Gov. Arnold Schwarzenegger estimated Monday that California's budget will fall out of balance by $5 billion to $7 billion this fiscal year, on top of a $7.4 billion gap already projected for 2010-11.

If true, state leaders would confront at least a $12.4 billion to $14.4 billion problem when Schwarzenegger releases his budget in January. California currently has an $84.6 billion general fund budget.

The Republican governor spoke with The Fresno Bee editorial board Monday after signing a bill placing a water bond on the November 2010 ballot.

He emphasized deep spending cuts as a budget solution but did not mention tax increases. Schwarzenegger and legislators agreed to cuts to education and social services, as well as temporary tax hikes, in two budget deals earlier this year.

"We are not out of the woods yet. ... The key thing is, we have to go and still make cuts and still rein in the spending," Schwarzenegger said. "It will be tougher because I think the low-hanging fruits and the medium-hanging fruits are all gone. I think that now we are going to the high-hanging fruits, and very tough decisions still have to be made."

The state is $1 billion behind in tax revenues through the first three months of the 2009-10 fiscal year. Courts also have blocked some cuts in the current budget, such as in-home care reductions.

Besides the struggling economy, a major budget problem is that state leaders relied on risky assumptions – which may never come to fruition – in bridging a $60 billion, two-year budget deficit this year.

Schwarzenegger also discussed a wide range of other topics:

• Lieutenant governor pick: A replacement for Democrat John Garamendi, who was elected to Congress last week, will come within two weeks, Schwarzenegger said. "There's no urgency," he said.
He said he wants a lieutenant governor "who will follow through with the plan I set out. ... Right now the system doesn't work to have a lieutenant governor from the opposite party."

Schwarzenegger said Sen. Dave Cogdill, R-Modesto, who was seated next to him at the meeting, was "absolutely" on his short list.

A Republican – especially one intending to run again – may have a tough time winning confirmation in the Democratic-controlled Legislature.

• Tax commission recommendations: Schwarzenegger said lawmakers should immediately debate the tax system changes recommended by a task force "rather than go on trips all over the world which they will do in November ... and say, 'Let's make a commitment, we're going to go and stay here until Christmas and then let this be a great Christmas vacation because we have accomplished one more important thing.'"

• Pension changes: Schwarzenegger made a pitch for a plan to devise a less lucrative pension system for future public employees. "We have to get serious about rolling back the pensions to the 1999 level for new employees," he said, noting that the state's general fund will have to take on an increasing responsibility to pay pension costs. "Eventually, the $1.5 billion (a year) that's being paid now will go up to $11 to $13 billion a year."

Schwarzenegger: This year's budget gap may hit $7 billion

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