Dan Walters: Governor's quandary on budget

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A few weeks ago, the Legislature's budget analyst, Elizabeth Hill, dropped a fiscal bombshell by revealing that the state faced a nearly $10 billion gap between income and outgo over the next 19 months.

This week, Gov. Arnold Schwarzenegger will receive the final numbers from his own bean counters and then decide how – and if – the deficit is to be closed. And the most important decision is whether to deliver on the promise he made four years ago to balance the state's finances, or try to slide through another year on borrowed money and gimmicks.

His promises to stop "crazy deficit spending" notwithstanding, he'll be tempted to skate because of projections that the budget picture will improve markedly later in the decade – assuming, of course, that economists are correct in forecasting a flattening of the economy, but not a recession – and because it probably could be done.

For one thing, the state still has $3.7 billion in borrowing capacity left from the $15 billion deficit-refinancing bond issue passed in 2004. He could probably talk leaders of the powerful "Education Coalition" into accepting some short-term reductions in school aid, although the funds would have to be repaid later, and he could postpone about $1.6 billion in bond payments.

Although local governments won passage of a ballot measure, with Schwarzenegger's support, to protect their treasuries from raids by Sacramento, there are still some potential "savings" from that source. And he still wants to sell EdFund, the state's student loan operation, and lease the state lottery to an outside operator, although the latter had been designated as a financing vehicle for his health care plan that appears to be going nowhere.

Put it all together and throw in some of the usual tricks, such as overestimating revenue and underestimating expenses, and Schwarzenegger and the Legislature probably could cobble together another get-out-of-town, balanced-on-paper budget that delays the day of fiscal reckoning for one more year.

Were Schwarzenegger, however, to stop playing hide-the-pea and really bring income and outgo into balance, it would mean not only spending cuts that would bring howls of protest from affected interests – including school aid, 40 percent of the general fund budget – but raising revenue.
Schwarzenegger has indicated in private conversations with budget stakeholders that new revenue would be considered in return for spending cuts. The conventional wisdom is that new taxes are politically impossible because Republican legislators would never supply enough votes to meet the required two-thirds margin. But there are ways around the barrier – especially if Schwarzenegger were to take a gigantic step backward.

His first gubernatorial act was to restore a $4-plus billion reduction in the property taxes that motorists pay on their cars, which predecessor Gray Davis had rescinded in a desperate attempt to balance the budget.

Technically, the tax cut, now valued at $6 billion, is not really a tax reduction but a subsidy paid from the state treasury to local governments to make up what they lose by the state not collecting the full "vehicle license fee." Because it's an expenditure, Schwarzenegger could by law declare – as Davis did – that the state lacks enough money to pay local governments, thereby triggering full collection of the tax from motorists.

Rescinding the car tax cut would be both the easiest way for Schwarzenegger to close the budget gap because it wouldn't require a legislative vote and, politically, the most difficult, given his vociferous advocacy during his 2003 campaign for governor.

He is, as the old saying goes, hoisted on his own petard – which literally translates into being hurt by his own gaseous emissions.