

Introduction provided by Dr. Jaime A. Regalado, PBI Executive Director

It's always difficult to introduce a friend. And I told John he had to beware, because he is a friend, but I'm going to skip that part of it. John, we know you have so many things to do and so many-- so much competition for your time. And because you're the State Controller, but also because you're John Chiang, and that combination is really overwhelming for a lot of us, and so we appreciate you cutting away from what is a tumultuous schedule to be with us. And we really do mean that, so thank you. Well the formal part of this, the script part of this indicates that John, as you all know, is California's fiscal watchdog, but what does that mean? It means he oversees and overlooks over \$100 billion in annual receipts and public fund disbursements in California. He was elected to this position in 2006, November, to be exact. And in this position of Controller, and this is astounding to me, he serves on 76 state boards and commissions with responsibilities ranging from coastline protection to building new hospitals and, of course, campuses. And part of those boards that he sits on includes CalPERS and CalSTRS, the two largest public pension funds in the nation, and he serves as chair of the Franchise Tax Board during even numbered years. So John, is there a little bit of cloning going on with you? It's hard to believe that one person can do all this, but of course, we know you're all around, everywhere, at that labor event last week, or two weeks ago, for instance. Previously, Controller Chiang served two terms on the State Board of Equalization, beginning in 1998, and he chaired that board for three years. And this service brought him extensive experience, and fiscal leadership and understanding that were key components of his background that he brought into his current position. Earlier in his career, and this must be when we met John, you were still a tax specialist, an attorney, and you then served as an attorney in the State Controllers Office, adding even more impressive background. The son of emigrant parents, John is only the third Asian Pacific Islander to serve in statewide office in the golden state's history. And this Controller has a long history of being the champion for fiscal literacy and use of his position to empower working families through free seminars, as well as tax-free preparation assistance, and he's also tremendously principled. I don't remember previous controllers taking on the Governor, much less others in state and private leadership, but this is no ordinary Controller. He has used his position to challenge Governor Schwarzenegger and other leaders in California over such issues as state jobs, paychecks, furloughs and layoffs. And of course, the Terminator was none too happy, but nevertheless, a whole lot of other people were with John's stance. He's not a shrinking violet, never has been, and he has elevated the position of Controller to protect working families throughout the state. And he is always, at least for me, on the right side. So now we'll hear John's thoughts about California's fiscal future and how Tuesday election results factor and play into them. So please join me providing a warm welcome for California State Controller, the honorable John Chiang.

John Chiang: Good afternoon. It's a great pleasure to see all of you. Thank you for taking a few moments of your afternoon to be here. This is a very special place. Pat Brown created a California, I think, that had all our eyes set a little bit higher, as President Obama often references, so that we saw a bigger and brighter horizon. And I think Governor Brown would be incredibly proud. He would be smiling if he saw the work that was taking place here. Thank you, Ali, and thank you to my dear, dear friend, Dr. Jaime Regalado. In terms of individuals who create first-rate success, world-class success, nobody does it better than Dr. Regalado. And as near impossible as it is to do, he is, in fact, a better person than the extraordinary educator that he is, so let's give a loud round of applause for Dr. Jaime Regalado.

John Chiang: I've been asked to share with you my thoughts, my perspectives about the California fiscal condition. Let me give you a historical backdrop, background, so that we all get to the same place. As we all are well aware, California was in a brief recession at the beginning of this decade. After the stock market bubble burst, we had-- when the stock market was at its peak, we had 44,000 households report an adjusted gross income of \$1 million or more. That is significant. When the stock market bubble burst, that dropped to 24,000 households. That is pretty consistent with what we saw in the 1990's where we had in the 20's-- 20's of thousands, the number of households that reported an adjusted gross income of \$1 million or more. For the next two or three years, household wealth across this nation increased, so when you look at total gross wealth and total net worth for an American household, it increased by about \$100,000. I don't have California figures, but I would speculate that it was even more because of the real estate appreciation that was taking place throughout the state of California. Gross domestic product, historically, is about 2/3 consumer spending, our spending. During the past few years, that elevated to 72 percent. Now part of that was not positive. We also saw individual households also increase the amount of debt that they owed. For somebody who's not strongly supportive of not sound borrowing, I think that puts the individual household, I think that puts the individual, I think that puts the state of California in a very precarious position. Now during those heydays just a few years ago, we saw tremendous job creation because of real estate. The number of mortgage bankers and brokers, construction contractors, architects and engineers was increasing, and so we had tremendous increase of wealth created here in California. Now when the market started to slow down and decrease, we also saw a tremendous loss of jobs in those particular areas, so first, construction jobs were lost, and then related financial jobs were created. And so we lost a significant number of jobs. The question then became is there going to be a spillover affect, the loss of construction and finance jobs? Will that impact other parts of the economy? And over the last couple years, it has. If you look at the unemployment rate here in California, over the last two years, it has increased from 5.7 percent to-- does anybody know the numbers today, anybody want to take a guess, we have ten, anybody else, 11.2. 11.2, that's rather dramatic. And those numbers will continue to increase. Unemployment is a lagging indicator, so people will oftentimes

