



## Huge budget shortfall seen

### Legislative analyst says Schwarzenegger plan for 2007-08 could add a \$3 billion deficit.

By Judy Lin - Bee Capitol Bureau

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Gov. Arnold Schwarzenegger based his May budget revision on overly optimistic assumptions that could lead to a \$3 billion shortfall in the fiscal year that begins July 1 and more than a \$5 billion problem the following year, the Legislature's nonpartisan budget adviser said Tuesday.

Legislative Analyst Elizabeth Hill said the Republican governor overstated the state's reserve by \$1.7 billion in 2007-08 by making several assumptions, including the legality of shifting money from public transit and forecasting high estimates from gambling and property tax revenue.

"Our bottom line: The concern we have is that the state's outyear fiscal situation has actually worsened," Hill said.

The Schwarzenegger administration stood by its projections, but legislative leaders from both parties agreed with Hill's warnings and began emphasizing different priorities, possibly signaling tough budget negotiations ahead. Under the state constitution, the Legislature has until June 15 to pass a balanced budget.

Hill recommended the administration hold off on making \$1.6 billion in early debt payments -- a move that would free up cash to address the current budget gap. While the move would help the state's budget in 2009-10, Hill said the money would not affect the 2007-08 or 2008-09 budgets.

She called Schwarzenegger's proposal to redirect \$830 million in public transit funding "legally unworkable," and warned the administration failed to build in pay and benefit increases for the state's 31,000 correctional officers even as the state is negotiating new contracts, which could easily burden the budget with another \$300 million.

In forecasting potential new gambling revenue, Hill slashed the state's projected revenue from \$314 million to \$130 million. The analyst predicted that five Indian gambling compacts won't go into effect until Jan. 1, 2008, or halfway through the budget year.

The compacts are stalled in the Assembly over casino workers' labor provisions.

Finance Department spokesman H.D. Palmer said the state has begun losing \$1.26 million a day by not approving the compacts, so "time is literally money."

The analyst also found a calculation error in education spending to the tune of \$366 million, and Sen. Joe Simitian, D-Palo Alto, called on the governor to restore the money. "I've got to believe this is just a simple but immense mistake," Simitian said.

Administration officials conceded the error and pledged to work with the Legislature to replace the money by making adjustments within the state's education spending plan.

"Nobody's going to lose any money," Palmer said.

Majority Democrats in the Legislature called for delaying early debt payments Schwarzenegger wants to make while finding a way to restore some of the governor's proposed welfare and social service cuts that they say unfairly punish middle- and low-income families. Republicans countered that lawmakers should not shy away from making further spending cuts.

Assemblyman Roger Niello of Fair Oaks, the top Republican on the Budget Committee, said California's deteriorating budget situation means "making tough budget decisions this year if we are to pass a realistic, balanced budget."

On Monday, Schwarzenegger released his budget revisions and called for selling the state student loan guarantor EdFund, tapping into a tobacco settlement reserve now rather than over time, redirecting public transit funds, and eliminating a scheduled increase for the blind, aged and disabled receiving Supplemental Security Income/State Supplementary Program.

Administration officials say they were "heartened" by Hill's statement about the proposed sale of the state student loan guarantor EdFund for potentially \$1 billion in one-time cash.

Hill said the proposal "merits consideration," but raised concerns about the impact on students and staff.

Senate President Pro Tem Don Perata, D-Oakland, said such gimmicks don't address the state's structural deficit.

"The one-time solutions suggested by the governor may get us through one more year," Perata said in a statement.

"But, ultimately, we've come to the end of the line for gimmicks that do nothing more than paper over an ongoing, long-term deficit."

Assembly Speaker Fabian Núñez, D-Los Angeles, indicated Democrats would look to protect welfare programs. He criticized the governor's budget for failing to seek "shared sacrifice."

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