

A tough blueprint to stem red ink

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Gov. Arnold Schwarzenegger leaves Thursday's Capitol press conference where he spelled out his plan to address the deficit, and called a special legislative session on the issue. He warned that without immediate action, the state will run out of cash by February.

The governor's plan to close \$9.2 billion of an \$11.2 billion budget deficit:

\$4.7 BILLION IN TAX INCREASES, INCLUDING:

- Increasing the sales tax for three years by 1 1/2 cents on the dollar
- Expanding the sales tax to include some services

\$4.5 BILLION IN CUTS, INCLUDING:

- A \$2.5 billion cut to K-12 public schools
- Furloughing state employees one day a month and eliminating Columbus Day and Lincoln's Birthday as paid state holidays

A tough blueprint to stem red ink

Gov. Arnold Schwarzenegger on Thursday proposed a temporary 1.5-cent sales tax increase and new levies on everything from sporting events to alcohol, as well as deep cuts in education and social services, to help close an estimated \$24.2 billion state budget deficit through June 2010.

In a move that would especially hit the Sacramento region, Schwarzenegger also proposed that state workers take one monthly unpaid day off and lose two of their 13 paid holidays.

The Republican governor now enters the most challenging budget negotiations of his five-year tenure. His plan relies on GOP legislators voting for \$4.7 billion in taxes less palatable than those they rejected this summer during a record 85-day budget stalemate. It also asks Democrats to accept a \$4.5 billion round of cuts in education and social services.

Even then, the plan falls \$2 billion short of closing the entire projected \$11.2 billion gap through June 2009, said Department of Finance Director Michael Genest.

Schwarzenegger warned that absent immediate action, the state will run out of cash by February. He called a special legislative session, asking lawmakers to approve changes before Nov. 30. The governor blamed California's sudden shortfall on Wall Street's collapse and a continued decline in the economy.

"We are living in a different world now," he said. "I think that everyone here has gotten a wake-up call. This is not just (a situation) where we can debate something. We are running out of money."

The November legislative session will involve 34 lame-duck legislators who will be termed out Nov. 30. The next class, elected Tuesday, will arrive Dec. 1. Under current vote tallies, Schwarzenegger in December will need a minimum of four GOP votes in the Assembly and one in the Senate, fewer than he currently does.

Dan Schnur, a former GOP strategist who now directs the Jesse M. Unruh Institute of Politics at the University of Southern California, said the governor is unlikely to see changes enacted this month.

"If anything, the governor's best bet might be laying down a marker right now and then working with the new Legislature to move something forward," Schnur said.

Schwarzenegger proposed an economic stimulus package that relies on spending bond money for road projects to create new construction jobs. He also wants to relax labor regulations for businesses and waive environmental restrictions on some public works projects.

He asked lawmakers to shore up the state's unemployment insurance fund by increasing employer contributions and lowering benefits for those out of work. Without changes, the fund could face a \$2.4 billion shortfall next year.

After campaigning on an anti-tax message in 2003 and 2006, Schwarzenegger advocated Thursday for more taxes than ever before as governor.

"We say many times that we have a spending problem, not a revenue problem," he said. "Because of this tremendous drop in revenues, it is now a revenue problem rather than a spending problem."

The governor's words immediately met opposition from Republicans, whose votes are required to pass budget changes. Assembly Republican leader Mike Villines vowed to oppose any new taxes and questioned the accuracy of Schwarzenegger's \$11.2 billion shortfall estimate.

"I'm saying that number has changed every time I've had a conversation with somebody," the Clovis Republican said. "I believe the number is used oftentimes for all kinds of different agendas than reality."

Villines, re-elected Thursday during a caucus luncheon as Assembly Republican leader, said lawmakers should agree to spending cuts first, then consider other options to raise money. But he said his caucus will stand firm against the governor's tax proposals.

"They all seem like a bad idea, in general," Villines said. "In an economy where people are struggling, how do you tell a senior on a fixed income, we need more money from you?"

Schwarzenegger asked lawmakers to apply the state sales tax to auto repair, furniture repair, golf and veterinarian services starting in February. He also wants to impose taxes on amusement parks and sporting events starting in March.

His 1.5-cent sales tax increase would begin Jan. 1 and would last three years. He wants to increase alcohol taxes by 5 cents per drink and raise vehicle license registration fees by \$12.

Schwarzenegger also proposed a new 9.9 percent tax on oil production in California. The governor had opposed an oil tax on fiscal grounds in 2006 when it was part of an alternative energy initiative.

Assembly Speaker Karen Bass, D-Los Angeles, applauded several of Schwarzenegger's tax proposals but called his cuts "devastating."

The governor called for \$4.5 billion in spending cuts, including a \$2.5 billion slice from elementary and high schools.

His plan also would reduce public assistance payments to elderly and disabled residents to the federal minimum. It would cut Medi-Cal coverage of adult dentistry, optometry, podiatry and psychology services, among others. Bass called the health and human service cuts "a non-starter."

"We have a situation now where the state's safety net is what people use as a last resort," Bass said. "Well, given that we have escalating unemployment, you're actually going to have more people that need that safety net than less."

Rather than taxes, Villines said lawmakers should find new sources of revenue from selling state assets, generating royalties by allowing offshore oil drilling or from new efficiencies in schools. But he acknowledged that he did not yet have a specific plan.

"You're going to have to have \$4 billion to \$5 billion in cuts, there's no doubt about that," Villines said. "Then we'll have to find out how we do the other half. I don't have the answer to that yet."

