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Dan Walters: Worst deficit news waits around the corner

By Dan Walters

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Thousands of words were spoken Monday during an unusual joint session of the Legislature on the state's budget crisis, but the two most important were uttered by the state budget director, Mike Genest, when he quietly told lawmakers that the deficit will be "substantially worse" than the current figure, as staggering as it may be.

The current estimate is that the 2008-09 budget is \$11.2 billion out of whack and the 2009-10 income-outgo gap is another \$17 billion, but with new forecasts of a declining economy and up-to-date revenue numbers, state officials believe that both numbers could be as much as 50 percent higher, around \$40 billion.

Gov. Arnold Schwarzenegger will reveal the higher deficit figures a month from now when he unveils a proposed 2009-10 budget. Meanwhile, he and other officials are beseeching the Legislature to act quickly on a package of spending cuts and new taxes to narrow the deficit and persuade big bankers to lend the state more money to avert a looming cash flow crisis.

Treasurer Bill Lockyer told lawmakers that because of the cash squeeze, he will stop all internal financing of highways and other infrastructure projects that depend on bond money, because he is unable to sell state bonds. "Every region will be affected," Lockyer said, ticking off some endangered projects.

Genest and Lockyer were joined in the Assembly chambers by Controller John Chiang and Mac Taylor, the Legislature's budget analyst, and all pleaded for rapid action to avert a fiscal train wreck. Taylor termed it "a rather dire situation" while Chiang said further delay would be "toxic" and said the state could be flat broke in a few months, unable to pay its bills or borrow more money.

While the quartet – dubbed "the Four Horsemen of the Apocalypse" by one Capitol type – pleaded for rapid action, there was absolutely no indication afterward that the political stalemate on taxes, spending cuts and demands by Republicans for easing some labor and environmental rules would suddenly resolve itself.

Afterward, the Legislature's partisan leaders pretty much parroted what they had been saying for weeks – an indication that as the crisis deepens, the contending factions see an opportunity to force each other into retreat.

While Democrats believe that the depth of the crisis will compel Republicans to abandon their no-new-taxes position, GOP leaders believe that they can force Democrats into giving ground on what they call "economic stimulus" – a list of pro-business measures, such as no longer requiring overtime pay after eight hours of work, that Democrats and their labor and environmental allies despise.

It's also true, however, that the longer the stalemate continues, the less effective pending tax and spending cut proposals become, thereby heightening the crisis – and that's not counting additional billions of deficit that state officials now believe are certain to appear next year.