurer.ca.gov) provides the investment community with information regarding the State, its credit ratings, future bond sales, and links to other websites that may be informative. Past issues of ***The Treasury Note*** and other financial reports also are available online. By accepting bids for its bonds over the Internet, the Treasurer's Office is making it easier for more firms to bid on state bond issues, which can increase competition and further drive down the State's borrowing cost.

The State Treasurer also adapts state debt issuance, when appropriate, to respond to investor interest, which makes California bonds more attractive to investors. For example, the Treasurer's move towards more frequent, properly-sized general obligation bond sales occurred in response to suggestions from investors and underwriting firms that this would further reduce the interest rates paid by the State.

CALIFORNIA MARKET FROM THE INVESTORS' VIEWPOINT

The following section recaps how the market viewed California's recent bond sales, how California bonds are trading in the secondary market, and investor views on why California bonds today are outperforming other similarly rated double-A bonds and even triple-A bonds.

To assess the market's perception of the State's net tax-supported debt program, a cross-section of investment banking firms and institutional investors were contacted. The firms interviewed included a broad spectrum of the State's bond buyers.

These interviews revealed that investors are very optimistic or "bullish" regarding the California economy. They generally agreed that the State's general obligation bonds in the near term would continue to price better than the national average of triple-A bonds. The fiscal management policies of state officials, the economic boom occurring throughout California, and the increase in the State's revenues were all mentioned as contributing factors.

Investors that were interviewed expressed various opinions on why the market's interest in California securities remains high. Below are some of the more common responses.

- **State Financial Management**
  Investors agreed that state officials are doing an excellent job managing the State's fiscal affairs. Many investors commented, for example, that the State's timely delivery of its budget for the second year in a row reflects fiscal diligence. The investors interviewed also have been duly impressed by the State's dramatic turnaround.

- **Credit Ratings**
  Investors noted that the market is always concerned with the State's ratings, and if the ratings are good, then interest in the State's bonds will remain high. Even the large institutional investors, who have access to the research produced by their own in-house credit analysts, still follow and value the opinions of the credit rating agencies. Investors all agreed that communicating with the rating agencies on a regular basis, and keeping

investors informed of positive credit actions, as the State Treasurer's Office does, helps convince investors to make aggressive buying decisions when it comes to purchasing the State's bonds.

DEMAND

Another more general reason why the appetite for the State's net tax-supported debt has increased so dramatically in the last year is simply because the overall supply of tax-exempt bonds has decreased. Volume in the California municipal market is down approximately 25 percent from last year. At the same time, California's entrepreneurial economy has provided certain of its taxpayers with income from capital gains and stock options that may be invested in tax-exempt bonds. As noted in the ***May Revision to the Governor's 2000-01 Budget***, capital gains realizations are estimated to have reached almost $84 billion in 1999, an increase from $17 billion just five years earlier. It is likely that a portion of this income is being invested in tax-exempt bonds and adding to the supply/demand imbalance.

Investors all agreed that communicating with the rating agencies on a regular basis, and keeping investors informed of positive credit actions, as the State Treasurer's Office does, helps convince investors to make aggressive buying decisions when it comes to purchasing the State's bonds.

The volatility of the stock market also has fueled the demand for tax-exempt bonds. The "flight to quality" that investors traditionally take when uncertainty exists in the stock market has added to demand for the State's bonds.

These factors can change over time based on the debt issuance practices of other municipal issuers in California and the ups and downs of the stock market. However, these factors have helped to increase the demand for State of California bonds to unprecedented levels, thereby providing the State with a lower borrowing cost.

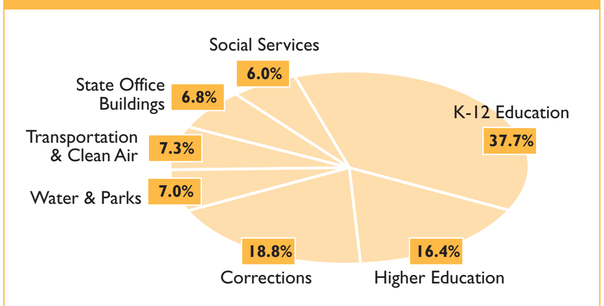
SECTION III – CALIFORNIA'S CURRENT DEBT POSITION

One of the main reasons for publishing the annual debt affordability report is to provide information about the State's current debt burden. The debt burden consists of the State's current amount of issued and outstanding bonds and the debt service payments, both interest and principal, accompanying these bonds. This report focuses only on the "net tax-supported" debt the State has outstanding (see definition of "net tax-supported" debt at the close of this section).

These bonds represent a major long-term budget commitment for the State. If all future bond sales were permanently cancelled today, principal and interest payments to retire currently outstanding bonds would continue for another 30 years. Credit analysts, including the major rating agencies, consider the State's debt burden and the potential for increased debt burden through the future issuance of bonds as critical factors in their overall view of the State.

PROGRAMS FUNDED WITH OUTSTANDING BONDS

Programs Funded with Outstanding Bonds



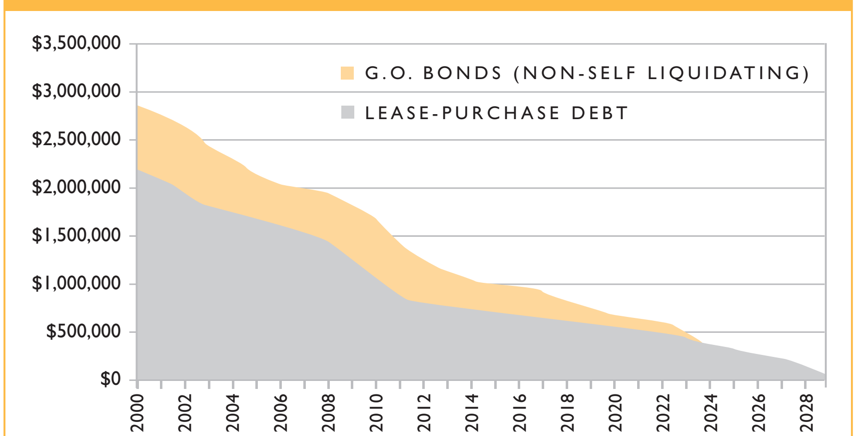
Source: State of California, Office of the Treasurer

As of July 1, 2000, the State's outstanding net tax-supported debt is $24.55 billion. This amount includes $17.87 billion in general obligation bonds and $6.68 billion in lease-purchase revenue bonds (see Appendix 2 for a list of outstanding net tax-supported debt). The following chart shows the State's program areas funded with the proceeds of this debt.

Almost three-quarters of the State's net tax-supported debt is currently used in three general program categories. Specifically, it is used to fund the State's share of the cost of facilities for K-12 schools, higher education, and state correctional institutions.

The principal and interest payments on the State's outstanding net tax-supported debt represent a significant long-term budget commitment. The graph below depicts the State's net tax-supported debt requirements for all bonds outstanding as of July 1, 2000 (see Appendices 3 and 4). As evidenced by the graph, the State's debt service requirements for the General Fund decline over the long run as bonds mature and the debt is paid off.

Debt Service on Existing Net Tax-Supported Debt ($ Thousands)



Source: State of California, Office of the Treasurer

PERTINENT STATE DEBT RATIOS

In order to measure a state's debt burden, all three major credit rating agencies use key ratios to assist in their overall credit evaluation process. These ratios are often compared to those of other states to provide a basis for evaluating the relative strengths and weaknesses of each state and to see if any trends have developed over time. The rating agencies are quick to point out, however, that the debt ratios are only one of several factors that they consider when assigning a rating, and no direct correlation can be drawn between a state's debt burden, as measured by debt ratios, and its assigned credit rating.

The three key debt ratios used to evaluate a state's debt burden include: (1) debt service as a percentage of general revenues; (2) debt as a percentage of personal income; and (3) debt per capita. Traditionally, credit analysts have relied on these relatively straightforward measures of debt affordability as a broad representation of the magnitude of a state's debt burden and, more importantly, its ability to meet its debt payment obligations.

This section of the report explains the significance of these ratios. The section concludes with a comparison of the ratios for California to national medians and to California's peer group of the 10 most populous states. Generally, the State's debt ratios have shown consistent improvement with prudent debt management and the resurgence in General Fund revenues and personal income.

Ratio 1: Debt Service as a Percentage of General Fund Revenues

This ratio has traditionally been used to measure the percentage of a state's budget that is devoted to paying back its net tax-supported debt. From a rating agency perspective, the higher the percentage of a state's budget that is required for debt service, the less financial flexibility the state has for responding to economic slowdowns, unexpected expenditures, or changes in budget priorities. This is a particularly important ratio for the State of California due to the limited amount of discretionary budget authority available to the State.

Debt Service as a Percentage of General Fund Revenues

Fiscal Year	Debt Service (1)	General Fund Revenues (1)	Debt Service as a % of General Fund Revenues
1989-90	$758,147	$38,546,178	1.97%
1990-91	$955,294	$40,563,041	2.36%
1991-92	$1,365,450	$42,925,671	3.18%
1992-93	$1,749,095	$42,757,910	4.09%
1993-94	$2,112,544	$40,527,732	5.21%
1994-95	$2,327,205	$44,547,812	5.22%
1995-96	$2,443,354	$46,731,104	5.23%
1996-97	$2,479,116	$49,831,217	4.98%
1997-98	$2,456,013	$55,261,557	4.44%
1998-99	$2,586,759	$58,510,860	4.42%
1999-00	$2,700,051	$72,226,473	3.74%

(1) ($ Thousands)

Source: State of California, Office of the Treasurer

Rating agencies generally consider an issuer's debt burden to be moderate when debt service as a percentage of General Fund revenues is 5 percent or less[5]. The State's current debt service as a percentage of general revenues is 3.74 percent. This ratio has declined since fiscal year 1995-96 when it stood at 5.23 percent.

Ratio 2: Debt as a Percentage of Personal Income

This ratio is of particular interest to investors since it directly addresses the capability of a state's residents to absorb its overall financial obligations. The ability of a state government to transform personal income into pledged revenues by exercising its taxing authority makes this ratio a strong indicator of a state's ability to repay its General Fund debt. California's current debt as a percentage of personal income is 2.3 percent compared to the Moody's 2000 Median of 2.2 percent. The State's ratio has declined steadily since fiscal year 1994-95 while the Moody's Me-

Debt as a Percentage of Personal Income

Fiscal Year	Debt Outstanding(1)	Personal Income(1)	California	Moody's Median
1989-90	$6,615,190	$573,300,000	1.15%	2.20%
1990-91	$9,651,951	$617,700,000	1.56%	2.20%
1991-92	$14,283,908	$635,000,000	2.25%	2.20%
1992-93	$17,334,904	$697,911,000	2.48%	2.20%
1993-94	$19,465,014	$722,022,000	2.70%	2.10%
1994-95	$20,468,488	$754,269,000	2.71%	2.10%
1995-96	$20,167,323	$812,404,210	2.48%	2.10%
1996-97	$20,425,580	$862,755,817	2.37%	2.10%
1997-98	$21,572,386	$920,452,229	2.34%	1.90%
1998-99	$22,873,745	$989,706,630	2.31%	2.00%
1999-00	$24,497,560	$1,063,000,000	2.30%	2.20%

(1) ($ Thousands)

Source: State of California, Office of the Treasurer and Moody's Investors Service

Debt per Capita

Fiscal Year	Debt Outstanding(1)	Population	California	Moody's Median
1989-90	$6,615,190	29,142,000	$227	$349
1990-91	$9,651,951	29,976,000	$322	$345
1991-92	$14,283,908	30,565,000	$467	$364
1992-93	$17,334,904	31,188,000	$556	$391
1993-94	$19,465,014	31,517,000	$618	$399
1994-95	$20,468,488	31,790,000	$644	$409
1995-96	$20,167,323	32,063,000	$629	$431
1996-97	$20,425,580	32,383,000	$631	$422
1997-98	$21,572,386	32,957,000	$655	$446
1998-99	$22,873,745	33,494,000	$683	$505
1999-00	$24,497,560	34,036,000	$720	$540

(1) ($ Thousands)

Source: State of California, Office of the Treasurer and Moody's Investors Service

dian has increased over this period. This is an indication that the State's resources to repay its borrowings are increasing faster than its debt obligations. According to Standard & Poor's, the State's ratio of debt to personal income is in the "low" category because it is less than 3 percent[6].

