Editorial: Wilson did it; Schwarzenegger should do it, too

With facing a $10 billion deficit ahead, all options, including taxes, should be open

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Soon after landing in the governor's office, Pete Wilson confronted a state budget deficit in 1991 that topped $14 billion. To the dismay of many in the GOP, Wilson proposed tax hikes along with spending cuts to close the gap. He ultimately cut a deal with the Democrats that included a mixture of both.

The budget shortfall that California now faces is less severe (as a percentage of the general fund) than the one that greeted Wilson in the early 1990s. Nonetheless, Schwarzenegger now finds himself in a similar hole.

Will he be similarly bold?

The signs are not encouraging.

One of Schwarzenegger's first acts as governor was to rescind a $4 billion car tax that would have gone a long way toward closing the budget shortfall he inherited from former Gov. Gray Davis. Schwarzenegger and lawmakers then went into debt to meet the state's spending obligations, while enjoying an unexpected windfall in revenues from the housing boom and capital gains taxes paid by Google zillionaires.

The housing boom is over. The debt payments have come due. The courts have struck down past budget raids and gimmicks, and may soon strike down others. Combine that with autopilot expenditures on programs and increased spending on prisons, and you have a deficit for 2008-09 projected at $10 billion.

As Legislative Analyst Elizabeth Hill pointed out last week, the state faces a trifecta of stubborn challenges.

The first is to deal with a current mismatch of revenues and spending obligations, which has turned a $4.1 billion reserve into a $1.9 billion deficit. Immediate spending cuts will be needed.

The second is to prepare for the $10 billion budget deficit for 2008-09.

The third is to heed Hill's warning about future budgets, which she delivered this year with extra italics.
"Without permanent budget solutions, the state will continue to face annual budget problems," Hill stated in her LAO report. "A plan to permanently address the state’s fiscal troubles must involve ongoing solutions."

To his credit, Senate President Pro Tem Don Perata has been urging the governor and legislative leaders to sit down and consider some long-term fixes. His admonitions haven’t yet led to anything, but he should keep banging that drum.

Lawmakers should also be wary of piling gimmicks on top of gimmicks. If they decide to sell the EdFund, for instance, they should budget for $500 million in proceeds, not the $1 billion the governor estimates. They should also avoid a quick rush to more deficit-financing bonds. As Hill notes, the interest payments from another $3.7 billion in debt would make it harder to balance future budgets.

As Daniel Weintraub notes in his column today, the legislative analyst expects the state’s budget problems to improve after two years of pain. Yet not even the Oracle has a perfect crystal ball. This year, for instance, California is incurring $140 million in unexpected costs from the Southern California wildfires. No one knows what the future will bring.

Given the uncertainties, Californians should brace for severe cuts in public services. But they should also demand that the pain be distributed equally. That will mean higher taxes, user fees and elimination of tax credits benefiting certain industries.

Everything was on the table in 1991. It should be there again in 2008.