



Governor may deepen budget cuts

By Judy Lin and Clea Benson - Bee Capitol Bureau
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Gov. Arnold Schwarzenegger is likely to call for state spending cuts beyond those he proposed in January when he presents a revised budget to the Legislature next week, administration officials said Tuesday.

Growing expenses and the housing market's drag on the economy are putting pressure on California's finances, said Department of Finance spokesman H.D. Palmer. The governor and his staff are meeting this week to make tough choices on how to curtail the budget for the fiscal year that begins July 1, Palmer said.

"The governor has talked about cutting the rate of growth in spending," Palmer said. "In order to do that, we're going to have to take action on the spending side of the budget."

Budget forecasters watched with concern as state income-tax revenues dipped below expectations during the first months of the current fiscal year. The numbers rebounded by the time Californians finished filing their April tax returns, but administration officials say the long-term outlook for the economy remains unclear.

Administration officials believe the April spike in revenues may reflect a tendency among wealthy Californians to wait until the annual filing deadline to pay capital-gains taxes. It may not be a sign that the economy is gaining steam, they say.

"People took (the April tax payments) to mean this was going to be an easy budget," Palmer said. "That's not the case."

In January, Schwarzenegger outlined a \$103 billion general-fund budget for the 2007-08 fiscal year and proposed balancing it by withholding cost-of-living increases for welfare recipients, cutting welfare payments to children whose parents fail to comply with work requirements, and reducing aid to the homeless, among other things.

The cuts to welfare will remain in the budget the Republican governor is slated to unveil on Monday, Palmer said. That could set up a showdown with Democratic lawmakers, who have made it clear they oppose reducing the social safety net for children.

Other strains on the state's balance sheet have become clearer since January. Though the stock market has been performing well, that does not immediately and exactly translate into capital-gains tax revenue for the state, finance officials said.

Meanwhile, statewide home sales in March were down 31 percent compared to the same month a year ago, according to La Jolla-based DataQuick Information Systems. The median price was up only 3 percent statewide.

And in some counties, such as Sacramento, prices have dropped to December 2004 levels.

The housing downturn could increase the amount the state must pay from general revenues to fund education, administration officials say.

The state may be obligated under Proposition 98, the law guaranteeing a minimum level of funding to schools, to make up for a decline in county property-tax revenues that pay for schools.

And thanks largely to high gas prices that drove up the consumer price index in the first quarter of the year, education advocates calculate that the state also could owe schools as much as \$260 million more than previously anticipated to account for inflation.

"It just makes it a bit of a tighter squeeze," said Kevin Gordon, a consultant on education budget issues. "I am very confident the governor will find a way to fully fund that (cost-of-living increase)."

A coalition of education groups Tuesday urged the governor to keep the \$1.8 billion increase for schools that he proposed in his January budget, and perhaps increase it.

"We will not get to where we want to go as a state if we take a step backward this year by not fully funding programs and by not reimbursing school districts for programs they are mandated to provide," said Pam Brady, president-elect of the California State PTA.

When the governor unveiled his January budget proposal, the Legislature's nonpartisan budget adviser said some of his assumptions were unrealistic.

The governor appears to be adjusting some expectations to be more in line with predictions by the Legislative Analyst's Office.

Among them: The governor said lawmakers would approve new agreements expanding gambling at tribal casinos, generating about \$500 million in new state earnings. The compacts have yet to be approved, and the Finance Department recently issued a letter to lawmakers reducing that projection by \$200 million.

The Legislative Analyst's Office in January also said the administration was too optimistic about property-tax revenues and urged the governor to count on about \$200 million less than he had projected.

Whatever money the state has to spend in the next fiscal year, Palmer said, Schwarzenegger is focused on the need for fiscal restraint.

"He is dead serious about it," Palmer said.
