Bond Case Briefs

Municipal Finance Law Since 1971

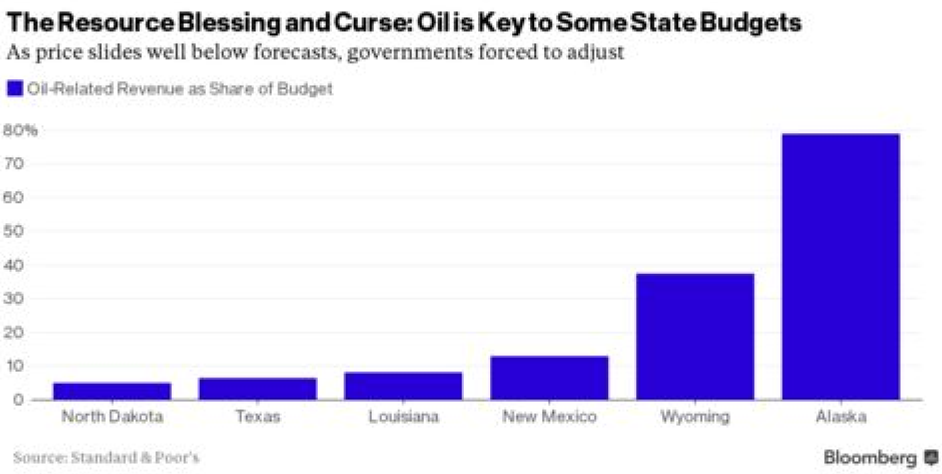
Oil's Collapse Hurting States That Were Counting on $50---Barrel.

When Louisiana, one of the nation's biggest energy-producing states, decided how much tax money the government would have to spend this year, it forecast that the price of oil would be almost $50 a barrel. It's since tumbled to below $32, casting economic ripples that helped create a $750 million budget shortfall.

The price of crude, which is recovering from a 12-year low, has emerged as a major source of fiscal strain on the nation's oil-patch states, none of which predicted how swift or deep the drop would be. That's prompted a reversal-of-fortune in capitals that once reaped revenue windfalls from America's energy-industry renaissance and are now racing to adjust.

"They're playing catch-up in getting their estimates in line with what's happening with spot prices," said Gabriel Petek, a municipal-bond analyst in San Francisco for Standard & Poor's who's been tracking the fiscal impacts, speaking of energy states revising price forecasts. "It doesn't look like prices are coming up soon, so if the prices stay low it could pressure their budget positions."

A report released Thursday by S&P said the energy rout is a main culprit in at least five of the 11 states that are facing financial pressure this year as jobs and counted-on tax collections disappear. The price of oil, which traded for more than $100 less than two years ago, has been cut in half since June amid concerns about the slowing pace of overseas economies, even with a rally Friday that pushed it up more than 7 percent.



Besides Louisiana, it's being felt largely in Alaska, New Mexico, Oklahoma, and North Dakota, the credit-rating company said. But it's also cropping up elsewhere: In Texas, the largest producer, the impact has crimped sales-tax collections and increased the cost of public-assistance programs for those out of work. In states with the big energy industries, payrolls expanded by 0.9 percent in the year through November, less than half the rate for the U.S., according to S&P.

