



Print Close

## Muni market unphased by California's overdue budget

Published August 30, 2010 | Reuters

By Jim Christie

SAN FRANCISCO (Reuters) - California should have had a budget in place 61 days ago. Instead, Republican Governor Arnold Schwarzenegger and the state's Democrat-led legislature remain at odds over balancing the state's books -- and it is uncertain when they may settle in for serious negotiations.

The municipal debt market, however, seems unconcerned about the prospect of a prolonged budget fight on how to close a \$19 billion shortfall, potentially past election day in November.



ADVERTISEMENT

Instead, the market expects the biggest issuer of debt among U.S. states will pay interest on it even as budget talks stumble along.

Analysts said Monday the market has become accustomed to tardy budgets -- in 2008 a spending plan was not approved until mid-September -- that have not interrupted scheduled bond payments.

"It's familiar territory," said Parker Colvin, managing director and head of California underwriting at investment bank Stone & Youngberg in San Francisco. "The state has been very careful to make sure that there is no interruption or delay to payments for debt service."

**Michael Pietronico**, chief executive officer at Miller Tabak [Asset Management](#) in New York, noted that "Market participants have got used to a late budget ... Something highly unusual would have to happen for the market to grow very nervous because the state has shown that they consider paying interest on their bonds to be of the highest priority and the market believes that."

Not even the prospect of California issuing IOUs at some point this month, just as it did last year during a budget impasse, has the market concerned.

Promissory notes to vendors and others expecting state money may produce ugly headlines. But they comfort bondholders because they will be near the head of the line for payments, which the state government can manage with its [cash](#) and by borrowing from its various funds.

"It wouldn't rattle bondholders because it would imply they're going to get paid," Pietronico said.

Investors holding California debt last week received a reassuring message via state officials telling local officials that \$3 billion in state money for local governments and agencies would be delayed until the state budget is approved.

The money will in part go to help cover the state's \$803 million general obligation debt service on Oct. 1.

However, moves to bolster the state's cash position are putting a squeeze on local debt issuers, forcing them into difficult budget decisions until state money arrives, said Tim Heaney, a senior portfolio manager with San Francisco-based independent investment firm SCM Advisors LLC.

"It certainly could impact the level of [funding](#) for a variety of issues, particularly school districts," Heaney said. "I think ultimately they'll get their money, but timing could be an issue."

California's regular legislative session ends Tuesday and lawmakers plan to mark it with a debate on budget plans pushed by Schwarzenegger and top Democrats.

Schwarzenegger has proposed a plan built around spending cuts, which Democrats say are too deep for them to support. They have proposed cuts and a mix of tax increases, opposed by Schwarzenegger and Republican lawmakers, who hold the balance of power in budget votes.

After the debate on the rival spending plans and symbolic votes on them, the governor plans to call lawmakers into a special session on the [budget](#). (Reporting by Jim Christie; Editing by Dan Grebler)

 Print  Close

---

**URL**

<http://www.foxbusiness.com/markets/2010/08/30/muni-market-unphased-californias-overdue-budget/>

---

[Home](#) | [Video](#) | [Markets](#) | [Personal Finance](#) | [My Money](#) | [On Air](#) | [RSS Feeds](#) | [Mobile](#) | [Contact Us](#) | [About Us](#) | [FAQs](#)  
[Channel Finder](#) | [Fox News](#) | [Advertise with us](#) | [Jobs at FOX Business Network](#) | [Internships at FBN](#)

Terms of use. [Privacy Statement](#). For FOXBusiness.com technical issues write to [foxbusinessonline@foxbusiness.com](mailto:foxbusinessonline@foxbusiness.com); for all other feedback, write to [feedback@foxbusiness.com](mailto:feedback@foxbusiness.com).

Quotes delayed at least 15 minutes. Market Data provided by Interactive Data (Terms & Conditions). Powered and implemented by Interactive Data Managed Solutions. Company fundamental data provided by Morningstar. Earnings estimates data provided by Zacks. Mutual fund data provided by Lipper. Economic data provided by Econoday. Dow Jones & Company Terms & Conditions.

This material may not be published, broadcast, rewritten, or redistributed. © 2010 FOX News Network, LLC. All rights reserved. All market data delayed 20 minutes.