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From the Los Angeles Times

Schwarzenegger's budget calls for temporary sales-tax increase

The governor announced the three-year tax hike and his formal plan just after a judge ruled to hear a dispute between Schwarzenegger and Controller John Chiang over state worker pay cuts on Sept. 12.

By Evan Halper

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SACRAMENTO — Hoping to break a partisan logjam and prevent the Legislature from borrowing its way out of a state spending crisis, Gov. Arnold Schwarzenegger went public Wednesday with his own budget blueprint, the backbone of which is a tax hike and a large rainy-day cushion.

The governor made the unusual move 51 days into the fiscal year, as private talks between him and legislative leaders appeared to be collapsing. Typically, governors do not publicize new spending plans after submitting their revised budgets in May. The governor's May plan included no taxes.

Schwarzenegger is eager to take control of the budget process as lawmakers begin drafting borrowing plans that the governor warns will saddle his administration with a \$9-billion shortfall next year. The governor, who prefers the new tax to borrowing, hopes to use his popularity with the public to pressure legislative Republicans to break their vow to never raise taxes. He is lining up business groups to join him.

"This budget will not get done by taking it easy or doing easy things," Schwarzenegger said at a Sacramento news conference. "This budget will only get done by making tough choices we thought we would never make."

The most controversial element of the plan -- the one-cent-on-the-dollar sales tax hike -- would remain in effect for three years. After that time, the tax would be reduced by 1 1/4 cents on the dollar, putting it below the current rate of 7.25%. The temporary increase would not apply to diesel, gasoline or jet fuel. The new tax would raise \$4 billion this year.

Schwarzenegger's budget proposal also calls for constitutional spending restraints. The measures would require the state to transfer 3% of revenue to a rainy-day fund every year until the fund grew to 12.5% of the state's general fund budget. The new fund, according to the governor, could be tapped only in the event of a fiscal emergency.

Voters would have to approve any such changes to the Constitution, and administration officials say lawmakers have only a week or so to meet the deadline for getting it on the November ballot. Schwarzenegger said that if the spending restraints had been in effect over the last several years, the rainy-day fund right now would be large enough to erase nearly two-thirds of the current \$15.2-billion budget shortfall.

Republicans were dismissive of the governor's plan Wednesday. They accused him of conspiring to push through a tax increase with Democrats, who have for weeks been calling for the state to hike income tax rates on the wealthy. Republican lawmakers are also seeking stricter spending restraints than those proposed by the governor.

Assembly Republican Leader Mike Villines of Clovis said the proposal "looks remarkably similar to the plan the governor's office has been negotiating with Democrats for weeks. Substituting one tax increase for another is not a bipartisan compromise."

Senate Republican Leader Dave Cogdill of Modesto called the proposal "disheartening" and accused the governor of "walking away" from the "core principles" of the GOP.

Democrats welcomed the governor's support for new taxes but said it didn't help for him to wait until late August.

In addition to new taxes, the governor has adopted other proposals that had been put forward by Democrats.

They include a temporary suspension of a tax credit for business losses and the ramping up of tax collection efforts, which would generate \$1.5 billion.

Hours before the governor unveiled his plans, a Sacramento judge stymied his effort to lower the hourly pay of most state workers to the federal minimum wage of \$6.55 until a budget is passed.

The court opted to wait until next month to consider whether it should force the state controller to carry out the pay cut.

The delay means state workers will be paid in full for all of August.

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Times staff writer Michael Rothfeld contributed to this report.

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Schwarzenegger officially reveals spending, tax offer

LAWMAKERS' REACTION BODES ILL FOR BREAKING STALEMATE

By Mike Zapler
Mercury News Sacramento Bureau

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SACRAMENTO - Eager to break a two-month impasse over the budget, Gov. Arnold Schwarzenegger on Wednesday unveiled what he called a compromise spending plan that includes a 1 cent sales tax increase.

He implored lawmakers to look past their partisan differences in the interest of the state, but Schwarzenegger had privately broached much of the plan with legislative leaders already, to no avail.

The announcement marked the first time that the Republican governor has publicly acknowledged his proposal for a temporary 1-percentage-point sales tax increase, despite campaigning for office twice on a no-new-tax platform. The budget plan, his third this year, also calls for deeper spending cuts than Democrats want and a larger "rainy day" reserve to head off future budget crises. He also wants to raid funds from redevelopment agencies across the state, an idea that could jeopardize or delay downtown and neighborhood projects in San Jose.

