

# The State Budget Crisis: Failing East Bay Families April 2008



## Key Findings:

1. California is feeling the consequences of the current nationwide economic slowdown, with **rising unemployment rates** and **decreased consumer spending**.
2. The proposed State **budget cuts** will hit low-wage workers and their families the hardest **through cuts to essential social services, public education, and environmental protection**.
3. **Cities and Counties in California will face similar cuts** since 73.7% of the state budget general fund pays for local assistance.<sup>1</sup>

## Federal Impacts

As the federal government debates remedies for the mortgage crisis, the effects are spreading throughout the economy. The chairman of the Federal Reserve, Ben Bernanke, recently announced a nationwide recession is possible in the coming months.<sup>2</sup>

## State Impacts

California is showing the signs of an **economic downturn**:

- Unemployment increased by more than 180,000 from January 2007 to January 2008, after staying flat from January 2006 to March 2007.
- Job growth was nearly flat, increasing only .3% from January 2007 to January 2008 compared to 1.2% total job growth the previous year.
- Consumer spending in California, as measured by taxable sales, declined 1.9% from the 3<sup>rd</sup> quarter of 2006 to the 3<sup>rd</sup> quarter of 2007.<sup>3</sup>

Governor Schwarzenegger proposed massive cuts to the state budget in order to make up a projected **\$14 billion dollar shortfall** in the upcoming fiscal year (FY08-09).

The Governor's budget proposes the following:

- \$9.3 billion in cuts to **general fund** spending, which funds most of the State's social programs
- An additional \$400 million cut to K-14 **education**,<sup>4</sup> including cuts in essential services for low and limited-income individuals.

The biggest reductions, as a percentage of enacted state funds for FY 07-08, are in the following areas:

- K-12 Education (9.6%)
- Higher Education (7.6%)

<sup>1</sup> California Budget Project. February 2008. "Two Steps Back: Should California Cut its Way to a Balanced Budget?" Retrieved April 8, 2008. [http://www.cbp.org/pdfs/2008/080207\\_chartbookmasterbullets.pdf](http://www.cbp.org/pdfs/2008/080207_chartbookmasterbullets.pdf)

<sup>2</sup> Irwin, Neil and Renae Merle. April 3, 2008. "It Might Be a Recession, Fed Chief Tells Congress." *Washington Post*. Page A01. Retrieved April 3, 2008. <http://www.washingtonpost.com/wp-dyn/content/article/2008/04/02/AR2008040200343.html>

<sup>3</sup> These three points were all from the same source: California Budget Project. March 2008. "The Economic Slowdown is Bad News for California's Workers and Their Families." Retrieved April 3, 2008. [http://www.cbp.org/pdfs/2008/0803\\_pp\\_economicsslowdown.pdf](http://www.cbp.org/pdfs/2008/0803_pp_economicsslowdown.pdf)

<sup>4</sup> California Budget Project. February 2008. "Two Steps Back: Should California Cut its Way to a Balanced Budget?" Retrieved April 8, 2008. [http://www.cbp.org/pdfs/2008/080207\\_chartbookmasterbullets.pdf](http://www.cbp.org/pdfs/2008/080207_chartbookmasterbullets.pdf)

## *Data Source:*

The data cited in this report come from the California Budget Project's series on the 2008 State Budget.

<http://www.cbp.org/>.

See footnotes for specific documentation.

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- Health and Human Services (7.5%).<sup>5</sup>

### **County and Regional Impacts**

In the East Bay (Alameda and Contra Costa Counties), these cuts will have the following impacts<sup>6</sup>:

- 351,110 **students in public schools** will face cuts in education spending, on the order of \$637 per student in Alameda County and \$616 per student in Contra Costa County
- 10,560 **low-income children** will be dropped from the CalWORKS program
- 333,710 **low-income Medi-Cal recipients** may have reduced access to health care services because of payment cuts to health care providers
- 78,240 **low-income seniors and persons with disabilities** will receive reduced payments in Supplemental Security Income (SSI) and State Supplementary Payment (SSP) due to the elimination of Cost-of Living Adjustments (COLA). This would also affect close to 9,000 members of SEIU United Long-Term Care Workers (SEIU ULTCW), who care for workers on SSI through the county-based In-Home Support Services (IHSS).
- **20,000 non-violent offenders** statewide will be released early from prison, without effective local support services. A large percentage of the formerly incarcerated will likely return to California's urban areas without sufficient housing, re-entry support, or employment services.

### **City Impacts:**

The impacts these budget cuts will have on specific cities depend each city's population characteristics and tax structure. Cities with large numbers of residents who depend on state-funded services, such as those listed above, will feel the budget cuts more directly and intensely.

In addition, many of the services facing cuts are administered at the county level rather than the city level, posing new challenges for County governments as well.

### **Timeline:**

The budget cuts have already prompted debate in the state legislature particularly in public school funding and the process will undergo further revision in May. The budget needs both legislative and governor approval by the end of the fiscal year, June 30, 2008. Otherwise, the legislature will need to pass emergency spending provisions to fund state programs while awaiting the approval of a final budget.

### **Conclusion:**

State and local governments should prioritize their spending to address the needs of low-income workers and their families. Governments must preserve current funding levels for essential services like education and other social services for the most vulnerable populations: low-income children, the elderly, people with disabilities, and the formerly incarcerated.

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<sup>5</sup> Ibid, 7.

<sup>6</sup> These points were from the same sources. For Alameda County, California Budget Project. March 14, 2008. "Who in Alameda County Would Be Affected by the Governor's Proposed Budget?" Retrieved April 3 2008.

[http://www.cbp.org/pdfs/2008/0803\\_alamedacounty.pdf](http://www.cbp.org/pdfs/2008/0803_alamedacounty.pdf)

For Contra Costa County, California Budget Project. March 11, 2008. "Who in Contra Costa County Would Be Affected by the Governor's Proposed Budget?" Retrieved April 3 2008.

[http://www.cbp.org/pdfs/2008/0803\\_ContraCosta.pdf](http://www.cbp.org/pdfs/2008/0803_ContraCosta.pdf)