

# Governor will call special legislative session on budget

By Jim Sanders

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With the economy reeling, Gov. Arnold Schwarzenegger announced Monday that he will call lawmakers back into session next month to grapple with a shortfall that is "much bigger" than the \$3 billion projected just three weeks ago.

"I think everything is happening very quickly," Schwarzenegger said, pointing to a nose-diving stock market that has had "tremendous impact on our capital gains and the revenues coming in."

Schwarzenegger declined to pinpoint the size of the state's budget gap, saying more should be known within days. Senate President Pro Tem Don Perata put the figure at \$10 billion.

"We have to deal with it quickly," Schwarzenegger said.

The GOP governor, accompanied by legislative leaders, said he will call Nov. 5 – the day after statewide balloting – for a special legislative session on bridging the budget gap, stimulating the economy and increasing employment.

"As long as we delay it, we're just creating a worse problem later," Perata said.

Next month's special legislative session is expected to discuss easing the state's mortgage foreclosure crisis, bolstering the state's unemployment insurance fund, and fast-tracking previously approved public works projects to create jobs.

Schwarzenegger said a new tax commission will be created to discuss what changes, if any, are needed to the state's tax structure.

The tax panel is expected to tackle numerous issues, but one idea floated by Democrats is to extend sales taxes beyond retail products to assess services, such as lawn mowing or auto repair.

Schwarzenegger said he prefers to tackle the economic crisis with incumbents rather than "drag it out" by waiting for winners of Tuesday's election to be sworn into office Dec. 1.

"They've dealt with the problems throughout the year, with the economic decline and with the housing crisis and the shortfall in revenues, and all those kinds of things," Schwarzenegger said of incumbents. "They're very experienced."

Next year's multibillion-dollar gap comes on the heels of this year's massive shortfall, which exceeded \$15 billion and sparked a record 85-day delay in passing a state budget.

Democrats and Republicans have been deeply split all year on whether to increase taxes to ease the state's money crisis.

Monday provided no indication that the partisan split has subsided.

Republican legislative leaders, in a letter to Schwarzenegger, called Monday for tax cuts to stimulate the economy.

State unemployment has grown to 7.7 percent from 4.6 percent about two years ago.

Assembly Republican leader Mike Villines, of Clovis, and Senate Republican leader Dave Cogdill, of Modesto, said lower taxes would spur job creation.

"We just want to get the economy moving – and jobs is the best way," Villines said.

Specifically, the GOP leaders recommended a tax credit for businesses that hire the unemployed; a manufacturing investment credit for equipment purchases; a cut in the capital gains tax to spur business investment; and modification of the tax code and suspension of regulatory burdens to spark job creation.

Though Schwarzenegger will call for the special session Nov. 5, legislative leaders will negotiate on key economic issues before convening lawmakers at the Capitol on an unspecified date, Assembly Speaker Karen Bass said.

H.D. Palmer, Schwarzenegger's spokesman for finance, said an updated shortfall projection may be released later this week, following an annual exercise today in which outside economists analyze the state's revenue figures.

"The situation is far more severe than it was when we were negotiating (this year's) budget," Bass said. "We really can't wait until a new class comes in."

Incoming Senate President Pro Tem Darrell Steinberg, a Sacramento Democrat who assumes the post next month, declined to comment Monday on whether a tax increase is needed to bridge the massive budget gap without cutting key services.

"I think nothing's off the table," he said.

"Crisis is opportunity," Steinberg said, lamenting the state's annual boom-or-bust revenue outlook. "Finally, let's take the bull by the horns and fix this ailing system."

Steinberg, asked to comment on the GOP tax-cutting proposal, said he's willing to consider all ideas but that he's wary of doing anything that might exacerbate future budget gaps.

The Service Employees International Union urged state officials Monday to solve its red ink with "lasting revenues" rather than to cut school, health care or other vital services.

"In a fiscal downturn, families need more support, not less," the union said.