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California facing \$10 billion budget shortfall as home market tanks

By: **Matthew Yi, Tom Chorneau**
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California's state budget will face a nearly \$10 billion shortfall by July as the faltering housing market continues to take a toll on the Golden State's overall economy, according to a report released Wednesday by the nonpartisan Legislative Analyst's Office.

The state's grim fiscal situation will be even more difficult to solve than in recent years because some of the options for balancing the budget, such as borrowing money or dipping into special funds, have been exhausted or are no longer available, Legislative Analyst Elizabeth Hill said.

"I think the key thing to remember is all the easy solutions are gone," she said. "And to get revenue and spending lines in balance will require some really tough choices."

Those choices could include increasing fees and taxes or reducing or eliminating

benefits to the poor, said Hadley Johnson, a deputy legislative analyst. Another choice could be suspending the rules on minimum funding

for education - the state's biggest-ticket item.

Gov. Arnold Schwarzenegger conceded that drawing up a balanced budget will not be easy.

"Since the day that this year's budget was signed, we have made it abundantly clear that next year's budget will be a difficult one," he said in a written statement.

The budget negotiations between the Republican governor and the Democrat-controlled Legislature could become a difficult battle. On Wednesday, some leading Democrats blamed the problems on Schwarzenegger.

"There is an ongoing gap between state expenditures and revenues that this governor helped create by slashing vehicle license fees and refusing to balance that

loss with revenue from another source," Senate President Pro Tem Don Perata, D-Oakland, said in a written statement.

Rolling back a 300 percent increase in the state's vehicle license fee imposed by then-Gov. Gray Davis was Schwarzenegger's first official act when he replaced Davis in 2003. The Legislative Analyst's Office estimates that the higher fee would raise \$5 billion a year if it were reinstated today.

Assemblyman Mark Leno, D-San Francisco, echoed Perata's sentiment, adding that wiping out the increase in the fee has resulted in "squandering \$20 billion (since 2003) so that an average car owner can pocket \$200 a year."

H.D. Palmer, a spokesman for the Department of Finance, refused to comment on how the administration will tackle the deficit, saying that his agency is expected to finish gathering the latest data before delivering them to the

governor in December as Schwarzenegger prepares to unveil his budget in January.

However, Palmer noted that the "focus will be on the expense side" of the balance sheet.

Senate Republican leader Dick Ackerman from Irvine said his caucus will not support any increases in taxes or fees.

"Income is not the problem. ... It's the spending. We've got to have spending restraints," he said, adding that the legislative analyst's forecast said state expenditures are expected to increase by 7 percent while revenues are expected to grow by 4.6 percent.

And the gap between revenues and expenditures is widening now, Hill said.

The much-hyped \$4.1 billion reserve in the current budget is drying up as a result of decreased revenue from property taxes, the likely delay in the sale of a state agency that manages loans to college students and delayed implementation of new Indian gaming compacts.

The result: California will be in a \$1.9 billion hole even before considering spending plans for the next year, according to Hill's report.

Several lawmakers also questioned whether the state

should consider taking on \$14 billion in proposed health care reforms, approved Wednesday by the Assembly Health Committee, when facing such an uncertain economic future.

But Assembly Speaker Fabian Núñez, D-Los Angeles, said his bill would be paid for outside the general fund using a combination of new fees on hospitals, an increase in the tobacco tax and contributions from employers and workers.

After months of debate, the two sides have agreed to require all Californians to have insurance - with some exceptions. They have also drawn closer on how costs would be divided between employers and workers and the amount of subsidy that might be offered to middle-income families.

The Democratic bill, AB1X, passed out of the health committee on a vote of 11-4, with Republicans in the minority. The bill also drew criticism from labor and consumer groups who are concerned that mandates on coverage will prove too costly, although subsidies contained in the bill would help families earning up to \$93,000 per year.

How state budget went bust

California faces a \$10 billion budget shortfall by July as a result of the state's waning

economy, according to the Legislative Analyst's Office.

The turnaround is dramatic: The budget signed by the governor in August estimated a \$4.1 billion reserve at the end of the fiscal year.

Declining revenue

-- \$604 million less tax income in the last quarter of 2007

-- \$2.1 billion less tax income than forecast for the current fiscal year

-- \$1 billion less from delayed sale of college loan agency

-- \$210 million less from delayed tribal gambling expansion

Increasing expenses

-- \$1 billion in additional school spending

-- \$500 million to settle pension lawsuit

-- \$260 million pay increase for prison guards

-- Revised reserve for the current year - minus \$1.9 billion

Source: Legislative Analyst's Office

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