STATE ALLOCATION BOARD MEETING

General Obligation Bond Program Update

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Roles of State Entities in General Obligation (GO) Bond Financings

- Department of Finance
  - Prioritizes project needs among the State's GO Bond Acts
  - Determines which bond acts and departments receive funding from bond sales
- State Treasurer's Office
  - Prepares, markets and issues bonds to fund project needs
  - Works with State agencies and departments to ensure bond funded projects meet federal tax law requirements
- Departments
  - Administer bond programs and approve disbursement of bond funds
- State Controller's Office
  - Processes and tracks bond expenditures for funded projects
  - Ensures proper accounting and treatment of bond funds

The State of California's GO Bond Ratings are the Lowest of Any State in the Country

Current Ratings of California State Debt

Type of Debt	Fitch Ratings	Moody's Investors Service	Standard & Poor's
General Obligation Bonds	BBB	Baa1	A-
Revenue Anticipation Notes	F2	MIG 1	SP-1
CSCDA Proposition 1A Bonds[(1)]	BBB	Baa1	A-
State Public Works Board Lease Revenue Bonds[(2)]	BBB-	Baa2	BBB+
Economic Recovery Bonds	A	A1	A+

GO Ratings of the 10 Most Populous States (Ranked by Population)

State	Moody's Investors Service[(3)]	Standard & Poor's[(3)]	Fitch Ratings[(3)]
California	***Baa1***	***A-***	***BBB***
Texas	Aa1	AA+	AA+
New York	Aa3	AA	AA-
Florida	Aa1	AAA	AA+
Illinois	A2	A+	A
Pennsylvania	Aa2	AA	AA
Ohio	Aa2	AA+	AA
Michigan	Aa3	AA-	A+
Georgia	Aaa	AAA	AAA
New Jersey	Aa3	AA	AA-
North Carolina	Aaa	AAA	AAA

(1) Bonds were issued by the California Statewide Communities Development Authority.

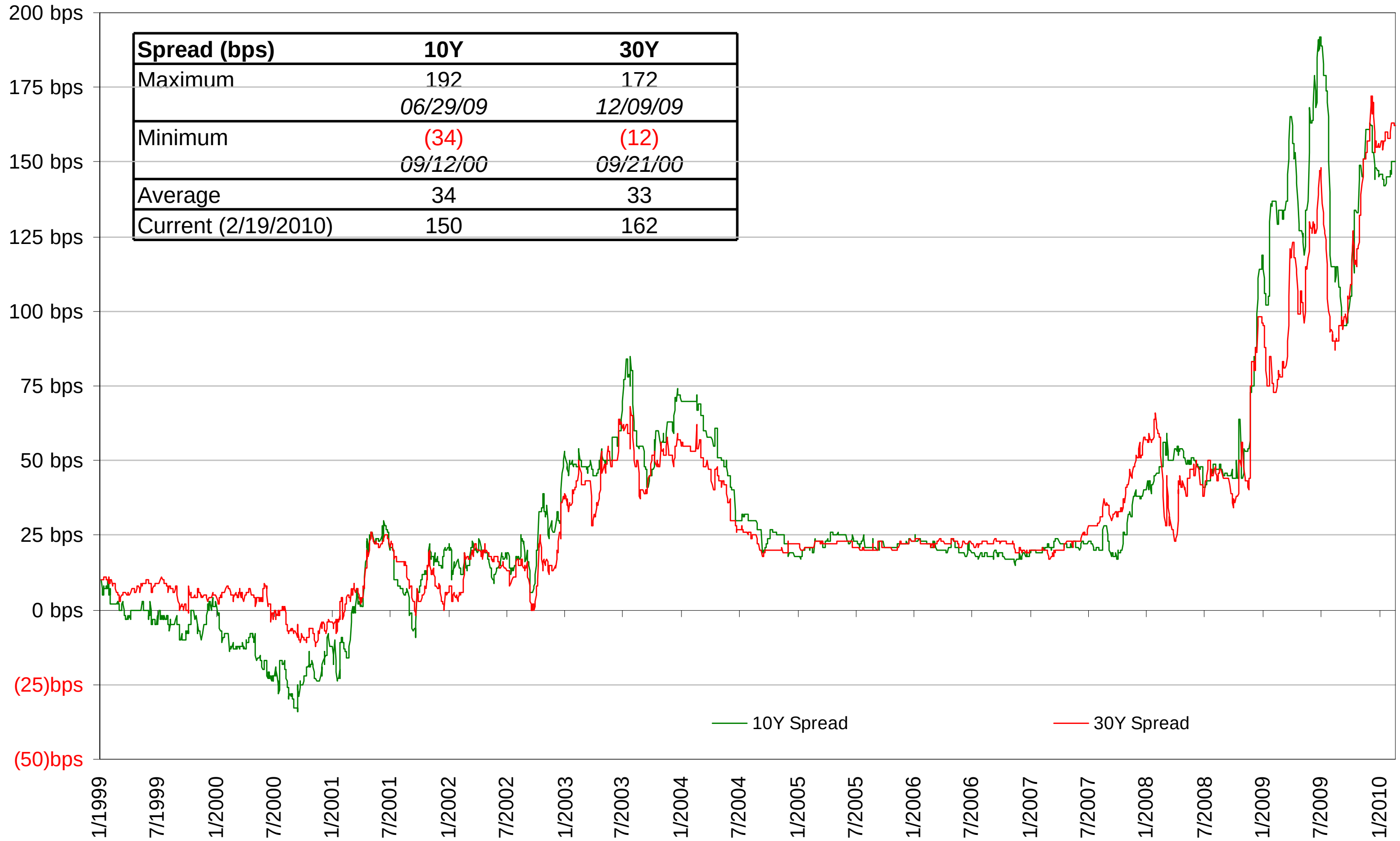
(2) Bonds issued by the SPWB for the University of California and the California State University have higher ratings than shown above.

