

Earlier this week, Governor Schwarzenegger and legislative leaders passed their self-imposed January deadline to reach a deal on the state's current \$42 billion budget shortfall. While budget negotiations are ongoing, the state's dismal cash flow situation requires the government to begin delaying payments to vendors and issuing IOUs.

As a result, State Controller John Chiang announced that, beginning February 1, only payments that are required by (1) the State Constitution, (2) federal law, or (3) court rulings will be made. He will begin delaying, for 30 days, payments to all other programs that are funded out of the state's depleted General Fund. The protected payments include those to education, debt service and payroll. Those payments at risk include tax refund checks and payments to state vendors.

Perhaps the highest-profile IOUs will be those that arrive instead of tax refund checks that otherwise would have been sent to millions of individuals and businesses. The 30 day delay in tax refund payments will cause significant financial harm to California families and businesses and will have the negative impact of delaying any economic stimulus that might come from consumers spending their refund checks. Additionally, postponing the payment of tax refunds may also cost the state tens of millions of dollars in interest payments.

If the Governor and Legislature fail to provide a budget solution by late February, the Controller said he will be forced to postpone payments for another 30 days. Governor Schwarzenegger and the Legislature's bipartisan leaders are negotiating a budget plan that is expected to contain a mix of spending cuts, tax increases and reliance on receipt of federal bailout money.

Below are links to detailed information regarding which legally protected payments will continue to be paid and which payments will be delayed.

Payments to be made in February 2009 may be viewed here:
<http://www.sco.ca.gov/eo/fiscalissues/payments01-2009b.shtml#paymentmenu>.
Payments to be delayed for 30 days may be viewed here:
<http://www.sco.ca.gov/eo/fiscalissues/payments01-2009c.shtml#paymentmenu>.

FOR ADDITIONAL INFORMATION ON THIS ISSUE, CONTACT:



Thomas R. McMorrow is the Partner in charge of the Sacramento office. He is called upon most frequently to provide strategic thinking and effective advocacy in solving complex legislative and governance problems discreetly for clients. Mr. McMorrow is honored to have been named by his peers as one of the five most effective private sector lawyers practicing before the California State Government.

McKay S. Carney practices in the Government and Regulatory group where she provides legislative advocacy support to senior lobbyists in the Sacramento Office. Additionally, she is responsible for identifying key legislation of impact for a broad range of clients and issues. She regularly advises clients regarding the California business climate and political issues.

[back to top](#)

* * *

Manatt's Office Contacts

Randall W. Keen
310.312.4361

George David Kieffer
310.312.4146

Fred L. Main
916.552.2360

Phyllis A. Marshall
916.552.2350

Michael R. O. Martinez
916.552.2325

Thomas R. McMorrow
916.552.2310

Peter K. Shack
916.552.2317

McKay Carney
916.552.2335

Ronald B. Turovsky
310.312.4249

PLEASE NOTE: This newsletter is not meant to express any legal opinion or advice. You should consult an attorney for legal advice. COPYRIGHT 2009 by Manatt, Phelps & Phillips, LLP. All rights reserved. Manatt, Phelps & Phillips, LLP, 1215 K Street, Suite 1900 Sacramento, CA 95814. Phone: (916) 552.2300; Fax: (916) 552.2323; website: www.manatt.com.

Please send comments and suggestions to Thomas McMorrow.

To subscribe to the Legislative Updates newsletter, [click here](#). To unsubscribe, [click here](#).

Legislative Updates Editor:

Thomas McMorrow

Albany | Los Angeles | New York | Orange County | Palo Alto | Sacramento | Washington, D.C.

www.manatt.com