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## Analysis: Budget faced realism deficit

**Governor repeatedly said problem was solved, but structural shortfall persists.**

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Gov. Arnold Schwarzenegger won re-election in 2006 by selling himself as a problem solver who boosted California's economy and resolved the state's budget problems, all without new taxes.

The Republican governor declared in January that "through discipline and through new revenues that come from economic growth, we reduced the deficit over time and got our fiscal house in order."

But less than a year into his second term, the narrative has run dry.

An estimated \$14 billion deficit looms, the state's housing market has become an economic drag and Schwarzenegger can no longer count on a tax windfall to cover the spending increases he has approved since taking office.

Schwarzenegger is proposing an average 10 percent spending cut across the board, while Democratic leaders want a mix of cuts and new taxes. The governor admitted Wednesday, "This state has had problems with the budget ever since I have gotten here," even suggesting the process is beyond anyone's control.

"I think the problems were deeper and more structural than the governor realized when he was first elected," said Jean Ross, executive director of the California Budget Project, which advocates for poor and middle-class families.

"There is a fundamental imbalance between revenues and expenditures," Ross added. "Many budgets that were signed into law, including those signed by the current governor, made the problems worse, not better."

Throughout his time in office, Schwarzenegger has characterized his budgets as disciplined enough to avoid the deficit problems of California's past. He has suggested that his own anti-tax policies led to California's growing economy and thus a boom in state revenues.

Budget experts say the governor has ridden the crest of the state's good economic fortunes and now will be at the mercy of its impending fiscal slowdown.

They say he has done little more than his predecessors, including the recalled Gov. Gray Davis, to change the state's structural budget problems, which range from too much formulaic spending to single-year budgeting.

"He fell into the same trap that governors and legislators have always fallen into, which is to say, 'Boy, if you have enough revenues from the prior year, don't sweat it,' " said Fred Silva, a former legislative budget director who now works for the fiscal forecasting firm Beacon Economics.

When Schwarzenegger ran for governor in 2003, he promised to "end the crazy deficit spending," a task he made sound as easy as conducting an audit and finding waste, according to his campaign commercials.

The audit – the governor's 2004 California Performance Review – fell apart when multiple interest groups said recommended cuts would hurt the public.

To bridge the budget gap he inherited, the governor that same year asked voters to approve \$15 billion in bonds, which the state is still paying off. Another measure that passed, Proposition 58, prevented the state from using similar bonds to cover the deficit in the future.

Schwarzenegger communications director Adam Mendelsohn said that ballot measure forces the state to cut spending responsibly rather than rely on more borrowing.

"We are in a position right now where the state has to deal with the budget deficit head-on, in large part because of the changes he has made in the last four years," Mendelsohn said.

He added that the governor "has been frustrated that you have this budget in Sacramento where revenues and spending have no relationship to one another."

Under Schwarzenegger, the state's overall budget has increased 36 percent above Davis' most expensive year in 2002-03. That is nearly as much as the 42 percent increase during Davis' first term, a spending boost that resulted in a once-

projected \$34.6 billion deficit and sparked his recall in 2003.

Sen. Tom McClintock, R-Thousand Oaks, said Schwarzenegger had plenty of opportunities to restrain spending in flush times in order to avoid the \$14 billion deficit he now faces.

"This was not an unforeseen crisis," McClintock said. "This is what the entire budget impasse was about last summer. The unfortunate thing was that last summer was the time to address this issue, and the governor was on the other side."

McClintock, who ran against Schwarzenegger in the 2003 recall, said he told the governor at a January caucus dinner that he was "on the same fiscal trajectory that wrecked the budget under Gray Davis." The senator said the governor told him he was simply being a pessimist and "people don't want to hear bad news."

Schwarzenegger in 2005 pursued an initiative to give the Governor's Office more power to unilaterally cut spending and weaken the Proposition 98 spending guarantee for K-14 schools, which accounts for roughly 43 percent of the general fund budget, according to the Department of Finance. But the governor came under attack from educators, nurses and other groups, and suffered a political setback right before his re-election year.

Senate President Pro Tem Don Perata, D-Oakland, also has called for structural changes in budget-making, but nothing has occurred so far. When he suggested in 2005 that the Proposition 98 schools guarantee should be re-examined, the California Teachers Association posted signs in his district questioning his position.

"Part of why it's hard to get structural reform is that it challenges the status quo," said Tim Gage, a former Department of Finance director for Davis. "People are uncertain what the change would bring – or it would disadvantage their interests."

Fresh off his election victory in 2006, the governor declared last November on national television that he was going to eliminate the structural budget deficit by 2009-10. He said elsewhere that the state's newly passed infrastructure bonds would stimulate the economy so much "that we are going to solve those problems and lower the structural deficit and eventually wipe it out."

Schwarzenegger earlier this year declared that his administration had "made tremendous progress" because he reduced the structural deficit from a projected \$16.5 billion to \$1.4 billion. He said that "we did it by growing our economy and exercising spending restraint."

The \$16.5 billion figure was what his first finance director, Donna Arduin, projected the state would face in 2006-07 if spending continued at the same pace in 2004.

The governor now faces a \$14 billion deficit, only \$2.5 billion less than his oft-used budget benchmark.

"People love his sense of optimism and sense of bravado, but it's absolutely what keeps getting him in trouble," said Kevin Gordon, a consultant on education budget issues. "He says things, but then reality undermines the situation. ... I'm sorry, but the budget was never balanced, and it's always been subject to the ups and downs of the economy."

Schwarzenegger lately seems to have toned down the budget boasting he did for the past five years.

The governor, speaking Wednesday in San Diego, called the \$14 billion deficit "a temporary problem." He then went on to suggest that the budget process has remained the same over the past 40 years and that the system was to blame, not the governor or legislators.

That remark stood in sharp contrast to statements he made before he was governor, when he blamed the budget problems squarely on Davis.

"And you know why nothing has changed?" he said. "Because the system itself is flawed, the budget system. It's not that there's anyone in Sacramento that is making the wrong decision. There is no one in Sacramento making the wrong move or doing something bad. This has been created by itself, because the system is flawed."

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