

Drop in California state revenues exacerbates budget crisis

Dan Conway
8 May 2010

Finance officials for the US state of California reported a precipitous drop in April tax collections Tuesday. The state government, which has already pushed through crippling reductions in spending on education and social services, will use the figures to demand more cuts.

Actual collected revenue in April lagged projections by nearly 30 percent, or approximately \$3 billion, officials said, prompting an upwardly revised estimate of the state's projected multi-billion-dollar budget deficit.

During the months of January, February and March, revenue collections slightly exceeded expectations. However, the gains were easily wiped out by the April figures.

The drop in April revenues only accounts for personal income tax collections. Once corporate and sales taxes are reported, the shortfall is expected to increase even further.

Income and sales tax collections were particularly hard hit by the state's massive number of unemployed. The official unemployment rate in California currently stands at 12.6 percent, the third highest in the nation. This amounts to 2.8 million unemployed individuals, with more than 1.3 million having lost their jobs since 2007.

The state legislature is required to address the deficit by July 1 of this year. Governor Schwarzenegger will undoubtedly incorporate the April revenue collections into his May budget, which will be used to influence state policymakers' decisions.

With state lawmakers in both parties ruling out increases in taxes on the rich, the budget retraction will mean even deeper cuts in government services. Certain measures proposed by Schwarzenegger in January will most likely make their way into the next round of

negotiations. This includes nearly \$3 billion in cuts to public education, the sacking of up to 26,000 school teachers, massive cuts to Social Security Income, layoffs and pay cuts for state workers, and cuts to Medi-Cal and the Healthy Families insurance program for children.

Democratic State Senator Denise Moreno Ducheny, who chairs the Senate's budget committee, said, "It's hard to imagine how we're going to [balance the budget] without doing more severe damage to the economy."

While the Senate has yet to pass the next budget, austerity measures to deal with the current deficit are already under way.

On Tuesday, a superior court ruling gave the governor the legal right to raid \$2 billion from local redevelopment funds to help fix the budget, provided that the money be transferred to school and university operations.

The \$2 billion raided from local redevelopment funds, however, will only contribute \$305 million to the universities and will not compensate them for the more than \$2 billion cut as a result of last year's budget negotiations. According to the University of California chancellor's office and California State University Board of Trustees, the funds will not be utilized to roll back the 32 percent tuition increases that precipitated mass student protests across the state in March.

Even if the raid of local redevelopment funding should prove successful, the state will still be facing a \$55 billion dollar deficit through the end of fiscal year 2010-2011.

State governments throughout the US continue to face massive budget deficits, despite talk of an economic "recovery." Overall, the combined state budget deficits across the United States currently

exceed \$196 billion, with 48 states in the red. The state of New York is projecting a \$21 billion deficit, Illinois \$14.3 billion, New Jersey \$11 billion and Washington \$6.2 billion.

The Obama administration has refused any substantive aid to the states, and what little was provided as part of the federal stimulus plan is running out or has already been exhausted.

Last Monday, California State Assembly speaker John A. Perez along with Senate President Darrell Steinberg went to Washington ostensibly to plead for federal aid to fix the state's budget deficit. The two met with a delegation including House Speaker Nancy Pelosi who last January publicly opposed sending federal aid to California. Echoing the line of the Obama administration, she said that aid would set a dangerous precedent for other states experiencing shortfalls of their own.

Perez and Steinberg have publicly stated the hope that their efforts will net between \$3 billion and \$4 billion for the state. This includes \$2 billion a year through a Medicaid waiver that will allow the state to use federal funding for the program in ways not allowed by federal law, i.e., in a manner that will reduce benefits for low-income and poor residents.

The senators also hope to gain federal matching funds for the Medicare program by authorizing a new fee, known as a quality assurance fee, on hospitals that provide Medicare and Medi-Cal services.

If the federal government approves the senators' request, it will exacerbate an already severe health care crisis in the state. (See "Free clinic exposes health care crisis in Los Angeles")

While millions across the state will be further driven into poverty as a result of the latest budget crisis, California's fabulously wealthy continue to do better than ever.

According to a report in *BusinessWeek* magazine, the state is home to 6 of the 25 wealthiest towns in America. Average net worth in each of the six towns was over \$1.5 million. The list also does not include some of the more extremely wealthy areas in California, such as Malibu and Bel Air, as they are large enough to include residents of relatively more modest income.

Eighty Californians were also fortunate enough to

make the Forbes' billionaires list in 2009. The 10 wealthiest individuals on this list—including California residents Larry Ellison, president of Oracle, Google founders Larry Page and Sergei Brin, and casino owner and auto industry raider Kirk Kerkorian—have a combined net worth of \$86.6 billion.



To contact the WSWS and the Socialist Equality Party visit:
wsws.org/contact