CHART K-6
HISTORY OF CALIFORNIA
GENERAL OBLIGATION BOND RATINGS
(1980 TO PRESENT)

The following reflects the years in which the State of California's bond ratings or outlook were changed, including a summary of the rating agency rationale for the changes:

1980 **Moody's** downgraded from "Aaa" to "Aa", and **S&P** from "AAA" to "AA+". Actions were attributed to uncertainty over impact of Proposition 13 and the Gann spending limit on state finances in light of the national economic slowdown.

1983 **S&P** downgraded to "AA". Action coincided with California's first issuance of revenue anticipation notes (RANs) in January 1983, which were issued to, in part, redeem $400 million in warrants issued in November 1982. California had been placed on CreditWatch by **S&P** in October 1982, as a result of cash shortages which led to the issuance of the warrants.

1985 **S&P** upgraded to "AA+" due to improved financial performance and cash position.

1986 **S&P** upgraded to "AAA" due to "strong outlook for economic base, strong financial management, commitments to addressing pension liabilities, and a strong financial base with good prospects for maintenance of prudent reserves."

1989 **Moody's** upgraded to "Aaa", citing restoration of adequate fund balance in the reserve for economic uncertainty and the state's economic strength and diversity.

1991/92 Ratings lowered by **all three agencies** due to state's fiscal condition and heavy reliance on external borrowing.

1994 **S&P** lowered to "A", citing the state's continuing deferral of substantial portions of its estimated $3.8 billion accumulated deficit, including off-book "loans" to schools; continuing structural budgetary constraints including Proposition 98's funding guarantee for K-14 education; overly optimistic expectations of federal aid to balance the 1994-95 budget and the 1995-96 cash flow projections; and its reliance upon a blunt trigger mechanism to reduce spending if the assumptions prove to be inflated.

Moody's lowered to "A1", citing the state's heavy reliance on the short-term note market to finance its cash imbalances, and the likelihood that this exposure will persist for at least two years. Moreover, the constraints imposed by voter initiative and the political environment are likely to cause fiscal stress to persist after the accumulated deficit is finally extinguished, given an expected backdrop of only moderate economic growth and growing demographic pressures. **Fitch** lowered rating to "A".

1996 **Fitch** upgraded to “A+”, citing the elimination of the deficit, an improved cash position, and good prospects for growth. Still there are long-term problems from the restrictions imposed by restructuring initiatives, including mandating of strict property tax limits and the share of the budget which must be devoted to education as well as uncertainties which necessarily accompany an economy in transition.

S&P upgraded to “A+”, citing broad economic improvement, the stabilization of aerospace employment, improved liquidity position, including the end of borrowing across fiscal years, and more realistic budget assumptions. S&P also cites structural budget impediments, such as mandated school funding levels, tough new mandatory sentencing laws, and a two-thirds legislative vote for budget passage, as contributors to the single “A+” rating. S&P indicated that absent significant structural change in budgetary constraints, it is unlikely to further raise the state rating.

1997 **Fitch** upgraded to “AA-”, citing California’s improving economy and favorable outlook.

1998 **Moody’s** upgraded to “Aa3”. The upgrade reflects the state's continuing economic recovery, coupled with a number of actions taken in the recent legislative budget session to improve the state's credit condition, including the rebuilding of cash and budget reserves. In addition, five-year financial projections indicate long-term budget balance can be maintained even under assumptions of slowing economic growth.

1999 **S&P** upgraded to “AA-”. The upgrade reflects California’s strong economic performance and a return to structural fiscal balance as demonstrated by: a positive GAAP General Fund balance for fiscal year 1997-98, a continued positive budgetary basis fund balance at the end of fiscal year 1998-99 and conservative budgeting in the adoption of the 1999-00 Budget.

2000 **Fitch** upgraded to “AA”. The upgrade takes into account the fundamental strengths of California, buttressed by the sustained favorable economy and financial operations. The General Fund had a substantial balance at June 30, 1999, and revenues to date this year are well above estimates, pointing to another successful year. The proposed budget for 2000-01 is based on conservative expectations and includes a good level of reserves.

Moody’s upgraded to “Aa2”. The upgrade reflects the strength and diversity of an economy that continues to exceed consensus growth expectations and comfortably outpaces the nation in terms of personal income and employment growth. The upgrade also reflects the state’s increased fiscal conservatism.

S&P upgraded to "AA". The upgrade was due to the state's substantially improved General Fund balances; new history of conservative fiscal budgeting; and prospect that it will now budget financial reserves on an on-going basis.

