Schwarzenegger, Democrats stake out sides in California budget debate

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Day One of state budget negotiations went like this:

Gov. Arnold Schwarzenegger called for wiping out California's welfare program and slashing in-home health care for elderly and disabled residents in his May budget revision. The Republican governor vowed not to sign a spending plan without budget reform and smaller pensions for new state hires.

Senate President Pro Tem Darrell Steinberg, D-Sacramento, said Democrats refuse to eliminate welfare. He called for extending general tax hikes set to expire in the next year and suspending corporate tax breaks.

Yet there are reasons to believe neither is completely serious about what he proposed.

California faces a $19.1 billion deficit, equal to more than one-fifth of the state's general fund. To deal with it, Steinberg and Schwarzenegger on Friday staked out extreme negotiating positions ahead of another long summer of budget talks.

In February, however, Steinberg acknowledged the impossibility of getting Republican votes for tax hikes and said he had no interest in introducing general tax proposals in such an environment. Several GOP members last year suffered grave political consequences for approving the $12 billion in annual tax hikes that were included in last February's budget package and GOP caucuses are unlikely to allow that to happen again in an election year.

Nevertheless, the Senate leader launched a narrative that is likely to continue for weeks: It is unconscionable to cut health and human service programs without asking businesses to chip in more.

"What kind of civilized society maintains business tax breaks and eliminates child care?" Steinberg asked. "That's not the California that I recognize or take pride in living in."

Schwarzenegger last year offered the same proposal to eliminate CalWORKs, the state's welfare-to-work program. The idea immediately sent shock waves, drawing protesters who accused the governor of pursuing heartless cuts.
Instead of ending the program, Schwarzenegger used it as leverage, ultimately winning concessions from Democrats to end cost-of-living increases for welfare grants and restrict how long recipients could receive benefits in the future.

The fact that the governor has backed off past elimination of CalWORKs doesn't give welfare advocates much confidence.

"If it doesn't represent a strong interest in getting rid of the program, it represents a strong interest in reducing vital services to 1 million poor children," said Frank Mecca, executive director of the County Welfare Directors Association.

But just as Steinberg has acknowledged he can't get GOP support for tax hikes, Schwarzenegger likely knows he won't get Democrats to eliminate CalWORKs. The program provides money for food and rent to 1.4 million people in California, an estimated two-thirds of whom are children.

Even Assemblyman Jim Nielsen, R-Gerber, the Assembly GOP budget point person, framed the elimination as an outside possibility that represents "where we begin with the negotiations today."

"I think (Schwarzenegger) has to know the Democrats in the Legislature might give some but won't agree to eliminate CalWORKs entirely," said Marty Omoto of the California Disability Community Action Network. "I don't think anyone predicts that will happen. So the question is, why would he propose it if he knows it's not going to happen? The reason is because he wants to get something else."

For Schwarzenegger, that something else is likely to be a permanent change in California's budgeting process, as well as a reduction in pension benefits to new state hires.

The governor, now in his final year, knows this year's budget is bound to be ugly no matter how it turns out. Budget negotiations represent his last major opportunity to leave a legacy of pension and budget reform.

Republican lawmakers support both ideas. But Democrats will have a difficult time backing any change in the state's pension system, given their long-standing relationship with public employee unions.

"First of all, on the issue of pension reform, not a single reform idea will do a thing to help us in this year's budget or for budgets for the next decade or more," Steinberg said Friday. "... Maybe it's a negotiating tactic; I don't know. I know what I'm interested in when I prioritize, and that is saving essential services for people, for kids."

While Democrats helped Schwarzenegger put a "rainy-day fund" proposal with a soft spending cap on last year's May special election ballot, they are less inclined to do so now. Last year's measure contained an extension of tax hikes, which Democrats liked, and this version would lack that element.
Democrats will have to agree to program cuts, although perhaps not the $12.4 billion Schwarzenegger has proposed. Republicans will have to agree to some new revenues, although new taxes seem unlikely.

If not the elimination of CalWORKs and if not tax hikes, the outstanding question will be where lawmakers and Schwarzenegger find savings or revenues to make up the difference.

Based on past history, they will look to fund shifts and changes that shift costs into future budget years, avoiding the political minefield associated with taxes and deep spending cuts.

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