(3) Moody's Investors Service, Standard & Poors, and Fitch Ratings, as of February 2010

California Pays a Significant Penalty for its Low Credit Ratings

- As a result of the State's low credit ratings, large sales volume, and general market conditions, California's tax-exempt GO bond credit spreads[1] have widened dramatically.
- Current credit spread between the 30-year CA GO Municipal Market Data (MMD) index and the "AAA" GO MMD index is currently 162 basis points (1.62%), which is near an all-time high.

CA GO MMD vs. AAA GO MMD Spread



Spread (bps)	10Y	30Y
Maximum	192	172
	06/29/09	*12/09/09*
Minimum	(34)	(12)
	09/12/00	*09/21/00*
Average	34	33
Current (2/19/2010)	150	162

(1) Credit spread means the difference in interest rates for bonds in the various rating categories.

Credit Spread Differential Results in Higher Interest Costs

- Estimated cost differential between $1 billion of California tax-exempt GO bonds and $1 billion of "AAA" rated tax-exempt GO bonds based on current secondary market trading interest rates is as follows:

	California GO Bonds(1)	AAA GO Bonds(1)	Cost Differential	% of Cost Differential
Total Debt Service (30 Years)	$2.14 billion	$1.78 billion	$360 million	20.2%
True Interest Cost	5.87%	4.24%	1.63%	38.4%

- If this cost differential is applied to the $47.48 billion of Authorized but Unissued GO bonds, the gross total additional cost would be approximately $17 billion.

(1) Assumes 30 year bond with level debt service. MMD rates as of 2/19/10.

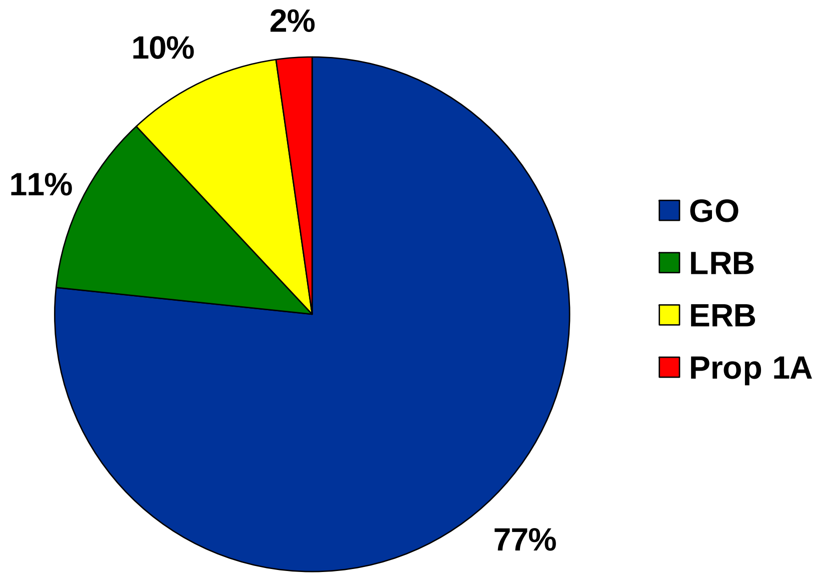
California's Taxable GO Bond Credit Spreads Are Higher Than Selected Comparably Rated Sovereign Entities

