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Jump in Revenue Helps Halve California Deficit

By JENNIFER MEDINA

SACRAMENTO — After months of doomsday scenarios and apocalyptic warnings about cuts to California schools, parks and the police, the news from Gov. [Jerry Brown](#) on Monday was nothing short of startling: California is now expected to see \$6.6 billion more in revenue over the next two years than had been expected.

But Mr. Brown was careful not to make the news sound too good. The added revenue will eat into the budget deficit, but it is not nearly enough to erase it. So the state will still need to extend some taxes that were set to expire, he said, in order to deal with its “wall of debt,” and close a budget gap now estimated at \$10.8 billion.

However, the new revenue projections allowed the governor, in his revised budget proposal, to ease the state’s tax bite and to restore some spending for public education, rather than present what many had expected: a draconian proposal for deeper and harsher budget cuts to close the state’s huge budget gap.

No matter how good the news might be for the state financially, it certainly complicated Mr. Brown’s life as he continued to insist that the state needed to extend expiring taxes. Even before Monday’s

development, when things had looked impossibly bleak, Mr. Brown had been struggling to win the four Republican votes he needed to get his tax plan to voters for their approval. Despite the higher projected revenues, he said he still hoped for a vote on his plan.

“Our finances were plunged into turmoil by the Great Recession and a decade of short-term fixes and fiscal gimmicks,” Mr. Brown said. “This is not the time to delay or evade. This is the time to put our finances in order.”

For the last several weeks, Republicans have been arguing that it is possible to pay for basic services without tax increases, and on Monday they were already using the higher revenue projections to buttress their position.

“Raising taxes only continues the spigot of spending,” said Assemblyman Jim Nielsen, the top Republican on the budget committee.

The unexpected improvement in the fiscal picture was a result of rising incomes. California workers will make, on average, an additional \$4,000 over the next two years, the state now estimates, which will mean more income taxes coming in.

Jay Chamberlain, the head of financial research for the state, said the increases came primarily from the top of the income spectrum, generally people who made at least \$200,000. But Mr. Chamberlain said it was impossible to know precisely what had driven up their income. And a large portion of the increase came from the capital-gains tax, a volatile base that officials say is nearly impossible to predict.

“The upper incomes were hit first in the downturn and took a bigger hit, and they appear to be recovering faster,” Mr. Chamberlain said. But he warned that it was hard to know how sustainable that income would be.

With an overall budget of nearly \$85 billion, the revenue increase is a relatively small gain, said Jean Ross, the executive director of the California Budget Project, a nonpartisan group that tracks state

spending.

“One of the virtues of the original budget was that there was some level of shared sacrifice,” Ms. Ross said. “But now, some businesses are going to come out ahead of where they were last year.”

With previous cuts and other changes, the updated budget reduces the deficit to \$10.8 billion, less than half of what it was in January. Mr. Brown said he would restore \$3 billion in spending on public education, but the figure is still billions lower than in previous years. And while he will continue to push voters to approve a package of tax extensions, he said the state needed \$2.9 billion less in taxes than he had proposed in his original January budget.

He said that by 2015, the plan would pay off most of the nearly \$35 billion in debt that California built up over the last decade.

Republicans have repeatedly balked at Mr. Brown's plan for a five-year extension of \$11 billion in income, sales and vehicle taxes that were set to expire at the end of June and blocked his efforts to put the decision on the ballot in June.

The governor has backed off a plan to eliminate tax credits for businesses, a move that could appease some critics.

Mr. Brown could be using the tax incentives for businesses as a way to bring in more Republican votes. He also said on Monday that he would back a spending cap, something Republicans have pressed for. Acknowledging the hurdles he still faces, Mr. Brown told reporters he made some changes in the budget mainly because of the political realities. And he declined to lay out what an all-cuts budget might look like.

“I'm giving you the blueprint,” he said. “Now the other architects will start to screw it up.”

Last week, Republicans released a budget plan that they said would close the gap without new taxes, largely by cutting services to the poor and elderly, as well as by cutting state employees' pay.

Democrats said the plan did not address looming gaps in coming years.

California's fiscal year ends on June 30. If the governor and the Legislature cannot broker a deal by then, the state could be forced to issue i.o.u.'s, as it did in 2009.

In March, the Legislature approved a partial budget plan that reduced the deficit to \$15 billion, from \$26.6 billion. Under the revised plan, California would also eliminate more than 40 state boards, commissions and task forces that Mr. Brown said were inefficient, eliminating about 5,500 jobs from the state payrolls.



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