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No More “Kicking the Can down the Road”

By a Former Republican State Legislative Leader

California has been living a fiscal fantasy since the windfall years (1999–2002) of the dot.com boom. Now grim reality is setting in.

During the dot.com boom under Gray Davis, eligibility was expanded in Medi-Cal and other health and social service programs, college fees were reduced, the car tax was cut, and prison guard pay scales went off the charts.

When Arnold Schwarzenegger became governor, he rolled back the car tax, which Gray Davis had raised before his recall (cost: \$5 billion a year), and then surrendered on countless cost saving ideas of his new Director of Finance, Donna Arduin, fresh from the Jeb Bush administration. Now those ideas look mild.

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Thanks to the housing and stock market crash, California’s revenues have been in free-fall for 18 months, with the first decline in personal income since 1938. Revenues in 2008–2009 are off 16.3% (\$17 billion) from 2007–2008, despite the recently enacted increases in income, sales, and vehicle license taxes.

The revenue picture is not likely to get better very fast. The recent tax increases only last for two years. Federal bailout moneys expire in two years. Sales taxes on automobiles depend on consumers who may only return to showrooms gradually. Capital gains taxes, off by 65%, will only recover when gains on sales are not matched by losses. And property taxes are still trending down.

To make matters worse, the current budget proposal relies on a number of one-time bookkeeping gimmicks, such as accelerating estimated income taxes and withholding by \$2.3 billion, borrowing \$2 billion from local government, which must be paid back in three years, and selling part of the State Compensation Insurance Fund (\$1 billion).

Oh, and then there are the looming upward spending pressures. We set aside only \$1.5 billion a year for unfunded retirement health obligations, and we need \$5 billion. Our

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infrastructure is falling apart: fuel excise taxes barely fund half of the essential maintenance/repair of the highway system. Debt service on recently enacted bond issues will increase significantly.

It is time for an honest conversation about what we can afford.

The tendency for Republicans has been to decry new taxes but go back to their districts and tell people they are fighting for education, opposing early release of prisoners, and protecting transportation and local government. (Of course the Democrats have never leveled about how high taxes would have to go to fund current programs.)

Now, with a \$24 billion *new* shortfall on what was a February 2009–2010 expenditure plan of \$89 billion, it should be painfully obvious to all that the math does not add up.

The question is how to “compromise.” But that would require tax increases on top of those already enacted. I voted for Prop 1A and applauded the then Republican leaders, Mike Villines and Dave Cogdill, for doing the right thing.

I don’t think either of them, or the other four Republicans who voted with them for the February budget compromise, will be voting for more taxes.

All of which sets the stage for what almost certainly will be major downsizing of state government in California.

To get it done, the Republicans need to vote for cuts that most Democrats can’t support. And vice versa for the Democrats. And the governor will have to do some things

(like more furloughs and layoffs and commutation of sentences) that he can do without the legislature.

If the legislature and governor cannot get it done, Congress should add states to the Chapter 9 municipal bankruptcy law.