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Chiang Announces Payment Delays to Manage Cash Crisis

SACRAMENTO – State Controller John Chiang today announced cash shortages expected in February will force him to delay some critical payments next month in order to preserve cash flow and protect payments the State must make to fund education and repay outstanding debts.

"For months, I have warned State leaders that our cash flow will be in serious danger this Spring. Without corrective action from the Governor and Legislature, there is no way to make it through February unscathed," said Chiang.

Eroding revenues and a chronic structural budget deficit have destroyed the State's cash reserves. With no money in the State's General Fund for the past 17 months, the State has been paying its bills by borrowing internally from special funds and from Wall Street. The Controller estimates those funds will soon be exhausted, and the State will be at least \$346 million short in February.

To preserve cash for education, debt service and other payments that are deemed by the State Constitution, federal law or court rulings as having first claim to available General Fund cash, the Controller will begin delaying, for 30 days, payments to all other programs that are funded out of the State's depleted General Fund.

Those payments that will be delayed include thousands of claims by businesses for services and products they provide to the State; assistance to more than 1 million aged, blind and disabled Californians to pay their rent, utilities, or put food on their tables; disbursements to State agencies that use the payments to fund critical public services, ranging from public safety to health and welfare; and tax refunds for individuals and businesses that overpaid their 2008 taxes.

"I take this action with great reluctance. I know it will put many California families who rightfully expect their State tax refunds in a desperate position. Individuals who already are vulnerable will be hit hard. Small businesses that don't get paid may have to lay off more workers. Rather than helping stimulate the economy, withholding money from Californians will prolong our pain and delay our economic recovery," Chiang said.

"Delaying these payments will get us through the next few months, but it will not solve the problem. Only the Governor and the Legislature have the power to avoid this drastic and painful path. They have a narrow window of opportunity to quickly enact a sound solution to bridge the State's cash and budget deficit, and I urge them to seize it."

If no corrective action is taken by the Governor and Legislature, the Controller may have to extend delays in payments, or issue IOUs.

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