



Analyst: Red ink's ahead

Shortfall in tax revenues may mean \$700 million deficit, legislators told.

By Clea Benson - Bee Capitol Bureau

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California will take in about \$2 billion less than previously expected in tax revenues this fiscal year and the next, so lawmakers should cut spending now, the Legislature's nonpartisan budget adviser said Wednesday.

Legislative Analyst Elizabeth Hill, whose view of the state's fiscal situation has been more pessimistic than Gov. Arnold Schwarzenegger's in recent weeks, also said the governor's spending plan for the fiscal year beginning July 1 would leave the state with a deficit of over \$700 million.

"We face a very challenging budget situation," Hill said at a news conference where she released her office's annual review of the governor's spending proposals. "It requires additional solutions. We are urging that decision makers act now."

H.D. Palmer, a spokesman for Schwarzenegger's Department of Finance, said the administration believes it is still too early to make predictions about how much money the state will take in this year and next. The governor will issue a revised budget in May based on cash flow data updated after the mid-April tax filing deadline, he said.

Until then, Palmer said: "We're not backing away from anything we put into our January budget. We believe it provides a solid road map."

When Schwarzenegger unveiled his \$103 billion general fund budget proposal in January, he said it would include a cushion of \$2.1 billion. But Hill's office said the state's "deteriorating" revenue outlook, coupled with overly optimistic assumptions about earnings by the administration, would leave the state with almost \$3 billion less to spend than the governor predicted.

Though the state's economy is still growing, Californians do not appear to be earning as much from capital gains as originally forecast, Hill said. Last year, huge stock profits reaped by executives at Google and other companies helped pour a windfall of billions of dollars into state coffers.

Even with that cash, the state will spend about \$8 billion more than it takes in during the 2006-07 fiscal year, Hill said. Much of the shortfall is being covered by reserves from other years.

Hill said lawmakers could stave off future problems by cutting about \$300 million in spending on schools that was already approved in this year's budget. That amount represents a tiny fraction of the multibillion-dollar budget for education and would have little effect on schools, she said.

She also recommended delaying plans to pay off state debt ahead of schedule.

But while both Republican and Democratic lawmakers agreed with Hill's assessment that they should proceed with caution on spending, there appeared to be little appetite for either of her proposed solutions.

"It's hard to imagine cutting education in mid-year when most schools are already into their second semester," said Assemblyman John Laird of Santa Cruz, the Democratic chairman of the Assembly Budget Committee.

Still, Laird said, "Balancing the budget this year will be a very difficult task."

Assemblyman Roger Niello of Fair Oaks, the Republican vice chairman of the Budget Committee, said Hill's report was a wake-up call.

"In the months ahead, Republicans look forward to adopting an on-time budget that prioritizes spending to meet the people's needs and continues to pay down the debt while protecting the wallets of hard-working Californians from misguided tax increases," Niello said in a statement.

To avoid paying off some of the state's debt early as planned, the governor would have to issue an executive order by June 1. It is unlikely that that would happen, Palmer said, especially because the governor wants to be sure the state has the borrowing capacity to issue new bonds for infrastructure projects.

"We think paying off bonds ahead of schedule is a smart financial decision," Palmer said.
