



April 1, 2009

Honorable Denise Moreno Ducheny, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Noreen Evans, Chair
Assembly Budget Committee

Attention: Mr. Christian Griffith, Chief Consultant (2)

Updated Total Reserve, including April 1 Finance Letters

Even though the 2009 Budget Act was enacted nearly five months ahead of the constitutional deadline, there are several adjustments needed to ensure that critical issues are addressed in a timely manner. The table below summarizes the impact on the General Fund related to budget proposals, updated costs for cash flow borrowing, and estimates of General Fund expenditures to be offset with federal funds. The budget proposals and additional federal funds increase the General Fund reserve by \$160 million. This benefit to the reserve is offset by higher cash flow borrowing costs.

Reserve at Early 2009 Budget Act (<i>Dollars in Millions</i>)	\$2,103
Major Changes Since Early 2009 Budget Act:	
April 1 Process Adjustments	11
Increased Costs Related to Cash Flow Borrowing	-300
Increased Savings due to Additional Federal funds	149
April 1 Reserve	\$1,963

The 2009-10 Budget includes total General Fund cash flow borrowing costs of \$450.0 million. Since then, the cash flow has been updated to reflect the enacted budget package. Based on this updated cash flow, we are now projecting external cash flow borrowing needs of \$13.0 billion or more during the 2009-10 fiscal year absent further corrective actions. Based on this projection, we have concluded that the initial estimate is insufficient and will need to be increased by \$300.0 million.

Increased cash flow borrowing costs impact funding availability to other critical programs. Lack of access to the financial markets for external cash flow borrowing resulted in the need to halt thousands of infrastructure projects. Since the cash shortage was identified by the Administration over 15 months ago, the Administration has worked aggressively to minimize the reliance on external cash flow borrowing and to reduce the costs of such borrowing. Working closely with the State Treasurer's Office (STO), the State Controller's Office (SCO), and with the

approval by the Legislature, we have successfully proposed and implemented a number of cash management solutions that have resulted in substantial savings to the state. These include:

- Payment deferrals of \$4.7 billion in the summer and fall 2008 (approved in the February 2008 Special Session).
- Payment deferrals of \$3.6 billion to address the cash balance low point in March 2009. Some of these deferrals are permanent (approved in the 2008 Budget Act).
- Identification of \$4.0 billion in additional internal borrowable resources that will benefit the General Fund cash flow program permanently (Chapter 751, Statutes of 2008).
- Payment deferrals of nearly \$2.0 billion to address the cash balance low points in the spring of 2009 and \$4.0 billion in anticipation of cash shortage in the summer and fall of 2009 (included in the 2009 Budget Act).
- Identification of more than \$2.0 billion in additional internal borrowable resources (Chapter 9, Statutes of 2009, Third Extraordinary Session).
- Assistance to the SCO in the implementation of a statewide program to defer more than \$3.0 billion in non-priority General Fund payments in February 2009.
- Accelerated receipt of approximately \$1.5 billion in federal Medi-Cal FMAP funds.

As of Monday of this week, with the early receipt of the FMAP federal stimulus funds, the current year General Fund cash situation has been stabilized. Immediately, we have shifted our focus to address the projected General Fund cash shortage in 2009-10. We are working with the STO and SCO to evaluate a variety of potential options.

Interest costs for General Fund internal and external cash flow borrowing are expected to be significantly higher than normal in 2008-09. However, without the coordinated efforts of the Administration, the STO, the SCO, and the Legislature, these costs would have been much higher. Through these efforts, we have saved the state tens (if not hundreds) of millions of dollars in costs in 2008-09. We are committed to continuing these efforts to minimize costs while maintaining a prudent cash management program in 2009-10. We look forward to working with the Legislature on future proposals that are achievable and would minimize impacts on critical programs and program recipients.

The next update on the General Fund condition will be provided as part of the 2009-10 May Revision. It will include revised revenue estimates, an update on expenditures, and the impact of the May 19, 2009 special election results.

If you have any questions or need additional information regarding this matter, please contact me at (916) 445-4141.

Sincerely,

/s/ Michael C. Genest

MICHAEL C. GENEST
Director

cc: On following page

cc: Honorable Christine Kehoe, Chair, Senate Appropriations Committee
Attention: Mr. Bob Franzoia, Staff Director
Honorable Bob Dutton, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Seren Taylor, Staff Director
Honorable Kevin de Leon, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Roger Niello, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Mr. Mac Taylor, Legislative Analyst (4)
Mr. Craig Cornett, Senate President pro Tempore's Office
Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Mr. Ivan Altamura, Chief of Staff, Assembly Republican Leader's Office