

## **Schwarzenegger plans to cut state worker pay to cope with late budget**

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Gov. Arnold Schwarzenegger plans to sign an executive order next week that will temporarily reduce pay for more than 200,000 state workers to the federal minimum wage of \$6.55 per hour to preserve cash in the midst of a month-long budget standoff, according to a draft copy of the order obtained by The Bee.

Administration officials said the governor expects to take the action Monday.

"The administration is looking into many different options to preserve cash to ensure we have enough to cover our costs," Schwarzenegger communications director Matt David said.

The Republican governor, in the executive order, argues that the late state budget means there is "a real and substantial risk" that the state will not have enough cash to pay its bills.

He says that his action complies with a 2003 ruling by the California Supreme Court that made clear that without a state budget in place, federal labor laws require the state to pay most workers "either federal minimum wage or, for those employees that work overtime, their full salaries." The order would require state agencies to stop authorizing overtime for most employees.

The governor also plans to issue a hard hiring freeze except for state jobs "directly related to the preservation and protection of human life and safety." He also will suspend work for all retired annuitants, permanent intermittent employees, seasonal employees, temporary help workers, student assistants and some contractors.

The order, which would take effect for the August pay period, envisions that state workers would be paid their full back salaries once a budget is signed.

Court decisions over the years have given the state authority to pay many bills, including employee salaries, despite the lack of a budget.

This move by the administration is an effort to preserve money in case the budget debate drags on through September, when internal cash reserves are expected to run dry and the state would be forced into the distressed and expensive private credit market.

It also is likely to have a serious political effect on lawmakers, who will feel the heat from public employee unions.

Lawmakers have yet to vote on the budget, now 23 days late, that has a \$15.2 billion deficit in the \$101 billion general fund. The entire budget, including bonds and special funds, is \$144 billion. Both houses of the Legislature adjourned until Aug. 4, but today, the Senate summoned its members for a vote next Tuesday.

Under former Gov. Pete Wilson, the state in 1992 paid 93,000 workers with IOUs when it ran out of cash, a practice later deemed illegal by a federal judge.

That year, the budget impasse lasted a then-record 64 days, as California was deep in a recession and Democrats and Republicans fought over spending cuts and taxes.

The IOUs became an embarrassing milestone for California budget-making, as it marked the first time since the Great Depression that the state paid bills in scrip.

Banks initially cashed the IOUs for employees when the state began issuing them that summer. But as the budget stalemate grew longer, some banks refused to accept them, sparking legal action against the state from public employees.

In 1995, U.S. District Judge Garland E. Burrell Jr. found that the IOUs, or registered warrants, were not "cash or its equivalent" and did not constitute a prompt payment in violation of the federal Fair Labor Standards Act. The state reached a settlement in 1996 in which it granted state workers as many as seven additional days of paid leave.

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