continue to make that adjustment, even though the economy has turned in a small or in a stronger sense. Now California has a very volatile tail in terms of employment and unemployment. We are a state where there are individuals of incredible wealth, some for many, unimaginable. And for others, this is a state of incredible poverty, and it has an impact, as you can see, in our normal lives. If you see a slowdown of income earned by those at the upper strata and those in the medium strata, it has an impact of those who are lower income. You can see it in our restaurants. They are the food preparers. They are the food servers. You see it in construction projects where they are the laborers and others who are toiling for construction projects. And so you have a huge whiplash effect when you have a downturn in the economy, and that's what we're experiencing. And then we have national and global economic phenomenon happening. We saw it last year. At the beginning quarter of last year, we saw what happened to commodity prices, right. I think a lot of us were outraged at how dramatic the increase in crude oil prices are, right, and that translated into our gas prices. Here in California, we were paying over \$4 a gallon for gas. And when you think about the median income for the family-- a California family, a single person here, the median incomes about \$52,000, for a multiple family household, it's about \$58,000. And then after you pay the taxes, you think how much you have left. That's your disposable income. Can you imagine, instead of paying \$2.21 a gallon for gas, you're paying \$4.69 a gallon, and how much that takes away from your-- from other types of spending? Whether it's your healthcare, whether it's your utility bill, whether it's your rental payment or a mortgage payment, that has a dramatic impact on the daily livelihood of the working family here in California. And so that was the first to second quarter of the last calendar-- or two calendar years ago now. Now as you moved forward, we saw we started to have liquidity issues in the national economy, then we had credit issues. It became incredibly for people to borrow money, not only that, plus the loss of jobs. We've seen what has happened to the automobile business. Annually, here in California, we sell about 16 million cars. Then they thought nationally, we're going to sell 13 million cars. Then they dropped the figure to 11 million cars. They dropped the figure to 10.5 million cars. That has a dramatic impact all the way through, not only the big companies, such as GM, for Ford, for Honda, for Toyota. It also impacts the downstream manufacturers, the component parts of those cars, the steering wheel. You can imagine the other components of a car. It has an impact on local tax revenues, so if the dealerships in Cerritos or Van Nuys, California aren't collecting those tax dollars, it impacts how much a city collects, and so that's your public safety. That is your fire services. That is your library services. That is your parks and recreation services. So that has a huge impact going through the economy. And then we saw what happened next. We had huge solvency issues; Circuit City, you know, Merrill Lynch, Bear Stearns, these companies, you know, got purchased by other companies. They merged or they went under. So that has been the calamitous effects that have happened during the last economy, or during the last year during this economy. Now that has impacted all of us where we are today. During this past summer, the state, for the 2008/2009 fiscal year was at \$15.2 billion in debt. That is an extraordinary sum. I know for a lot of the California electorate, they've been so used to the fact that we haven't had a sound

budget, but we can't continue to roll these debts and deficits on a year-to-year basis, because truthfully, this is your life, right, your family budget, your individual budget. But the California budget impacts our lives. It's our education. It's our healthcare. It's our infrastructure. It's our jobs, right, so this out to be personal to you. And it's important that you elevate your participation-- and you couldn't get a better education than here at the Pat Brown Institute-- so that you can help the elected leaders and the appointed leaders make the right decision, because that's how we build the California economy. That's how you build a system that truly meets our greatest aspirations. And we have to do it together. And we have to change our civic democracy, because right now, we are at a point where people don't trust each other in our institutions. That doesn't work. That's not healthy. You have to be part of that leadership that says we have to have a better discussion. We have to have better governance. More importantly, we have to have a better connection and relationship with each other to create a California that is truly ours as individuals and ours collectively. So we were \$15.2 billion in debt last summer. Unfortunately, the Governor and the legislature had huge political disagreements. They could not come to a point of agreement until 85 days later. Now the budget the Governor signed 85 days later was not a strong budget. It did not really eliminate the huge deficit we had. You didn't have significant tax increases. You didn't have significant tax cuts. It had some borrowing. Just as an individual opinion, I think it is time that California eliminates nonessential borrowing. That is what has gotten us into a far more difficult position year to year. And then if we want to be honest, if we want to be straightforward, if we want to be truthful with future generations of Californians, like Gabriel's daughter, my Goddaughter, or my Godson, or your kids, or your grandkids, we're going to have to fix the budget so that they don't have to pay for the costs that we have incurred on an operational basis, not a long-term basis, like capital projects, like highways that they will use, but our one-time spending. Imagine you, putting on a credit card, eating a cookie, and having your estate, the monies that will later go to your kids' or grandkids' inheritance have to pay for you eating a cookie because you borrowed money to eat that cookie. That is what we are doing to future generations of Californians. Now what was important then and very important now is that we learned a lesson from the mistake that took place. We encouraged the Governor and the legislature to act immediately to fix the budget deficit. Imagine that you owed \$200,000 on your credit card, your personal credit card. Do you think that you should take action now, or do you think I should wait till a year later, two years later, three years later, right. You need to take the very challenging and difficult steps to start to reduce your deficit. Unfortunately, a lot of the elected leaders in Sacramento decided to wait. I can understand it being very tough choices and you don't want to immediately address it, but the time to act is when you have the biggest problem, and not to make it worse. Unfortunately, they didn't take action in October. They didn't take action in November. Speaker Karen Bass and Senate President potent Darrell Steinberg called a joint legislative session, which is unusual-- it hadn't been done in a couple decades-- to call the Governor's representative, to call the legislative analysts, to call the State Treasurer and to call me to come testify to say how desperate the situation was for the state of California. And what we tried to communicate to them is that if they

