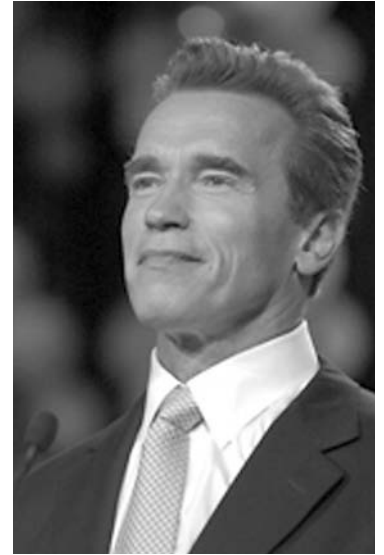




GOVERNOR
ARNOLD SCHWARZENEGGER

January 9, 2009



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 2009-2010.

Our state faces the most challenging budget in its history. The combined effect of our structural deficit and the dramatic decline in revenues due to the international economic crisis have produced a two-year deficit of \$41.6 billion – nearly half of our projected 2009-10 revenues.

A problem of this magnitude requires immediate action. Last fall, as the economic situation deteriorated, I realized that we needed to act quickly to bring our current-year budget back into balance. That is why I called a special session on November 16, 2008. When the previous Legislature failed to act, on December 1, I called you into special session in a fiscal emergency pursuant to Proposition 58. When you closed that session without acceptable action to address the problem, I immediately called you back on December 19, again pursuant to Proposition 58.

Now, I am presenting you with my Budget for 2009-10, which not only addresses this year's shortfall, but provides a comprehensive and balanced set of solutions for next year as well. The shortfall is too large to be addressed only with spending cuts, or only with tax increases. We have to use every tool at our disposal.

At the same time, we cannot ask the people of our state to accept cuts in government services and increases in taxes without doing all we can to bring this economy back. That is why I believe that we have to include a sensible, targeted package of fiscal stimulus measures in any budget solution. Similarly, as we ask for sacrifice from our citizens, we must be able to assure them that state government itself is doing everything it can to cut costs and improve efficiency. Thus, my budget has a variety of measures to do both.

There are honest and sincere differences among you regarding how we should resolve this crisis. But, these differences have prevented you so far from seeing that you share a larger duty to compromise on the best possible plan for resolving our budget crisis.

The time of delay is past. The solutions I propose are difficult and unavoidably painful. Delay, however, will only make the ultimate solutions even more painful.

Now it is time to act decisively to bring our state back from the brink of financial catastrophe.

Sincerely,

A handwritten signature of Arnold Schwarzenegger in black ink.

Arnold Schwarzenegger