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## Daniel Weintraub: Despite appearances, budget deal draws closer

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To the casual observer, the situation in Sacramento probably seems pretty bleak right now.

With the state facing a \$15 billion budget shortfall, Democrats and Republicans are a month overdue in getting a new spending plan in place.

Gov. Arnold Schwarzenegger is about to order a temporary pay cut for 200,000 state employees and wants to furlough thousands of others to preserve cash so the government can continue operating through September.

Legislative leaders, meanwhile, scheduled a Senate vote on a Democratic budget plan Tuesday, then abruptly canceled it.

But in the topsy-turvy world of state politics, these seemingly dark developments might actually signal that an agreement is near.

It used to be said that state leaders couldn't get a budget deal until the temperatures in the capital city topped 100 degrees. But since the coming of air conditioning, that maxim no longer holds. Now it's more accurate to say that the opposing sides won't agree until everybody watching them pretty much concludes that they are on the verge of a partisan meltdown.

In other words, they're getting close to a deal.

That's not the same as closing the deal. It's common for the party leaders to have the framework of an agreement, even an outline of a new budget plan, but then be stymied for days or even weeks over a disagreement on details or some unrelated issue that a few legislators want to include in the package in exchange for their vote.

But by listening to the legislative leaders talk and tapping into the chatter in the Capitol hallways, you can begin to sense what a new budget agreement might look like, whenever it comes. Here's my best guess:

- It is going to include some borrowing. That's not exactly going out on a limb, given the recent history of this governor and these legislators.

There is just no way they are going to close a \$15 billion gap with spending cuts and tax hikes alone. So expect some gimmicks.

Lawmakers, for instance, might find a way to tap into local government funds, despite a voter-approved initiative that makes that option more difficult than before. Also, the governor's proposal to borrow against future state lottery earnings, an idea he calls "a gift from the future," is still very much alive. I would not be surprised if a scaled-down version of the governor's plan emerged as part of this package.

- The final deal will include some tax increases. The worst-kept secret in the Capitol is that at least a handful of Republicans are prepared to accept some tax hikes in exchange for what they call "budget reform." The range of possible tax increases probably tracks with the seriousness of the reforms.

If Democrats were to accept a strict limit on future spending, which has been the Republicans' top priority, the majority party could probably get enough Republican votes to pass a sales tax increase. But the Democrats won't go there because such a limit would constrain the growth in government services during the next economic expansion.

If Democrats instead will accept only a strengthened rainy day reserve, Republicans will probably vote for nothing more than eliminating a few tax deductions.

The shape of that budget reform has been the subject of intense talks in recent weeks among all of the legislative leaders. Ultimately, the ball is in the Democrats' court. The stronger the limit on long-term spending they accept, the more tax revenue they are likely to get in the short term, and the fewer cuts they will have to make. Which brings us to the third piece of any deal.

- There will be some spending cuts, or at least some reductions from planned levels of spending. But it won't be clear how much will be trimmed until we know how much they will borrow and how big the tax increases will be.

The governor proposed essentially freezing education spending on a per-student basis, which would have meant service cuts for schools that had employee contracts driving up costs. With higher expenses but the same amount of money from the state, many of them would have had to lay off teachers. Schwarzenegger also proposed a 10 percent reduction in reimbursements to doctors who care for the poor, and he suggested denying a planned federal cost-of-living increase to the aged, blind and disabled who rely on public assistance to supplement their Social Security checks.

The Democrats, in their version of the budget, restored all of those cuts and more, and proposed paying for the added costs with about \$9 billion in tax increases on business and the wealthy. Republicans will almost certainly not vote for tax increases anywhere near that large, so something will have to give.

One other thing we can be fairly certain of at this point: The final package will not solve the state's fiscal problems. Even with tax increases and spending cuts, lawmakers and the governor will probably still be facing a potential deficit of billions of dollars when they convene in January, 2009 to do this dance all over again.