

CALIFORNIA LEGISLATURE
2009–10 REGULAR SESSION

ASSEMBLY DAILY JOURNAL

Monday, December 8, 2008

SECOND SESSION DAY

EIGHTH CALENDAR DAY

AT SACRAMENTO, CALIFORNIA



NOTE: Official record of roll call votes; all amendments considered by the Assembly on this day are on file with the Chief Clerk of the Assembly and available on request. A list of all measures amended and on which amendments were offered is shown on the final page of this day's Assembly Journal.

(Please Direct Any Inquiries and Report Any Omissions or Errors to
Sue Parker, Minute Clerk: Phone 319-2360)

PROCEEDINGS OF THE ASSEMBLY

IN ASSEMBLY

Assembly Chamber, Sacramento
Monday, December 8, 2008

The Assembly met at 2:30 p.m.
Hon. Lori Saldaña, Speaker pro Tempore of the Assembly,
presiding.

Chief Clerk E. Dotson Wilson at the Desk.
Assistant Clerk Elizabeth Potter reading.

ROLL CALL

The roll was called.

Quorum Call of the Assembly

Assembly Member Hernandez moved a quorum call of the Assembly.
Motion carried.

The Speaker pro Tempore directed the Sergeant at Arms to close the
doors, and to bring in the absent Members.

Quorum Present

At 2:49 p.m., Speaker pro Tempore Saldaña declared a quorum of the
Assembly present.

The roll call was completed, and the following answered to their
names—79:

Adams	De La Torre	Hayashi	Pérez, V. Manuel
Ammiano	De León	Hernandez	Portantino
Anderson	DeVore	Hill	Price
Arambula	Duvall	Huber	Ruskin
Beall	Emmerson	Huffman	Salas
Berryhill, Bill	Eng	Jeffries	Saldaña
Berryhill, Tom	Evans	Jones	Silva
Blakeslee	Feuer	Knight	Skinner
Block	Fletcher	Krekorian	Smyth
Blumenfield	Fong	Lieu	Solorio
Brownley	Fuentes	Logue	Strickland
Buchanan	Fuller	Lowenthal	Swanson
Caballero	Furutani	Ma	Torlakson
Calderon	Gaines	Mendoza	Torres
Carter	Galgiani	Miller	Torrico
Chesbro	Garrick	Monning	Tran
Conway	Gilmore	Nava	Villines
Cook	Hagman	Nestande	Yamada
Coto	Hall	Niello	Mme. Speaker
Davis	Harkey	Pérez, John	

PRAYER

Upon invitation of Speaker pro Tempore Saldaña, the following prayer was offered by Assembly Chaplain Father Constantine C. Pappademos:

Lord, Our thoughts of the past can be filled with regrets and guilt and our thoughts of the future can be filled with anxiety and worry. But we find You, Lord, in the present. We encounter You in the “now”. Help us to keep our focus on You now, to stand up for what is true and good, and to do the right thing, this day and every day.—AMEN.

PLEDGE OF ALLEGIANCE TO THE FLAG

Upon request of Speaker pro Tempore Saldaña, Assembly Member John Pérez then led the Assembly in the pledge of allegiance to the Flag.

MOTION TO DISPENSE WITH READING OF THE JOURNAL

Further reading of the Journal of the previous legislative day was dispensed with on motion of Assembly Member Torrico, seconded by Assembly Member Blakeslee.

LEAVES OF ABSENCE FOR THE DAY

By unanimous consent, the following Assembly Member was granted leave of absence for the day:

Because of illness: Assembly Member Nielsen.

ASSEMBLY RULE 118 SUSPENDED—PRIVILEGES OF THE FLOOR

Speaker Bass was granted unanimous consent that Assembly Rule 118 be suspended granting the privileges of the Floor and permitting guests in the Assembly Chamber.

REQUEST FOR PHOTOGRAPHER

Speaker Bass was granted unanimous consent that photographers be permitted on the Floor of the Assembly.

COMMUNICATIONS

The following communication was presented by the Speaker, and ordered printed in the Journal:

December 8, 2008

*Mr. E. Dotson Wilson
Chief Clerk of the Assembly
State Capitol, Room 3196
Sacramento, California*

RE: Appointment of Mike Feuer
to Judicial Council of California

Dear Mr. Wilson: Please be advised I have appointed Assemblymember Mike Feuer to the Judicial Council of California. This is a pleasure appointment starting December 8, 2008. Assemblymember Feuer will be replacing Assemblymember Jones.

Sincerely,

KAREN BASS
Speaker of the Assembly

The following communications were presented by the Chief Clerk, and ordered printed in the Journal:

December 1, 2008

*E. Dotson Wilson, Chief Clerk
California State Assembly
State Capitol, Room 3196
Sacramento, California*

Dear Mr. Wilson: This letter is to inform you that I have been elected Assembly Republican Leader for the 2009/2010 Regular Session. In addition, I have appointed Assemblyman Cameron Smyth to serve as the 2nd Ranking Republican Leader and my Caucus Chair.

