

# State officials halt funds for public works projects

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Deep in debt, state officials took the extraordinary step Wednesday of halting funds for thousands of public work projects statewide, including roads, levees, schools and prisons.

State Treasurer Bill Lockyer, who voted his approval, called the action regrettable but necessary to preserve cash as the state general fund tumbles toward insolvency.

"You can't spend money that you don't have," Lockyer said.

He and other members of the Pooled Money Investment Board lamented that until the state finds a long-term solution to its financial crisis, it will not be able to go to the bond markets to raise money to fix roads, bolster levees and rehab schools.

"I don't see anything to suggest we have an alternative, really," Mike Genest, the governor's finance director, said before voting with Lockyer and state Controller John Chiang to shut down funding.

The investment board decision is a dramatic reversal from the heady days two years ago when California voters approved tens of billions of dollars in infrastructure bonds, and state officials were predicting a renaissance in public works projects.

Now, amid a drastic economic downturn, lawmakers are struggling to close a ballooning \$40 billion budget deficit projected between now and June 30, 2010.

Gov. Arnold Schwarzenegger blamed the Legislature.

"It's very sad that they have to pull the plug on the infrastructure bonds because I think that the whole idea of campaigning for two years to make the people vote for \$42 billion in infrastructure bonds and all of a sudden we cannot sell the bonds," Schwarzenegger said.

"So now, we're going to lose probably 200-some thousand jobs and a lot of money, and those jobs will come to a grinding halt now. So it's terrible the kind of pain the Legislature's causing to the people of California."

Without action that cuts expenses or raises revenue, the state could run out of cash as early as February, finance officials said.

That cash flow predicament has left the state unable to sell bonds to finance projects since June.

A Democratic \$18 billion budget proposal Wednesday "begins to take the steps to address the shortfall," administration finance official H.D. Palmer said, but it falls short of resolving systemic budget problems.

The state investment board will meet again in January, Lockyer said, to assess "the damage" from Wednesday's funding cut decision.

State finance officials admitted they are still trying to put together a full accounting of projects that may be affected by the funding shutdown.

Reports from around the state indicate 2,000 projects may be slowed or stalled, amounting to \$16 billion in infrastructure improvements.

Some are in the planning stages, but others, such as the Highway 65 bypass route skirting the city of Lincoln in Placer County, already are under construction and could face stoppage.

Celia McAdam, head of the Placer County Transportation Planning Agency, said she is scrambling to find other funds, including expected federal economic stimulus money, and has her fingers crossed the state will help keep her project on track.

"We are committed to keep the project moving," McAdam said. "Caltrans does not want to see projects stopped, either. If I can come up with a strategy, I have confidence they will help take us through to the finish line."

Lockyer and other members of the Pooled Money Investment Board predicted that unless the state balances its budget, the funding shut-off will further harm the economy and expose the state to lawsuits.

"The likelihood of contract breaches is probably 98 percent," Lockyer said.

Potentially affected projects around Sacramento include rehabilitation work on Sacramento High School, emergency repairs at Walnut Grove Elementary School, emergency center improvements at the UC Davis Medical Center, and carpool lanes on Interstate 80 and Highway 50.

Also at financial risk is a new levee on the lower Feather River in Yuba County and a planned bolstering of Folsom Dam for flood protection.

Assemblyman Dan Logue, R-Linda, said the suspension of state funding for the Feather River levee project, already under construction, would put 40,000 people at risk in an area that has flooded twice in the past 25 years.

In recent years, the county has permitted about 6,000 homes to be built alongside the levee in the Plumas Lake development. Logue said the county has sold \$45 million in bonds to meet its matching requirement for the levee project and is depending on the state to fulfill its end of the bargain.

"This (could) put tens of thousands of people's lives at risk, and I believe the state will be liable if there is any damage," Logue said. "The state is responsible for those levees in the first place."

Despite the potential impact on his county, Logue said he is not prepared to vote for a state budget that raises taxes.

"Businesses are leaving the state," he said. "There's going to be nobody left behind to create wealth, to pay for services."

The funding shutdown also drew dire warnings from construction industry leaders.

"We are headed down a precipice now that in my mind makes the auto industry problem look pretty small," warned Jim Earp of the California Alliance for Jobs.

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