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The Daily News of Los Angeles

June 10, 2004 Thursday, Valley Edition

SECTION: NEWS; Pg. N1

LENGTH: 732 words

HEADLINE: ARNOLD MORE THAN DELIVERS ON FEDERAL FUNDS PROMISE

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BODY:

SACRAMENTO - Gov. Arnold Schwarzenegger has transformed budget special effects into reality, securing more than the \$350 million he promised to seek from the federal government for next year's budget, administration officials say.

The amount so far totals in excess of \$480 million - a combination of cost savings and new revenue - and is not yet entirely in hand. But Washington has given firm assurances that it is forthcoming, and state officials attribute the accomplishment to Schwarzenegger's ability to persuade the Bush administration to lend a hand, as he promised to do while campaigning last summer.

"Weeks before the new fiscal year even begins, the governor had already exceeded what he had budgeted in January by about \$100 million," his chief budget spokesman, H.D. Palmer, said.

Critics say Schwarzenegger's 2004-05 spending plan includes the kind of "smoke and mirror" proposals that got former Gov. Gray Davis in trouble.

As evidence, they cited the new governor's decision in January to assume that the state would receive \$350 million in federal funds and \$500 million in Indian gaming revenue - without concrete assurances that it would materialize.

But with multiple new casino compacts with California Indian tribes on the horizon and \$480 million in savings and revenue promised to the state by Washington, Schwarzenegger is poised to sign a budget that fulfills those projections and honors his campaign vow to collect California's "fair share" of federal money.

Still, the administration isn't bragging.

"While we've done better than we had budgeted, that's not the end of the line. There's still more work to do to get our fair share of federal dollars for California," Palmer said.

Assemblywoman Judy Chu, D-Monterey Park - who serves on a legislative conference committee in the midst of voting on each line-item of Schwarzenegger's budget - is pleased with his success at securing federal funds but remains dissatisfied with the Republican governor's spending plan.

"My greatest concern has to do with the deficit that will be ongoing because we have so many one-time fixes in this budget," she said.

The administration estimates that California is rightfully due \$3.5 billion from the federal government. Based

on that, Schwarzenegger assumed in January that he would deliver a "modest" \$350 million in his budget plan for fiscal year 2004-05, which begins July 1.

Some economists, even those not overly critical of Schwarzenegger's budget, say his claim that California does not receive its fair share of federal funds is debatable - and beside the point.

"Our problem has been a profligate Legislature the past five years; our problem has nothing to do with the federal government," said Steve Frates, a senior fellow at the Rose Institute of State and Local Government at Claremont McKenna College. "If we had curbed our spending we wouldn't be having this discussion."

Schwarzenegger by mid-May was able to include more guaranteed budget savings in his 2004-05 spending plan - courtesy of federal assistance - than he had forecast in January, including:

--\$57 million in revenue to reimburse California's Child Welfare Case Management System.

--\$30 million in revenue to help run a South Central Los Angeles Regional Center for the developmentally disabled.

--\$135.2 million in matching funds for In-Home Supportive Services. (Schwarzenegger felt comfortable enough to assume these IHSS funds in the final budget proposal he submitted to the Legislature in May, but the federal waiver needed to guarantee them is still pending, so the administration is not counting them in the \$480 million tally of its achievements so far.)

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AT A GLANCE

Here is a progress report on Gov. Schwarzenegger's plan to right California's fiscal ship:

--Refinance existing state debt: Done.

--Implement a constitutional spending limit: Done.

--Reform the workers' compensation insurance system: Done.

--Obtain more federal funds for the state treasury: Done.

--Sign an on-time budget that does not raise taxes: Still unknown.

--Reform Medi-Cal, Still unknown.

--Renegotiate casino compacts with Indian gaming tribes to add revenue to the state's general fund: Pending.

SOURCE: Daily News research

GRAPHIC: Photo:

(color) Arnold has secured more than the \$350 million for next year's budget.

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AT A GLANCE (see text)

LOAD-DATE: June 10, 2004

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