If you have any questions regarding this letter, please contact Ivan Altamura at 319-2029.

It is an honor working with you in the California State Assembly.

Sincerely,

MICHAEL N. VILLINES
Assembly Republican Leader

Per Diem

December 8, 2008

*E. Dotson Wilson
Chief Clerk of the Assembly
State Capitol, Room 3196
Sacramento, California*

Dear Chief Clerk Wilson: This letter is to state for the record that I choose to waive my in session per diem for the 2009–2010 legislative session.

Thank you for your assistance, if you have any questions please contact me at 319-2010.

Sincerely,

ALYSON L. HUBER, Assembly Member
Tenth District

FIRST READING OF ASSEMBLY BILLS

The following bills were read the first time:

ASSEMBLY BILL NO. 52—Portantino. An act to amend Sections 1627, 1628, and 1630 of, and to add Sections 1627.5 and 1627.7 to, the Health and Safety Code, relating to umbilical cord blood banking.

ASSEMBLY BILL NO. 53—Portantino (Coauthors: Arambula and Caballero). An act to add and repeal Section 18005 of the Government Code, relating to state employment.

ASSEMBLY BILL NO. 54—Jeffries. An act relating to the California Emergency Management Agency.

ASSEMBLY BILL NO. 55—Jeffries. An act to amend Section 10912 of the Water Code, relating to water.

ASSEMBLY BILL NO. 56—Portantino. An act to amend Section 1367.65 of the Health and Safety Code, and to amend Section 10123.81 of the Insurance Code, relating to health care coverage.

ASSEMBLY BILL NO. 57—Price. An act to add and repeal Section 1276.45 of the Health and Safety Code, relating to health facilities.

ASSEMBLY BILL NO. 58—Jeffries. An act to amend Section 337a of, and to add Section 336.9 to, the Penal Code, relating to sports betting pools.

ASSEMBLY BILL NO. 59—Jeffries. An act to amend Section 25660 of the Business and Professions Code, relating to alcoholic beverages.

ASSEMBLY CONSTITUTIONAL AMENDMENT NO. 4—Bass and Hill and Senator Steinberg. A resolution to propose to the people of the State of California an amendment to the Constitution of the State, by amending Section 9 of Article II thereof, and by amending Sections 8 and 12 of Article IV thereof, relating to the state budget.

RECESS

By unanimous consent, at 2:51 p.m., Speaker pro Tempore Saldaña declared the Assembly recessed.

RECONVENED

At 3:01 p.m., the Assembly reconvened.

Hon. Lori Saldaña, Speaker pro Tempore of the Assembly, presiding.

At 3:11 p.m., Speaker Karen Bass, 47th District, presiding

RECESS

By unanimous consent, at 3:12 p.m., Speaker Bass declared the Assembly recessed.

JOINT CONVENTION ON CALIFORNIA'S FISCAL EMERGENCY

INTRODUCTION OF CONSTITUTIONAL OFFICERS AND SPECIAL GUESTS

Speaker Bass introduced and welcomed Hon. John Garamendi, Lieutenant Governor; Hon. Bill Lockyer, State Treasurer; Hon. John Chiang, Controller; Hon. Darrell Steinberg, Senate President pro Tempore; Michael Genest, Department of Finance Director; and Mac Taylor, Legislative Analyst.

Address by Speaker Karen Bass

Good afternoon members and guests. We have recessed the regular session and we are convening the joint convention. The California Senate and our invited guests are in the Assembly Chamber. With us today are constitutional officers: our Lieutenant Governor, John Garamendi, State Treasurer Bill Lockyer, State Controller John Chiang, Legislative Analyst Mac Taylor, Department of Finance Director Michael Genest, and Senate President pro Tempore, Darrell Steinberg.

Members and guests, all of us here today, are aware that the fiscal crisis facing California is part and parcel from the financial meltdown that is having devastating consequences across the nation.

We have been struggling in California to balance the budget and to address the looming 28 billion dollar deficit facing the state. The urgency and severity of this crisis is what has led the legislative leaders to convene this historic Joint Convention of the Legislature.

A meeting of this type where both houses of the Legislature come together to address the crisis is unprecedented in California history. The urgency and severity of this crisis requires that all of us, all 120 legislators, come together with the LAO, the State Treasurer, Controller, and the Department of Finance, to ensure in full public view that we are all hearing the same information at the same time.

The urgency and severity of this crisis requires all of us to act, and to act immediately.

As we work through the process, as our budget committees review options, as we negotiate solutions, and as we vote on proposals, Senator Steinberg and I wanted to ensure that we are all operating from an objective set of facts.

This session will provide that objective review of the state's fiscal picture and will I hope, lay the groundwork for bipartisan solutions. While acting on the tough solutions will be difficult, we will learn today from our panel of experts, that inaction will have catastrophic results for California.

