



August 23, 2010

Honorable Denise Moreno Ducheny, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Bob Blumenfield, Chair
Assembly Budget Committee

Honorable Christine Kehoe, Chair
Senate Appropriations Committee

Honorable Felipe Fuentes, Chair
Assembly Appropriations Committee

**Cash Management Deferral Acceleration Notification per Government Code
Section 16325.5 (e)**

Existing law provides the state with some flexibility to manage its cash flow by deferring payments to schools and local governments under specified circumstances. This legislation also authorizes the acceleration of those deferrals when deemed necessary as mutually agreed upon by the Controller, Treasurer and Director of Finance. Because the state has not enacted a timely budget that would provide valuable additional savings and receipts and allow for external borrowing, the Controller, Treasurer, and Director of Finance have jointly determined the necessity of accelerating the deferrals of payments for K-12 schools and CalWORKs one month to September, from the originally planned month of October 2010.

The decision for deferral acceleration was not taken lightly, given that these programs are already facing multiple hardships of potential budget reductions, payment deferrals last July, and reduced monthly payments because of the late budget. The amount of this accelerated deferral is \$2.5 billion for schools and \$0.4 billion for counties. These deferral amounts are in addition to deferrals in July of \$2.5 billion for schools and \$0.7 billion for counties. In addition, the payments that are being made to schools are lower by \$900 million for July and August than would be the case if a budget were in place, because certain payments cannot be disbursed without budgetary appropriations. The amount being lost each month by local entities, such as counties and other recipients of local assistance, because of the absence of a budget is approximately \$700 million. Because of economic conditions, schools and counties are already facing budget challenges and have had to lay off employees and reduce services. The lack of a state budget is levying additional fiscal stress on schools and counties, and unfortunately, this accelerated deferral of state payments will further exacerbate the situation.

Nevertheless, without an enacted budget in the near-term that provides an adequate solution on both a budgetary and cash flow basis, remaining General Fund resources must be conserved to the greatest possible extent to meet priority payments, particularly all debt service obligations. While we anticipate that this acceleration of a payment deferral will conserve cash in amounts sufficient to provide a positive cash balance through the month of September, the continuing lack of a budget could lead to further deterioration in cash balances, necessitating additional drastic cash measures, such as the issuance of IOUs. The issuance of IOUs would hurt the thousands of taxpayers, vendors, and other programs who would be paid with IOUs. It could

also result in further state credit rating downgrades. Another rating downgrade could add tens of millions of dollars to long-term borrowing costs and increase the cost and difficulty of the annual cash-flow borrowing once the budget is enacted.

Pursuant to Government Code 16325.5(e), we hereby request the waiver of another 30-day notification in the event the three offices jointly determine that the deferral acceleration should be fully or partially cancelled. This will ensure the affected programs and entities the receipt of payments expeditiously should additional funds become available as a result of an approved budget or additional receipts.

If you have any questions or need additional information, please contact one of our offices.



JOHN CHIANG
Controller



BILL LOCKYER
Treasurer



ANA J. MATOSANTOS
Director of Finance

cc: Honorable Bob Dutton, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable Jim Nielsen, Vice Chair, Assembly Budget Committee
Mr. Mac Taylor, Legislative Analyst (3)
Ms. Keely Bosler, Staff Director, Senate Budget and Fiscal Review Committee
Mr. Bob Franzoia, Staff Director, Senate Appropriations Committee
Mr. Seren Taylor, Staff Director, Senate Republican Fiscal Office
Mr. Craig Cornett, Senate President pro Tempore's Office (2)
Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee
Mr. Peter Schaafsma, Staff Director, Assembly Republican Fiscal Committee
Ms. Christine Robertson, Chief of Staff, Assembly Republican Leader's Office
Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Mr. Collin Wong-Martinusen, Chief of Staff, State Controller's Office
Mr. Steve Coony, Chief Deputy Treasurer, State Treasurer's Office
Honorable Jack O'Connell, State Superintendent of Public Instruction
Mr. Geno Flores, Chief Deputy Superintendent of Public Instruction, Office of the
State Superintendent of Public Instruction

icc: REID, PROSIO, CAP-OFFICE, CHUNG-NG, OROPEZA, STEFFENHAGEN, BRUSS,
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