didn't take immediate action, you were going to see the dramatic impact to communities. They didn't take action in December, and what happened? Unfortunately, something of significant economic impact happened. The Governor's representative, the State Treasurer and I sit on a board called The Pulled Money Investment Board. It is a board that provides financing for infrastructure projects here in California. So imagine an update of construction for this building here at Cal State, L.A. You might get interim financing to fix this building. Imagine a highway, or a bridge, or any other construction taking place through public monies. We loaned money to start or continue financing of those projects; however, we had to shut down the financing in December for 5,400 projects here in California because we didn't have the money to finance those projects. Imagine the jobs lost. Imagine the litigation because people weren't getting paid. Imagine what it would take, the cost just to shut down these projects. They all had a negative impact on our economy. Now why did we have to shut down that financing? The aggregate amount to continue the financing of those projects was \$6 billion. Now in January, the state only had \$2.7 billion in the State Treasury. My-- one of my responsibilities, as Dr. Regalado provided-- is I serve on 76 boards. Some of my core functions is I am the cash manager for this state. I pay the bills. Each year, I make 42 million payments for your tax refunds, for payments to the federal government, to private sector vendors, to local jurisdictions. I had \$2.7 billion. Expected tax revenues for the month of February, were \$3.3 billion. So we expected to have, for the month of February \$6 billion. Now what were the budgetary bills, not the cash bills, the budgetary bills expected for February ongoing, \$10 billion, \$10 billion. So dropping all but one zero, I had \$6 in our-- to use another term-- checking account-- even though that's not technically correct, right-- in our state's bank to pay \$10 worth of bills. Now imagine we're in the same spot, right. You can't pay everybody legally, right, because for me, it is wrong to send a bounced check, right, if I draw some imagery to this. And even more importantly, my responsibility to every single Californian, including every single one of you in this room is to make sure that this state does not default on our debt obligation. Now does everybody understand the impact of default? If you're not sure, raise your hand. Okay, the state cannot file for bankruptcy. We cannot file legally, because there is no provision under federal law for bankruptcy, but we can default on a debt obligation. If you draw a near equivalent, imagine if I had paid all the bills and I defaulted on our debt to Wall Street. The financial analysts, some of them on Wall Street call it the nuclear meltdown of California. So I get some cash. I have to pay your tax refunds, or I have to pay bills, or I have to for Medical programs, or I have to pay for pension obligations, or I have to pay for public safety at the state level, imagine that being shut down. So imagine how Cal State L.A., imagine how PBI operates if the state of California is giving them zero dollars. Right now we know Jaime has extraordinary good will. He'd probably continue, but we're not sure everybody here wants to continue in the service of the operation for this state for three months, for six months, for a year, for two years if they're not sure when they're going to be paid. Imagine the public parks that you go to. What if we have no financing for those people who protect the upkeep of our natural bounty of our environment here in California? And imagine what would happen if I couldn't pay for

education or our debt obligation on Wall Street. And that's the situation that we were facing in February, because I did not have sufficient cash. So I had to take the dramatic step, a step I hated taking, because I understood clearly there were consequences to this decision. I had to defer payments by 30 days. I told the legislature if you do not provide me with enough money to pay the state's bills, certain people were not going to be paid. Now under the law, there is an order to which I pay. People thought I was choosing what I wanted to pay based on who I liked, and I wasn't paying based on who I didn't like. I don't have that choice. The state law, the Constitution and statute and court order says I have to pay you in this order. I have to pay education first. I have to pay debt service second. Now Wall Street hates the fact that California pays education first, right, and that's part of our lower ranking in terms of credit rating. Does anybody know where California is in terms of credit ratings in the United States of America?

John Chiang: Dead last, exactly right. We are dead last. Last year, we were second to last. Now in the interim, can you imagine Louisiana got upgraded and then we got downgraded?

John Chiang: Horrible, right? We are the eighth most powerful economic engine, and because our fiscal practices, and unfortunately, the credit agencies said last year, it's because of our political disagreement where we couldn't come to find a solution, in part, that led to the downgrading. Now that has financial consequences. Imagine you having a lower credit rating, right. If you have a lower credit rating, that means that credit cards are going to charge you more. That may mean you have to get a sub prime mortgage. And imagine how much more you have to pay in basis points. This has a cost. These are dollars flowing out of your checking account or your pocketbook, right. That's why we have to get this right and enhance California's credit rating. That's why we have to get it right. Now we are today at a single A. The next grade, with eliminating the plus and minuses is triple B. That is the lowest investment grade there is. Now here's the problem. If we drop below a triple B, the state of California debt is no longer investment grade. That means mutual funds, about 80 percent of them, cannot purchase California debt. That would squeeze the market as to who could purchase California debt. That would make it very difficult for us to maintain our cash flow. So education second, here's third. This is a whopper. This is a whopper. This is what I've been trying to make very clear to people. We talk about a cash deficit here in California of \$20-something billion. Does anybody know-- and if you get this right, I'll have my best friend take you out to lunch, because he's funny, right. He's a lot more entertaining than me. If you have to go out to lunch with me, you have to listen to me talk about numbers. When's the last date that the state was net cash positive? Anybody know the last date the state was net cash positive?

