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California Legislators Reconsider Plan to Close \$42 Billion Budget Gap

By [STU WOO](#)

SACRAMENTO, Calif. -- California legislators met Monday to reconsider a proposal to close the state's \$42 billion deficit after aborting a vote late Sunday night because they failed to find one last Republican vote needed during a marathon weekend session.

Darrell Steinberg, the Democrat state senate leader, expressed confidence that another Republican senator would join two Republicans who have committed to vote with the Democratic majority in approving a budget that would raise taxes and cut spending. The three Republican votes were needed to reach the two-thirds majority that California requires from both houses of its legislature to approve budgets and tax increases.

Voting was scheduled to begin Monday mid-afternoon and go on for hours --possibly into the night. The state assembly was expected to pass the budget with at least three GOP assembly members voting with the Democratic majority. Senate leaders, along with Gov. Arnold Schwarzenegger, met individually with Republican senators over the weekend in hopes of persuading one to be the final vote.

The budget put up to vote during the long-weekend session outlined spending for the next 17 months. In addition to the revenue increases, it proposed cutting \$15 billion in spending, including \$8.6 billion from education and \$1.4 billion from payroll costs, to be achieved in part by furloughing 200,000 state workers at least one day a month. The plan also called for \$11 billion in borrowing and \$700 million in tax breaks for large corporations.

Much is riding on Monday's vote for Gov. Schwarzenegger, who hammered out the budget in closed-door negotiations with Democratic and Republican leaders of both houses. Gov. Schwarzenegger "understands this is going to be a very difficult vote that's going to require real courage and leadership from our state legislators," said Aaron McLearn, the governor's spokesman.

The weekend breakdown suggested that Sacramento faces continued partisan conflict of the kind that turned the budget debate into a bitter 15-week stalemate that has stung an already-crippled state economy facing rising unemployment and foreclosure rates.

With the state set to run out of cash in weeks, state leaders have already shut off funding for \$3 billion in construction projects and delayed \$3 billion in tax refunds, welfare checks and other payments. Officials said that, without a budget, the state faces shutting down another \$4 billion in construction on Wednesday and possibly issuing IOUs to keep the

state solvent.

The impasse has revolved around a bill, out of the nearly 30 in the budget proposal, that would generate \$14 billion in revenue by temporarily raising the sales tax by one percentage point, by increasing the gasoline tax by 12 cents a gallon and by adding a surcharge of up to 5% on income taxes, among other steps. Republican legislators have contended that Californians can't afford new taxes during the recession, while Democrats countered that it would be impossible to close such a massive deficit without revenue increases.

On Sunday night, the legislature adjourned an extraordinary session that began on Valentine's Day evening, after it became clear that the budget proposal would not pass the state senate. Some Democratic state senators suggested that, if no budget were approved soon, they would consider trying to go around Republicans by sending the governor a budget approved by a simple majority. They did so last month, prompting taxpayer groups and Republican legislators to sue them; the governor made the suit moot by vetoing the plan.

Exhausted legislators expressed frustration as they trudged out of the Capitol at 8:30 p.m. Sunday evening, after spending more than 24 hours in the Capitol. Some napped in their offices during recesses. "The state badly needs a budget," said Anthony Adams, expected to be one of three Republicans in the assembly to approve the budget. "And we can't do that without the state senate."

Both legislative houses had passed some bills that are part of the budget package by Saturday night, mostly less-controversial economic-stimulus bills. Neither house had begun voting on the tax-increase bill.

Shortly before adjournment Sunday evening, Republican state Sen. Sam Aanestad blasted the secret talks that produced the budget proposal. He called for public hearings on the spending plan and criticized the weekend session. "What have we done in the past 24 hours?" he said. "Nothing."

Mr. Steinberg, the Democratic senate leader, responded angrily to that criticism. "The state is days away from financial collapse," he said. "I'm sorry if you find the process or procedure out of the ordinary. The times are out of the ordinary."

The budget struggle began in early November, when Gov. Schwarzenegger declared a fiscal emergency after it became clear that the recession was shrinking the state's tax revenues. But he and state lawmakers got tangled in a three-way clash over ways to balance a budget projected to have a \$42 billion shortfall by July 2010. Democratic legislators wanted new taxes and moderate cuts, Republican lawmakers wanted deep cuts and no new taxes, while the moderate Republican governor wanted a combination of the two approaches.

The state bled cash as the stalemate dragged on, forcing officials to delay the construction and payments. In addition, the governor implemented the furloughs and threatened to send layoff notices to 20,000 workers.

Meanwhile, Standard and Poor's Corp. cut California's credit rating to the lowest among 50 states. Shut out of Wall Street, the state treasurer looked for creative funding alternatives, eventually negotiating an unprecedented deal to sell \$200 million in bonds to a municipal agency.

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