New budget pitch readied

Governor to offer a plan in Tuesday address that would increase his power to make midyear cuts.

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Heading into a week in which he's expected to deliver grim news about the state's fiscal health, Gov. Arnold Schwarzenegger is also preparing to propose changes to the budgeting process.

The Republican governor will offer a "budget reform" plan when he outlines his goals in his State of the State address Tuesday. Such a proposal, if successful, would likely give the executive office more authority in making cuts even after the Legislature has passed an annual spending plan.

While no details of the proposal were released, former Gov. Pete Wilson said in a Saturday radio address that the state needs a law requiring government to ratchet down spending whenever the economy slows. Wilson, too, sought to make changes that would have given him more budget-making authority back in 1992.

"It is terribly unwise to continue to allow the vast majority of state government spending to be driven by formulas and commitments that cannot be changed without legislative approval," Wilson said. "So we absolutely must put in place a mechanism that requires that money be reserved in robust years to pay for needed state services in bad times when revenues fall."

Schwarzenegger's finance director said in another recent radio address that other state governments have a way to cut spending when revenue falls short.

"That is exactly what California needs," said Finance Director Mike Genest.

Despite two failed attempts in the past, Schwarzenegger is hoping the state's $14 billion projected budget gap instills enough urgency for legislators and voters to consider tweaking the current system. Right now the governor is required to construct an annual spending plan and hand it over to the Legislature for revision, but he can't make midyear cuts if revenue dips.

State agencies and advocates are already bracing for deep spending reductions of 10 percent next year when Schwarzenegger releases his annual spending plan Thursday. Administration officials predict the 2008-09 budget gap could top $14 billion due to automatic growth in state programs and the continuing housing and economic slowdown.
"The governor's been talking about budget reform since the day he came into office," said Schwarzenegger's communications director, Adam Mendelsohn. "He's made repeated attempts. And he believes this year provides an important opportunity to address that issue again."

Wilson added Saturday that a mechanism should be installed requiring the buildup of reserves during robust years in order to continue services during bad times. Such a move would help prevent "paralyzing fights at the Capitol over where to cut," he said.

The year Wilson unsuccessfully sponsored Proposition 165, his attempt to make budget process changes, the Legislature had locked itself in a 64-day partisan fight that threatened to disrupt classrooms.

"Parents should not have to wonder every year whether budgets for their kids' schools will be slashed because the state didn't plan ahead," he said.

In 2005, as part of his "Year of Reform," Schwarzenegger proposed Proposition 76, which would have created spending limits and given the governor new power to make unilateral spending cuts under some circumstances.

Voters overwhelmingly rejected the measure, 62 percent to 38 percent.

A few months before, Schwarzenegger unsuccessfully negotiated with the Democratic-led Legislature for a provision to allow the governor to make midyear spending cuts. What passed was a watered-down measure allowing him to call for a special session of the Legislature to deal with fiscal emergencies, which Schwarzenegger will invoke this week.

"Whatever reform the governor puts forward, he fully intends to work with the Legislature to pass that reform," Mendelsohn said.

A spokesman for Assembly Speaker Fabian Núñez said lawmakers will have to wait to see what the governor proposes. The Democratic leader from Los Angeles has suggested changing the minimum vote for passing a budget, from the current two-thirds to a simple majority. The move would greatly diminish the role of Republicans, who are a minority in the Legislature.

"Reform is in the eye of the beholder," said Núñez's spokesman, Steve Maviglio.

In the past, Schwarzenegger has not gone that route. His failed proposal to grant the governor authority to make midyear cuts was viewed by many as a power grab aimed at siphoning appropriation power away from the Legislature.

During the Proposition 76 campaign, Craig Brown, who served as finance director under Wilson, called the proposal a "direct assault on our democratic system of checks and balances."

The governor can expect the same criticism if he makes a third attempt at midyear cuts.
"The Legislature guards its appropriation power tightly," said Fred Silva, a fiscal adviser with Beacon Economics. "The Legislature has relinquished that in very limited circumstances, authorizing the governor to make reductions in state operations that have no statutory constraints."

But Genest, the current finance director, maintained in his radio address that had either of Schwarzenegger's proposals been adopted, "we could not have a multibillion-dollar deficit."

By linking revenue to expenditures as the governor proposed, the state could have done a better job of controlling spending, said finance spokesman H.D. Palmer. Whether it's tapping into a prenegotiated list of non-vital services or the authority to make midyear agency spending reductions, Palmer said, Schwarzenegger deserves the same tools other governors have to deal with slower-than-anticipated revenue.

Other states have developed processes for the executive branch to cut up to 10 percent of the budget, said Scott Pattison, executive director of the National Association of State Budget Officers. At least 40 other states grant their governors conditional authority to make cuts without legislative approval, according to the Schwarzenegger administration.

"But the reason is most legislatures only meet a short time out of the year," Pattison said. "California is ... a full-time Legislature."