

# California raids special funds in attempt to fix budget

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The administration of California Governor Jerry Brown and the Democratic Party controlled legislature are intensifying the practice of raiding special funds, including some that provide vital services to Californians. The impact will be overwhelmingly felt among the working class and the poor.

For the past decade, and increasingly since the current financial crisis began in 2008, the California State Treasury has been heavily borrowing money from various special fund accounts to pay for schools, social services and prisons—programs and agencies that normally would have been paid for out of the state’s general fund through the collection of income taxes, sales and property taxes. The result is that the state now owes \$4.3 billion to special fund accounts. This is more than five times the amount the state owed in 2008.

California has 560 special funds that are restricted by law for particular functions or activities of government. They range in size from very small funds with a few million dollars of annual revenue, to very large, prominent funds with billions of dollars in annual revenue. The funds included in these classifications are primarily for the regulation of businesses, professions and vocations; transportation; law enforcement; and capital outlay. User fees—taxes supposedly paid by the beneficiaries of the funds—go to these funds. The state administration forecasts that special funds will generate about \$38 billion of revenue in 2012-13, averaging around \$70 million for each special fund.

Examples include fees that drivers pay for smog checks, vehicle registration and new tires that are earmarked for roadway improvements. Other examples include recycling fees on the sale of televisions, beverage containers and computers that are allocated for pollution reduction efforts. Special fund fees typically weigh disproportionately on the poor and the working class, as they are not calculated in relation to income: they are

levied, for the most part, either as a fixed fee or a fixed percentage.

H.D. Palmer, a spokesman for the department of finance, said the state is taking money from special funds because it will not get needed revenue until voters approve higher taxes this November, when Brown will ask voters to raise the sales tax by a quarter cent and approve a token income tax increase of one to three percent on the wealthy.

Regardless of the outcome of the November referendum, the governor has no plans to repay special funds anytime soon. The 2012-13 budget plan assumes \$631 million of loan repayment delays to special funds.

In some cases, delaying repayments of borrowed funds jeopardizes important programs. In the case of the California Beverage Container Recycling Fund, state officials borrowed from it so many times that the Legislative Analyst's Office said in April that the fund is heading toward insolvency by 2015. As a result, in its July 2012 quarterly report, the agency suggests critical programmatic changes, including possibly charging consumers a nonrefundable fee on certain plastic and glass beverage containers. The new non-refundable fee would weigh disproportionately on lower income consumers who purchase beverage containers that are more expensive to recycle.

The recycling agency is also considering reducing the amount it refunds consumers who use “convenient” recycling stations such as grocery store locations. This measure would result in a disincentive to recycle if consumers have to go out of their way to obtain the CRV refund.

“It’s a little bit of the Wild West out there in terms of borrowing from these special funds,” said Mark Murray, executive director of the nonprofit Californians Against Waste. “The Legislature and governor can set their own rules, and sometimes those end up being shortsighted.”

The governor's budget also proposes to borrow again from the disability insurance fund (\$417 million) to pay the state's interest costs to the federal government on its unemployment insurance loan. Borrowing from the disability fund is especially egregious, as the fund may have to make drastic cuts in services that would affect thousands of disabled workers and their families that rely on monthly payments to survive.

Special funds' borrowing has its proponents among the ruling elite. This July, following the discovery of higher balances in Department of Parks and Recreation (DPR) accounts and media speculation concerning balances in other funds, the California Department of Finance (DOF) conducted a review of these balances. On August 3, the DOF reported that the administrators of special funds may have underreported their balances in past years.

Several bourgeois media outlets and Republican Party supporters jumped on the chance to use the fund reporting discrepancies to suggest that the governor should scrap his November ballot income tax proposals and simply further raid the special funds coffers. The main purpose of this media barrage is to create a diversion from other brutal austerity measures which are finding their way through the legislative process, such as the so-called "pension reform."

Not only does special fund borrowing jeopardize the programs that these funds support, it also does nothing to address the underlying issues of the state's economic debacle. Contrary to the claims of corporate media and politicians, California's budgetary problems can only be understood as the end result of decades of transferring wealth from the working class to the financial elite.

A tangible illustration of the true class nature of the legislative process is that Standard & Poor's, one of the Big Three credit rating agencies, is highly in favor of special funds borrowing as reflected in the agency's highest credit rating for California's short-term bonds. The agency acknowledges with this rating that the state can rely on the collusion of politicians and labor leaders to cut social services and raid the special funds' cash hoard to balance the state budget.

In the words of a Standard & Poor's analyst, the rating agency thinks California's politicians "got a pretty strong commitment to doing what they need to do to assemble the cash." In the wake of the financial crisis, Standard & Poor's knows the capitalist class can rely on Republicans and Democrats alike to pursue reactionary, regressive policies.

California is the most extreme example of the fiscal

shortfalls facing virtually every state in the US. Politicians and media pundits have cloyingly portrayed the fiscal crisis as evidence of the wasteful state expenditures, invariably invoking the need for all citizens to "tighten our belts," and begin "living within our means."

The role of the labor unions in the Brown administration's budget strategy is nothing short of treacherous. Unions like the Service Employees International Union (SEIU), the California Teachers Association (CTA) and its AFL-CIO counterpart, the California Federation of Teachers (CFT) have lent crucial support to Brown's gubernatorial campaign and, throughout the budget negotiations, have openly declared their willingness to cut wages and benefits, insisting only that they maintain their "seat at the budget bargaining table."

The SEIU itself issued last May a proposal for the governor including a 4-day work week and cutting hours to 38.5 as part of a furlough program, which served as the basis for Brown's cut of 5 percent in payroll costs. Since the eruption of the 2008 economic crisis, the CTA and the CFT have repeated the mantra that teachers accept pay reductions and layoff notices in the name of "saving jobs," while these unions campaign vigorously for passage of the November ballot initiatives supported by Brown.

Workers are being forced to vote in November, among others, for either a regressive tax package or more cuts, a lose-lose situation, while at the same time witnessing further austerity measures and budget cuts, including the raiding of special funds until they disappear. A reactionary cabal that consists of the governor, the Democratic Party controlled legislature, together with the AFL-CIO, Unite to Win, and the state's public employee and teachers' trade unions is determined to disarm the working class as it dismantles those environmental, health disability, educational, pension, and social programs that workers fought so hard to achieve.



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