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Controller Unable to Pay Estimated \$1.1 Billion In July Due to Budget Impasse

Another \$2.1 Billion Projected to be Withheld in August, Absent a State Budget

SACRAMENTO – State Controller John Chiang today said the lack of a state budget prohibited him from paying an estimated \$1.1 billion in July to community colleges, special education programs, nursing homes, cancer detection programs and small businesses that provide services to the State. Based on last year’s payments, he predicts he will be forced to withhold another \$2.1 billion in August if the budget impasse continues.

“This is real money, owed to real people and real programs,” Chiang said. “Some have been able to weather the non-payments by raiding their savings accounts, or taking out loans. But we’re getting to the dangerous point where the lack of these funds is going to have a detrimental effect on individuals and programs.”

Without a budget in place for the fiscal year that started July 1, the Controller this month was legally prohibited from paying \$326.6 million to community colleges, \$170 million to school districts for categorical programs such as special education and remedial summer school; and \$140 million to vendors who provide food, paper products and supplies to the State.

He has been forced to withhold \$300 million in child development program funds that go to schools and private pre-school and day care programs under contract with the Department of Education.

If no budget is enacted in August, the Controller will be unable to disburse \$100 million from the highway tax, collected in July that is scheduled to be sent at the end of August to cities and counties for local street and road maintenance and repairs.

Although he is authorized to make Medi-Cal payments to nurses, doctors and pharmacists who directly bill Medi-Cal, the Controller does not have the legal authority to pay institutions, such as hospitals, nursing homes, managed health care plans, clinics and regional centers. During previous no-budget times, those institutions have relied on a \$1 billion General Fund contingency fund to tide them over. However, the Department of Health Care Services last week said the contingency fund is depleted, and DHCS will be unable to pay \$227 million to hospitals this week.

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Even without a state spending plan in place, the Controller is authorized to make payments for federally mandated programs such as Supplemental Security Income/State Supplementary Payment (SSI/SSP) and In-Home Support Services; debt service and other financial obligations authorized by the State Constitution; and programs with ongoing appropriations from the Legislature, including Medi-Cal, CalWORKs, income tax refunds and payment on claims for unclaimed property.

He also will continue to pay the salaries of all state employees covered by the Federal Fair Labor Standards Act. A 3.4% raise that many state workers expected to receive starting July 1 cannot be paid without a budget in place. That raise is retroactive, and the Controller will send out supplementary checks containing the raise as soon as a budget is signed. The raise will be taxed at the worker's normal tax rate.

The Controller cannot pay the salaries of 590 state elected officials and their appointed and exempt staffs. Legislators' per diem payments of \$162 a day also are being withheld pending a budget resolution.

Private businesses that contract with the State for various services also are not being paid. Historically, after a late budget is enacted, state agencies tally the amount of late payment interest due their vendors and submit that amount to the Department of Finance to include in a deficiency funding bill. Once enacted, that appropriation is used to compensate the agencies for the late-payment interest they paid.

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