STATE TREASURER'S CONTINGENCY PLAN FOR FISCAL STABILITY AND ACCELERATED DEFICIT RETIREMENT

The State Treasurer's Contingency Plan for fiscal stability and accelerated deficit retirement is presented as a back-up to the $15 billion Economic Recovery Bonds (ERBs) and/or the $8.6 billion Fiscal Recovery Bonds (FRBs), in the event that the voters reject the ERBs and the courts invalidate or do not approve in a timely manner the FRBs approved as part of the State's current budget.

A rational, balanced contingency plan is critical to the State being able to retire the accumulated deficit, pay off the short-term borrowing that is scheduled to come due in June 2004, and make progress toward a structurally balanced budget. Without a credible contingency plan in place, if the voters and courts do not approve the deficit bond proposals then the State runs the risk of further credit downgrades and the potential loss of access to the financial markets.

The State Treasurer's Contingency Plan relies on two sources of revenue and a combination of internal and external short-term borrowing – all fully repaid within the next three fiscal years (2004-05 through 2006-07). The Plan would provide sufficient cash to repay the $14 billion in short-term borrowing due in June 2004, retire the accumulated $8.6 billion deficit (as of the end of the 2002-03 fiscal year), and provide for additional cash flow and budgetary needs.

REVENUE SOURCES

The State Treasurer's Contingency Plan relies on two sources of revenue for a period of three years: the same ¼ cent sales tax earmarked for the ERBs, and the temporary restoration of the personal income tax rates on higher income Californians that were in instituted under Governors Reagan and Wilson. (Similar income tax rates were in effect for 25 of the past 37 years.) The two revenue sources are expected to generate a combined $10.76 billion over the next three fiscal years:

- The ¼ cent sales tax, which would be in place for the next three fiscal years, is not a new tax or tax increase on consumers, but the same state sales tax earmarked for the Economic Recovery Bonds. The ¼ cent sales tax is expected to generate nearly $4 billion in revenue over the next three fiscal years.

- A temporary, three-year restoration of the 10 and 11 percent tax brackets on single taxpayers earning more than approximately $140,000 and $280,000 per year, respectively, and for married taxpayers filing jointly earning more than approximately $280,000 and $560,000 per year, respectively. The restoration of the 10 and 11 percent tax brackets are expected to generate approximately $6.8 billion in revenue over the next three fiscal years.

SHORT-TERM BORROWING AND CASH FLOW

The short-term borrowing proposed by the State Treasurer's Contingency Plan would include the following:

- The issuance of approximately $5.7 billion in short-term borrowing (Revenue Anticipation Warrants or RAWs) in June 2004, payable in June 2005.

- The issuance of approximately $5.2 billion in short-term borrowing (RAWs) in July 2004, payable in June 2006.

- Borrowing from available, internal state resources from time to time, as is conventionally done by the State, all of which would be fully repaid by the end of the 2006-07 fiscal year.

This short-term borrowing plan is similar to what then-Governor Wilson did during the 1990s.

It is important that this plan move forward as quickly as possible. If the ERBs and FRBs do not become a reality, we have little time to implement an alternative. For fiscal stability, the contingency plan must be enacted on or before May 1, 2004. To maintain the State's creditworthiness, presentation of a credible contingency plan is already overdue. In addition, it is essential that the 2004-05 Budget Act be enacted on time. And it is critical that the 2004-05 budget and future budgets be balanced in a fair and equitable fashion.