Analysis: Pundits call proposal an opening volley

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Stand in Capitol Park, and in any direction you see a state building, something is likely on the chopping block.

In his bleakest budget to date, Gov. Arnold Schwarzenegger on Thursday proposed a $101 billion general fund spending plan that would release thousands of prisoners, slash school funding, shut down 48 state parks, reduce Medi-Cal health services to the poor and cut aid to blind and disabled people.

Some found the governor's cuts so draconian that they suspect his budget is merely a strategic attempt to scare legislators and voters into accepting tax increases to help close a $14.5 billion budget gap. Assembly Speaker Fabian Núñez even suggested the governor himself probably disagrees with his own proposal.

"It's a negotiating position," said John J. Pitney, professor of government at Claremont McKenna College. "From his perspective, if he had proposed tax increases right at the start, the Democrats would have taken that as a sign to propose even bigger tax increases. ... However, this way, even if he has to accept tax increases at the end, he might get a little political credit for trying to hold the line."

The 10 percent across-the-board cut Schwarzenegger promised weeks ago would hit almost every department and save about $9 billion next year and $217 million for the rest of this fiscal year. The budget anticipates a reduction of about 7,086 state employees over the next 18 months – 6,054 of them from the prisons.

"This is a budget that doesn't please everybody, I know that for sure," Schwarzenegger said. "And you will have people coming out of this room afterwards and spinning why this is all terrible. But the bottom line is, I think this is the fairest way to go."

Jaime Regalado, executive director of the Edmund G. "Pat" Brown Institute of Public Affairs, said most governors try to create worst-case scenarios early in the budget process in order to give themselves negotiating room.

"Part of it's real, and part of it's fluff," Regalado said. "You take away from every program and then negotiate with the Democratic leadership and to a lesser degree the Republican leadership about what cuts and fees might be rolled in there ... The budget is always about overstating the case and then coming back home to renegotiate something."
Schwarzenegger also called a fiscal emergency Thursday, setting a 45-day deadline to impose immediate cuts, and used the occasion to pitch a spending cap he said would stabilize the budget by creating a rainy-day fund in good years.

Democratic lawmakers responded with a drumbeat of criticism, charging that his budget would imperil students and the state’s neediest residents. Party leaders did not make bold calls for new taxes but said they must be considered.

"Cuts alone simply will not work," Núñez said. "And given the arcane structure of the budget, what is sold as an across-the-board cut winds up being a below-the-belt hit to Californians who are in desperate need of real help. I've made it clear that taxes should be the last resort. But a blind pledge to never raise any taxes, at any time, I believe is a straitjacket that ill fits California."

Asked whether Republicans and Democrats would resolve the budget easily, Assemblyman Roger Niello, R-Fair Oaks, vice chairman of the Assembly Budget Committee, sarcastically quipped, "Oh, sure, kumbaya, we'll all agree on everything."

"This is going to be difficult," Niello added. "It's going to be an ugly year, unfortunately. But the approaches of the past aren't working. ... I already stated taxes don't work. We have to bring our spending in line with our revenue."

The governor did not accept blame for the $14.5 billion budget hole, instead pinning it on a network of voter-approved spending formulas he suggested were too great for any governor to overcome.

He described the gap as a "historic" opportunity to enact the rainy-day fund in a constitutional amendment, which he suggested would save the state from facing another budget problem as severe as this one.

California currently spends as much as $600 million more each month than the state takes in. In declaring a fiscal emergency, Schwarzenegger proposed that the Legislature address the current year shortfall of $3.3 billion by eliminating cost-of-living increases in social service programs and lowering school funding by $400 million.

As reported weeks ago, the plan calls for the early release of 22,159 prisoners classified as non-serious and non-violent and who are not sex offenders. The University of California and California State University systems would be cut under the governor's plan, but by less than 10 percent.

The governor would cut cost-of-living increases scheduled for low-income aged, blind and disabled people under the SSI-SSP program and cut aid to families whose parents don't meet new federal work requirements. Schwarzenegger also is asking for $1 billion in Medi-Cal spending cuts by reducing providers' rates, eliminating adult dental services and tightening eligibility requirements.

"The savings come from people falling off the program," said Anthony Wright, executive director of Health Access, a statewide consumer advocacy coalition. "It's a cynical cut."
The governor's budget includes a 1.25 percent fee on homeowners insurance, as well as an $11 increase in vehicle registration fees, neither of which Schwarzenegger considers taxes. He reiterated Thursday his campaign pledge that he would not raise taxes.

"I'm going to keep my promise," Schwarzenegger said. "I will not raise taxes on the people of California, because they are already paying enough taxes."

As is his nature, the governor expressed more optimism than did all of the legislative leaders combined. "When I came into office in 2003, there was no way of fixing anything because Democrats and Republicans did not get along," he said. "Now, we sit together many more times; I think they get along much better, even though there are different political philosophies."

While Schwarzenegger acknowledged that the budget as an institution is hard to change, he has yet to concede the Capitol as a political institution may be equally difficult to crack.

"You can call it post-partisan as much as you want to, but as long as you have the competitive two-party system and term limits, you're going to have partisanship no matter what you say," Regalado said.

Fred Silva, a former legislative budget director who works for the fiscal forecasting firm Beacon Economics, said dynamics are so similar to past shortfall years that one might find it amusing to read historical news articles and note the similarities in sound bites.

"I'll bet the quotes are always the same," Silva said. "The (Senate) pro tem says he's outraged; the speaker says poor people are going to get hurt."

Núñez, in fact, did say such things. He also took a personal shot at Senate Republican leader Dick Ackerman of Irvine, who owns a 42-foot sailboat. Núñez assailed a tax loophole for some yacht owners, implying that GOP members want tax breaks rather than to protect the poor. He then said, "I know Sen. Ackerman is wearing his yacht tie today, which I appreciate."

Núñez criticized tax write-offs for million-dollar vacation homes. The California Republican Party fired back an e-mail criticizing the Democratic speaker for purchasing a Sacramento-area home for $1.25 million.

Asked how long budget negotiations would last, Senate President Pro Tem Don Perata, D-Oakland, said, "It's up to the Republicans." Across the hall, Ackerman had his own take. "You'll have to ask the Democrats," he said.