We need to act, to shore up our cash, preserve our credit rating, and solve a major share of our 28 billion dollar problem.

Closing our massive budget gap will take tough decisions and true leadership from each and every one of us.

I want to thank the presenters today for helping to provide a framework for the difficult choices we will have to make.

And it is now my pleasure to welcome to these Chambers for the first time as President pro Tem, my partner Senator Darrell Steinberg.

ADDRESS BY SENATE PRESIDENT PRO TEMPORE STEINBERG

Thank you very, very much Madame Speaker for suggesting this unprecedented forum and inviting my colleagues and me to your Chambers.

Thank you as well to our State Treasurer, Controller, our Lieutenant Governor, to the Department of Finance Director Mike Genest, and to Mac Taylor our Legislative Analyst.

We have all spent a great deal of time members—not just over the past month or past months—but over many years debating the solutions to California's chronic budget deficit.

But the fact of the matter is we cannot effectively even argue about the right solutions unless and until we agree on the urgency and the gravity of the problem itself.

While partisanship is aplenty here under the Dome, this is not, I assert, a partisan or ideological problem.

The nation's largest economic crisis since the Great Depression—an international crisis—is mostly responsible for our gathering here today.

We all know that in times of national crisis, that our country has a history of parties and ideologies coming together to do what's right for our nation.

Let it be said about us that when all is said and done we rose to the moment on behalf of the people of California.

Our message is simple today:

Before we begin arguing the solutions let's understand the problem;

Let's defy the expectations;

Let's live up to the challenge.

Thank you very much and I look forward to the panel.

PRESENTATION OF LEGISLATIVE ANALYST

Speaker Bass presented Mac Taylor, Legislative Analyst, whereupon he addressed the assemblage.

Presentation by Legislative Analyst

The State's Budget Situation

Legislative Analyst's Office

Joint Convention of the California Legislature
December 8, 2008



www.lao.ca.gov



The 2008-09 Budget Package (September)

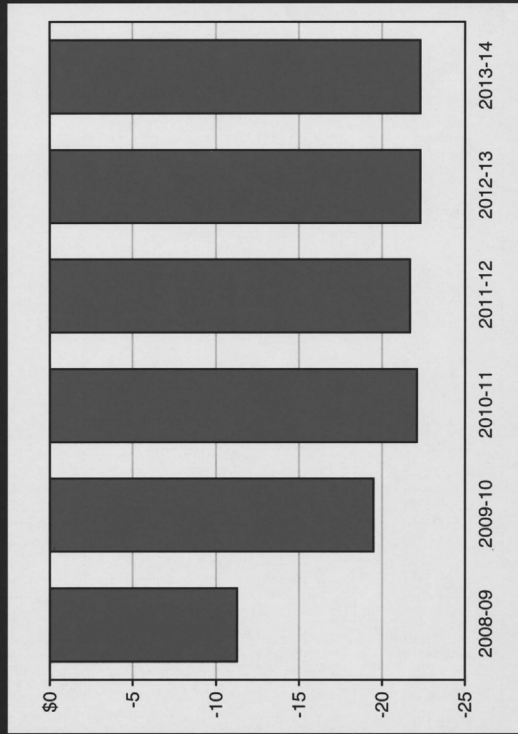
- **Flat General Fund spending from 2007-08 to 2008-09 (\$103 billion)**
- **Reliance on one-time solutions**
- **Assumed 2009-10 operating shortfall of \$6 billion**

LAO's Updated November Projections

- **\$28 billion problem**
- **\$9 billion current-year problem**
- **\$19 billion operating deficit in 2009-10**

Huge Operating Shortfalls Projected Throughout Forecast Period

General Fund (In Billions)



Why Are Prospects So Grim?

- **Coming off a tough year**
- **Huge, ongoing operating deficits**
- **Slow recovery**
- **Many solutions used or off the table**

If Gap Was Solved Through Tax Increases Alone

- **2 cent sales tax increase**
- **15 percent personal income tax surcharge**
- **2 percentage point corporate tax rate increase**

If Gap Was Solved Through Spending Reductions Alone

- **Eliminate funding for UC and CSU**
- **Eliminate funding for welfare payments**
- **Eliminate funding for developmental services, mental health, and In-Home Supportive Services**

Governor's Special Session Proposals

(In Millions)

	2008-09	2009-10
Revenue Increases		
1.5 cent sales tax (three years)	\$3,540	\$6,643
Other (ongoing)	1,180	2,943
Totals	\$4,720	\$9,586
Expenditure Savings		
Proposition 98	\$2,500	\$729
All other	2,004	5,391
Totals	\$4,504	\$6,120

Impact of the Governor's Proposals

- **Comes close to addressing shortfalls through 2010-11**
- **Operating shortfalls in out-years in excess of \$10 billion**

Governor's Special Session Framework

- **Realistic numbers**
- **No budgetary borrowing**
- **Multiyear solutions**
- **Balanced approach**



LAO Budget Options

- Proposition 98 alternatives
- Other spending and revenue options

Importance of Acting Now

- **Makes your task of balancing the 2009-10 budget much more manageable**
- **Addresses near-term cash problems**
- **Signals other parties (such as school districts) of cuts to come**
- **Allows you to issue bonds for infrastructure projects**

PRESENTATION OF DIRECTOR OF DEPARTMENT OF FINANCE

Speaker Bass presented Michael Genest, Director of the Department of Finance, whereupon he addressed the assemblage.

