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# *The* FISCAL REPORT an informational update

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## **State Controller Warns of Cash Shortfall**

On Friday, January 22, 2010, State Controller John Chiang sent a letter to the Governor and legislative leaders warning that, "While our current cash condition is marginally better than it was one year ago, it is still precarious." The State Controller urged the Governor and Legislature to address quickly the state's projected Budget and cash shortfalls for the current year and Budget year.

The State Controller projects that, as of March 30, the state will need to tap emergency cash reserves to meet its obligations and that, by April 1, the state will be running a negative \$197 million cash balance. He described the current projected cash shortfall as shallower in depth and shorter in duration than last spring's cash problem, but emphasized the severity of the situation. To avoid a cash shortage in the current year, \$2.7 billion in cash solutions will be necessary—and that is absent any unforeseen circumstances.

Even if the Legislature acts quickly to adopt the Governor's proposed current-year solutions, the state's cash position is expected to drop below the \$2.5 billion minimum prudent level as of the end of March, but should recover temporarily as 2009 tax filing revenues are received in mid-April.

However, according to the State Controller, failure by the Legislature to enact the Governor's proposed Budget reductions or substitution proposals with a similar Budget impact in a timely manner will result in a resurfacing of cash problems as early as July 2010. The State Controller shared several issues in cautioning against inaction, including that emergency cash management measures, if needed, would require action before the state's treasury is depleted, possibly weeks in advance of the projected depletion date. Based on current projections, the cash shortfall would grow to \$1.1 billion by July 29, 2010, which would leave the State Controller little choice but, once again, to issue IOUs.

In closing his letter, the State Controller wrote, "Only [the California Legislature] can prevent history from repeating this year. If solutions are slow to emerge and if they are neither credible nor sustainable, California will once again be unable to timely meet all of its payment obligations, and my office will be forced to seek costly emergency financing, or conserve cash by delaying payments or issuing IOUs." Credit markets will be watching. Earlier this month, Standard & Poor's cut California's already lowest-in-the-nation credit rating, which could further increase the state's borrowing costs.

Even before the State Controller issued his grim cash outlook, it was expected that cash would once again be a topic to be tackled in the recently announced Eighth Special Session. Expanding deferrals will be among the topics that will be addressed in Special Session hearings, but it is unclear at this time whether any of the additional deferrals will target K-14 education.

**—Deborah Harmon**

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