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California's Newsom Seeks to Slash Budget to Close \$54 Billion Gap.

- **Revised budget spends about \$12.6 billion less than this year**
- **California governor says needed federal aid could lessen cuts**

California Governor Gavin Newsom on Thursday proposed a budget that slashes spending about 9%, cuts state workers' pay by a tenth and said that most of the government can't be spared from deeper pain unless the federal government does more to help all states.

The \$133.9 billion budget for the year beginning in July will draw down the state's reserves by \$8.3 billion, putting it on track toward exhausting the \$16 billion in the main savings account over three years.

It will redirect payments that were slated to pay off pension debt to now cover obligations due over the next two years and cancel planned program expansions to save \$6.1 billion. Newsom is also proposing a 10% pay cut to state workers even if labor unions don't agree.

Plummeting tax collections coupled with costs to respond to the novel coronavirus have led to a \$13.4 billion deficit this year and \$40.9 billion in the next. By law, California must balance its budget, which legislators have to approve by June 15. They can change it afterward, however, as was done during the recession.

While a federal package backed by House Speaker Nancy Pelosi that would provide direct cash payments to state and local governments pends in the U.S. Congress, municipalities across the country must balance their books. Local officials are grappling with laying off workers and cutting services to residents facing a deadly virus and business closures that are spurring deep job losses.

"President Trump with the stroke of a pen could provide support for Speaker Pelosi's Heroes Act and these cuts would be eliminated," Newsom said during a Sacramento briefing. "If the federal government does what it must do to help states, these cuts would go away."

California, by virtue of its size, is facing by far the biggest deficits as a result of the pandemic, though the swift loss of tax revenue is delivering large hits to states nationwide. By one estimate, states could face shortfalls of as much as \$650 billion through mid-2022, more than were left by the last recession.

Newsom's budget marks a stunning reversal from January, when he unveiled his preliminary proposal that would have padded its rainy-day account to a record \$18 billion and steer more toward services. Instead, the state would no longer allocate the funds planned then for initiatives such as building new kindergarten facilities, maintaining state parks and boosting sustainable groundwater.

Under state formulas tied to revenue collections, schools and community colleges will receive \$19 billion less than expected in January, although Newsom's budget proposes some measures to alleviate that. The state's universities would be hit with a 10% cut in aid, absent federal action.

Personal income tax collections, a key source of revenue, is estimated to plummet nearly 19% next year from this year, while sales taxes would drop by 17%. Overall, major sources of revenue would decline by 6.8%. The budget expects that by June, one in four Californians will be out of work, and that the unemployment rate will slowly improve to 10.6% by the fourth quarter of 2023.

Bloomberg Politics

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May 14, 2020, 12:35 PM PDT Updated on May 14, 2020, 2:47 PM PDT

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