

# Governor sets sights on overhauling state

**By Margaret Talev -- Bee Capitol Bureau**  
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Gov. Arnold Schwarzenegger this week will ask lawmakers to overhaul the way the state budgets its money and spends tax dollars.

He will also seek their agreement to redraw California's legislative districts in a way that could make it easier for moderate candidates to win against liberals and conservatives in various parts of the state.

In his State of the State address to the Legislature on Wednesday, Schwarzenegger will not commit to calling a special election in 2005 that could include a mid-decade redistricting proposal and a spending limit measure, said advisers familiar with the speech who spoke on condition of anonymity.

But they said the Republican governor will make clear he is seriously considering such a course of action to seek changes he believes are needed to make legislative races more competitive and lawmakers more responsive to the concerns of mainstream Californians.

The governor has encouraged Democrats who control the state Assembly and Senate to enact as much of his agenda as possible through legislation, suggesting they have less control if measures go directly to the ballot.

Schwarzenegger communications director Rob Stutzman declined to preview details of the speech, but said the governor will move into a new phase in his second full year in office.

"There's no question it's a reform theme," Stutzman said. "He got things under control in the first year, staved off disaster. He's had a year to observe things. And now he wants to come back and do significant reforms."

Advisers have spoken in general terms about the governor wanting to roll back formula-driven spending increases, suggesting that his proposals this year could seek to restrict the flow of money to everything from pension programs to schools.

In his speech, Schwarzenegger will also detail at least some of the recommendations he plans to pursue from the California Performance Review, a 2,500-page document compiled last year by state workers with input from academics and lobbyists.

In calling for such a review last year in his first State of the State, Schwarzenegger promised an explosive overhaul, saying while other governors often proposed "moving boxes around to reorganize government ... I want to blow them up." Over time, that rhetoric has softened as administration officials began examining individual proposals that included eliminating hundreds of state board and commission posts.

Administration officials said the governor will embrace some of the ideas, but they say others are ill-conceived, politically untenable and unlikely to save the billions originally anticipated.

Democrats said they'll also be looking for clues in what Schwarzenegger doesn't mention in his address.

With an estimated \$8 billion budget shortfall, Schwarzenegger's opposition to tax increases and the state's inability to continue bonding its way out of trouble, they anticipate the governor may look to cut health and social services programs when he unveils his annual budget plan Jan. 10, even if he doesn't draw attention to such cuts in his address.

"Regardless of what's in the speech, the crux of how the year's going to go will be in his budget," said Gale Kaufman, a consultant who advises Assembly Democrats.

"His first State of the State, people on both sides of the aisle were looking for a feeling, a mood, a sense of consensus building. This year, we're through with that, and it's time to really say quite bluntly, 'How do you stop the gimmicks and start

really focusing on long-term structural solutions to the financial situation we're in?' " Kaufman said.

"So unless the speech is extremely substantive on that point, it will only be when we see the budget that we know what the governor's plans will be for the year, and how the Democrats will react."

It remained unclear how directly the governor would signal his position on what is shaping up to be one of the most politically sensitive hurdles to curbing state spending - mandated increases to school funding under voter-approved Proposition 98.

While Schwarzenegger has fashioned himself as an advocate of children's programs, the \$1.4 billion that school officials say they are owed this year, atop their regular funding, could make it all the more difficult for the governor to solve the state's budget problems.

School officials say the administration and the California Teachers Association have been in talks in recent weeks, but neither would discuss the details. Schwarzenegger a year ago reached agreement with the CTA and other education groups to lower school funding in the current year, but that bill has come due while the state's budget woes continue.

Schwarzenegger has said repeatedly that he believes new taxes would stunt the state's economic recovery and that he has no plans to propose any.

Conservatives - who favor a constitutional spending limit being proposed by Sen. John Campbell, R-Irvine, that limits budget growth to population increases and inflation - are looking to the governor's speech for signs he might support their concept or some version of it.

Many didn't like Schwarzenegger's reliance on a \$15 billion bond deal last year to bridge the budget gap, but went along with it as an emergency fix to a problem he inherited when he won the recall election.

"Last year, people realized we needed to get the bond passed to get us through an immediate crisis, instead of on long-term reform," said David Gilliard, a political consultant on the spending limit proposal.

"There's a lot of anticipation we're going to hear him talk about real fixes in this State of the State. We may not hear the details, but we want to hear that there's real reform this time."

Education officials are adamantly against the Campbell proposal because it would likely reduce the schools' Proposition 98 funding guarantee.

"The question about the education issue is the 800-pound gorilla, because it will impact a lot of the other budget dynamics," said Kevin Gordon, executive director of the California Association of School Budget Officials. "We're going to be listening real hard to the degree to which the governor is sympathetic to including schools in that (spending) limit."

Even if the governor's spending reform proposals don't go as far as the Campbell plan, analysts say rolling out a so-called fiscal reform agenda could help him build a platform on which to run for re-election in 2006 if he decides to seek a second term.

"It's when we'll determine whether he's going to try to build a real legacy beyond just being a popular political figure," said Allan Hoffenblum, a Republican consultant who publishes and co-edits the nonpartisan California Target Book, which tracks state and federal races. "He put a Band-Aid on the problems last year, and that's not going to work this year."

If Democrats buck his reform proposals, analysts said, it gives Schwarzenegger added ammunition to hold a special election.

But a special election could backfire, and the governor's own advisers are divided on whether to go forward with one.

Conservatives are planning initiatives the governor might rather avoid, from spending limits to immigration.

Democrats, meanwhile, are threatening to put before voters measures passed by the Legislature but vetoed by Schwarzenegger - everything from a car buyers' bill of rights to a higher minimum wage to mechanisms for buying cheaper prescription drugs from Canada - all of which are opposed by business groups but which polls indicate are popular with Californians.

## **STATE OF THE STATE**

**What:** Gov. Arnold Schwarzenegger delivers his second State of the State address to a joint session of the Legislature in the Assembly chambers.

**When:** Wednesday, 5 p.m.