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New analysis doubts size of state's deficit

Chapman research projects a shortfall of \$5.9 billion in current fiscal year.

By **HANH KIM QUACH**

The Orange County Register

SACRAMENTO – The state's deficit really isn't as bad as it seems, according to a Chapman University analysis that projects the shortfall at a fraction of what Gov. Gray Davis has forecast.

Chapman's figures show the state's deficit will be only \$5.9 billion, as opposed to nearly \$31.4 billion the Davis administration has predicted for the 2002-03 fiscal year, said Esmael Adibi, director of Chapman's Anderson Center for Economic Research.

Adibi's research also predicts a \$4.9 billion deficit for the 2003-04 fiscal year, while the state predicts a \$26.8 billion hole.

Chapman's analysis is one of the many that lawmakers will have to draw from this year. The Chapman numbers could provide ammunition for those critical of Davis' plans to cut spending or tax more.

The state's Legislative Analyst's Office has predicted a \$21.1 billion deficit, which many say is too optimistic. Staff analysts for Republican lawmakers estimate the deficit will be in the mid-\$20 billion range.

There are many reasons that Chapman's numbers are different from other analyses.

First, the Chapman analysis takes into account both money in the general fund – where property and income taxes pay for state services such as colleges, kindergarten through 12th-grade education and medical care for the poor – and "special funds," which come from other sources, such as cigarette and fuel taxes and motor vehicle fees.

When the finance department calculates the deficit, it only counts the general fund, not special funds.

Chapman also criticized the way the Davis administration counted money that it expected, but did not have, as a deficit – helping to inflate figures. In the 18-month period between Jan. 1, 2003, and June 30, 2004, the Davis administration has estimated the state will be in a \$34.6 billion hole.

"There's a fear factor here that we're going to have to cut \$34.6 billion," said Chapman University President James Doti, an economist.

Chapman, based in Orange, also questioned the way the state calculates the deficit. When the state makes projections and doesn't meet them, it counts as a deficit. The Chapman figures only count a deficit when numbers fall below what the state actually received the previous year.

But Davis' finance office defended its figures.

Anita Gore, spokeswoman for the state Department of Finance, said the state needs to



look in advance at what they expect to spend and what they expect to receive.

"We have to look at it prospectively because we're putting out a balanced budget for the upcoming fiscal year," she said.

Sen. Dick Ackerman, R-Irvine, one of the members on the final budget writing committee, said he would certainly take into account the figures from Chapman's research.

"One of things about economists is they have a lot of different ways to look at the same set of facts," Ackerman said. "But I think their analysis is good and I'm going to use it."

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