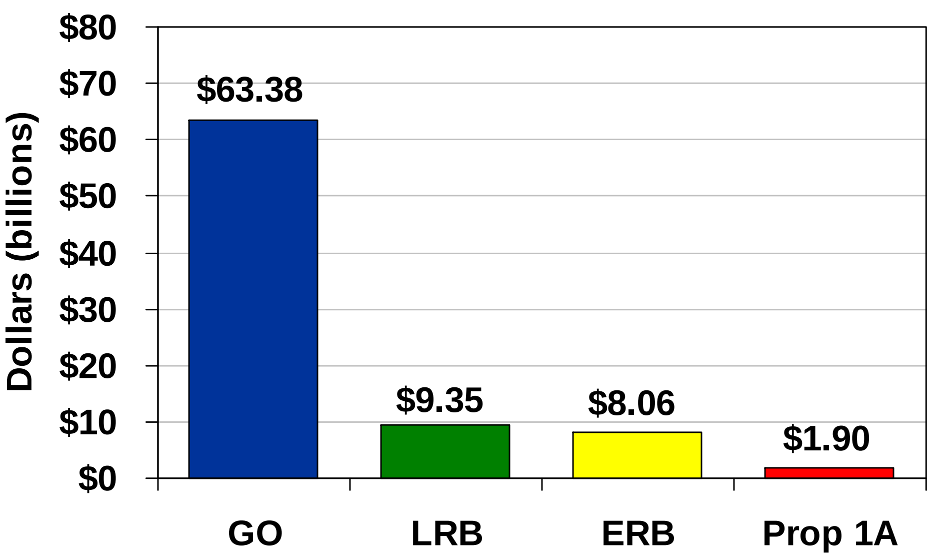
Benchmark 25 to 30-year Taxable Bonds vs. Treasuries

Issuer	Moody's Investors Service	Standard & Poor's	Credit Spread to Treasuries (basis points)
State of California	***Baa1***	***A-***	***+320***
Mexico	Baa1	BBB	+170
Brazil	Baa3	BBB-	+164
Philippines	Ba3	BB-	+221
Indonesia	Ba2	BB-	+238

