

# Plan is no deficit cure, analyst argues

**By Alexa H. Bluth -- Bee Capitol Bureau**

***Published 2:15 am PST Thursday, January 13, 2005***

Gov. Arnold Schwarzenegger's proposed spending plan would leave California with at least a \$5 billion budget gap by 2006-07, and its accompanying spending controls would hamper future lawmakers from setting budget priorities, Legislative Analyst Elizabeth Hill said Wednesday.

In her initial appraisal of the Republican governor's \$111.7 billion budget proposal, the Legislature's nonpartisan economic adviser said the governor's budget sets forth a realistic picture of the state's financial woes and contains some reasonable fixes for the deficit, which Schwarzenegger pegs at nearly \$9.1 billion for the fiscal year beginning July 1.

But Hill said Schwarzenegger's spending plan alone will not repair the state's underlying budget problems and would leave the state billions of dollars in the red in future years. She said lawmakers should seek more ongoing solutions - permanent program cuts or higher taxes - to narrow the gap between revenues and spending obligations to avoid an estimated \$5 billion deficit in 18 months.

Schwarzenegger has acknowledged that his budget does not repair the state's ongoing budget imbalance but said his package of changes to the state's budgeting system will. Hill did not say whether she thinks the spending controls Schwarzenegger is proposing would bring spending and revenue back into line over time.

She said, however, that the governor's plans to attack spending formulas that cause the state's budget to grow will impose new rules that will lead to even more "autopilot" budgeting.

"Our concern is that the proposal would really put more state spending on cruise control and have it off-limits for policy-makers," Hill said. "The proposed solution increases the problem, rather than addresses it."

She said that the governor's plan to trigger across-the-board spending cuts whenever the budget tilts out of balance would further take budget-setting policy decisions out of lawmakers' hands.

Assembly Budget Committee Chairman John Laird, D-Santa Cruz, agreed with Hill's assessment and called the spending control proposal "unworkable."

Under the proposal, the governor's finance director would determine at four points during the year - plus one more if the governor does not sign the budget by July 1 - whether spending and revenues are balanced.

If the director determines they are not, the governor would call a special session, and lawmakers would have 30 days to agree upon cuts or tax increases to bring the books back into balance or sweeping cuts automatically would take hold.

"When we say that autopilot is bad, and formulas are bad, it is the worst kind of formula, and I think we need to look at everything on a case-by-case basis," Laird said.

But H.D. Palmer, a spokesman for the governor's Department of Finance, said Schwarzenegger's plan would lead to more cooperation.

"We also think it will help in moving the Legislature and the governor to work together to set priorities and pass a timely budget because if they do, then these provisions won't kick in," Palmer said.

Hill also criticized Schwarzenegger's plans to ask voters to prohibit future Legislatures from suspending the Proposition 98 minimum spending requirements for schools, which guarantees that more than 40 percent of revenues go to education. When voters approved the spending guarantees, they included an opt-out provision that allows lawmakers to suspend the law with a two-thirds vote of the Legislature.

The governor's education proposal, however, "in effect takes 43 percent of the general fund budget off the table as the Legislature would be crafting their budget proposal," Hill said.

That would force lawmakers to look to other areas, including higher education, social services, health programs and corrections to build a balanced budget plan, Hill said.

She said other elements in Schwarzenegger's budget and long-term spending control plans, plus commitments he made last year to continue to boost higher education funding over the next half-decade, will add to the limits on Legislatures and future governors.

"I don't think there's any disagreement between us and the analyst that there is a clear need for structural reform in the state's budget," Palmer said. "The analyst has a different view on accomplishing that."