



Dan Walters: 'Balanced' budget is very shaky

By Dan Walters - Bee Columnist

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Three weeks ago, Gov. Arnold Schwarzenegger unveiled a new state budget for the 2007-08 fiscal year and declared that after a half-decade of multibillion-dollar deficits, "our new operating deficit has been reduced to zero."

The Republican governor made his assertion the centerpiece of the media and public reaction to the budget, but since the unveiling, it's become increasingly evident that the claim of fiscal solvency is, to put it mildly, premature.

The term "operating deficit" itself is something new. Budgets are either balanced -- spending no more than what's available in revenues -- or not, but it's not unusual for governors to fudge on the definition. The state constitution requires proposed budgets to be balanced, although there's no such requirement, oddly enough, on the final budgets.

Schwarzenegger's version of the semantic game is the "operating deficit," which he and his aides more or less define this way: It's balanced if you leave out some expenditures that are optional and if the Legislature agrees to make more than \$3 billion in spending reductions and fund shifts.

Those are very big "ifs," and the assumptions are very shaky. Using her characteristically bland language, the Legislature's budget analyst, Elizabeth Hill, says the budget contains "a number of optimistic assumptions" and more than likely, will "ultimately fall short" of closing the chronic income-outgo gap.

The guts of the governor's stab at balancing the budget is a \$3.4 billion package of spending cuts and financing shifts, none of which is anywhere close to winning support in the Legislature, especially from majority Democrats.

A third of the "solution" is a \$1.1 billion raid on money -- a dedicated share of the sales tax -- that would otherwise go into mass transit. The expropriated money would finance transportation-related programs that now come out of the state General Fund, such as school transportation.

In practical effect, it's a substitute for the \$1.5 billion in sales taxes on gasoline that voters have decreed must be spent on transportation under a ballot measure that the governor championed. Mass transit advocates and their Democratic allies don't like the shift for obvious reasons, but neither do advocates of the programs the money would underwrite, rightfully seeing it as an unstable source of financing.

Another non-starter appears to be a \$506 million bit of projected revenue from the ratification of new compacts with casino-owning Indian tribes. But Democratic legislators have already declared the pacts dead on arrival because unions don't like the provisions on organizing casino employees. And even were the pacts to be renegotiated and ratified in the Legislature, there's absolutely no way for slot machine gambling to be expanded rapidly enough to produce the bucks that Schwarzenegger has penciled into the budget.

Other pieces of the package include welfare cuts, which Democrats are denouncing, and a shift in child care program costs to the protected pot of school aid, another no-no to Democrats and their allies in the education community.

Revenues are another big question mark. The administration projects income to be substantially higher than the forecast by the legislative budget office, but revenues are already running behind this year.

The budget assumes virtually no change in state retiree health care costs, even though they have climbed by hundreds of millions of dollars a year in the past. Finally, the budget assumes that the state will ultimately win two lawsuits that it's already lost at the trial level, one involving welfare grants, the other affecting plans to issue bonds to cover the state's pension obligations. Those suits carry a \$1.1 billion price tag.

A balanced budget? A fantasy, more than likely.
