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State running out of cash for work projects

By Steve Wiegand and Jim Sanders
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SACRAMENTO — California state coffers are so dangerously short of cash that \$5 billion in public works projects will grind to a halt within two weeks unless there is a fast solution to the budget crisis, state Treasurer Bill Lockyer warned legislators Monday.

Thousands of layoffs could result from delaying construction of projects ranging from school construction to highway improvements, Lockyer said in a rare joint session of the Senate and Assembly to discuss the fiscal crisis.

"Our ability to give our struggling economy a much-needed shot in the arm will be lost," Lockyer said.

Lockyer and other top state officials warned that the state's projected \$27.8 billion revenue shortfall over two years will worsen quickly without timely passage of a balanced, no-gimmicks budget.

Tossing around words like "dire" and "catastrophic," fiscal officials described a spiraling fiscal downfall that threatens to prevent the sale of billions in bonds and leave the state too cash-strapped by March to pay all its bills.

"None of us can be in denial now," Assembly Speaker Karen Bass said after the two-hour session. "We can't deny the severity of this crisis."

Republicans and Democrats remained deeply split, however, over a solution.

GOP lawmakers have rejected efforts

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Budget: GOP, Democrats can't agree

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by Gov. Arnold Schwarzenegger and Democrats to bridge roughly half the budget gap by raising taxes and the remainder by cutting billions in programs.

Republicans adamantly oppose tax increases, and they are pushing for a state spending cap, labor concessions and relaxation of environmental regulations that Democrats consistently have opposed.

"There's no doubt that they have painted a bleak picture, and I think it is a bleak picture," Assembly Republican leader Mike Villines said of Monday's session. "But nobody's in there defending the taxpayer."

Lockyer's warning that billions of construction projects could be halted was the latest blow for a state struggling with rising unemployment and falling revenues.

Projects potentially affected range from synchronizing traffic lights along Folsom Boulevard to building classrooms in San Diego. The cutoff of funds would halt not only projects in the planning stages, Lockyer said, but those that already had broken ground.

The treasurer was one of a quartet of state financial officials Monday who laid out an apocalyptic vision of California's future.

Legislative Analyst Mac Tay-

lor said that trying to close the gap through budget cuts alone would mean slicing the equivalent of all state spending on state colleges and universities and all social service programs, from welfare to aid to the developmentally disabled.

Mike Genest, Schwarzenegger's director of finance, said that gloomy projections of the future gap between revenues and spending are getting darker by the day.

State Controller John Chiang said the state could be forced by March to issue the equivalent of IOUs for only the second time since the Great Depression.

All four urged the Legislature to act quickly.

"Make no mistake," Chiang said. "A delay in acting would be catastrophic."

But Democrats cannot pass a budget without at least three GOP votes in each legislative house.

Asked what was accomplished by the joint session, Senate Republican leader Dave Cogdill said "not a lot in my opinion."

"We certainly understand the urgency," Cogdill said. "We just think we have to find a way to do it without raising taxes."

Assembly Member Joel Anderson, R-Alpine, said that if Monday's session was designed to scare Republicans straight or force concessions, it didn't work.

"We're hoping that it scared the other side straight," he said.

While Republicans have argued that raising taxes will hurt jobs and businesses, Senate President Pro Tem Darrell Steinberg said Monday's fiscal briefing made it clear that failure to raise revenue also will hurt the private sector by hampering bonds, jobs and billions in construction projects.

"We need to cut, we need to raise revenue, and we need to get those bonds out," Steinberg said. "We need to create new jobs, not lose jobs."

Monday's presentation spelled out both the enormity and complexity of the situation.

As Lockyer explained, local and state public works projects are financed from the state's Pooled Money Investment Account, which is composed mainly of the state's general operating fund, special state funds and money deposited by cities and counties. When building projects are proposed, the sponsoring entity borrows money from the fund (about \$660 million worth each month), and the fund is repaid when Lockyer's office sells bonds.

Lockyer said the crisis threatens \$5 billion worth of projects in the current fiscal year and \$8 billion worth in the fiscal year that starts July 1, and would cost the state as many as 200,000 jobs.