FOR IMMEDIATE RELEASE
January 16, 2009
Contact: Tom Dresslar/916.653.2995

Treasurer Lockyer Comments on Board's Decision to Partially Thaw California Infrastructure Financing Freeze

Cash Crisis Forced Funding Halt Affecting 5,600 Projects

SACRAMENTO – State Treasurer Bill Lockyer issued the following statement on today's decision by the Pooled Money Investment Board (PMIB) to partially ease a financing freeze that affects infrastructure projects throughout California.

"The Board's action, while positive, provides little comfort for businesses, workers and nonprofits. They remain innocent victims of the cash crisis that forced the freeze. They watch helplessly as they lose billions of dollars in revenues and tens of thousands of jobs. And the people of California, who desperately need their economy to recover, instead see it choked as the stimulus provided by infrastructure projects vanishes.

"If the State can get back in the bond-selling business, we may be able to get more of the frozen infrastructure dollars flowing again. The bond market is showing signs it may allow California access, despite the State's worsening cash crisis and its $41 billion budget shortfall. My office is actively exploring options for issuing bonds soon. We're also exploring other possible arrangements that could help pump more money into projects.

"But there are no guarantees these efforts will succeed. And even if they do, they won't return our infrastructure program to its full capacity to generate jobs and economic prosperity. That won't happen until the Legislature and Governor adopt a budget that keeps California out of the poorhouse and puts the State on solid fiscal footing."

Forced by the State cash crisis, the PMIB last December 17 froze financing for bond-funded infrastructure projects from the Pooled Money Investment Account (PMIA). The action affected $3.8 billion in funding for about 5,600 projects across California. Roughly 5,300 of those projects have been halted or delayed, according to the State Department of Finance (DOF).

In today's action, the PMIB eased the freeze by approving the expenditure of $650 million on infrastructure projects through June 30. That's the maximum the State can afford until its fiscal situation improves.

(MORE)

The DOF will decide how to allocate the $650 million, based on its determination of which expenditures have the highest priority and best serve the State's interests. The DOF will report on how it distributes the funds at the PMIB's next meeting, which will be held in early February.

BACKGROUND

The PMIB manages the 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 operating higher-priority programs such as schools.

Normally, the money the PMIA lends to infrastructure projects gets replenished when the State sells bonds. Unfortunately, the nationwide credit crunch and State budget woes have combined to close the bond market to California. With the State unable to sell bonds, continued lending for infrastructure projects would substantially reduce the resources available to the PMIA to meet the State's legally-required payments through June.

That's why the PMIB last Dec. 17: stopped new infrastructure loans; barred increases to existing loans; and generally prohibited agencies from spending any more funds under existing loans.

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

NEW CIRCUMSTANCES

While the State's cash and budget problems have deepened since December, the bond market has strengthened. A steady decline in interest rates over the past month points to a surplus of investor demand, compared to supply. Mutual funds – key buyers of the State's bonds – appear better positioned to invest. The State last week completed a $350 million revenue bond transaction. And investment banks have advised Lockyer's office that, given current market conditions, the State may be able to sell a limited amount of bonds. How long these favorable market forces will exist, however, is imposible to predict.

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