

Vehicle fee deal helped dig current budget hole

Dan Walters / The Bee's Capitol Bureau

12/10/07 22:52:49

A few days ago, this column suggested that one way for Gov. Schwarzenegger to resolve his budget deficit dilemma would be to emulate predecessor Gray Davis and restore the property tax that California motorists pay on their cars, thus generating about \$6 billion.

Davis and his predecessor, Pete Wilson, had championed a series of reductions in the "vehicle license fee" that dropped it to about a third of its original rate of 2% of a car's value, but as the state's budget crisis worsened in 2003, Davis restored the tax to its original level.

Schwarzenegger made the car tax cut a major issue in his campaign to succeed Davis during the historic recall election. After winning the governorship, his first act was to reverse Davis' action.

It turns out that restoring the full tax wouldn't be nearly as easy as the column suggested because of a complex deal that Schwarzenegger negotiated with the Legislature and local government officials in 2004. But that deal also illustrates how Schwarzenegger dug himself into a hole after promising voters that he would eliminate "crazy deficit spending." As he fashioned his first budget, Schwarzenegger proposed a big hit on local governments, crystallizing long-simmering animosity between state and local officials that began when Wilson and the Legislature grabbed billions of dollars from local treasuries in the early 1990s.

With Schwarzenegger poised to make another raid on their budgets, local officials cranked up a ballot measure that would protect them from such incursions.

The new governor responded by negotiating a three-way deal with the locals and the Legislature. The state would be allowed to tap the locals for some money for a couple of years, but Schwarzenegger would sponsor an alternate ballot measure that protected them against future raids, with some exceptions. As part of the deal, the 65% reduction in the VLF would be made permanent -- eliminating the ability of a governor to unilaterally restore the tax as Davis had done -- and the state would permanently compensate local governments for lost VLF revenue by giving them a greater share of local property taxes. The property taxes would be shifted from schools, which would get more state aid in return.

The net effect of this complex deal was to punch a semipermanent, \$6 billion hole in a budget that was already dangerously out of balance. So while Schwarzenegger was still promising to end "crazy deficit spending" and balance the budget, he was, effectively, making it virtually impossible to do so.

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