Ratio 3: Debt Per Capita

This ratio is the third standard measure used by the rating agencies to evaluate debt burden and the least important of the three credit ratios. It measures each resident's share of the total debt outstanding. The State's current per capita debt is $720 compared to the Moody's 2000 Median of $540. This is the only debt ratio of the three main ratios that has grown over the past several years. Growth in this ratio while the other ratios decline is an indication that the State's wealth and General Fund revenues are growing faster than its population. According to Standard & Poor's, the State's ratio of debt per capita is in the "low" category because it is less than $1,000[7].

STATE OF THE STATES

According to Moody's, state debt burdens throughout the nation have recently risen. Increases in debt burdens often reflect strong state finances and high demand for state infrastructure. In the past year, many states have elected to use debt to finance their backlogs of infrastructure needs given strong state economies and the affordability of debt in a still relatively low interest rate environment. Moody's expects these nationwide debt issuance trends to continue throughout 2000.

The debt burden in California, however, did not rise significantly, even though the State's strong economy certainly could have supported an increase. State resources have grown at a faster rate than its outstanding debt as state officials have chosen to employ a different strategy and use a pay-as-you-go approach to handle some capital projects that in the past would have been debt financed. This, in part, has helped California avoid the general trend toward a rising debt burden.

COMPARISON TO OTHER STATES

Comparing California's debt ratios to those of other populous states is useful in evaluating the State's debt position relative to its peers. The following table compares California's debt ratios to other populous states as reported by Moody's. The California ratios stated in the previous section are as of June 30, 2000, while the figures in the following table are based on older data. Moody's also no longer reports the ratio of debt service to General Fund revenues of other states so this information is not included in the table below.

Debt Ratios of 10 Most Populous States Ranked by Ratio of Debt to Personal Income

State	General Obligation Ratings Moody's/S&P/Fitch[1]	Debt to Personal Income[2]	Debt Per Capita[3]
Texas	Aa1/AA/AA+	1.20%	$295
Michigan	Aa1/AA+/AA+	1.50%	$398
Pennsylvania	Aa3/AA/AA	2.00%	$601
California	Aa2/AA/AA	2.40%	$654
Illinois	Aa2/AA/AA	2.60%	$753
Ohio	Aa1/AA+/AA+	2.70%	$668
Georgia	Aaa/AAA/AAA	2.80%	$697
Florida	Aa2/AA+/AA	3.40%	$866
New Jersey	Aa1/AA+/AA+	5.30%	$1,804
New York	A2/A+/A+	6.40%	$2,029
10 State Median		2.70%	$683

(1) Moody's Investors Service, Standard & Poor's, and Fitch.
(2) Moody's February 2000 Report, 2000 State Debt Medians, based on 2000 income figures.
(3) Moody's 2000 State Debt Medians, based on 1999 population figures.

The table shows that California's debt ratios are moderate compared to its peer group, a view shared by all three rating agencies in their analyses of the State's debt position.

FOCUS ON NET TAX-SUPPORTED DEBT

This report focuses only on bonds with principal and interest payments supported directly by the State's General Fund. These bonds, referred to by credit analysts and the rating agencies as "net tax-supported debt," reflect the future obligation of the State to make principal and interest payments from General Fund revenues, such as sales, use tax, and income tax revenue.

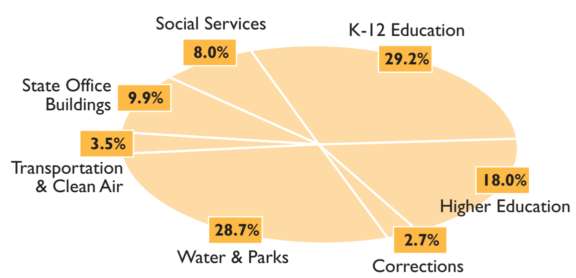
The term "net tax-supported debt" does not include bonds with final maturities of less than one year or self-supporting forms of payment. It excludes the State's tax-exempt commercial paper because these instruments always mature in less than one year.

The State issues a large number of other types of bonds, such as housing revenue bonds that provide their own stream of revenue for repayment of the debt. These types of bonds are referred to as "self-liquidating" bonds and are not covered within the scope of this report. In addition, a variety of financing authorities, such as the California Pollution Control Financing Authority, the California Health Facilities Financing Authority, and the California Infrastructure and Economic Development Bank, issue bonds on behalf of various private sector, not-for-profit entities, and governmental borrowers. Payment of principal and interest on these bonds does not come from the State's General Fund, so they are excluded from this report as well.

SECTION IV – CALIFORNIA'S UNISSUED DEBT

As of July 1, 2000, the State had a total of $16.8 billion in net tax-supported bonds that had been authorized by the voters or by the Legislature but had not been issued[8] (see Appendix 5). Of this amount, approximately $14.5 billion, or 86 percent, consists of general obligation bonds approved by voters in statewide elections. The remaining $2.3 billion, or 14 percent, is composed of lease-purchase revenue bonds approved by the Legislature. The following chart shows the various programs that will be funded when these bonds are sold in the future.

Programs to be Funded with Unissued Bonds



Source: State of California, Office of the Treasurer

It is important to note that a sizable portion of the authorized but unissued debt–$4.47 billion or 27 percent–represents bonds approved by the voters for parks, clean water, public libraries, and other purposes in the March 2000 election. Another sizable portion–$3.35 billion or 20 percent–represents bonds approved by the voters for K-12 education with the stipulation that expenditures could only commence on July 1, 2000.

The State Treasurer's Office is prepared to sell bonds for these new programs, as well as others, as projects are ready to be funded. In some cases, bond-funded projects represent large infrastructure investments that require years to develop. In other cases, projects have an immediate need for funds. To meet real-time funding needs, the Treasurer's Office can issue bonds, or provide funding between bond sales via the State's tax-exempt general obligation commercial paper program or Pooled Money Investment Account loans.

Of the three debt ratios, the rating agencies view California's ratio of debt service to General Fund revenues as the most important factor in evaluating the State's capacity for additional debt. This reflects, in part, the unique characteristics of California's Constitution, which provides voters with far-reaching initiative powers to limit the fiscal discretion of elected state officials.

Of the three debt ratios, the rating agencies view California's ratio of debt service to General Fund revenues as the most important factor in evaluating the State's capacity for additional debt.

The State's current General Fund debt capacity is approximately $38.95 billion over the next 10 years, based on the most recent Department of Finance (DOF) long-range revenue forecasts and an assumption that the State commits 4 percent of its General Fund revenues to the payment of debt service. This amount includes the $16.8 billion in bonds already authorized but not yet issued.

This projected debt capacity is based on the State committing slightly more than the 3.74 percent of General Fund revenues earmarked for debt service in fiscal year 1999-2000. It is also slightly less than the 4.17 percent figure projected in the June 1999 and October 1999 ***California's Debt Affordability Reports***. The 4 percent figure not only approximates a mid-point between 3.74 percent and 4.17 percent, but it represents a debt ratio considered moderate by market standards.

This section of the report also measures the impact on debt capacity if the State were to commit more than 4 percent of its General Fund revenues to debt service. If the State increased the percentage of General Fund revenue earmarked for debt service from 4 percent to 5 percent over the next five years, the amount of debt which could be supported would increase to $54.06 billion from $38.95 billion. If the State increased its debt service commitment even further, or from 4 percent to 6 percent of General Fund revenues, the amount of debt which could be supported would increase to $69.20 billion from $38.95 billion.

LONG-RANGE PROJECTIONS SUBJECT TO LIMITING CONDITIONS

The State's actual debt capacity at any given time is primarily constrained by limited spending flexibility in the State's budget. Approximately 83 percent of the fiscal year 2000-01 State budget is committed to K-12 education, higher education, prisons, and health and welfare. Funding levels for these programs have limited flexibility due to voter-approved initiatives, federal and state requirements, and other factors.

The State's actual debt capacity also fluctuates year to year based on changes in General Fund revenue. General Fund revenue can be volatile because it is derived primarily from sales and income taxes, which grow or shrink based on economic cycles.

To address the inherent variability of both long-range revenue forecasts and expenditure policies, this section of the report uses "sensitivity" analyses–based on differing revenue scenarios–to illustrate a range of estimated debt capacity under varying economic and fiscal circumstances. These sensitivity analyses result in an expanded range of debt affordability,

State General Fund Revenues		
Fiscal Year Ending June 30	DOF Revenue Forecasts (1)	Annual % Change
2001	$73,862,000	3.79%
2002	$77,941,000	5.52%
2003	$82,424,000	5.75%
2004	$86,964,000	5.51%
2005	$91,606,000	5.34%
2006	$96,571,000	5.42%
2007	$101,857,000	5.47%
2008	$107,428,000	5.47%
2009 (2)	$113,304,312	5.47%
2010 (2)	$119,502,057	5.47%
2011 (2)	$126,039,820	5.47%

(1) ($ Thousands)

(2) The latest DOF revenue projections forecast General Fund revenue through fiscal year 2007-08. To calculate bond issuance capacity over a longer period, the growth rate in General Fund revenue provided by the DOF for fiscal year 2007-08 was also assumed for fiscal years 2008-09, 2009-10, and 2010-11.

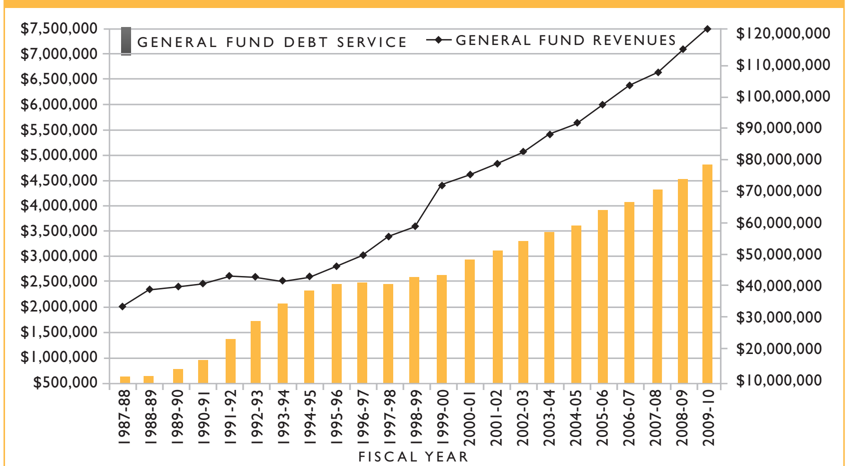
encompassing both higher and lower alternative projections of additional capacity for new General Fund debt over the next 10 years, as discussed in depth below.

The "base case" analysis estimates additional debt capacity of approximately $38.95 billion. The "base case" is derived from the most recent 10-year revenue forecasts from the DOF. It further assumes that the State devotes 4 percent of General Fund revenues to debt service and sells its previously authorized but unissued debt as quickly as possible, consistent with this constraint.

Any credible and useful analysis of state debt affordability should account for limited flexibility in the State budget and the volatility in General Fund revenues. With these factors in mind, we have developed a debt affordability model, which uses a sensitivity analysis of General Fund revenues to develop ranges of debt capacity estimates over time. (Appendices 6 and 7 present the assumptions supporting all estimates of debt capacity.)

The chart below illustrates historic and projected trends in General Fund bond debt service and General Fund revenues, consistent with the "base case" scenario discussed above. The bar chart data measured against the left axis shows annual debt service rising from a historic $598 million in fiscal year 1987-88 to an estimated $4.8 billion in fiscal year 2009-10. The line chart data measured against the right axis shows annual General Fund revenues rising from a historic $33 billion in fiscal year 1987-88 to an estimated $119.5 billion in fiscal year 2009-10.

