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Chiang Completes Cash Review, Determines Date to Stop Issuing IOUs

SACRAMENTO – State Controller John Chiang today announced he has completed “stress testing” the Department of Finance’s cash projections from the State’s newly-revised budget and has determined the new spending plan will provide the State Treasury with enough cash to stop issuing IOUs on September 4, almost one month earlier than expected.

“The State of California owes a debt of gratitude to the thousands of individuals and businesses that were forced to bear the brunt of the State’s chronic fiscal mismanagement,” Chiang said. “Along with short-term loans that are routinely obtained in the fall, this spending plan should provide sufficient cash to meet all of California’s payment obligations through the fiscal year.”

As the State’s chief fiscal officer, the Controller is responsible for managing the State’s cash and sizing the amount of short-term borrowing that typically is needed to pave over cash shortages during months when there are less revenues than expenditures. Using the new state spending plan, the Controller applied additional revenue projections and cash pressures, such as potential litigation, to determine when the State will have sufficient funds to meet all of its payment obligations, including redeeming outstanding IOUs.

The Controller has advised the Governor, Treasurer and legislative leaders that current projections show the State will need to borrow \$10.5 billion to meet California’s cash needs for the fiscal year.

Based on the State Treasurer’s assurance that he will be able to obtain an interim \$1.5 billion loan by August 28, the Controller set September 4 as the date he could stop issuing IOUs and the Treasurer may begin redeeming those that have already been issued.

At the Controller’s request, the Pooled Money Investment Board (PMIB) has scheduled an emergency meeting for August 21. At that meeting, the Controller will ask the board to approve a redemption date of September 4, which is almost one month earlier than the October 2 maturity date printed on the IOUs.

“While we can finally put an end to this difficult, and frankly, shameful chapter in the State’s history, it does not bring an end to our fiscal challenges,” Chiang said. “I urge the Governor and Legislature to continue their efforts to fix the State’s structural budget deficit and ensure we are

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never again forced to issue IOUs or delay payments to California families and small businesses.”

Faced with a cash deficit of \$2.8 billion in July, the Controller was forced to issue IOUs to preserve cash for education, debt service and other payments protected by the Constitution, federal law and court orders. Since July 2, the State has issued 327,000 IOUs totaling \$1.95 billion.

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