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Stimulus Won't Fix State Budget

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By Timm Herdt, Ventura County Star, Calif.

Mar. 28--SACRAMENTO -- Hopes that a bailout from the federal stimulus package would enable California to avoid having to take more drastic steps to balance its budget were dashed Friday, triggering an additional \$948 million in spending cuts and an additional \$1.8 billion in tax increases next year.

The trigger was pulled when the state's two top financial experts said the amount of federal aid that will offset state government expenses will fall short of the \$10 billion threshold set by the Legislature when it adopted its budget-balancing plan last month.

Although the amount of federal money that will flow to California is much more than that -- about \$50 billion in spending, plus \$35 billion in tax relief -- the bulk of the money will go either directly to individuals or to local governments and school districts. Only about \$8.16 billion can be used by state government to offset its expenses, primarily in paying healthcare expenses for the poor.

"A considerable amount of the dollars coming to California are already earmarked by the federal government," said Chief Deputy Treasurer Steve Coony. "It's doing the job it was intended to do by the federal government, but it's not available to offset general fund expenses."

Cuts to hit elderly, disabled especially hard

The cuts mean that about 1.3 million aged, blind and disabled Californians who rely on monthly SSI/SSP benefit checks of \$907 will see their income decline by 2.3 percent, or about \$21 per month. In addition, the state will cap the amount it gives counties to pay the salaries of in-home supportive services workers, who provide help with housekeeping, hygiene and other services to more than 1 million Californians.

The state will cap its share of the workers' pay at \$9.50 per hour, down from the current level of \$12.50. Counties can pay workers more, but any amount above the state cap must be paid with county funds.

The cuts will also eliminate dental, mental health and other nonmedical benefits for the estimated 6.7 million poor Californians who receive healthcare coverage through Medi-Cal.

The action also means additional cutbacks in areas other than health and human services. The University of California and California State University will each have to cut spending by an additional \$50 million, there will be a \$100 million reduction in expenses to cover court operations, and the creation of 100 new judgeships will be eliminated, thereby saving \$71 million.

Increases in state income tax

The action will also be felt by every Californian who pays state income taxes. For the 2009 tax year, rates will increase by 0.25 percent across every income bracket, bringing the state's top marginal income tax rate to 9.55 percent. Had the federal stimulus threshold been met, the tax rate increase would have been half that amount, or 0.125 percent.

The additional increase is projected to generate \$1.8 billion in additional tax revenue to the state.

The determination that the stimulus money would fall short of the threshold was made by Treasurer Bill Lockyer and Finance Director Mike Genest. They'd been given until April 1 to make their report.

"This is a very difficult, unpleasant decision for the treasurer," Coony said. "Its worst effects will be visited upon some of the most vulnerable folks in California."

The decision comes after an emotional public hearing earlier this month at which scores of people testified, some tearfully, about what the personal repercussions of the additional social service cuts would be.

A spokesman for Genest and Lockyer, however, said their role was strictly ministerial; the law allowed them only to analyze the terms of the federal Recovery and Reinvestment Act and determine exactly how much money could be used to pay for services funded by the state's general fund.

"We did this in a very straightforward way," said Finance Department spokesman H.D. Palmer. "We didn't put our thumb on the scale."

In a letter to Gov. Arnold Schwarzenegger and legislative leaders, Lockyer on Friday urged them to reinstate some of the services.

"Slashing \$200 million in state funds for optional dental benefits and the minimum pay guarantee for in-home supportive services workers targets people who most need our help," he wrote. "I consider the suffering that would be caused by these particular cuts to be both severe and compelling."

State had to guess while making budget

The state budget deal was being negotiated in February just as Congress was debating the details of the federal stimulus, which meant state financial experts had to largely guess at what the final federal package would include. The decision was made not to rely on a specific amount, but rather to take some actions that would be negated if the final federal package was large enough.

Advocates for the poor and elderly urged lawmakers to take a second look at those \$948 million in cuts now that they know the stimulus aid to the state fell only \$1.8 billion short of the threshold that would have prevented them.

"If our leaders can find a way to enrich corporations with billions in shameless giveaways, they can find a way to protect our seniors and people with disabilities," said Gary Passmore, executive director of the Congress of California Seniors.

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