



## Daniel Weintraub: The governor's fiscal policy is running out of time

**By Daniel Weintraub -**

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If someone had told Arnold Schwarzenegger on the day he became governor that the state's revenues would grow by more than \$25 billion in his first four years in office, he probably would have laughed at them. If they had then informed him that, despite this 37 percent growth in revenues, he still wouldn't be able to balance the budget, he might have cried.

It's been a long, frustrating road for Schwarzenegger since, as a novice candidate straight out of Hollywood, he implied that balancing the budget would be a snap. Just audit the books, teach the "spending addicts" in Sacramento some discipline, and those "crazy deficits" would soon be gone, he said then.

That's not exactly the way it turned out.

This week Schwarzenegger presented his revised budget proposal for the coming year, and it was a doozy. Revenues are still growing, forecast to climb from \$96 billion to more than \$102 billion in the fiscal year that begins July 1. But Schwarzenegger wants to spend \$1.5 billion more than the state is projected to take in, and without some creative financing he has proposed to raise more money in the short term, the governor's proposal would be even further out of balance.

The future does not look much brighter. If the Legislature approves the budget Schwarzenegger has offered, he and state lawmakers will be staring at a \$5 billion shortfall a year from now, according to Legislative Analyst Elizabeth Hill, the state's nonpartisan fiscal expert.

The underlying trends in state government remain pretty much as they have been for most of this decade: Spending required by law is growing faster than the revenues collected from taxpayers. A surge in tax collections over the past couple of years made it appear for a time that those trends might have been brought into line, but now that hope seems to be fading again, along with the state's once white-hot housing market.

It's not as if Schwarzenegger hasn't tried to tame the state government "monster," as he once called it. He sought to limit spending on education but was beaten up by the Democrats, the teachers' unions and, eventually, the voters. Most of his proposed cuts in health care spending were rejected by the Legislature. He tried to block pay raises for the state's prison guards and was rebuffed by lawmakers. Eventually, he relented and mostly adapted to the age-old method of bobbing and

bluffing his way through each year's budget exercise, hoping that a growing economy would eventually bail him out.

Schwarzenegger increased general fund spending by \$24 billion, or 30 percent, in just his first three years in office. State and local spending on kindergarten-through-12th grade education grew from \$7,009 per student to \$8,269, an increase of 18 percent. Spending on Medi-Cal, the health care program for the poor, climbed 16 percent. The cost of sending social workers into people's homes to care for the aged and disabled soared by 37 percent. And the price of running the state's prisons exploded, growing by nearly 75 percent.

Spending grew faster than the state's population, and faster than the economy.

His latest budget proposal makes another stab at restraining that growth. But those moves are likely to run into the same brick wall in the Legislature.

He has, for example, proposed suspending a state formula that dictates spending on public transportation, shifting most of a windfall from higher sales tax revenues on gasoline to other needs.

He has proposed blocking a scheduled cost-of-living increase for the aged, blind and disabled that would mean \$300 a year more for individuals and \$600 for couples. And he is proposing to suspend a \$23 per month cost-of-living increase for families on welfare while ending payments altogether if an able-bodied adult won't work after five years on the dole.

His budget assumes a 10 percent increase in student fees at the University of California and the California State University systems.

Altogether, he is seeking reductions of about \$2.5 billion to try to bring the budget closer to balancing -- and that's after assuming he can net \$1 billion from the sale of a state student loan business, \$600 million from the refinancing of some bonds and about \$300 million from an expansion of gambling on Indian casinos.

But Democratic legislators have other ideas. They have declared his welfare cuts all but dead on arrival, and they're not wild about stiffing public transit. They will also be under intense pressure to freeze student fees where they are today.

And the first thing they want Schwarzenegger to do is forget about prepaying \$1.6 billion in debt that the voters authorized in 2004 to help cover the deficit the governor inherited from his predecessor. While that proposal is the most responsible thing in Schwarzenegger's budget and forgoing it will only make next year's problems worse, he might be forced to go along.

The Democrats' strategy all along with Schwarzenegger has been to block his proposed spending cuts and corner him, eventually, into raising taxes. He's not there yet. But you can hear the clock ticking.

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