Historic and Projected General Fund Revenues and Debt Service ($ Thousands)



Source: State of California, Office of the Treasurer and the Department of Finance

The actual amount of debt the State can afford to issue will depend on the performance of the economy, thus underscoring the importance of infrastructure investment strategies that sustain economic growth. Debt capacity also will be affected by any changes in expenditure demands on the State's revenues.

SENSITIVITY ANALYSES - ALTERNATIVES

To account for potential changes in the state economy and the resulting inherent variability in long-range forecasts of General Fund revenues, we performed "sensitivity analyses" on our "base case" estimates of debt capacity by adjusting the projected annual rate of growth in General Fund revenues and maintaining parallel expenditure growth.

The sensitivity analyses project a range of possible variances in the event revenues increase or decrease from forecasts by 1 percent, compounded annually. These analyses continue to assume that the State devotes 4 percent of General Fund revenues to debt service and sells its previously-authorized but unissued debt as quickly as possible, consistent with this constraint.

Total Additional Debt Capacity Under Alternative Revenue Scenarios ($ Thousands)

	Fiscal Year 2001-02		Fiscal Year 2004-05		Fiscal Year 2009-10	
	Annual Debt Service [2]	Cumulative Additional Debt Capacity [3]	Annual Debt Service [2]	Cumulative Additional Debt Capacity [3]	Annual Debt Service [2]	Cumulative Additional Debt Capacity [3]
DOF Forecast + 1%	$279,535	$6,790,000	$1,371,865	$19,485,000	$3,377,460	$45,395,500
DOF Forecast (base)	$219,800	$5,780,000	$1,193,310	$16,940,000	$2,907,961	$38,945,500
DOF Forecast - 1%	$157,735	$4,770,000	$1,024,585	$14,585,000	$2,471,659	$33,075,500

(1) All scenarios maintain a maximum annual ratio of debt service to General Fund revenue of 4 percent.

(2) Represents annual payments of debt service in the selected fiscal years of 2001-02, 2004-05, and 2009-10. See Appendix 7 for the assumptions supporting this debt capacity analysis.

(3) Represents additional debt capacity on a cumulative basis through the selected fiscal years of 2001-02, 2004-05, and 2009-10. Debt capacity is defined as "additional" because it includes the $16.8 billion of authorized but unissued bonds.

These sensitivity analyses result in an expanded range of debt affordability, encompassing both higher and lower alternative projections of additional General Fund debt capacity over the next 10 years. (For greater detail, please see Appendices 8.1, 8.2, and 8.3.)

The full range of additional debt capacity over the next 10 years spans from a low of $33.08 billion to a high of $45.40 billion, *including* the future issuance of $16.8 billion in debt already authorized by the voters or the Legislature but not yet issued. This additional capacity–by whatever measure–is only available incrementally over the 10-year span.

As previously mentioned, assumptions regarding the relative share of future state budgets committed to debt service will impact the estimate of debt capacity. To demonstrate the sensitivity of estimated debt capacity to this assumption, we have calculated debt capacity that would result if the State committed more than 4 percent of General Fund revenues to debt service. For illustration purposes only, we measured the impact on debt capacity if the State increased the amount it expects to spend on debt service gradually over the next five years to accommodate expenditure of either 5 percent or 6 percent of General Fund revenues on debt service by fiscal year 2006-07. In the 5 percent case, the amount of debt that could be supported would increase to $54.06 billion from the $38.95 billion available in the 4 percent base case, or by $15.11 billion over the next 10 years. In the 6 percent case, the amount of debt that could be supported would increase to $69.20 billion from the $38.95 billion available in the 4 percent base case, or by $30.25 billion over the next 10 years. (Appendices 8.4 and 8.5 provide greater detail on these debt issuance scenarios.)

While it may not be practical to increase the debt service share of the State's General Fund budget to either of these levels on either a near-term or sustained basis, given the other spending priorities of the State, this additional sensitivity analysis reveals the potential capacity implications of doing so.

The alternative scenarios used in this report do not represent the full range of possibilities, nor are they intended to *predict* any particular budgetary response to changes in California's economy or the State's financial condition. Policy decisions made at the time will determine, for instance, the proportion of future revenue growth that will be allocated toward operating expenditures, direct services, pay-as-you-go infrastructure projects, or long-term debt service. In fact, it is unlikely that any future growth in revenues would be allocated such that precisely 4 percent would accrue toward supporting additional debt. However, the 4 percent ratio is a valid assumption, as any significant variation from it would reflect a change in underlying budgetary or fiscal policy. By using the 4 percent ratio, the sensitivity analyses have a means of "holding constant" the underlying budgetary policy so that we can examine solely the potential impacts of the alternative revenue growth scenarios–"all other things being equal."

SECTION VI – THE STATE'S APPROACH TO BOND SALES

The State Treasurer's Office carefully manages its bond sales to maximize investor interest in the State's bonds. Lease-purchase revenue bond sales are scheduled, to the maximum extent possible, to manage supply in the marketplace, while at the same time meeting the State's various capital project expenditure needs. General obligation bonds are now being sold as often as six times per year, rather than three times, in response to investor requests for more frequent sales.

The State Treasurer's Office also announces its planned bond sales up to six months in advance so the market can prepare for upcoming sales. This disciplined approach to scheduling bond sales has been well received by the marketplace.

Because variable rate bonds can be sold at lower interest rates than fixed rate bonds, the Treasurer's new program would save taxpayers millions of dollars in debt service costs.

The State Treasurer's Office also monitors opportunities for the State to refund high-interest rate debt to reduce interest costs to taxpayers. These refunding opportunities, like an individual's opportunity to refinance their mortgage, are very dependent on market interest rates.

Finally, the State Treasurer's Office is always looking to improve the State's bond sale process in ways that achieve cost savings or efficiencies. One of the State Treasurer's recent initiatives was to sell the State's general obligation bonds via the Internet. Internet bidding of bonds, commonly referred to as electronic bidding, offers advantages to both the State and the firms bidding on its bonds. The advantages include greater convenience, improved accuracy of bids, and improved timeliness in the delivery of bids. By eliminating manual processes, electronic bidding also allows for last-minute responses to market changes, which can result in better bids. Electronic bidding has been used to conduct the State's general obligation bond sales since February 2000.

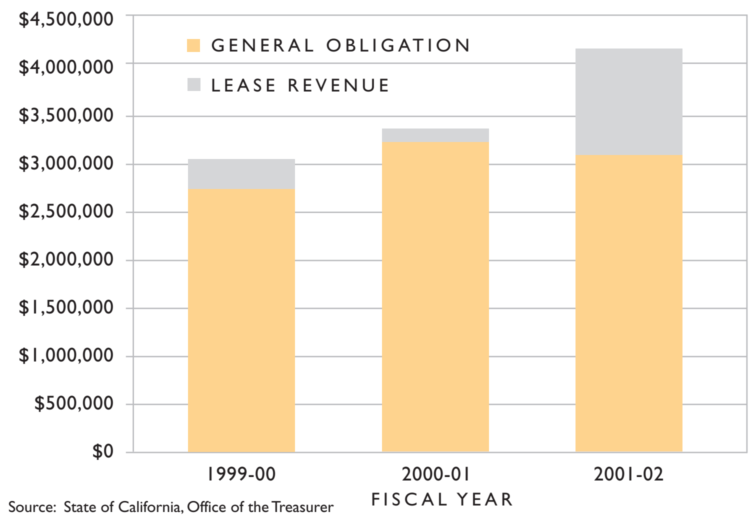
Another initiative the State Treasurer is pursuing includes the issuance of variable rate general obligation bonds. Currently, state law only permits general obligation bonds to be sold on a fixed rate basis. The Treasurer intends to sponsor legislation needed to authorize general obligation bonds to be sold on a variable rate basis. Because variable rate bonds can be sold at lower interest rates than fixed rate bonds, the Treasurer's new program would save taxpayers millions of dollars in debt service costs.

PLANNED BOND SALES

In fiscal year 1999-00, the State sold $2.75 billion in general obligation bonds and $293 million in lease-purchase revenue bonds for a total of $3.043 billion. The State plans to sell approximately $3.25 billion in general obligation bonds and $93 million in lease-purchase revenue bonds, for a total of $3.34 billion, during fiscal year 2000-01. The State also plans to sell approximately $3.1 billion in general obligation bonds and $1.01 billion in lease-purchase revenue bonds, for a total of $4.11 billion, during fiscal year 2001-02. The timing and amount of the proposed bond issues may vary depending on the actual cash needs of bond-funded projects to be financed and on market conditions at the time of sale.

The graph below illustrates that the amount of bonds sold is projected to increase over the three-year period in response to the needs of bond-funded projects.

Recent and Planned Bond Sales ($ Thousands)

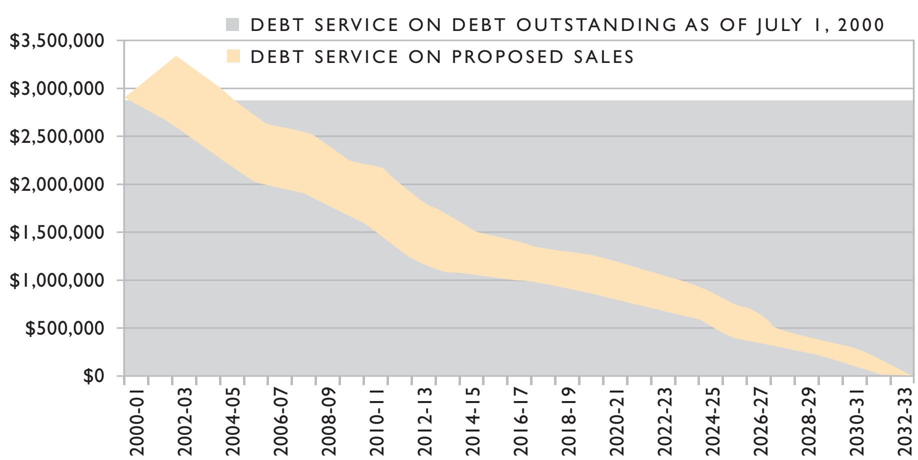


Source: State of California, Office of the Treasurer

The projected General Fund debt service associated with the issuance of these recent and planned bond sales is approximately $310.8 million in fiscal year 2001-02 and $674.5 million in fiscal year 2002-03 (see Appendix 9). The combined debt service for all outstanding bonds and recent planned bond sales is expected to peak in fiscal year 2002-03 at approximately $3.36 billion, declining thereafter as principal is retired. As new bonds are issued, older bonds will mature, producing reductions in General Fund debt service that will partially offset the increased debt service from newly-issued bonds.

The graph below shows the debt service requirements on existing debt and the additional debt service requirements projected from the planned bond sales. Factoring in the projected increase in debt service, California's debt service as a percent of revenues ratio would increase from 3.74 percent to a maximum of 4.17 percent by the end of fiscal year 2002-03. Based upon the rating agencies' general point of view, the State's debt burden would still remain "moderate."

Debt Service on Planned Bond Sales for Fiscal Years 2000-01 and 2001-02 ($ Thousands)



Source: State of California, Office of the Treasurer

ENDNOTES

[1] General obligation bonds are backed by the full faith and credit of the State of California. Debt service on lease-purchase revenue bonds is subject to appropriation by the State Legislature. Therefore, lease-purchase revenue bonds generally carry a bond rating below the State's general obligation bond rating.

[2] The credit outlook designation is Moody's early warning system of potential rating changes to come. Credit outlooks focus on possible trends and developments that may be expected to arise over the near to medium term, and may indicate a need for a rating review in the future. Moody's generally maintains a rating outlook for only those credits where there is significant market interest and active secondary market trading. For this reason, investors often react to a change in outlook even before an actual rating change occurs.

[3] The CHUBB Corporation produces a semi-annual report, entitled *Relative Value Study of General Obligation Bonds*, that describes how the State of New Jersey's general obligation bonds perform relative to Moody's composite state yields and relative to each individual state. Permission was granted to the State of California to use information obtained from its July 14, 2000, report to create the graph in this report.

[4] Derived from the CHUBB Corporation's July 14, 2000, semi-annual *Relative Value Study of General Obligation Bonds*.

