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Dan Walters: Parties far apart on fixing California's budget deficit

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What could be an epic battle over how to close a \$15 billion-plus deficit in the 2008-09 state budget began in earnest Thursday when the Assembly's Democratic majority unveiled its version, which includes more than \$6 billion in new revenues.

Karen Bass, the new speaker of the Assembly, and her colleagues contend the revenues can be raised from closing unspecified tax loopholes "without impacting ordinary Californians or harming the economy." Republicans – whose votes would be needed to pass a budget – have already rejected that approach as being new taxes by another name.

Gov. Arnold Schwarzenegger is somewhere in the middle, saying he opposes new taxes but is open to loophole-closing. Democrats, however, flatly reject his call for budget process changes that, among other things, would give him more power to make unilateral spending cuts.

Bass unveiled the alternative budget during a presentation to the Sacramento Press Club in which she criticized the "risky assumptions" of Schwarzenegger's latest budget and hailed the Democrats' version for rejecting the governor's proposed cuts in projected education and health and welfare spending. The state Senate, also controlled by Democrats, is expected to propose a similar approach that also includes new revenues.

The Assembly's version adopts Schwarzenegger's plan to "securitize" the state lottery, borrowing against projected future profit increases, and would use about \$5 billion of that loan to close the gap in 2008-09, albeit somewhat differently than the governor proposes. The Assembly would devote the remainder of the lottery loan to paying off state debts rather than creating the "rainy-day fund" that Schwarzenegger wants, apparently because the Democrats envision that permanently increased revenues would negate the need for more reserves.

All in all, it's entirely likely that some form of the lottery scheme will make its way into the final budget, whenever that occurs, but that would still leave at least a \$10 billion gap to be filled either with spending reductions or new revenues. And that will be the pivotal point of the forthcoming budget battle.

The state constitution says the budget is to be enacted by June 15, a date that's only rarely met. The next deadline is July 1, when the new fiscal year is to begin, but that's likely to pass without a budget as well.

After that, the target date would be somewhere around Sept. 1 for two reasons – the state could face a cash crunch in August, unable to pay its bills without borrowing more money from Wall Street bankers, and the first part of September probably is the drop-dead date for placing something before voters on the November ballot. It's generally agreed that any fundamental change in the state lottery to make it attractive to would-be lenders would have to be approved by voters.

There is a third reason as well: The Legislature is supposed to end its 2008 session on Aug. 31.

Whether a budget can be hammered out by then is very problematic, given the rigid ideological positions of both parties on the interrelated issues of spending and taxes as well as the declining public standing of Schwarzenegger, who has almost no power to pressure even fellow Republicans into voting his way on any issue.

Chances are pretty strong, therefore, that the state will be pleading with bankers in August to issue short-term loans called "revenue anticipation warrants" that would provide liquidity to a depleted state treasury and allow California to continue to pay its employees and send aid to school districts and local governments that are dependent on injections of cash from Sacramento.

Issuing "RAWs," as they are called, would buy some time but also would reduce pressure on Schwarzenegger and lawmakers to make a deal.
