

State of CaliforniaEconomic & Fiscal Update

General Obligation (G.O.) Ratings Standard & Poor's: A/Stable Outlook Moody's: A1/Stable Outlook

California G.O. Ratings

- The S&P upgrade is based on the states improved financial and cash position, as well as, a structurally balanced budget for the next few years.
- The affirmed Moody's rating in Aug. 2013 is based on higher revenues, an improved state economy, moderate but declining debt levels and modest budget changes that have allowed for the budgets to be passed on-time.

California's investment grade ratings are supported by its credit strengths including the largest state economy which accounts for 13% of U.S. Gross Domestic Product, improving unemployment, a recovering housing and construction market, progress for addressing structural budget issues and improved cash collections. The state should also benefit from several recent developments including the passing of Prop 30 which will generate additional tax revenue from income and sales tax, and pension reform that will provide moderate upfront but significant long term savings. Partially offsetting these strengths are the cyclicality of revenues due to state's reliance on progressive personal income tax rates and high but manageable debt levels.

Constitutional Priority of Payments

(approximate % of General Fund)

1st – Support public school system and public higher education 48%

2nd – Principal and interest on general obligation bonds and commercial paper notes 6%

3rd – All other obligations 46%

The State of California and its municipalities issued \$34.3 billion of debt in the first eight months of 2013 making it the largest bond issuing state in the country during that time and \$28.9 billion in the first eight months of 2012 making it the second largest bond issuing state during that time. Total issuances increased 19% in the first 8 months of 2013 compared to the same period in 2012. Growth in debt is expected to be modest in the near future.



Economic Update

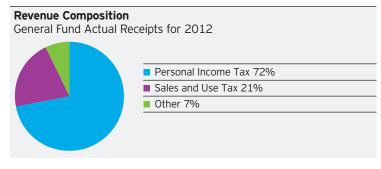
There continues to be signs of stabilizing economic activity in California with improvement in nonfarm job data, population growth, unemployment rate and housing.

- 2012 per capita income of \$29,634 is 106% of the national average.
- Population increased 10% over the past decade to 37.2 million residents in 2010.
- Unemployment rate as of August 2013 was 8.9%, down from 10.5% one year ago.
- California gained 236,400 jobs from July 2012 to July 2013. Leisure and Hospitality segment had the largest gain, rising 4.4% year-over-year to 1,675,200 jobs, while the Mining and Logging segment had the largest decline, decreasing 3.3% year-over-year to 29,200.
- Pace of residential construction recovered year-over-year in 2012, with residential permits up 29% from the prior year.
- The median price of existing, single family homes sold in July 2013 at \$376,500 was an increase of 23.7% from same period a year ago.

Source: United States Census Bureau, US Census Bureau California Department of Revenue, U.S. Bureau of Labor Statistics, U.S. Department of Labor and Zillow.com

Fiscal update Fiscal Year 2012 (FY 2012)

General fund revenue of \$85 billion exceeded budget by 1% or \$544 million. The positive variance was largely due to an \$832 million variance in personal income tax. The state has a highly progressive personal income tax structure. The tax structure leads to higher revenue volatility compared to other states. 2012 expenses of \$88 billion were \$2 billion less than budget. The majority of the variance from budget was from a \$2 billion positive variance in health and human service expense. In 2012, the state had a deficit of \$2 billion which was better than the budgeted deficit of \$5 billion. The state has \$94.3 billion of debt outstanding which is 6.2% of personal income or \$2,169 per capita. Debt service as a percent of 2012 General Fund Revenues is a modest 6%.



Source: California State Controller's Office

Fiscal Year 2014 Budget

The governor's budget for 2014 includes \$96 billion of revenue which is considered conservative as it is expected to be a 1% decline from 2013 revenues. Expenses are expected to increase 1% and the state is forecasting a reserve of \$1 billion.

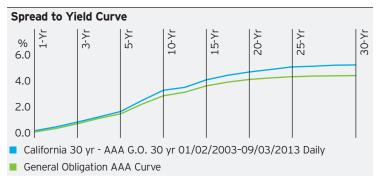
Pension update

- The state of California maintains two major pension plans, California's Public Employee's Retirement System (CalPERS) and the California Teachers Retirement System (CalSTRS).
- On a combined basis the unfunded pension liability increased from \$64 billion in 2011 to \$71 billion in 2012 and is 67% funded. General Fund contributions in 2014 are expected to be \$3.7 billion or 3.8% of all general fund expenses.
- In 2012, the state made favorable adjustments to manage its pension liability. Adjustments include an increase to the pension retirement age for new employees, prohibited retroactive benefits and a increase in some current employee contributions.

Source: CalPERS and CalSTR

Spread analysis

As highlighted by the Spread to Yield Curve graph, the yield on California general obligation ("G.O.") bonds offers an attractive yield compared to the AAA G.O. bond. For example, the 30 year California bond offered an additional 0.81% of yield when compared to the 30 year AAA rated G.O. bond in September 2013.

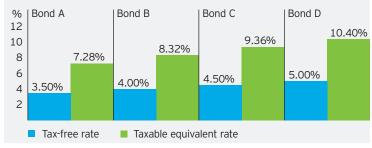


Source: Bloomberg L.P.

Past performance does not guarantee future results.

Taxable Equivalent Yields¹

When tax rates increase the taxable equivalent yield increases. In 2013, the Federal government and the state of California increased the tax rate for their highest tax bracket leading to a higher taxable equivalent yield for investors in these tax brackets.



1 Assumes Federal Tax rate of 39.6% and the highest CA State Tax rate of 12.3%, for a total of 51.9%. Past performance does not guarantee future results.

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About risk

The yields shown are for illustrative purposes only and are not intended to represent historical or predict future performance of any particular investment. The preceding information is a brief summary of a number of complex factors affecting the economy of the State of California and does not purport to be a complete description of such factors. These factors may impact California issuers of debt obligations. The information is derived from sources that generally are available to investors, including information related to debt offerings of California issuers, other publicly available information and media reports as of April 2012. However, it has not been updated since that time. Van Kampen has not independently verified the accuracy and completeness of the information and the reports used for this summary. The information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of California and does not relate to any investments.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise; conversely, bond prices generally rise as interest rates fall. Specific bonds differ in their sensitivity to changes in interest rates depending on their individual characteristics, including duration.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA/Aaa (highest) to D/C (lowest); ratings are subject to change without notice. For more information on Standard and Poor's rating methodology, please visit www.standardandpoors.com and select "Understanding Ratings" under Rating Resources on the homepage or Moody's at www.moodys.com and select "Rating Methodology" under Research and Ratings on the homepage.