California Has a Conservative Debt Portfolio

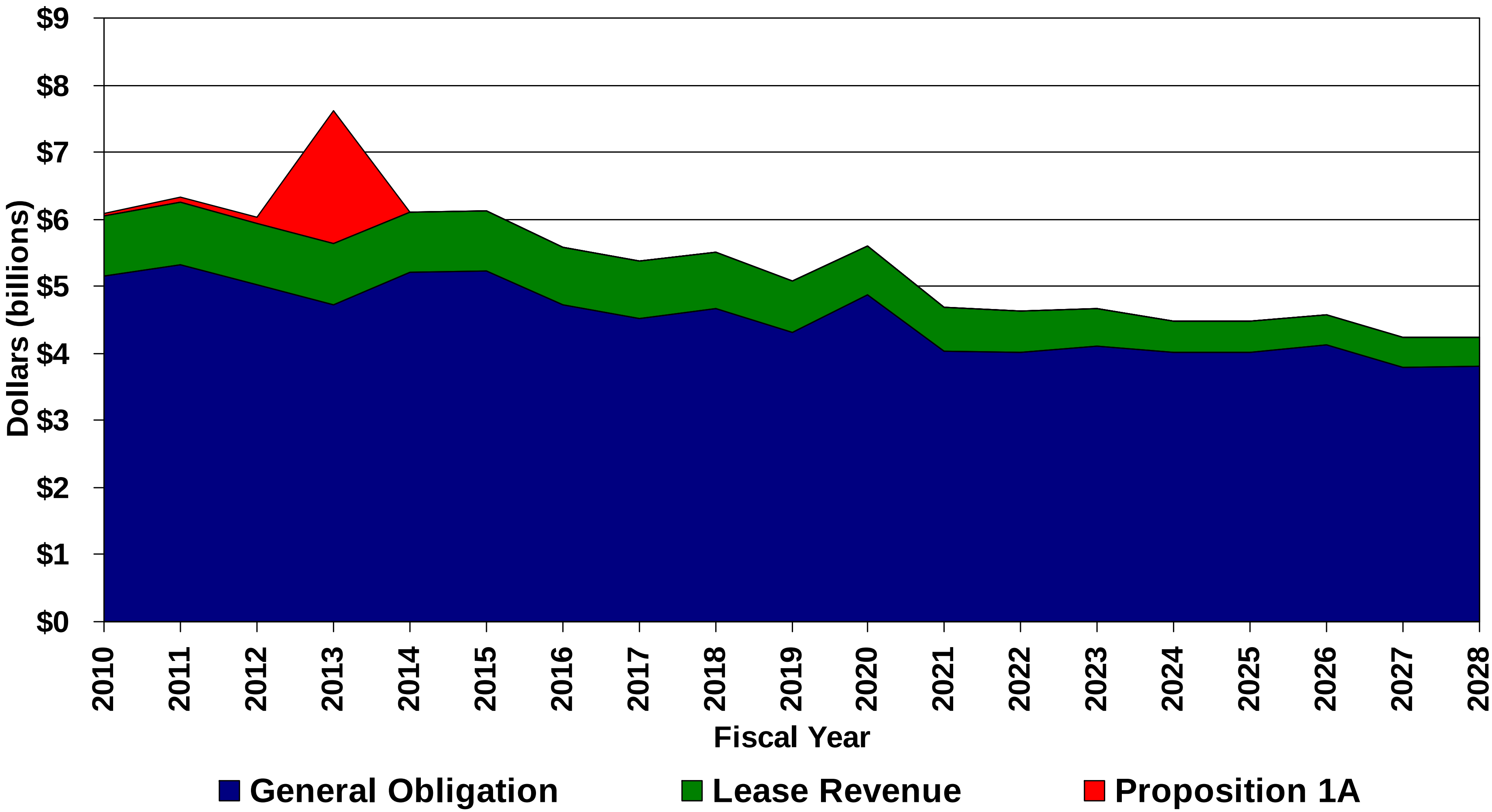
- As of February 1, 2010, California had $82.7 billion of outstanding long-term debt[(1)].
  - 93.6% is fixed rate debt (GO Bonds, SPWB Lease Revenue Bonds, Economic Recovery Bonds (ERBs), CSCDA Proposition 1A Bonds)
  - The State does not have any interest rate swaps





(1) Excludes Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds and $1.29 billion of outstanding commercial paper notes.

