

The governor says that if a budget deal isn't reached, he won't approve emergency borrowing to tide California over.

By Shane Goldmacher

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Gov. Arnold Schwarzenegger vowed Wednesday to let California government come to a "grinding halt" rather than agree to a high-interest loan to keep the state afloat if he and the Legislature do not close the yawning budget gap in coming weeks.

At the same time, the governor reversed himself on a proposal to end health insurance for families of police officers and firefighters who died in the line of duty. Schwarzenegger called the plan, first [reported by The Times on Tuesday](#), a "terrible screw-up" that is being corrected.

The proposed cut was tucked away in a list of regulations that would be suspended if Schwarzenegger's latest budget revisions are adopted. It would have saved the state \$1 million in 2009-10.

State finance officials say California coffers will be empty in late July unless the projected \$24-billion budget shortfall is resolved quickly. Schwarzenegger said that emergency borrowing would be too expensive and that his threat to block it was necessary to prod lawmakers into swift action.

A loan would only "give them another reason why we don't have to do it now," the governor said. "What we need to do is just to basically cut off all the funding and just let them have a taste of what it is like when the state comes to a shutdown -- grinding halt."

The comments, made in an interview with The Times' editorial board, represent the governor's latest salvo in the battle over California's budget. An emergency loan -- not routine short-term borrowing but a longer-term, higher-interest loan -- would require the governor's approval but not that of the Legislature, unlike his proposed budget solutions. He approved the initial step for such borrowing last year and can revoke it at any time.

In the wide-ranging interview, Schwarzenegger challenged legislative Democrats to resist the influence of special interests fighting the deep program cuts he has proposed to help balance the budget.

Clearly alluding to labor unions that oppose the cuts, the governor said: "Do they want to protect the workers that provide the services, or do they want to protect the people that get those services? The choice is up to them."

Schwarzenegger reiterated his support for a constitutional convention to overhaul state government, calling it "the only hope that I have" for substantive reform. He also took aim at some other elected officials, characterizing them as obstructionists in his quest for change.

Mostly, however, he expressed frustration over the financial crisis that threatens to overshadow the final year and a half of his governorship.

All sides -- legislative Republicans, Democrats and the governor -- have pledged to plug California's deficit by the end of June. The new fiscal year begins July 1.

"We will meet the July 1 deadline," Senate leader Darrell Steinberg (D-Sacramento) said in an e-mail to The Times.

If lawmakers fall short of that goal, as they have many years, Schwarzenegger's refusal to borrow would leave the nation's most populous state with no way to pay its bills.

"Payment deferrals and IOUs -- that's all we would be left with," said Hallye Jordan, a spokeswoman for state Controller John Chiang, who monitors California's cash flow. Chiang reported Wednesday that the state's revenues have fallen \$827 million below projections made only weeks ago.

Amid a cash crunch earlier this year, the state deferred some payments, including taxpayer refund checks. But California has not issued IOUs since the early 1990s.

Schwarzenegger has proposed slicing deep into public schools and eliminating college student grants, health insurance for 930,000 poor children and the state's welfare-to-work program. But the Democrats who dominate the Legislature have countered that they will not disassemble California's social safety net.

In the Senate, Democrats have sketched a counter-proposal that would drain the state's reserves and rely on hopes for a rosier economic future to hold off the deepest of the cuts. Their plan would resolve up to \$20 billion of the projected \$24-billion deficit.

The governor called that approach "hallucinatory" on Tuesday and "irresponsible" on Wednesday. "We have not hit the bottom" of the economic crisis, he told The Times.

Some rank-and-file Democrats are holding out hope of raising taxes to close the deficit. And the state's largest labor group, the Service Employees International Union, launched a \$1-million TV advertising campaign Wednesday to press for more taxes on oil, tobacco and liquor.

Eliseo Medina, SEIU's national executive vice president, said the governor "ought to be worrying about trying to maintain services instead of trying to kill the messenger."

Support from some Republican lawmakers, most of whom have said no to further taxes, would be needed for such proposals to pass the Legislature.

Schwarzenegger said the financial crisis should be the impetus for a leaner and more functional state government. But he said he had no confidence in the Legislature to change the status quo and hoped a constitutional convention -- the radical notion of tossing out California's oft-amended legal framework to start from scratch -- would.

One area Schwarzenegger singled out: the array of elected statewide officials -- controller, treasurer, schools superintendent, etc. -- who can hail from different political parties and have different philosophies. The system was intended to create checks and balances, but the governor complained that the others sometimes get in his way.

"I say we should decrease the state employees' salaries, and the controller says, 'Nah, I don't think it's necessary,'" Schwarzenegger said, recalling a legal battle with Chiang that the governor eventually won.

"If I want to . . . create a vision for California, you can't have a team around that's trying to derail you," the governor said.

"I always get my lessons from sports," he said. "Look at the Lakers, look at all the great teams. When they are together and connected, then they have a better chance of winning."

shane.goldmacher@latimes.com