

California runs out of cash—\$3.5 billion in state payments delayed

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4 February 2009

In response to the continuing state budget crisis, the California state controller's office began to delay \$3.5 billion in state payments this Monday due to lack of funds. This includes postponement of income-tax refunds, grants to college students, and welfare checks.

Of the overall \$3.5 billion, nearly \$2 billion in personal state income tax refunds are being withheld, \$515 million in payments to state vendors held back, and \$280 million from funds to help the developmentally disabled have gone unpaid, as well as nearly \$13 million in grants to college students.

State controller John Chiang said the postponements would last a minimum of 30 days, while noting that they could, in fact, last much longer. Should the state still not have sufficient funds by early April, the controller's office will begin issuing IOUs in lieu of cash payment, with no guarantees that banking institutions will honor them.

In an interview given last Friday, Chiang noted the effect that payment delays will have on the state's more vulnerable residents, emphasizing the fact that his "principal responsibility is to make sure that California does not go into default." In other words, the state's primary fiscal responsibility is to the large banks and big capital, and not to its own citizens.

The same financial interests that were responsible for the subprime mortgage collapse, which has played a central role in the current budget crisis in California, are also responsible for the state's inability to meet current outlays. The state relies on funding from the sale of municipal bonds to outside investors during winter months to keep operating and is thus highly

vulnerable to changes in its credit rating, which has also fallen victim to financial speculation over the past period.

The state's already-poor credit rating was made even worse by the actions of large banks such as Goldman Sachs, which deliberately drove up interest rates on the state's debt obligations by issuing credit default swaps against state bonds and advising investors to short the bonds as well. The three major credit-rating agencies have all announced that a further downgrade of the state's credit rating is forthcoming.

In addition to the payment delays, Governor Arnold Schwarzenegger was recently given the authority in a Superior Court ruling last Thursday to furlough state employees with no compensation. The order will force nearly 238,000 mostly unionized workers to take two Fridays off work per month without pay. The Service Employees International Union (SEIU), which represents the majority of the state workers, is planning to appeal the ruling, but otherwise has done nothing to oppose the action.

The furlough order will affect state workers across a wide spectrum of occupations, including engineers, scientists, Department of Motor Vehicles clerks, pharmacists, maintenance workers, social workers, computer programmers and unemployment caseworkers, to name a few. Tellingly, state police officers will be exempt from the furloughs.

The action being taken against unemployment caseworkers will serve to exacerbate the state's already dire unemployment situation. California's official employment rate rose from 8.4 percent in November to

9.3 percent in December, making the state's unemployment rate the fourth highest in the nation. In terms of absolute numbers, however, California has the highest unemployment in the country, with more than 1.7 million people jobless.

As the ranks of the unemployed continue to increase, the state finds itself unable to provide the relief to which these workers are entitled. The state Employment Development Department is attempting to handle tens of thousands of requests for benefits each day with a staff of only 850 workers.

Unemployed workers are entitled to a maximum benefit of \$450 a week. Benefit seekers are often unable to even reach a call center representative, due to the high volume of unemployed. When they can get through, many are denied benefits on technical grounds, such as an incorrectly completed unemployment insurance request form.

According to a February 2 article in the *Los Angeles Times*, tens of thousands of jobless Californians are awaiting action from a state appeals court to find out if they can still obtain benefits that were denied to them. The Unemployment Insurance Appeals Board is severely backlogged with such cases, resolving only 4 percent of them within the 30 days required by law.

Demand for other forms of government aid has also increased sharply. Demand for food stamp assistance increased by 13.8 percent from September 2007 to September 2008. The number of families receiving cash assistance from the CalWorks welfare program rose by 5.9 percent during the same period.

Meanwhile, as the state's employment outlook continues to worsen, median home prices have continued their downward spiral, declining by nearly 50 percent since the spring of 2007. According to the web site foreclosures.com, California had the second-highest number of foreclosure filings in the nation in 2008, with 453,421 filings. The web site realtytrac.com, however, reported California having the highest number—523,624. According to both web sites, the city of Stockton, California, maintained the highest rate of any city in the nation, with 1 of every 11 homes

in foreclosure.

Governor Schwarzenegger, in collusion with the state Democratic Party, is actively working to impose the state's ballooning \$41.8 billion budget deficit onto the backs of the state's working people. State officials are looking to boost revenues by \$14.3 billion through regressive tax increases, including a 1.5 percent rise in the state sales tax.

The governor also plans to reduce state spending by an additional \$17.4 billion by eliminating dental and other benefits for adults on Medicaid. A further \$7.7 billion is to be cut from public education, along with other severe reductions in public financing. The draconian measures being undertaken by Sacramento officials to address the current budget crisis are only just the beginning.



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