California legislature and governor reach agreement on 2016-2017 budget

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California lawmakers approved a new $170.9 billion state spending plan last week for fiscal year 2016-2017. The full budget was sent to Governor Jerry Brown's desk for approval on Wednesday.

The budget arrives slightly more than a month after Brown released his final budget proposal to the state legislature. The newest budget makes only slight modifications to his proposal and the governor is expected to sign it during the coming week.

The budget is notable for its pessimism about the state's fiscal outlook. The state's department of finance projects a renewed economic downturn by 2018 at the latest. Even during the course of the current year, modest spending contained in prior proposed budgets had been paired down significantly.

Between the governor's first proposed budget in January and his last revision in May, actual tax revenues were found to be $1.9 billion less than projected, primarily due to the loss of capital gains returns after significant losses on Wall Street earlier in the year. As a result, general fund spending had been reduced more than $400 million in the governor's May proposal.

Moreover, the final proposed and approved budgets also placed significant emphasis on the need for future cuts as a result of an inevitable financial downturn. According to estimates contained in the proposal, the annual shortfall between spending and revenues is forecast to be over $4 billion by fiscal year 2019-2020, even without a nationwide economic slowdown.

According to the governor's office, one factor contributing to this projected shortfall will be diminished tax revenues as a result of the expiration of Proposition 30. Proposition 30 was passed by state voters in 2012. It raised sales taxes from 7.25 to 7.5 percent as well as instituting a slight income tax increase on individuals making more than $250,000 per annum.

Voters will arrive at the polls this November to determine whether or not to extend the tax increases. Even if this does happen, however, the governor's office warns that no new spending programs will be enacted unless they are accompanied by cuts in existing programs or additional taxes.

Last April, Moody's Credit Rating Agency determined that California was least prepared among 20 states tested to weather a new recession. It claimed that was due to the state's dependence on capital gains taxes that will inevitably dry up in the event of a market crash.

Moody's, whose purpose is not to provide an impartial assessment of the state's fiscal health but to provide the most favorable profit-making conditions for municipal bond investors, recommended that the state institute an increase in its Rainy Day Fund, which can only come at the expense of social programs.

The new budget does precisely that, adding an additional $2.6 billion into the fund. The Rainy Day Fund, put into law in 2014, currently places no more than 10 percent of general fund revenues into a budget stabilization account that can only be used to either pay outstanding state debt or in the event of a declared fiscal emergency.

In fact, the Moody's report explicitly calls for "Revenue and Spending Flexibility" as the state's "extensive entitlements for poverty-focused programs" restrict its "ability to react to worsening conditions as quickly as other states."

Finally, the report cautions that infrastructure debt and retirement obligations account for more than 10 percent of general fund spending. This is in spite of the fact that state infrastructure is in shambles and state workers can barely survive on the meager pensions still left for them.

Governor Brown had already sign into law a major overhaul of public employee pensions in early 2013 with overwhelming support in both houses of the state legislature. The bill, known as the Public Employee Pension Reform Act, increased the minimum retirement age by 12 full years from ages 55 to 67 and from ages 50 to 57 for new public safety employees. Pension contribution rates for workers were also increased under the act to 50 percent, while a maximum pension benefit was also put into place for the first time for all workers regardless of salary.

The state of California also passed a new minimum wage ordinance into law this year. The law increases the state's minimum wage to $10.50 per hour in 2017, $11 an hour in 2018 and rising to $15 an hour by 2022. Nonetheless, the state will actually save money as a result of the minimum wage ordinance.

A $15 per hour wage renders many workers, even including many part-time workers, ineligible for the state's Earned

Income Tax credit and also makes these workers ineligible for the CalWorks welfare to work program.

The latest budget includes the elimination of the Maximum Family Grant for welfare assistance. The Maximum Family Grant provision, passed in 1994, stops benefit increases for children of existing state welfare recipients.

The elimination of the Maximum Family Grant will provide the average qualifying family with a meager $136 per month in additional CalWorks grants per child while the state will save tens of millions per year as its minimum wage increase makes more working class Californians ineligible for CalWorks benefits.

The minimum wage increase will also increase move many workers off of Medi-Cal rolls and onto Obamacare where they'll be faced with higher premiums and deductibles.

The state's trade unions had led the call to increase the state's minimum wage knowing full well that it would lead to a net loss for workers overall.

Typical were the comments of Unite Here Local 11 President Tom Walsh. Unite Here primarily represents hotel workers who are among the highest exploited sections of the working class in California.

"I wouldn't say it's [the minimum wage law] an incentive," Walsh said. He was responding to questions about provisions in the minimum wage law allowing employers to pay unionized workers less than minimum wage. "It just will cause them to be less resistant to unionization," he said, emphasizing that the real goal is to increase the dues base of union bureaucrats at the expense of a super-exploited workforce.

As part of the budget agreement, the state's Medi-Cal program has been expanded to cover children of undocumented immigrants, although their parents and other undocumented adults remain uncovered.

Nonetheless, general fund spending overall on Medi-Cal is expected to drop, not only because of the effects of the increased minimum wage but also due to the establishment of the Managed Care Organization (MCO) tax, which will be instituted in tandem with a reduction of insurance and corporation taxes for health plans, resulting in net savings for the industry. Medi-Cal itself is reliant on these taxes from MCOs for funding.

In fact, general fund spending on Medi-Cal is expected to drop by $1.1 billion as a result of the MCO tax.

Brown's budget is nothing less than a disaster for the medical needs of the population and thousands of working class Californians will suffer as a result. In a statement released by Anthony Wright, executive director of Health Access California, a consumer health care advocacy organization, the budget "continues the cuts made during the recession and doesn't make investments needed to reduce barriers to coverage, increase access for Medi-Cal patients, or cover the remaining uninsured."

The state also hopes to save money in the budget by reducing subsides for childcare and replacing them by a voucher-based system to further privatize pre-school and daycare. Brown also hopes that the reduction in subsidies, which currently help fund both the California State Preschool and Transitional Kindergarten systems, will be used to eliminate Transitional Kindergarten entirely.

The budget also includes an increase in funding for the CalState and University of California public university systems in exchange for both institutions placing a cap on out-of-state student enrollment. As out-of-state students pay higher tuition than their in-state counterparts, both university systems had been partially making up for state budget cuts by enrolling more out-of-state students. The increased funding in the budget, however, will still leave both universities far below pre-recession levels.

Other provisions include $400 million for the construction of low-income housing. Developers who make hollow commitments to set aside a small proportion of new units to low-income residents will be allowed to sidestep portions of the state's construction regulations in a boon to real estate developers.

The state budget also includes an additional $270 million to new jail construction and upgrades. No significant increases are to be made to fund the state's dilapidated roads and highways, the total cost of which is estimated at $59 billion. State Democrats have pledged that any new spending to fix the roads would have to be predicated on increases in the gas tax and vehicle registration fees as well as the possible imposition of an annual "road access charge."

Emergency services as well experienced no increases in funding despite the state being currently in the midst of a late spring heat wave with triple-digit temperatures causing wildfires, road closures and losses of home and property. The Sherpa Fire in Santa Barbara County already consumed some 7,893 acres as of Sunday in a wilderness area that last burned in 1955.