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Californians are paying a high price for a low car tax

Capitol Journal: Politicians ran California off the road when they cut the vehicle fee.

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Republican legislators have been taking credit justifiably for cuts in sales and car taxes. But they're disingenuously denying any responsibility for soaring university tuitions, the closing of state parks or the shredding of grandma's safety net.

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They can't have it both ways.

"It was a Democratic budget, not ours," asserted Assembly Republican Leader Connie Conway of Tulare. "They are the ones who made the priorities. So if people are suffering and hurting, they need to contact the people who did that to them. Our agenda was to put the money back in the taxpayer's pocket."

The sour chord in that sound bite is that when you starve the government "beast," as is preached by Washington, D.C., anti-tax intimidator Grover Norquist and faithfully followed by the California GOP, there is no other honest choice but to starve college students, state parks and poor grandma.

But credit Conway also with candor. Unlike Republican senators, the Assembly minority leader didn't blame Gov. Jerry Brown for weak-kneed bargaining. She openly admitted that her agenda from the beginning was to assure that temporary tax increases expired July 1, rather

than be extended as proposed by Brown and Democrats.

"We kept politicians out of the taxpayers' wallets," she said.

And let's not forget that by refusing to provide the necessary two-thirds legislative vote for tax extensions, Republicans also passed up a rare opportunity to bargain for spending, pension and regulatory reforms.

California's sales tax dropped by a penny on the dollar. That levy is an outdated relic of a mid-20th century manufacturing and retail economy. Now we're more service-oriented. No political leader — Brown included — has had the guts to do what is needed: push to lower the tax rate while broadening the tax base to include services, as many other states have done.

The so-called car tax — the vehicle license fee — fell by 0.5% of a vehicle's value, down to 0.65%. In contrast to the sales tax, the vehicle fee is a simple, fair, broad-based levy that makes perfect sense, except for one thing: The anti-tax demagogues have whittled it down to a ridiculously low level.

The No. 1 demagogue was former Gov. Arnold Schwarzenegger, he of the half-dozen Hummers.

But let's look at the history.

In the Model T days, California cars were assessed by counties as personal property. But there were wide variations in each county's assessments. So the Legislature in 1935 adopted a uniform statewide rate of 1.75% and renamed the tax the vehicle license fee. The state collected it, but much of the revenue remained with cities and counties.

In 1948, the rate was raised to 2%, where it remained for the next 50 years with hardly anyone squawking.

This changed after Republican James Gilmore got elected governor of Virginia by promising to repeal that state's car tax.

In California, anti-tax Assemblyman Tom McClintock (R-Thousand Oaks) — a perpetual candidate for higher office and currently a congressman from the Sierra gold country — saw a budding political issue. He introduced a bill repealing the car tax. Gov. Pete Wilson and Democrats agreed to a 25% reduction, to a 1.5% rate.

With the economy booming, Gov. Gray Davis and the Legislature lowered the rate further to 1.3% in 2000, and all the way down to 0.65% in 2001. But when the economy boomeranged in 2003, Davis — using a legally suspect "trigger" provision — raised the tax on his own back up to 2%.

Enter Schwarzenegger.

"Tom [McClintock] put a foot in the door and Schwarzenegger busted it down for political expediency," says Senate Budget Committee Chairman Mark Leno (D-San Francisco).

"Outrageous," shouted Schwarzenegger of Davis' car tax hike as he campaigned full-throttle to recall the governor. In one stunt, he used a wrecking ball to smash an old jalopy that symbolized the tax.

Schwarzenegger's first act as governor in late 2003 was to knock the tax back down to 0.65%. It was probably his biggest financial mistake, certainly one from which the state never has recovered.

Problem was, virtually all the vehicle license revenue went to local governments. The state had been reimbursing them — "backfilling" in Sacramento jargon — for their losses after the rate had sunk below 2%. Schwarzenegger insisted on continuing to backfill even though the state was going broke. His tax cut actually went on the books as a spending increase.

Schwarzenegger's solution: Put it on the credit card. The state's still trying to pay it off.

The largess for local government was costing \$4 billion annually then. Now, it's up to \$6 billion — roughly the size of the state's ongoing "structural" deficit.

"It's a chronic hole in our budget," Leno says. "It will not go away and will not be wished away."

Brown believes the structural hole will never be filled unless the vehicle license revenue is restored.

He and Democratic leaders are toying with sponsoring a 2012 ballot initiative that would raise the fee back to 1.15%. All the extra revenue would go to local governments to help pay for public safety programs the state intends to unload on the locals. That also would reduce the state's backfill obligation.

But good luck. Voters have been telling pollsters for years that they oppose raising the car tax.

A recent poll by the Public Policy Institute of California found a majority of voters saying they supported hiking taxes for K-12 schools, higher education and programs for the needy. But 61% opposed increasing the vehicle license fee.

These days, Californians think that ludicrously low car taxes — and all property taxes — are their birthright.

We used to think that our birthrights were affordable higher education, smooth transportation systems and beautiful state parks.

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