

# Dan Walters: Schwarzenegger may have given up on balancing state's budget

By Dan Walters -- Bee Columnist

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Six years after former Gov. Gray Davis and state legislators created chronic budget deficits by squandering a one-time revenue windfall, and nearly three years after voters dumped Davis and elected Arnold Schwarzenegger to fix the state's tortured finances, the budget is still out of whack. And as spending climbs, it may ooze red ink indefinitely.

As Schwarzenegger on Tuesday proposed a \$125.6 billion budget for the fiscal year that begins July 1, he described it as continuing the state "on a path toward fiscal responsibility and economic recovery." But he was wrong on both counts.

The budget, if adopted as proposed, would widen the deficit for still another year, and the state's economy is already humming along quite powerfully - and that's why continuing deficits are so troublesome. If politicians can't balance the budget during a year of record employment and personal income, how could they hope to do so when the inevitable economic downturn occurs?

Inferentially, balancing the budget has become a much lower priority for Schwarzenegger as he expands spending to make peace with a Democrat-controlled Legislature that always wants more, and as he proposes billions of dollars in new public works projects to regain traction with voters, even as he pays lip service to fiscal responsibility. "We must not forget we still have a structural deficit," Schwarzenegger said as he introduced the budget to reporters, adding, "We still have the spending ... no matter how much money we make. ..."

The Republican governor even acknowledged that he could have balanced the budget this year had he not decided to boost school spending sharply in a tacit acknowledgment that the powerful, union-led "Education Coalition" won - and he lost - a showdown in last November's special election, to shift money into highways and other public works projects, and to add some new spending, such as his own pet project, after-school programs.

"When I ran, I thought it would be easier to balance the budget," Schwarzenegger acknowledged, adding that with so many spending areas untouchable by law or politics, "I really don't have much leeway."

That's probably true, especially since one of his measures rejected by voters would have given him some authority to unilaterally reduce spending to stave off looming deficits. But Schwarzenegger has exacerbated the deficits since taking office, first by reinstating a nearly \$5 billion reduction in taxes on cars that the state could ill afford, and then by loosening up spending to curry favor with voters and Democratic lawmakers.

The fine print of the voluminous budget reveals just how much spending, and deficits, have increased under Schwarzenegger. The \$97.9 billion in general fund spending that he proposes for 2006-07 would be \$18.1 billion or 22.7 percent more than his first budget spent two years ago, historic data show, while revenues would have increased by just \$9 billion. Schwarzenegger's first budget actually ran a small operational surplus, but were his new proposal to be adopted, it would spend \$6.4 billion more than the state expects in revenues.

It's possible, of course, that the economy would continue to expand, but the automatic spending formulas to which Schwarzenegger refers - especially for schools - would continue the income-outgo gaps indefinitely, projections from the Legislature's budget office indicate.

Were the economy to cool off and/or spending to increase even more - as Democrats, not surprisingly, immediately said they would demand - chronic deficits could even grow worse. Even a slight downturn would produce skyrocketing deficits as all-important income tax revenues stagnate.

Fundamentally, the state has the same problem it's had for the past six years: Its baseline revenues cannot catch up to its baseline spending, and it's much too dependent on one fragile revenue source - personal income taxes - from a small cohort of high-income Californians.

This is the year that Schwarzenegger and the Legislature should bring balance to the state's precarious finances, not only cutting baseline spending and/or raising taxes to equalize the ledger, but balancing the revenue system through tax reform.

Business as usual would mean deficits as usual for many years to come.