2001 **S&P** lowered to "A+", citing the mounting and uncertain cost to the state of the current electrical power crisis, as well as its likely long-term detrimental effect on California's economy.

Moody's lowered to "Aa3", citing increased financial risks associated with the continuing energy crisis, as well as those related to trends in the broader US and California economies.

Moody's lowered to "A1", citing an expectation that the state's General Fund and liquidity position will weaken substantially over the next eighteen months.

2002 **S&P** lowered to "A", citing the $34.8 billion budget gap, including a larger than anticipated 2002-03 deficit.

Fitch lowered to "A", citing the $34.8 billion budget gap, which includes a steep, unprecedented drop in personal income tax receipts.

2003 **Moody's** lowered to "A2", citing the magnitude of the imbalance between the California's revenues and expenditures, and the expectation California will not be able to sufficiently address the imbalance in the upcoming fiscal year – given the inherent obstacles to reaching consensus on solutions to the problem.

S&P lowered to "BBB", citing the lack of progress in adopting a budget. In addition, the political turmoil surrounding the recall diminishes the likelihood of structural budget reform.

Moody's lowered to "A3", citing the large size of the structural budget gap and the view that the state will have substantial difficulties closing the gap.

Moody's lowered to "Baa1", citing the recent action to cut the Vehicle License Fee and continuing inability to reach political consensus on solutions to the budget and financial problems.

Fitch lowered to "BBB", with negative watch, citing California's widening budget gap, the intention to increase the amount to be raised from deficit funding and the magnitude of measures necessary to restore balance, which may become mandated, underlie the rating downgrade.

2004 **Moody's** upgraded to "A3", with positive outlook, on May 21, 2004, citing an established trend of recovery in the state's economy and tax revenues, as well as an improved state budgetary and liquidity outlook.

Fitch removed negative watch on August 9, 2004.

S&P upgraded to "A", with positive implications, on August 24, 2004, and removed the rating from CreditWatch, citing the easing of immediate liquidity pressure on the state following the sale of the $11.3 billion Economic Recovery Bonds, the state's recent economic improvement, and an enacted fiscal 2004-05 state budget that is still reliant on substantial amounts of long-term borrowing to achieve balance.

Fitch upgraded to "A-", on September 7, 2004, citing the state's financial improvement with the successful issuance of economic recovery bonds, improving economic indicators, and revenues matching estimates.

2005 **Moody's** upgraded to "A2", with positive outlook on July 11, 2005, citing a continuing favorable trend of recovery in the state's economy and tax revenues, better than expected financial performance in fiscal 2005, and a moderately improved outlook for 2006 and beyond.

Fitch upgraded to "A", on July 14, 2005, citing improved economic and revenue performance, and some progress in addressing the structural budget imbalance.

2006 **Fitch** assigned a positive rating outlook to California's "A" rating on April 13, 2006. Fitch cites the state's general economic and revenue improvement and progress reducing its structural imbalances, although the final outcome of the proposed budget could affect the rating direction.

S&P upgraded to "A+" from "A", with stable outlook, on May 17, 2006. S&P cited a $7.5 billion surge in combined fiscals 2006-2007 revenues over January projections, leading to higher-than-expected general fund balance levels estimated for fiscal 2006 and projected for fiscal 2007, and reducing the state's structural deficit.

Moody's upgraded to "A1" from "A2", and changed the rating outlook to stable from positive on May 22, 2006. Moody's states that the upgrade reflects the state's strong economic and tax revenue trends, better than expected financial performance in fiscal 2006, and a moderately improved financial outlook for 2007 and beyond.

Fitch upgraded to "A+" with stable outlook on June 9, 2006, citing continuing economic recovery, strong revenue performance, and continued progress in reducing fiscal imbalances.

2007 **S&P** upgraded outlook from stable to positive on June 11, 2007, citing the state's achievement of a positive GAAP unreserved general fund balance in fiscal 2006, the first positive unreserved balance in a number of years; the expected rapid paydown of 2004 deficit financing bonds; and the expectation that fiscal 2007 fund balances will end ahead of budget due to strong economic performance.

2008 **Fitch** placed California on Rating Watch Negative on January 14, 2008. Fitch states the action reflects California's widening structural budget and cash flow imbalances as the state's economy slows largely due to the housing downturn.

S&P assigned a negative rating outlook to California's "A+" rating on December 10, 2008, citing declining revenues as the result of the economic slowdown.

2009 **Moody's** placed California's "A1" rating on Watchlist for possible downgrade on January 21, 2009, citing the state's significant budgetary shortfall, impending liquidity crisis, and lack of legislative solutions.

