

# Legislators urged to stay frugal

**Use \$2 billion windfall to tame deficit, analyst says.**

**By John Hill -- Bee Capitol Bureau**

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The state treasury will be \$2 billion fuller than expected, but that doesn't mean it's time to splurge, the nonpartisan legislative analyst said Tuesday.

On the contrary, the Legislature should still try to make ongoing budget cuts whose magnitude at least matches the savings proposed by Gov. Arnold Schwarzenegger, Legislative Analyst Elizabeth Hill said.

Failure to adopt \$2.5 billion of Schwarzenegger's permanent cuts this year, Hill said, would result in shortfalls in later years of \$7 billion.

"The price of inaction is very dramatic," she said.

Hill, whose office advises lawmakers on the budget, also criticized Schwarzenegger's proposal to institute across-the-board cuts when the budget is late or gaps appear in the middle of the fiscal year. Another Schwarzenegger proposal would forbid the state from suspending the constitutional guarantee of school spending, or to use a formula that reduces the commitment in tough budget times.

Such measures would do exactly what the Republican governor has said he wants to avoid, Hill said - put the state's finances on "autopilot," impervious to the will of the Legislature or the governor.

"We're concerned that the budget reforms put forward make the problem worse rather than better," she said.

Instead, she said, "the Legislature and the governor should have the tools at their disposal, when fiscal conditions change, when we have a situation of revenue volatility as we have in the past, to modify the cruise-control provisions of the budget."

Treasurer Phil Angelides, a Democrat who plans to run for governor next year, took up that theme, calling Schwarzenegger's budget-cutting proposals a "robo-saw gimmick."

"It will, in fact, worsen California's budget problems and our ability over time to balance future budgets in a way that is good for the state of California," he said.

But Schwarzenegger spokesman Vince Sollitto said the governor's proposals are designed to force the Legislature to decide on its priorities and approve a spending plan on time.

"It's only when they fail to do so that the mechanism reverts to the previous year's priorities," he said.

The report released Tuesday was the legislative analyst's annual overview of the state's fiscal condition and assessment of the budget proposal released by the governor in early January.

With more data available on the state's economic performance and its effect on revenues, the February report often comes up with a much different number. That estimate, in turn, is supplanted by more up-to-date figures included in the governor's revised budget proposal in May.

As the state's finances deteriorated in recent years, the later reports generally included more pessimistic revenue numbers. But, at least for now, the trend has reversed.

Hill warned, however, that some of the \$2.2 billion in unexpected revenue should be considered a one-time windfall. The state could build its reserve to almost \$3 billion with the extra cash, offsetting expected shortfalls in later years, she said.

Even if the fatter reserve is carried over into the next year, she said, the state will face a \$1.1 billion deficit. And some of the budget's assumptions, such as the sale of pension obligation bonds being challenged in court, could fall through.

Angelides said the report also reveals that Schwarzenegger reneged on his promise to tear up the state's "credit card" - that is, stop borrowing to plug budget gaps. The report identifies about \$3.5 billion in loans in his budget proposal. About half of that amount is from deficit financing bonds approved by voters last March.

"This budget relies on massive new borrowing," Angelides said. "It continues the pattern of this state borrowing, running up the state's credit card, indebting future generations for today's problem."

Sollitto, Schwarzenegger's spokesman, responded that "this governor inherited a budget deficit due to years of overspending. He has put the state's finances on track. It will take more than one year to get there, but today's LAO report seemed to indicate that we're moving in the right direction."