CALIFORNIA HAS DRAWN DOWN OVER 85% OF ITS CREDIT LINES

In what seems appropriate for a month ending in Halloween; the State of California just released a scary October Statement of General Fund Cash Receipts and Disbursements indicating this year's annual revenue will plummet by $3.6 billion and spending will spike up by $10.2 billion. California has already drawn-down 85% of its credit lines and only has $4 billion remaining to fund this new $13.8 billion deficit. The state already has the same credit rating as basket-case Portugal; these new numbers will heighten the risk of a state downgrade to "junk". With California's credit lines almost tapped-out and a downgrade to junk sure to cut-off borrowing; the sovereign debt crisis that has hammered Europe may soon arrive in America.

Two weeks ago when I published: "Facing a Downgrade, California Tries Pension Reform"; regarding my belief a "credible first step on the road to reforming the State's insolvent public pension plans" had been taken by Governor Brown. I received hate mail from the right for complimenting Brown; and hate mail from the left for stating Brown's motivation to take on his own public employee constituency was motivated by fear that California might default.

At the time, California had managed to stay out of the financial press since July 7, 2011; when S&P raised the state's credit outlook "from negative to stable", following passage of a $129.5 billion budget this year that closed a $26.6 billion projected deficit. This new-found credibility came after California had run deficits of $19.3 billion; $60 billion; and 24.3 billion for the three prior years. S&P affirmed California's A-minus ratings for general obligation bonds and BBB-plus rating for appropriation-backed debt. In glowing praise, S&P said their positive upgrade should cover the next "two-year outlook horizon"; since increasing liquidity will provide "better balance between the money coming and cash being spent on state operations."

Last week at the Bloomberg State and Municipal Finance Conference in New York; analysts including Mary Neale, founder of Greencoast Capital Partners, celebrated the strength of California's diverse economy and extolled Governor Brown's leadership in rescuing the state's beleaguered credit rating. "I think it will go up," Neale added: "California has been unjustly penalized." But former Deputy Treasurer Paul Rosenstiel cautioned that the "real spending cuts that will begin to shore up finances" are already choking-off state money designated for schools and local governments. "The math just doesn't work out for you to be able to solve the budget problem without cutting the amount of money that goes to local governments," October's shocking cash report brought to an end California's financial rehabilitation trend. The state has been surviving on borrowed money since 2007 and had projected credit availability for October 31st to be $7.1 billion. But with both spending and revenue headed in the wrong direction; the state's budget is upside-down and the deficit has been growing by an average of $25 million per day. Putting these big numbers in human terms, California's remaining $4 billion credit line will only last for 11 days.

A year ago, California had the luxury of knowing if the state ran out of cash; the Federal government could always be relied upon for a bailout. That option expired with the downgrade of the United States' own credit rating and the abhorrence of bail-outs by both the left and the right. The federal government did not bail-out municipal defaults this year by Vallejo, California; Harrisburg, Pennsylvania; or Birmingham, Alabama. Rapidly running out of access to credit; the outlook for California's sovereign debt is grim.