

Calif. Near Financial Disaster

Hours Remain to Solve \$38 Billion Shortfall

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LOS ANGELES -- Any day now, community colleges here may begin telling faculty members that they cannot be paid and students that summer classes are canceled.

Nursing homes are losing so much state aid that many soon may have to shut down or limit their services, a prospect that has elderly residents confused and frightened.

As many as 30,000 government workers who had been expecting pay raises in the fall are instead receiving formal notices warning that they could lose their jobs by then, because the state is broke.

This is life in California, on the brink of a fiscal disaster.

The nation's most populous state, home to one of the world's largest economies, has been staring in disbelief at the same dire predicament for months: a \$38 billion deficit, the largest shortfall in its history and an extreme example of the budget woes afflicting many states. But now it has only hours left to solve the problem.

State lawmakers have until midnight to reach a compromise with Gov. Gray Davis (D) on a budget that would wipe out the enormous deficit, but the odds of that happening appear slim. And without a deal, the state will be bound by law to begin cutting off billions of dollars in payments to its agencies and its contractors in July -- and could run out of money by August.

"It looks bleak," said Perry Kenny, president of the California State Employees Association, which represents more than 100,000 government workers. "This is the biggest hole we've ever been in, and no one can seem to find a way out. We're all sweating bullets here."

For weeks, the state's budget has been hostage to an intensely partisan political war over taxes and spending that is now getting even more bitter and complicated because of a Republican-led campaign to recall Davis from office. Organizers of that movement have collected nearly 400,000 voter petitions in favor of ousting the governor, and political strategists in both parties say a recall election, which would be unprecedented, is looking ever more likely.

Davis and the Democrats who control both houses of California's legislature cannot get their way on the budget because state law requires a two-thirds majority vote for it to be approved. They need a few Republican lawmakers to support their plan, which they say must include new taxes in order to save public schools and other vital programs from ruin.

But Republicans are refusing to consider any tax increase, which they say would harm California's already weak economy, and are demanding deeper cuts in government spending.

There is no end in sight to the impasse, which California voters are watching with increasing exasperation. Polls show that public support for Davis has plummeted below 25 percent, and that two-thirds of voters are dismayed with the legislature.

Republican lawmakers say they will not budge from their stand on the budget because they are fed up with Davis's governing style.

"He and his allies have gotten the last three budgets they wanted and we're nearly bankrupt," said James L. Brulte, the Republican leader in the state Senate, who has threatened to work against the reelection of any GOP colleague who sides with Davis in the budget battle. "Somebody has to stand up and say enough is enough. That's what Republicans in California are doing."

But Democrats see other motives. Some are accusing GOP lawmakers of deliberately dragging their feet on the budget in the hope that will hurt Davis politically and strengthen the recall campaign.

"It's hard to take Republicans seriously when they say they want a real solution to this budget crisis at the same time some of them are openly backing the recall," said Roger Salazar, a political adviser to Davis. "They are putting important state programs at risk just out of pure political spite."

Democrats have retreated recently from some tax proposals but are insisting on a half-cent sales tax increase. Several dozen Democratic legislators even barnstormed Republican districts around the state last week to plead for support but got mostly hostile receptions.

Davis, who left the state this weekend to attend his mother's 80th birthday celebration in New York, is still expressing optimism that a budget deal can be reached soon, if not by tonight's constitutional deadline.

"I am doing everything I can to encourage, cajole, persuade, guilt-trip and all the things you do to try to make this happen," he told reporters last week.

California's \$38 billion deficit is larger than the entire annual budget of any other state except New York. It represents about one-third of the state's annual spending.

As in many other states, the shortfall is largely the result of the national economic downturn -- which has been especially severe in Silicon Valley, an engine of California's \$1.3 trillion economy. Soaring health care costs for the poor and new expenses for homeland security are other contributing factors. Republicans here also contend that Davis, who was narrowly elected to a second term in November, has spent recklessly while in office and relied on accounting gimmicks to balance the budget last year.

California, which had a \$9 billion budget surplus three years ago, is constantly caught in boom-or-bust economic cycles. In the early 1990s, Republican Gov. Pete Wilson had to raise taxes and cut spending to erase a \$14 billion deficit. Escaping this crisis will be far more difficult and painful.

To close the \$38 billion deficit, state leaders have approved \$7 billion in cuts affecting virtually every government program. They have borrowed \$11 billion to keep California solvent through the summer. Earlier this month, risking the wrath of voters, they tripled the annual state tax on vehicles, a \$136 increase for

most motorists. But that still is not enough to balance the budget.

Now, with time to find a solution running out, state Controller Steve Westly is warning that as early as Tuesday more than a billion dollars in payments due to state agencies, medical providers and private companies that contract with California must be stopped.

"This is going to be real hurt for the state of California," he told reporters a few days ago, "and the problem gets worse every day we go without a budget."

Some public institutions already are reeling. The Los Angeles Community College District, which enrolls 130,000 students, has been forced to eliminate classes and lay off some of its faculty, and is on the verge of raising tuition by more than 50 percent because of the budget crisis. Thousands of students have dropped out because of cutbacks this year, college officials say, and more are likely to leave if additional classes are canceled.

Mark Drummond, the chancellor of the district, said that its network of colleges has enough money to operate until August, but would not be able to pay its vendors or its faculty if the state is still engulfed in deficits by then.

"We could have to turn off the lights and tell everybody to go home," Drummond said.

Nursing homes are suffering the same plight. Some already have stopped receiving all the payments they had been expecting from the state and are cutting back services to their residents and turning away new patients. If more cuts are approved, or if the budget gridlock doesn't end soon, dozens of homes could go bankrupt and close.

Betsy Hite, spokeswoman for the California Association of Health Facilities, said many elderly residents are baffled and despondent over the looming hardships.

"They see what's going on in the newspapers and on TV," she said. "Their perspective is, why are they doing this to us? What did we do?"

"If I were a betting person, I wouldn't bet we're going to be fine," Hite added. "The gap is just too huge."

Special correspondent Kimberly Edds contributed to this report.