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California’s Fiscal Health Continues to Deteriorate, Despite Many Deep Cuts

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LOS ANGELES — Just three months after Gov. Arnold Schwarzenegger cut, taxed and line-item-vetoed away a two-year budget gap of $26 billion, California faces billions of dollars in new shortfalls, with the problem likely to deepen in the next fiscal year.

At a recent conference here on the condition of California’s fiscal health, the state treasurer, Bill Lockyer, called the budget “a train wreck.” And, he added, “It’s going to get worse.”

California finance officials say the state is facing a shortfall of roughly $7 billion for the current fiscal year, which ends on June 30, and several estimates have that gap ballooning to between $10 billion and $20 billion the next fiscal year.

Like many other states around the country, California is facing continued revenue shortfalls as personal income and corporate taxes falter. But California lawmakers are also facing the implosion of expected cost savings, as lawsuits and other factors have reduced or eliminated savings that were figured into the budget passed in July.

For instance, the budget called for moving at least $1 billion earmarked for transportation uses into the general fund, a move challenged by transit advocates, who have prevailed in court. Further, the state was recently enjoined from making an $80 million cut to social service programs. Then there is the assumed revenue from the sale of part of the State Compensation Insurance Fund, a move that the state insurance commissioner, Steve Poizner, has filed a lawsuit to block.

The story is much the same around the country, especially in states hit hard by the foreclosure crisis that had taken particularly desperate — or unrealistic — measures to shore up their budgets.

Roughly $165 million of Arizona's plan to close a $3 billion shortfall is not materializing. An effort to get $50 million in savings from new antifraud measures did not come to fruition because there were no real measures put in place to ferret out the fraud, and the assumption of $100 million received in upfront payments from private prison companies to operate nine of the state's 10 prisons will almost certainly not come together this fiscal year, lawmakers there say. With other shortfalls, the state is facing a $2 billion deficit in the current year.

In Colorado, Gov. Bill Ritter recently ordered state employees to take four furlough days in addition to the four the workers already were taking, as revenues there have continued to fall.

In California, high unemployment and an overall sluggish economy have led to lower than expected revenues flowing in. The state's combined personal, corporate and sales taxes fell more than $1 billion below projections for the first quarter of the year, according to the state controller, John Chiang.

The story was particularly troublesome in September, when revenues fell $810 million below the forecast amount. "The culprit in September was personal income taxes," said H. D. Palmer, a spokesman for the state's Department of Finance. "The question is whether this is due to changes in tax law or underlying, ongoing trend."

Further, many after-the-budget fixes to shore up state programs were short term. For instance, Mr. Schwarzenegger cut $16 million from domestic violence programs in a line-item budget veto that was restored with a last-minute diversion of roughly that amount from an alternative fuel and technology fund, which will not reoccur next year.

Meanwhile, a plan to reduce the state parks budget by about $6 million, to $422.5 million, through the closing of 100 parks was staved off with maintenance cuts to parks instead, and state officials say more cuts to that department will almost certainly be in the offing next year. Further, millions of dollars borrowed from education funds will have to be restored at some point, under a state proposition that requires it.

More than 22 states have reported revenue shortfalls for the current fiscal year, and are currently assessing whether they will make it through this year without further cuts, and how deep the gaps will be in the next fiscal year.

“If we go back historically,” said Arturo Pérez, the program principal for the Fiscal Affairs Program at the National Conference of State Legislatures, “the bottom for states has not usually occurred until 12 to 24 months after a recession. In many cases you still have rising unemployment, so you continue to see a reduction in personal income tax revenues at the same time we have the additional burdens of Medicaid, S-Chip and unemployment claims.”