Faulty assumptions blamed for state budget mess

Wyatt Buchanan, Marisa Lagos, Chronicle Sacramento Bureau

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Plummeting tax revenue and the rising cost of social programs have played their part in the budget mess facing California. But there's another major factor - the faulty assumptions the state's leaders have made in passing previous years' spending plans.

Nearly a third of the $20 billion deficit that Gov. Arnold Schwarzenegger proposed addressing with deep cuts to services Friday consists of reductions approved in the current budget that didn't pan out, and expected revenue that never came in. And the governor's new plan counts on the state receiving billions of additional dollars from sources that are problematic at best.

"Obviously we're in a recession, but don't blame it for this new budget problem - we already assumed a big drop in revenues," said Michael Cohen, deputy analyst for the state Legislative Analyst's Office. "In reality, it's much more because the assumptions built into the budget turned out not to be realistic at all."

Among those assumptions was the sale of a portion of the State Compensation Insurance Fund for about $1 billion, which has been held up by a lawsuit. Other legal action has blocked reductions in Medi-Cal and other social programs. Some cuts in prison spending that the governor requested never made it through the Legislature.

This year, Schwarzenegger is figuring on receiving $6.9 billion from the federal government, which he says the state is owed or deserves as a matter of fairness.

He has also based his budget proposal on reaping hundreds of millions from an offshore oil drilling scheme that still needs approval, hundreds of millions in cuts rejected by voters in May that will have to go on the ballot again, and $811 million in decreased spending on prisoner health care.

That cut would have to be approved by a receiver who was installed by the federal courts to oversee prison medical care, specifically because the state wasn't doing enough to keep sick inmates from dying.

The governor did, however, propose a host of cuts - including eliminating three major programs for the poor - if California fails to obtain the money from the federal government.

No effort, no gain
H.D. Palmer, spokesman for the state Department of Finance, said the administration cannot be expected to account for all the forces out of its control - such as court rulings - when putting together a spending plan.

"There are no guarantees except for one: If you don't put your best effort into it, you're not going to succeed," Palmer said. "You can't build a budget assuming you're going to be challenged and lose on every piece."

The biggest item on Schwarzenegger's wish list - the nearly $7 billion in federal money - would take a considerable push by California's congressional delegation. But instead of backing the governor, the state's Democratic senators, Dianne Feinstein and Barbara Boxer, were dubious about the request Friday.

On Saturday, House Speaker Nancy Pelosi, D-San Francisco, joined in, saying the federal government already has directed more than $80 billion to California through its $787 billion stimulus package and other initiatives since President Obama took office.

"The idea that any state can say, 'This is my shortfall, pick up the tab,' is not one that would work well in Washington, as you can imagine," Pelosi said during an appearance in San Francisco.

Pushing the job away

Some lawmakers steeped in the recent history of state budgeting said Schwarzenegger has a track record of making unrealistic assumptions.

"We've seen from this governor before that he doesn't want to put the tough decisions on the table - he wants to shove the responsibility on either the federal government or the Legislature," said Assemblywoman Noreen Evans, D-Santa Rosa, who chairs the Assembly Budget Committee.

Because the governor refused to consider taxes during the last budget talks, "the Legislature basically had a gun to its head, and we had to agree to compromise to things we were skeptical of," Evans said. "The things we were skeptical of are things that failed and led us to the current budget deficit."

But the Legislature has also contributed to the problem. Last year, the Senate passed a plan to cut $520 million from prison spending, but the Assembly balked at provisions allowing some inmates to complete their sentences on the outside. Lawmakers approved a plan to cut $300 million instead.

Lawmakers' blame

In other instances, the Legislature has waited months before approving cuts, shrinking the savings. Legal challenges to reductions that lawmakers have approved force the state to spend at higher levels while the litigation winds through the courts.
Assemblyman Jim Nielsen, R-Gerber (Tehama County), vice chairman of the Assembly Budget Committee, said he would take a keen interest in making sure any cuts are as "litigation-proof as possible."

He described budgeting, and the potential for savings never being realized, as the process of "hope and hard choices."

"There is a lot of hope here (in Schwarzenegger's proposal), but there is some cause for hope," Nielsen said. In particular, he's optimistic the state will get at least half of what it is seeking from Washington.

Still, the budget year already is shaping up to be brutal, both politically and for Californians who rely on social services. Cohen, of the Legislative Analyst's Office, said the state has a meager supply of options for dealing with the deficit.

"If you want solutions that are both politically viable and have no legal risk, it's a pretty short list," he said. "We've done most of those already."

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*Chronicle staff writer Joe Garofoli contributed to this report. E-mail the writers at wbuchanan@sfchronicle.com and mlagos@sfchronicle.com.*