



## Dan Walters: State still swimming in red ink

**By Dan Walters - Bee Columnist**

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Four months ago, Gov. Arnold Schwarzenegger crowed that he would eliminate the "net operating deficit" in the state budget, which had been awash in red ink for a half-decade.

Never mind.

Schwarzenegger's claim was never taken very seriously in the Capitol because it was a term of art that defied definition by usual fiscal standards and even so, was dependent on \$3.4 billion in "solutions," such as shifting \$1.1 billion in mass transit funds into the general fund, suspending cost-of-living increases in welfare grants and approving new gambling compacts with Indian tribes, that were very uncertain to win legislative approval.

On Monday, the governor abandoned the claim, unveiling a revised 2007-08 budget that acknowledges a \$1.4 billion operating deficit -- and then only if the Legislature accepts the \$3.4 billion package that's already received a harsh reception in the Capitol and expands the "solutions" by another \$2 billion, including axing grant increases for the aged, blind and disabled.

Schwarzenegger, upbeat as usual, called the revised, \$103.8 billion budget "very careful and very responsible," but his budget director, Mike Genest, conceded that it hinges on the \$5.4 billion in controversial revenue and spending changes. And as Genest was speaking, Democratic legislative leaders were denouncing the proposals to reporters just a few yards away.

Fabian Núñez, the speaker of the Assembly, described the revised budget as "out of sync and out of touch with the values of California," and was particularly critical of the governor's plans to speed up repayment of bonds that were floated three years ago to cover the state's budget deficits.

"The administration wants to pay off Wall Street early even as it makes kids on Main Street do without," Núñez complained. His Senate counterpart, President Pro Tem Don Perata, said there is "no rhyme or reason to anything being done" in the budget.

On one level, the revised budget underscores anew that squandering much of a one-time revenue windfall on permanent tax cuts and spending in 2000 has locked the state into a structural budget deficit that defies closure. Former Gov. Gray Davis was recalled, in part, because he mishandled state finances, and Schwarzenegger was

elected, in part, on his pledge to balance income and outgo, but he's been unable to deliver.

"California's budget still lives on the razor's edge," Schwarzenegger lamented, noting that more than 90 percent of spending is dictated by current law, leaving little room to maneuver even though revenues fluctuate with the economy.

Faced with legally required spending increases and flattening revenues from a cooling economy, the governor said, "We got creative," proposing to raise nearly \$1 billion by selling EdFund, a state entity that guarantees student loans, and suggesting that the state lottery be leased to a private operator with up-front payments that could clear the books of \$8 billion in deficit-related debt and free up billions of dollars in annual loan payments.

Although the lottery gambit is not officially part of the 2007-08 budget, the administration is obliquely suggesting that a quick deal on the lottery could ease the pressure on welfare grants, transit funds and other Democratic priorities. "This would free up \$3.1 billion in both the 2007-08 and 2008-09 budgets which otherwise would be used for debt service," the budget coyly notes.

When you add it all up -- the \$1.4 billion deficit the governor now acknowledges and the \$5.4 billion in "solutions" that have gained little or no traction in the Legislature - - the state could be nearly \$7 billion in the hole.

And that means that fundamentally, the state's chronic budget deficit is as troublesome as ever.

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