

## Mountain of debt looms over California

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by Matthew C. Piccolo

One year ago, the California state legislature passed a budget with a deficit of \$4 billion. The projected deficit for this year is \$3 billion, but the shrinking trend is over and the financial future of the Golden State looks grim.

After minor attempts to produce a balanced budget this year, the Legislative Analyst's Office projects, based on the May revised budget, a \$3 billion deficit for fiscal year 2007-'08 and at least \$5 billion for 2008-'09.

Gov. Schwarzenegger's short-term solutions — shifting funds around and privatizing a few programs — will not suffice. The problem is that government expenditures far outweigh revenues.

Plans to increase considerably the expenditures on schools, prisons, social services and health care will reverse progress already made on the deficit. Moreover, California's unfunded liabilities for pension and retiree health benefits total \$96.9 billion. Absent spending discipline, visions of balanced budgets, tax cuts and manageable debt remain fleeting.

Mountains of public debt continue to pile up. Before last year's bond authorization, every man, woman and child in California owned a \$1,597 government debt burden compared with a \$754 national average. Today, the state has \$142.5 billion in authorized bonds, equivalent to a \$3,632 debt per Californian.

Rapid economic growth could enable the state to service this amount of debt. But the governor's Strategic Growth Plan recommends an additional \$43.3 billion in bonds in the next five years for infrastructure development. This addition would increase per capita debt to \$4,735. Adding on federal debt and local debt, if you live, for example, in San Francisco, brings the grand total to \$36,309, enough to pay Stanford University tuition for a year.

The governor predicts that California will need more than \$500 billion to revamp infrastructure over the next 20 years. Only an unprecedented economic boom could fund this ambitious undertaking without drastic tax hikes.

Although state revenue has grown this year, economists predict only moderate economic

growth into 2008, mostly because of the sluggish housing market. Also, the constant barrage of new business regulations and tax hikes curtail growth. Investors, too, are skeptical of California's economic future.

Amassing mountains of debt and procrastinating its repayment is imprudent. The weight of excessive debt can squash growth and force any institution into bankruptcy. With more and more debt, the state's credit rating will plummet and interest payments and taxes will soar.

This looming debt disaster should wake up California taxpayers. They should demand that the governor and legislature stop avoiding their duty to control chronic spending, pass a zero-deficit budget this year, and pay down the debt. If not, Californians will soon awaken to massive tax increases that will burden them for generations to come.

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