

CHRISS STREET AND COMPANY

220 Newport Center Drive
Suite # 11-800
Newport Beach, CA 92660
(949) 466-0376
chriss@chrissstreetandcompany.com



LAST CALIFORNIA COMPANY TO LEAVE TURNS OUT THE LIGHTS



In the face of strong national consumer spending and private sector employment gains, State Controller John Chaing released California's December's financial statement showing the General Fund is running a staggering [cash deficit of \\$21 billion on an \\$88.5 billion budget](#). This imploding financial condition is a reflection of how California's high businesses taxes and excessive regulations are accelerating the trend of businesses to abandoning the state. According to Chaing:

"While we saw positive numbers in November, December's totals failed to meet even the latest revenue projections. Coupled with higher spending tied to unrealized cost savings, these latest revenue figures create growing concern that legislative action may be needed in the near future to ensure that the State can meet its payment obligations."

The above are "code words" that the state is financially dysfunctional and it's getting worse. The December [report](#) compared to last year, California revenue at \$39.4 billion is down by 11.2% due mostly to a 26.4% nose-dive in sales tax collection and that state spending of \$52.3 billion is currently running 33% higher than the state's revenue.

The Controller does not seem impressed that Governor Brown and the California State Legislature's only solution to fix this budget mess is to relying on voters willingness [to approve an initiative to raise the already hefty sales tax they pay by 13% and add another sur-tax on the wealthy to generate \\$6.9 billion in revenue](#). Even if the public shocks pollsters and actually passes the tax increase, the non-partisan Legislative Analyst's Office (LAO) [calculated the initiative would only generate \\$4.8 billion per year](#). Prior to the Controller's grim report of a \$5.2 billion budget miss, the LAO had already estimated that [state's revenue would be \\$3.7 billion below forecast and "trigger" \\$2 billion of automatic budget cuts to K-14 education](#). The LAO's estimate of a \$13 billion deficit next year due mostly to constitutionally required "settle up" payments for short-checking public schools in prior years, now looks like a \$20 billion deficit.

California's budget projections are so consistently whacky, the Governor closed the "[California Recovery website](#)" this summer to avoid ridicule regarding its ludicrously optimistic recovery projections. Despite creating one of the most unfriendly business climates in the nation, California socialist politicians were able to do the "la Vida loca" spending on the back of an epic 20 year real estate boom. With the real estate bust now in its fourth years, [California now ranks third in the nation in foreclosures](#) and according to "[The Foreclosure Radar Report](#)", is one of only two states in the nation where foreclosures increased in December.

The credit rating agencies will undoubtedly take a very hard look at downgrading California's municipal bond debt, which is already the worst rated in the nation at only two notches above junk. But the budget disaster also spells bad news for the credit ratings of California local government. Earlier this year, the Legislature passed a law stripping \$2 billion per year from state's 400 redevelopment agencies to augment their own budget shortfall. [Moody's Investor Services immediately put \\$11.6 billion of California tax allocation bonds on review for a possible downgrade](#). Moody's stated:

*"If left unchanged, this law would be significantly negative for bondholder credit. This legislation could result in **multi-notch downgrades** on bonds of the dissolved redevelopment agencies."*

Perhaps California's budget problems can be best understood from a [Fox Television interview of Joseph Vranich, President of the "Business Relocation Coach"](#), who makes his living moving companies out of California to avoid the:

"high businesses taxes and excessive regulations imposed on commercial enterprises of all types. Costs are illustrated by the fact that a business leaving the City of Los Angeles for a nearby county can save up to 20% in costs while moving to another state can save up to 40% in costs."

Vranich pointed out that in the first half of 2011 there were 129 companies with 100 or more employees that moved out of the state. This averages 5.4 larger companies leaving for "greener pastures" per week, versus 3.9 per week in 2010 and only 1 per week in 2009. The top relocation destination is not China; but rather neighboring business friendly states of Texas, Arizona, Colorado, Nevada and Utah.

British Prime Minister Margaret Thatcher, in a TV interview in 1976, famously said: ["Socialist governments traditionally do make a financial mess. They always run out of other people's money. It's quite a characteristic of them"](#). Had she lived in California 35 years later, she would have added: "or else the other people will take their money and just leave!"

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