



Budget critique: It's bad math

Legislative analyst says governor's spending plan assumes too much.

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Gov. Arnold Schwarzenegger used unrealistic math when he claimed he would eliminate the state budget deficit in his spending plan for the fiscal year that begins July 1, the Legislature's nonpartisan budget adviser said Friday.

"It seemed to us that there were a number of high-risk assumptions," Legislative Analyst Elizabeth Hill said as she released a report on the \$103 billion spending plan for 2007-08 that the governor proposed this week.

The Legislative Analyst's Office report said Schwarzenegger made an "unusually" large number of overly optimistic predictions about how the state could save money and how much it would earn in taxes during the 2007-08 fiscal year.

Hill said if the governor's predictions are wrong, demands on the treasury would wipe out California's rainy-day fund and leave the state in the red.

"If there are a number of adverse outcomes, the reserve is gone, and we would still have a lot of heavy lifting to do," she said.

Schwarzenegger's finance director, Michael C. Genest, said Hill's criticism was based on old financial data.

"We believe that this budget is built on realistic and solid fundamentals that will take the state to a net operating deficit of zero next year," Genest said in a statement.

The governor proposed spending about \$1.8 billion more next year than the state is projected to earn, but part of the shortfall is due to paying back state debt ahead of schedule, so the finance department is not counting it.

The analyst's report cast doubt on Schwarzenegger's claim that the state would earn about a half-billion dollars by agreeing to allow thousands of new slot machines at tribal casinos. Those gambling expansions, which have yet to receive approval from the Legislature, would bring in only about \$200 million, the report said.

The report also said the governor was betting too heavily that gas prices would stay high, continuing a surge in the tax on gasoline sales.

Hill also questioned the governor's assumption that the state would win two court cases that would require new spending of nearly \$1 billion. Both cases -- one involving raises for welfare recipients and the other involving pension bonds -- are on appeal after the state lost in lower courts.

It "will be important that the Legislature develop a more realistic budget ...," the report said.

Hill also said the governor was being too optimistic about the state's economy, with an estimate of tax revenues that was \$380 million too high.

Tax filings have been running slightly below expectations this fiscal year, and data from early income tax returns "are not particularly positive," her report said.

Genest said the governor's staff members had recent data from 2005 tax returns that showed an uptick in personal incomes.

"We had the benefit of having critical data on revenue that the analyst didn't have at the time that she prepared her forecast. ... So what we have here is a case of comparing old apples to new oranges," he said.

Lawmakers from both parties, who have until June 15 to approve a spending plan, said the report was cause for caution.

Assembly Speaker Fabian Núñez called it a "reality check."

"Despite the economic rebound, nobody should think balancing this budget is going to be easy," Núñez, a Democrat from Los Angeles, said in a statement.

Republicans, who already had been questioning some of the Republican governor's fiscal assumptions, said the news was one more reason to enact a budget without boosting funding for new programs.

"Assembly Republicans agree with the nonpartisan legislative analyst that we must get serious about eliminating California's long-term structural budget deficit once and for all," said Assemblyman Roger Niello, R-Fair Oaks, vice chairman of the budget committee.
