



Dan Walters: California needs help on budget

By Dan Walters - Bee Columnist

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There's a cable television program that features an expert on personal finance who in each episode intervenes with someone who has gotten into serious financial trouble from overspending -- a personalized version of what the International Monetary Fund does to help debt-ridden nations climb out of their holes or what state government does when local school districts flirt with bankruptcy.

Arnold Schwarzenegger promised that kind of adult supervision 3 1/2 years ago when he offered himself to voters as a successor to a governor who was being recalled because he had mishandled the state's finances. Schwarzenegger promised to "cut up the credit cards" and force state government to live within its means without raising taxes.

The new governor and his aides likened it to a "workout" in which a private corporation that's close to insolvency fundamentally restructures itself by closing unprofitable operations, reducing expenses and increasing income.

Since then, thanks to a very vibrant economy, tax revenues have soared by tens of billion of dollars a year -- a stroke of good fortune that should have given Schwarzenegger and the Legislature the wherewithal to balance the budget with a minimum of pain. But the revised 2007-08 budget he unveiled on Monday is still billions of dollars out of kilter, as the Legislature's budget analyst reported Tuesday, and is loaded with gimmicks to minimize its deficit.

Schwarzenegger and his budget director, Mike Genest, acknowledged that the budget has a \$1.5 billion operating deficit -- but that also assumed that the Legislature would go along with \$5.4 billion in revenue and spending "solutions" that legislative leaders have denounced. Legislative Analyst Elizabeth Hill said even those numbers are too optimistic, that the shortfall is actually another \$1.7 billion because of overly rosy revenue and spending estimates.

That's a very deep hole, and it could become even deeper in future years as the economy cools, as the governor's gimmicky one-time steps, such as selling off a student loan guarantee fund to raise a billion dollars, disappear, and as the issues now being bypassed, such as the long-term costs of state retiree health care and prison reform, can no longer be swept under the rug.

Having just enacted more than \$40 billion in general obligation bonds to finance infrastructure, California is in no position to finance its operating deficits with more loans from Wall Street bankers. Instead, Schwarzenegger now wants to start selling

or leasing state assets to those bankers in hopes of generating quick infusions of cash to either cover its current deficits or pay down the debt it incurred to refinance previous deficits. But that, as Hill pointed out Tuesday, may be exchanging short-term gain for long-term pain because it does nothing to bring income and outgo into permanent balance, and merely postpones the inevitable day of reckoning.

Fundamentally, California's tortured finances are no different from those of a family living beyond its means and financing its lifestyle with credit cards and garage sales. Fundamentally, the state faces the same chronic deficit that has plagued its budget for most of this decade, ever since former Gov. Gray Davis and lawmakers irresponsibly wasted most of a one-time, \$12 billion tax windfall on permanent new spending and tax cuts. And fundamentally, Schwarzenegger, while continuing to pay lip service to closing the gap, has concluded that he can't do it -- at least not without new taxes -- and wants to finagle his way through the remainder of his tenure, using Enron-like gimmicks.

We need intervention because those entrusted by voters to do the job, including the governor and legislators who want to cut even more taxes or spend even more, are falling short.