Remarks by Director of Department of Finance

Let me begin by expressing the governor's gratitude and my own to all of you for holding this joint session. I think we all know that the first step towards solving any problem is to recognize that you have a problem. And I think today you are doing that in an historic fashion.

Of course the next step to solving a problem, or to recognizing the problem, is to understand its magnitude and its urgency. And that is what I am honored to try and help you with today.

Members the problem is severe. The need for a solution is urgent. As the Speaker said and as Mr. Taylor just said we have to act now our financial situation is too dire to wait.

I think the first . . . if you'll open this document and look at the first page of it. This page illustrates something, one of the reasons that Mac alluded to as to why it is so urgent that we act immediately as opposed to waiting.

In December when we had a special, I mean, in November when the Governor called the last special session in the previous Legislature, we proposed a set of solutions whose value to the budget was 9.2 billion dollars. That means that in a budgetary basis we would reduce that deficit that we are all looking at, by 9.2 billion dollars.

However, in this special session, since you have 45 days to act, we thought it would be prudent to score these exact same solutions as if they are already taking effect on February 1. I would remind you that just because the law goes into effect on February 1 doesn't necessarily mean that every change goes into effect.

Maybe there are things before that we haven't noticed and had time to implement.

But that delay of a few months, 2 months, reduces the value of those savings or of those solutions by 2 billion dollars from 9.2 down to 7.2.

We don't have an exact number for how much it would be worth if you enacted them, for example on June 30 or June 1. But it would be something like 3 billion dollars. You might wonder how could you get any at all given the passage of time—and that number is a very significant number because there are very few things in this budget that you can take an action on late in the year and get the full value.

The biggest single thing like that is proposition 98. What that means is that you have the legal and practical power to take money away from the proposition 98 appropriation right up until the last day of the fiscal year. Most everything else has to be enacted and then begin to have its effect, tax increases other pragmatic reductions, reductions in the work force, all of those things take a while to materialize.

So by waiting we point the gun more directly at Proposition 98 than if we have now, even though in our solutions Proposition 98 unfortunately is part of the equation.

If you'll turn to the next page, quick action now is the key to making next year's budget problems manageable. Now we often hear that the best thing to do is to wait until the May revision, size and magnitude and details of the problem are understood, and hearings have occurred, and there is time to thoughtfully prepare a budget by June 15.

And in a normal year that does make a great deal of sense. This is not a normal year.

Now, I don't have, and I should make it clear, that these numbers shown on this page, these are numbers that our department of finance revenue update in November. They will get worse. I can tell you with certainty you will get financially worse Mac Taylor has already shown you numbers that are slightly worse than this. It would be wonderful if we thought that Mac's numbers were as bad as it gets and that even his numbers are as bad as we are going to see in January when we release the Governor's budget.

But for now, this is the numbers that we have. And what these numbers show is that if you adopt the Governor's proposal equivalent dollar value of the Governor's proposal in all of them, by February 1st, you will have a budget deficit at the end of this year of 2.3 billion dollars that's a lot, but it could be manageable. As Mac said there is no constitutional requirement to end the year in balance. And you would have facing you with 6 billion budget problem for next year which by recent standard would be a walk in the park.

However, if you do not adopt anything and simply wait for the normal course of the budget enactment you will end this year by these numbers and may I remind you, they will get worse when we do our January 10 estimates. You would end this year with 9.5 billion dollar in deficit and you would have to pass a budget next year that had 25.2 billion dollars of spending cuts or revenue increases all next year.

Clearly, acting now would be a good idea and it would help our Spring to be a lot more manageable.

On the next page, this chart shows that quick action now will make our cash situation manageable. Now I need to caveat this, by saying a couple of things: first cash numbers are always subject to quite a bit of variation. This last summer we had a month where the cash turned out to be 2 billion higher than we thought.

Now once we reconciled and discovered there were some payments made just a few days later and some revenue was received a few days early, we were pretty much right back where we thought we were. But month to month, cash can go up and down quite a bit. So these are our best estimates.

The other caveat is that these are based on our revenue forecast for November, and, as I said, and I will say several more times, it will get worse than this. But if it was only this bad and you adopted everything that we proposed, you could see that we could make it through this year and make it through the month of July with a cash balance.

