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THE STATE

## State May Be Broke by June, Connell Says

**Finance: The controller fears there will be no money to pay bills and foresees a need to borrow up to \$8 billion next fiscal year. A Davis aide scoffs at warning.**

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SACRAMENTO -- SACRAMENTO -- Controller Kathleen Connell, who must track California's cash flow, warned Tuesday that the state will end the fiscal year with virtually no money to pay its bills, and may have to borrow as much as \$8 billion next year.

Even under Davis' more optimistic view, Connell said, the state could be forced to borrow \$2 billion in the new fiscal year that begins July 1.

Connell said she expects that the state can borrow using a revenue anticipation note, a type of short-term loan that is repaid during the same year it is issued. "The governor will not be in disagreement that we will need to do a borrowing," Connell said, adding that she believes the state will probably need to borrow \$5 billion. "It is a question of how much and when."

Connell is a Democrat, as is Davis. But she has been among the governor's most persistent critics.

Davis spokesman Steve Maviglio dismissed her comments: "Kathleen Connell has proved herself wrong in projecting just about everything about the state's financial situation. We expect this pattern to continue."

The controller, whose job entails writing checks to cover state expenses, said the

budget that Davis proposed this month overestimates the amount of tax money flowing to Sacramento by about \$1.4 billion, and underestimates an array of costs, including those for public schools.

She says the state will need to spend \$935 million more than Davis estimates to fully cover costs of rising enrollment.

"This is a multiyear problem," Connell said. "This problem does not go away in the beginning of July 2003. In fact, we think the cash situation in July 2003 may be more precarious than it is at the beginning of this fiscal year."

Adding to her downbeat view of the governor's budget, Connell predicted that the state won't receive the bulk of the \$1.1 billion that Davis assumes he will get from the federal government for health care and to help cover costs related to terrorism. The governor is counting on receiving at least 75% of the request.

Connell said she based her assumptions on a combination of her own calculations and those of the state's legislative analyst and the Department of Finance.

"We will end the fiscal year with virtually almost nothing in the bank," Connell said, adding that with a budget of \$100 billion, the state should have at least \$2.5 billion in the bank at all times. "Unless we do a financing, we do not have adequate cash to run the state of California, and in fact we dip into a deficit situation come next March [2003]."

Connell said the state must sell energy bonds no later than December to cover the \$6.5 billion it spent purchasing electricity last year.

If the state cannot sell the bonds, it will have to use revenue anticipation warrants, which are paid off the following year, and could run the cost of borrowing as high as \$8 billion, she said. The state has not issued a revenue warrant since the recession of the 1990s.

"It would be like you asking for extension on your credit card payment," Connell said, describing such an action a "black mark."

Rating agencies downgraded California's credit rating during the energy crisis last year. State officials will meet with executives of rating agencies this week in an effort to assuage concerns about the state's credit-worthiness.

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