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'We will run out of cash'

Sobering news delivered to those drunk on politics

By Timm Herdt
March 19, 2003



The good news from Controller Steve Westly is that California taxpayers can rest assured the state will have enough money to send out tax refund checks this spring.

The bad news for Westly is that when we talked last week, I felt compelled to ask him whether that would be the case. It was, in fact, my first question.

There are those in the Legislature who may consider that an outlandish inquiry. Westly, the fellow who has to sign those checks, took no offense.

He knows that in June he will have to write \$6.1 billion worth of checks. Without short-term borrowing, most would bounce.

"The fact of the matter is, we will run out of cash in June," he said.

That means that by June 20 Westly will have to borrow between \$4 billion and \$11 billion to assure a positive cash flow through the end of the year. And that means that by June 20 the state's financial picture must be clear enough to persuade tight-fisted Wall Street bankers that if they lend money to California they will in fact be paid back.

If it's \$4 billion, that will be no problem, Westly said. If it's \$11 billion, it's a different story.

"I've sent a message to both parties of the Legislature that if you do not get larger cuts ... I am forced to borrow what looks like \$11 billion.

"As you get to that number, our advisers have said Wall Street is going to come back and say: 'Whoa! Those guys in California don't

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get it. They're not making cuts quickly enough, and we're going to have to insist there be, for example, 15 percent across-the-board cuts' ...

"The message I'm giving to the Legislature is ... whether you're a first-term legislator or at the end of your career, do you want to be the guy who has to stand up and say, 'I was the person who was sitting there as California was unable to meet its financial commitments?' "

It is not a message that goes over well with a lot of legislators -- not to some Democrats, who want to hold onto the fantasy that they will be able to avoid making cuts that will hurt schoolchildren and poor people; not to some Republicans, who want to cling to the fiction that a \$34 billion budget gap can be closed without a single dollar in tax increases.

Westly has been on the job three months, the narrow winner over Sen. Tom McClintock, R-Thousand Oaks, in last fall's closest California election.

Much of his role has been to try to keep legislators focused on the urgency of getting the state's financial house in order.

His role, as he sees it, is to be "a nonpartisan truth-teller."

The truth as Westly sees it is that legislators need to move beyond the partisan blame-game and face up to what would be the grim consequence of political paralysis: bankruptcy.

Meeting privately with lawmakers, Westly says he's been telling Republicans that they're going to have to abandon their no-new-taxes stance. He's been telling Democrats that they're going to have to give Republicans the reasonable things they're asking for -- massive spending cuts now and a cap on spending growth in the future.

"They want some assurance that we Democrats won't be spending like drunken sailors," he said. "I think some form of spending cap growth is appropriate ... It's the responsible thing to do."

Does he sense that legislators understand the seriousness and urgency of the state's financial situation, or does he sense that many lawmakers are still in a state of denial?

"Yes, and yes," Westly responds.

For all his desire to be seen as a just-the-facts, truth-telling accountant, Westly is also a political creature. This weekend he attended his 29th consecutive state Democratic Party convention, and was introduced by party Chairman Art Torres as "one of our own."

He's fought with Davis over the question of whether the controller or the governor's finance director has the legal authority to administratively raise the vehicle license fee.

He has his own ambitions. Many in Sacramento assume Westly will

be a candidate for governor in 2006 -- speculation that he says he finds both flattering and distracting.

But the bottom line is that the controller, more than any other elected official in Sacramento, has a job that sharply focuses the mind on the financial crisis at hand.

His advice to all the rest: "See the bigger picture here. Do not let this state's financial reputation be tarnished."

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