S&P downgraded from "A+" with negative implications to "A" with stable outlook on February 2, 2009. S&P states the action reflects its view that the state's cash position is rapidly eroding, ongoing concerns about the state's costs and ability to enter the capital markets and/or obtain credit enhancements, expectation that it won't have the financial capacity to meet all of its regular operating obligations beginning in February, and the state's inability to reach an agreement on a mid-year budget revision.

Fitch downgraded to "A" with stable outlook from "A+" on March 19, 2009, citing the ongoing weakness of the state's economic and revenue performance and Fitch's expectation that the state will experience continued budgetary and cash flow stress going forward.

Moody's downgraded to "A2" with stable outlook from "A1" on March 20, 2009, citing the state's liquidity pressures, which persist even with a budget in place; the likelihood of further downward revenue revisions, given the continued economic decline; the reliance on one-time revenues, including the lottery bonds, which require voter approval and market access; and the fact that further solutions will be difficult for the legislature to make after already enacting significant cuts and revenue measures.

Fitch revises the Rating Outlook to Negative from Stable on May 29, 2009 to reflect growing concerns with the state's widening budget and cash flow deficits.

S&P placed its “A” rating on California's general fund-supported general obligation (GO) debt on CreditWatch with negative implications on June 15, 2009, citing its assessment of the state's projected depletion of cash by the end of July 2009 absent the adoption of a significant revision to the fiscal 2010 budget.

Moody's placed California's “A2” rating on Watchlist for possible downgrade on June 19, 2009, citing an expected budget gap of over $20 billion (or more than 20% of the state's General Fund budget) in the state's fiscal year 2010 budget; the announcements by the state controller that without solutions the state will not be able to meet all its financial obligations in July; the continued political stalemate that has resulted in inaction by the legislature thus far; and the limited solutions available to the state.

Fitch downgraded California to “A-”, from “A”, and placed the bonds on Rating Watch Negative on June 25, 2009. Fitch states the downgrade is based on the magnitude of the state's financial and institutional challenges and persistent economic and revenue weakening. On July 6, 2009, Fitch further downgraded the state’s GO bond rating to “BBB” from “A-”. The bonds remain on Rating Watch Negative. Fitch states the downgrade is based on the state's continued inability to achieve timely agreement on budgetary and cash flow solutions to its severe fiscal crisis.

Moody’s downgraded to “Baa1” from “A2” on July 14, 2009. The ratings remain on Watchlist for possible downgrade. Moody’s states the downgrade reflects the increased risk to the legally or constitutionally required payments as the state deadlock continues and the controller has begun to make certain payments that are not legally or constitutionally required to be paid on time with IOUs. Per Moody’s, the downgrade incorporates the risk they believe exists at the current time, as well as the state’s inability to solve the current difficulties in a timely fashion.

S&P reaffirmed its “A” ratings on California's general obligation (GO) debt and removed the ratings from CreditWatch with negative implications on August 18, 2009. The outlook is negative. S&P states the rating affirmations and CreditWatch removal reflect their view of the state's credit following the state's July 28, 2009 adoption of its 2010 budget amendment, which they believe significantly reduces state expenses and provides a path to improved financial liquidity.

Moody's confirmed its "Baa1" rating on California's general obligation (GO) debt and removed the credit from Watchlist for possible downgrade on August 21, 2009. The outlook is stable. Moody's states the rating and outlook reflect the budget amendments that were passed in late July, 2009, which solve the current year budget gap, but do so largely with one-time solutions that will likely result in further budget gaps in upcoming years. Moody's adds the rating reflects the fact that the controller has announced he will cease making payments with IOUs in September as the budget amendments have improved the state's cashflow projections.

Fitch affirmed its "BBB" rating on California's long-term general obligation bond and removed the rating from Rating Watch Negative on August 26, 2009. The Rating Outlook is Stable. Fitch states the removal from Watch Negative is based on actions taken by the state to resolve its severe near-term cash flow imbalance.

2010 **S&P** downgraded California's GO bonds to "A-" from "A" on January 13. The outlook is negative. S&P's indicates that the rating reflects its view of the state's credit quality in light of its severe fiscal imbalance and the impeding recurrence of a cash deficiency if the state's revenue and spending trajectories continue. The negative outlook reflects S&P's concerns about the large structural projected budget deficits facing the state and their implications for the state's cash position.