John Chiang: 1998, anybody else?

John Chiang: 1900.

John Chiang: 1978. Here's the answer. So the next time I ask this question in a different form, you can get it right and get your free lunch. July 12, 2007, July 12, 2007, so we've been operating close to two years in the red for cash, right. Imagining July 12, 2007 as the last time your personal household was net cash positive, to figure out the finances of the state of California, we have been borrowing the whole time to operate California. That is not healthy. That is not healthy. Now where has most of that money come from? Well here in California, there's over 1,000 special funds, 700-plus we can borrow from. So let me give you an example. The oil spill prevention fee, right, we collect a fee. If there were an oil spill-off the coast of California, that money is immediately drawable to help for cleanup off the coast of California. We've been living on God's graces, not having these emergencies, because that money would be immediately takeable, which in a bad moment, may send California in to a very precarious fiscal and cash position. We've borrowed-- we will have borrowed, by July, \$19 billion. So I want to make very clear, because we have to tell the legislatures, not only do we have to fix the \$29-something billion cash borrowing on top first, we've got to pay back that \$19 billion to get California at the right position, because I don't want to hide the fact that we are out of this problem just because we fixed this \$20 billion figure. Now it's going to take a lot of wherewithal. It's going to take a lot of courage to make sure that we fix that budget. So where are we today? We have that \$20 billion issue. The beginning of the next fiscal year is July 1st. The summer months, in recent history, all but one, we have to borrow significant sums. The Governor and the legislature have to reduce that \$20 billion cash figure into single digits, because Wall Street is not going to lend California \$20-something billion for the short-term, especially because one of the requirements, when we go out and borrow, right-- it would be like you if you're borrowing money from a bank-- they will ask you the question; how are you going to pay that money back, right. We have to answer that question, and we can't answer the question. So the Governor and the legislature are in conversations. They have to figure out how we pay that money back so we can make it through the summer. Originally, based on February, the Governor expected to be-- us to be cash positive, in the black by about \$75 to \$100 million. You're thinking oh that's good news. That's not good news, because Wall Street requires my office to have a \$2.5 billion cash cushion because of the volatility of spending and tax revenues. But now, as some of you saw, we were short in April, so just two months later after they gave us numbers for February, we were \$2 billion short of expected tax revenues, right. So that will carry over going into the next fiscal year, which puts us in a cash position for the red. And so the Governor and the legislature, them providing long-term solutions is the most important act that they take. That's the first thing they can do to fix the solution. If they can't come up with a long-term idea-- and this isn't really long-term, this is just for one year, the one-term fiscal year-- they have to provide an interim solution that allows the state treasurer and I to go to Wall Street and get short-term borrowing so that we can make it through, first the summer, then make it through the fall.

So if they can't agree to fix all \$23 billion, give us something that will give us an argument to Wall Street that we provide for at least short-term financing for the state of California. If that doesn't work, the next step is me taking some of that deferral action. Now remember, I hate using that deferral action, and the deferral action is not as powerful as it was in February. Part of how we were able to make it through February is that I had to hold up about \$3 billion in tax refunds. Well I'm not paying a lot of money back in July and August for your tax refunds, and so I don't have a lot of money I can hold back to pay essential bills. So my toolkit has a lot fewer tools to keep California from defaulting. The fourth step is also, if we have a crisis-- and the numbering for all cash management solutions, its number six-- is to issue registered warrants. Now anybody know the regular term for registered warrants, IOU's, IOU's. Now people got it confused. I didn't issue any IOU's in February. They thought I was issuing IOU's. I was doing cash deferrals, meaning right, if you get a whole bunch of bills, and I said oh I've got my mortgage bill, I'm going to pay that first, but I'm going to wait two weeks until I get my next paycheck to pay my credit card bill, right, that's a deferral. An IOU is I actually send you something saying this is your number, when we call this number the State of California will pay you. Now, the good thing, some of the people say, "Hey John, issue IOU's, we get 5 percent interest." Right when the market was bad a few months ago, right, the bank's paying 2.1 percent or 1.3 percent for your CD, people were going, "Hey we want the 5 percent." Part of it is, I don't want to pay it because that's still your taxpayer dollars paying you your IOU, so in essence future tax payer dollars to give you the interest that you're getting. Now IOU's is also the next, more precarious, step because what happens in an IOU? Anybody know what happens when I issue an IOU?

