IN DEPTH

County watches budget collapse

After slashing $15M already, officials expect further cuts

Budget-County

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Having already shouldered more than $15 million in budget cuts this June, county officials are wondering how they will cope with a mammoth state deficit almost sure to force larger cuts next year.

Some are still hoping the state will be lenient after dipping heavily into social-service funds this year. But others say optimism is fallacy, and the county must brace itself for grim times.

"The state has always balanced its budget on the back of counties. I don't want to scare people, but I think we need to be realistic," county Supervisor Mardi Wormhoudt said. "You don't have to be a genius to see (the deficit) is going to hurt the people who can afford it the least."

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The Legislative Analyst's Office has projected a $21 billion deficit for 2003-04, with $6 billion already accrued this year. And that's a conservative estimate — the deficit is expected to approach $30 billion.

While $6 billion of it can be fixed with some fiscal maneuvering, the rest is here to stay, the legislative analyst said. A permanent $12 billion to $16 billion gap between revenues and expenditures — the result of tax relief and spending increases made during boom times — means the state must restructure a budget in collapse, the analyst said.

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>
> SHERIFF MARK TRACY

With counties essentially an arm of the state, carrying out its mandated functions, there's no way they can escape next year unscathed, finance experts say. Almost 90 percent of county spending goes toward fulfilling state mandates.

"The state is already looking at 20 percent reductions in general government, which is a huge amount. And they'll be looking to share that pain with local government," said Ted Gibson, former chief economist for the state Department of Finance. "My guess is (the state is) going to raise taxes quite a bit, but (it's) still going to have a big problem after that."

IN DEPTH

The situation now is worse than during the recession-starved '90s, when the state solved its deficit by shifting property taxes away from local governments and toward schools, Gibson said. Then, the state tackled its deficit as soon as it was apparent. But this time around, solutions have been delayed by skittish politicians wary of midterm elections.

County officials say they simply don't know what they'll do when state cuts come. The county is running as lean as it can — there's no fat left to trim, they say. Further reductions could mean the county won't be able to carry out state-mandated services.

"It's probably fair to say we would be on the verge of collapse" if hit with more cuts, said Cecilia Espinola, human services director. "Any further cuts would seriously jeopardize our ability to deliver services and comply with all the myriad (state) rules and regulations."

Unlike most counties, Santa Cruz County was hit with a double whammy during this year's budget hearings. The county had to grapple not only with state reductions, but with the loss of its utility tax as well. The tax, which brought in $10 million annually, was repealed by voters in March.

The Human Services Department was hit hard by the governor, who took $175 million from social-service programs with his line-item veto — even though these services have received no cost-of-living increases in two years.

The tax repeal and state cuts translated into a $5.5 million loss for the department, which cut 93 positions. Among the programs hurt were child welfare, adult protective services, Medi-Cal enrollment, food stamps, health care for poor parents and drug-treatment programs for juvenile offenders.

"We're still picking up the pieces," said Espinola.

The Health Department likewise is hurting. The tax repeal, rising pharmaceutical costs and changes in Medi-Cal reimbursement put the department $3 million in the hole this year. The state cut another $362,000 from children's mental health services which, when combined with federal matching funds, amounted to a $669,000 loss.

One of the biggest fallouts of the struggling health system has been a radical reduction in services at county clinics. Only clients with life-threatening illnesses now receive full treatment. Others are assessed by a nurse and sent home with self-help brochures if illnesses are not urgent.

The Sheriff's Office lost $824,000 this year, forcing it to cut 29 positions. Crime prevention programs and medical services for inmates were hurt the most.

"This is the worst possible time for further cuts to public safety," said Sheriff Mark Tracy. "We're at the point of slashing patrol deputies now, not pencils and supplies. And in economic downturns, crime goes up."

The state also withheld money it usually reimburses counties for services such as pesticide reports, health bulletins and school programs for emotionally-disturbed children. For the county, this amounted to a loss of $2.2 million over two years.

The county will be forced to cut optional programs first if more state cuts come next year. But those programs are few and far between. They include things such as day-care centers, community programs, senior-center programs, sheriff's patrol and library services, said Pat Busch, assistant county administrator.

"Those are the programs that will be in the greatest jeopardy," he said.

Gibson, the state's former chief economist, predicts human services will continue to be hit hard next year.

"I don't think there's any question about that," said Gibson. "(The state) has no choice."

Two things likely will see the chopping block immediately, he said, the first being a cost-of-living increase promised for welfare programs in June. Also likely to go is dental coverage for Medi-Cal recipients as well as annual renewal of their health benefits, Gibson said. The state probably will make renewal a quarterly requirement, which usually reduces caseloads, he said.

One sure bet is big fee increases at community colleges and universities, Gibson said. Currently, those fees are among the lowest in the nation.

While most Republican legislators still oppose tax increases, such increases will be impossible to do without, said Jean Ross, executive director of the California Budget Project. Spending reductions alone would require massive program and departmental closures, she said. For example, even if the state closed all its prisons, colleges and universities, it still would be $6 billion in the red, Ross said.

"The problem is not that spending increased but that revenues dropped. If you want to solve a revenue problem, you have to increase revenues," she said.

Basing the general fund on more stable revenues than the personal income tax is one way to make sure the state isn't always in a fix during rough economic times, Ross said. For example, vehicle license fees, a stable revenue source slashed during economy prosperity, should be brought back up to their 1998 level, Ross said. That would give the state another $4 billion.

Another option is to start taxing services as the state taxes goods, because consumers now spend more on the former, Ross said.

Matthew Newman, director of the California Institute of County Government, thinks the state should revisit property tax revenue. Although frozen at 1 percent of market value by Proposition 13, the tax could be raised through a constitutional amendment. Property taxes are not only significantly less volatile than the personal income tax, but tend to grow during slow economic times, Newman said.

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