California budget imposes massive spending cuts

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On August 2, California Governor Gray Davis, a Democrat, signed a budget that allowed the state government to continue functioning by combining draconian cuts in social spending with massive borrowing. The measure, meant to assuage Wall Street concerns about California's fiscal stability, resolves none of the issues underlying the budget crisis.

The budget passed eight days after the Wall Street credit agency Standard & Poor's downgraded California's bond rating from A to BBB, just two ratings above speculative "junk bond" status. The downgrading of California's credit makes it more difficult for the state government to raise money and increases the interest rate it must pay on debts, even as it faces a $38 billion budget deficit. Standard & Poor's explained that it feared the referendum vote on recalling Davis, set for October 7, would distract attention from the state's budget crisis.

Standard & Poor's downgrade apparently persuaded minority Republicans in the California Senate and Assembly to drop their months-long opposition to elements of the proposed budget package, including a tax increase in the regressive form of vehicle registration fees. In the final budget package, the total impact of the fee hike was cut back to $4 billion from the Democratic proposal of $8 billion.

The Republicans also dropped many demands for more draconian social cuts than those proposed by the Democrats. Since the California constitution requires a two-thirds majority for budget votes, minority Republican legislators had been able to hold up the budget's passage since the spring.

Gray and the Democrats, for their part, agreed to cuts considerably more drastic than those proposed in a budget plan submitted by Davis last May. The agreed-upon budget contains deep attacks in every significant area of social spending, with education, health care, public workers' salaries, and social services hit particularly hard. The general fund, which finances public schools, prisons, and various other government operations, was reduced by 10 percent, to $70 billion.

Primary and secondary education (K-12) will lose roughly $2 billion. Per-pupil funding will drop $180, from $7,067 to $6,887. Further cuts target summer school funding, textbooks, maintenance and technology. A $600 million increase in K-12 funding, designed to keep spending in line with inflation, is cancelled.

Although it is not clear exactly how many teachers will be laid off, current estimates are at least 3,000 statewide. The California Legislative Analyst's Office calculated that the budget would save a further $350 million by restricting eligibility and reducing reimbursement rates for child care.

Higher education also suffers major cuts. The two main public university systems will lose roughly $500 million in direct state funding—a loss of $293 million for the University of California (UC) and $204 million for California State University (CSU). UC and CSU are also losing massive amounts from their outreach budgets—$37.7 million or 51 percent for UC and $12.6 million or 19 percent for CSU. The *Los Angeles Times* calculated that once all cuts were taken into account, the actual funding cut for UC would be roughly $410 million, not the quoted figure of $293 million.

The universities are to recover some of their funding by imposing tuition increases of over 30 percent on their students. However, even with the tuition increases, universities will be forced to turn away applicants previously considered qualified.

Brad Hayward, UC spokesman, said that "several thousand" qualified applicants would be turned away from UC. Ernst Griffin, a CSU enrollment official, said that 10,000 qualified applicants had been turned away from CSU San Diego, and that this number would grow significantly for the 2004-2005 school year.

Community colleges, the entrance point to higher education for many working-class youth, will suffer cuts of over $80 million, after taking into account a tuition increase from $11 to $18 per unit. The budget defers $200 million in payments for the 2003-2004 school year to 2004-2005, and eliminates over $86 million in funding. School officials worry that they will face further cuts arising from mid-year budget negotiations in January, 2004.

Health spending also faces major cuts. MediCal, the state health care provider, will reduce payments to doctors and pharmacists by 5 percent. The system will slash dental and hearing aid benefits, and stipulate that families of children with developmental disabilities begin paying for state insurance. These initial cuts are only the tip of the iceberg, as the budget projects a $930 million cut in 2004-5 spending.

The budget also provides what is, in effect, a $194 million cut

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by requiring MediCal recipients to fill out eligibility forms twice a year instead of once a year, "ensuring that county eligibility workers conduct eligibility redeterminations in a more timely manner." As the *Los Angeles Times* blandly commented, "[M]any are expected to stop seeking benefits, or find themselves eliminated from the rolls." While choosing to increase scrutiny on families dependent on public health insurance, the budget relaxes pressure on health care providers, cutting the number of antifraud workers from 315 to 161.

