



NEWS RELEASE

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Treasurer Lockyer Comments on Funding Cutoff for Infrastructure, Stresses Harm to Businesses and Workers *Failure to Resolve Budget Crisis Harms Economic Recovery Efforts*

SACRAMENTO – State Treasurer Bill Lockyer issued the following statement on today’s decision by the Pooled Money Investment Board (PMIB) to shut down \$3.8 billion in financing for infrastructure projects that provide businesses billions of dollars and workers tens of thousands of jobs:

“Today’s action was extremely regrettable, but the responsible and right thing to do. We had no other option to keep crucial public services operating as long as possible. But it’s now official – the failure to solve our budget problem has put in grave danger billions of dollars in revenue for our businesses and thousands of jobs on which our workers and families depend.

“California’s fiscal house is burning down. The people still wait for their elected leaders to pull them out of the fire, stop the blaze, and rebuild the house on a solid, lasting foundation. Until that happens, the infrastructure work so vital to getting our economy back on track will lay crippled.”

The PMIB’s action affects a wide range of known projects that number more than 1,985 and have a combined value of \$16.2 billion. The projects include highways, schools, levees, housing, hospitals, fire stations, veterans homes, courts, parks, environmental restoration, pollution cleanup, prison construction and others. Work on affected projects could be delayed or halted by the funding cutoff.

The PMIB manages the State's Pooled Money Investment Account (PMIA). The PMIA provides loans both to bond-funded infrastructure projects and to the State general fund to help meet cash flow needs. The growing budget problem has put the State in a precarious cash-flow position and placed unprecedented demand on the PMIA to loan the general fund money to support crucial public services. Stopping the flow of funds to infrastructure projects provides the PMIA more resources to keep schools, public safety, health care and other priority services operating.

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Normally, the money the PMIA lends to infrastructure projects gets replenished when the State sells bonds. Unfortunately, the credit crunch and State budget woes have combined to close the bond market to California. Lockyer has determined the State will not be able to sell bonds until the Legislature and Governor forge a budget solution. With the State unable to sell bonds, continued lending for infrastructure projects would substantially reduce the resources available to the PMIA to keep the State afloat.

The PMIB's action will, through June 2009: stop new infrastructure loans; bar increases to existing loans; and generally prohibit agencies from spending any more funds under existing loans. Staff estimates the actions would make available to the PMIA \$3.8 billion to pay for services supported by the general fund.

As a practical matter, the development shuts down infrastructure funding from the PMIA until a budget solution is enacted and the State can sell bonds again. Exceptions may be made for specific projects if the PMIB determines a financing cutoff would expose the State to unacceptable financial penalties, or prevent the State from paying required loan interest or administrative costs. The PMIB will hold a special meeting in early January to make those determinations.

The three-member PMIB is comprised of the State Treasurer, State Controller and State Director of Finance. The State Treasurer chairs the panel.

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