

CALIFORNIA STATE LIBRARY BOND ADMINISTRATION OFFICE

January 29, 2009

This letter is intended to update you on the suspension of reimbursements to Bond Act 2000 library construction projects resulting from the State's cash shortage. On December 22, 2008, we sent an email to currently active projects regarding the status of reimbursement funds stating all state departments were notified of a freeze on interim loans from the Pooled Money Investment Account (PMIA) by the Pooled Money Investment Board (PMIB) for all disbursements not authorized or submitted to the Controller for payment before December 17, 2008. We were in the process of borrowing funds to replenish the account from which the Bond Act 2000 projects are paid in November 2008 when this current cash shortage impacted the ability of the PMIB to grant new loans. As a result of that situation, we have not been able to process payments since that time.

The Department of Finance issued Budget Letter (BL) 08-33 in response to the PMIB's action. BL 08-33 instructs state agencies and departments to:

- (1) Immediately cease authorizing any new grants or obligations for bond projects, including new phases for existing projects;
- (2) Suspend all projects, excluding those for which DOF authorizes an exemption, unless the contracting entity can continue with non-state funding sources (private, local or federal funds); and
- (3) Notify all grant or loan recipients not to enter into any new construction or other agreements that would be funded from "AB55 loans". ("AB55 loans" are temporary loans made to departments and agencies from the PMIA that are reimbursed by the sale of General Obligation (GO) bonds.)

At this time all projects which are currently under construction or just beginning, have continued to proceed. As you all know since this is a reimbursement program your projects are funded locally first and then reimbursed by the State. The projects have continued under the item two provision from above.

The PMIB met again on Friday, January 16, 2009. The meeting agenda, a complete transcript of those proceedings and a staff report on the specific issue of the freeze may be found at <http://www.treasurer.ca.gov/pmia-laif/PMIPmeetings.asp>.

The Board is facing an extremely difficult situation as a result of both the lack of action on the State's budget crisis and a weak bond market. In addition, the PMIA fund is currently insufficient to cover all outstanding obligations.

The Board made the decision to utilize existing funds for the following purposes:

- 1) Administrative Costs incurred by the State for bond programs (this is critical because of its impact on the State's already diminished General Fund balance); and
- 2) Unpaid bills under state contracts for work performed (this includes hundreds of millions of dollars in roadwork, school building, and other large scale capital improvement projects undertaken by the state).

The Department of Finance then issued BL 09-03 which, among other things, indicates that the suspension of funding "will remain in effect until such time as they can be reevaluated in light of additional information regarding the condition of the PMIA ..."

Until there is a state budget that adequately addresses the current deficit and the private sector bond markets respond in a positive manner, any payments to current projects to reimburse grantees for work performed or for the closure of projects which have been completed can not be made. At the current time the PMIB will not make any commitment as to when funds will be available for grant programs.

Current projects should seriously evaluate the need to have non-state resources that can be used for the next six to nine months, if not longer, since reimbursements could possibly take that long to reach local jurisdictions. Projects cannot rely on the availability of State bond funds for cash flow needs to proceed with their projects. All grantees are advised not enter into any new project obligations unless non-state funds will be used and the delay of reimbursement is accounted for accordingly.

The State Library will continue to track information from the PMIB. We will make every effort to secure funding through the PMIA at the earliest available opportunity. Please continue to submit your reimbursement claims. This will allow us to make the most accurate loan request to the PMIB when funds are once again made available.

Should you or any member of your jurisdiction need any further information, please feel free to contact me.

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