Moody's recalibrated from "Baa1" to "A1" on April 16. The outlook was unchanged and is presently stable. Moody's is recalibrating its US municipal ratings from the municipal scale to the global scale. The recalibration does not reflect a change in credit quality, or a change in Moody's credit opinion, of an issue or issuer. The recalibration is simply a change in scale. The purpose of the recalibration is to enhance the comparability of credit ratings across Moody's-rated universe.

Fitch recalibrated from "BBB" to "A-" on April 5. The outlook was unchanged and is presently stable. This recalibration was done to ensure a greater degree of comparability among the global portfolio of credit ratings.

2011 **S&P** affirmed its "A-" rating and revised its outlook on all ratings for California to stable from negative on July 7, 2011. The negative outlook had been linked to their assessment of the possibility of a recurring cash deficiency. They now believe the enactment of the 2011 Budget Act is likely to mitigate this risk for the most part.

2012 **S&P** affirmed its "A-" rating and revised its outlook on all ratings for California to positive from stable on February 14, 2012. S&P revised the outlook stating that, barring any other credit deterioration, the state is poised for credit improvement -- and potentially a higher rating -- pending its ability to better align its cash performance and budget assumptions.

2013 **S&P** upgraded California's GO bonds to "A" from "A-" on January 31st and the outlook was revised from positive to stable. S&P stated the upgrade reflects its view of California's improved fiscal condition and cash position, and the state's projections of a structurally balanced budget through at least the next several years.

Fitch affirmed its "A-" rating and upgraded the outlook to positive from stable on March, 4, 2013. Fitch cited the fiscal management improvements instituted by California in recent years combined with two successive years of structural budget progress that have enabled California to materially reduce budgetary borrowing.

Fitch upgraded California's GO bond rating from A- to A with stable outlook on August 5, 2013. Fitch said the upgrade is based on institutionalized changes to fiscal management in recent years, which combined with the ongoing economic and revenue recovery have enabled the state to materially improve its overall fiscal standing. Notable progress includes timely, more structurally sound budgets, spending restraint, and sizable reductions in budgetary debt.

2014 **S&P** revised the outlook, on January 14, 2014, on all its ratings for California to positive from stable and affirmed its "A" long-term ratings and underlying ratings on California's $75.4 billion of GO debt. S&P stated the outlook revisions reflect its view that the Governor's 2014-15 fiscal year budget recommendation would build upon the improvements made to the state's finances in recent years. In particular, the plan's emphasis on debt repayment and appropriating funds to its reserve could be helpful in strengthening the state's fiscal position, according to S&P.

Moody's upgraded California's GO bond rating from A1 to Aa3 with stable outlook on June 25, 2014. Moody's said the upgrade reflects the state's rapidly improving financial position, high but declining debt metrics, adjusted net pension liability ratios that are close to the state median, strong liquidity, and robust employment growth. The Aa3 rating also reflects the state's volatile tax revenue structure and governance restrictions, in addition to certain recent governance changes and proposals that are meant to address those longstanding issues.

S&P upgraded California's GO Bond rating from A to A+ with stable outlook on November 5, 2014. S&P said "The upgrade follows voter approval on Nov. 4, 2014, of a strengthened budget stabilization account under Proposition 2. In our view, the new state constitutional provision will partially mitigate California’s volatile revenue structure by setting aside windfall revenue for use during periods when state revenue could fall materially short of forecast.”

2015 **Fitch** upgraded California’s GO Bond rating from A to A+ with stable outlook on February 25, 2015. Fitch said “The upgrade is based on continued improvement in the state's fundamental fiscal position. Institutionalized changes to fiscal operations in recent years, when combined with the ongoing economic and revenue recovery, have enabled the state to materially improve its financial position, enhancing its ability to address future fiscal challenges. Progress includes timely, more structurally sound budgets, spending restraint, continued sizable reductions in budgetary debt, and initial funding of reserves.”

S&P placed its “A+” rating on California's general obligation (GO) debt on CreditWatch with positive implications on May 21, 2015, citing acceleration of the state’s fiscal rebound. S&P said that under the governor’s revised budget plan the state would pay down most of a large funding obligation owed to its schools, continue to retire what remains of its budgetary debts, and make significant deposits to its reserve funds. S&P also said that California’s rebound is “fueled by upward revenue estimates.”