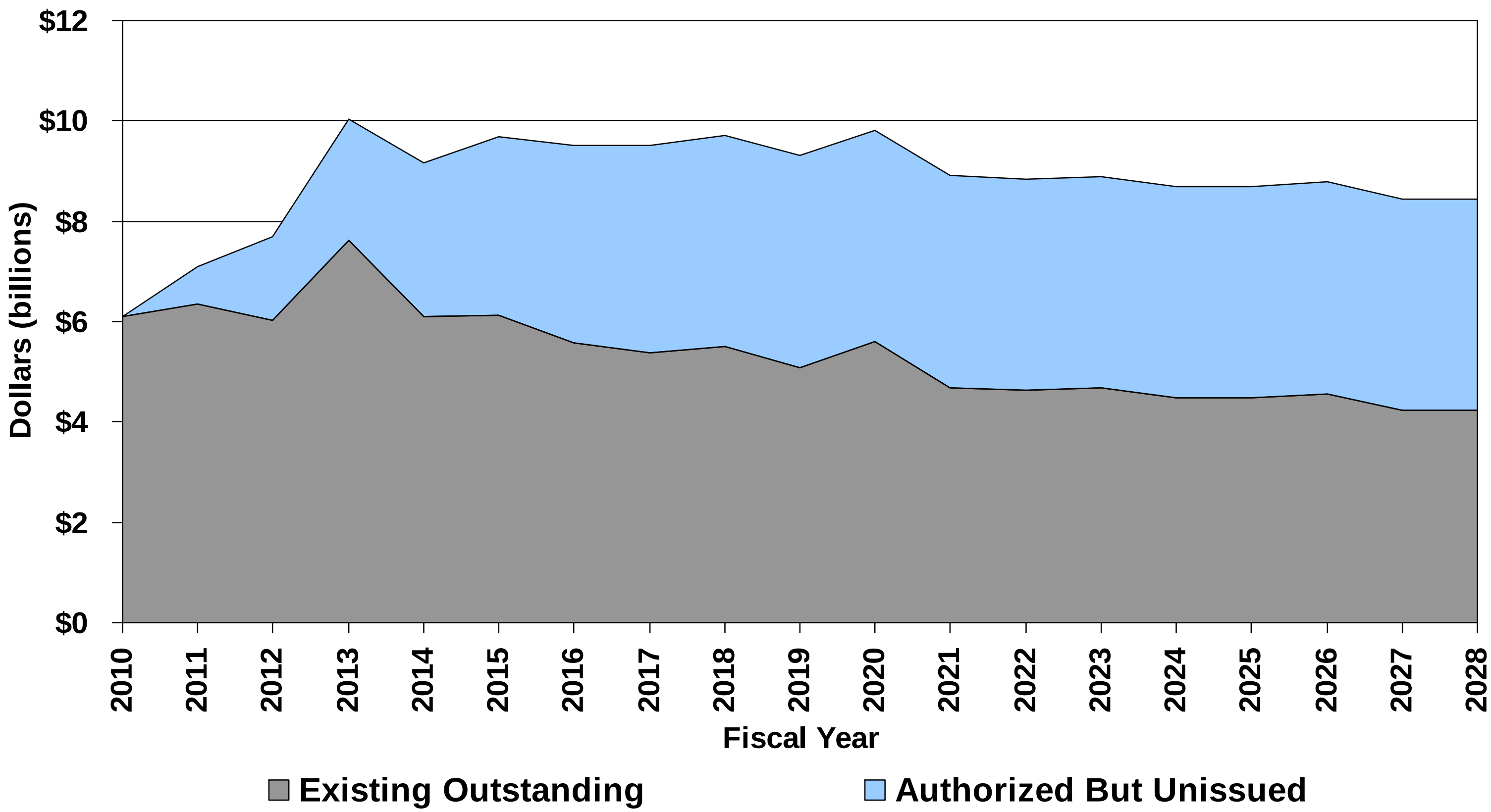
Debt Service on Existing Long-Term General Fund Supported Debt(1)



(1) Excludes debt service for Economic Recovery Bonds, which is paid out of a dedicated special sales tax fund, Enterprise Fund Self-Liquidating bonds such as Vets GO Bonds, and General Obligation Commercial Paper. The interest rate on variable rate bonds is assumed to be 4.25% inclusive of all fees. When debt service on ERBs is added to GF supported debt service, debt service peaks at $8.4 billion in FY 2013.

Projected General Fund Debt Service on Outstanding Bonds and Authorized But Unissued Bonds[(1)]

- General fund debt service is projected to peak in year FY 2013 at $10.04 billion



(1) Excludes debt service on Economic Recovery Bonds, Enterprise Fund Self-Liquidating bonds, and General Obligation Commercial Paper. The interest rates on GO bonds and LRBs to be issued are assumed to be 6.25% and 6.75%, respectively. The interest rate on existing variable rate bonds is assumed to be 4.25% inclusive of all fees. When the debt service on ERBs is added to General Fund-supported debt service, debt service is projected to peak in FY 2013 at $10.81 billion.

2009 Debt Issuance Summary

- In calendar year 2009, California sold a total of $36.6[1] billion of short- and long-term debt in the public capital markets.
- California was the largest issuer of long-term debt relative to both corporate and municipal issuers in the U.S. in calendar 2009.[2]

Debt Type	New Money[1]	Refunding	Total
General Obligation	$19,103,675,000	$640,435,000	$19,744,110,000
RANs	8,800,000,000	0	8,800,000,000
ERBs	0	3,435,615,000	3,435,615,000
SPWB Lease Revenue	2,190,495,000	0	2,190,495,000
CSCDA Prop 1A	1,895,000,000	0	1,895,000,000
Total	**$31,989,170,000**	**$4,076,050,000**	**$36,065,220,000**

Total California GO Issuance vs. Total Corporate Issuance[2] (Top 5 Issuers) (As of 12-31-09)

Rank	Issuer	Par Amount ($million)
1	State of California GO Bonds	$19,744
2	Roche Holdings Inc.	16,500
3	Anheuser-Busch InBeverages	13,500
4	Pfizer Inc.	13,500
5	General Electric Capital Corp.	11,750

Total California GO Issuance vs. Total Municipal Issuance (Top 5 Issuers)

