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No budget relief ahead, state Senate leader says

By Ed Mendel

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September 4, 2002

SACRAMENTO – The state Senate leader said yesterday that a new state budget passed after a record deadlock creates "a bigger problem next year" and will trigger moves to raise the car tax and the income tax on the wealthy.

Senate President Pro Tempore John Burton, D-San Francisco, said that not only will the fiscal gap be more difficult to close, but the political problem will grow because departing moderate Republicans likely will be replaced by hard-liners.

"I think the biggest thing we did is we got out alive, although a little bit injured," he said.

Two months after the fiscal year began on July 1, the Legislature passed a \$98 billion budget last weekend that Gov. Gray Davis is expected to sign tomorrow, breaking by three days a record set on Sept. 2, 1992.

Half of a record \$23.6 billion budget gap was covered with loans and transfers, most of which cannot be repeated. A \$2.4 billion tax boost, through faster collections and a business-loss deferral, only works for one year.

Many of the spending reductions are decisions not to fund normal growth and inflation. The budget restores \$1.5 billion worth of health, welfare and local government spending that Davis wanted to cut.

The general fund that pays for most programs decreases slightly from the previous year under the budget. But school funding gets a significant increase, perhaps nearly \$2 billion, depending on how several shifts between fiscal years are counted.

The budget asks but does not order Davis to make a 5 percent cut worth \$750 million in the operations of the state bureaucracy, without



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cutting programs. Some Republican legislators doubt that the cuts will be made.

The governor is expected to use his "blue pencil" line-item veto to make cuts in the budget before he signs it. But he has not revealed the amount that will be trimmed.

State Controller Kathleen Connell said last week that the budget gap may not be \$23.6 billion but \$27 billion, due to declining revenue. Tax revenue through July was nearly \$700 million less than the budget projection.

Davis said during the weekend that next year's budget gap is expected to be less than half the size of the current one, probably "in single digits." He said the powerful California economy could bring a welcome surprise.

"Nobody has a crystal ball," Davis said, "and nobody can predict with assurance what the future will bring us."

The governor said that in January, when the budget gap was projected to be about \$12 billion, few would have believed that the size of the gap would double in about five months.

Burton said the budget is based on "one-time situations and deferrals" and does not resolve the state's basic fiscal problems.

"The funding for the budget is just going to give us a bigger problem next year," Burton said. "The only good news about that is it may well force us to deal with a structural change in the budget – both in the process, I think, and in revenues."

Burton is appointing a commission to recommend reforms in state finance. As part of the budget agreement, Assembly Speaker Herb Wesson, D-Culver City, is forming a bipartisan committee of legislators that also will suggest reforms.

Before the Legislature adjourned for the year last weekend, the Senate approved a controversial bill that would allow the car tax, or vehicle license fee, to be raised by up to \$3.6 billion without Republican votes.

In the current makeup of the Legislature, the two-thirds vote of the Legislature needed for a tax increase requires the Democratic majority to get at least one Republican vote in the Senate and four Republican votes in the Assembly.

The Senate bill was a majority-vote measure "clarifying" that a phased-in reduction of the car tax enacted in 1998 contained authorization for the state finance director to repeal the tax cut if the state needs more revenue.

Republican legislators objected to the bill, promising to contest it in court. Burton said he helped negotiate the 1998 bill and is confident that the repeal mechanism would be upheld.

When the Legislature returns in January for a new session, Burton said, the bill making it clear that the finance director can raise the car tax without a vote of the Legislature will be considered again.

"That's an absolute and I think it will be a very early bill introduced," Burton said.

Davis said last weekend that he has not looked at the car-tax cut repeal bill, and he declined to say whether he would sign the measure if he is re-elected in November.

Burton also said there may be a move to place an initiative on the March 2004 ballot that would increase the state income tax for wealthy Californians, similar to a "tax-the-rich" measure rejected by voters in 1994.

Earlier this year, a Burton bill that would have yielded \$3 billion by boosting the top income-tax bracket from 9.3 percent to 11 percent failed to clear the Senate, drawing opposition from Davis and Republicans.

The Senate budget contained Davis' proposals for an increase in the car and tobacco taxes – both of which were removed in the Assembly after Republicans opposed all major tax increases, triggering the record deadlock.

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