Now, the Department of Finance and the Controller like to have a cash cushion of \$2.5 billion. By the way when I say cash it's not general fund cash, under all of these numbers the general fund cash will be gone. This is all of the cash that we have at our disposal including borrowable resources from other funds and things that we have control over.

So, we would have enough money to pay the bills- we would owe money, but we would have enough money to pay the bills. We get pretty uncomfortable if you look at March, at \$1.8 billion that could turn out

to be zero pretty easily that's the way cash works. But at least we have positive numbers here and I would say if you act immediately the situation on a cash basis is manageable unless it gets worse, and as you know and as I have said, it will.

But far better than the next page, if you look at this, failure to act now would create a financial disaster.

First in the month of February you would have only \$300 million in total resources available after paying all of the bills. That's not enough to be confident that you actually will pay all of the bills because that number could be up or down a couple of billion dollars. But February looks pretty good when compared to March. In March we will have to tell \$2.4 billion worth of folks out there that they are not getting paid.

This is the job of the controller and I think he would very much appreciate it if we could avoid the situation. We will be with these numbers kind of like that old joke with the frog and the water and you gradually raise it up and he doesn't know he's dead till he's gone to heaven because he's getting used to the warmer and warmer water.

That's what this would be like, for a while this year. We've seen months, we saw one in June, we saw one in July and August and part of September in which we did let people go have to wait for their money because we didn't have a budget. And we've done more than 2.4 or 1.0 or 1.5 of these numbers. So I guess we could make it through like this, it would be an embarrassment frankly to the state, to all of us to so. But we could probably struggle through somehow.

But look what happens in July. By July we will have no borrowable resources left at our disposal. If we do not have a budget, and the controller and the treasurer will talk more about this later, if we do not have a budget, we can't possibly borrow from exterior sources. They won't loan us money without a budget plan.

We will have no money to borrow of our own, we will have no money from external sources to borrow and in that month our bills will be 7.6 billion dollars greater than our revenue in that month.

So if you can only imagine, in fact, I've got as an illustration who might not get paid in that month of July and this is just the payments from last July or I should say, the payments that would have been made last July if we had had a budget on time. These are the categories of expenditures that are in jeopardy in that last month.

None of this is pleasant but you can see again delaying action, points the gun very directly at schools. There's a lot about how we ill manage that situation if it should come to pass or even if you do all of these actions we are still going to have to manage through cash, it's still going to be a tough Spring and it might get a lot tougher as I said.

But I am not going go into those details because I think that what the controller will be talking to you about.

Thank you.

PRESENTATION OF THE CONTROLLER

Speaker Bass presented Hon. John Chiang, Controller, whereupon he addressed the assemblage.

Statement by Controller John Chiang

Mr. Pro Tem, Madame Speaker, and distinguished members of the Legislature, let me first commend you for convening this joint session to address the dire financial circumstance that threatens the current and future solvency of our state.

Make no mistake, a delay in action would be catastrophic. As unpalatable as tax increases or further program cuts may appear, neither is as toxic to the State's fiscal health as doing nothing.

Failure to act threatens our ability to respond to natural disasters, our ability to provide life preserving care to the elderly and the ill, and our ability to protect our communities from crime.

If we are to avert sure disaster, together we must set aside blame, proceed with speed, pursue practical solutions, and, most importantly, summon the political courage to make the decisions necessary to protect the programs and services that Californians depend on every day.

Before I speak to the State's cash flow problem, and why attacking the \$28 billion deficit is needed to stave off an immediate shut down of public services, let me begin with a critical distinction between "budgeting" and "cash available."

As you know, the "budget" refers to the financial plan based on estimated revenues and disbursements for a fiscal year. This plan and its projections are a primary responsibility of the Department of Finance.

"Cash" refers to what is actually in the State Treasury on a day-to-day and month-to-month basis. Monitoring the amount of cash available to meet the State's financial obligations is the core responsibility of my office.

Part of that responsibility is to address the monthly cash "gaps" we see throughout the year when revenue collections are lower than payments. This is both routine and expected: Most of the State's expenses come during the first part of the year, while much of its revenues are collected in the final quarter. To smooth those gaps, we use a combination of internal and external borrowing, and also work to maintain at least a \$2.5 billion cash cushion.

We borrow internally from 600 of the State's 1,100 special funds to minimize the costs associated with external borrowing. The total amount available from this type of borrowing is approximately \$18 billion. As of November 30, there were only \$4 billion remaining—and by March there will be nothing left to borrow from these funds.

We borrow from several large funds that support public goals like oil spill prevention, beverage container recycling, and air pollution control. But State law prohibits borrowing from 500 other funds including CalPERS and CalSTRS, and other protected accounts such as the Local Agency Investment Fund.

Internal borrowing is short-term—just like external borrowing—and it must be repaid in a manner that will not interfere with the operations of the special funds.

