

California budget in free-fall as new round of cuts is proposed

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In what is becoming a permanent feature of California politics, the state again faces a multibillion-dollar budget deficit. The latest projections put the state more than \$28 billion in the red at the close of fiscal year 2009-2010.

Governor Arnold Schwarzenegger called the state legislature into special session on November 6 to deal with the current crisis, less than two months after he and the legislature finally enacted an austerity budget for fiscal year 2008-2009—three months after the legal deadline.

The latest crisis was precipitated by the international credit freeze, which has prevented California from obtaining the private loans on which the state relies to fund government operations during the autumn and winter months before the collection of state income tax revenue in April.

The 2008-2009 budget included \$7.1 billion in cuts of social spending, including \$2.9 billion slashed from public education, a \$950 million reduction in public transit services, and a 10 percent decrease in state Medi-Cal services. Schwarzenegger is now seeking much deeper cuts in these and other social programs, along with regressive tax increases that will most affect the state's working class and poor.

Funding cuts include a massive reduction in Proposition 98 monies, totaling \$2.5 billion over the next two years. (Proposition 98 is a state law that guarantees a minimum level of funding to state elementary, middle, and high schools and community colleges.) The amount of property tax revenue allotted to Prop 98 funding alone is projected to decrease by \$1.5 billion in the next three years due to the foreclosure crisis.

The University of California and state colleges will

see \$132 million cut from their budgets.

Health care cuts include a statutory reduction in the number of qualified recipients for the state's Medi-Cal program, along with \$340 million in co-payments for some aged, blind, and disabled recipients. The governor's plan also completely eliminates coverage of dental services for adults.

Social Security Income payments to the retired and disabled are being reduced to the federal minimum. The recently enacted 2008-2009 budget already eliminated yearly cost-of-living increases for SSI payments.

There will be a 10 percent reduction in the CalWorks program, which provides temporary financial assistance and employment assistance to poor parents.

State employees would be put on a mandatory furlough for one day per month through the end of 2009-2010, which would result in a 4.62 percent reduction in pay. State employees would also no longer receive holidays on Lincoln's Birthday and Columbus Day.

Tax increases include raising the sales tax from 7.25 percent to 8.75 percent and vehicle license fees from 0.65 percent to 2 percent. The license fee for a car valued at \$20,000, for example, would increase from \$130 to \$400.

Schwarzenegger's proposals were spurred by a November 11 report of the Legislative Analyst's Office, which announced that the state was heading towards a \$27.8 billion shortfall over the next 20 months. These measures arrive as the state continues to buckle under the strain of previous budget cuts as the world economic meltdown intensifies.

The state Employment Development Department reported last Friday that the official unemployment rate has soared to its highest level in 14 years, from 7.7 percent in September to 8.2 percent in October, making

California's unemployment rate the third highest in the US, trailing only Michigan and Rhode Island. There are 1,526,000 people unemployed in California—up by 95,000 over the month, and by 487,000 since October of last year. Hundreds of thousands more are either underemployed or have given up looking for work altogether.

Pre-October unemployment was to a large degree concentrated in the construction, real estate, and financial sectors. Now, however, job losses are spreading to the retail and technology sectors. As a result, the state Unemployment Insurance Trust Fund is estimated to end calendar year 2008 with a deficit of \$2.4 billion, rising to \$4.9 billion by the end of 2009, as benefit payments currently exceed unemployment insurance taxes paid by employers. The governor has proposed to address this by increasing employer taxes and decreasing benefits to those who become unemployed. Employers will doubtless pass on the tax increase to their workers.

Additionally, foreclosure rates in California, the epicenter of subprime mortgage defaults, have been among the highest in the nation since the housing price collapse began. This has led to a marked increase in homelessness and an urgent rise in the demand for food assistance.

Second Harvest Food Bank, a supplier for several food pantries in San Mateo County, reported a 55 percent increase in direct food requests this fall. The county's Department of Health and Human Services also reported a 21 percent increase in food stamp recipients over the previous September.

San Mateo County is, coincidentally, home to Oracle CEO Larry Ellison, who received a \$3 million refund from the county earlier this year after a protracted legal battle to reassess the value of his 23 acre estate, a reproduction of one occupied by a 16th century Japanese emperor. Ellison's legal team successfully argued that the exotic features of the property would have limited appeal to a potential buyer, dropping the assessed price of the estate from \$173 million to \$69.7 million.

The Portola Valley School District, also located in San Mateo County, projected a loss to the district of \$250,000 to \$300,000 per year as a result of the reassessment, while the district itself is facing a \$1

million shortfall in 2008.

Over 1,000 students protested on the campus of the University of California Los Angeles this Sunday against the proposed education cuts, with students chanting, "Bail out Education" and "Affordable Education Now!" Of the \$132 million in proposed cuts to higher education, the University of California system would suffer a \$65 million cut, while the California State University system would see a \$66 million cut.

The California State University system announced last week that it would be limiting enrollment for the first time in its history as a result of dwindling state funds, turning away as many as 10,000 qualified students next year. The University of California system is also considering cutting enrollment.

There is mounting evidence that California has been victimized by the shady practices of Goldman Sachs, which was paid \$25 million by the state over the past five years to underwrite California's Revenue Anticipation Notes.

The *Los Angeles Times* has reported that Goldman simultaneously issued Credit Default Swaps against the future repayment of the state's debt obligations and advised investors to short California bonds. Credit Default Swaps act as a kind of insurance against repayment of an investment, with the difference that parties with no stake in the investment may also buy the swap.

These two actions drove up interest rates on California bonds. Goldman's example brings to mind the looting by Enron Corporation of California's electricity consumers during the state's 2001-2002 energy crisis.

Regardless of which aspects of the governor's plan are approved by the state legislature, the measures will deepen the gap between California's tiny wealthy elite and the majority of the state's population.



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