John Chiang: We've been talking to the banks and the credit unions to see if they would cash the IOU's. Some of them wanted to cash the IOU's because whoever's holding that IOU gets the 5 percent, right that's why they would take it, they'll say, "We'll hold onto it, get the 5 percent." A lot of the banks and the credit unions, because we issued so many IOU's, they said, "We don't have enough cash on hand to purchase all these IOU's." So last go round, some of them only took them for a month because they were running out of sufficient cash. Actually to draw an example, when we were out of money in February-- anybody see *It's a Wonderful Life*? Right, that's one of my favorite movies I've told everybody, "Just call me George Bailey." On staff, because I have the regulator next to me, I only have a few dollars worth of cash, I'm looking at the clock for 5 o'clock, right and he's down to \$2. That's how I feel. Right, I have to have enough money left at the end of the day so that the State of California does not default. Why we do not issue IOU's unless we really have to, is that IOU's takes away the ability for me to protect the State if things get really bad. Why? Imagine Ali [ph?] being a private sector vendor and I owe him \$50. Imagine Hymee [ph?] being Wall Street and I owe him \$100. Now I am the State of California and in my bank I have \$100. The first bill that comes due is Ali's \$100 because he has an IOU. I have to pay with that \$100 because I issued an IOU. I have to pay Ali first. Now once I pay him the \$100, the State of California has zero dollars.

Jaime comes up the next day and says, "Give me my \$100." I have nothing left. At that point the State of California defaults and that's when we have the tremendous disaster. So I will only issue IOU's when we are in dire, dire cash consequences to try to find us a few days, a few weeks, not sure, a month to try to preserve the cash position for the State of California. So that's why it is absolutely critical. Thank you for your participation today to encourage the Legislation and Governor to do the right thing so that we don't get to that scenario for the upcoming future. Now I don't want to end on totally bad news, challenging news. Oh the good thing is the economy will start to base at the end of this year or the beginning of the next fiscal year. I'm not going to say we're going to have a rapid turnaround, but the GDP numbers for the last couple of months have been really bad, -6.3 and -6.1. We'll start to see that slow. Many of the economists see growth anywhere between 0 and 1 so it's not going to be very strong but we need to find a basing in the economy. And so once we get that unemployment rate a little bit stable, once we get to see the housing market start to be stable, we might still have another drop, and we have more velocity of residential sales because basically the foreclosure sales, there still may be another shoe to drop because we still have increased unemployment. But we're nearing that bottom pretty soon. So that's a healthy start to turnaround in the economy. Now tax revenues often times lag because people will write off their losses so we have a couple years of additional concern. But one of the programs that I've worked on fixing here in the State of California is an unclaimed property program, some of you may have heard of it. It's when you're property, because there's no activity in your financial account for 3 years, comes into the possession of my office. For 2 decades, Government has done the wrong thing-- we haven't been telling you, except for about 16-20 percent of you that we have your money. Fortunately, I asked the Governor and the Legislator a couple years ago to do the right thing, make it legal for me to tell all of you that I have your money and that I want to get it back to you. So legally it's not illegal for me to tell you that the State has your money and we want to give it back to you. They don't give me all the resources to tell you we have your money so that's why I take these opportunities-- so I beg your indulgence because I know it's off topic. So this may or may not be you but we have under your name, money. So if I read your name, check my website. So Ira Peterson [ph?], we have 2 matches; Joyce Dillard 2 matches; Lisa Chavez 27 matches; Jessica Cheng, 19 matches; Henry Wong, 134 matches, and I'm just going to skip through to move down the list a little faster. Jeffrey Book, 2 matches; Lorraine Gray, we have 1 match, we have contents of a safety deposit box; Gina Gallessa ,1 match for \$142 in pension and profit sharing from Union Bank in Newport, CA; Joe Matthews ,6 matches; Lisa Gailey 26 matches; Roy Jasso, 2 matches; Evelyn and Jerome Alexander, 12 matches; James Williamson, 54 matches, Francisco Martinez, 370 matches, Barry Clark, 1 match for \$40.10 in refund from BP Exploration in Berkley, CA. Francisco Torres, 157 matches; Alex Miles, 5 matches; Mary Diaz, 71 matches, Dennis Gutierrez, 6 matches, Mary Garcia, 384 matches; Thomas White, 221 matches, Rosa Campos, 56 matches; Irene Martinez, 80 matches, Alta Bramian, 1 match for \$468 from an Allstate indemnity; Philippe Casarez, 1 match for \$58.85 from PacBell. Oh, Gabriel Monares, \$135 in insurance claims from First American Home Buyers

protection; Assembly Member Karen Bass, 1 match for \$2500 in vendor checks from SCE. Hey, Southern California, I'd get the speaker her money back. 47 matches for Cal State L.A., 1 match from Charles Drew, Southern California Edison, 5 matches, Children's Collective, 1 match for \$243; Jewish Family Service, 9 matches; City of Los Angeles, 167 matches. Hey Roy, go back to Wells Fargo, they've got 772 matches.

John Chiang: Proyecto Pastoral, 1 match for \$100 from Wells Fargo; Saint Mary Medical, 2 matches; USC, 23 matches; Majestic Realty, 1 match and City of Southgate, 2 matches. So if you're interested in checking-- and I'll leave the whole list up here with Dr. Regalado, he's much more affable in going over all this stuff. If you're interested in checking if the State of California has your money, go on my website which is www.sco.ca.gov. Click on unclaimed property, when it pulls up unclaimed property where it says, last name, type your last name or whoever you want to check for, your first name. Or you can go to a separate page to check for your nonprofit organization or business. Again it is a great pleasure to spend this time with you. Thank you to the Pat Brown Institute for all the great things that you do on a moment to moment basis. Thank you very much.

