Flood-Ravaged Louisiana Facing Biggest Cash Crunch Since 1980s.

Add a short-term cash squeeze to the list of woes besetting Louisiana, suffering already from historic flooding and the collapse of oil prices.

The state is considering the sale of as much as $500 million in revenue anticipation notes — its first cash-flow borrowing in nearly 30 years — because it no longer has reserves available that officials once tapped to pay its bills while awaiting tax collection. Such short-term borrowing gives the state money to pay bills until it collects enough tax revenue used for repayment.

“The state has used internal funds for liquidity in the past,” said Sussan Corson, analyst with S&P Global Ratings in New York. “Now that they can’t it’s a sign of weakness and deterioration.”

The state paid a price for its financial pressures when it borrowed about $275 million in April. Investors demanded yields of as much as 2.51 percent on 13-year securities, about a full percentage point more than top-rated debt, according to data compiled by Bloomberg. That gap was was 0.2 percentage point higher than it was when Louisiana sold similar bonds in May 2015, before Moody’s Investors Service and Fitch Ratings cut their credit ratings. That premium has since declined as borrowing rates in the municipal-bond market dropped to generational lows.

The short-term borrowing is just the start. Louisiana plans to sell $186.7 million in bonds next week and another $265.6 million of general-obligation debt a few weeks later to repay bond-anticipation notes. The state’s bond commission will consider final approval of the revenue-anticipation notes at its Sept. 15 meeting. The cash flow borrowing could be placed with a bank, though a final decision hasn’t been made, said Lela Folse, director.

The state has about $3.25 billion of outstanding general-obligation debt. Louisiana may further boost borrowing in coming years as the increased tax revenue approved by lawmakers this year raises the state’s debt capacity, which is limited to 6 percent of revenue.

Louisiana, like other states dependent on energy production, has been forced to cut spending and raise taxes to close $2 billion of budget deficits in its current fiscal year as the price of oil has fallen to less than half the value it was two years ago, reducing state revenue. Alaska, Oklahoma and North Dakota are are among those contending with budget deficits since prices tumbled.

Crude Collapse

But Louisiana’s pressures began building before the oil price collapse as lawmakers used one-time revenue sources, including reserves, to balance its budget and put restrictions on some internal borrowing. The state is rated AA with a negative outlook by S&P, AA- by Fitch with a stable outlook and Aa3 with a negative outlook by Moody’s.

“The amount of money available for borrowing is a lot less,” said Treasurer John Kennedy at a state Bond Commission meeting last month. “It’s gone.”

Meanwhile, the state still faces revenue pressure as fiscal year 2016 receipts through June 30 were $388 million, or 5 percent, below the same period a year earlier, according to S&P. When the numbers for fiscal 2016 are in the state may end the year with a deficit, which could force midyear spending adjustments in fiscal 2017, S&P said.

The state balanced its $9.6 billion fiscal 2017 budget with about $1.4 billion of new tax revenue and cutting expenses, according to S&P. The state's negative employment growth and slowing income growth have contributed to weakness in sales and corporate tax revenue, S&P said. S&P said the amount of available cash in the general fund for internal borrowing had declined to $1.2 billion as of June 30, 2016, from more than $1.7 billion in November 2015.

Revenue Collections

"It wouldn't take a very big error in the forecast to need these funds," said Renee Boicourt, managing director with Lamont Financial Services Corp., the state's financial adviser, at the July bond commission meeting.

Though revenue collections did strengthen in July, according to Kennedy, it's too soon into the new fiscal year to know how much borrowing may be needed, though the flooding of thousands of homes and businesses in and around Baton Rouge may put additional financial pressures as the state absorbs some recovery costs.
President Barrack Obama is visiting the flood zone in the state Tuesday, four days after Republican Donald Trump toured the area and nearly 11 years after Hurricane Katrina struck the state. Federal support for the victims has reached $127 million, Obama said.

Two feet of rain that began Aug. 12 in some areas led rivers and creeks to back up, causing flooding in at least 20 of the state's parishes and damaging an estimated 60,000 homes and contributing to the deaths of 13 people. The storm closed businesses and government offices and forced thousands of people to relocate to shelters and hotels. The storm has been called the worst since Hurricane Sandy in 2012.

"We view the use of such borrowing to be a negative credit event which should place pressure on the state's already low ratings," wrote Court Street Group Research LLC in its weekly municipal market newsletter Aug. 19.

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by Darrell Preston

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