



**JOHN CHIANG**  
California State Controller

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 Karen Bass  
Speaker of the Assembly  
State Capitol, Room 219  
Sacramento, CA 95814

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

The Honorable Sam Blakeslee  
California State Assembly  
State Capitol, Room 4117  
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.

The Honorable Governor Schwarzenegger and Members

June 10, 2009

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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