Sales-Tax Increase

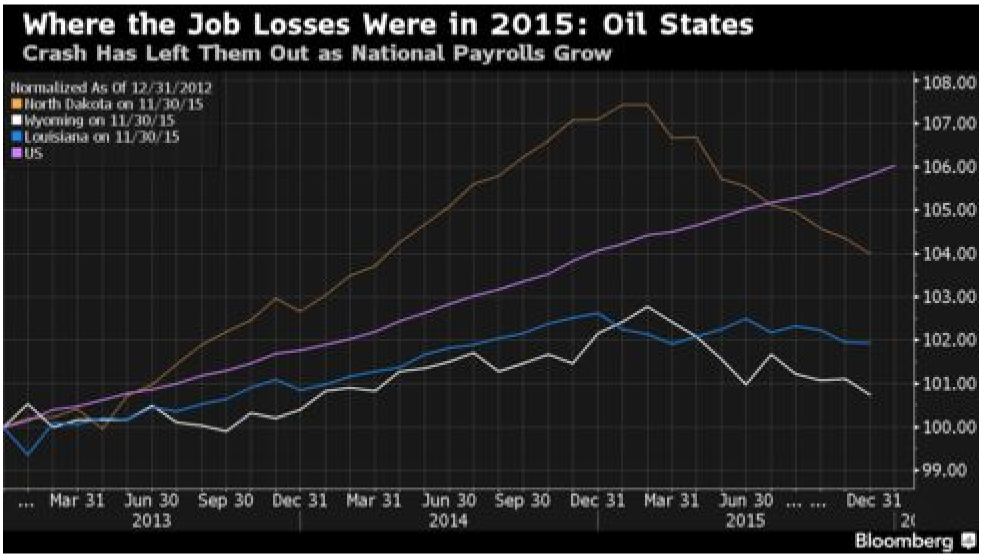
For Louisiana, the lower prices — along with rising health-care costs — are a driver of the projected $1.9 billion deficit for the year that begins in July. With its finances squeezed, investors have demanded higher yields to own some of the state's debt. Fuel-tax backed bonds maturing in 2041 traded Friday for a yield of 3.17 percent, or 1.48 percentage point more than top-rated securities. That gap is up from 0.78 percentage point in May.

To help close the gap, Governor John Bel Edwards, a Democrat in his second week in office, proposed raising the sales tax by 1 percentage point to 5 percent. That would give the Gulf Coast state the highest average state and local sales-tax rate in the country, according to the Tax Foundation in Washington.

Edwards has also proposed tapping reserves, cutting spending by about 10 percent and drawing on compensation Louisiana received for the BP Plc oil spill.

"The decline in oil prices certainly isn't helping us," said Julie Payer, the governor's deputy chief of staff. "It's a factor in layoffs that are affecting industries in the state."

Louisiana may reduce the $48 barrel oil price it used in budget projections in November when it puts out new estimates next month. "It hasn't been getting any better," Payer said.



Oklahoma expects tax collections to fall short of its initial estimates by 7.7 percent in the current budget year and by 13 percent in the next, which led Governor Mary Fallin to implement across-th--board spending cuts, according to S&P. Similar reductions are likely in North Dakota.

Alaska, with 79 percent of its operating revenue drawn from oil, lost its AAA rating from S&P this month after its deficit widened. The state assumed prices of more than $67 a barrel when it passed its budget last year, only to cut it later to about $50. The rating outlook remains negative, indicating another downgrade could come if the state fails to curb its deficit during this year's legislative session. Governor Bill Walker said in a statement this month that the cut "further solidifies the need to address our state's fiscal challenges."

"Alaska stands out as the most exposed," said Petek, the S&P analyst.

Texas Comptroller Glenn Hegar revised his revenue estimate for fiscal 2016 and 2017 down in

October to $110.4 billion from $113 billion. Even so, the state's vast and diversified economy has left it better buffered than other states: The revised figure still exceeds the $106 billion in the current two-year budget, said Chris Bryan, spokesman for Hegar.

The drop in Texas's collections of energy-severance taxes will cut contributions to the government's funds that are used to build highways and mitigate the impact of economic slowdowns on the budget. Estimates for contributions to those funds have been cut by half for fiscal 2017. The state's reserves are still expected to be about $10.5 billion in 2017.

"We're still way ahead of where we would have to be for energy prices to have an impact on the state budget," said Bryan.

Bloomberg Business

by Darrell Preston

January 21, 2016 — 9:01 PM PST Updated on January 22, 2016 — 7:26 AM PST