[5] Moody's general guidelines also assume that a state's debt burden is high if debt service as a percentage of general revenues exceeds 10 percent, and low if it is below 2 percent.

[6] S&P's benchmarks state that debt as a percent of personal income is moderate at 3 percent to 6 percent and high above 6 percent.

[7] S&P's benchmarks also state that debt per capita is moderate at $1,000 to $2,500 and high above $2,500.

[8] For purposes of this report, authorized and issued commercial paper is considered to be authorized but unissued net tax-supported debt.

APPENDICES

APPENDIX I

Equivalent Credit Ratings
Major National Municipal Credit Rating Agencies

Fitch	Moody's Investors Service	Standard & Poor's
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-

Source: Fitch, Moody's Investors Service, and Standard & Poor's

Outstanding Net Tax-Supported Bonds–as of July 1, 2000 ($ Thousands)

General Obligation Bonds (Non-Self Liquidating)	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding
California Earthquake Safety and Housing Rehabilitation Bond Act of 1988	6/7/88	$150,000	$95,510
California Library Construction and Renovation Bond Act of 1988	11/8/88	75,000	52,325
California Library Construction and Renovation Bond Act of 2000	3/7/00	350,000	-
California Park and Recreational Facilities Act of 1984	6/5/84	370,000	183,345
California Parklands Act of 1980	11/4/80	285,000	54,930
California Safe Drinking Water Bond Law of 1976	6/8/76	175,000	59,710
California Safe Drinking Water Bond Law of 1984	11/6/84	75,000	36,340
California Safe Drinking Water Bond Law of 1986	11/4/86	100,000	71,900
California Safe Drinking Water Bond Law of 1988	11/8/88	75,000	52,330
California Wildlife, Coastal, and Park Land Conservation Act of 1988	6/7/88	776,000	506,755
Class Size Reduction Public Education Facilities Bond Act of 1998 (Hi Ed)	11/3/98	2,500,000	89,000
Class Size Reduction Public Education Facilities Bond Act of 1998 (K-12)	11/3/98	6,700,000	2,109,165
Clean Air and Transportation Improvement Bond Act of 1990	6/5/90	1,990,000	1,121,990
Clean Water and Water Conservation Bond Law of 1978	6/6/78	375,000	69,200
Clean Water and Water Reclamation Bond Law of 1988	11/8/88	65,000	49,810
Clean Water Bond Law of 1970	11/3/70	250,000	5,500
Clean Water Bond Law of 1974	6/4/74	250,000	11,260
Clean Water Bond Law of 1984	11/6/84	325,000	111,105
Community Parklands Act of 1986	6/3/86	100,000	55,995
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/8/88	500,000	337,745
County Correctional Facility Capital Expenditure Bond Act of 1986	6/3/86	495,000	282,525
County Jail Capital Expenditure Bond Act of 1981	11/2/82	280,000	99,450
County Jail Capital Expenditure Bond Act of 1984	6/5/84	250,000	88,650
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	6/5/90	300,000	128,555
Fish and Wildlife Habitat Enhancement Act of 1984	6/5/84	85,000	37,955
Hazardous Substance Cleanup Bond Act of 1984	11/6/84	100,000	39,590
Higher Education Facilities Bond Act of 1986	11/4/86	400,000	191,900
Higher Education Facilities Bond Act of 1988	11/8/88	600,000	328,695
Higher Education Facilities Bond Act of June 1990	6/5/90	450,000	277,875
Higher Education Facilities Bond Act of June 1992	6/2/92	900,000	700,190
Housing and Homeless Bond Act of 1988	11/8/88	300,000	114,010
Housing and Homeless Bond Act of 1990	6/5/90	150,000	80,365
Lake Tahoe Acquisitions Bond Act	8/2/82	85,000	40,160
New Prison Construction Bond Act of 1981	6/8/82	495,000	116,000
New Prison Construction Bond Act of 1984	6/5/84	300,000	82,500
New Prison Construction Bond Act of 1986	11/4/86	500,000	255,405
New Prison Construction Bond Act of 1988	11/8/88	817,000	451,740
New Prison Construction Bond Act of 1990	6/5/90	450,000	272,150
Passenger Rail and Clean Air Bond Act of 1990	6/5/90	1,000,000	657,940

Outstanding Net Tax-Supported Bonds–as of July 1, 2000 ($ Thousands) *continued*

General Obligation Bonds (Non-Self Liquidating)	Voter Authorization Date	Voter Authorization Amount	Bonds Outstanding
Public Education Facilities Bond Act of 1996	3/26/96	$3,000,000	$2,533,740
1988 School Facilities Bond Act	11/8/88	800,000	468,440
1990 School Facilities Bond Act	6/5/90	800,000	492,805
1992 School Facilities Bond Act	11/3/92	900,000	678,231
Safe, Clean Reliable Water Supply Act of 1996	11/5/96	995,000	197,135
Safe Drinking Water Bond Act of 2000	3/7/00	1,970,000	-
Safe Neighborhood Parks Bond Act of 2000	3/7/00	2,100,000	-
School Building and Earthquake Bond Act of 1974	11/5/74	40,000	34,660
School Facilities Bond Act of 1988	6/7/88	800,000	424,505
School Facilities Bond Act of 1990	11/6/90	800,000	519,520
School Facilities Bond Act of 1992	6/2/92	1,900,000	1,322,165
Seismic Retrofit Bond Act of 1996	3/26/96	2,000,000	1,045,760
Senior Center Bond Act of 1984	11/6/84	50,000	15,000
State Beach, Park, Recreational and Historical Facilities Bonds	6/4/74	250,000	2,355
State School Building Lease-Purchase Bond Law of 1982	11/2/82	500,000	88,440
State School Building Lease-Purchase Bond Law of 1984	11/6/84	450,000	181,250
State School Building Lease-Purchase Bond Law of 1986	11/4/86	800,000	408,650
State, Urban, and Coastal Park Bond Act of 1976	11/2/76	280,000	21,325
Veterans' Homes Bond Act of 2000	3/7/00	50,000	-
Water Conservation and Water Quality Bond Law of 1986	6/3/86	150,000	80,855
Water Conservation Bond Law of 1988	11/8/88	60,000	35,210
Total General Obligation Bonds		**$42,138,000**	**$17,869,616**

Lease-Purchase Revenue Bonds	Bonds Outstanding
California Community Colleges	$639,135
Department of Corrections	2,615,371
Department of the Youth Authority	8,785
Energy Efficiency Program (Various State Agencies)	125,530
The Regents of The University of California	1,082,663
Trustees of The California State University	710,660
Various State Office Buildings	1,498,985
Total Lease-Purchase Revenue Bonds	**$6,681,129**

Total Outstanding Net Tax-Supported Bonds	$24,550,745

Source: State of California, Office of the Treasurer

Schedule of Debt Service Requirements For General Obligation Bonds[a] (Non-Self Liquidating)–as of July 1, 2000

Fiscal Year Ending		Current Debt	
June 30	Interest	Principal [b]	Total
2001	$1,032,103,510	$1,189,233,068	$2,221,336,578 [c]
2002	947,874,108	1,233,205,000	2,181,079,108
2003	872,760,250	1,182,526,392	2,055,286,642
2004	796,834,558	1,108,580,000	1,905,414,558
2005	731,192,759	1,045,519,389	1,776,712,148
2006	665,731,889	982,165,000	1,647,896,889
2007	605,502,298	937,565,000	1,543,067,298
2008	551,894,959	920,563,078	1,472,458,037
2009	496,061,964	911,350,000	1,407,411,964
2010	441,257,021	842,250,000	1,283,507,021
2011	392,481,861	755,904,045	1,148,385,906
2012	344,164,781	613,310,000	957,474,781
2013	311,259,151	502,415,000	813,674,151
2014	286,602,168	426,975,000	713,577,168
2015	265,472,601	415,550,000	681,022,601
2016	244,022,692	413,265,000	657,287,692
2017	221,857,970	413,340,000	635,197,970
2018	200,491,663	412,620,000	613,111,663
2019	179,014,444	411,585,000	590,599,444
2020	157,633,656	407,885,000	565,518,656
2021	137,353,482	406,560,000	543,913,482
2022	116,835,566	390,290,000	507,125,566
2023	95,802,905	392,610,000	488,412,905
2024	76,708,940	322,870,000	399,578,940
2025	60,411,332	283,520,000	343,931,332
2026	45,883,770	245,740,000	291,623,770
2027	33,019,082	229,100,000	262,119,082
2028	21,493,111	211,600,000	233,093,111
2029	11,731,645	160,395,000	172,126,645
2030	4,091,566	101,125,000	105,216,566
Total	**$10,347,545,702**	**$17,869,615,972**	**$28,217,161,674**

(a) Does not include commercial paper outstanding.
(b) Includes scheduled mandatory sinking fund payments as well as serial maturities.
(c) Total represents the remaining debt service requirements from August 1, 2000 through June 30, 2001.

Source: State of California, Office of the Treasurer

Schedule of Debt Service Requirements For Lease-Purchase Revenue Bonds–as of July 1, 2000

Fiscal Year Ending June 30	Current Debt Interest	Principal [a]	Total
2001	$341,206,937	$316,464,020	$657,670,956 [b]
2002	338,516,520	298,370,773	636,887,293
2003	326,502,432	304,051,119	630,553,550
2004	310,689,493	312,086,386	622,775,879
2005	296,167,503	326,004,507	622,172,010
2006	277,040,610	344,962,555	622,003,164
2007	264,323,824	297,368,920	561,692,744
2008	246,133,752	304,591,788	550,725,540
2009	234,292,699	325,637,732	559,930,432
2010	211,750,616	313,191,634	524,942,250
2011	184,072,471	324,870,000	508,942,471
2012	166,757,300	307,080,000	473,837,300
2013	150,259,540	314,055,000	464,314,540
2014	133,514,950	315,295,000	448,809,950
2015	116,374,745	331,840,000	448,214,745
2016	98,579,273	311,230,000	409,809,273
2017	81,518,601	314,145,000	395,663,601
2018	64,854,193	326,475,000	391,329,193
2019	48,008,567	282,810,000	330,818,567
2020	33,200,881	250,385,000	283,585,881
2021	21,512,655	181,270,000	202,782,655
2022	11,956,659	152,615,000	164,571,659
2023	5,634,088	95,055,000	100,689,088
2024	1,404,391	15,155,000	16,559,391
2025	478,230	16,120,000	16,598,230
Total[c]	**$3,964,750,929**	**$6,681,129,434**	**$10,645,880,363**

[a] Includes scheduled mandatory sinking fund payments as well as serial maturities.
[b] Total represents the remaining debt service requirements from August 1, 2000, through June 30, 2001.
[c] Totals may not add due to rounding.

