Brown: California budget deficit rises to $16 billion

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In a gloomy preview of his May budget release, Gov. Jerry Brown said Saturday that California's deficit has mushroomed to $16 billion, nearly $7 billion higher than he last estimated.

The Democratic governor blamed a slow economic recovery, as well as federal judges and administrators who blocked cuts to health care for the poor. Brown had previously pegged the deficit at $9.2 billion.

"This means that we will have to go much further, and make cuts far greater, than I asked for at the beginning of the year," Brown said in a video released on YouTube. "But we can't fill a hole of this magnitude with cuts alone without doing severe damage to our schools."

The governor then made a campaign pitch, asking voters to approve his November ballot initiative to raise taxes on sales and wealthy earners.

Fiscal experts for months warned that Brown had been too optimistic in his January plan, particularly in his assumption that capital gains from California's wealthiest residents would propel the state's funding higher.

The nonpartisan Legislative Analyst's Office warned in February that Brown had overstated tax growth, a concern borne out when California ended last month $3 billion in the red for the fiscal year.

The governor is slated to release his revised budget Monday, and no sector that relies on state funding is likely to escape deeper cuts. Brown has already told state worker unions to expect at least a 5 percent compensation reduction.

Advocates for low-income residents expect another proposed round of deep cuts to health and welfare programs beyond what the governor sought in January, when Brown asked for a $1 billion reduction in welfare-to-work.

They predicted Brown will make another run at cuts in Medi-Cal health care for the poor that federal officials and courts rejected in recent months.
"It's bad, it's big and it'll mean brutal cuts," said Anthony Wright, executive director of Health Access California. "The kind of cuts left to make will have huge impacts not just on families but the economy. There's no good news here."

After disappointing tax revenues last month, the Legislative Analyst's Office said the state should expect a "few billion dollars" less than Brown projected through June 2013.

Brad Williams, a former budget forecaster for the analyst's office, said Saturday that Brown not only had to assume $3 billion less through June, but he likely reduced his expectations for the 2012-13 fiscal year by a similar amount.

On top of that, the governor alluded to federal court and administrative decisions that blocked spending cuts he had counted on in January.

Federal officials in February rejected $575 million in annual savings from requiring low-income patients to submit co-payments for medical services. A federal judge also has blocked about $500 million in annual savings from reducing payments to doctors, pharmacists and other Medi-Cal providers.

Meanwhile, a judge blocked a $100 million cut to in-home care providers who serve low-income elderly and disabled residents.

"It's a daunting number," said Senate President Pro Tem Darrell Steinberg, D-Sacramento, of the governor's new deficit estimate. "We've dealt with a larger number before, but … the choices are even more difficult this time."

The governor's grim outlook could have been worse had he not counted an infusion of tax revenues from an initial stock offering by Menlo Park-based Facebook. His deficit estimate assumes the stock sale will bring in $1.5 billion more through June 2013, according to Department of Finance spokesman H.D. Palmer. If Brown's tax initiative is approved, it would generate an additional $400 million from those who sell their Facebook stock.

The governor's initiative would increase the statewide sales tax rate by a quarter-cent and impose a three-tier income tax hike starting at single filers earning $250,000 and joint filers earning $500,000.

Senate Republican leader Bob Huff, R-Diamond Bar, opposes the tax hike and blamed Democrats for not cutting spending enough, particularly when it comes to public employees.

"They always come up with a bunch of reasons why they can't do it," Huff said. "We could be contracting out things to non-public employees, whether in our schools or publishing the state ballot."

Steinberg said Democrats still hope to block or reduce Brown's $1 billion cut to welfare-to-work, a program that has already faced grant reductions and stricter time limits in recent budgets. K-12 schools will face an even deeper "trigger" cut than the $4.8 billion that Brown proposed in his
January budget if his tax initiative fails, according to sources. That is partly due to the fact that Brown's tax initiative raises more money than his first version did, so more alternative cuts are necessary.

Brown's deficit announcement makes it all the more likely that the University of California will raise tuition for next school year. This week, UC officials said they would need $125 million more than Brown gave them in the January budget to avoid a 6 percent tuition hike. The governor's budget is expected to move in the opposite direction, with another higher education cut, one source said.

In the past, Democrats have found ways to soften safety net cuts proposed in May budget revisions, and they are considering a wide range of options again this time.

In previous years, lawmakers have relied on one-time solutions to minimize budget pain – an option that Republicans have advocated for this year in lieu of Brown's tax hike. Steinberg has repeatedly discussed using about $1.5 billion in residual affordable housing money to help reduce welfare cuts, to the chagrin of housing advocates.

Investor group Queensfort Capital has pitched lawmakers on a new multibillion-dollar plan to buy state buildings and lease them back for 30 years, legislative sources said. Former Gov. Arnold Schwarzenegger had inked a similar deal with a different investor group in 2010, but Brown last year walked away from the contract. Queensfort lobbyist Marc Aprea did not return a call last week.