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Peter Schrag: California's budget is a thing of shreds of patches

By Peter Schrag -

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Ever since 1984, when Scientific Games of Atlanta ponied up \$2.3 million to persuade California voters that a lottery would be a great way to help schools, the California Lottery has been an unmitigated headache.

It's rarely raised more than 3 percent of the costs of K-12 education – and of late much less – although for many years a lot of voters thought the schools were well-fixed with the lottery proceeds and didn't need any more money. And it opened the door to the Indian casinos now plaguing communities from one end of California to the other.

Gov. Arnold Schwarzenegger's gimmicky proposal to pawn the whole deal to Wall Street for some quick upfront money thus may not be such a bad idea. It's part of yet another final Schwarzenegger solution to the state's chronic budget mess – although this time there are no promises to tear up the credit card.

The lottery deal, which would require the approval of the voters, isn't getting much enthusiasm from the school lobby: Beggars can't afford to spurn pennies. Given the likely fine print in the deal, the schools aren't sure they'll ever recoup all their meager lottery revenues. And in the end it will almost certainly put the state still deeper in hock.

This, somebody said, is like putting lipstick on a pig. But what if the deal included a provision that shifted the risk to the state, say by guaranteeing the schools the equivalent of the expected future lottery proceeds as part of the Proposition 98 K-14 education funding formula? That would get the schools out from under the lottery onus.

The worry of the education establishment is that Proposition 98 might still get suspended, as Schwarzenegger threatened to do this year, but the widespread celebrating even by no-new-tax Republicans that under the governor's revised budget schools will be "fully funded" – meaning that Proposition 98 won't be suspended – indicates that the measure, now 20 years old, remains a powerful club.

Of course, the schools aren't fully funded. Whether their revenues are in fact a "dismal" 46th among the states, as state schools chief Jack O'Connell complained the other day, or only among the low 40s depends a little on the criteria of comparison. But by whatever measure you use, they're far below the states – New York, New Jersey, Massachusetts, Connecticut, Rhode Island, Pennsylvania, Minnesota,

Michigan, Wisconsin – that are highly regarded for their education efforts. A number of other states are now recruiting teachers who've gotten pink slips in the expectation that there'd have to be cutbacks in the next budget.

Nor is there even a pretense that the \$2.9 billion in proposed cuts to health and human services funding will result in anything but unmitigated hardships to the low-income parents of sick children; or to child care support for working families. By 2011, 430,000 future applicants for Medi-Cal who under current rules would be eligible, will no longer qualify.

The governor's budget "solutions" depend, like the rest of California's financial and governmental system, on a convoluted structure that's incomprehensible to most people, even though much of it was created piecemeal by the voters at the ballot box. It reflects long-term avoidance of tough choices between an unwillingness to provide more than average revenues and an expectation of quality services.

Schwarzenegger's promises to fix the mess were always more rhetoric than substance – part of the grand showbiz performance of his tenure – but that also gave him the opportunity to force the tough choices. Like Gov. Ronald Reagan in 1967 and Gov. Pete Wilson in 1991-92, he could have eliminated the deficit through a combination of cuts and tax increases.

Instead, he compounded his own problem by cutting the vehicle license fee on his first day in office, a cut that now costs the state roughly \$6 billion a year in the additional spending that goes to backfill local governments that had been the beneficiaries of the tax. Over the past three years, it could have saved the state treasury enough to preclude today's deficit.

Schwarzenegger is right that California's fiscal system needs fundamental fixes, but instead of forcing real choices between quality services and the revenues of mediocrity, he serves up precisely the cheesy fudge, defer and borrow gimmickry that got us here to begin with.

Is there waste in state spending? Of course there is, just as there are trillions in waste and fraud in defense spending, in the private health care system and almost everywhere else in the supposedly efficient market. Long ago, a department store magnate declared that he knew half his advertising expenditures were wasted; if he only knew which half, he'd cut it out.

Schwarzenegger is an apostate to much of the Neanderthal side of Republican politics, but, with the exception of a few glances away from the shrine, he continues to worship at the altar of its absolutist no-new-tax-orthodoxy. The kind of leadership he once claimed requires a lot more.
