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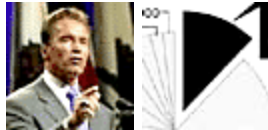
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Governor's tough task: finding the waste to cut Budget can be shrunk -- but by \$10 billion?

[Robert Salladay, Chronicle Political Writer](#)



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Sacramento -- Wheelchairs purchased by MediCal for \$36,000 each, the price of a new Mercedes. Unemployment insurance fraud worth \$280 million last year alone. A quadriplegic prisoner whose medical bills may reach \$8 million in his lifetime.

For anyone looking for waste, fraud and abuse in California government, the examples line up like Friday afternoon customers at the DMV. The California Taxpayers' Association has been clipping examples like the ones above from newspaper articles over the past four years -- and so far has added up \$10 billion worth of "misused and abused" tax dollars.

That's just the kind of blatant waste that Gov. Arnold Schwarzenegger said he would root out to help balance the state's budget.

But more than six weeks after ordering an audit of the state's books, Schwarzenegger has yet to identify any immediate targets. Instead, he's finding that nobody agrees what constitutes government excess and what is a valid government service.

Many longtime observers of the state budget believe it will be virtually impossible for Schwarzenegger to cut between \$10 billion and \$14 billion from the state budget next year, as he needs to, without doing serious harm to Californians. They are confident there just isn't that much government waste, fraud and abuse, and they are curious how Schwarzenegger will balance the books without tax increases when he produces his 2004-05 budget in January.

California could shut down all the prisons, close every state government agency and public college - and save about \$16.5 billion in general fund

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money. That's the approximate "operations" budget for the state, not including the cash payments that go to schools, to welfare recipients and to public health care, the three biggest state expenses.

Further tying the hands of the governor are spending requirements approved by voters or ordered by courts. Add in obligations to state pension plans, debt service and other mandates, and there's little in the way of discretionary spending in California's budget. Pinpointing mandatory spending is difficult, but estimates range from 64 to 89 percent.

Few beyond the most liberal lawmakers would disagree that there is bureaucratic incompetence and waste in California government. But \$10 billion worth?

"I think the math is very tough, and it doesn't do us any good to deny reality because reality is going to hit us in the face in a few months," state Treasurer Phil Angelides, a Democrat, told the Legislature recently about balancing the books without tax increases. "I had two years of calculus. I don't remember very much of it, but I know enough to know that the math is very tough."

A promise to root out waste

On the campaign trail, Schwarzenegger promised voters he would uncover any waste and fraud in state spending. He told ABC News during the campaign: "I have run many businesses. And I know when to take over a business, to look in there and open up the books, and go through and audit it line by line. Before I buy it, I only can guess that there is a certain amount of waste. But when I get in there, then I really can go line by line through the whole thing and find the waste. And then I can make the changes."

His nascent administration already has produced \$3.8 billion in budget cuts that it wants approved right away, even before the 2004-05 budget is produced. But nothing in his proposal tackles so-called waste, fraud and abuse.

Instead, the plan looks much like what former Gov. Gray Davis proposed last year -- cuts in welfare, cuts in state payments to MediCal doctors, and cuts in social programs.

Schwarzenegger himself already seems conflicted about where he needs to cut. On his second day in office, he said that the budget cuts would be "severe" and that California faces a period of belt-tightening, but he then demurred when asked just how far he would go. In fact, Schwarzenegger signaled he would not go as far as Davis, the man

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Davis proposed cutting off state-supported food for seeing-eye dogs and eliminating certain MediCal benefits such as artificial limbs, but he was turned down by Democrats in the Legislature.

Schwarzenegger isn't that cruel: "I'm not going to cut dog food for blind people," he said last week. "It won't happen. I'm not going to take prosthetics from people that have disabilities and all that stuff."

Only a few days later, he suggested eliminating public services for the developmentally disabled and cutting off in-home support for the elderly, bringing howls of protest from legislative Democrats.

'Services have a cost'

"The problem I think the new governor is confronting is public services have a cost," said Jean Ross, executive director of the California Budget Project, "and for too long people have been told you can have a tax cut, you can have quality schools, you can have environmental protection, you can have a higher education system that was at one point the envy of the world. You just can't do that. At some point, you have to decide, are you going to take care of the frail elderly, or are you going to get a car tax cut?"

The administration is only now hinting at where the rest of the cuts may come. Donna Arduin, Schwarzenegger's finance director, appeared Tuesday before the Senate and Assembly budget committees to outline the future in an ominous opening speech.