The budget assumes sweeping attacks on public workers' social conditions. Although California civil servants have not had salary increases in two years, they now face a $1.1 billion (10 percent) decrease in outlays for employee salaries. This is to come through a combination of wage cuts and the layoff of at least 16,000 workers, according to the *San Francisco Chronicle*.

Social spending faces massive cuts, principally through the elimination of cost-of-living adjustments (COLAs) designed to keep spending in line with inflation. The Supplemental Security Income/State Supplementary Program (SSI/SSP) will thus lose $317 million in 2003-2005. California Work Opportunity and Responsibility for Kids (CalWORKs) will lose its October 2003 COLA. The budget also saves $14 million by cutting workers' rehabilitation programs.

The budget writers' priorities were quite evident in their treatment of the prison system, which faces a relatively more modest cut of $223 million. Davis and the lawmakers rejected proposals to release thousands of nonviolent offenders from prison—California has a notorious "three-strikes-and-you're out" law that mandates long prison sentences for third-time offenses, even minor ones. The savings are to be achieved by eliminating jail time as punishment for minor parole violations and increasing opportunities for prisoners to earn good conduct credits for early release.

Transportation and infrastructure projects, environmental protection programs, art programs, and other initiatives will also suffer cuts. Moreover, since the budget relies on a massive transfer of tax income from local governments to the state government, local services will suffer significantly. The *Los Angeles Times* wrote that the Los Angeles general fund alone would lose $45 million, "hindering street paving, sidewalk repair, and tree trimming." In fact, the Los Angeles area will lose significantly more than that. For example, local redevelopment agencies will lose funding to the tune of $4 million.

Despite these cuts and the appropriation of local tax revenues, the state government will have to borrow $17.2 billion through bond sales and pass on $8 billion in debt to the next fiscal year.

It is not clear that the budget will remain in its current form after being signed into law, as sections of the Republican Party are now challenging the budget in the courts. Republican legislators have joined a taxpayer group in a lawsuit to overturn the increase in vehicle registration fees. Another lawsuit is challenging the budget's use of long-term bonds to finance current spending.

Nor is California's debt rating likely to improve after passage of the budget, since the prospect of budget deficits as far as the eye can see is upsetting financiers. Standard & Poor's director, David Hitchcock, told Bloomberg News: "The rating is likely to stay where it's at for the foreseeable future. We've been saying for some time that to maintain ratings at higher levels, we wanted to see some progress towards structural budget balance and it's our belief that we're not going to see that for some time."

Davis has urged the legislature to enact "structural reforms"—i.e., deeper, lasting cuts in services—when it returns on August 18 for the session's final month. He plans to appoint a "blue-ribbon" group to recommend such "reforms."

Significant parts of the budget seem to have been cobbled together at the last minute, with minimal thought as to how they will be put into practice. Agencies responsible for plans to collect $680 million from Indian tribes in exchange for the right to host more gambling, like plans to have rural inhabitants pay extra fees for protection from brush fires, have said they have no idea how they are supposed to collect these funds.

Zev Yaroslavsky, Third District supervisor for Los Angeles county, expressed the disorientation and siege mentality that pervades ruling circles in the state in an August 4 commentary for the *Los Angeles Times*: "California now has a budget. We're still not sure of exactly what's in it, nor is anyone else—least of all, the lawmakers who voted it through. The devil is in the details, and it's only a matter of time before he makes his appearance."

The Democrats and Republicans have each sought to lay political responsibility for the budget at the feet of the other party. Upon signing the budget, Davis commented that it was "nothing to celebrate," blaming Republicans for having drawn "an ideological line in the sand" and commenting that he would have preferred a budget with fewer spending cuts. This commentary rings hollow since, as the *Los Angeles Times* reported, Davis pressured legislators to increase spending cuts in several areas—for instance, recommending a cut of 15 percent rather than a 5 percent in MediCal outlays.

Republican Senator Tom McClintock, who voted against the budget, said, "Mark my words, this budget solves nothing. The day it is signed is the first day of the budget crisis of 2004." However, his party has nothing to offer Californians beside tax and spending cuts which, given the size of California's budget deficits, would have to be so large as to tear its health, educational, and social infrastructure to shreds.

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