When internal borrowing cannot suffice, we can also look to Wall Street in a normal market to smooth out cash flow. Short term external borrowing is achieved through a Revenue Anticipation Note—or a RAN—which must be repaid by the end of the fiscal year. RANs are used to bridge the cash gaps between what comes in and what goes out.

In the past 25 years, RANs have been issued every year but one. The Treasurer's Office has issued RANs ranging from \$1 billion in 1999 to \$12.5 billion in 2002. My office determines the amount of RANs needed, and the Treasurer's office then sells them. This is made possible when budgets are balanced and the markets are functioning, but we know that this year is different.

Under normal conditions, we have a balanced budget for the year and we are able to manage shortfalls with internal borrowing and RANs. This year we needed a \$7 billion RAN, but due to the severely weakened condition of the State's finances coupled with the global financial crisis, only \$5 billion was sold. That left a \$2 billion cash gap.

Now, compounding our problems, the global financial crisis has continued to erode revenues. The size of the revenue shortfall for the remainder of the fiscal year was most recently estimated at \$7.8 billion by the Legislative Analyst, and at \$9.7 billion by the Department of Finance. My office's economists think even \$9.7 billion may be an understatement.

My office tested the latest cash flows associated with this \$9.7 billion deterioration, and what we found was a clear threat to the State's ability to pay all of its bills starting this Spring. By February, we will only have \$882 million in cash on-hand. By March, we will have exhausted our general and borrowable funds and run more than \$1.9 billion in the red. If revenues continue to deteriorate, this number will only grow.

My office is about to issue a report showing November revenues were down even further than expected. In the past four weeks that we have argued about the budget, our problem grew by as much as \$500 million above and beyond the \$9.7 billion loss projected a few weeks ago.

The responsible course of action is to solve the \$28 billion problem for the combined current and budget years. Solid budget solutions have a cascading effect. If we address the budget shortfalls now, we tackle much of next year's problems as well. Left unaddressed, current year shortfalls compound in the following year.

It would also be a mistake to think our problem is only the \$1.9 billion cash crunch in March. Addressing this Spring's cash problem alone would be like burning the furniture to heat the house. And while March poses a real challenge, here are four reasons why this Summer looks much worse.

First, July and August are usually low in revenue and high in expenditures. For example, in July 2007, we collected \$4.1 billion and spent \$10.3—that is a \$6 billion dollar gap and is typical of the gap that we see as the fiscal year opens.

Second, there will be no cash balance or borrowable funds to carry over to the new fiscal year. In other words, we will begin the fiscal year with our cupboards bare.

Third, special fund revenues could follow general fund revenues and turn downward with this economy. The more special fund revenues deteriorate, the smaller our pool of borrowable funds becomes.

And finally, state law requires that borrowing from internal funds cannot interfere with the operations of the funds. If the special funds need cash and the State's general fund cannot provide that cash, there will be a liquidity crisis in the Pooled Money Investment Account that could significantly impact the special funds from which we borrow.

These four facts are red flags that demand immediate legislative action. The problems we face are real, and the only true solution is to address the \$28 billion budget problem. Without a budget solution, my office has few choices to deal with the immediate cash crisis. None of these options are in our best interest, nor do they offer any guarantees. But I will go through them individually for you today while explaining the pitfalls and complexities that each presents.

The first is to try to "cash-manage" the problem. I have directed my staff to determine the exact date we will run out of cash, how many days we will be in the red, what payments are due, what payments have statutory due-dates, which payments can be moved, and what the penalties and interest are for moving those payments.

This fact finding will determine if there is flexibility in the payment schedule to buy us a few days for a limited amount of dollars.

This is nothing more than a Band-Aid. The crisis we face this spring and summer is of such magnitude and duration that it cannot be adequately addressed by this type of triage.

The next option is a Revenue Anticipation Warrant—or a RAW—which is another form of external borrowing. But unlike a RAN, it can cross fiscal years, it does not require a budget, it has only been used in fiscal emergencies, and it is extremely expensive.

My office ventured to put a RAW together as a financial backstop this summer. We were able to line up \$5 billion, but the financing would have cost taxpayers more than half a billion. This came when we saw only symptoms of a credit crunch—before it became a worldwide credit and liquidity pandemic.

Now, my financial team includes some of the most experienced advisors in California, who have put together nearly every RAW in the State's history. But even they warn that market access is terribly difficult, and we may not be able to find lenders willing to take a leap of faith.

The bottom line is selling RAWs may well be impractical if not impossible.

The last option is issuing Registered Warrants—or IOUs. They bear interest and are issued to replace regular warrants when there is not enough cash available to pay the State's obligations. IOUs are rarely issued—only once since the Great Depression has California used them.

There is no reason to believe an IOU is a viable option. It sends the wrong message to our creditors by showing that we cannot pay our bills. And their use is limited—litigation already bars IOUs for most state payments. I have directed my legal staff to review what IOUs can and

cannot pay, but we already know they cannot be used to pay salaries of employees covered by the Fair Labor Standards Act. Nor can they go towards schools, debt service, or federal payments like Medi-Cal.

