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Lockyer Offers Thoughts on IOUs and All-Cuts Budget

At a conference dissecting the 2010 Governor's race, State Treasurer Bill Lockyer dropped a bombshell on the conference attendees stating that the state may need to issue IOUs this spring to meet its cash flow needs, should the Legislature be unable to come up with a Budget plan by March.

The announcements caught many by surprise as no alarms like this have been raised by any other constitutional officers, or the Department of Finance (DOF). There is a delicate balance between the duties of the State Treasurer and the State Controller in forecasting sources and uses of cash. State Treasurer Lockyer is responsible for the state's borrowing and sees the credit markets vividly. State Controller John Chiang is responsible for disbursements of cash and, when the cash is gone, for determining if and when to issue IOUs.

In response to Lockyer's announcement, Controller Chiang said that no decision has been made yet as it is too early to say whether the state will need to issue IOUs or delay other payments. However, a spokesperson for Controller Chiang noted that, absent other actions, the state could face cash issues in July and action on IOUs or payment delays would need to occur before then.

In prior years, the stick of IOUs has been used to pressure legislators to act on the Budget.

Lockyer also called for the DOF to release an all-cuts Budget, stating that voters need to know what the consequences will be with an all-cuts Budget should the prospect for an election to extend the temporary taxes occur. Asking the question, "What would an all-cuts Budget look like?" Lockyer commented that voters need to hear the stark reality of the Budget situation and suggested that reality for public education would be closing schools for an additional six weeks a year.

While Lockyer posed the option of closing schools for six weeks, this option has not been part of the Governor's plan for education. We believe that, while Treasurer Lockyer's comments are illustrative of his views on the very significant financial issues facing the state, the best protection for education is offered by the Governor's full court press to get the temporary taxes extended.

To watch Lockyer's comments, go to <http://bcove.me/lnvul85m>.

—*Dave Heckler*

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