Rank	Issuer	Par Amount ($million)
1	State of California GO Bonds	$19,744
2	New York St. Dormitory Authority	7,501
3	New York City GO Bonds	6,161
4	Puerto Rico Sales Tax Fin Corp	5,574
5	NYC Transitional Finance Auth.	4,344

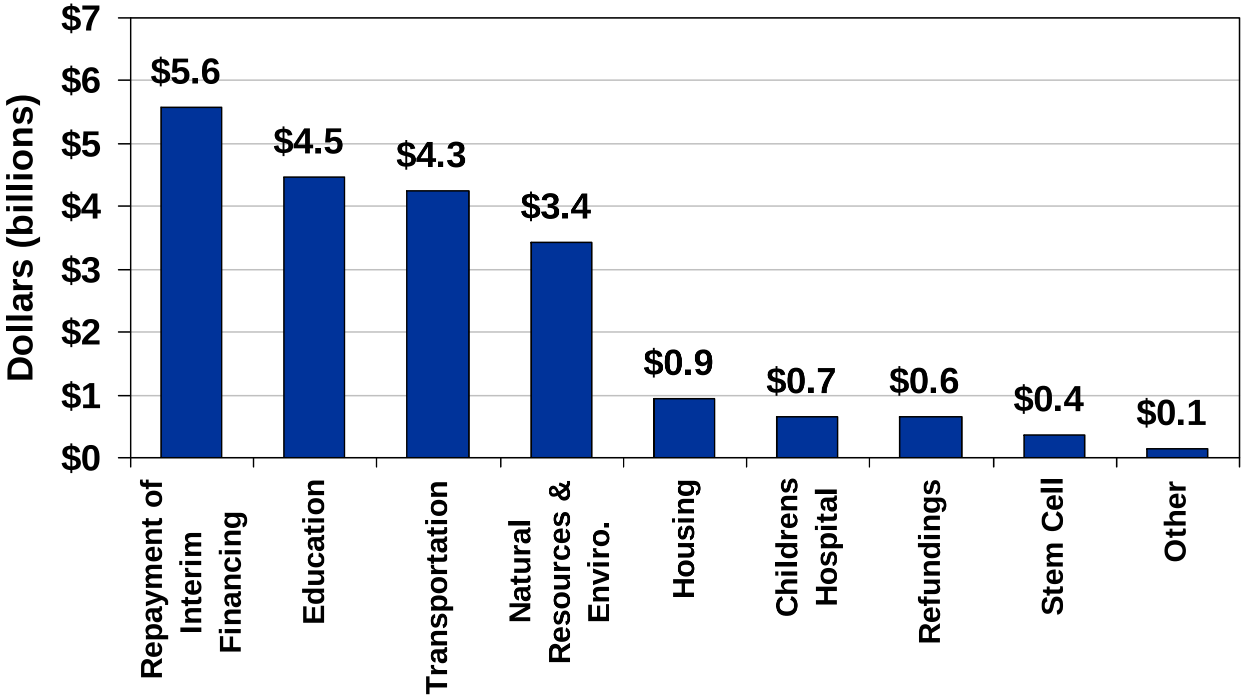
(1) Excludes $1.5 billion of privately placed interim RANs, $500 million of privately placed supplemental RANs and $736.9 million of privately placed GO bonds.

(2) Excludes debt issued by financial institutions under the Federal Temporary Liquidity Guarantee Program and debt issued by any Federal Government agency and other entities through federal guarantee programs.

2009 GO Bond Issuance – How the Money Was Used

- In calendar 2009, the State issued $20.48 billion of GO bonds, including $19.74 billion that were publicly issued and $736.88 million that were privately placed with public agencies.
- $8.02 billion were issued as Build America Bonds (BABs), which were authorized under ARRA

General Obligation Bond Issuance by Major Program Area
Calendar Year 2009: $20.48 billion

