Analysis: Deficit shoves strategy to the right

Governor's focus on spending limits appeals to Republicans and disappoints Democrats

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Gov. Arnold Schwarzenegger's "post-partisan" strategy for two years has relied on merging support from majority Democrats with his personal brand of moderate Republican beliefs, almost entirely without support from other GOP members in the Capitol.

But judging by his State of the State address Tuesday, the governor is now reaching out to his fellow Republicans and shifting his political strategy rightward as he faces a $14 billion shortfall.

Schwarzenegger made a long-term state spending cap the centerpiece of his address, a plan that Republican lawmakers praised but Democrats and education groups slammed.

He referred to "difficult" spending cuts that he plans to propose Thursday, though he steered clear of details to avoid an early round of criticism from interest groups that he is sure to face later this week.

The governor made clear that he would not raise Californians' taxes – as Democrats have demanded he consider – and defended his 2003 multibillion-dollar tax cut on vehicles in California, because "it's not fair to punish people who can barely afford the gas to get to work, and on top of that ask them to pay for a tax increase to cover Sacramento's overspending."

GOP legislators applauded.

"He sounded very Republican today," said Assembly Republican leader Mike Villines, R-Clovis. "I think the truth is, whenever you get into a crisis, you know, there's always the line – once somebody gets a job and starts working, they become Republican. I think this speech today was a recognition that we're in a very, very difficult position. There's no gray area. There are no gimmicks to use."

Democrats were disappointed that the governor focused on tax cuts and a state spending limit, even if Schwarzenegger attempted to reach out by promoting universal health care.
"Look, he did the best possible job he could to deliver the worst possible news to Democrats," said Assembly Speaker Fabian Núñez, D-Los Angeles. "And I’m going to tell you, there were some things I liked in his speech, for example, his point about the need to reform our health care system. I was the first one to clap when he talked health care. But at the same time, the cuts, across-the-board cuts, I don't think they're consistent with the people of California."

While legislators thought Schwarzenegger appealed more to Republicans than Democrats, Bill Whalen, a research fellow at Stanford University's Hoover Institution who wrote speeches for former Gov. Pete Wilson, said the governor attempted to give everyone something to like in his speech. Whalen pointed out that Schwarzenegger invoked President Franklin D. Roosevelt's New Deal domestic expansion, hardly a Republican ideal.

"That speech was not confrontational," Whalen said. "He didn't talk down to the Legislature and made it painfully clear he considers everyone his partner. He's not trying to pick a fight."

Schwarzenegger proposed a spending cap amendment that would force the state to set aside excess money in good financial years that could be tapped in lean times. It would require the Department of Finance to establish a 10-year rate of revenue growth as a baseline to determine when the state should save or spend out of the fund.

The governor's plan would trigger automatic cuts if the Department of Finance determines the state is facing a deficit in November, January or June of each year. If the deficit is 1 percent or less, state agencies would have to cut costs by 2 percent. If the deficit is more than 1 percent, agencies would have to cut by 5 percent.

Based on advice he received from President Clinton, who used a similar mechanism in Arkansas, Schwarzenegger has proposed that the Legislature establish a list of cuts in advance that the state would have to install anytime it incurs a deficit.

Some legislators and education officials Tuesday made comparisons the governor is sure to detest, recalling his ill-fated pursuit of a budget spending cap in the 2005 special election. Schwarzenegger ended up using his 2006 State of the State address to apologize for that failed effort.

"If you look at the major theme of this speech, it was similar to the major theme of the 2005 speech – we need to reform government, get spending under control," said Assemblyman Chuck DeVore, R-Irvine. "And the problem was, after he was defeated with those five initiatives in November 2005, he gave up and joined the other side."

In 2005, Schwarzenegger backed a spending cap initiative that limited expenditures to an average level of growth based on the three previous years. That proposal, Proposition 76, would have enabled the governor to unilaterally cut spending, including school funds in some situations.

That plan was defeated after it came under attack by unions and school groups who charged that Schwarzenegger was undermining education funding.
Department of Finance Director Mike Genest acknowledged Tuesday that the governor's new proposal could mean less education money than under the current system in years when the state has an excess of funds.

But he said schools would benefit in lean years because they stand to get more money from the new reserve fund that would exist.

The proposal allows Schwarzenegger to cut spending in deficit situations if the Legislature does not specify how to do so. Genest said there would be safeguards for education.

Still, Scott Plotkin, director of the California School Boards Association, said the governor's proposal sounds too much like the 2005 initiative.

"It sounds like it's Proposition 76 all over again, and that's a big problem," Plotkin said. "If the language of the initiative he is talking about looks and feels like Proposition 76, then he is talking about unilaterally suspending the Proposition 98 guarantee and cutting school funding in the middle of the school year, up to three times a year."

The governor hopes to persuade the Legislature to put his spending cap on the ballot, rather than rely on business groups to finance signature gatherers to do so via initiative, as he did in 2005.

Núñez said he would consider the governor's latest spending proposal if Schwarzenegger changes the legislative budget vote threshold from two-thirds to a majority vote, essentially cutting Republicans out of the process.

If the budget amendment dies in the Legislature, Whalen said Schwarzenegger likely would not press the issue further by placing it on the ballot himself.

"Once burned, he's probably twice shy," Whalen said. "He had to see what a difficult sell it was to the public."
Reaction to the State of the State address

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"If the governor had not rolled back the vehicle license fee, California would not be facing a $14 billion deficit. The governor needs to be a man and own up to his own mistakes."

– Roger D. Barnes, a state civil engineer from Grover Beach

"Governor Schwarzenegger should be applauded for his continued commitment to California's infrastructure."

– Jim Earp, executive director of the California Alliance for Jobs

"The state of the state means more than how a budget is balanced. It also means how the state treats its people, especially people with disabilities, mental health needs and seniors."

– Marty Omoto, director, California Disability Community Action Network

"I think there will be a lot of brawling, but at some point, crisis often brings people together."

– State Attorney General Jerry Brown

"The governor and his administration should be applauded for calling on state government to tighten its belt. ... He should also be commended for his bold effort to bring reform to health care. But now is not the time to experiment with new costly government programs that may or may not work."

– Sen. Dave Cox, R-Fair Oaks

"I am satisfied to see that the governor recognizes that we face a serious problem."

– Assemblyman Ted Gaines, R-Roseville

"I didn't hear anything about going through and getting rid of exemptions that favor the rich or favor special interests."

– Assemblyman Dave Jones, D-Sacramento

"Tax breaks for small businesses to help stimulate economy!"

– Brian Broumas of Roseville, who runs a small business networking site