There is no prohibition against using these for vendor payments, income tax refunds or the salaries of judges, elected officials and their appointees.

But there is another catch to issuing IOUs—if one is used, all revenues received afterwards must go to pay back the IOU before any standard payments can be made. State law already determines the priority for many payments. But the IOU repayment could jeopardize that order by putting non-priority payments ahead of priority payments. This could put the State in serious legal and financial trouble, and frustrate our ability to manage cash.

Failure is not an option here. Without coming together to address our budget problem, we will create a financial catastrophe from which it would take years to recover.

Failing to enact a responsible, long-term solution to this financial crisis could mean liquidated damages, federal penalties, and exposing our state to expensive litigation when it can least afford it.

You would see a chain reaction far worse than new taxes or program cuts. It would endanger local governments, schools, small businesses, nursing homes and hospitals. We would pass our financial problems on to millions of Californians by deepening and prolonging the current recession.

We cannot waste time arguing about how we got here today. We only have time to quickly come together and pursue solutions and make the tough decisions that will protect our future.

PRESENTATION OF THE TREASURER

Speaker Bass presented Hon. Bill Lockyer, Treasurer, whereupon he addressed the assemblage.

Address by State Treasurer

What you've been hearing about is the State's current "zombie" budget. It's a "walking dead" plan. And it's definitely not "Sleeping Beauty"—though there is a poisoned apple.

As your banker, I'd like to provide some specifics about the result of prolonged debate and delay.

About \$2 trillion flows through my office each year.

One significant financing hub is the Pooled Money Investment Account. It functions like a "rainy-day" fund. Unfortunately, it's about to go dry because too many demands are now being made on it—for cash to pay bills, for internal borrowing, for infrastructure projects, and there are too few revenues to invest.

Prior speakers have outlined our cash flow problems, complicated by our inability to borrow in the short term debt markets.

I want to focus briefly on the diminishing state dollars in the Pooled Money Account.

State agencies like CalTrans, Water Resources and others draw on the account through loans approved by the Pooled Money Investment Board when projects are ready; the fund is replenished by regular bond sales throughout the year.

Due to frozen credit markets and our own broken budget, we can't sell those bonds to meet our urgent cash and infrastructure investment needs.

Large institutional investors that we need are being very selective about what they buy—and they aren't buying California. . . . This isn't just a theory.

Three weeks ago, we went to market with \$1/2 billion in California power revenue bonds—better-rated than our general obligation bonds.

We had to reduce the transaction by 2/3rds because of the lack of buyers. That is extraordinary but it's not hard to see why.

Expecting investors to purchase our bonds NOW, when we can't agree on a budget that lenders can rely on, is like expecting someone to buy a stock when they know it's losing value.

The result is that in 9 days when the PMIB next meets, we'll be forced to start shutting down planned expenditures for highways, schools, flood control, etc. If California can't sell bonds, we can't repay the PMIA for the loans it makes to pay for projects. There is a limited supply of assets in the PMIA and we can no longer both lend money for projects and lend money to the General Fund for cash flow.

It means that economic stimulus we all want, won't occur.

Billions of dollars that would have gone to thousands of private sector businesses, creating tens of thousands of jobs, will be cut off.

I've provided partial lists of impacted projects. It isn't selective; it isn't discretionary. There's no choice. Every region will be affected if we can't spend the nearly \$5 billion that had been expected for the rest of the year, and \$8 billion more next year.

Schools from Eureka to El Centro, hundreds of projects.

Here is a little sample from CalTrans: 38 local traffic light synchronization projects could lose funding. Folsom Boulevard in Sacramento, Clovis and Shaw Avenues in Fresno. Large projects in San Jose, Corona, and San Diego.

Highway projects will be delayed, or interrupted. Federal matching dollars may be lost. Examples are:

- bridge replacement on Interstate 5 in Shasta County.
- HOV lanes on Interstate 80 in Placer County.
- two-lane HOV projects on Highway 101 in Sonoma County.
- the "Fourth Bore" tunnel project on Highway 24 in Alameda County.
- widening Highway 198 in Kings County.
- a new Interchange on Highway 1 in Monterey County.
- HOV lane on I-5 in LA County.
- widening Highway 118 in Ventura County.
- replacing bridges on Highway 99 in Merced County.
- adding an eastbound lane on Highway 91 in Orange County.

And that's just road projects. Our kids will go without needed schools, too.

\$3.1 billion of school construction projects will lose funding. Projects are up and down the state:

Los Angeles, Fresno, Rocklin, Sonoma, San Bernardino, San Francisco, Oakdale, Merced, Novato, Maricopa, Perris, to name a few communities where children families would be hurt.

Conservatively estimated, those infrastructure projects represent a \$12.5 billion hit in lost revenues to the private sector and 200,000 jobs we need. That is the poisoned apple that nobody asked for and nobody wants. But it's what California is going to eat if there is no budget.

