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Budget battle heats up

Governor sees across-the-board cuts; Núñez looks to tax hikes

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Republican Gov. Arnold Schwarzenegger plans to seek across-the-board budget cuts to solve an estimated \$14 billion deficit, but Democratic Assembly Speaker Fabian Núñez said Thursday the state should now consider tax hikes.

The brewing budget fight may have other immediate consequences, as Democratic Senate President Pro Tem Don Perata declared it "imprudent and impolitic" to pursue a health care expansion while facing cuts in existing state programs.

Schwarzenegger remains opposed to tax increases, according to Department of Finance spokesman H.D. Palmer. But Núñez, who shied away from tax hikes in previous budget discussions, said the state no longer can fix its imbalance by cuts alone.

The Los Angeles Democrat proposed taxing more Internet purchases, closing corporate tax loopholes and increasing the vehicle license fee.

"The fact of the matter is we've been cutting our way out of this budget mess for the last four years," Núñez said. "I think it's time we show a little bit of creativity."

Schwarzenegger, who ran for re-election last year on a pledge not to raise taxes, remains opposed to tax increases. "Our focus is on looking at the expenditure side and, to the greatest extent, to spread that as broadly as possible across state government," Palmer said.

The administration last month asked departments to prepare hypothetical budgets based on 10 percent reductions for the fiscal year beginning July 1 in case such a move was sought.

But as the fiscal outlook has worsened, the Republican governor has decided to go forward, according to advocates for social services and local government the governor has summoned in recent days for budget discussions. Palmer would not say what percentage cut the governor will seek or whether it would apply to current-year spending.

Rich Gordon, a San Mateo County supervisor and president of the California State Association of Counties, said the governor and his aides told local government officials that 10 percent was an average goal and that some state departments could be above or below that reduction.

"It felt to me like 10 percent was a target they were looking at both in the short term and long term," Gordon said.

Schwarzenegger told social service groups he plans to ask the Legislature for 10 percent across-the-board reductions in state spending, according to sources who asked not to be identified because the governor's meeting was private. In the discussion, Schwarzenegger resisted new tax increases, insisting that not enough support exists among legislators and voters.

Schwarzenegger's finance officials have determined the state is facing a \$14 billion deficit over the next 18 months, significantly more than the \$9.8 billion projected by Legislative Analyst Elizabeth Hill. Both estimates take into account a state economy struggling with a volatile housing market.

The \$14 billion shortfall would represent more than 12 percent of \$111 billion in state General Fund expenditures in the 2008-09 budget year, the spending projection Hill used in her analysis.

Perata, emerging from a Capitol meeting with Núñez and Schwarzenegger, said it will be "a very difficult conundrum" for lawmakers to continue discussing universal health care when a \$14 billion deficit looms and the governor is calling for cuts in existing state health care programs.

In a statement, Perata added, "The real issue now is the deficit and how this squares with everything else that we are going to do."

But Núñez and Schwarzenegger's office disputed Perata's linkage of the budget deficit and health care debate, noting that the universal health care plan has its own revenue stream unrelated to the budget. Núñez said the framework for a deal exists, but not a final agreement.

"I am so confident that we are going to get this done that I am noticing a floor session on Monday so the Assembly can take up (the bill)," Núñez said.

Budget experts and lawmakers say it will be nearly impossible to slash each department on an equal basis.

Senate Republican leader Dick Ackerman of Irvine said cutting 10 percent out of the state Department of Corrections and Rehabilitation would be problematic because federal courts have taken issue with overcrowding and inadequate health care in state prisons.

Ackerman and Assembly Republican leader Mike Villines of Clovis have vowed to oppose tax increases.

The state constitution mandates that schools, for instance, receive a guaranteed share of state money. To reach a 10 percent target in education, Schwarzenegger would have to suspend Proposition 98 and face a political battle with education groups and Democrats. Fred Silva, a former legislative budget director who now works for the fiscal forecasting firm Beacon Economics, said suspending Proposition 98 also would commit the state to repaying those dollars in future years, delaying the problem.

In state health care programs such as Medi-Cal, 10 percent cuts could undermine federal matching dollars and require changes in state law.

Anthony Wright, executive director of Health Access California, said past budget cut proposals have included toughening eligibility requirements, reducing outreach efforts and denying coverage of supplies such as prosthetic limbs and asthma inhalers.

"When health care is a third of the budget, you expect that in a budget deficit like this, health care is going to be hit at least proportionally and maybe more so because other parts of the budget are protected," Wright said. "We don't think it's doable by cuts alone, and we think there needs to be a balanced solution that includes additional revenues."

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