Question and Answer portion

Nancy Steel: Hi, guess I'm first up to the microphone, I'm Nancy Steel, I'm Executive Director with the Los Angeles and San Gabriel Rivers Watershed Counsel. And I'm one of the organizations that was part of the projects that were frozen, part of the 5400 projects, we actually have 8 contracts with the State. And I really appreciate the efforts that have gone into trying to get that money going again but the fact is that we've received no money, even after the May 6th budget letter. And again I understand that it takes more than just pushing a button to get everything going again but the problem is, we haven't been told what's going on. The agencies have not been communicating with us to tell us when we actually can expect to get checks. I was in a phone call yesterday where we talked about what went on at the Pooled Money Investment Board Meeting, I was unable to attend it myself, and it appears that the members-- and I'm not sure if you were physically in the meeting that day-- but it appears as if the members think that the problem has been solved and that we should be getting our checks, which obviously you know that's not happening. So what can you do-- my question is, what can you do or what will you do to increase the communication? I'm not even asking you to get the money to us faster, I know you're trying to do that. But how can you let us know, because the agencies aren't, tell us what's happening, when we're actually going to get checks, and how this process is going to move forward? Because there is this uneasy feeling that the bonds were sold, what's happening to that money, why aren't we getting our bills paid yet?

John Chiang: Great. It's a great question posed by Nancy. As I alluded to a little bit earlier, along with the Director of Finance and the State Treasurer, I sit on the Pooled Money Investment Board. The Pooled Money Investment Board, as I stated earlier, finances critical infrastructure projects here in the State of California. We have two approaches by which we finance the infrastructure projects, you can do it first by AB 55 loans, that is a legislative authority given to the State of California, where we are allowed to loan money from various pots in the State of California to finance the start or continuation for vital infrastructure projects here in California. As I mentioned a little bit earlier, we will not be providing any more AB 55 loans for the foreseeable future because we have to preserve enough cash just to pay the bills for the upcoming year. Now how the traditional financing is, is that the State Treasurer, who is the State's banker, the Treasurer's responsibility, he will go out and test the market to see what the capacity is and the willingness for the bond holders to purchase the debt of California. Part of that consideration is how much it's going to cost the taxpayers of California and how much capacity there is to buy the debt for California. We just had a couple of sales that were rather significant. We were looking at trying to sell about \$4 billion worth of bonds; we went out and sold \$6.5 billion of bonds. Then the second sell, a lot of it was the Build America bonds provided under legislation and President Obama's administration, we sold about \$5 billion plus of Build America bonds in aggregate, including other funding was about \$6.8 billion worth of bonds. Now that was not all used to fund projects such as yours. When we were talking to the banks, financial institutions, and those who loaned money to the State of California earlier, we said, "Will you fund, perhaps, projects such as yours?" They said, no. What they said is, "We don't trust what's happening. We want payment back of what you borrowed previously before we loan additional money." So it's still negotiating. I wish I could tell you when the banks and others will say, "We have had sufficient repayment before we will loan additional monies to these other projects." And the market conditions changed very dramatically, so some of those bonds that we sold for, that last sell, were at 7.4 percent. We have to decide how much we will sell because we owe a responsibility to all of you to sell these bonds at a good price. Right? If I'm selling those bonds, I don't want to sell it where all of us have to pay the bondholder 9 or 10 percent. Right? If we're selling at 9 or 10 percent, all of us ought to be pulling our money and using that money to loan to the State of California because where else are we going to get 9 to 10 percent return on those issues? Right? And then you'd use the rule of 72 and you get 10 percent, you've doubled your money in 7.2 years. So I wish I could provide you more detail but we have to see what's happening in the market and then we have to see what the financial institutions are going to say, we will provide additional funding.

Nancy Steel: Okay. Thank you, and that's new information so I would urge you to send out some information to all of those 5,400 projects so that we actually do know, everyone knows, that information. Thank you.

John Chiang: Very good, thank you Nancy. Yes.

Amber Valizon: Hello?

John Chiang: Hi.

Amber Valizon: I'm Amber Valizon [ph?] with the student organization here at ASI and a graduate student, so. My question is, a two-part question, I'm notorious for those. First part is, I was told by an Assembly Member in the state, that the reason California is in it's budget crisis has to do with the way our revenue comes in. The majority of our revenue comes in from income, that's the biggest part, so what ends up happening is, is when we're in a time of plenty our income is kind of like this roller coaster. So when there's a lot of people who have a lot of money, the State does good and of course, times like this, when we have a big crisis and there's a lot of unemployment, we don't have as much money, opposed to the State spending, which always stays pretty much stagnant. So what I was told is, if hypothetically, when we do good, we make \$50 billion, and when we do bad, we make \$20 billion. But no matter what year it is, we always need \$30 billion that we end up having this problem, where instead of taking the excess to use to either put aside for when we don't have enough or to pay those one time expenditures, we don't. And so then we're here. So of course, my question was, "Well why don't we just fix that?" So my first question is, is what that Assembly person told me is true, so I need to know if that's true. And the second part would be, when I asked why don't we just fix that why don't we just pass laws that would automatically, kind of, govern that to come down? Well no one wants to do that because that would tie their hands on how they would do projects to renovate roads and bridges and such. Okay, that's fine. So I said, "Well why don't we take some of that and not tax as much income, personal income, tax more corporations?" Oh, well when you try to do that they say that at least for example, the Majority Leader, Torrico, I don't know if I said his name right. He has a few bills that he wanted to try to get across, one of which would be to tax 1 percent of all, tax millionaires who-- one percent of their income in addition of whatever taxes they pay now. The second one would be to tax oil companies that don't get tax for taking oil out of our state where in other states, typically, they tax. Well when you go and talk to other people across the political lines, they'll tell you first, they're afraid that, well the tax people who have more money, means they'll leave our state. And to tax the oil companies, they're just going to push that on to the consumer. All right so this creates a new problem then, in which case I don't know how we'll ever solve that. Is that people.....is that if we try to make politicians do the right thing, then they turn around and tell you, because of ideals, that we can't do that because it causes new problems. So I guess my question really comes down to is, how would you ever fix that mis-proportion if everybody's intimidated to do anything to fix the mis-proportion?

