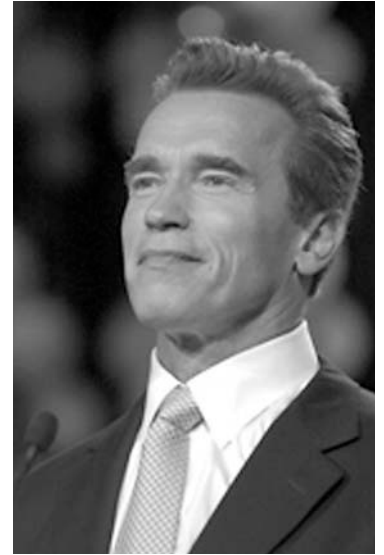




## GOVERNOR ARNOLD SCHWARZENEGGER

January 10, 2008



To the Senate and Assembly of the Legislature of California:

In accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor's Budget for 2008-2009.

Two challenges require our immediate attention as we begin 2008. First, we must close a shortfall of \$3.3 billion in the current fiscal year, which will grow to \$14.5 billion next year without swift and decisive action. And second, we must take steps to avoid a potential shortfall in the state's cash reserves this July and August, and potentially in March.

These problems are not the result of a fundamental crisis in California's economy. Indeed, we remain a diverse and dynamic economic powerhouse that will continue to grow and lead the world in innovation. These problems are the result of a budget system where there continues to be no linkage between revenues and spending. If we are to avoid these kinds of fiscal crises in the future, and if we truly want to bring fiscal health to this state for the long term, we must resolve to fundamentally fix the budget system this year – once and for all.

In order to close the gap, my budget proposes two actions.

First, I propose to reduce spending by implementing a 10-percent across-the-board reduction to nearly every General Fund program, and to have those reductions take effect on March 1<sup>st</sup>. While these reductions are unquestionably difficult and challenging, this across-the-board reduction approach is designed to protect essential services by spreading reductions as evenly as possible, so that no individual program is singled out for severe reductions. I am today proclaiming a fiscal emergency and calling for a special session of the Legislature to begin early implementation of these necessary budget reductions.

Second, I am using the authority given to me under Proposition 58 to suspend next year's pre-payments for the Economic Recovery Bonds and to sell the remaining bonds to rebuild this year's budget reserve.

In order to ensure long-term balance, I am proposing a Constitutional Amendment to reform the state budget process. The Budget Stabilization Act will prevent over-budgeting based on extraordinary revenue gains, and give the state the tools it needs to quickly reduce spending when necessary to avoid a deficit.

The challenges we face are substantial, and the decisions we face are difficult. But if we fail to address them swiftly, the problem will only get larger and the consequences even more severe. If we can work together, we can solve our immediate budget problems. But more importantly, we can finally give California a budget system that is fiscally responsible and avoids future budget deficits.

Sincerely,

Arnold Schwarzenegger

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