

## 01 07 2009 Stato di emergenza finanziaria in California

SAN FRANCISCO (Reuters) - California Gov. Arnold Schwarzenegger on Wednesday declared a fiscal emergency to force lawmakers into a special session to tackle a state budget gap that has widened to \$26.3 billion from \$24.3 billion after they failed to close it on Tuesday.

Lawmakers debated late into the night Tuesday but could not agree on a plan to balance California's budget for its new fiscal year, which began early Wednesday morning.

That cleared the way for state officials to suspend payments owed to vendors and local agencies, who instead will get "IOU" notes promising payment.

The notes would mark the first time in 17 years the most populous U.S. state's government would have to resort to the unusual and dramatic measure -- and would follow warnings by Wall Street that the state's credit ratings may be lowered, which would increase its borrowing costs.

"Though the legislature failed to solve our budget problem yesterday, rest assured that solving the entire deficit remains my first and only priority, and I will not rest until we get it done. I will not be a part of pushing this crisis down the road -- the road stops here," Schwarzenegger said in a statement.

While California lawmakers struggle with budget deadlines nearly every year, this budget fight is taking place amid the state's worst drop in revenues from personal income taxes since the Great Depression as recession and rising joblessness worsen damage done to the state economy from the housing slump.

Democrats, who control the legislature, could not convince Republicans to either back their plans to tackle the shortfall or make a stopgap effort to ward off the IOUs. The two sides agree on the need for spending cuts, but are split over whether to raise taxes to help fill the gap.

Democrats have pushed for new revenues while Republican lawmakers and Schwarzenegger, also a Republican, have ruled out tax increases. They want deep spending cuts to balance the budget. Democrats say that would slash the state's safety net for the needy to the bone.

California bonds due in 10 to 30 years traded stronger in the secondary municipal market as it priced in a missed budget deadline, said Municipal Market Data analyst Domenic Vonella.

"We've seen Cal GO paper widen for the last three weeks or so ... Today things are a few basis points better," added Parker Colvin, head of municipal securities trading at Stone & Youngberg in San Francisco.

### CASH CRISIS LOOMS

White House spokesman Robert Gibbs said the Obama administration is keeping a close eye on California's woes. State officials have proposed the U.S. government help with financial aid or by vouching for state debt. "We continue to watch the situation and we'll see as it develops," Gibbs said.

In Sacramento, California's capital, State Treasurer Bill Lockyer's office is preparing plans to issue short-term debt assuming Washington will not guarantee it.

"We've been operating since May under the assumption that there will be no help forthcoming," said Lockyer spokesman Tom Dresslar. "We did not ask for a bailout, repeat, we did not ask for a bailout. We wanted the federal government to step in and provide a backstop for our cash-flow borrowing."

Meanwhile, the lack of a budget may trigger action by Wall Street credit ratings agencies.

Fitch last week downgraded its rating on California's general obligation debt by one notch to A-minus, placing it four notches above speculative, or "junk" status, and making it the lowest rating of any U.S. state.

Fitch also warned of further downgrades, just as Standard & Poor's has warned of possible downgrades to California's general obligation debt. Moody's has said the state could see a mult notch downgrade of its A2 rating.

Moody's had no immediate comment on California's IOU plan or its failure to pass a budget. Fitch and S&P analysts were not immediately available to comment.

In Sacramento, tempers flared in the state Senate as the midnight start of the new fiscal year and IOUs neared.

"There is no excuse to hold this whole state hostage," state Senate President Pro Tem Darrell Steinberg told Republicans during a floor debate.

Senate Republican Leader Dennis Hollingsworth countered that major cuts are urgently needed. Otherwise, "there will be entire programs that will have to be lopped off," he said.

Due to its steep decline in revenue, California risks running out of cash later this month to pay all of its bills unless its books are balanced quickly. To conserve cash, State Controller John Chiang plans to issue IOUs by Thursday to state vendors, some local agencies and various recipients of state aid, including the elderly, disabled and college students.

Chiang plans to send \$3.36 billion in IOUs this month to help make \$10.9 billion in other payments, including money owed to investors holding California's debt. "The general obligation bonds will be paid," he told Reuters. "California has never defaulted on its debt obligation and we don't plan to do so."

California, which had the eighth largest economy in the world in 2006, according to its Legislative Analysts' Office, now needs to reassure Wall Street because state officials see the need to sell \$7 billion to \$9 billion of short-term debt once there is a budget agreement.