



JOHN CHIANG
California State Controller

February 13, 2009

The Honorable Darrell Steinberg
Senate President ProTem
State Capitol, Room 205
Sacramento, CA 95814

Dear Senator Steinberg:

The need for an agreement on a mid-year budget adjustment that provides solid solutions for addressing the State's \$42 billion budget deficit and provides sufficient cash, quickly, has never been more critical.

As the State's revenues have continued to erode as a result of years of pushing the problem into the next budget cycle and the State's free-falling economy, my office was forced to delay more than \$3 billion in payments this month in order to preserve cash we must pay to education, debt service and other programs required to be funded by the State Constitution, federal law or court ruling.

The payments I have put on a 30-day hold include funds to counties for vital public and social services and refunds to taxpayers who deserve, expect and rely on those payments. I have been forced to delay cash grants to low-income students for their books and tuition, and the State's share of assistance to 1.3 million blind, elderly and disabled Californians who depend on those funds for their rent, food and medicine.

These actions are regrettable and harmful to many, but there are no other options short of a new budget deal. The only path out of this morass is a solid budget plan that addresses both our long-term structural problems and our desperate need for immediate cash.

If necessary to help you obtain votes to enact the budget agreement you have negotiated, I will rescind a \$996,000 appropriation to pay for the final phase of workstation purchases for my employees. Although this decision is, frankly, fiscally irresponsible in the long run, I believe the need for enactment of a budget plan is critical to keep the State from plunging over the fiscal cliff.

Let me be clear: This move will cost the State more in the long run. Cancelling the third and final payment for workstations will prohibit me from moving employees into the new space, which means my office will be forced to pay rent for vacant space.

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While forfeiting these funds will save almost \$1 million in the budget year, canceling the purchase will cost the State more money in the long run. Without cubicles installed at the C Street facility, I will not be able to move auditors from the downtown Sacramento office to the less expensive quarters at the Cannery Business Park Office on C Street. The lease for the downtown office is currently being negotiated by the Department of General Services, and if I were able to ask for less space to house auditors, I could save approximately \$250,000 a year in net rent costs. As I am contractually obligated to pay for the C Street space until 2012, I will be forced to pay for unoccupied space.

This of course erodes the savings that I achieved in implementing this project. Originally estimated, and approved, at \$996,000 a year for seven years, I will save the state \$1.17 million in financing costs by purchasing the workstation cubicles in three phases. I will save \$1.78 million by using a vendor who provided the cubicles at almost half the cost of the original estimates. I will save the State another \$1.035 million by incorporating into the lease agreement the teardown and disposal of the more than 20-year-old workstations, as well as the installation of voice, data and electrical systems.

Counsel also has warned that failure to fully mitigate the identified noncompliance with the Americans with Disabilities Act (ADA) and Occupational Safety and Health Administration (OSHA), and other standards could expose the State to workers' compensation claims and other penalties.

No state budget is immune to politics. Despite my disgust and disdain for the grandstanding of one member who, amazingly, accuses me of wasting money for cutting \$4 million out of \$7 million project that he himself approved, I believe the State's needs far outweigh the fiscally irresponsible plan for which he calls. As a result, I will withdraw the request to fulfill the third phase of this much-needed project. However, I reserve the right to request additional funding to cover the additional rent, any increase in costs and all penalties and fines that may result from breach of contract when the State's economy improves.

Although this unnecessary delay is more expensive for the State and potentially unsafe to those employees who will be forced to continue working in cramped conditions, I know we all believe it is far more important to ensure that vulnerable Californians who depend on the State to fund public assistance, care for the mentally ill and disabled and other critical programs see those services restored.

Sincerely,



JOHN CHIANG
State Controller's Office