Let me just make one last point about the cost we are imposing on Californians and our state economy by any further failure to balance our budget: Delay doesn't just result in spending cuts. The hit on the private sector from delay is about as big as the tax increases the Governor recently proposed.

There's only one way to prevent these shutdowns. Adopt an honest, balanced budget very soon. No gimmicks; no phony accounting; no borrowing that merely postpones the day of reckoning. Those cupboards are bare. Stop relying on the tooth fairy and other fantasies.

I was honored to serve in this Legislature for 25 years—during the recessions of 73–74, 86–87 and 91–92. This downturn is significantly more challenging, and will likely be deeper and longer.

This budget problem is genuinely different from previous ones because of years of deficit financing that have depleted our reserves, coupled with an inability to borrow further, internally or externally.

For years, I regularly watched the internal interactions of legislators who thought of themselves as advocates or mediators. I believe that robotic advocacy misses the unique role of a Legislature: providing the social glue in an economically, ethnically and philosophically diverse state.

Now, each of you gets to decide the extent to which you'll be a thermometer or a thermostat—reflecting external realities or setting your own course.

What I can say for sure is that both sides playing budgetary chicken simply kills Foster Farms. Rhetorically speaking.

Good Luck!

QUESTIONS AND REMARKS

Assembly Members and Senators asked questions of the panel.

ADJOURNMENT OF JOINT CONVENTION

Speaker Bass adjourned the joint convention *sine die*.

IN ASSEMBLY

RECONVENED

At 5:09 p.m., the Assembly reconvened.

Hon. Karen Bass, Speaker of the Assembly, presiding.

PRINT IN JOURNAL

Speaker Bass was granted unanimous consent to print the remarks of the Joint Convention's participants in the Journal.

RECESS

By unanimous consent, at 5:12 p.m., Speaker pro Tempore Saldaña declared the Assembly recessed.

RECONVENED

At 5:19 p.m., the Assembly reconvened.

Hon. Lori Saldaña, Speaker pro Tempore of the Assembly, presiding.

ADJOURN IN MEMORY

Assembly Members Niello, Evans, De La Torre, and Villines were granted unanimous consent that when the Assembly adjourns on this day it do so out of respect to the memory of Julianne Marie Huerta, of Sacramento.

(Assembly Rule 45.5 suspended.)

ADJOURN IN MEMORY

Assembly Member Villines was granted unanimous consent that when the Assembly adjourns on this day it do so out of respect to the memory of his nephew Michael Halpin, of Los Gatos.

(Assembly Rule 45.5 suspended.)

ADJOURN IN MEMORY

Assembly Member Beall was granted unanimous consent that when the Assembly adjourns on this day it do so out of respect to the memory of Judy Fuller, of San Jose.

Assembly Member Bill Berryhill was granted unanimous consent that when the Assembly adjourns on this day it do so out of respect to the memory of George Dadasovich, of Manteca.

Assembly Member John Pérez was granted unanimous consent that when the Assembly adjourns on this day it do so out of respect to the memory of Ethel Bradley, of Los Angeles.

MOTION TO ADJOURN

At 5:33 p.m., Assembly Member Adams moved that the Assembly do now adjourn.

Assembly Member Hall seconded the motion.

Motion carried.

QUORUM CALL OF THE ASSEMBLY DISPENSED WITH

At 5:33 p.m., Speaker pro Tempore Saldaña declared the quorum call of the Assembly dispensed with.

MESSAGES FROM THE SENATE

Senate Chamber, December 1, 2008

Mme. Speaker: I am directed to inform your honorable body that the Senate on this day adopted:

Senate Concurrent Resolution No. 1

GREGORY P. SCHMIDT, Secretary of the Senate
By David Valverde, Assistant Secretary

FIRST READING OF SENATE BILLS

The following resolution was read:

SENATE CONCURRENT RESOLUTION NO. 1—Relative to the adoption of the Joint Rules of the Senate and Assembly for the 2009–10 Regular Session.

INTRODUCTION OF GUESTS

Speaker Bass, of the 47th Assembly District, introduced Hon. Sally Lieber, Assembly Member (2002–2008).

ADJOURNMENT

At 5:34 p.m., pursuant to the motion by Assembly Member Adams, the Assembly adjourned upon Call of the Speaker, out of respect to the memory of Julianne Marie Huerta, on motion of Assembly Members Niello, Evans, De La Torre, and Villines; out of respect to the memory of Michael Halpin, on motion of Assembly Member Villines; out of respect to the memory of Judy Fuller, on motion of Assembly Member Beall; out of respect to the memory of George Dadasovich, on motion of Assembly Member Bill Berryhill; and out of respect to the memory of Ethel Bradley, on motion of Assembly Member John Pérez.

KAREN BASS, Speaker

SUE PARKER, Assistant Chief Clerk