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January 9, 2009

Dear Governor:

The dramatic decline in General Fund revenues resulting from the current international economic crisis, combined with the state's persistent structural budget deficit, has produced a budget gap of \$14.8 billion. If no corrective action is taken, this gap will grow to \$41.6 billion by the end of 2009-10.

In addition, the state faces a cash-flow crisis that will necessitate deferring payments and paying with Registered Warrants ("IOU's") this spring. At the beginning of the next fiscal year, the state will have to defer or pay with IOU's for most of its obligations.

Because of the looming budget deficit, long-term bond markets are closed to California. The national financial and banking crisis has closed short-term markets and the Pooled Money Investment Account has had to stop making the short-term loans used to finance projects pending a bond. As a result, over \$9 billion in critical infrastructure projects are in jeopardy of being stopped – in many cases, even as work is already underway.

This is the most challenging fiscal situation the state has ever experienced. It can only get worse if not addressed immediately. That is why you have called three special sessions of the Legislature in the last two months to address the shortfall in the current fiscal year. While the Legislature has so far failed to deal with this year's problem, the release of your budget now gives them an opportunity to enact its comprehensive, balanced and urgently needed solutions to not only this year's shortfall, but next year's as well.

There is no time to waste. The budget assumes that the Legislature will adopt over half of the proposed solutions by February 1. Any delay will reduce the budgetary value of the solutions and thus necessitate even more cuts and tax increases.

Sincerely,

Michael C. Genest  
Director of Finance