

Dan Walters: Governor's claims on budget are undermined by his own data

By Dan Walters -- Bee Columnist

Published 2:15 am PST Tuesday, February 28, 2006

After Arnold Schwarzenegger appeared on "Meet the Press" on Sunday, his re-election campaign quickly dispatched an e-mail to reporters, quoting his claim to have sharply reduced spending and brought the budget much closer to balance.

Characterizing his \$222 billion infrastructure improvement plan as "investing in the future" but "not spending," Schwarzenegger added, "Spending we have reduced. Remember what I said. We have cut down the structural deficit by 75 percent. It was expected to be \$16.5 billion. We're now at \$4.7 billion. That is great progress ... no matter what anyone says."

Schwarzenegger thus exposed to a national audience a bit of political propaganda that he and his aides have been peddling in California, including a Friday night speech to the state Republican Party convention - that he's been very tight on spending and thus is coming close to erasing the state's chronic budget deficit.

Were it true, it would mean that Schwarzenegger was fulfilling the promise he made to voters when he was elected in 2003 to clean up the state's fiscal mess, which had led to the recall of predecessor Gray Davis. And - more important to him - it would support his contention that the state can easily afford to repay the \$68 billion in infrastructure bonds that he wants to float.

Unfortunately for him and the state, however, data that the administration uses to support its claim of looming solvency undermine the contention.

One has to go back a couple of years to put the claim in context. Schwarzenegger's first budget director, Donna Arduin, stunned Sacramento when she declared that the state had run up \$25 billion in debt from three years of deficit spending, and projected that left unchecked, the cumulative deficit would reach \$62 billion by June 30, 2007, including a \$16.6 billion gap during the 2006-07 fiscal year.

The latter is the number that the administration has been citing of late, including Schwarzenegger's declaration to "Meet the Press" questioner Tim Russert on Sunday. But what's interesting - and damaging to his assertion of fiscal discipline - is how Arduin reached that number two-plus years ago. She assumed that during 2006-07, state general fund spending would reach \$99.8 billion but revenues would be just \$83.2 billion, leaving a \$16.6 billion shortfall.

Now let's look at the 2006-07 budget that Schwarzenegger proposes. It projects general fund spending of \$97.9 billion, and revenues of \$92 billion for a yearly deficit of \$5.9 billion, to be financed with carryover funds - much of them borrowed - from the previous year.

The Legislature's budget office believes that revenue growth will be \$1 billion stronger in 2006-07 and thus puts the year's deficit at just less than \$5 billion, adding that it will remain at about that level for several years.

All of these numbers mean one thing: Lower-than-expected deficits have almost nothing to do with Schwarzenegger's holding down spending. They have almost everything to do with the surprising vigor of the economy, which has pumped many extra billions of dollars into state coffers. The nonpartisan legislative budget office pegs the windfall of unanticipated revenues at \$11.5 billion over three years.

Had Schwarzenegger truly done what he's claimed to have done - sharply reduced spending - he would have closed the deficit and thus laid the fiscal groundwork to service the kind of debt that the governor wants to incur for public works improvements. But he repeatedly bowed to pressure from lawmakers for increased spending - although he was often accused of shorting public education.

A deficit that's lowered, but not eliminated, only by a windfall of revenues leaves the state very vulnerable to even a mild downturn in the economy. "These revenues will not last forever," Legislative Analyst Elizabeth Hill reminded us last week.

It should be noted, however, that Democrats have been demanding even more spending than Schwarzenegger sanctioned, including several billion dollars more a year for schools and health care, and apparently want higher taxes of some kind, but have never been very specific.

That's how the budget game is played in Sacramento - with a lot of hide-the-pea vagueness on all sides.