

Daniel Weintraub: Governor takes a whack at deficit, asks for help

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Published 2:15 am PST Tuesday, January 11, 2005

After insisting for a year that California might be able to grow its way out of its persistent budget shortfall, Gov. Arnold Schwarzenegger on Monday finally faced the facts: it won't happen. The gap between projected tax revenues and ongoing spending commitments is so large it can't be bridged, even by a robust economy or this governor's famous power of positive thinking.

Instead, state government leaders in the coming years will have to choose among cutting spending, raising taxes or some combination of the two. There is no way around it.

Schwarzenegger, unveiling his proposed budget for the fiscal year that will begin July 1, said he will oppose tax increases and wants to shut down, over time, the borrowing options that he and his predecessors have used to paper over past deficits. That leaves only spending, which the Republican governor says must be slowed to bring the budget back into balance.

"We don't have a revenue problem," Schwarzenegger said Monday. "We have a spending problem."

On a macro level, he makes a good case. State tax revenues in the coming year are expected to grow by \$5.3 billion, or 6.8 percent. Spending, if left unchecked, would grow twice as fast, by \$10.4 billion, or 12.6 percent.

It seems like a rather simple task: Reduce the growth in spending to keep it in line with revenues.

But that is much easier said than done.

There is a reason that spending is projected to grow at such a rapid rate. California voters, by their own decisions at the ballot box and through their elected representatives, have made it so.

The public schools are guaranteed a certain amount, as are road construction and public transit - thanks to voter-approved provisions. Welfare recipients are promised annual cost of living increases.

So are the indigent aged and the blind and disabled. The state has a commitment to serve every developmentally disabled person and to spend increasing amounts on care for the homebound.

Under Schwarzenegger's budget for the coming year, each of these services would take a hit, even though total spending would still climb by \$3.4 billion, or 4.2 percent.

The schools, for instance, would see a \$2.4 billion increase, or 7.1 percent more than they are getting from the state in the current year. That's more than enough for them to keep pace with enrollment growth and price increases. But it is \$2.2 billion less than the state Constitution mandates they receive. And Schwarzenegger wants them to start picking up more of the cost of teacher retirement, which would slice another \$567 million from what they have available to spend.

The governor is proposing to increase transportation spending by \$600 million in the coming year, or 18 percent. But if Schwarzenegger did nothing, another \$1.3 billion raised from the sales tax on gasoline would flow to road construction and transit, as directed by the voters. Instead, he is proposing to shift that money to other state programs to help balance the budget.

Spending on higher education would grow by \$389 million, or 6.4 percent. That's enough to cover 5,000 more students at the University of California and 8,000 more at the California State University, plus give each system a 3 percent general increase in spending and pay for such special needs as the start-up of UC's campus in Merced. But both systems project that their costs will

grow still faster, so they plan to raise fees by 8 percent for undergraduates and 10 percent for graduate students.

Hardest hit would be the health and welfare budget. Schwarzenegger is proposing to block cost-of-living increases for welfare recipients and cut their grants by 6.5 percent while also forgoing higher grants scheduled for the aged and disabled. He wants to strengthen work requirements in welfare, reduce the amount the state reimburses the counties for in-home care, and shift more people to managed care in the Medi-Cal health program for the poor.

If Schwarzenegger did nothing, the health and welfare budget would grow by about \$2.4 billion, or 9.2 percent. With his cuts, the budget will still grow by about \$1.2 billion, or 4.6 percent.

So despite the howls Schwarzenegger's spending plan will prompt from recipients of state services and their advocates, most programs are still growing, just not enough to keep pace with what Californians have come to expect. And the howling would be even louder if the governor were not softening the blow with another \$3 billion in borrowing, even as he says he is trying to wean the state off that bad habit.

Schwarzenegger acknowledged Monday that this budget, even if passed by the Legislature, still would not align spending with revenues for the long term. It would take another \$6 billion in either deeper cuts or higher taxes a year from now to finish the job.

For that task, the governor says he will be enlisting the voters' help. He plans to ask the people for a constitutional hammer that would automatically impose across-the-board spending reductions in August 2006 if the Legislature hasn't passed a truly balanced budget by then.