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California Legislature finally approves budget deal

The package is short by \$1.1 billion as plans to borrow local funds and expand oil drilling die. The governor says he will sign it anyway.



State Senate leader Darrell Steinberg (D-Sacramento) celebrates the budget's approval. "We don't know whether or not we will be back at this," he said. "We probably will, but I must tell you, we can ... find common ground more often than not." (Rich Pedroncelli / Associated Press)

By Michael Rothfeld and Patrick McGreevy

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Reporting from Sacramento

After a grueling 20-hour session, California lawmakers approved a budget package Friday that would close most of the state's \$26.3-billion deficit with deep, broad cuts to state government.

Gov. Arnold Schwarzenegger said he would sign the legislation next week even though the Assembly rejected key provisions that left it short by nearly \$1.1 billion. The governor had demanded repeatedly during months of negotiations that lawmakers close the entire deficit.

The portions of the package that did not survive included a controversial proposal for the first new offshore oil drilling in four decades and another to borrow gasoline tax revenue that belongs to local governments. The potential raid of local funds almost scuttled the entire budget deal early Friday.

The governor said he was proud of the package, which comprised about 30 bills amending the budget put in place in February. He said he would make up the loss from the failed measures by taking it out of a cash reserve he had wanted and by using his veto pen to make additional cuts.

"I know that college students will pay now higher tuitions," he told reporters Friday. "I know that teachers will be laid off. I know that our state workers will get less money. But we have to do that. It's the only way to solve the problem and to save our great state."

The budget deal contains accounting maneuvers, some of them advanced by lawmakers and some by the governor, that contradict Schwarzenegger's mantra that the state would not push its problems into the future. And many in Sacramento are bracing for the possibility of having to address new budget problems before the end of the year if the economy does not improve.

But once signed, the budget solution should put an end to the immediate crisis that has forced the state to issue hundreds of millions of dollars in IOUs to residents and businesses and caused its credit rating to drop close to junk status.

Besides rejecting oil and local borrowing proposals, the Assembly killed a bill promoted by the City of Industry. Under the measure, the state would have permitted redevelopment agencies a stream of local property tax revenue for 40 more years, and 10% of it would have gone to the state. But cities and counties had threatened to file suit. Other parts of the budget were approved even though it is unclear that the savings they contain will materialize.

Lawmakers passed \$1.2 billion in cuts to the state prison system. But they put off deciding how to make the reductions because the issue was too heated. They authorized a \$1-billion sale of the State Compensation Insurance Fund, which experts have said is unlikely to be possible in the coming year.

Schwarzenegger appeared ready to overlook those flaws because Democrats acceded to several of his demands: not to raise taxes; to reorganize state boards and commissions; to place new sanctions on welfare recipients who don't meet work requirements; to increase oversight of home healthcare aides to root out fraud; and other measures he said would reform state government.

The governor said those changes would ultimately save taxpayers \$5 billion a year.

Democrats appeared pleased once the bruising battle had ended, though they had made cuts in services for California's poor and vulnerable citizens that they said would have been unthinkable in years past.

The reductions would lead to the loss of health insurance for many children, home healthcare for thousands of seniors, the end of welfare checks for many low-income families and the closure of as many as 50 state parks.

Local governments would lose nearly \$2 billion that they rely on to operate their own parks, law enforcement and transportation programs. Schools would take a multibillion-dollar hit.

"This is the most painful political experience I've had in my life, to make the cuts in the safety net at a time when people need the support more than ever," said Assembly Speaker Karen Bass (D-Los Angeles). Some of the education and local government money would ultimately be paid back, but not for years. Bass and Senate leader Darrell Steinberg (D-Sacramento) have complained that they could not raise taxes in the face of Republican opposition, and touted the deal because it did not include deeper cuts that the governor sought.

But advocates for the poor criticized them for that positive spin. Michael Herald of the Western Center on Law & Poverty said they had been "steamrolled" by Schwarzenegger.

"It is shameful, disgraceful and one of the lowest moments in the history of social welfare in California," he said. "They should stop trying to deceive the public about the harm they have done."

Others are angry too: Representatives of some state workers, who will still be forced to take three unpaid days off a month, say they may strike.

Lawmakers began taking up the budget, which their leaders and Schwarzenegger announced Monday, at 7 p.m. Thursday. They pushed through some important items quickly, cutting billions of dollars from higher education, courts, grants to college students, healthcare and welfare. They also voted to require Californians to pay some taxes earlier through payroll withholdings.

As the hours dragged on, lawmakers waited for bills that had not yet even been drafted, and they cast votes on legislation they barely had time to peruse.

"What do members do in between bill votes?" Assemblyman Tony Mendoza (D-Artesia) wrote in one of many Twitter postings. "We gather in members lounge and sing Hotel CA with guitar: gathered around like in a campfire. Nice."

In the middle of the night, the Senate hit a roadblock that looked as if it might kill the entire deal. Not enough Republicans or Democrats were willing to vote to borrow \$1.9 billion in local property taxes and take local transportation money, which comes from gas taxes.

After hours of arm-twisting by Steinberg and Senate GOP leader Dennis Hollingsworth (R-Murrieta), the Senate approved both measures, with an amendment that would have required the gas tax money to be repaid over 10 years. The Senate also easily approved the oil drilling project known as Tranquillon Ridge near Santa Barbara and completed its work shortly after 6 a.m. Friday

Steinberg, looking visibly relieved, said he expected the deficit to reemerge.

"We don't know whether or not we will be back at this," he told colleagues. "We probably will, but I must tell you, we can change California. . . . We can find common ground more often than not."

The Assembly was a different story. Republicans in that house delayed votes for hours because they did not want to support a bill that called for future repayment of money cut from education. Ultimately, they capitulated.

But they succeeded, with some Democratic support, in killing the gas-tax proposal. Assembly GOP leader Sam Blakeslee (R-San Luis Obispo) said it probably would have been ruled illegal.

When the final vote came up, for the oil drilling project, Republicans pointed out that it would require dismantling the equipment once the extraction had ended.

"This is good for the economy," said Assemblyman Chuck DeVore (R-Irvine). "This is good for the environment."

But Democrats rejected it. And at 3 p.m., the marathon session was over.

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