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Chiang Begins Releasing Delayed Payments

SACRAMENTO – State Controller John Chiang today announced he has begun releasing more than \$2.8 billion in payments that he was forced to delay in February, due to the state's cash shortage.

The recently-enacted budget reduced a projected cash shortfall of \$5.1 billion in the current fiscal year to a cash shortfall of \$630 million. The cash crisis, which would have maintained a stranglehold over the State for the rest of the year, was reduced to a three-week period in early April. To address the remaining gap between the State's outstanding bills and funds available in its Treasury, Controller Chiang will partner with the state Treasurer and Department of Finance (DOF) director to secure a short-term borrowing of up to \$1.5 billion, an amount necessary to ensure all of the State's current fiscal year payment obligations are met.

"The months-long budget impasse over how to remedy the State's \$42 billion budget deficit coupled with a global recession produced a cash crisis not seen since the Great Depression. Unfortunately, Californians have shouldered the price of partisan gridlock by having nearly \$3 billion of their tax refunds, student aid, senior care assistance and other vital payments delayed during the month of February," Chiang said. "Today, I am pleased to announce that, effective immediately, the State will suspend the emergency measures put in place last month and make all postponed payments as quickly as cash in the Treasury prudently allows. California owes a great debt of gratitude to those who went without payments that were rightfully theirs so that the State could avoid a massive default on critical payments that would have haunted Californians for generations to come."

With the State facing a projected \$346 million cash deficit in late February, Chiang issued warnings in December 2008 that if the Governor and Legislature failed to enact a new budget that provided needed cash in the State's depleted treasury, he would be forced to place a 30-day hold on all payments to local governments, businesses with state contracts, state agencies and taxpayers. These payment delays were needed to preserve cash for education, debt service and other payments deemed by the State Constitution, federal law or court rulings as having first claim to available General Fund cash, and to retain a reserve especially needed during times of economic uncertainty.

When the Governor and Legislature failed to enact a timely budget, the Controller on February 1 began holding \$2.8 billion of payments, a cash management plan that prevented the State from going into the red and defaulting on debt service. Defaulting on payments to State bondholders would have severely crippled future access to capital necessary to build schools, repair levies, expand roads, and address perennial cash flow needs. No state in the country has defaulted on its bonded indebtedness since Arkansas, in 1933.

The Controller anticipates all of the delayed payments will be made within the next several weeks on a "first in, first out" basis, and March payments will be made as scheduled. As of Thursday, the Controller's Office already had released \$45 million in delayed payments, including funds for regional health care centers, owners of unclaimed property, and local services for the disabled. Beginning today, he will start releasing the remainder of the delayed payments, including \$1.96 billion in personal income tax refunds and \$181 million in Bank and Corporation tax refunds.

This past Tuesday, the DOF provided details necessary to assess the impact of the new budget on the State's cash flow needs. The decision to release all February payments came after the Controller's office reviewed the revenue assumptions, verified spending changes from the previous budget, incorporated actual revenue and disbursement data from the month of February, and stress-tested the DOF's projections for possible pressures, such as further revenue erosion. The Controller will closely monitor the cash flow on a daily basis to ensure that the State can adequately respond to rapidly changing circumstances in the current distressed economy.

While most of the Controller's efforts of the past three days were devoted to the current year's cash outlook and restoring the State's ability to issue timely payments, his office also has begun analyzing emerging revenue trends and the State's cash flow projections for the next fiscal year.

"While progress was made, this recent budget deal does not put California's fiscal house in order. Revenue erosion of nearly \$900 million in the month of February alone, coupled with numerous indicators that California's economy has not yet turned the corner, demands vigilance over the State finances during the months ahead," Chiang said. "While current-year cash flow problems appear to be manageable, early projections indicate the recently-enacted budget did little to guarantee there would be sufficient cash solutions to meet the State's payment obligations for the coming fiscal year. If the Governor and lawmakers do not take action before July, we could be accelerating towards the very cliff that we just stopped short of falling over."

Early next week, the Controller will release his monthly report disclosing actual cash receipts and disbursements for the month of February and the fiscal year to date. Detailed analysis of cash flows for Fiscal Year 2009-2010 will be released within the next several

weeks.

A [chart](#) showing the projected cash outlook for the remainder of the current fiscal year is available at the Controller's Web site at www.sco.ca.gov.

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