

State government suspends billions in payments

California in dire financial straits

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With the state of California unable to resolve the largest budget deficit in its history, Governor Arnold Schwarzenegger delivered a highly truncated State of the State speech January 15. Schwarzenegger spoke for a mere 12 minutes, declaring that, "It doesn't make any sense to talk about education, infrastructure, water, health care reform and all these things when we have this huge budget deficit."

The situation facing the California economy is dire. In addition to a projected \$41.8 billion deficit by July 2010, the state is predicted to run entirely out of cash to pay for basic services by early February, and many drastic measures are either being planned or have already been implemented as a result.

State Controller John Chiang announced last Friday that the state would be short \$346 million dollars on necessary payments to social programs by February 1 and would be issuing individual registered warrants or IOUs in lieu of cash payments.

Controller Chiang stated that he had no choice but to stop nearly \$3.7 billion in payments. The suspended payments include \$2 billion in tax refunds, \$300 million in cash grants for needy families and the elderly and \$13 million in grants for college students. Chiang announced that the delayed payments would be rolled into the IOUs should the state still lack sufficient cash to pay its bills by April 2009. These suspensions alone will produce enormous suffering.

This will be the first time since 1992 that the state has issued IOUs. At that time recipients were allowed to deposit the IOUs with banking institutions, whereupon the institutions would later reclaim the funds from the state at a high interest rate once the latter became solvent again. A January 17 article in the *Los Angeles Times* reports that Chiang is currently negotiating with banks to determine whether or not they will honor this latest round of IOUs at all, given the state's perilous financial situation.

California does not have the necessary funds this time around. The state typically relies on outside investment to maintain payments during the autumn and winter months when tax revenues have dried up. During these months, the state secures short-term loans, called Revenue Anticipation Notes, from large banks in order to cover expenditures.

This past year Goldman Sachs, which acted as loan underwriter for the notes, significantly drove up interest rates on the state's debt obligations by issuing credit default swaps against the state's debt and advising investors to short California bonds.

This action contributed, in no small measure, to the current financial paralysis whereby the state finds itself largely unable to raise revenues through bond sales. While Goldman Sachs was collecting millions from California for underwriting its debt, the investment firm was recommending to its well-heeled clients that they undermine the value of these same bonds.

Last December, the state halted the payment of \$3.8 billion dollars for infrastructure projects, including \$70 million in funds to needed levee-repair work in the state's Central Valley. Also last December, Gov. Schwarzenegger issued an executive order mandating that state agencies cut payrolls by 10 percent through furloughing state employees for two days each month without compensation.

An estimated 200,000 workers lost their jobs as a result of the infrastructure funding halt, adding to an already bleak state employment picture. As of November 2008, the state's official employment rate was 8.4 percent, the third highest rate in the nation, and the highest the state has experienced in over 14 years. It is also widely forecast that California's jobless rate will increase in 2009, while the newly unemployed will face an ever-dwindling pool of state services to draw from.

The 8.4 percent figure represents the average state unemployment rate. Sutter County, north of the state capital of Sacramento, recorded a 14.5 percent unemployment rate, while neighboring Colusa County recorded an even higher 18 percent. Imperial County, a primarily agricultural region in southeastern California, recorded the highest unemployment rate in the state, at 23.4 percent.

While unemployment figures continue to increase, the California state unemployment fund is anticipated to become insolvent in March 2009, with projections that the fund could be \$2.4 billion in the red by the end of the year, a figure expected to increase to \$3.5 billion by the end of 2010.

The unemployment insurance fund is financed primarily through taxes paid by employers. State officials are half-heartedly proposing to bolster the fund by increasing taxes on employers, but their real plan is to reduce benefit payouts along with the imposition of more exclusionary eligibility requirements.

Those who are currently unemployed are finding it increasingly difficult to obtain unemployment insurance, which provides a maximum benefit of only \$450 per week. To make matters worse, the state Employment Development Department (EDD), which services unemployment insurance claims, has a staff of only 850

workers to handle the tens of thousands of requests per day.

The California Unemployment Insurance Branch, which is handled by that department, is the largest in the nation in terms of participating employers and benefits paid. According to a recent article in the *San Diego Union Tribune*, EDD call centers were averaging at least two million calls per day during the holiday season when many large employers announced massive layoffs.

Indeed, many recently-unemployed workers report that calls to EDD call centers are met with pre-taped voice messages informing them that there are too many calls and then disconnecting the caller. Email requests to the EDD are met with a similar type of response.

In a further blow to the jobless, the governor has proposed cuts to the so-called welfare-to-work program known as CalWORKS. The governor's plan would save the state an estimated \$1 billion this fiscal year and next by reducing CalWORKS grants and reversing a long-standing policy of assisting impoverished children even if their parents are not eligible for cash assistance.

One out of every three impoverished children on the state's welfare rolls is expected to lose benefits as a result of the proposal. According to the Western Center on Law and Poverty, this will amount to 310,000 children losing benefits from the program in total.

The budget crisis will have an alarming impact on state youth. Besides the cuts being made in the CalWORKS program, Sacramento officials are proposing drastic cuts in university, elementary and secondary school education. California's school year could be reduced by one week, with commensurate salary reductions for teachers and support staff, while billions of dollars are to be cut from educational institutions across the state.

A recent proposal by state Democrats, meant to address \$18 billion of the budget shortfall and which Schwarzenegger vetoed early this year, would have reduced overall education funding by \$2.9 billion. The governor, however, has vowed to work with lawmakers to enact measures that would address the entire \$41 billion deficit, meaning that the \$2.9 billion figure will most likely rise dramatically.

The California State University system is proposing to cut enrollment for the first time in its history, turning away over 10,000 qualified students as a result of the state's fiscal woes. California State University Chancellor Charles B. Reed noted in a memorandum to CSU staff that the universities received 20 percent more applications than the previous year with a 36 percent increase in applications from community college students seeking to transfer, implying that a 10,000-person reduction in current enrollment levels would actually affect a much larger body of potential students.

The University Of California Board Of Regents recently approved plans to cut enrollment by 2,300 students next year, while leaders in both systems are also preparing other budget-slashing measures, including salary and hiring freezes along with cuts in financial aid.

Schwarzenegger already proposed cutting the state's main student grant program by \$88 million for fiscal year 2009-2010. He also proposed phasing out the Competitive Cal Grant program, which provides more than \$100 million annually to 'second

chance' students, or those students initially deemed ineligible to attend a given university but who have since demonstrated potential. The governor's proposal would also reduce the amount of aid available to students attending private colleges in the state by \$1,400 per student.

High school and elementary schools across the state are also feeling the brunt of the cuts and taking drastic measures to compensate. To cite one example, the Los Angeles Unified School District, which is the country's second largest, is preparing to lay off 1,690 elementary and 600 middle and high school teachers to deal with its own \$250 million shortfall. Elementary school class sizes could now rise to an average of more than 30 students per teacher.

LA Unified's Ramon Cortines, addressing his first board meeting as superintendent of the district, acknowledged this reality while at the same time admitting it would be nearly impossible for students to learn in such an environment.

In his state of the state remarks, Schwarzenegger made cursory mention of the programs which will and already have been impacted by the budget crisis, saying that "no one wants to take money from Medi Cal or from education. Of course not. No one wants to pay more taxes or fees. But each of us has to give up something, because our country is in an economic crisis and our state simply doesn't have the money."

The state's working population, not Schwarzenegger and his millionaire and billionaire cronies, will have to make massive sacrifices and face increasing social misery on account of the criminality of the financial elite who are alone responsible for California's economic disaster. The situation is increasingly explosive.



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