



'Get tough' budget unveiled

Governor urges cuts - and fiscal overhaul

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Despite California's brightening economic picture, Gov. Arnold Schwarzenegger presented a \$111.7 billion budget Monday that would hold back money from schools, the poor and state workers to plug a \$9.1 billion deficit without raising taxes.

The Republican governor said his 2005-06 spending plan will patch the gap but will not permanently cure the imbalance between tax revenues and costs that has plunged the state into years of deficits.

As he laid out his spending priorities for the coming year, he called for a sweeping and controversial overhaul of state budgeting to take to voters that would prevent spending from ever drifting above tax income again.

"It is an honest budget, and it is a budget that the state needs," Schwarzenegger said, handing the plan to the state's Democratic-controlled Legislature. "There are no two ways about it. The cruise control spending is out-of-control spending. The way the budget formulas now work, we will never catch up."

The proposal would cut grants for welfare recipients and borrow heavily, including withholding \$2.3 billion schools are owed. It

asks state workers to pay a larger share of retirement costs, take unpaid time off and give up two paid holidays.

It would also roll back the state's share of in-home care workers' pay and halt its contributions to teachers' pensions.

The proposal strikes areas that Democrats have fought to protect in recent budget-cutting rounds and sets the stage for a battle between the governor and lawmakers that is likely to wind up in the hands of voters this year.

Schwarzenegger said his plan increases overall state spending by 4.2 percent and makes progress toward paying the tab for years of irresponsible budgets. State revenues have climbed 5 percent, but the administration now estimates they are \$9.1 billion less than the state's spending obligations.

"Of course, we would like to spend much more money on those various different important programs and also on education," he said. "But the fact is that's all the money that we have, and we must live within our means."

Critics quickly assaulted the budget plan as unfair to the young and poor.

"I don't think we ought to be targeting kids in schools and senior citizens to take the brunt of the cuts while letting corporate interests totally and completely off the hook," said Assembly Speaker Fabian Núñez, a Los Angeles Democrat.

State Treasurer Phil Angelides, a Democrat who likely will challenge Schwarzenegger if he runs for re-election in 2006, called the budget "fiscally" and "morally" unbalanced.

"All of the sacrifice is coming from those who have the least, or from children," he said.

Republican lawmakers praised the blueprint as fiscally sound.

"It's a very bold step, and it's sorely needed," said Assembly Budget Committee Vice Chairman Rick Keene, R-Chico. "When

you run the mathematics, the budget just doesn't work without making some changes in some of the autopilot spending."

Last year, many of Schwarzenegger's toughest proposed cuts never came to fruition after negotiations with interest groups and the Legislature. On Monday, he joked: "This year I am going to get tough."

He will attempt to sell his 2005-06 plan to the Legislature at the same time as he seeks to rewrite the state constitution to weaken some of its spending prescriptions, including voter-approved Proposition 98's minimum requirement for K-14 schools.

"It is very clear, if we don't get control of our autopilot spending, there will be deficits as far as the eye can see, and we will risk every program for years to come," Schwarzenegger said.

The governor said he wants to "fight fire with fire" by asking voters to adopt another formula, one that would trigger across-the-board spending cuts if spending obligations rise above revenues in future years.

If his budget plan is enacted as he proposed it without the structural changes, Finance Department spokesman H.D. Palmer said the state would face a roughly \$6 billion shortfall in the 2006-07 fiscal year.

Schwarzenegger also is seeking to build in some other new formulas to regulate the way the Legislature and the governor can spend taxpayers' money. He is asking for future prohibitions against tapping gasoline sales tax money - after borrowing a proposed \$1.3 billion from the fund in the next two years - and K-14 accounts.

Meanwhile, in the coming year, he wants to give schools \$2.3 billion less than they are owed under Proposition 98.

K-14 school spending - which makes up nearly half of the budget - nevertheless will increase by about 7 percent, he said.

"You have to at the same time look at all of the needs that are out there," he said. "We found a good balance to increase spending for education and to also give money to the poor children and to the poor people, to the blind and to the disabled and to the people who are less fortunate."

Education leaders said the governor's plans betrayed a promise he made them during last year's budget talks.

"It's going to be very hard for us to convince education leaders in this state that any promise or proposal he puts forward with any kind of assurance will ever hold water," said Kevin Gordon, executive director of the California Association of School Business Officials.

Schwarzenegger kept his bargain with administrators at the University of California and California State University. He included nearly \$90 million for enrolling all qualified freshman applicants next fall, a contrast to a year ago when he proposed shrinking the entering class at both systems by 10 percent. He also proposed a modest increase for both systems to pay for faculty and staff salary increases.

UC and CSU leaders have already approved higher student fees for next fall as their side of the so-called compact struck last year with the governor.

Community college students, hit with fee increases in the last two years, were spared hikes in the new budget plan.

Schwarzenegger's budget plan also will capture \$450 million in savings by reducing grants and withholding a cost-of-living increase for the CalWORKS program, which provides financial help and training to help low-income parents enter the work force.

The budget plan would make cost-shaving changes in Medi-Cal that include imposing some new premiums for poor families and shifting the aged, blind and disabled into HMOs.

The governor's budget does not call for reopening talks with the unions that represent state workers, but it calls for significant concessions in upcoming negotiations as contracts expire.

Among them, the Schwarzenegger administration will ask state workers to cover half of their retirement fund costs, instead of one-fourth. He also will ask workers to agree to a five-day furlough, the elimination of two state holidays that were not named, and to changes in the way overtime is calculated.