



## Battle looms on list of cuts

### Schwarzenegger says tight revenues require difficult choices; Dems blast proposal.

**By Judy Lin - Bee Capitol Bureau**

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Gov. Arnold Schwarzenegger on Monday proposed a revised budget that would dig deeper into social welfare programs while selling a state student loan guarantee business to raise \$1 billion in one-time cash, a plan Democrats immediately denounced as mean-spirited and unlikely to win their votes.

Amid limited personal income growth and a housing slump, Schwarzenegger updated his \$103.8 billion state spending plan for the fiscal year that begins July 1 by suspending cost-of-living increases for the low-income aged, blind and disabled.

The Republican governor's plan did not officially propose leasing the California Lottery for the coming year, but Schwarzenegger said lawmakers should consider the move and the budget plan noted it could offset some other budget-reducing actions.

"California's budget still lives on the razor's edge," Schwarzenegger said. "When there is an economic slowdown, we usually have three choices; we increase taxes, or we make deep cuts, or both."

Democrats who control the Legislature signaled tough negotiations ahead by calling Monday's revisions a "mean-spirited" budget that proposes cuts for some of the state's neediest residents. Assembly Speaker Fabian Núñez, D-Los Angeles, said the budget was "out of touch" with residents and "punishes low- and middle-income families that are working hard and playing by the rules."

They also accused the governor of pulling a "bait and switch" by proposing more cuts to public transit that would, if enacted, total \$1.3 billion.

Legislative Republicans, meanwhile, reacted in lukewarm fashion to the governor's proposal, saying he could have done more to rein in spending.

While Schwarzenegger said the economy "continues to be very sound," the revision projected continued softening of state revenues due to a sluggish real estate market. The state will end the year slightly ahead of what the administration projected in January, but the outlook for the new fiscal year is more cloudy than once thought.

The governor's budget calls for about a 1.6 percent increase in spending over the current year's \$102.3 billion. Most of the spending increase would go to schools under the Proposition 98 formula.

In January, the governor said his plan could end the operating deficit, but on Monday he acknowledged the budget would leave the state with a \$1.4 billion structural deficit -- even if lawmakers approve billions of dollars in cuts and saving measures he proposed.

That list includes selling EdFund, a state-affiliated nonprofit that administers federally backed student loans. Other moves include reshuffling gasoline sales tax from public transit agencies and transferring tobacco settlement money into the general fund.

Schwarzenegger continued to insist on paying off debt early, setting aside \$3.1 billion in Monday's revisions for paying off bonds ahead of schedule. He ignored the Legislative Analyst Office's recommendation to hold off and use those funds to cover expenses.

Faced with a structural deficit, the governor said, the state can't assume it will always have enough money to repay its loans.

Advocates for the poor complained the proposed cost-of living suspensions to the low-income aged, blind and disabled who receive grants from the Supplemental Security Income/State Supplementary Payment program come on top of nearly \$600 million in welfare cuts he has already proposed.

The SSI/SSP raises are slated for January, but eliminating them would save the state \$185 million.

"I'm not happy about doing it," the governor said. "I wish that we could fund all of those programs. ... I think a lot of people deserve this money, but I have an obligation, which is a promise to the people of California that I will bring down the structural deficit to zero."

Kim Belshé, Schwarzenegger's secretary of health and human services, said suspending cost-of-living increases for the aged, blind and disabled "reflects some of the difficult revenue and expenditure challenges" the administration faces.

Belshé said the state will still pass on cost-of-living increases from the federal government.

The Schwarzenegger administration also remained firm on cutting welfare payments to children whose parents fail to comply with work requirements, and reducing aid to the homeless, among other things.

Welfare advocates expressed frustration.

"The commitment has always been that we don't punish kids for the perceived fault of their parents," said Michael Herald, legislative advocate for the Western Center on Law and Poverty.

Other social welfare concerns include a proposed wage freeze for In-Home Supportive Services workers. Foster care advocates had sought a raise in the rate

the state pays foster families, saying \$500 a month is not enough to care for the nearly 80,000 California children who have been taken from their parents' custody.

Democrats also questioned Schwarzenegger's decision to cut transportation funding, which they say is needed to help the state reduce greenhouse gas emissions by doing a better job of moving people and goods.

The governor's January budget proposed cutting over \$1.1 billion from public transit by reducing aid to transit agencies and permanently redirecting money from the sales tax on gasoline -- an increasing pot of funds as gas prices soar. Schwarzenegger retained those cuts in Monday's budget and called for redirecting an additional \$200 million in gas sales tax money.

Transit agencies have warned that state cuts will mean no new E-tran service in Elk Grove and fewer bus purchases in the Yolo County Transportation District in the Sacramento area.

Also built into Schwarzenegger's budget is an incentive for the Assembly to pass half a dozen Indian compacts that allow for expanded gambling. Mike Genest, director of the state Department of Finance, said that because the state is relying on \$314 million from added slot machines, the state will lose \$1.26 million in possible gambling revenue each day, starting today, that the compacts are not approved.