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## **Editorial: Analyst offers a sensible alternative on budget**

### **Targeted cuts, elimination of tax breaks offer a better way to deal with state deficit**

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If lawmakers were to endorse Gov. Arnold Schwarzenegger's proposed budget for the upcoming fiscal year, prison guards would get \$500 million in raises, while foster care families would confront \$82 million in cuts.

Counties would have to lay off 500 social workers who help protect at-risk children, even as tax loopholes for businesses remained untouched.

State parks would be closed, even as the beneficiaries of state flood control programs continued to rely on the general fund for their protection. School funds would drop dramatically in 2008-09, mainly to protect education funding in the current fiscal year.

If these priorities make little sense to you, then you're in good company.

In a must-read series of reports Wednesday, Legislative Analyst Elizabeth Hill pointed out all of these shortcomings, and more, with the governor's budget. Among other things, Hill's analysis reveals that the next-year deficit is likely to reach \$16 billion.

Going even further, Hill offered up an alternative budget that, unlike the governor's version, reduces tax breaks and makes targeted – instead of across-the-board – cuts to spending. Hill's plan would also put the state on a five-year trajectory toward eliminating its structural deficit.

Schwarzenegger should have waited a day before responding to Hill's thoughtful reports. Instead, he issued a statement that "we should begin negotiations with all ideas on the table" but that he opposes "raising taxes to fix Sacramento's spending problem and our budget."

Huh? How can the governor claim to want "all ideas on the table" when he's ready to saw at least one leg from the furniture?

The legislative analyst takes a smarter approach. Along with targeted spending cuts, Hill suggests the narrowing or elimination of several outdated tax credits.

The biggest one is the "dependent credit," a tax break for people who care for children or other dependents that was expanded during the 1998 dot-com boom. Earners of this credit now receive \$294 yearly. Three-fourths of them make more than \$50,000 yearly and a third enjoy annual incomes more than \$100,000. Lowering the dependent credit back to pre-1998 levels (equal to the personal credit) would increase state revenues by \$1.3 billion next year, and \$1.1 billion the year after that.

Reduction of other tax breaks – for diesel fuel, business equipment, enterprise zones, corporate research and development and other functions would generate another \$1 billion or more yearly.

By tapping this extra revenue, the state would be in a better position to protect foster care youths, Medi-Cal beneficiaries and others who are vulnerable. There still would be a lot of pain in Hill's proposals, but public education would not see huge swings in funding and the state would emerge stronger once the economy rebounds.

Hill has another noteworthy recommendation: People who live in fire zones or flood plains should help pay for some of their protection, instead of relying on continued expenditures from the general fund.

The legislative analyst has offered lawmakers and the governor a sensible road map to follow out of the fiscal wasteland. They should seize it. And you should read it. Find it at [www.lao.ca.gov](http://www.lao.ca.gov).

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