

## **Budget analysis: Plan relies heavily on borrowing**

**Once again, the governor wants to tap several sources - for \$6 billion.**

**By Gary Delsohn -- Bee Capitol Bureau**

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Just as he has from the day he announced he was running to clean up Sacramento, Gov. Arnold Schwarzenegger declared again Monday that he would end the practice of state government borrowing to pay its bills.

"We must live within our means," the Republican governor said while presenting his budget plan for the fiscal year that begins July 1.

"This is something I promised during my campaign ... we will only spend the money that the state takes in."

Well, not exactly.

For the second year in a row, Schwarzenegger's budget plan relies to a great extent on borrowing, a combined total of about \$6 billion from several sources, including education, a special state fund earmarked for transportation projects and from bonds voters approved to help close last year's budget gap.

Although the borrowing is easily discernible by looking at the governor's proposed budget, he failed to mention it when he briefed reporters on his spending plan.

Instead, Schwarzenegger emphasized what he said was his commitment to making the transportation fund inviolate.

"We are proposing that the state should never be able to take money from Proposition 42," Schwarzenegger said, "because I

happen to be - and I think that everyone in California happens to be - a big believer in roads."

He made that pronouncement even as his budget proposes "borrowing" \$1.3 billion from the fund this year and \$1.3 billion the following year.

The fund's protection would be included in a proposed constitutional amendment he wants legislators and the public to approve later this year.

Proposition 42, passed by voters in 1992, is funded by gas tax receipts.

It was earmarked for transportation, but governors and the Legislature have routinely raided it. Such underfunding, the California Transportation Commission said, has put the state's transportation "in crisis and on the verge of collapse."

"It's easy to say, 'We're going to make sure it doesn't happen in the future,' " said Ed Costantini, a political science professor emeritus at the University of California, Davis, "but what about now?"

"He's understandably avoided what might have been a smart opportunity to take advantage of his political capital and instead say, 'We've got to talk about revenue enhancement.' I think he probably could have gotten away with it."

The strongly pro-business governor has consistently resisted Democratic calls for new taxes to help balance the budget without massive cuts, and Schwarzenegger boasted again Monday of standing behind that commitment.

"The budget I proposed is balanced," he said, "and the budget does not increase taxes."

But just as he campaigned around California last year on a pledge to "tear up" the state's credit card and never borrow again, Schwarzenegger is effectively borrowing \$1.7 billion to help close the projected \$9.1 billion budget gap by using money

left from the \$15 billion deficit bond voters approved shortly after he took office.

Other borrowing comes from reductions in state payments to education that will be paid back over 15 years, bonds to pay for a flood judgment against the state and nearly \$800 million in pension bonds.

To Phil Angelides, the Democratic state treasurer who plans to run for governor next year, the borrowing is more Schwarzenegger deceit.

"He said he would balance the budget with no further borrowing, that he would tear up the state's credit card," Angelides said.

"But today, the governor's promises to the people of this state and the promise of fiscal responsibility and budget fairness lie in tatters."

Tom Campbell, Schwarzenegger's new finance director, conceded that the budget contains significant borrowing. But he said there wasn't anything deceptive about it.

"You say where it's coming from and how much; you're not trying to hide it or guilty of deception," Campbell said.

More pragmatically, Campbell added, the borrowing is needed to balance the budget - and get it approved by the Legislature - without even deeper cuts than those Schwarzenegger included in the spending plan.

"What we're doing is transitioning," Campbell said.

"What we're doing is getting a budget that has a good chance of passage. This is not an opening line, 'I know we're going to give halfway' sort of budget. It was a reasonable attempt to say what could pass."

Regarding the highway fund borrowing, Campbell said a proposed constitutional amendment backed by Schwarzenegger will make such transfers impossible in the future. It would also reimburse the fund, over a 15-year period, for earlier diversions.

The trouble with that is that Schwarzenegger would be tying the hands of future governors, said Jean Ross, executive director of the California Budget Project, a group that analyzes state spending's effect on the poor.

Proposition 42, she pointed out, was passed with a provision allowing such transfers in a budget crisis.

"The danger with locking down greater shares of the budget," she said, "is you make it that much harder in the future when the state faces a shortfall to bring the budget in balance."