State budget woes grow deeper as rosy projections come up short

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Washington hasn't come to the rescue. Hopes for a tax windfall were dashed last month.

As the reality of a $20 billion deficit sets in, California leaders are bracing for another summer of difficult state budget talks.

Gov. Arnold Schwarzenegger will kick off serious budget discussions Friday with his May budget revision. The governor is likely to propose reductions in everything from social services to schools to state worker compensation.

"What you can expect generally is no taxes and terrible cuts, absolutely terrible cuts," said Schwarzenegger press secretary Aaron McLear. "We're not going to get through the deficit we have without some really tough decisions and some really terrible cuts."

Budget experts do not expect a substantial change in the deficit size when Schwarzenegger releases his revision. But his plan will inflict more pain because he has to replace January solutions, worth several billions of dollars, that fell short due to legislative opposition or his own rosy projections.

For starters, federal officials have indicated they may provide about $3 billion in new help to California – far less than the $6.9 billion Schwarzenegger penciled into his January plan.

State Controller John Chiang last week reported that California has collected $1.3 billion less in taxes through April than the governor predicted. And Schwarzenegger has abandoned his idea to raise $118 million for 2010-11 by authorizing new oil drilling off the California coast, citing the environmental consequences in the ongoing Gulf of Mexico spill.

Meanwhile, legislators in both parties rejected a Schwarzenegger idea to install speed cameras at intersections. Republicans opposed a new tax on insurance policies. Democrats vowed not to consider cuts to schools or social services until the governor's May budget proposal.

The Legislative Analyst's Office recommended that lawmakers approve cuts to social services and the prisons agency in March that require months of implementation time. But because the Legislature did not do so, they have to find deeper cuts to make up for lost time.
"Now you wouldn't start saving money until the fall," said Michael Cohen, deputy legislative analyst with the LAO. "Even if you agree to do the exact same things, you have to add things to mix."

The delays could cost the effort more than $2.5 billion.

Schwarzenegger may resort to wholesale cuts he proposed in January as contingencies in case federal money fell short. Those included the elimination of the state's welfare-to-work and in-home health care programs.

"It's no more fathomable now than it was (before)," said Frank Mecca, executive director of the County Welfare Directors Association. "You'd still have the problem of a million children starving in the streets. But I don't think we can take anything for granted."

McLear said the governor will not include other contingencies he proposed to suspend $1.8 billion in tax breaks for businesses.

"The governor believes those are helping businesses grow, helping create jobs, and he continues to stand by the tax breaks," McLear said.

A $20 billion deficit is significant. If no new revenues are raised, the state's general fund spending could end up little more than $80 billion for the year, well below the $103.3 billion spent in 2007-08.

Schwarzenegger and legislative Republicans have vowed to oppose new taxes and want to rely on spending cuts to balance the budget. Democrats believe that slashing social services would hurt the poor and unemployed and cost California billions in federal matching dollars.

"The most likely outcome is a stalemate," said J.B. Mitchell, a UCLA professor emeritus of public policy and management. "The magnitude of the problem is large and they have to make some pretty drastic cuts. One way or another, it's going to be a painful episode. It's hard for me to see how you get a two-thirds vote for a tax increase in a gubernatorial (election) year."

GOP members who voted for tax hikes last year suffered political consequences, from loss of leadership positions to recall threats.

"Taxes are off the table," said Assembly Republican leader Martin Garrick, R-Solana Beach. "We don't need new taxes on families, senior citizens or businesses in California. It's time to reduce the size of government."

Senate President Pro Tem Darrell Steinberg, D-Sacramento, has acknowledged the difficulty of getting Republican votes for taxes this year. In recent weeks, he has proposed suspending corporate tax breaks. He said Californians must decide whether schools and public safety are worth paying for.
"Between the federal partnership and revenue growth, we had hoped that the deficit would be reduced significantly," Steinberg said. "But given the thirty-plus billion dollars in cuts we made last year, there's no question that some form of additional revenue is going to have to be part of a responsible budget solution."

Assembly Speaker John A. Pérez, D-Los Angeles, said Tuesday he wants to leave all options open, including higher taxes and suspending the state's Proposition 98 guarantee for school funding.

Pérez offered as one example a tax on oil production. But Democrats have floated that idea for several years without success.

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