

California controller: State will run out of cash before April

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SACRAMENTO — State Controller John Chiang issued a stern warning Friday about California's cash reserves, telling legislative leaders and Gov. Arnold Schwarzenegger they must act on nearly \$9 billion in budget cuts the governor is seeking by March — or the state will run out of cash to pay its bills.

Without making those cuts — which Chiang says will pump \$1.3 billion into the state's checking account — California would be broke by April 1, no fooling.

The state wouldn't climb back to what's considered a safe level of cash on hand, \$2.5 billion, until later that month, when tax revenues are expected to begin flowing into Sacramento.

"While our current cash condition is marginally better than it was one year ago," Chiang wrote to leaders, "it is still precarious."

Even with the budget cuts, the state's cash reserve would still be far below that cushion in March and April.

To that end, Chiang is calling for an additional \$2 billion in cash-flow "solutions." Looking at previous cash crunches, that could mean some payments, like income tax refunds, would be delayed for a few weeks to keep the cushion intact.

"Call it overdraft insurance," said H.D. Palmer, spokesman for the state Finance Department. He stressed that officials are still huddling over specific solutions.

If the budget gridlock lingers all the way to July, then IOUs could come back into play.

And because many budget cuts require months of ramp-up to take effect, delaying action on a new budget could inflate the state's overall \$19.9 billion deficit by \$2 billion, Palmer warned.

"Inaction ignores the projected cash shortfall which we face in less than 70 days," Chiang wrote. "Only you can prevent history from repeating this year."

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