Source: State of California, Office of the Treasurer

Authorized and Unissued Net Tax-Supported Bonds–as of July 1, 2000 ($ Thousands)

General Obligation Bonds (Non-Self Liquidating)	Date	Voter Authorization Amount	Unissued
California Earthquake Safety and Housing Rehabilitation Bond Act of 1988	6/7/88	$150,000	-
California Library Construction and Renovation Bond Act of 1988	11/8/88	75,000	$3,125
California Library Construction and Renovation Bond Act of 2000	3/7/00	350,000	350,000
California Park and Recreational Facilities Act of 1984	6/5/84	370,000	1,100
California Parklands Act of 1980	11/4/80	285,000	-
California Safe Drinking Water Bond Law of 1976	6/8/76	175,000	2,500
California Safe Drinking Water Bond Law of 1984	11/6/84	75,000	-
California Safe Drinking Water Bond Law of 1986	11/4/86	100,000	-
California Safe Drinking Water Bond Law of 1988	11/8/88	75,000	8,265
California Wildlife, Coastal, and Park Land Conservation Act of 1988	6/7/88	776,000	14,980
Class Size Reduction Public Education Facilities Bond Act of 1998 (Hi Ed)	11/3/98	2,500,000	2,411,000
Class Size Reduction Public Education Facilities Bond Act of 1998 (K-12)	11/3/98	6,700,000	4,587,300
Clean Air and Transportation Improvement Bond Act of 1990	6/5/90	1,990,000	565,225
Clean Water and Water Conservation Bond Law of 1978	6/6/78	375,000	-
Clean Water and Water Reclamation Bond Law of 1988	11/8/88	65,000	-
Clean Water Bond Law of 1970	11/3/70	250,000	-
Clean Water Bond Law of 1974	6/4/74	250,000	-
Clean Water Bond Law of 1984	11/6/84	325,000	-
Community Parklands Act of 1986	6/3/86	100,000	-
County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/8/88	500,000	-
County Correctional Facility Capital Expenditure Bond Act of 1986	6/3/86	495,000	-
County Jail Capital Expenditure Bond Act of 1981	11/2/82	280,000	-
County Jail Capital Expenditure Bond Act of 1984	6/5/84	250,000	-
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	6/5/90	300,000	155,000
Fish and Wildlife Habitat Enhancement Act of 1984	6/5/84	85,000	3,000
Hazardous Substance Cleanup Bond Act of 1984	11/6/84	100,000	-
Higher Education Facilities Bond Act of 1986	11/4/86	400,000	-
Higher Education Facilities Bond Act of 1988	11/8/88	600,000	11,705
Higher Education Facilities Bond Act of June 1990	6/5/90	450,000	8,000
Higher Education Facilities Bond Act of June 1992	6/2/92	900,000	26,110
Housing and Homeless Bond Act of 1988	11/8/88	300,000	-
Housing and Homeless Bond Act of 1990	6/5/90	150,000	-
Lake Tahoe Acquisitions Bond Act	8/2/82	85,000	-
New Prison Construction Bond Act of 1981	6/8/82	495,000	-
New Prison Construction Bond Act of 1984	6/5/84	300,000	-
New Prison Construction Bond Act of 1986	11/4/86	500,000	1,500

Authorized and Unissued Net Tax-Supported Bonds–as of July 1, 2000 ($ Thousands) *continued*

General Obligation Bonds (Non-Self Liquidating)	Date	Voter Authorization Amount	Unissued
New Prison Construction Bond Act of 1988	11/8/88	$817,000	$16,000
New Prison Construction Bond Act of 1990	6/5/90	450,000	20,100
Passenger Rail and Clean Air Bond Act of 1990	6/5/90	1,000,000	24,900
Public Education Facilities Bond Act of 1996	3/26/96	3,000,000	310,185
1988 School Facilities Bond Act	11/8/88	800,000	7,000
1990 School Facilities Bond Act	6/5/90	800,000	3,745
1992 School Facilities Bond Act	11/3/92	900,000	12,594
Safe, Clean Reliable Water Supply Act of 1996	11/5/96	995,000	791,000
Safe Drinking Water Bond Act of 2000	3/7/00	1,970,000	1,970,000
Safe Neighborhood Parks Bond Act of 2000	3/7/00	2,100,000	2,100,000
School Building and Earthquake Bond Act of 1974	1/5/74	40,000	-
School Facilities Bond Act of 1988	6/7/88	800,000	-
School Facilities Bond Act of 1990	11/6/90	800,000	6,500
School Facilities Bond Act of 1992	6/2/92	1,900,000	47,400
Seismic Retrofit Bond Act of 1996	3/26/96	2,000,000	908,645
Senior Center Bond Act of 1984	11/6/84	50,000	-
State Beach, Park, Recreational and Historical Facilities Bonds	6/4/74	250,000	-
State School Building Lease-Purchase Bond Law of 1982	11/2/82	500,000	-
State School Building Lease-Purchase Bond Law of 1984	11/6/84	450,000	-
State School Building Lease-Purchase Bond Law of 1986	11/4/86	800,000	-
State, Urban, and Coastal Park Bond Act of 1976	11/2/76	280,000	-
Veterans' Homes Bond Act of 2000	3/7/00	50,000	50,000
Water Conservation and Water Quality Bond Law of 1986	6/3/86	150,000	31,000
Water Conservation Bond Law of 1988	11/8/88	60,000	16,435
Total General Obligation Bonds		**$42,138,000**	**$14,464,314**

Lease-Purchase Debt	Unissued
Department of Corrections	$413,351
Department of the Youth Authority	8,577
Energy Efficiency Program (Various State Agencies)	264,085
The Regents of The University of California	600,000
Various State Office Buildings	1,069,795
Total Lease-Purchase Debt	**$2,355,808**

Total Authorized and Unissued Net Tax-Supported Bonds	$16,820,122

Source: State of California, Office of the Treasurer

Historic and Projected Demographic, Economic, and Fiscal Data

The following table presents underlying historic and projected population, personal income, and General Fund revenue information utilized in this report.

Fiscal Year Ending June 30	Population (000's)	% Change	Personal Income (000's)	% Change	General Fund Revenues (000's)	% Change	General Fund Revenues (000's) [1]	% Change	General Fund Revenues (000's) [2]	% Change
1989	29,142	n/a	$606,700,000	n/a	$37,651,878	n/a				
1990	29,944	2.75%	655,600,000	8.06%	38,546,178	2.38%				
1991	30,565	2.07	669,800,000	2.17	40,563,041	5.23				
1992	31,188	2.04	701,600,000	4.75	42,925,671	5.82				
1993	31,517	1.05	714,100,000	1.78	42,757,910	-0.39				
1994	31,790	0.87	735,100,000	2.94	40,527,732	-5.22				
1995	32,063	0.86	771,500,000	4.95	42,690,000	5.34				
1996	32,383	1.00	812,400,000	5.30	46,296,000	8.45				
1997	32,957	1.77	862,800,000	6.20	49,210,000	6.29				
1998	33,494	1.63	920,500,000	6.69	54,973,000	11.71				
1999	34,036	1.62	989,700,000	7.52	58,615,000	6.63				
2000	34,624	1.73	1,063,000,000	7.41	71,162,000	21.41				
2001	35,211	1.70	1,121,100,000	5.47	73,862,000	3.79	$73,150,380	2.79%	$74,573,620	4.79%
2002	35,788	1.64	1,184,100,000	5.62	77,941,000	5.52	76,458,577	4.52	79,437,655	6.52
2003	36,358	1.59	1,254,700,000	5.96	82,424,000	5.75	80,091,726	4.75	84,801,116	6.75
2004	36,920	1.55	1,330,300,000	6.03	86,964,000	5.51	83,702,344	4.51	90,320,061	6.51
2005	37,482	1.52	1,410,400,000	6.02	91,606,000	5.34	87,333,219	4.34	96,044,403	6.34
2006	38,050	1.52	1,495,500,000	6.03	96,571,000	5.42	91,193,304	4.42	102,210,406	6.42
2007	38,665	1.62	1,584,400,000	5.94	101,857,000	5.47	95,273,012	4.47	108,827,194	6.47
2008	39,289	1.61	1,677,900,000	5.90	107,428,000	5.47	99,531,176	4.47	115,867,696	6.47
2009	39,922	1.61	1,776,500,000	5.88	113,304,312	5.47	103,980,219	4.47	123,364,336	6.47
2010	40,564	1.61	1,880,900,000	5.88	119,502,057	5.47	108,628,135	4.47	131,346,009	6.47
2011	41,217	1.61	1,991,496,920	5.88	126,038,820	5.47	113,483,813	4.47	139,844,096	6.47
Annual Average (Fiscal Years 2000-01 to 2010-11)		1.60%		5.87%		5.32%		4.32%		6.32%

[1] State of California, Department of Finance (fiscal year 1998-99 to fiscal year 2010-11) projected annual growth rates minus 1.00% per annum.

[2] State of California, Department of Finance (fiscal year 1998-99 to fiscal year 2010-11) projected annual growth rates plus 1.00% per annum.

Sources:

Population – State of California Department of Finance (fiscal year 1988-89 to fiscal year 2009-10; fiscal year 2010-11 extrapolated from fiscal year 2009-10)

Personal Income – State of California, Department of Finance (calendar year 1989 to calendar year 2010; calendar year 2011 extrapolated from calendar year 2010)

General Fund Revenues – State of California, Office of the State Controller (fiscal year 1988-89 to fiscal year 1997-98). State of California, Department of Finance (fiscal year 1998-99 to fiscal year 2007-08; fiscal year 2008-09, fiscal year 2009-10 and fiscal year 2010-11 extrapolated from fiscal year 2007-08)

APPENDIX 7

The assumptions found below are incorporated into the calculations of bond financing capacity contained in this report. Please see the table on the previous page for historic and projected figures for population, personal income, and General Fund revenues.

1. Projected annual growth in General Fund revenues rates are from the Department of Finance (DOF) forecast.

2. To determine a range of bond financing capacity for the General Fund over the next 10 fiscal years, the projected annual growth rates of General Fund revenues produced by the DOF have been subjected to a sensitivity analysis. The DOF projected annual growth rates for the General Fund revenues from fiscal years 1999-00 through 2009-10 have been increased and decreased, in turn, by 1 percent from forecast to produce two additional scenarios of bond financing capacity.

3. Population projections are from DOF with annual average growth rate of 1.60 percent per annum.

4. Personal income projections are from DOF with average annual growth rate of 5.87 percent.

5. Interest cost of 6 percent on all projected bond issues.

6. 30-year final maturity.

7. Level annual repayment of principal.

8. Annual bond issuance from fiscal years 2000-01 through 2009-10 produce a constant ratio of debt service to General Fund revenues of 4 percent from fiscal years 2001-02 through 2010-11.

THE STATE OF CALIFORNIA
Debt Affordability Report-October 2000

Computation of Debt Ratios for Total Net Tax-Supported Debt as of July 1, 2000 plus $38.946 Billion in Projected Bond Financings ($ Thousands)
General Fund Revenue Growth @ DOF Forecast

