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## Stimulus gives, budget cuts take from capital area

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Tens of billions of dollars are cascading into California from the federal stimulus package, but the economic oomph is being weakened by massive cutbacks in state spending.

The financial crosscurrents show up in places like downtown Sacramento's old railyard, now undergoing a huge facelift. Stimulus money from Washington, D.C., will help move the train tracks, a key element of the plan. Separately, though, the slashing of redevelopment funding by the Legislature might derail a housing project at the site.

This push-pull effect will play out in education, transportation and other sectors. Economists say the likely result will be prolonged pain and a weaker recovery despite the \$85 billion coming to California from the stimulus program over the next two years or so. Unemployment stands at 11.6 percent in Sacramento and statewide, and is forecast to exceed 13 percent next year.

The state budget "absolutely ... will blunt the impact of the stimulus," said Chris Thornberg, head of Beacon Economics consulting in Los Angeles.

Thornberg and others say the budget agreement that passed Friday, which will cut billions in spending on transportation, social services and other programs, is only part of the equation. A proper accounting of the drag on California also must include the February budget agreement, which carved nearly \$30 billion out of the economy, and fresh spending cuts sure to come when tax revenue continues to lag next year.

Sacramentans might feel it the most because of the area's heavy concentration of state workers. Gov. Arnold Schwarzenegger backed away from his proposal for 5 percent pay cuts, but the unpaid furloughs he imposed in February remain in effect, and a third monthly furlough day was added earlier this month. They translate into a 14 percent pay cut for state employees, which will cost the region \$500 million to \$600 million over the next 12 months, according a Bee analysis. State workers make up almost 10 percent of the region's work force.

The new state budget, designed to erase a \$26 billion deficit, will take a lot of money out of circulation, including \$9 billion from education and \$1.7 billion from local redevelopment budgets. A total of \$15 billion in spending will disappear, with the rest of the deficit being whittled by borrowing, asset sales and deferral of expenditures.

The vanishing redevelopment money is a vivid example of the economic effect.

Sacramento will lose \$26 million, a "very significant hit," said Lisa Bates, deputy executive

director of the Sacramento Housing and Redevelopment Agency. That represents about one-third of the agency's annual income from tax-increment bond financing, she said.

While the full implications aren't yet clear, Bates said the loss of dollars could interfere with a proposal to start building homes next year at the downtown Sacramento railyard, an early component of a 20-year redevelopment just getting under way.

She and Leslie Fritzsche, the city's downtown development director, said the railyard housing proposal depends in part on a complicated web of financing from various sources, and the state's move could bog things down. The railyard project calls for an "urban village" of shops and more than 10,000 homes, to be built with hundreds of millions of public and private dollars.

Beyond the railyard, the funding loss jeopardizes the region's "ability to keep some rudiments of a redevelopment program going," Fritzsche said. "It really pulls the rug out from that momentum."

Local agencies like SHRA still are in line for plenty of cash from the federal stimulus plan. SHRA will get about \$14 million for public housing, homelessness-prevention programs and more, according to figures compiled by Rep. Doris Matsui's office.

Sacramento Regional Transit is another agency getting ping-ponged by the state and federal governments. It's receiving \$22 million in stimulus money to refurbish some second-hand light-rail cars purchased from San Jose, and to perform regular maintenance. Yet the agency, which has seen its state funding dwindle in successive rounds of budget-cutting, has had to scale back operations in recent months. Last week, the agency said it might cut off light-rail service at 9 p.m. instead of midnight.

A similar dynamic is taking place in education. The state is removing billions from higher education "at exactly the time people are unemployed and it's a good time to go back (to school) and get skills," said Stephen Levy, head of Palo Alto's Center for Continuing Study of the California Economy.

While higher education is getting cut, hundreds of millions in federal money is coming to help unemployed Californians with their careers. The Sacramento Employment and Training Agency will get about \$18 million for job training, Head Start and a summer jobs program for young people.

"If we didn't have this money pumped into our agency, we wouldn't be able to put 1,000-plus youth to work and pay their wages for the summer," said SETA spokeswoman Terri Carpenter.

That's just a sliver of the stimulus pie. For Californians, the stimulus plan means about \$30 billion in lower taxes and at least \$2 billion worth of additional Social Security, disability and unemployment benefits. Some \$4.7 billion will be spent on transportation projects and \$3 billion on energy.

In the four-county Sacramento region, the tax cuts alone will bring about \$1.7 billion into the economy, according to a Bee analysis.

But economists say the impact of the stimulus must be weighed against the cumulative effect of state budget deals past, present and future.

In February, the Legislature approved a plan to cut spending and raise taxes by a combined \$27 billion over two years.

What's more, experts say it's extremely likely that the Legislature will be wrestling with more deficits next year.

"It's going to be a weak recovery," Thornberg said. "We're going to be right back to a \$20, \$25 billion deficit next year."

Levy agreed that more budget pain is a near certainty next year.

"Our income is down, our tax (revenues) are down," he said. "Our public spending is down and going to stay down for a while."

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