



**BILL LOCKYER**  
TREASURER  
STATE OF CALIFORNIA

June 28, 2011

Honorable Edmund G. Brown Jr., Governor  
Honorable Darrell Steinberg, President pro Tempore  
Honorable John Pérez, Speaker of the Assembly  
State of California  
State Capitol  
Sacramento, CA 95814

Dear Governor Brown, President pro Tempore Steinberg and Speaker Pérez:

Along with the Department of Finance and the State Controller's Office, my office has reviewed your June 27, 2011 agreement on the 2011-12 State Budget as well as the preliminary cash flow statements.

This budget is "financeable."

The plan eliminates significant litigation risk which accompanied some previous proposals, and includes a strong contingency plan in the event of revenue shortfalls. I am confident the plan provides sufficient assurance that the State can repay its normal summer cash flow borrowing by the end of the budget year.

Our analysis indicates the plan reduces the need for external cash flow borrowing by as much as \$2 billion, saving significant borrowing costs. Perhaps more significantly, this budget, for the first time in recent years, honestly and clearly balances revenues and spending. Additionally, combined with the very significant budget solutions adopted by the Legislature and the Governor earlier this year, the budget makes substantial progress toward eliminating California's large and chronic structural deficit. Rating agencies repeatedly have cited the lack of such progress in prior budgets as one of the major reasons for previous rating downgrades. These downgrades have increased taxpayers' borrowing costs and diminished California's reputation.

Many Californians will now confront hardships as a result of the very large cuts in vital services. I know these decisions were extremely difficult for you to make.

Nevertheless, today's budget plan represents a necessary and very important step forward in restoring California state government to fiscal good health. I believe the financial community will recognize your accomplishment.

Honorable Edmund G. Brown Jr.  
Honorable Darrell Steinberg  
Honorable John Pérez  
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Thanks to you and to your staff for the effort and skill it took to craft this new agreement. Please feel free to call on me if I can provide additional information or answer further questions.

Sincerely,



BILL LOCKYER  
California State Treasurer

cc: Honorable Bob Dutton, Senate Minority Leader  
Honorable Connie Conway, Assembly Minority Leader