

# California budget: \$7 billion in cuts, tax breaks for big business

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California Governor Arnold Schwarzenegger, together with Democratic and Republican legislators, agreed Friday on the final details on California's budget for the 2008/2009 fiscal year, breaking a 12-week impasse.

California Democrats, who enjoy a 60 percent majority in both houses of the state legislature, joined with Republicans and the governor in passing a budget that provides big business with long-term tax giveaways while attacking health, education and living standards for the vast majority of Californians.

The budget imposes cuts in social spending in California that dwarf the budget cuts in Illinois, New York and every other US state. It sets in motion a mechanism of continuing austerity aimed at dismantling the remains of a system of social protection and economic underpinnings for working families, the poor and the disabled.

The budget technically meets the requirements, insisted on by the Republican legislative minority, that there be no new taxes and no further borrowing. It also creates a series of permanent corporate tax breaks that will work to further impoverish the working class at a time when millions of Californians are facing foreclosure and homelessness.

In return for a one-time, two-year suspension of some corporate tax credits, the budget rewards California businesses with two kinds of new lucrative tax breaks: it refunds businesses in so-called bad years from taxes that they paid in more profitable years, and it allows businesses to transfer tax credits among divisions.

Previously, like individuals, companies could not average out their tax liability beyond one year. Imagine a working family facing bankruptcy and foreclosure this year being able to obtain a tax refund on the basis of high earnings in a previous year! This is what the state has granted California businesses in this budget.

The second measure means that tax credits, generally granted to businesses that operate in special economic zones, such as areas of high unemployment, can now be transferred. Currently, a corporation cannot move tax credits from a division directly engaged in such activity—and consequently is not paying any taxes—to other divisions, to reduce its total tax.

The current budget, once signed this week by Schwarzenegger, would allow this procedure and provide tax

shelters worth hundreds of millions of dollars. State Treasurer Bill Lockyer estimated that both those measures together would cut taxes for big business by between \$800 million and \$1.2 billion each year.

The budget cuts total \$7.1 billion and target the most vulnerable layers of California's population. While public schools will receive \$58 billion (\$8,784 per pupil) compared to last year's \$56 billion (\$8,509 per pupil), other state sources for schools will no longer be available, resulting in a \$2.9 billion overall reduction from last year's budget.

Teaching vacancies will not be filled, classroom size will increase and bus transportation will be curtailed. Last March, in anticipation of budget cuts, California school districts across the state sent out 14,000 layoff notices. Most of those teachers were retained on a temporary basis, and under the new budget, thousands may not be rehired.

Jack O'Connell, California's superintendent of schools, denounced the education cuts last week: "The budget before the Legislature today will critically impair California's ability to meet the educational needs of our students," he said, adding that "the proposed budget includes a reduction of the cost-of-living adjustment that will further tighten the vise on local school budgets as districts across the state face increased costs for supplies, food, transportation, and employee health care costs. These reductions are a disservice to California's six million school children and the thousands of educators across the state."

More than \$950 million will be cut from public transit agencies across California, leaving only \$406 million for bus and rail systems already cash-strapped due to rising fuel costs. Governor Schwarzenegger may trim another \$100 million before he signs the bill, bringing total spending for transit down to \$306 million. Transit agencies across the state will be forced to cut services, raise fares and defer maintenance at a time when rising fuel prices have caused significant increases in demand for public transit.

Lawmakers are also maintaining a 10 percent reduction in the state's Medi-Cal program passed prior to the start of the current fiscal year, which will remain in effect until February 2009. The Medi-Cal program provides healthcare services to 6.6 million low-income Californians. A federal judge had

ordered that the funds be restored, but the cuts will remain in place while the state appeals the judge's order. According to one estimate cited in the *San Francisco Chronicle*, 250,000 children could lose coverage.

Monthly premiums for families in poverty with children enrolled in the Healthy Families Program will rise by \$2 to \$3 per child. The Medi-Cal cuts could also result in cuts to federal matching grants. The Medi-Cal cuts may result in reduced healthcare for everyone in the state, according to Anthony Wright, executive director of Health Access California. "If a hospital loses millions of dollars of reimbursement from one source, that means reduced staffing or services, or increased costs, for everybody," said Wright. The 10 percent reduction will end in March 2009. However, even after the funding is restored, per capita Medicaid spending will be lower than in all other states.

The budget also eliminates cost-of-living increases for the California portion of the Supplemental Security Income payments to 1.3 million blind, elderly and disabled. Cost-of-living adjustments have been repeatedly denied to SSI recipients, many of whom have to make do with less than \$600 a month. Currently, the maximum SSI benefit is \$954 per month for an individual living independently—a starvation income given the state's high cost of living.

The University of California (UC) and California State University (CSU) systems, as well as the state's Community Colleges, will receive no adjustments for inflation. In May, the UC system raised tuition by 7.4 percent and the CSU system raised tuition by 10 percent to offset the budget cuts. Many students now find it prohibitive to attend university systems that 40 years ago were virtually free. Many of the individual campuses have also raised parking and other student fees.

Despite the increases, both university systems will still be \$100 million short of what they need to sustain services. The UC system reported that while no new students will be turned away, class sizes would increase. At the CSU system, authorities declared that thousands of students would be turned away. Both systems, originally predicated on the idea that higher education was a right for all Californians, are increasingly unable to meet students' needs.

Fees will not be raised at Community Colleges, traditionally a route for working class youth to enter higher education and to receive vocational training. California's recession has induced hundreds of thousands of young people to seek education in the Community Colleges system and there is record enrollment. Despite this, the new budget will force them to cut class offerings, spending on supplies and maintenance.

In addition to the spending cuts, \$9.3 billion will be received in increased revenues from a revamped California lottery that will now be "securitized"—\$10 billion in bonds will be sold to Wall Street banks, pledging future lottery receipts to service them. The lottery itself is a highly regressive tax on working families, the poor and, increasingly, the elderly. In November,

voters must approve this new use of the lottery—which was originally pledged to fund education.

Despite the measures being proposed in the budget, analysts still predict that if it is enacted, the state will at the very least be faced with a shortfall of \$1.5 billion at the start of the next fiscal year. Were voters to reject the lottery proposal, California's record \$53 billion debt would increase by \$6.5 billion. Though California has never defaulted on any of its debt, its bonds are rated A, a relatively low rating (AAA is the highest.) More debt may push its bond rating lower, forcing the state to pay millions more in debt service every year.

Highlighting the anti-working class nature of the bill were various attached provisions, including one that exempts workers earning over \$75,000 a year from collecting overtime pay. This measure was enacted after several large technology companies in the state, including Cisco Systems, IBM and Electronic Arts, had settled class-action lawsuits based on unpaid overtime to their employees.

Notably, one day before the budget compromise was voted on, the state's Employment Development Division reported that August unemployment had jumped to 7.7 percent, up from 5.5 percent a year ago, the highest rate since January 1996. Together with Mississippi, the California jobless rate ranks third highest in the United States.

California unemployment, now at 1.42 million workers, is as high as it was in April 1992 when riots took place in South Central Los Angeles. It likely to worsen as key sectors of the economy continue to weaken, such as construction, retail trade and activity at California's ports. There are also reports indicating the state is running out of funds to pay unemployment benefits and may have to borrow from the federal government.

By reducing the tax load on corporations and leaving the income tax structure intact, this bipartisan budget ensures that revenues will be weaker, particularly in two years when the suspension of tax credits for big businesses runs out, creating the conditions for yet another round of layoffs, budget cuts and assaults on living standards.



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