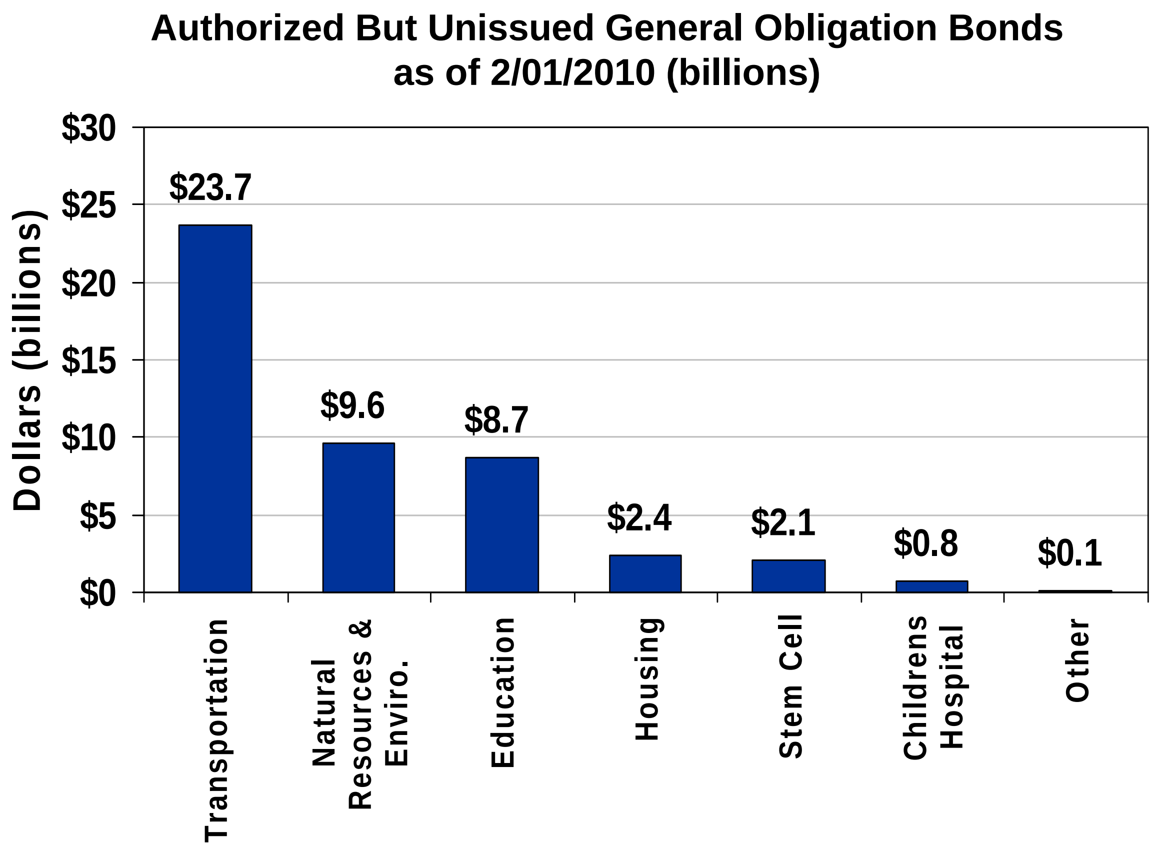


Bond Sales for the Office of Public School Construction

- OPSC received more funding from calendar year 2009 publicly offered GO bond issues than any other department
  - $2.6 billion of "upfront" bond funding for projects, and $75.2 million of commercial paper proceeds
  - $1.4 billion to pay off OPSC's outstanding PMIA loans and pay down Commercial Paper
  - $196.6 million to refund outstanding variable rate bonds issued for OPSC projects
- K-12 bonds represent 34.4% of GO bonds authorized over last two decades, but represent 43.9% of all GO bonds issued during that period
- K-12 bonds comprise 17.1% of the GO bonds authorized by voters in 2006, but account for 21.9% of the bonds issued since then

Issuance Needs for 2010 and Beyond

- Despite the extraordinary amount of debt issued in 2009, the State still has:
  - $47.48 billion of voter authorized but unissued GO bonds, and
  - $10.2 billion of Public Works Board lease revenue bonds authorized by the Legislature and unissued



Preliminary GO Bond Issuance Plans for 2010

- The State Treasurer's Office expects to issue $4 to $7 billion of GO bonds in the first six months of 2010
  - Up to $2 billion (tax-exempt) in early March
  - Up to $2 billion (taxable/Build America Bonds) mid-March
  - Additional sales may be completed in April and/or June
- Up to $7 billion may be issued in second half of 2010
- Certain "blackout" periods exist when the State will not be in the market
  - Black Out Period One: Beginning of December through January 10 when Governor's Proposed Budget released
  - Black Out Period Two: Beginning of May through May 14 when May Revision is released
  - Black Out Period Three: Beginning of July through final budget enactment (if budget not enacted by June 30)