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Analysis: Governor's deficit estimate rises to \$20 billion

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Published 12:00 am PDT Wednesday, April 30, 2008

Salinas residents who heard Gov. Arnold Schwarzenegger two weeks ago would have good reason to believe the budget deficit is \$18 billion dating back to January.

Those who listened to him in Alameda could have walked away thinking the gap is \$1 billion less. And local prosecutors who heard him at a Sacramento conference last week might peg the problem at \$10 billion starting in July.

Schwarzenegger has been all over the map in his deficit estimates this month. But after offering vague explanations for the governor's previous calculations, his aides on Tuesday decided to embrace his latest figure: as high as \$20.2 billion starting July 1.

The number is an estimate, and Schwarzenegger is scheduled to reveal his revised budget May 14 with an official deficit figure when all the tax returns are opened and expenses and revenues for the next year projected.

But Schwarzenegger's rhetorical flourishes aside, one thing is certain: The budget problem is getting far worse – nearly twice the problem he described in January – and the governor wants everyone to know it.

"The larger that number gets, the more unrealistic it is to think you can cut your way out of it," said Sen. Denise Ducheny, D-San Diego, chairwoman of the Senate Budget Committee. "And it's unrealistic to think you can tax your way out of it, either. It forces you to think of changing things we've been doing for years."

Schwarzenegger's aides advised Tuesday that the \$20 billion figure could change. "We don't have a hard number right now," said Schwarzenegger spokesman Aaron McLear.

But the governor has used the large figures – \$20.2 billion is one-fifth of an estimated \$101 billion spending plan – to make a case for a long-term "rainy-day fund" and to persuade legislators to find new revenues in addition to making budget cuts.

Schwarzenegger has called on lawmakers to "get creative" in finding new revenues that don't qualify as taxes. He has suggested leasing the California Lottery, as well as reducing tax loopholes and incentives.

McLear said the governor's more immediate message to legislators is that they should begin making cuts in programs, however. Lawmakers are holding committee hearings, but Schwarzenegger has not had a joint meeting with legislative leaders for nearly two months.

The worsening deficit, McLear said, is "why we need to start working on this now, because every day that goes by that we don't work on this budget, it gets worse."

Department of Finance spokesman H.D. Palmer said the governor's latest estimate is based on lower corporate profits, a housing market slump and an economic decline. He said the department is reviewing K-12 enrollment, the prison population and social service caseloads to determine whether expenditures are more than anticipated.

The \$20.2 billion figure includes a \$2.8 billion reserve, which the governor had not factored in before.

Legislative Analyst Elizabeth Hill said Tuesday she believes revenues will be "several billion below" what her office anticipated earlier this year, though she said she couldn't comment on the governor's \$20 billion figure because she didn't know what his assumptions were. Schwarzenegger's number is roughly \$11 billion higher than Hill's projection from February.

Ducheny and Assembly Budget Committee Vice Chairman Roger Niello, R-Fair Oaks, said they were surprised to hear the governor estimate the 2008-09 problem to be \$20 billion. They said data from the state Franchise Tax Board suggests that April personal income tax receipts have been better than anticipated.

Both said they thought the deficit might be closer to \$12 billion.

"Who knows what's accurate?" Niello said.

Jean Ross of the California Budget Project, an advocacy group for the working poor, said Schwarzenegger's projection "may be an attempt to prepare people for the fact that news is going to get worse and not better in the May revise."

But, Niello said, if Schwarzenegger is floating a worst-case scenario figure to dampen expectations, "the shelf life of any message that might be given by an intentionally high number is pretty short" because the budget plan will be released in two weeks.
