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CALIFORNIA

## A High Price for Delay on Budget

■ Independent analyst says political gridlock over the state's crisis has cost \$1.3 billion and options are narrowing.

By Evan Halper and Jeffrey L. Rabin, Times Staff Writers

SACRAMENTO -- The political gridlock that has kept the California Legislature from reaching agreement with Gov. Gray Davis on budget actions is exacting a heavy cost, according to an internal government report: \$1.3 billion so far, and the price tag is growing.

Since January, when Davis offered his plan to plug a budget gap of up to \$35 billion over the next 16 months, the nonpartisan legislative analyst's office has found that some savings opportunities have come and gone, and that options are continuing to narrow.

"This just means the reductions that will have to be made in the coming budget year will be deeper," Assembly Budget Committee Vice Chairman John Campbell (R-Irvine), said Wednesday. He had requested the report. "The potential for a negotiated settlement between Republicans and Democrats will be more difficult every

day we delay."

The news came as Department of Finance Director Steve Peace informed Wall Street financial experts that it is unlikely lawmakers will take any more significant action on the budget until mid-May.

Peace told the bond raters that as a result of the legislative delays -- and tax revenue that is already off \$362 million in the last two months -- the state would still be at least \$2 billion in the hole even if the Legislature immediately approved all the cuts and tax increases in the governor's plan.

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#### La Opinión

Few, if any, lawmakers are ready to do that. Democrats say the Davis plan is too hard on the poor, while Republicans oppose its \$8.3 billion in tax hikes.

David Hitchcock, director of public finance ratings at Standard & Poor's in New York, said the news from Peace cast a pall over the \$3.3-billion budget-reduction package Davis signed into law Tuesday -- the first significant patch lawmakers have been able to make on the budget hole.

"It's sort of two steps forward, one step backward," Hitchcock said.

Many Democrats say they have no regrets about not making many of the cuts in the Davis plan, however. They say many of them would cause too much pain for low-income Californians and should be made only after all other options have been exhausted.

Among the measures they have so far rejected are cutting hundreds of thousands of people from Medi-Cal and eliminating child-care programs.

"These are painful cuts that affect the lives of Californians," said Assembly Speaker Herb Wesson (D-Culver City).

But the overwhelming majority of lost savings, according to the legislative analyst's report, resulted from the months it took to reach agreement on vehicle license fees and the local government funding they once provided.

In 1998, the "car tax" was lowered to give tax relief to motorists at a time when the state had a budget surplus. When local governments complained, the state began reimbursing them billions of dollars annually for the lost revenue. In January, Davis called for ending those reimbursements, but the Legislature instead approved a bill to recapture the funds by raising the car tax. Davis vetoed the bill to avoid angering Republicans who opposed it.

Lawyers for the administration and the controller's office have since concluded that language in the 1998 law calls for the tax to increase automatically during a budget crisis.

"Every month that we've been waiting on [raising the car tax] cost us," said Assembly Budget Committee Chairwoman Jenny Oropeza (D-Long Beach). The legislative analyst put the cost at \$250 million a month.

The Legislature's rejection of several health-care cuts proposed by Davis has been costing the state about \$51 million a month since early February, according to the analyst's report. Beginning April 1, that amount will go up to about \$125 million a month.

The cuts proposed by Davis include changing eligibility requirements for Medi-Cal and cutting by 15% the rates paid to physicians. Opponents of such cuts have warned that the reductions would take away the safety net for Californians who have no place else to go.

The analyst's report notes that some other cuts would be one-time reductions, but the deadline to make them has either passed or will pass next month. They include cutting grants to public libraries by \$15.8 million, and saving \$98 million by cutting CalWorks child-care programs.

"If we take some of these reductions now, we won't have to go deeper next year," Campbell said. "The message here is that earlier reductions means fewer reductions."

But Democrats say they have already made a substantial dent in the shortfall. They say the \$3.3

billion in current-year reductions signed by the governor Tuesday will carry over into next year and have a net effect of reducing the 16-month shortfall by \$8.4 billion. Wesson says that when the car tax goes up, that will close the budget gap by \$4 billion more.

The bond raters on Wall Street do their accounting differently. They don't quite buy the argument of the Democrats that a third of the shortfall has been closed. And they say many of the reductions made Tuesday are one-time fund shifts and accounting maneuvers. But as they braced for the state to seek one of the largest short-term loans in history to carry itself into the next fiscal year, they expressed relief that at least some action has been taken.

"This is not as much as the governor wanted, and it took longer," said Steven Zimmerman, managing director of Standard & Poor's. "But it's still better than not doing it."

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