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Analyst projects future budget gaps

By Dan Walters

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California faces "huge budget shortfalls" for the next five years unless Gov. Arnold Schwarzenegger and the Legislature act decisively, the Legislature's new budget analyst, Mac Taylor, said today.

Taylor raised the estimate of the state's operating deficit through the next 20 months from Schwarzenegger's \$24 billion to \$27.8 billion, but generally praised the governor's plans to close the gap as being realistic and having a long-term impact.

"With the expected slow recovery of the state's economy, it is imperative that the Legislature attack the grim budget problem aggressively," Taylor said in a report to the Legislature, "making permanent improvements to the state's fiscal outlook. If the state has any hope of developing a fiscally responsible 2009-10 budget, it must begin acting now."

Although Schwarzenegger has blamed the banking industry's meltdown and other recent economic factors for the state's deficit, Taylor notes that "even before the crisis in the financial and credit markets occurred, revenues were falling below expectations." The budget Schwarzenegger signed in September was based on revenue estimates made in May.

Taylor also buttresses the administration's expressed concern that without rapid action by the Legislature on a package of new taxes and spending cuts, the state will run out of money to pay its bills early next year, despite borrowing \$5 billion on short-term "revenue anticipation notes."

He expresses doubt, however, that investors will buy the remaining \$2 billion the state wants to borrow through those notes, and even if they did, a cash flow crunch is still certain during the current fiscal year without action. If Schwarzenegger's proposals are adopted, however, the state could scrape through the next fiscal year, albeit with minimal reserves - assuming the economy doesn't deteriorate further.

Taylor tempers his praise of the governor's budget plan with a warning that the proposals -- both taxes and spending cuts -- would have a "negative effect" on the state's economy.

He urges the Legislature to view the crisis as an opportunity to realign state and local responsibilities, overhaul how the state finances schools and increase fees at the state's four-year colleges and universities and community colleges. He also recommends a series of changes in state programs beyond those proposed by Schwarzenegger.



Sen. Denise Ducheny introduced Mac Taylor in October as the new legislative analyst for the state of California, replacing Elizabeth Hill who served in the position for 22 years.