

# California to miss budget deadline, "meltdown" nears



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AFP/Getty Images/File – California Governor Arnold Schwarzenegger, seen here on June 02, has announced plans to phase out school ...

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SACRAMENTO, California (Reuters) – California lawmakers were poised to miss their constitutional deadline on Monday for a state budget, bringing the state's government closer to running out of cash.

Democrats and Republicans in the legislature's budget conference committee worked through Monday afternoon on a variety of proposals addressing Gov. Arnold Schwarzenegger's plan to close a \$24.3 billion budget shortfall, but they failed to find common ground on its most dramatic proposal: eliminating the state's welfare system.

"This meeting is not headed in that direction," Republican Assemblyman Roger Niello said.

California's revenues are plunging amid recession, rising unemployment and the prolonged housing crisis, and the state is unable to borrow its way out of its immediate financial trouble by issuing debt at low cost because of its budget gap.

It will run out of cash within weeks if it does not balance its books, leaving it little option but to postpone a variety of payments, according to State Controller John Chiang, who estimated last week that California was "less than 50 days away from a meltdown of state government."

Democrats, who control California's legislature, said their aim is to cut spending, but to maintain a base of government programs, including many for the needy.

Republicans countered that only dramatic cuts will balance California's budget for its next fiscal year, which begins in July.

Some state Assembly Democrats have talked about the possibility of increasing some taxes to raise revenues, but both Schwarzenegger and Republicans said no.

Republicans have enough votes to block budgets from passing and have used the power in previous years to delay spending plans from reaching the governor's desk.

In fact, the legislature has missed its constitutional budget deadline for more than 20 years running. It is not unusual for the government of the most populous U.S. state to begin its new fiscal year without a spending plan in place which is one reason why California has the lowest credit rating of any U.S. state.

In most years, California officials have been able to rely on the state's growing economy to fill the state's government's coffers -- even as the bickered over budget plans.

The sooner California has a budget, the sooner it will be able to approach Wall Street to sell short-term debt in the form of revenue anticipation notes to help smooth out its near term finances, according to the state treasurer's office.

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