



**JOHN CHIANG**  
*California State Controller*

January 22, 2010

The Honorable Arnold Schwarzenegger  
Governor of California  
State Capitol Building  
Sacramento, CA 95814

The Honorable Darrell Steinberg  
President Pro Tempore  
State Capitol, Room 205  
Sacramento, CA 95814

The Honorable Karen Bass  
Speaker of the Assembly  
State Capitol, Room 219  
Sacramento, CA 95814

The Honorable Dennis Hollingsworth  
California State Senate  
State Capitol, Room 305  
Sacramento, CA 95814

The Honorable Sam Blakeslee  
California State Assembly  
State Capitol, Room 3104  
Sacramento, CA 95814

Dear Governor and Legislative Leaders:

As State Controller, it is my responsibility to keep you informed of California's cash condition and the threats that can prevent the State from meeting its payment obligations in a timely manner. While our current cash condition is marginally better than it was one year ago, it is still precarious. I respectfully urge you to swiftly address the State's projected budget and cash shortfalls for the remainder of the current fiscal year and the next in order to protect California's economic recovery, continue the financing of public works projects, and prevent Californians hurt by the recession from experiencing even greater financial hardship.

My analysis of the Governor's recently released revenue and expenditure estimates shows that the State's cash position for the remainder of the current fiscal year will be weak from approximately March 30 through April 21. This upcoming shortfall is shallower in depth and shorter in duration than the State's cash problems in the spring of 2009, when the problem started earlier in the year and grew progressively worse with each passing month. According to my projections, California will drop below its \$2.5 billion prudent minimum cash balance on March 30 by \$1.3 billion. On April 1, the State will be in the red by \$197 million, and our resources to pay bills are not expected to return to safe levels until April 21.

Barring any unforeseen circumstances, such as a spike in expenditures or precipitous decline in revenues, \$2.7 billion in cash solutions are necessary to avoid a cash shortage in the current fiscal year.

The Governor's spending plan proposes a variety of budget solutions to be enacted during the current Proposition 58 special session. If fully adopted, these solutions have a cash value of \$1.3 billion that will be realized during the remaining months of the current fiscal year. The blue line in the attached chart demonstrates that even with the adoption of the Governor's proposed solutions, the State's cash position drops below the \$2.5 billion prudent minimum by nearly \$700 million on March 31. The next day, it drops to \$541 million and remains below safe levels until April 16.

Even with the passage of the Governor's proposed budget solutions during the current special session, at least another \$2 billion in cash solutions are required to protect our cash balance in the current fiscal year alone.

Should you fail to make any progress on the combined \$19.9 billion two-year budget problem during the current special session and allow a stalemate to continue into the new fiscal year, you will once again face the difficult task of averting a cash crisis beginning in July. The State's cash position will drop below the \$2.5 billion prudent cushion during the middle of July, and starting July 29, our cash deficit will reach a negative \$1.1 billion. As the red line in the attached chart shows, from that date forward, the State's inability to meet all of its payment obligations in a timely fashion and the severity of its cash problems will amplify with each passing week and month.

There is limited time for you to act. Some may suggest that you wait because California's economy is turning around and the May Revision will contain more reliable revenue and expenditure forecasts for these two fiscal years. While I agree California's economy does show very modest signs of recovery, I strongly disagree that the General Fund's cash problem can wait another four months or more before action is required.

While reasonable minds may disagree about the solutions, there is no room for debate about the folly of doing nothing. Inaction ignores the projected cash shortfall which we face in less than 70 days, squanders valuable time needed to align State spending with its revenues, and fails to take into account the following:

- Cash solutions need time in order to be realized. For example, reductions in payments that are scheduled for later in the year cannot help the cash shortage we face in the near term;
- Inaction compromises the ability to implement the necessary programmatic changes in time to achieve the full year benefit of your 2010-11 solutions;
- The monthly cash balances displayed on the accompanying chart already include the approximately \$20 billion in special funds that are available for internal borrowing. These are the special funds established to address issues that include preventing oil spills, stopping lead poisoning in children, and controlling air pollution. These loans cannot interfere with the operations of the special funds and must be repaid upon demand. In addition, the cash balances of these special funds can drop precipitously and without notice; and
- If I am forced to implement emergency cash management measures, I must act before the State's treasury is depleted. Depending on numerous factors, including how much cash needs to be conserved or the market conditions for borrowing, I may have to act weeks in advance of the projected depletion date.

January 22, 2010

Page 3

Late last week, I mailed notices to 89,000 individuals and businesses that unfortunately still have not cashed their registered warrants, or IOUs, from last summer's cash crisis. I remain hopeful that once the outstanding IOUs are redeemed, we can close this shameful chapter in our State's history. Only you can prevent history from repeating this year. If solutions are slow to emerge and if they are neither credible nor sustainable, California will once again be unable to timely meet all of its payment obligations and my office will be forced to seek costly emergency financing, or conserve cash by delaying payments or issuing IOUs. With the window narrowing to address the State's budget and cash challenges, I respectfully request your prompt action. My office is at your service for any help we can provide.

Sincerely,

*Original signed by*

JOHN CHIANG  
California State Controller

Attachment

cc: The Honorable Bill Lockyer, State Treasurer  
Members of the California State Legislature  
Ana Matosantos, Department of Finance Director  
Mac Taylor, Legislative Analyst

# California's General Fund Cash Outlook

For the Months of January - December 2010

Based on Department of Finance January 2010 Budget Data  
(In Billions of Dollars)

**Red Line** = Estimated Minimum Monthly Cash Balances Assuming No Action

**Blue Line** = Estimated Minimum Monthly Cash Balances Assuming Full and Timely Adoption of the Governor's Proposed Budget (Excludes 2010-11 External Cash Flow Borrowing)

