

Earlier this week, Governor Schwarzenegger and legislative leaders passed their self-imposed January deadline to reach a deal on the state's current \$42 billion budget shortfall. While budget negotiations are ongoing, the state's dismal cash flow situation requires the government to begin delaying payments to vendors and issuing IOUs.

As a result, State Controller John Chiang announced that, beginning February 1, only payments that are required by (1) the State Constitution, (2) federal law, or (3) court rulings will be made. He will begin delaying, for 30 days, payments to all other programs that are funded out of the state's depleted General Fund. The protected payments include those to education, debt service and payroll. Those payments at risk include tax refund checks and payments to state vendors.

Perhaps the highest-profile IOUs will be those that arrive instead of tax refund checks that otherwise would have been sent to millions of individuals and businesses. The 30 day delay in tax refund payments will cause significant financial harm to California families and businesses and will have the negative impact of delaying any economic stimulus that might come from consumers spending their refund checks. Additionally, postponing the payment of tax refunds may also cost the state tens of millions of dollars in interest payments.

If the Governor and Legislature fail to provide a budget solution by late February, the Controller said he will be forced to postpone payments for another 30 days. Governor Schwarzenegger and the Legislature's bipartisan leaders are negotiating a budget plan that is expected to contain a mix of spending cuts, tax increases and reliance on receipt of federal bailout money.

Below are links to detailed information regarding which legally protected payments will continue to be paid and which payments will be delayed.

Payments to be made in February 2009 may be viewed here:

<http://www.sco.ca.gov/eo/fiscalissues/payments01-2009b.shtml#paymentmenu>.

Payments to be delayed for 30 days may be viewed here:

<http://www.sco.ca.gov/eo/fiscalissues/payments01-2009c.shtml#paymentmenu>.

FOR ADDITIONAL INFORMATION ON THIS ISSUE, CONTACT:



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