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 - 2040	TOTAL
General Fund Debt - Existing												
General Obligation Bonds	$ 17,530,383	$ 16,262,178	$ 15,044,652	$ 13,901,072	$ 12,820,552	$ 11,803,387	$ 10,830,822	$ 9,875,259	$ 8,928,909	$ 8,051,659		
Lease Purchase Financings	6,364,665	6,066,295	5,762,244	5,450,157	5,124,153	4,779,190	4,481,821	4,177,229	3,851,592	3,538,400		
Sub-Total	23,895,048	22,328,473	20,806,895	19,351,229	17,944,705	16,582,577	15,312,643	14,052,488	12,780,501	11,590,059		
General Fund Debt - Projected												
General Obligation Bonds	2,355,000	5,701,500	9,303,835	12,574,670	15,910,840	19,801,175	22,843,010	25,614,680	29,691,015	33,715,015		
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-		
Sub-Total	2,355,000	5,701,500	9,303,835	12,574,670	15,910,840	19,801,175	22,843,010	25,614,680	29,691,015	33,715,015		
TOTAL	26,250,048	28,029,973	30,110,730	31,925,899	33,855,545	36,383,752	38,155,653	39,667,168	42,471,516	45,305,074		
Principal Repayments - Existing Debt												
General Obligation Bonds	1,189,233	1,268,205	1,217,526	1,143,580	1,080,519	1,017,165	972,565	955,563	946,350	877,250	$ 8,051,659	$ 18,719,616
Lease Purchase Financings	316,464	298,371	304,051	312,086	326,005	344,963	297,369	304,592	325,638	313,192	3,538,400	6,681,129
Sub-Total	1,505,697	1,566,576	1,521,578	1,455,666	1,406,524	1,362,128	1,269,934	1,260,155	1,271,988	1,190,442	11,590,059	25,400,745
Principal Repayments - Projected Debt												
General Obligation Bonds	-	78,500	192,665	319,165	438,830	564,665	713,165	838,330	958,665	1,126,500	33,715,015	38,945,500
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	78,500	192,665	319,165	438,830	564,665	713,165	838,330	958,665	1,126,500	33,715,015	38,945,500
TOTAL	1,505,697	1,645,076	1,714,243	1,774,831	1,845,354	1,926,793	1,983,099	2,098,485	2,230,653	2,316,942	45,305,074	64,346,245
Interest Payments - Existing Debt												
General Obligation Bonds	1,056,260	994,262	915,298	835,522	767,168	700,132	638,327	583,232	525,956	469,620	3,495,432	10,981,208
Lease Purchase Financings	352,975	338,517	326,502	310,689	296,168	277,041	264,324	246,134	234,293	211,751	1,118,127	3,976,519
Sub-Total	1,409,235	1,332,778	1,241,800	1,146,212	1,063,335	977,172	902,651	829,366	760,248	681,370	4,613,559	14,957,727
Interest Payments - Projected Debt												
General Obligation Bonds	-	141,300	342,090	558,230	754,480	954,650	1,188,071	1,370,581	1,536,881	1,781,461	27,591,528	36,219,272
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	141,300	342,090	558,230	754,480	954,650	1,188,071	1,370,581	1,536,881	1,781,461	27,591,528	36,219,272
TOTAL	1,409,235	1,474,078	1,583,890	1,704,442	1,817,815	1,931,823	2,090,722	2,199,947	2,297,129	2,462,831	32,205,087	51,176,998
Debt Service Payments - Existing Debt												
General Obligation Bonds	2,245,493	2,262,467	2,132,824	1,979,102	1,847,687	1,717,297	1,610,892	1,538,796	1,472,306	1,346,870	11,547,091	29,700,824
Lease Purchase Financings	669,439	636,887	630,554	622,776	622,172	622,003	561,693	550,726	559,930	524,942	4,656,527	10,657,648
Sub-Total	2,914,932	2,899,354	2,763,378	2,601,878	2,469,859	2,339,300	2,172,585	2,089,521	2,032,236	1,871,812	16,203,618	40,358,472
Debt Service Payments - Projected Debt												
General Obligation Bonds	-	219,800	534,755	877,395	1,193,310	1,519,315	1,901,236	2,208,911	2,495,546	2,907,961	61,306,543	75,164,772
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	219,800	534,755	877,395	1,193,310	1,519,315	1,901,236	2,208,911	2,495,546	2,907,961	61,306,543	75,164,772
TOTAL	2,914,932	3,119,154	3,298,133	3,479,273	3,663,169	3,858,615	4,073,821	4,298,432	4,527,782	4,779,773	77,510,161	115,523,244
Projected Bond Financings												
General Obligation Bonds	2,355,000	3,425,000	3,795,000	3,590,000	3,775,000	4,455,000	3,755,000	3,610,000	5,035,000	5,150,500	-	38,945,500
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	2,355,000	3,425,000	3,795,000	3,590,000	3,775,000	4,455,000	3,755,000	3,610,000	5,035,000	5,150,500	-	38,945,500
CUMULATIVE TOTAL	2,355,000	5,780,000	9,575,000	13,165,000	16,940,000	21,395,000	25,150,000	28,760,000	33,795,000	38,945,500		

Computation of Debt Ratios

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	35,211	35,788	36,358	36,920	37,482	38,050	38,665	39,289	39,922	40,564	41,217
Personal Income	$ 1,121,100,000	$ 1,184,100,000	$ 1,254,700,000	$ 1,330,300,000	$ 1,410,400,000	$ 1,495,500,000	$ 1,584,400,000	$ 1,677,900,000	$ 1,776,500,000	$ 1,880,900,000	$ 1,991,496,920
General Fund Revenues	$ 73,862,000	$ 77,941,000	$ 82,424,000	$ 86,964,000	$ 91,606,000	$ 96,571,000	$ 101,857,000	$ 107,428,000	$ 113,304,312	$ 119,502,057	$ 126,038,820
Growth Rate of General Fund Revenues	3.79%	5.52%	5.75%	5.51%	5.34%	5.42%	5.47%	5.47%	5.47%	5.47%	5.47%
Debt per Capita	$746	$783	$828	$865	$903	$956	$987	$1,010	$1,064	$1,117	$1,041
Debt to Personal Income	2.34%	2.37%	2.40%	2.40%	2.40%	2.43%	2.41%	2.36%	2.39%	2.41%	2.15%
Debt Service to General Fund Revenues	3.95%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Assumptions Regarding Planned Bond Sales: Level annual repayment of principal, 30-year final maturity and true interest cost of 6.0%.
Totals may not add due to rounding

Appendix 8.2

THE STATE OF CALIFORNIA
Debt Affordability Report-October 2000

Computation of Debt Ratios for Total Net Tax-Supported Debt as of July 1, 2000 plus $33.076 Billion in Projected Bond Financings ($ Thousands)
General Fund Revenue Growth @ DOF Forecast - 1%

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 - 2040	TOTAL
General Fund Debt - Existing												
General Obligation Bonds	$ 17,530,383	$ 16,262,178	$ 15,044,652	$ 13,901,072	$ 12,820,552	$ 11,803,387	$ 10,830,822	$ 9,875,259	$ 8,928,909	$ 8,051,659		
Lease Purchase Financings	6,364,665	6,066,295	5,762,244	5,450,157	5,124,153	4,779,190	4,481,821	4,177,229	3,851,592	3,538,400		
Sub-Total	23,895,048	22,328,473	20,806,895	19,351,229	17,944,705	16,582,577	15,312,643	14,052,488	12,780,501	11,590,059		
General Fund Debt - Projected												
General Obligation Bonds	1,690,000	4,713,665	7,899,665	10,804,165	13,722,830	17,036,660	19,568,825	21,861,155	25,233,150	28,620,980		
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-		
Sub-Total	1,690,000	4,713,665	7,899,665	10,804,165	13,722,830	17,036,660	19,568,825	21,861,155	25,233,150	28,620,980		
TOTAL	25,585,048	27,042,138	28,706,560	30,155,394	31,667,535	33,619,237	34,881,468	35,913,643	38,013,651	40,211,039		
Principal Repayments - Existing Debt												
General Obligation Bonds	1,189,233	1,268,205	1,217,526	1,143,580	1,080,519	1,017,165	972,565	955,563	946,350	877,250	$ 8,051,659	$ 18,719,616
Lease Purchase Financings	316,464	298,371	304,051	312,086	326,005	344,963	297,369	304,592	325,638	313,192	3,538,400	6,681,129
Sub-Total	1,505,697	1,566,576	1,521,578	1,455,666	1,406,524	1,362,128	1,269,934	1,260,155	1,271,988	1,190,442	11,590,059	25,400,745
Principal Repayments - Projected Debt												
General Obligation Bonds	-	56,335	159,000	270,500	376,335	486,170	612,835	717,670	818,005	957,670	28,620,980	33,075,500
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	56,335	159,000	270,500	376,335	486,170	612,835	717,670	818,005	957,670	28,620,980	33,075,500
TOTAL	1,505,697	1,622,911	1,680,578	1,726,166	1,782,859	1,848,298	1,882,769	1,977,825	2,089,993	2,148,112	40,211,039	58,476,245
Interest Payments - Existing Debt												
General Obligation Bonds	1,056,260	994,262	915,298	835,522	767,168	700,132	638,327	583,232	525,956	469,620	3,495,432	10,981,208
Lease Purchase Financings	352,975	338,517	326,502	310,689	296,168	277,041	264,324	246,134	234,293	211,751	1,118,127	3,976,519
Sub-Total	1,409,235	1,332,778	1,241,800	1,146,212	1,063,335	977,172	902,651	829,366	760,248	681,370	4,613,559	14,957,727
Interest Payments - Projected Debt												
General Obligation Bonds	-	101,400	282,820	473,980	648,250	823,370	1,022,200	1,174,130	1,311,669	1,513,989	23,408,321	30,760,128
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	101,400	282,820	473,980	648,250	823,370	1,022,200	1,174,130	1,311,669	1,513,989	23,408,321	30,760,128
TOTAL	1,409,235	1,434,178	1,524,620	1,620,191	1,711,585	1,800,542	1,924,851	2,003,496	2,071,918	2,195,359	28,021,880	45,717,855
Debt Service Payments - Existing Debt												
General Obligation Bonds	2,245,493	2,262,467	2,132,824	1,979,102	1,847,687	1,717,297	1,610,892	1,538,796	1,472,306	1,346,870	11,547,091	29,700,824
Lease Purchase Financings	669,439	636,887	630,554	622,776	622,172	622,003	561,693	550,726	559,930	524,942	4,656,527	10,657,648
Sub-Total	2,914,932	2,899,354	2,763,378	2,601,878	2,469,859	2,339,300	2,172,585	2,089,521	2,032,236	1,871,812	16,203,618	40,358,472
Debt Service Payments - Projected Debt												
General Obligation Bonds	-	157,735	441,820	744,480	1,024,585	1,309,540	1,635,035	1,891,800	2,129,674	2,471,659	52,029,301	63,835,628
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	157,735	441,820	744,480	1,024,585	1,309,540	1,635,035	1,891,800	2,129,674	2,471,659	52,029,301	63,835,628
TOTAL	2,914,932	3,057,089	3,205,198	3,346,358	3,494,444	3,648,840	3,807,620	3,981,321	4,161,910	4,343,471	68,232,919	104,194,100
Projected Bond Financings												
General Obligation Bonds	1,690,000	3,080,000	3,345,000	3,175,000	3,295,000	3,800,000	3,145,000	3,010,000	4,190,000	4,345,500	-	33,075,500
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	1,690,000	3,080,000	3,345,000	3,175,000	3,295,000	3,800,000	3,145,000	3,010,000	4,190,000	4,345,500	-	33,075,500
CUMULATIVE TOTAL	1,690,000	4,770,000	8,115,000	11,290,000	14,585,000	18,385,000	21,530,000	24,540,000	28,730,000	33,075,000		

Computation of Debt Ratios

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	35,211	35,788	36,358	36,920	37,482	38,050	38,665	39,289	39,922	40,564	41,217
Personal Income	$ 1,121,100,000	$ 1,184,100,000	$ 1,254,700,000	$ 1,330,300,000	$ 1,410,400,000	$ 1,495,500,000	$ 1,584,400,000	$ 1,677,900,000	$ 1,776,500,000	$ 1,880,900,000	$ 1,991,496,920
General Fund Revenues	$ 73,150,380	$ 76,458,577	$ 80,091,726	$ 83,702,344	$ 87,333,219	$ 91,193,304	$ 95,273,012	$ 99,531,176	$ 103,980,219	$ 108,628,135	$ 113,483,813
Growth Rate of General Fund Revenues	3.79%	4.52%	4.75%	4.51%	4.34%	4.42%	4.47%	4.47%	4.47%	4.47%	4.47%
Debt per Capita	$727	$756	$790	$817	$845	$884	$902	$914	$952	$991	$922
Debt to Personal Income	2.28%	2.28%	2.29%	2.27%	2.25%	2.25%	2.20%	2.14%	2.14%	2.14%	1.91%
Debt Service to General Fund Revenues	3.98%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Assumptions Regarding Planned Bond Sales: Level annual repayment of principal, 30-year final maturity and true interest cost of 6.0%.
Totals may not add due to rounding

Appendix 8.3

THE STATE OF CALIFORNIA
Debt Affordability Report-October 2000

Computation of Debt Ratios for Total Net Tax-Supported Debt as of July 1, 2000 plus $45.396 Billion in Projected Bond Financings ($ Thousands)
General Fund Revenue Growth @ DOF Forecast + 1%

