



## Editorial: On the money

### Legislative analyst sounds budget warning

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If you want to understand California's current budget troubles, then fire up your Internet connection, click to Google and search for the phrase "Google executives and capital gains."

Such a search will reveal that 14 of Google's top executives and directors sold \$4.4 billion worth of stock in 2005. Because they acquired their shares at a low cost, these Google kingpins likely paid the California treasury about \$450 million in capital gains taxes in 2006, according to an analysis by Thompson Financial.

Those windfall revenues, combined with other tax revenues that were higher than expected, allowed Gov. Arnold Schwarzenegger and lawmakers to skate through the last fiscal year without many tough budget decisions, such as cutting school spending or raising taxes. It's a different period now. According to Legislative Analyst Elizabeth Hill, the state will take in about \$2 billion less revenue than expected this year and next.

The declining tax revenue, combined with overly optimistic assumptions by Schwarzenegger, could leave the state with about \$3 billion less to spend in 2007-'08 than the governor projected, Hill said in a report released Wednesday.

The legislative analyst advised that lawmakers and the governor start cutting spending now, but it doesn't appear that anyone will quickly follow her advice. A Schwarzenegger spokesman says the administration's assumptions are sound, and it will wait until May to adjust projections. Apparently, the governor hopes that, in terms of tax revenues, April showers will bring May flowers.

We think Hill's note of urgency (sounded in her typically subtle Elizabethan manner) should be taken more seriously, along with her proposed solution for closing the potential budget gap.

To cut spending, Hill advises that lawmakers suspend optional debt payments that Schwarzenegger is seeking next year. That would save about \$1.6 billion.

She also recommends reducing spending on public schools by about \$300 million this year and using another \$309 million in other funds to pay for school bus services. Hill makes a convincing case that lawmakers can make these cuts and shifts without hurting existing school programs, which would still get an increase in funding.

Savings of the sort Hill proposes would allow lawmakers to enact a budget that is less punitive to college students and welfare recipients than what Schwarzenegger has proposed.

Schwarzenegger wants to increase University of California tuition by 7 percent, and increase California State University tuition by 10 percent. Hill recommends a smaller increase so students are not funding a higher proportion of the UC and CSU budgets than they did in prior years.

Hill also offered an alternative to the governor's plan to end payments to children whose parents don't meet the requirements of the state's welfare-to-work program. She rightly recommends that the state send case workers to help parents meet the requirements, and only cut payments to children as a last resort.

A tough budget year? Not the worst we've seen, but it is still early. April will tell us whether the climate for state tax revenues will push up May flowers, or weeds.

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