

June 15, 2010

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

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

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

The Honorable John A. Pérez
Speaker of the Assembly
State Capitol, Room 219
Sacramento, CA 95814

The Honorable Martin Garrick
Assembly Republican Leader
State Capitol, Room 3104
Sacramento, CA 95814

Dear Governor and Legislative Leaders:

Because today's Constitutional deadline for the passage of a budget will not be met, I am writing to advise you of the consequences should the State enter the new fiscal year on July 1st without adopting a spending plan. Below you will find detailed information on how the State's cash flow position will be affected, and a summary of what payments can and cannot be made absent an enacted budget.

During the past three years, the State was brought to its knees by a global recession that wreaked havoc on nearly every sector of our economy and resulted in an unemployment crisis unseen in modern California history. The lack of timely and meaningful budget solutions needed to bring government spending in line with its reduced revenues only amplified the State's fiscal troubles. This simple truth will rear its ugly head again this summer should members again retreat to their ideological bunkers and fail to quickly forge a budget consensus. At a time when the economy is showing signs of recovery, we can ill-afford the "business as usual" approach of requiring the State to be driven to the brink of a fiscal meltdown before compromise is achieved. Already-struggling Californians will pay the price.

Cash Position

The State's General Fund continues to have a zero cash balance. However, the State is temporarily able to meet all of its payment obligations by borrowing heavily from approximately \$20 billion in special funds.

Sometime in July, these funds also will be exhausted and the State will be forced to defer payments to schools and local governments as authorized by Chapter 1, Statutes of 2010 (ABX8-5) to conserve cash for payments that must be made under the Constitution and federal law. These deferrals are only authorized for July and August 2010 and the State will fall well below a prudent cushion in September.

Without a budget by August 1, the Treasurer, Director of Finance and I will be forced to advance another round of deferrals scheduled for October into September, which will result in a three-month delay of payments to education and other programs.

What We Can Pay

As the State's chief fiscal officer, I will continue doing everything within my legal authority to make payments that are essential to ensuring critical public services are not interrupted. However, pursuant to Section 16, Article 7 of the State Constitution, I am generally barred from drawing moneys from the Treasury until there is an appropriation of funds in law.

The list below is unchanged from prior years, with the notable exception that payments will be made to both institutional and non-institutional Medi-Cal providers. In prior years, once a stop-gap appropriation of approximately \$2 billion in state and federal funds was exhausted, payments to institutional providers such as nursing homes and hospitals were prohibited until a budget was enacted. This change was required as a condition for receiving additional Medicaid funds pursuant to the American Recovery and Reinvestment Act.

In the absence of a budget, I am authorized to make the following types of payments:

1. **Prior Year Obligations** – These payments are for costs incurred in the prior fiscal year and will be paid from appropriations authorized in the FY 2009-10 Budget Act. These include vendor payments for services provided on or before June 30.
2. **Constitutional Authorizations** – These are Constitutionally-required payments, such as debt service and revenue limit education payments.
3. **Federal Mandates** – Even without a budget, California must comply with federal law pursuant to the Supremacy Clause of the United States Constitution. Therefore, I will continue making federally-mandated payments such as Supplemental Security Income/State Supplementary Payment (SSI/SSP), In-Home Supportive Services, state payroll, and Medi-Cal providers.

4. **Continuous Legislative Appropriations** – I will continue to make payments that have ongoing authorization of the Legislature, including income tax refunds, CalWORKs and unclaimed property claims.

What We Cannot Pay

1. Payments to community colleges, categorical school programs, local governments, some non-profit organizations and other entities not included in the above parameters.
2. Payments to vendors for services provided on or after July 1.
3. Salaries and per diem of state elected officials and their appointed staff.

For a detailed chart showing what July payments my office can or cannot make, the amount scheduled to be paid, and the date those payments will or should be issued, please visit my website at www.sco.ca.gov.

I hope this information is helpful to you. If you have questions or would like the assistance of my office on any budget matter, please call my Chief of Staff, Collin Wong-Martinusen, at (916) 327-1361.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

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