"Republicans must step out of their ideological corner on the right, and Democrats must step out of their ideological corner on the left," Schwarzenegger said at a news conference. "We must meet in the middle." He called it "shameful" that California, reeling from a \$15.2 billion deficit, is still without a budget 51 days into its fiscal year.

Still, much of what the governor described simply made public ideas that he's pitched in closed-door - and thus far unproductive - negotiations. The reaction from legislators did not offer much encouragement that his announcement would yield a breakthrough.

Assembly Minority Leader Mike Villines, R-Fresno, said after the news conference that Republicans would not soften their opposition to higher taxes no matter what the governor says. California requires a two-thirds vote to pass the budget, so Schwarzenegger must win over at least six GOP Assembly members and two GOP senators to move his plan through the Legislature.

"I don't really view this as anything different than what he's been saying for a couple of months," Villines said in an interview, adding that while he respects the governor's intentions, "I don't think it necessarily moves the process forward."

Assembly Speaker Karen Bass, D-Los Angeles, said she was glad the governor finally went public with his tax proposal. But "it would have been nice if it had been a few months ago."

Perhaps the most controversial part of Schwarzenegger's \$103 billion budget plan is a 1-percentage-point boost to the sales tax, which ranges from 7.25 percent to 8.75 percent in California depending on the jurisdiction. In Santa Clara County, the sales tax is 8.25 percent. If approved, the sales tax increase would bring in \$4 billion this fiscal year, according to the state Department of Finance. After three years, the sales tax rate would drop a quarter percentage point below its current level - an idea designed to make it more palatable to Republicans.

Heeding Democratic opposition, Schwarzenegger abandoned his call for a strict spending cap, instead

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calling for an expanded budget reserve. The plan would require that 3 percent of revenues automatically be deposited into the fund, except when the economy dips. In years when revenues are insufficient to cover modest spending increases for inflation and population growth, the Legislature could tap the reserve to make up the difference.

The governor also proposed suspending for two years businesses' ability to apply past losses to their state tax returns, a move that would generate an extra \$1.1 billion for the state this fiscal year. And while Schwarzenegger still hopes to borrow against future proceeds from an expanded lottery - generating \$5 billion annually for at least two years - he acknowledged that the changes cannot be made in time to help the state this year.

The revised budget plan also includes a list of \$2 billion in spending cuts beyond those outlined by Democrats, affecting programs ranging from welfare to health to transportation. One item of particular interest to San Jose is a proposal to snag \$225 million a year from redevelopment agencies across the state - or 5 percent of their budgets - for three years.

The money would be shifted to schools and community colleges, relieving the state of obligations to provide the money.

San Jose has one of the largest redevelopment agencies in California, and its executive director, Harry Mavrogenes, said the governor's plan would force the city to delay or scrap projects that boost the economy.

"It's a very heavy penalty," he said.

Schwarzenegger said he anguished over the sales tax proposal before deciding it was the only way to bridge the divide between Democrats and

Republicans. Opposition to taxes has long been a staple of Schwarzenegger's political identity, but campaign promises have given way to the realities of a huge deficit.

"Sometimes you've got to make decisions that you hate," he said. But in the end, he decided he had to "be the grown-up" in budget negotiations "and show I go beyond my beliefs."

The Legislature is now almost two months late delivering a budget. The only vote on a spending plan during that time was Sunday, when a Democratic budget fell nine votes short of the required two-thirds majority.

To view details of the governor's proposal, go to www.dof.ca.gov and click on "August 2008-09 Update - Proposed Compromise" near the bottom of the page.

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Schwarzenegger's pay cut won't affect August pay

Associated Press

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SACRAMENTO — California's state employees won't see big cuts in their August paychecks.

A Sacramento judge today scheduled a Sept. 12 hearing into Gov. Arnold Schwarzenegger's attempt to slash the pay of nearly 180,000 state workers as lawmakers debate how to erase a \$15.2 billion budget deficit.

State officials say that means a decision allowing the cuts would come too late to affect the August payroll.

Schwarzenegger wants to cut the pay of about 140,000 state employees to the federal minimum wage of \$6.55 an hour.

About 30,000 management employees would be paid \$455 a week. Another 8,000 state workers without federal minimum wage protection wouldn't be paid at all until a new state budget was adopted.

Schwarzenegger says the cuts are needed to prevent the state from running out of money.

But state Controller John Chiang has refused to implement the cuts, saying the state has enough money to cover its bills into October.