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Tough budget decision shifted to voters

Expand lottery or face sales tax hike?

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Gov. Arnold Schwarzenegger once again wants voters to bail out the state.

The Republican governor in 2004 relied on Californians to authorize bonds to pay off the state deficit. In 2005, he unsuccessfully asked them to institute spending control measures in a special election.

Now he wants voters to expand the California Lottery and borrow against future profits to help plug a \$15.2 billion hole in the state budget. He proposed Wednesday giving them a choice that critics considered more of a veiled threat: approve his lottery plan in November or face a one-cent sales tax increase.

"I think it's basically a way of abdicating responsibility," said Sen. Denise Ducheny, D-San Diego, chairwoman of the Senate Budget Committee. "I think what's most disappointing for us is it's an abdication of a leadership role of the governor."

The revised budget seeks to close a \$15.2 billion deficit for the fiscal year that begins July 1 and build a reserve of about \$2 billion. Schwarzenegger also wants lawmakers to put a "budget stabilization" measure on the November ballot that would give future governors expanded powers to cut programs in bad times and create a rainy-day fund to hold money from good years for use when the economy softens.

Besides using the lottery money, Schwarzenegger would close the deficit by cutting most programs by up to 10 percent as he proposed in January – with notable exceptions. He backed off deep cuts to schools, abandoned plans to release some nonviolent prisoners early and discarded a proposal to close some state parks. But he proposed deeper cuts to health and social service programs.

Democratic and Republican leaders denounced the governor's lottery gambit in the corridors outside his budget presentation Wednesday at a Department of Health Care Services auditorium.

Democrats blamed Schwarzenegger for relying on false hopes of lottery profits and cuts to social service programs to balance the state budget. Republicans assailed the plan for borrowing money and including a tax increase as a contingency plan.

"I think that we need to be very concerned about the threat of a tax increase that this budget proposal, the way it's being put forward now, certainly raises," said

Senate Republican Leader Dave Cogdill, R-Modesto. "And I think that can be almost as detrimental as a tax increase itself as it relates to the impacts that it has on an already struggling economy."

Republicans said they would oppose the lottery plan as it stands, while Democrats attacked the proposal but said they would await a review by Legislative Analyst Elizabeth Hill.

If the Legislature did put Schwarzenegger's plan on the ballot, the governor would likely campaign throughout the state telling voters they need to authorize lottery expansion to avoid a sales tax increase. At 7.25 percent, California already has the highest sales tax rate in the country.

"It's obviously a false choice," said Garry South, a Democratic political consultant and former adviser for Gov. Gray Davis. "If faced with the possibility of getting free money for something, why are voters going to opt for a sales tax hike?"

South said fear of a sales-tax hike may be necessary to overcome skepticism voters have of privatizing lottery profits, based on past focus groups he's conducted.

Bill Carrick, a Democratic consultant, said many voters feel they were "sold a bill of goods on the lottery" when it was established in 1984 and have a general cynicism about tying the lottery to the budget.

The governor's tax hike option is modeled on a budget tool used by former Gov. George Deukmejian in 1983, which contained triggers based on revenue levels but was never used.

Former Deukmejian chief of staff Steven Merksamer, who advised Schwarzenegger on his lottery plan, said the proposal allows the governor to say that he has "given the public a bold way to avoid any taxes whatsoever."

Merksamer said he doesn't believe the governor is trying to pass the buck to voters. He noted that Schwarzenegger must ask voters for approval because the California Lottery was created by initiative and its provisions are contained in the state constitution.

"If he could do the lottery deal unilaterally, he would do it," Merksamer said.

The lottery currently provides schools with about \$1.2 billion annually, and Schwarzenegger said its full potential remains untapped. He said the game, established in 1984, simply needs "modernization."

Legislators questioned, however, whether the state could make enough changes to generate substantially more money.

Other states with more profitable lotteries allow video terminals with instant payouts that function like slot machines. California does not allow such machines, and Indian tribes have exclusivity clauses in their compacts that preclude the state from using video machines.

Lawmakers predicted that Indian tribes would finance opposition campaigns with tens of millions of dollars if the state sought to expand the lottery too far.

Alison Harvey, executive director of the California Tribal Business Alliance, which represents six tribes, said her group is happy Schwarzenegger's plan does not lease the lottery to a private outside firm. But she said tribes will watch closely to make sure that the state does not try to encroach on their exclusive rights.

"I've never heard our guys say the lottery is competition for them," Harvey said. "We would just be concerned about situations where the lottery would encroach on casino-style games."

Ducheny criticized the proposal as one that would disproportionately affect the poorest Californians.

"Does California as a state want to put our basic services in a position where we're forced to be marketers of gambling?" Ducheny said. "And gambling on the lottery is in street-corner liquor stores. It's not a recreational hotel pastime as it is on many of our tribal areas. So what you're talking about here is encouraging people who have little money to gamble."
