June 10, 2009

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

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

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

Dear Governor and Members:

On May 29, 2009, I informed you of the precarious nature of the State’s cash condition and alerted you to impending risks which threaten the State’s ability to meet its payment obligations. The situation has not improved. Based on actual revenues received during the month of May, and finalized May Revision data provided by the Department of Finance on June 1, I have the following updates to the State’s 2009-10 cash outlook:

- In the absence of legislative action, the State will not have sufficient cash to meet all of its payment obligations on July 28. By July 31, the cash deficit will increase to a negative $2.78 billion.

- In April, the State’s cash balance will fall to a negative $25.3 billion – the lowest point projected for Fiscal Year 2009-10. To put this shortfall into proper perspective, it is five times the $5.1 billion cash deficit we faced this past spring.

In the letter I sent you on May 29, I indicated we would have a negative cash balance of $1.02 billion at the end of July, and a low point for 2009-10 of $22 billion. The additional deterioration is a result of two factors: (a) May revenues coming in $827 million less than projected by the Governor’s May Revision, and (b) adjustments made by the Department of Finance to its revenue and expenditure projections. Attached is a chart detailing the projected cash low point for each month for the fiscal year starting July 1.
While the severity of the shortfall has worsened since my last letter, the time available to correct our budget and cash deficits has not materially changed. The State will run out of cash in less than 50 days without corrective action by the Legislature and Governor.

Likewise, without credible and durable budget solutions that produce positive results in the State’s cash position and demonstrate the State’s ability to repay at time of maturity, any form of cash flow borrowing – whether a Revenue Anticipation Warrant (RAW) or Revenue Anticipation Note (RAN) – will be met with heavy skepticism by investors. At best, this will result in a borrowing of limited size and at significant expense. At worst, it could result in a failed sale. As disclosed to you in my previous letter, I am reluctantly preparing to sell RAWs as a precautionary measure and will be meeting with rating agencies and launching an investor outreach effort in less than two weeks.

Again, I respectfully urge the timely adoption of a truly balanced budget, with immediate cash solutions, as the only responsible approach to resolving the State’s cash crisis. As always, my office is at your service for any assistance we can provide.

Sincerely,

Original signed by,

JOHN CHIANG
California State Controller

Enclosure(s)
cc: All Legislators
California's Cash Outlook
For the Months of July 2009 - June 2010
Updated June 10, 2009
(in Billions of Dollars)

Red Line = Available Cash at Low Point of Month

California State Controller's Office