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Controller Urges Governor, Lawmakers to Quickly Enact a Solid Budget

SACRAMENTO – State Controller John Chiang today urged Governor Schwarzenegger and legislative leaders to back away from their threats to avoid enacting a budget until 2011.

"Failure to find consensus on an honestly-balanced budget is not an option. Every passing day of political paralysis leads us closer to a completely avoidable fiscal meltdown that will plunge the State's credit ratings into junk status, slow the State's economic recovery and force us to again issue IOUs to innocent Californians."

The Controller said that without a budget in place, his latest cash projections show the State's cash will go into the red by the end of October. To ensure the State meets payment obligations protected by the California Constitution and federal law, the Controller could be forced to begin issuing IOUs in August or September to conserve cash to get us through the fall.

With a budget in place, K-12 schools could have avoided a \$2.5 billion payment deferral scheduled for October. Without a budget, the Controller may be forced to accelerate that payment delay to September, depriving schools of needed funds as students return to classrooms.

Further delays in enacting a budget will wreak havoc on the State's already-shaky credit ratings. Standard & Poor this spring noted that California's economy is stabilizing, but, "In our view, a significant risk to the state's fiscal situation – and credit – is that if the state fails to reach a budget agreement in a timely manner, a severe shortage of financial liquidity could result with significant implications to state operations... Given that the absence of a budget agreement precludes the state from tapping the capital markets for a cash flow borrowing, we believe that in a protracted budget negotiation stalemate, the state's relative credit quality could weaken."