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 - 2040	TOTAL
General Fund Debt - Existing												
General Obligation Bonds	$ 17,530,383	$ 16,262,178	$ 15,044,652	$ 13,901,072	$ 12,820,552	$ 11,803,387	$ 10,830,822	$ 9,875,259	$ 8,928,909	$ 8,051,659		
Lease Purchase Financings	6,364,665	6,066,295	5,762,244	5,450,157	5,124,153	4,779,190	4,481,821	4,177,229	3,851,592	3,538,400		
Sub-Total	23,895,048	22,328,473	20,806,895	19,351,229	17,944,705	16,582,577	15,312,643	14,052,488	12,780,501	11,590,059		
General Fund Debt - Projected												
General Obligation Bonds	2,995,000	6,690,165	10,723,830	14,450,495	18,285,660	22,721,160	26,347,160	29,784,995	34,490,995	39,338,495		
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-		
Sub-Total	2,995,000	6,690,165	10,723,830	14,450,495	18,285,660	22,721,160	26,347,160	29,784,995	34,490,995	39,338,495		
TOTAL	26,890,048	29,018,638	31,530,725	33,801,724	36,230,365	39,303,737	41,659,803	43,837,483	47,271,496	50,928,554		
Principal Repayments - Existing Debt												
General Obligation Bonds	1,189,233	1,268,205	1,217,526	1,143,580	1,080,519	1,017,165	972,565	955,563	946,350	877,250	$ 8,051,659	$ 18,719,616
Lease Purchase Financings	316,464	298,371	304,051	312,086	326,005	344,963	297,369	304,592	325,638	313,192	3,538,400	6,681,129
Sub-Total	1,505,697	1,566,576	1,521,578	1,455,666	1,406,524	1,362,128	1,269,934	1,260,155	1,271,988	1,190,442	11,590,059	25,400,745
Principal Repayments - Projected Debt												
General Obligation Bonds	-	99,835	226,335	368,335	504,835	649,500	819,000	967,165	1,114,000	1,308,000	39,338,495	45,395,500
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	99,835	226,335	368,335	504,835	649,500	819,000	967,165	1,114,000	1,308,000	39,338,495	45,395,500
TOTAL	1,505,697	1,666,411	1,747,913	1,824,001	1,911,359	2,011,628	2,088,934	2,227,320	2,385,988	2,498,442	50,928,554	70,796,245
Interest Payments - Existing Debt												
General Obligation Bonds	1,056,260	994,262	915,298	835,522	767,168	700,132	638,327	583,232	525,956	469,620	3,495,432	10,981,208
Lease Purchase Financings	352,975	338,517	326,502	310,689	296,168	277,041	264,324	246,134	234,293	211,751	1,118,127	3,976,519
Sub-Total	1,409,235	1,332,778	1,241,800	1,146,212	1,063,335	977,172	902,651	829,366	760,248	681,370	4,613,559	14,957,727
Interest Payments - Projected Debt												
General Obligation Bonds	-	179,700	401,410	643,430	867,030	1,097,140	1,363,270	1,580,830	1,787,100	2,069,460	32,228,404	42,217,772
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	179,700	401,410	643,430	867,030	1,097,140	1,363,270	1,580,830	1,787,100	2,069,460	32,228,404	42,217,772
TOTAL	1,409,235	1,512,478	1,643,210	1,789,641	1,930,365	2,074,312	2,265,921	2,410,196	2,547,348	2,750,830	36,841,963	57,175,498
Debt Service Payments - Existing Debt												
General Obligation Bonds	2,245,493	2,262,467	2,132,824	1,979,102	1,847,687	1,717,297	1,610,892	1,538,796	1,472,306	1,346,870	11,547,091	29,700,824
Lease Purchase Financings	669,439	636,887	630,554	622,776	622,172	622,003	561,693	550,726	559,930	524,942	4,656,527	10,657,648
Sub-Total	2,914,932	2,899,354	2,763,378	2,601,878	2,469,859	2,339,300	2,172,585	2,089,521	2,032,236	1,871,812	16,203,618	40,358,472
Debt Service Payments - Projected Debt												
General Obligation Bonds	-	279,535	627,745	1,011,765	1,371,865	1,746,640	2,182,270	2,547,995	2,901,100	3,377,460	71,566,899	87,613,272
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	279,535	627,745	1,011,765	1,371,865	1,746,640	2,182,270	2,547,995	2,901,100	3,377,460	71,566,899	87,613,272
TOTAL	2,914,932	3,178,889	3,391,123	3,613,643	3,841,724	4,085,940	4,354,855	4,637,516	4,933,336	5,249,271	87,770,517	127,971,744
Projected Bond Financings												
General Obligation Bonds	2,995,000	3,795,000	4,260,000	4,095,000	4,340,000	5,085,000	4,445,000	4,405,000	5,820,000	6,155,500	-	45,395,500
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	2,995,000	3,795,000	4,260,000	4,095,000	4,340,000	5,085,000	4,445,000	4,405,000	5,820,000	6,155,500	-	45,395,500
CUMULATIVE TOTAL	2,995,000	6,790,000	11,050,000	15,145,000	19,485,000	24,570,000	29,015,000	33,420,000	39,240,000	45,395,500		

Computation of Debt Ratios

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	35,211	35,788	36,358	36,920	37,482	38,050	38,665	39,289	39,922	40,564	41,217
Personal Income	$ 1,121,100,000	$ 1,184,100,000	$ 1,254,700,000	$ 1,330,300,000	$ 1,410,400,000	$ 1,495,500,000	$ 1,584,400,000	$ 1,677,900,000	$ 1,776,500,000	$ 1,880,900,000	$ 1,991,496,920
General Fund Revenues	$ 74,573,620	$ 79,437,655	$ 84,801,116	$ 90,320,061	$ 96,044,403	$ 102,210,406	$ 108,827,194	$ 115,867,696	$ 123,364,336	$ 131,346,009	$ 139,844,096
Growth Rate of General Fund Revenues	3.79%	6.52%	6.75%	6.51%	6.34%	6.42%	6.47%	6.47%	6.47%	6.47%	6.47%
Debt per Capita	$764	$811	$867	$916	$967	$1,033	$1,077	$1,116	$1,184	$1,256	$1,172
Debt to Personal Income	2.40%	2.45%	2.51%	2.54%	2.57%	2.63%	2.63%	2.61%	2.66%	2.71%	2.43%
Debt Service to General Fund Revenues	3.91%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Assumptions Regarding Planned Bond Sales: Level annual repayment of principal, 30-year final maturity and true interest cost of 6.0%.
Totals may not add due to rounding

Appendix 8.4

THE STATE OF CALIFORNIA
Debt Affordability Report-October 2000

Computation of Debt Ratios for Total Net Tax-Supported Debt as of July 1, 2000 plus $54.055 Billion in Projected Bond Financings ($ Thousands)
General Fund Revenue Growth @ DOF Forecast -- Assuming Gradual Increase of Debt Service to 5.0% of General Fund Revenues

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 - 2040	TOTAL
General Fund Debt - Existing												
General Obligation Bonds	$ 17,530,383	$ 16,262,178	$ 15,044,652	$ 13,901,072	$ 12,820,552	$ 11,803,387	$ 10,830,822	$ 9,875,259	$ 8,928,909	$ 8,051,659		
Lease Purchase Financings	6,364,665	6,066,295	5,762,244	5,450,157	5,124,153	4,779,190	4,481,821	4,177,229	3,851,592	3,538,400		
Sub-Total	23,895,048	22,328,473	20,806,895	19,351,229	17,944,705	16,582,577	15,312,643	14,052,488	12,780,501	11,590,059		
General Fund Debt - Projected												
General Obligation Bonds	3,395,000	8,336,835	13,735,170	18,994,170	24,362,170	30,429,170	33,925,170	37,223,170	41,814,670	46,326,505		
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-		
Sub-Total	3,395,000	8,336,835	13,735,170	18,994,170	24,362,170	30,429,170	33,925,170	37,223,170	41,814,670	46,326,505		
TOTAL	27,290,048	30,665,308	34,542,065	38,345,399	42,306,875	47,011,747	49,237,813	51,275,658	54,595,171	57,916,564		
Principal Repayments - Existing Debt												
General Obligation Bonds	1,189,233	1,268,205	1,217,526	1,143,580	1,080,519	1,017,165	972,565	955,563	946,350	877,250	$ 8,051,659	$ 18,719,616
Lease Purchase Financings	316,464	298,371	304,051	312,086	326,005	344,963	297,369	304,592	325,638	313,192	3,538,400	6,681,129
Sub-Total	1,505,697	1,566,576	1,521,578	1,455,666	1,406,524	1,362,128	1,269,934	1,260,155	1,271,988	1,190,442	11,590,059	25,400,745
Principal Repayments - Projected Debt												
General Obligation Bonds	-	113,165	281,665	471,000	662,000	863,000	1,094,000	1,247,000	1,398,500	1,598,165	46,326,505	54,055,000
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	113,165	281,665	471,000	662,000	863,000	1,094,000	1,247,000	1,398,500	1,598,165	46,326,505	54,055,000
TOTAL	1,505,697	1,679,741	1,803,243	1,926,666	2,068,524	2,225,128	2,363,934	2,507,155	2,670,488	2,788,607	57,916,564	79,455,745
Interest Payments - Existing Debt												
General Obligation Bonds	1,056,260	994,262	915,298	835,522	767,168	700,132	638,327	583,232	525,956	469,620	3,495,432	10,981,208
Lease Purchase Financings	352,975	338,517	326,502	310,689	296,168	277,041	264,324	246,134	234,293	211,751	1,118,127	3,976,519
Sub-Total	1,409,235	1,332,778	1,241,800	1,146,212	1,063,335	977,172	902,651	829,366	760,248	681,370	4,613,559	14,957,727
Interest Payments - Projected Debt												
General Obligation Bonds	-	203,700	500,210	824,110	1,139,650	1,461,730	1,825,750	2,035,510	2,233,390	2,508,880	37,538,306	50,271,237
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	203,700	500,210	824,110	1,139,650	1,461,730	1,825,750	2,035,510	2,233,390	2,508,880	37,538,306	50,271,237
TOTAL	1,409,235	1,536,478	1,742,010	1,970,322	2,202,985	2,438,903	2,728,401	2,864,876	2,993,639	3,190,250	42,151,864	65,228,964
Debt Service Payments - Existing Debt												
General Obligation Bonds	2,245,493	2,262,467	2,132,824	1,979,102	1,847,687	1,717,297	1,610,892	1,538,796	1,472,306	1,346,870	11,547,091	29,700,824
Lease Purchase Financings	669,439	636,887	630,554	622,776	622,172	622,003	561,693	550,726	559,930	524,942	4,656,527	10,657,648
Sub-Total	2,914,932	2,899,354	2,763,378	2,601,878	2,469,859	2,339,300	2,172,585	2,089,521	2,032,236	1,871,812	16,203,618	40,358,472
Debt Service Payments - Projected Debt												
General Obligation Bonds	-	316,865	781,875	1,295,110	1,801,650	2,324,730	2,919,750	3,282,510	3,631,890	4,107,045	83,864,811	104,326,237
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	316,865	781,875	1,295,110	1,801,650	2,324,730	2,919,750	3,282,510	3,631,890	4,107,045	83,864,811	104,326,237
TOTAL	2,914,932	3,216,219	3,545,253	3,896,988	4,271,509	4,664,030	5,092,335	5,372,031	5,664,126	5,978,857	100,068,428	144,684,709
Projected Bond Financings												
General Obligation Bonds	3,395,000	5,055,000	5,680,000	5,730,000	6,030,000	6,930,000	4,590,000	4,545,000	5,990,000	6,110,000	-	54,055,000
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	3,395,000	5,055,000	5,680,000	5,730,000	6,030,000	6,930,000	4,590,000	4,545,000	5,990,000	6,110,000	-	54,055,000
CUMULATIVE TOTAL	3,395,000	8,450,000	14,130,000	19,860,000	25,890,000	32,820,000	37,410,000	41,955,000	47,945,000	54,055,000		

Computation of Debt Ratios

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	35,211	35,788	36,358	36,920	37,482	38,050	38,665	39,289	39,922	40,564	41,217
Personal Income	$ 1,121,100,000	$ 1,184,100,000	$ 1,254,700,000	$ 1,330,300,000	$ 1,410,400,000	$ 1,495,500,000	$ 1,584,400,000	$ 1,677,900,000	$ 1,776,500,000	$ 1,880,900,000	$ 1,991,496,920
General Fund Revenues	$ 73,862,000	$ 77,941,000	$ 82,424,000	$ 86,964,000	$ 91,606,000	$ 96,571,000	$ 101,857,000	$ 107,428,000	$ 113,304,312	$ 119,502,057	$ 126,038,820
Growth Rate of General Fund Revenues	3.79%	5.52%	5.75%	5.51%	5.34%	5.42%	5.47%	5.47%	5.47%	5.47%	5.47%
Debt per Capita	$775	$857	$950	$1,039	$1,129	$1,236	$1,273	$1,305	$1,368	$1,428	$1,334
Debt to Personal Income	2.43%	2.59%	2.75%	2.88%	3.00%	3.14%	3.11%	3.06%	3.07%	3.08%	2.76%
Debt Service to General Fund Revenues	3.95%	4.13%	4.30%	4.48%	4.66%	4.83%	5.00%	5.00%	5.00%	5.00%	5.00%

