

## Editorial: Time to face twin budget realities

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Ugly. Ugly. Ugly on a stick.

There's no other description for California's finances.

Just six weeks after legislators enacted a budget, the state faces a gap between revenues and spending in the current fiscal year of roughly \$10 billion.

To eliminate that gap, lawmakers will have to return to Sacramento as early as next week and slash spending on nearly every state program.

They will also need to raise revenues. Figuring out how to do so, in a down economy, will take both creativity and courage, two attributes not frequently found at the Capitol.

It would be easy for us to say, "We told you so." In September, we urged Gov. Arnold Schwarzenegger not to sign the fairy-tale budget lawmakers had sent him, 81 days late. We warned him that this package of gimmicks "could add to the fiscal harm California faces next year, and the year after that."

Had the governor heeded this advice, he would be facing a smaller shortfall right now. But he would still face a shortfall. The financial crisis of recent weeks has hammered the state's revenues, which are dangerously dependent on taxes on capital gains and consumer spending. As a result, revenues this year are \$5 billion lower than expected, the governor said Wednesday.

Schwarzenegger bears part of the responsibility. He eliminated the car tax upon taking office, adding \$4 billion to the state's structural deficit. His tendency to borrow has added to debt payments, and he shows no sign of stopping. (On Wednesday, the governor signaled that he supports two measures on Tuesday's ballot, Proposition 1a and Proposition 3, that could add more than \$700 million to the state's yearly debt payments.)

At the same time, the governor sees the need for long-term reform of the state's finances. Yesterday he signed an order creating a bipartisan commission to examine the state's revenue sources and make them more reflective of the state's modern economy.

The governor and Assembly Speaker Karen Bass deserve credit for establishing this commission. Unfortunately, its work will have no impact on the current fiscal year.

To resolve the more immediate crisis, leaders of both parties will need to raise revenues, and they'll need to examine budget cuts that they couldn't stomach during the budget impasse of this summer. The sooner they accept these twin realities, the sooner the state can close the books on this year's fiscal ugliness and get serious about 2009 and 2010.