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John Chiang says California's cash will dry up if officials don't act

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California will run out of cash by early March if the state does not borrow more money and delay some payments, the state's cash manager warned Tuesday.

Controller John Chiang said state leaders must find \$3.3 billion to ensure California has enough cash to pay for priority programs between Feb. 29 and April 13.

"I believe the upcoming shortfall can be effectively managed without resorting to IOUs, tax refund delays and other drastic measures with (legislation) and other steps we must take – quickly and collaboratively – in the coming days," Chiang wrote Tuesday to the Legislature's budget committee chairmen.

The latest cash problem comes after the state has received \$2.6 billion less than what Gov. Jerry Brown and Democratic lawmakers assumed in their optimistic budget last year. Meanwhile, Chiang said the state is spending \$2.6 billion more than state leaders planned.

Brown officials attribute that spending gap to courts blocking health and welfare cuts, as well as overestimating early savings in prison costs from redirecting inmates to counties.

California borrows money early each fiscal year because it receives the bulk of tax revenues in the spring. The state borrowed \$5.4 billion last fall from outside investors for this purpose. The state also owes \$15.6 billion to special state accounts that are financed by fees and dedicated taxes.

To cobble together the additional \$3.3 billion, California leaders plan to borrow additional money from special state accounts, including several dedicated to transportation; delay Medi-Cal payments; and take out another loan from Wall Street.

Absent these actions, the state would fall below its prudent \$2.5 billion cash cushion on Feb. 29, Chiang estimated. By March 8, the state would end up \$730 million in the red.

"I think this is really a timing problem, but it does really underscore the extent to which the state's finances have run occasionally pretty close to the bone," said Gabriel Petek, a Standard & Poor's analyst who tracks California. "The A-minus rating we have on California is pretty low for a U.S. state and reflective of its tendency to get into these cash-deficiency situations."

State lawmakers approved Senate Bill 95 on Tuesday to allow \$865 million in new borrowing from state accounts. Chiang, along with Treasurer Bill Lockyer and the Department of Finance, are working out the remainder of the \$3.3 billion solution.

Lockyer spokesman Tom Dresslar said the state would borrow less than \$1 billion from private investors that it would pay back by the end of June.

Besides delaying payments to some Medi-Cal providers and counties, the state would essentially ask the University of California to borrow \$200 million on its behalf. Officials may also delay payments to the federal government that fund the state's portion of SSI/SSP payments to low-income elderly, blind and disabled residents.

Chiang spokeswoman Hallye Jordan said no SSI/SSP recipients would lose money because the federal government would continue to pay the state share, though the state may incur penalties.