John Chiang: That's a great question. It's obviously a very layered and multi-fold question. What you said at the outset and how you summarized what the Assembly Member shared with you is correct. It's what I said at the beginning of my speech, right, when I talked about 24,000 versus 44,000 households. Personal income tax is, as I pointed out, is anywhere from 49 percent to about 55 percent of the state tax revenues. A lot of that is earned in years when we do very well, it's the capital gain, so capital gains through appreciation of real estate or through the stock market. Should we have a rainy day fund? I'm an advocate of a rainy day fund. The voters here in California just voted down with 1-A, not exactly the rainy day fund, but something in that particular sense. The Governor and the Legislature, and if we can have responsible leaders over the long-term, understand that we have budget cycles. We will always have good years and bad years and that you have to set aside some of that money or perhaps, for those people who want to spend it, pay down debt. Right, because that's a future obligation to reduce cost for the State of California in the future so they ought to do it. In fact, when the Governor was offering his proposal, I had a different proposal. I wanted to target the capital gains, so in a couple years when we're all looking at the volatility of the income stream, I said, "If capital gains becomes a certain percentage of personal income taxes, let's say 10 percent of personal income taxes in a given year, is capital gains, perhaps set aside some of that money." Now that may trigger too much pressure on the republicans who want to give tax cuts and the democrats who want to put more money into education and healthcare. So create a band, maybe 10-13 percent, and then if it's north of 13 percent because you have a great year, go ahead and spend it on other essential programs. But it's clear that we need to do it. In the long term, right, the question that you said that's impossible, frankly, that will be the most defensible political position for an elected official, regardless of party. Right? Because if you can explain what we're trying to do in a long term helps California, it's the best thing to do. Gray Davis tried to articulate that position when he was Governor, but we had such great revenues during that one year with the stock market that everybody wanted their piece. So Gray was off to the right start, so if he could have given a little on both sides, or others could say, "Hey we got a little bit of a benefit," so that people could have scored their political victories and yet save so that we benefited in the long term for California.

Amber Valizon: Well thank you for answering the question and one small little tid-bit before I leave is, ideas like yours, and some of the others, never seem to make it to the public. And I know that there's not really quite a bit of money to go out to advertise to really put this across, but if more people knew of a better outcome, I think that the people would be more involved to try to make that happen.

Rusty Miller: Hi John, Rusty Miller Silver Lake Neighborhood Council. Question about term limits, in the last dozen or years or so, we've had a longer period of time for adopting the state budget. Do you think that the impact of term limits from the middle nineties forward has had a greater impact on that because every legislator is just looking around

for the next office to run for and pick up that paycheck from versus a Legislature that I think was probably more professional because they could stay longer to be able to work on issues on a longer term basis?

John Chiang: Yes, I would just talk to normal human relationships. When-- my best friend left, that's longer than he usually stays to listen to me. When we're friends for our first couple of years, right, and he actually worked for me in Senator Boxer's office, I trust the people that work for me but I would go over everything. After a certain period of time and you know how people think, you know what their value set is, right, and they say they want to work on something, you give them-- I give them, more space to work on it. Here, where you are trying to build relationships, and these are very tough relationships, they can be very close relationships on some of the most important issues of the day it takes a period of time. There's a former Assembly Member, from the South Bay, who when I first got in office my first year, he says, "John, if you're working on a bill," he goes, "I don't care how long it takes but don't let a bill loose until it's right, until you think it's right." He says, "You will have sufficient time to make sure it gets right." Now the problem with term limits is you don't have the relationships, often times people are trying to make a positive contribution, or some are trying to make a splash, and you might see a bill that's 53 percent good. But because they're not going to be there for sufficient duration that they believe often times a lot of people just let it pass. And that's not healthy for the system.

Ren Blight: Hi, I'm Ren Blight, I'm former Chair of the City of L.A.'s Industrial Development Authority. And I'm particularly concerned about part of the recovery zone, I mean the Recovery Act. They have recovery zone bonds, which I guess the State has gotten an allocation, the State is supposed to reallocate that out to the cities and counties, set up policies, procedure and all of that. And I wondered if you know how that's going and when we could expect that to, kind of, reach ground so we can get the money on the street?

John Chiang: I don't know that but if you give me your card, I'll have my staff research it for you.

Ren Blight: Great. Thank you.

John Chiang: Thank you.

Ren Blight: Sure.