CLOSING THE BUDGET GAP – AGAIN

For the fourth time this year, Gov. Arnold Schwarzenegger has made proposals to close the state budget gap. The deficit is now estimated at \$11.2 billion for the fiscal year that ends June 30, and \$24 billion over the next 20 months.

HERE ARE SOME OF THE PROPOSALS:

TAXES (\$4.7 BILLION)

STATE INCOME TAXES

PROPOSAL: Raise state sales tax by 1.5 cents on the dollar for three years.

IMPACT: Effective Jan. 1, the extra tax would raise \$3.5 billion this fiscal year and \$7.3 billion in 2009-10.

THE DEBATE: Republicans remain opposed, saying it would further harm a struggling economy.

SALES TAXES ON SERVICES

PROPOSAL: Impose sales taxes on some services and activities that currently aren't taxed, such as golf fees, amusement parks, sporting events, veterinary treatment, and vehicle, appliance and furniture repair.

IMPACT: Depending on the service, effective Feb. 1 or March 1. Would raise \$357 million this year and \$1.2 billion in subsequent years.

THE DEBATE: Republicans have said they would support some sales tax broadening, but only if it is offset by other tax cuts.

PER BARREL OIL TAX

PROPOSAL: Impose a 9.9 percent tax per barrel tax on oil extracted from California.

IMPACT: Effective Jan. 1, it would raise \$528 million this year and \$1.2 billion in 2009-10.

THE DEBATE: California is the only state that does not tax oil production, but previous proposals have died in the Legislature and the ballot box.

5¢ PER DRINK ALCOHOL TAX

PROPOSAL: Raise excise tax on alcohol 5 cents a drink.

IMPACT: Effective Jan. 1, it would raise \$293 million for the first six months.

THE DEBATE: The governor says alcohol taxes have not been raised since 1991. Revenue would fund alcohol and drug treatment programs.

VEHICLE REGISTRATIONS

PROPOSAL: Raise annual vehicle registration fees by \$12 per vehicle.

IMPACT: Through other shifts, the fee would essentially raise \$150 million this year and \$359 million in future years to pay for the DMV and local criminal justice programs.

THE DEBATE: This is NOT the vehicle license fee, which Schwarzenegger cut in 2003 and would raise billions a year if restored. The governor remains committed to the vehicle license fee cut, and Republicans strongly support him.

CUTS (\$4.5 BILLION)

SCHOOL FUNDING

PROPOSAL: Reduce school funding.

IMPACT: A cut of \$2.5 billion from K-12 schools and community colleges, reducing state and local aid below \$56 billion and increasing the entire K-12 cut for the year to \$5.8 billion.

THE DEBATE: The education lobby will fight the move, saying schools have already been cut to the bone and further reductions would result in massive layoffs.

HIGHER EDUCATION

PROPOSAL: Cut higher education.

IMPACT: UC would lose \$65.5 million and CSU \$66.3 million. Combined with earlier cuts, the reductions would amount to 10 percent for the year for each system.

THE DEBATE: The reduction could ultimately result in higher fees, fewer class sections or other program reductions.

STATE WORKER FURLOUGHS

PROPOSAL: Furlough state employees one day a month and eliminate Columbus Day and Lincoln's Birthday as paid state holidays.

IMPACT: Effective Dec. 1 and combined with other employee changes, it would save about \$320 million through June 30.

THE DEBATE: Employee unions say the move will make a bad economy worse and have vowed to fight the proposal.

PAROLE SUPERVISION

PROPOSAL: Eliminate parole supervision for all but those who have committed serious, violent or sexual crimes.

IMPACT: The move would save \$78.7 million this fiscal year and \$535.9 million in fiscal year 2009-10.

THE DEBATE: Republicans are likely to resist the cut as a threat to public safety.

MEDI-CAL SERVICES

PROPOSAL: Reduce Medi-Cal services by eliminating some treatment options, limiting

benefits for some legal immigrants and raising the income eligibility requirements to pre-2000 levels.

IMPACT: \$142 million in savings this fiscal year and \$715 million in 2009-10.

THE DEBATE: Some of these ideas have been proposed and rejected by Democrats in recent months.

MONTHLY GRANTS

PROPOSAL: Reduce monthly grants to the federal minimum for low-income aged, blind and disabled on Supplemental Security Income/State Supplemental Program.

IMPACT: The grants for aged/disabled singles (\$870/month) and couples (\$1,524/month) would go to \$830 and \$1,470, respectively. The state would save \$349 million this fiscal year and \$1.1 billion in 2009-10.

THE DEBATE: With the economy sagging and prices rising, advocates for the poor say, it is the worst time to cut grants for low-income people.

WELFARE BENEFITS

PROPOSAL: Reduce welfare costs by cutting off benefits at 60 months for some recipients and requiring reviews every six months. Also, reduce grants by 10 percent.

IMPACT: The monthly grant for a family of three would fall from \$723 to \$651. All welfare changes would save the state \$274 million this fiscal year and \$847 million in 2009-10.

THE DEBATE: Democrats rejected much of this during the summer budget debate.

IN-HOME SERVICES

PROPOSAL: Lower pay for in-home supportive services workers to the minimum wage plus 60 cents an hour for health benefits.

IMPACT: If implemented March 1, it would save the state \$83 million this fiscal year and \$248.8 million in 2009-10.

THE DEBATE: Democrats rejected an identical plan this summer.

TRANSIT GRANTS

PROPOSAL: Cuts grants to local transit agencies.

IMPACT: The move would save the state \$230 million this fiscal year.

THE DEBATE: Transit advocates say the cut is short-sighted at a time agencies' ridership is growing.

