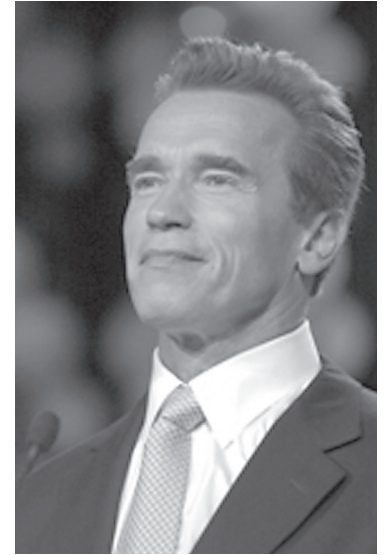




GOVERNOR ARNOLD SCHWARZENEGGER

January 8, 2010



To the Senate and the Assembly of the California Legislature:

In accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor's Budget for 2010-11.

Last year, we confronted what history will record as "The Great Recession." Working together, we made profoundly difficult decisions necessary to close a \$60 billion budget gap, the largest in our state's history. Because of your efforts and the diligent work of the Treasurer and Controller, we averted both a budget crisis and a cash crisis.

With our national economy still struggling to recover, California, like most other states, must confront an additional budget gap of nearly \$20 billion. In many ways, the decisions that will be necessary to close this gap will be even more challenging – and far more difficult. However, failure is not an option and we must do what is necessary to keep our state solvent and maintain critical services.

My budget calls for even greater reductions in nearly every aspect of state government than were necessary in 2009. With these reductions, we make every effort to maintain essential services for Californians who need them the most in the midst of this fiscal crisis. In particular, my budget proposal protects education, including higher education, from additional deep cuts. I believe strongly that additional reductions below current year funding levels would leave a permanent scar on our children and on the greatest university system in the world. In fact, I intend to propose a re-prioritization of funds away from administration and into the classroom, and away from prisons and into our universities. I ask you to join me in setting these new priorities for the future of our great state.

My budget proposal also calls for a far greater engagement than ever before with our counterparts in Washington — to give California both the flexibility and fairness that is needed to better manage critical state programs, achieve substantial savings, and avoid even deeper and more painful budget reductions. Working with the Obama Administration, with our congressional delegation, and with other states, I believe we can build on the progress we have made in 2009.

We must begin our work immediately. If we fail to take swift action in the Special Session that I have called, our problem will only grow, and the decisions that will be required to make up for lost savings will grow even more difficult than those now before us.

The work that lies ahead will be some the most difficult that you and I will ever be asked to undertake as public servants. Let us prove once again that we can meet this new and unprecedented challenge.

Sincerely,

Arnold Schwarzenegger

Arnold Schwarzenegger