



## **Daniel Weintraub: Two pills prescribed for a healthy state budget**

**By Daniel Weintraub -**

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The budget Gov. Arnold Schwarzenegger proposed last month rests on rosy revenue projections and a spending forecast that understates the true costs of government programs, the state's nonpartisan legislative analyst, Elizabeth Hill, said last week.

Instead of leaving a \$2.1 billion surplus, as Schwarzenegger claims, Hill said the governor's proposal would likely lead to a \$700 million deficit by June 30, 2008.

But Hill, who is known for offering strong fiscal medicine that governors and legislators would rather not take, this time is suggesting a couple of measures that could easily fix the problem she says will soon arise. One of her ideas is politically painless. The other will be a more difficult pill for lawmakers to swallow, but still makes sense.

First, Hill suggests that the state make no early payments to retire its budget debt. Voters in 2004 approved a bond measure to refinance the deficit that Schwarzenegger inherited when he became governor. That bond came with a provision that makes an automatic annual repayment from a share of the state sales tax. The bill will come to \$1.5 billion next year, a payment that Hill said must go forward as scheduled.

But a companion measure the voters passed at the same time as the bond will trigger another \$1 billion repayment next year that the state need not make, she said. The governor can call that off by issuing an executive order declaring that the state's fiscal condition requires him to spend the money elsewhere.

Finally, Schwarzenegger has proposed a third payment of \$595 million that is completely optional. That payment is unlikely to be approved by the Legislature, and Hill says it shouldn't be.

Schwarzenegger wants to repay the debt early for a number of reasons.

First, any money that goes to debt repayment is money that does not go toward expanding programs, so the tactic holds down the growth in government over the long run. Second, retiring the debt early would free up money in the state's general fund to pay interest on the public works bonds he proposed last year and the voters approved. There might also be a bit of ego involved: The governor would like to resolve the entire deficit issue, including the debt repayment, by the time he leaves office in 2011.

But Hill compares the governor's plan to a homeowner trying to pay off a mortgage early when he doesn't even have enough money to pay the utility bill. In other words, first things first. Schwarzenegger aides say he is not interested in delaying the debt repayments at this time. But look for him to reconsider the issue if tax revenues come in far below projections this April, as Hill believes they might.

The other major idea Hill is floating is going to be more controversial. She says the state could save \$1.2 billion over the next two years by holding education funding to the minimum required by the constitution.

Last summer, when the Legislature approved the budget, lawmakers had to estimate the minimum guarantee for the schools, which is based in part on the amount of tax revenue the state will collect over the course of the year. Since those revenues are now coming in below projections, the minimum guarantee is also dropping. Hill says the guarantee will end up about \$609 million below the \$55.1 billion that the state budgeted for the schools this year.

Hill suggests that the state hold back that \$609 million, but do so in a way that she says won't affect any programs or students. About half of it could be covered by paying for school bus transportation out of a separate transportation fund that has a surplus this year. The other half, she says, could be cut by deleting money for community college students who enrolled in lower numbers than expected, and by suspending funding for some new programs that were supposed to start up this year but have been slow in getting off the ground.

The real consequence of Hill's recommendation would be felt next year.

If the Legislature takes back the \$609 million from this year's budget, she said, that would also reduce the growth in next year's minimum guarantee by \$634 million. The schools would still get more money next year than this year, and they would have enough to keep pace with the cost of living and any enrollment growth. But they wouldn't have much new money, if any, to start new programs or expand existing ones.

Schwarzenegger, stung by harsh criticism over his handling of education spending during his second year in office, is unlikely to embrace Hill's idea as his own. But once lawmakers get a close look at the alternatives - none of which are pleasant - they might want to take her advice.

If they forgo making extra payments on the debt and follow Hill's plan on the schools, lawmakers and the governor will be able to square the budget for at least a year and also make progress toward erasing the long-term imbalance between the tax revenues coming in and the spending going out.

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