Gov. Arnold Schwarzenegger's finance officials are estimating a California budget deficit next year of $14 billion, significantly larger than the $9.8 billion gap previously forecast by a state budget analyst, according to two sources who have spoken to the governor.

The growing estimate increases pressure on Schwarzenegger and lawmakers to cut spending, consider tax increases and possibly sell off public assets to close the budget hole.

Schwarzenegger last month ordered all departments to prepare spending plans for the fiscal year that begins next June 30 that are 10 percent below what they had anticipated. The governor and some GOP lawmakers also have suggested more immediate midyear cuts in spending.

Schwarzenegger is meeting with legislative leaders to brief them on the budget problem after Department of Finance officials revised their estimates Monday. State officials based their calculations on new economic and revenue indicators that took into account the sluggish housing market, drops in property tax revenues and increased expenditures from Southern California wildfires, among other factors, according to spokesman H.D. Palmer.

Legislative Analyst Elizabeth Hill last month estimated the budget gap at $9.8 billion over the next 18 months, larger than the $6.1 billion Schwarzenegger's office originally projected. She traced the problem to growing state expenditures and an economy reeling from problems in the housing market.

The governor's Department of Finance now believes the deficit is beyond $10 billion, Palmer confirmed. He declined to specify how large the deficit estimate is until Schwarzenegger finishes meeting with legislative leaders, but two sources who have met with the governor said his office pegged the shortfall at approximately $14 billion. Perata, who met with the governor Tuesday, also confirmed the total was significantly larger than Hill's estimate.

"We've known that it was going to be much larger than $6.1 billion," Palmer said. "We have the benefit of having more economic data to refine our estimates."
Schwarzenegger has been meeting with various interest groups in recent weeks, including educators, advocates for social services and local government officials.

The governor discussed midyear spending cuts in programs during a meeting with local government groups, said Rich Gordon, a San Mateo County supervisor and president of the California State Association of Counties.

"In a meeting last week with the governor and (Chief of Staff) Susan Kennedy, they pointed out that any dollar they can save this year becomes two dollars saved next year," Gordon said. "So I believe you will see, beginning in January, some approach at reductions."

"We're dependent on state revenues," he noted, "so reductions in state funding will have a direct impact on local communities."

Assembly Republican leader Mike Villines of Clovis said he wants to convene bipartisan working groups on the budget to discuss solutions. He said his caucus will not support tax increases but that "once we rule that out, everything is on the table."

"It's clear that the number is going to be higher than the $10 billion at this point," said Villines, who met with the governor Tuesday. "If the number is going to be above $10 billion, we need to make sure Californians are understanding this and that Californians know we're doing something about it and taking action."

Assemblyman John Laird, D-Santa Cruz, agreed with Villines that a bipartisan group is necessary to confront the budget problem. But he said that cuts and tax increases alike need to be considered.

"This is so big, there's no way we can do this by cuts alone," Laird said. "There's no way we can do this by revenue adjustments alone."

Assemblyman Roger Niello, R-Fair Oaks, who serves as vice chairman of the Assembly Budget Committee, said he believes falling home prices and a reassessment of property for tax purposes have made the budget problem worse than previously thought. He called for midyear cuts in the current 2007-08 budget year in addition to reductions in next year's spending.

"We have to take a look at this year's budget as soon as possible and make any adjustments we can for this year, which will make it easier for us to make adjustments next year," Niello said. "We have to move sooner rather than later on the significant problems we know we have."

Laird said midyear cuts to programs are often difficult because the state would have to "cut twice as deep to get to an annual level," while local governments have year-long labor contracts that could be problematic.

Steven Maviglio, a spokesman for Assembly Speaker Fabian Núñez, said Assembly Democrats scheduled a closed-door caucus Thursday to discuss health care and the budget, and lawmakers will be urged not to propose bills with new spending or tax cuts.