

## **Be Careful of What You Wish For...**

Be careful of what you wish for, you might just get it. My parents and grandparents have told me this since my youth and now it's advice, which should be considered by Governor Schwarzenegger and the residents of California.

It seems like just yesterday the Governor was boasting about bringing new ideas to Sacramento, curbing the out of control spending by the legislature, and reducing the Vehicle License Fee (VLF). While the Governor and key decision makers continue to talk about working together, one only needs to look beneath the surface to see the conflicts, which are brewing.

Governor Schwarzenegger did get his wish of cutting the VLF, but he also got the headache of trying to figure out how to replace roughly \$4 billion in lost revenue as a result of cutting the fee. According to the legal experts in Sacramento, since the approved budget for this fiscal year included the increased VLF, if the Governor cuts the fee he must replace the lost revenue, which is essential for providing local government services.

The "new idea" to close the projected \$38 billion state deficit was to try to issue bonds totaling approximately \$15 billion. The Legislature has defeated this proposal. The State's Treasurer, Phil Angelides and others heavily criticized the bond proposal claiming it was fiscally irresponsible.

Bonds are most often used for capital improvement projects such as roads or as investments in areas such as higher education. Issuing bonds to cover our current debt (deficit borrowing) means residents would have nothing tangible after paying off the bonds and interest (which is roughly projected at over \$300 million a year), no new roads, no new schools, just a debt that will burden our children and grandchildren. Furthermore, the Governor's super bond proposal would not have brought us any closer to a long-term strategy for closing the numerous structural problems within the State budget, which guarantee revenue shortfalls in unless we are in a booming economy.

The women and men on Wall Street were also watching to see if Californians would issue \$15 billion in bonds, if the proposal had passed it would have had a negative impact on the state's credit rating. Financial institutions such as Standard and Poor's and Moody's look at governmental agencies', revenue streams and current debt when assessing their credit and borrowing power. Currently the State's ratio of debt to the general fund is about 3.6% for the 2003-04 fiscal year, if approved the bonds would have pushed that figure to 6.6%. According to Treasurer Angelides, 6% is considered the maximum percentage of debt that a government can carry while remaining fiscally prudent. In short it would have been difficult to finance essential projects in the future like schools, roads and hospitals if the bond measure had been approved.

If the bond measure had been approved, the legislature would have been responsible for identifying funds to pay off the bonds. Historically, the state has cut funding to local government to close their budget deficits. The first look at Governor Schwarzenegger's budget suggests he will do the same. The Governor's initial proposed cuts include: a 10% cut in the medicare provider rates, limiting the number of children that can enroll in Health Families program (the state insurance program for youth on working families), reductions in services to the disabled, and cuts to the community college system.

Borrowing money to cover the deficit and cutting essential services to populations in need are not new ideas. In his inauguration speech the Governor said "To those who have no power...to those who have dropped out – to those weary and disappointed with politics as usual, I took this oath for you." It is unclear if the majority of Californians wished for a Governor who is unaware of the impacts of deficit borrowing on our communities, or the impacts of cutting the services which level the playing field by allowing people of all incomes to have a chance of excelling in the California economy, but that is what we got.