Jim Hilfenhaus: Jim Hilfenhaus, Political Director for Labors Local 300. You talked about the closing of the transportation projects, we saw hundreds of members coming back through our halls. Are we going to expect that again with a bonding for the infrastructure or what is the order, as you stated, education, Wall Street? The bonds that are issued and the matching funds from the stimulus of the Obama administration, do you see that as being monkey wrenched in this process or are there elements there that would see to it that infrastructure, which will boost and stimulate the economy, is going to go forward or who has anybody's guess on that one?

John Chiang: I think that's a very open question. We will test the capacity this summer, a lot of it is highly dependent upon whether the Governor and Legislature come out with sound budget solutions that make sense to Wall Street. So after we take care of the short term funding issues, do they see sufficient progress being made with financial matters here in California where we can sell additional bonds at a cost that is not exorbitant? Now, here's some of the issues, second year out, after this year, we have tremendous challenges. That's why many of us have discouraged some discussion to use our borrowing as a budget solution. Right, we use the borrowing as a cash solution. Let's say we all make our individual budget and we have to pay our mortgage, we have to pay our credit card, and we say we're going to get \$50,000 from our job. Suddenly, we lose our job and we say, "Okay, I'm going to get a \$50,000 loan from a bank." That's not a good positive solution for a budget. You might need it for cash flow purposes, but you don't want to put it in your budget. What happens, because the second year out, and the second year out unless President Obama changed how the stimulus package works, we're not going to get that \$8 to \$10 billion contribution that we're using right now. And if we get other monies from borrowing this year, you don't want to use it as a budget solution, because what happens? Everybody with me? What happens? That second year out, let's say we borrow \$6 billion to fund Cal State L.A. Well the second year out, we still have to fund Cal State L.A. but then that turns into a \$12 billion issue because we've got to find the money for Cal State L.A. plus pay the \$6 billion back. So you've got to do it right the first year so you don't put Cal State L.A. or anybody in it's place in a far worse position.

Dr. Mary Anne Schultz: Thank you, I'm Dr. MaryAnn Shultz , nursing faculty and I'm a registered nurse and a registered voter. I would say to you, because our healthcare future is our future economically and every other way, what can be done, if anything, or what should be done about dropping, about the fact that Medicare reimbursement rates are dropping for providers? That's hospitals, physicians, nurses in advanced practice, who work complimentary in primary care with physicians and cuts to Medicaid recipients and having a deleterious effect on the State's health. And I say to you this-- and to anyone, it's not just the partisan in question, even though I am an R.N., a registered nurse and registered voter, but it is our future and it's the part of economic decline that's

not going to go away in California, the U.S. or throughout the world, that our healthcare recovery is our economic recovery.

John Chiang: It's a significant question with significant ramifications. I understand well how you are, my brother is an ophthalmologist down in Texas, a fraction, not a significant fraction, of his income comes from state reimbursements for services provided. In fact the transportation cost and the time cost for some of his services is greater than the reimbursement by the State. Now he feels blessed to have the opportunity to serve as a doctor so he will donate a portion of that as a public service. But at a certain point in time he's going to continue to reduce the amount of time he can provide to that because he is in fact, making a contribution to the system. That has long term implications because when you lose in the pool of people who will provide those services that is going to have an impact on the healthcare delivery for the State of California or for him, the State of Texas. And clearly we have to be very smart about winnowing the services for healthcare because often times you will drive people to more expensive healthcare. Right, so instead of providing preventative services, you are in fact forcing people to go to a county facility at perhaps five times, ten times, twenty times the cost if you had prevented the original illness. So we need to be very smart, part of this is a discussion of federal waivers for some of the services. There are dramatic cuts that are going to take place in the social services healthcare of the budget, which is 25 to 27 percent. If you look at it very closely some of those services are reimbursed two plus times by the Federal Government. So it's not only going to be the State's savings, it's going to be a loss of federal dollars that provide those services.

Dr. Mary Anne Schultz: Thank you very much.

John Chiang: You're welcome.

Scott Bowman: Hi, John. Scott Bowman, Department of Political Science here at Cal State L.A.. I was wondering how important to do you think is tax reform for getting us back on track, and specifically Prop 13, revisiting that issue?

John Chiang: Yeah. Did everybody hear the question? The question, how important do I think tax reform is here in California? I think it's absolutely critical. One of the tests that you might want to think about is, if we were designing a state and it's our financing mechanisms, California became a state in 1850, would this be the system that we have in place? I would argue not. Part of this is I understand trying to provide direct payments for the cost that are incurred but just for individuals and for small businesses, right, all the administrative fees and obligations they have I think are overwhelming. And so if we can reduce a lot of these institutions that people have to report to, I would like to see some

type of Government efficiency and effectiveness such that, right, because if you're a particular business you might be audited by 4 different agencies in state government. Somehow try to get all of these coordinated, say hey we're coming in over this month period of time, these are the documents that we need, so that instead of coming in maybe twice this year by two different agencies and twice the next year, we coordinate that to make the business have more time to focus and resources more focused on entrepreneurial capacity and making sure that their businesses thrive better. And then those are value choices, right, the income stream's very volatile, some people said we have to create more revenue stability, property taxes are more stable than other types of taxes, but that ought to be an important grand discussion among the California electorate.