



GOVERNOR ARNOLD SCHWARZENEGGER

January 10, 2007



To the Senate and Assembly of the Legislature of California:

In accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor's Budget for 2007-2008.

Three years ago, California's financial problems were dire—low credit ratings, possible bankruptcy, and a projected \$16.5 billion operating deficit that awaited us unless we took dramatic action to turn the tide in our state. Many said that raising taxes was the only possible option to lift us out of our fiscal hole. We disagreed.

We committed ourselves to responsible, common-sense budgets that would continue to make the investments in the critical services Californians expect us to provide, but that over time would bring our state's revenues in line with expenditures.

I am happy to say that our plan has worked. We have record revenues flowing into our treasury, and we are submitting a balanced budget for the coming year. The operating deficit that hung over our heads just a few short years ago is now gone. Our budget proposes ongoing spending that is in line with ongoing revenues, thus eliminating the net operating deficit completely. Moreover, this budget builds on last year's efforts to pre-pay the Economic Recovery Bonds and we now project that the bonds will be fully repaid by August of 2009, 14 years ahead of schedule. This is a remarkable turnaround and we accomplished it all without raising taxes—as a matter of fact, we reduced taxes by reversing the car tax in 2004.

We must remain vigilant, however, because spending pressures and revenue fluctuations could bring back the structural deficit as soon as the next budget year. I invite you to work with me to develop budget reform to prevent the state from returning to spending more than it brings in. In doing that we lay the groundwork for continuing our historic work, begun last year, to rebuild California through the Strategic Growth Plan.

This is a budget that fulfills our promise to run state government so California and its people are stronger. Working together, investing strategically for our future, making smart decisions with the taxpayers' money, I know we can build a golden future for our state.

Sincerely,

Arnold Schwarzenegger

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