

Analysis: Calif. Budget Mess Is Back

By LAURA KURTZMAN – 2 days ago

SACRAMENTO, Calif. (AP) — Arnold Schwarzenegger stormed into office during California's last budget crisis, promising to "end the crazy deficit spending" so the state would never go over the financial cliff again. But four years later, California is back in the same spot.

The cooling economy has opened up a projected \$14.5 billion deficit over the next 18 months, and the governor proposed this week to cut school spending, release 22,000 prisoners early and shut dozens of state parks.

The irony is rich: He is facing a repeat of the financial crisis that undid Democratic Gov. Gray Davis, the man Schwarzenegger ousted in a turbulent recall election.

"It is poetic justice," said Garry South, a former Davis adviser, remembering Schwarzenegger's taunts in the 2003 election. "All the hullabaloo he made during the recall, putting up ads saying he would cut up the state's credit cards and stop this crazy deficit spending — and he ultimately didn't do either one."

Far from solving California's systemic budget problems, Schwarzenegger has taken several actions that have made them worse. Just like Davis, Schwarzenegger cut taxes but not spending, which has risen 30 percent since he took office. That ensured that when tax revenue tapered off, the budget gap would reappear.

The latest crisis came on so fast that California is in danger of running out of cash this year. Schwarzenegger has ordered more borrowing — the sale of \$3.3 billion in bonds — to make sure the state can pay its bills.

The out-of-whack budget forced the governor to scrap an ambitious plan to overhaul education, easily the biggest part of the budget, saying, "This is not the year to talk about money." California ranks 43rd in the nation in spending per pupil.

The deficit also threatens to undermine the compromise on health care he reached last year with Democrats, a \$14 billion plan that needs legislative and voter approval. The grim financial picture might make it harder to persuade voters and lawmakers to give their assent.

Schwarzenegger has tried his hand at reforming the budgeting process — at first gingerly, then with a campaign that incited such ferocious pushback it nearly ended his political career.

Shortly after he was elected, the Republican asked the Legislature to adopt a spending cap, but the Democrats who control both chambers refused. Lawmakers eventually agreed to put a weak spending limit on the ballot, along with a \$15 billion bond issue to bail out the state. Both passed.

In the ballot pamphlet, Schwarzenegger assured voters — in capital letters — that the measure would be "a safeguard against this EVER HAPPENING AGAIN."

Clearly not believing his own rhetoric, he came back with a second ballot measure in 2005 to impose a hard spending cap and give the governor authority to cut the budget in the middle of the year. But public employee unions, led by teachers, shot it down, and the governor's approval rating dropped by half.

When the good times rolled back and brought a \$9 billion tax surplus, he didn't bank it all. Instead, he gave most of it to education to pacify the teachers.

"Why didn't they take some of that and put it into the budget stabilization account, which the voters had approved the year before?" asked Fred Silva, a fiscal policy adviser at a consulting firm who spent 20 years working on budget issues in the California Senate. "It's just a choice. And, you know, the Legislature went along with it."

Schwarzenegger acted as though he believed the bad times were not coming back. In announcing last year's budget, he said he had put an end to the deficit. But as the housing market swooned, so did the state's finances.

Now, the governor is again advocating a spending cap and a rainy-day fund, this one, he says, at the recommendation of former President Clinton, who used it when he was governor of Arkansas.

But dropping Clinton's name hasn't done Schwarzenegger much good with Democrats, who want him to raise taxes instead of cutting services.

"If the governor is looking at rural Arkansas as a model for addressing California's budget issues," said Sen. Dean Florez, a Democrat from the Central Valley, "perhaps California is just too big of a state for him to handle."