NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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Contact: Mitchel Benson
(916) 653-4052

TREASURER ANGELIDES PROPOSES CONTINGENCY PLAN FOR FISCAL STABILITY AND ACCELERATED DEFICIT RETIREMENT

SACRAMENTO, CA – State Treasurer Phil Angelides today unveiled a contingency plan for fiscal stability and accelerated deficit retirement, as a backup in the event that voters reject the $15 billion Economic Recovery Bonds (ERBs) and the courts invalidate or do not approve in a timely manner the $8.6 billion Fiscal Recovery Bonds (FRBs) approved as part of the State's current budget.

Overall, the State Treasurer's Contingency Plan would retire the accumulated $8.6 billion deficit (as of the end of the 2002-03 fiscal year), enable repayment of the $14 billion in short-term borrowing due in June, and provide for additional cash flow and budgetary needs.

"We must begin serious discussions now about a fair, balanced and credible contingency plan," Angelides said here at a morning news conference, "that will maintain our State's liquidity, move toward a structurally balanced budget and begin to restore our fiscal integrity as we rebuild our economy for the 21st Century. This is the fiscally prudent course to take."

As the State's chief investment officer, the Treasurer since last October has repeatedly urged the Governor to put forward a contingency plan to assure fiscal stability in the event that the ERBs and FRBs are not approved, respectively, by the voters or the courts.

Without a credible contingency plan in place, if the voters and courts do not approve the deficit bond proposals then, Angelides said, the State runs the risk of further credit downgrades and the potential loss of access to the financial markets.

"If we do not have an alternative," he said, "then the fiscal chaos that some have predicted could become a self-fulfilling prophecy. We need to be ready to do what is in the best interests of the State. We need a contingency plan in place today – even before we know the future of the ERBs and FRBs. Such a credible contingency plan already is overdue, and I am offering my best advice today."

California voters will soon consider the $15 billion ERBs, on the March 2 ballot. The $8.6 billion FRBs were enacted as part of the 2003-04 Budget Act, but are currently facing a legal challenge.

915 CAPITOL MALL, ROOM 110, SACRAMENTO, CA 95814 ● (916) 653-2995 ● FAX (916) 653-3125
www.treasurer.ca.gov

The Treasurer's Contingency Plan relies on two sources of revenue for a period of three years and a combination of internal and external short-term borrowing – all fully repaid within the next three fiscal years (FY 2004-05 through FY 2006-07).

The two sources of revenue are: 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 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.

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.

The Treasurer laid out the need for his Contingency Plan in a letter delivered earlier today to Governor Schwarzenegger, Controller Steve Westly and legislative leaders. "The state need not descend into fiscal chaos or face 'Armageddon,'" he wrote, "if there is such a [contingency] plan."

NOTE: Please visit the Treasurer's website, www.treasurer.ca.gov, for additional information on today's announcement, including: a summary of the Treasurer's Contingency Plan, fact sheets on the plan, charts the Treasurer made reference to during today's news conference, and a copy of the Treasurer's letter to Governor Schwarzenegger.

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