

Cloudy Days on the Budget Watch

Budget watchers in Sacramento breathed a sigh of relief when the Governor's May Revise was released, but only because the numbers were merely bad rather than dreadful. Tax receipts in the third quarter had been much lower than expected, but a surge in corporate and personal income taxes in April had narrowed the gap between revenues and expenditures to about \$2.3 billion.

Some of the Governor's solutions met stiff opposition, and others are one-time fixes that will not solve the deficit on an ongoing basis. The Legislative Analyst (LAO) estimates that under his proposals the deficit would grow to more than \$5 billion in 2008–2009.

Among the proposals drawing fire are cutting about 200,000 children from the CalWORKs Program and withholding cost of living adjustments in this program and for other assistance programs for the elderly and disabled. Both some child care costs and school transportation costs would be shifted to be covered under the Proposition 98 education guarantee.

Public transit advocates are fighting that and other proposals that they say would, in total, reduce support for transit operations by \$1.3 billion while emphasizing highway building projects. Both they and the LAO question the legality of some of the proposed shifts.

Among the one-time solutions advocated by the Governor are selling EdFund, a state agency that guarantees student loans and has been making money doing it. The Governor says this might be sold to a private operator for about \$1 billion. He also suggests selling or leasing the state lottery to a private operator, but that would probably require

going to the ballot and is not included in this year's budget. More money would be realized by speeding up the sale of bonds backed by the state's settlement with the tobacco industry, which would help balance the budget this year and worsen deficits for the following two years.

The Governor also proposes to use \$1.6 billion to make an early repayment on the state's deficit-financing bonds. The LAO says this would help the budget in 2009–2010, but says we would be better served by "addressing near-term budget problems." The LAO also believes some "overly optimistic assumptions" in the budget may leave a reserve fund of only about \$529 million, rather than the \$1.7 billion projected in the May Revise.

The reduction in the Vehicle License Fee four years ago cut state revenue by about \$4 billion a year with no accompanying reduction in programs. Ever since then, budget makers have been trying to cover the loss with various one-time fixes and robbing Peter to pay Paul while hoping the shifting fortunes of the California economy will somehow fill the gap.

That exercise may only get more difficult now that the state, prodded by various court decisions, is being forced to expand its prison system and make an effort to improve services intended to eventually reduce recidivism. Since nobody expects any agreement to raise new revenues, given the two-thirds vote that would be required in the Legislature, the budget horizon will probably continue to be gloomy, and Peter and Paul may end up picking each others' bones.