S&P upgraded California’s GO Bond rating from A+ to AA- with stable outlook on July 2, 2015. S&P said "The rating action follows enactment of California's 2015-2016 budget, which, in our view, marks another step forward in the state's journey toward improved fiscal sustainability…In June, lawmakers reached agreement on a budget package that is just $61 million (0.05%) above what the governor had proposed. The spending plan is built upon the Department of Finance's (DOF) revenue forecast and leaves the state with budget reserves totaling $4.6 billion, or 4% of expenditures, which we consider good. In addition, the budget pays down $1.85 billion in various general fund debt-like obligations, most of which had been incurred during prior years to finance budget deficits… Lawmakers' adoption of the DOF revenue forecast as part of the final budget agreement was significant, in our view…lawmakers agreed on a restrained approach to setting fiscal policy instead of budgeting to a more aggressive set of assumption. The result is favorable to credit quality."

2016 **Fitch** upgraded California’s GO Bond rating from A+ to AA- with stable outlook on August 12, 2016. Fitch said the upgrade "reflects a combination of positive credit developments and application of Fitch's revised criteria for U.S. state and local governments, which was released on April 18, 2016." Fitch also said, the AA-minus rating "reflects California's large and diverse economy that supports strong, albeit cyclical revenue growth prospects, solid ability to manage expenses through the economic cycle, and a moderate level of liabilities. California is fundamentally better positioned to withstand a future economic downturn than has been the case in prior recessions due to numerous institutional improvements. The state has demonstrated strong budget management during a period of economic recovery and expansion, using temporary tax revenues to eliminate the overhang of budgetary borrowing that had accumulated through two recessions."

2018 **Moody's** revised the state's outlook to positive from stable on July 23, 2018. Moody's said, "the outlook reflects the state's strongly performing economy and finances." Moody's also said, "continued fiscal discipline in a healthy revenue environment or retention of reserves despite slowed revenue growth could support a higher rating within the next one to two years."

2019 **Fitch** upgraded California's GO Bond rating from AA- to AA with stable outlook on August 16, 2019. Fitch said the upgrade "reflects the improved fiscal management that has become institutionalized across administrations, which in Fitch's view allows it to better withstand economic and revenue cyclicality." Fitch also said, "The state has used temporary tax increases, underlying revenue growth, and a disciplined approach to limiting on-going spending growth to enhance its ability to maintain resiliency through the economic cycle. The state eliminated the overhang of budgetary borrowing that had accumulated through two recessions and continues to set-aside funds in the budget stabilization account (BSA)."

Moody's upgraded California's GO bond rating from Aa3 to Aa2 with stable outlook on October 14, 2019. Moody's said, "The upgrade of California's GO bonds to Aa2 incorporates continued expansion of the state's massive, diverse and dynamic economy and corresponding growth in revenue. The action also recognizes the state government's disciplined approach to managing revenue growth indicated by its use of surplus funds to build reserves and pay down long-term liabilities. At the upgraded rating, these strengths balance several challenges that will persist. The most significant challenges include high revenue volatility given the state's heavy reliance on income taxes, lower flexibility to adjust spending and raise revenue compared to other states, and above average leverage and fixed cost burdens. The upgraded rating still reflects certain social challenges relative to other US states. These include a high rate of poverty when accounting for the state's elevated cost of living, and very expansive public support of the lower income population that would present the state with difficult spending and policy decisions in the event of reduced financial support from the US government.

2021 **S&P Global Ratings** revised the state's outlook to positive from stable on September 2, 2021. S&P said, "The outlook change reflects California's projection of near long-term structural balance and high reserves, even assuming that currently high capital gains tax and federal aid revert to historically lower levels in later years."

2023 **Moody's** revised the state's outlook to negative from stable on May 18, 2023. Moody's said, "The negative outlook reflects a weakened and uncertain revenue environment in California that raises the possibility of extended pressure on the state's budget. The governor has proposed scaling back or delaying certain non-recurring spending in an effort to retain budget reserves through the forthcoming fiscal 2024, which begins July 1. However, a more complete and accurate picture of the state's revenue collections will likely not be available until October given an allowable shift in the income tax filing deadline. The delayed receipt of revenue leaves the state with less certainty around fiscal 2024 budgeted revenues and a narrowed window in which to respond to revenue collections that fall short of present assumptions."

S&P Global Ratings revised the state's outlook to stable from positive on December 15, 2023. S&P said, "The outlook revision reflects the state's significant revenue under collections years-to-date, though the fiscal 2023 miss has just now been revealed following the cross-fiscal year income tax filing deadline extension from April to November. In contrast with previous periods of revenue volatility, however, the state maintains a strong liquidity and reserve position, which should help blunt potential lingering revenue vulnerability in the short term. The risk of longer-term structural imbalance is nevertheless elevated, absent a meaningful budgetary course correction to reflect a new period of subdued income tax growth, most notably among the state's highest-income earners."