

California nears financial "meltdown" as revenues tumble

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By Jim Christie

SAN FRANCISCO (Reuters) - California's government risks a financial "meltdown" within 50 days in light of its weakening May revenues unless Governor Arnold Schwarzenegger and lawmakers quickly plug a \$24.3 billion budget gap, the state's controller said on Wednesday.

Underscoring the severity of California's cash crisis, Controller John Chiang, who has previously warned the state's government risks running out of cash without a budget deal, said revenues in May fell by \$1.14 billion, or 17.7 percent, from a year earlier.

Additionally, the revenues of the government of the most populous U.S. state fell short of estimates in Schwarzenegger's budget plan by \$827 million, Chiang said.

He warned California's state government is speeding toward a financial disaster unless officials act urgently to balance its books.

"Without immediate solutions from the governor and legislature, we are less than 50 days away from a meltdown of state government," Chiang said in a statement.

California's revenues have been on a dramatic slide as a result of recession, rising unemployment and its lengthy housing downturn.

The state's revenues from personal income taxes tumbled by 39.3 percent in May from a year earlier while revenues from corporate taxes fell by 52.1 percent and revenues from sales taxes sagged by 7.6 percent, according to a report released by Chiang's office.

"A truly balanced budget is the only responsible way out of the worst cash crisis since the Great Depression," Chiang, a Democrat, said.

DUELING BUDGET CONCEPTS

Schwarzenegger, a Republican, has proposed filling the state's budget gap with deep spending cuts, borrowing from local governments and by scrapping some state programs, including its welfare program.

Democrats who control the legislature are crafting a rival budget plan that includes spending cuts and saves programs Schwarzenegger has proposed eliminating. They instead would use reserves estimated in his budget to narrow the budget gap.

State Senate President Pro Tem Darrell Steinberg said on Tuesday he wants a budget agreement by the end of this month.

California's new fiscal year begins on July 1. The sooner the state has a budget the better poised it will be to raise short-term cash to fund its operations by selling revenue anticipation notes, or RANs, on the municipal debt market.

If pressed, California could sell revenue anticipation warrants, or RAWs, an idea floated by Schwarzenegger when he unveiled his budget plan last month. But he quickly shelved it amid opposition from lawmakers.

"No one wants to issue RAWs for our cash-flow borrowing," said Tom Dresslar, a spokesman for State Treasurer Bill Lockyer. "Everyone would prefer to issue RANs for the obvious reason: It costs less."

Lockyer, a Democrat, supports a budget with the reserve Schwarzenegger has proposed. That would increase confidence among investors that California has cash to pay the \$7 billion to \$9 billion in short-term debt notes that Lockyer's office assumes the state will need to sell, Dresslar said.

(Editing by Carol Bishopric)