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Schwarzenegger releases revised budget that boosts spending

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SACRAMENTO (AP) -- Gov. Arnold Schwarzenegger on Monday released a revised state budget that calls for spending slightly more than he proposed in January, even as the state's soft housing market is expected to depress tax revenue in the coming year.

Most of the increase in the nearly \$104 billion general fund budget goes to education. In January, the governor's office had predicted that revenue from higher local property taxes would offset mandated increases in public school spending.

That revenue did not come through, and the governor's office now wants to audit schools to see if they've fully reported their share of the revenue. Without that expected money, the governor's office now estimates \$858 million in additional education expenses to the state.

Under a complex funding formula, higher-than-expected state tax revenue in April also increased the amount owed to schools.

Schwarzenegger's budget proposal shows the administration backing away from his earlier claim that he would end the state's ongoing structural deficit in the budget year beginning in July. His revised budget continues to spend more than the state collects in revenue, although he said it marks major progress in closing the gap.

The deficit is \$1.4 billion for the next budget year, Schwarzenegger said. That is down from double digits when he took office in 2003.

"We did it by growing our economy and exercising spending restraint," the governor said during an afternoon news conference. "We have been very careful and very responsible."

Without additional revenue or more cuts, the deficit is expected to reach \$3.4 billion by 2009, according to recent estimates by the state's nonpartisan Legislative Analyst's Office.

Separately, Schwarzenegger touted a plan to privatize the California Lottery, which he has proposed selling to the highest bidder. Leasing the agency to a private equity firm, bank or other institution could bring in as much as \$37 billion for the state.

His aides later said privatizing the lottery could nearly wipe out California's deficits for the remainder of the decade, although it would not benefit the 2007-08 budget.

Even with the additional education costs and slumping housing revenue in the year ahead, Schwarzenegger said the state still could set aside more than \$2 billion to boost its reserve fund and pay down debt early.

He plans to do so by selling the state agency that administers federally backed student loans, reshuffling gas tax and tobacco settlement money, and making additional cuts to social services.

Schwarzenegger reiterated a proposal from his January budget to cut \$500 million from the state's welfare system. His revised budget also calls for cutting cost-of-living increases for the aged, blind and disabled.

Democrats immediately blasted those proposed cuts, accusing Schwarzenegger of bowing to Wall Street pressure at the expense of the state's neediest children and families. The governor wants state expenditures and revenues to balance, in part so California can sell more bonds to build prisons, schools, dams and roads.

Assembly Speaker Fabian Nunez, D-Los Angeles, said the proposed social-service cuts are out of touch with California's values.

"I am saddened and disappointed that the governor has returned to an agenda that reminds me of the 2005 special election, with a budget that punishes middle-income and low-income families," Nunez said.

He said Schwarzenegger's apparent priority to pay off early the so-called economic recovery bonds was misguided. Voters approved the bonds, for which Schwarzenegger campaigned heavily, in 2004 to solve the state's budget crisis.

"One of the reasons voters approved the economic recovery bonds in the first place was to prevent slashing aid to poor kids and the elderly, blind and disabled," Nunez said. "Making those same severe cuts now just to pay off wealthy Wall Street investors early is nothing more than a bait-and-switch con game."

Nunez also attacked the governor's environmental credentials. He said Schwarzenegger's proposal to reshuffle gas tax revenue would take money away from public transportation.

"You can't pose for the cover of Newsweek as the savior of global warming one day and then turn around and slash funding for public transit the next," Nunez said.

Republicans responded by saying the governor's proposed cuts may not go far enough, signaling a potential partisan fight over budget priorities.

"The state is still on autopilot spending," said Senate Minority Leader Dick Ackerman, R-Tustin. "We need to bring those expenses down."

Overall, the governor's plan would increase general fund spending by about 1.5 percent in the budget year that begins July 1, from \$102.3 billion to \$103.8 billion. That's slightly higher than the \$103.1 billion in spending Schwarzenegger proposed in January.

A balance of nearly \$4 billion carried over from the current fiscal year allows the additional spending. Schwarzenegger's revised spending plan contains no tax hikes.

With more than \$14 billion in new bond spending, including the ones voters approved in November, the entire state budget would grow from \$131.4 billion to \$145.9 billion under the governor's plan.

In January, the governor's original budget proposal totaled \$143.4 billion.

Analysts said they were surprised that after a rosy projection for state revenue in January, the governor's revised budget was relatively pessimistic about future revenue. But they noted that it was more in line with what the state's nonpartisan legislative analyst and others had predicted for the coming year.

The release kicks off a perennial sprint to the June 15 deadline for the Legislature to approve the budget. Schwarzenegger is supposed to sign the budget bill into law by June 30.