

GOP says California has too much money. Will it hurt Biden's COVID stimulus plan?

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California has collected about \$10.5 billion more in tax revenue this fiscal year than expected, giving Washington Republicans fresh ammunition aimed at derailing a huge federal aid package for state and local governments.

But the state's Democrats continue to maintain the COVID-related aid is badly needed.

The Democratic-run House is expected to vote later this week on President Joe Biden's \$1.9 trillion economic relief plan, which includes \$350 billion for state and local governments. California's state and local governments would get an estimated \$41 billion.

If approved, the Senate would consider the package early next month, and its chances are considered good since the Senate has 50 Republicans and 50 members who caucus with the Democrats--and Vice President Kamala Harris, who until last month was a senator from California, would cast a tie-breaking vote.

Despite California's sunnier budget outlook, its congressional Democrats insist the federal aid is badly needed.

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Asked why, Rep. John Garamendi, D-Walnut Grove, answered flatly, "40 million people."

Garamendi, who was the state's lieutenant governor during the 2007-09 recession, quickly listed the problems the state faced as the COVID pandemic persists: Unusually high COVID infection rates, schools "in desperate need of assistance.... The entertainment and restaurant industry in California is on its knees."

The less affluent Central Valley also needs the help, argued Rep. Josh Harder, D-Turlock.

"We know that recovering from the pandemic, rebuilding our economy, and pulling our health care system out of crisis is going to be a years long process," he said.

Harder acknowledged the growth in state revenue, but said, "that doesn't change the length of the road ahead. The valley has been left behind in funding for too long."

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Other Californians had the same thoughts. “We need every available tool to address our public health needs, reopen schools safely, and ensure that people are able to put food on their tables and are not forced out of their homes,” said Sen. Alex Padilla, D-Calif.

Rep. Anna Eshoo, D-Palo Alto, maintained the federal aid is necessary to “preserve the jobs of essential public workers fighting on the front lines against this pandemic.” The aid would “prevent more layoffs and make up for lost revenue,” said Rep. Scott Peters, D-San Diego.

REPUBLICAN OUTRAGE

Republicans see a very different scenario, and the state’s recent budget experience has become an important Republican weapon.

“What the Democrats have put together really is a liberal wish list of liberal priorities, bailing out California, Illinois and New York,” Sen. John Barrasso, R-Wyoming, the Senate’s third-ranking Republican, said at a news conference Tuesday after Senate GOP members met to discuss strategy.

California has been overspending for years, GOP lawmakers and conservative analysts contend, citing long-term debt such as pension obligations. With the latest data showing the state’s revenues exceeded projections, thanks to higher-than-expected income, corporate, sales and insurance tax collections, Republicans said the state hardly needs more money.

“The hardworking people of Southwest Florida should not have to bail out the mismanaged and disastrous policies of (New York Gov. Andrew) Cuomo and (California Gov. Gavin) Newsom, and the politicians in Washington willing to throw them a bone,” said Rep. Byron Donalds, R-Florida, as the House Budget Committee debated the plan this week.

He was following a long line of critics.

Senate Minority Leader Mitch McConnell, R-Ky., sent out a press release saying, “Democrats Are Yet Again Pushing Massive Bailouts For Big-Spending States.” The statement then cited a news account saying that “Remarkably, [California] has more money than it did a year ago, before the pandemic.”

Monday, he decried in a Senate floor speech what he called “the wheelbarrows of cash for state and local governments, multiple times any serious estimate of remaining need.”

Experts are also weighing in.

“Revenues are pouring into Golden State coffers as the tech industry and the top 1 percent who pay half of the state’s income taxes ride high,” said Chris Edwards, director of tax policy at the libertarian Cato Institute, as he argued against the state and local aid.

PROGRESSIVE INCOME TAX

As Edwards of Cato noted, California has a progressive income tax that has the wealthiest households paying higher rates. The recession pandemic-induced recession hasn’t hurt them financially even as it wreaked havoc on lower-income households.

Between July and January 31, the first seven months of fiscal 2021, California’s preliminary general fund revenues topped Newsom’s estimates by \$10.5 billion, or 10 percent.

In January alone, the projection was \$7.45 billion, 41% above the projected \$18.2 billion.

Key reasons for the seven month increase included collections of personal income tax that were 12.8% above projections — including 47.7% higher in January. Seven month revenue was 5.6% higher than projected for insurance taxes, 4.3% for corporate taxes and 1.1% for sales taxes.

H. D. Palmer, the state Finance Department's deputy director for external affairs, warned that the state's economy, and thus its budget picture, remains fragile.

“While state revenues have been recovering since the depths of the COVID-19 recession, that rebound has been largely the result of a resurgent – and extremely volatile – stock market,” he said, adding that “forecasters project (it) will level off and drive down the level of capital gains income that have so far fueled this surge.”

And, Palmer said, the state's economy has hardly bounced back to its pre-pandemic levels of a year ago.

The state lost 1.47 million jobs from December 2019 through December 2020, according to the state's Economic Development Department. Low income Californians continue to be hit hard, and 3.6 million state residents are still collecting unemployment benefits.