Some programs Arduin mentioned as possible cuts clearly were designed for political flash -- expenditures like grants for World War II veterans who now live out of the country, \$1 million to track a single sexually violent predator "who should have never been let onto our streets," and state-funded health programs such as acupuncture for low-income people "that most taxpayers cannot afford for themselves."

But Arduin also said California spent \$1 billion on health and social services for illegal immigrants without help from the federal government. She said that graduate and professional schools were "heavily subsidized" and that cheaper-to-operate community colleges were under-used.

The state's prisons and local school districts are fiscally mismanaged, she said, and health and welfare programs should be audited to make sure people aren't defrauding the system. As for public

education, she said, "K-12 spending has consistently been overfunded."

She said government programs did not have the accountability to be efficient and hinted that Schwarzenegger might want to privatize certain government services. She singled out the state's prisons, which went \$500 million over budget and had to make several midyear bail-out requests to pay the bills.

"When you have a monopoly, and no one is telling you "no," there is no incentive to be efficient with the taxpayers' dollars," Arduin said.

Larry McCarthy, president of the California Taxpayers' Association, agrees there needs to be better accountability for government spending. He said poor people suffered the most, because mismanagement of social programs ultimately leads to savage budget cuts that could have been avoided.

McCarthy said he believed the public was not interested in "mindless cutting" of social programs, but rather a smooth-running government efficiently providing services and cash assistance to the poor. Trimming \$10 billion or \$14 billion from a \$100 billion budget should be manageable without tax increases, he said, at the same time Schwarzenegger starts trying to change the bureaucratic culture.

Onus on the Legislature

"There is no question that is possible," McCarthy said. "The question is whether the Legislature has the political will to do it. Do they care enough about these just outrageous examples of misspending? A 10 percent or 15 percent problem is manageable almost everywhere on this planet except Sacramento."

The debate over cutting the state budget or raising taxes already has polarized the Legislature. It's between throwing disabled children into the gutter or putting an unfair tax increase on overburdened Californians, legislators argue. There is rarely middle ground and rarely a discussion about fundamentally reforming how government operates.

It's much easier such to demonize faceless bureaucrats than "reinvent government."

"If you're a citizen out there, you don't want to believe the only way to solve a problem is to inflict pain," said John Ellwood, UC Berkeley public policy professor and expert on government budgeting. "Wouldn't it be wonderful if we could do this without inflicting pain? I think the waste, fraud and abuse

argument is the way of getting out of the box."

Defining waste

The debate over the next few months may show that one person's waste is another person's lifeline. Ellwood said despite the demonization of government,

any real budget cuts would have to come because politicians made a subjective decision about what they think the government should be providing. For example,

he said, Schwarzenegger, a Republican, wants to severely cut services to the disabled and the frail elderly. That raises philosophical questions about whether families should take a greater responsibility for their family members rather than relying on the government.

Ellwood noted that in 1982 President Ronald Reagan created the Grace Commission that would, as Reagan put it, "work like tireless bloodhounds to root out government inefficiency and waste of tax dollars." The commission found \$424 billion in federal government "waste and abuse" and made nearly 2,500 recommendations. But Ellwood said a congressional study later found that the overwhelming amount of savings recommended by the Grace Commission would have involved policy changes that Congress was unwilling to enact.

"The truth is there is a lot of waste, fraud and abuse in every organization," Ellwood said. "You can make an argument that there is a lot more in government than in the private sector, but I'm not sure that is true. But unfortunately the only way to solve this problem is to cut services."


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Page A - 1



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Spending requirements

Estimating how much of the state budget is mandatory versus discretionary spending is difficult. Estimates range from about 64 percent to 89 percent. Here is a breakdown, based on the 2003-2004 budget, that falls in the middle.

The total general fund spending is \$71,136,964,000

Nondiscretionary spending:	12.1%,	\$8,599,581,000
Mandatory spending:	87.9%,	\$62,537,383,000
Judiciary:		\$1,454,430,000
Debt service:		\$1,873,000,000
Retirement plans:		\$2,266,135,000
Court and federal mandates:		\$3,741,000,000
Corrections (adult only):		\$5,142,653,000
Health and social services:		\$16,948,144,000
Other:		\$1,383,638,000
Proposition 98 (K-14 schools):		\$29,728,383,000

Source: Based on California Budget Project and state Department of Finance figures.

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