Assumptions Regarding Planned Bond Sales: Level annual repayment of principal, 30-year final maturity and true interest cost of 6.0%.
Totals may not add due to rounding

Appendix 8.5

THE STATE OF CALIFORNIA
Debt Affordability Report-October 2000

Computation of Debt Ratios for Total Net Tax-Supported Debt as of July 1, 2000 plus $69.200 Billion in Projected Bond Financings ($ Thousands)
General Fund Revenue Growth @ DOF Forecast -- Assuming Gradual Increase of Debt Service to 6.0% of General Fund Revenues

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 - 2040	TOTAL
General Fund Debt - Existing												
General Obligation Bonds	$ 17,530,383	$ 16,262,178	$ 15,044,652	$ 13,901,072	$ 12,820,552	$ 11,803,387	$ 10,830,822	$ 9,875,259	$ 8,928,909	$ 8,051,659		
Lease Purchase Financings	6,364,665	6,066,295	5,762,244	5,450,157	5,124,153	4,779,190	4,481,821	4,177,229	3,851,592	3,538,400		
Sub-Total	23,895,048	22,328,473	20,806,895	19,351,229	17,944,705	16,582,577	15,312,643	14,052,488	12,780,501	11,590,059		
General Fund Debt - Projected												
General Obligation Bonds	4,775,000	11,230,835	18,341,170	25,346,840	32,763,010	41,047,515	45,007,185	48,790,690	53,892,860	58,948,695		
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-		
Sub-Total	4,775,000	11,230,835	18,341,170	25,346,840	32,763,010	41,047,515	45,007,185	48,790,690	53,892,860	58,948,695		
TOTAL	28,670,048	33,559,308	39,148,065	44,698,069	50,707,715	57,630,092	60,319,828	62,843,178	66,673,361	70,538,754		
Principal Repayments - Existing Debt												
General Obligation Bonds	1,189,233	1,268,205	1,217,526	1,143,580	1,080,519	1,017,165	972,565	955,563	946,350	877,250	$ 8,051,659	$ 18,719,616
Lease Purchase Financings	316,464	298,371	304,051	312,086	326,005	344,963	297,369	304,592	325,638	313,192	3,538,400	6,681,129
Sub-Total	1,505,697	1,566,576	1,521,578	1,455,666	1,406,524	1,362,128	1,269,934	1,260,155	1,271,988	1,190,442	11,590,059	25,400,745
Principal Repayments - Projected Debt												
General Obligation Bonds	-	159,165	379,665	629,330	883,830	1,160,495	1,475,330	1,656,495	1,837,830	2,069,165	58,948,695	69,200,000
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	159,165	379,665	629,330	883,830	1,160,495	1,475,330	1,656,495	1,837,830	2,069,165	58,948,695	69,200,000
TOTAL	1,505,697	1,725,741	1,901,243	2,084,996	2,290,354	2,522,623	2,745,264	2,916,650	3,109,818	3,259,607	70,538,754	94,600,745
Interest Payments - Existing Debt												
General Obligation Bonds	1,056,260	994,262	915,298	835,522	767,168	700,132	638,327	583,232	525,956	469,620	3,495,432	10,981,208
Lease Purchase Financings	352,975	338,517	326,502	310,689	296,168	277,041	264,324	246,134	234,293	211,751	1,118,127	3,976,519
Sub-Total	1,409,235	1,332,778	1,241,800	1,146,212	1,063,335	977,172	902,651	829,366	760,248	681,370	4,613,559	14,957,727
Interest Payments - Projected Debt												
General Obligation Bonds	-	286,500	673,850	1,100,470	1,520,810	1,965,781	2,462,851	2,700,431	2,927,441	3,233,572	47,484,337	64,356,044
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	286,500	673,850	1,100,470	1,520,810	1,965,781	2,462,851	2,700,431	2,927,441	3,233,572	47,484,337	64,356,044
TOTAL	1,409,235	1,619,278	1,915,650	2,246,682	2,584,146	2,942,953	3,365,502	3,529,797	3,687,690	3,914,942	52,097,896	79,313,770
Debt Service Payments - Existing Debt												
General Obligation Bonds	2,245,493	2,262,467	2,132,824	1,979,102	1,847,687	1,717,297	1,610,892	1,538,796	1,472,306	1,346,870	11,547,091	29,700,824
Lease Purchase Financings	669,439	636,887	630,554	622,776	622,172	622,003	561,693	550,726	559,930	524,942	4,656,527	10,657,648
Sub-Total	2,914,932	2,899,354	2,763,378	2,601,878	2,469,859	2,339,300	2,172,585	2,089,521	2,032,236	1,871,812	16,203,618	40,358,472
Debt Service Payments - Projected Debt												
General Obligation Bonds	-	445,665	1,053,515	1,729,800	2,404,640	3,126,276	3,938,181	4,356,926	4,765,271	5,302,737	106,433,032	133,556,044
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	-	445,665	1,053,515	1,729,800	2,404,640	3,126,276	3,938,181	4,356,926	4,765,271	5,302,737	106,433,032	133,556,044
TOTAL	2,914,932	3,345,019	3,816,893	4,331,678	4,874,500	5,465,576	6,110,766	6,446,447	6,797,508	7,174,548	122,636,650	173,914,516
Projected Bond Financings												
General Obligation Bonds	4,775,000	6,615,000	7,490,000	7,635,000	8,300,000	9,445,000	5,435,000	5,440,000	6,940,000	7,125,000	-	69,200,000
Lease Purchase Financings	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	4,775,000	6,615,000	7,490,000	7,635,000	8,300,000	9,445,000	5,435,000	5,440,000	6,940,000	7,125,000	-	69,200,000
CUMULATIVE TOTAL	4,775,000	11,390,000	18,880,000	26,515,000	34,815,000	44,260,000	49,695,000	55,135,000	62,075,000	69,200,000		

Computation of Debt Ratios

Fiscal Year Ending June 30	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	35,211	35,788	36,358	36,920	37,482	38,050	38,665	39,289	39,922	40,564	41,217
Personal Income	$ 1,121,100,000	$ 1,184,100,000	$ 1,254,700,000	$ 1,330,300,000	$ 1,410,400,000	$ 1,495,500,000	$ 1,584,400,000	$ 1,677,900,000	$ 1,776,500,000	$ 1,880,900,000	$ 1,991,496,920
General Fund Revenues	$ 73,862,000	$ 77,941,000	$ 82,424,000	$ 86,964,000	$ 91,606,000	$ 96,571,000	$ 101,857,000	$ 107,428,000	$ 113,304,312	$ 119,502,057	$ 126,038,820
Growth Rate of General Fund Revenues	3.79%	5.52%	5.75%	5.51%	5.34%	5.42%	5.47%	5.47%	5.47%	5.47%	5.47%
Debt per Capita	$814	$938	$1,077	$1,211	$1,353	$1,515	$1,560	$1,600	$1,670	$1,739	$1,628
Debt to Personal Income	2.56%	2.83%	3.12%	3.36%	3.60%	3.85%	3.81%	3.75%	3.75%	3.75%	3.37%
Debt Service to General Fund Revenues	3.95%	4.29%	4.63%	4.98%	5.32%	5.66%	6.00%	6.00%	6.00%	6.00%	6.00%

Assumptions Regarding Planned Bond Sales: Level annual repayment of principal, 30-year final maturity and true interest cost of 6.0%.
Totals may not add due to rounding

Debt Service on Planned Bond Sales During Fiscal Years 2000-01 and 2001-02 [a]

Fiscal Year Ending June 30	Debt Service on Outstanding Issues [b]	Additional Debt Service from Planned Bond Sales			Total Debt Service Outstanding Issues & Planned Bond Sales
		General Obligation	Lease-Purchase Revenue	Total	
2001	$2,879,007,534.48	-	-	-	$2,879,007,534.48
2002	2,817,966,400.10	$303,335,000.00	$7,447,500.00	$310,782,500.00	3,128,748,900.10
2003	2,685,840,192.28	586,169,900.00	88,345,312.50	674,515,212.50	3,360,355,404.78
2004	2,528,190,437.41	573,469,700.00	88,340,937.50	661,810,637.50	3,190,001,074.91
2005	2,398,884,157.55	560,769,500.00	88,345,625.00	649,115,125.00	3,047,999,282.55
2006	2,269,900,053.03	548,069,300.00	88,344,062.50	636,413,362.50	2,906,313,415.53
2007	2,104,760,042.30	535,369,100.00	88,341,562.50	623,710,662.50	2,728,470,704.80
2008	2,023,183,577.82	522,668,900.00	88,347,812.50	611,016,712.50	2,634,200,290.32
2009	1,967,342,395.62	509,968,700.00	88,341,562.50	598,310,262.50	2,565,652,658.12
2010	1,808,449,270.35	497,268,500.00	88,342,500.00	585,611,000.00	2,394,060,270.35
2011	1,657,328,377.24	484,568,300.00	88,343,750.00	572,912,050.00	2,230,240,427.24
2012	1,431,312,081.36	471,868,100.00	88,343,437.50	560,211,537.50	1,991,523,618.86
2013	1,277,988,691.20	459,167,900.00	88,349,375.00	547,517,275.00	1,825,505,966.20
2014	1,162,387,118.12	446,467,700.00	88,343,437.50	534,811,137.50	1,697,198,255.62
2015	1,129,237,345.67	433,767,500.00	88,348,125.00	522,115,625.00	1,651,352,970.67
2016	1,067,096,965.43	421,067,300.00	88,344,062.50	509,411,362.50	1,576,508,327.93
2017	1,030,861,570.77	408,367,100.00	88,347,500.00	496,714,600.00	1,527,576,170.77
2018	1,004,440,856.95	395,666,900.00	88,343,125.00	484,010,025.00	1,488,450,881.95
2019	921,418,010.04	382,966,700.00	88,345,937.50	471,312,637.50	1,392,730,647.54
2020	849,104,537.20	370,266,500.00	88,349,375.00	458,615,875.00	1,307,720,412.20
2021	746,696,137.63	357,566,300.00	88,341,562.50	445,907,862.50	1,192,604,000.13
2022	671,697,224.73	344,866,100.00	88,345,625.00	433,211,725.00	1,104,908,949.73
2023	589,101,993.35	332,165,900.00	88,342,500.00	420,508,400.00	1,009,610,393.35
2024	416,138,330.97	319,465,700.00	88,343,437.50	407,809,137.50	823,947,468.47
2025	360,529,561.59	306,765,500.00	88,348,125.00	395,113,625.00	755,643,186.59
2026	291,623,769.59	294,065,300.00	88,345,312.50	382,410,612.50	674,034,382.09
2027	262,119,082.09	281,365,100.00	80,893,437.50	362,258,537.50	624,377,619.59
2028	233,093,111.09	268,664,900.00	-	268,664,900.00	501,758,011.09
2029	172,126,645.00	255,964,700.00	-	255,964,700.00	428,091,345.00
2030	105,216,566.25	243,264,500.00	-	243,264,500.00	348,481,066.25
2031	-	230,514,300.00	-	230,514,300.00	230,514,300.00
2032	-	109,482,100.00	-	109,482,100.00	109,482,100.00
Total	**$38,863,042,037.21**	**$12,255,413,000.00**	**$2,208,615,000.00**	**$14,464,028,000.00**	**$53,327,070,037.21**

[a] Includes scheduled mandatory sinking fund payments as well as serial maturities.
[b] Total represents the remaining debt service requirements from August 1, 2000 through June 30, 2001.

Source: State of California, Office of the Treasurer

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