

## **Restoring the Vehicle License Fee is needed For Local Government to get on the Road to Recovery**

Over the past several years Sacramento has used local government as a pawn in the State's budget balancing strategy. Each year the State government provides less money for cities, counties and special districts to run programs – forcing local governments to cut essential services and forcing local elected officials, staff and local government employees to face the ire of the public.

The “strategy” continues this year.

The Governor is cutting approximately \$8.2 billion from the State budget by shifting services to local governments (cities, counties and special districts). In addition, the Governor is proposing new taxes, most notably an additional \$1.10 tax on cigarettes, a one-cent increase of the state sales tax and an increase of the income taxes on Californians in the two highest income tax brackets. The Governor estimates that these new taxes will generate approximately \$8.3 billion that will go directly to local government to help cover the cost of administrating the newly “shifted” programs. Sounds pretty good, doesn't it?

Needless to day there are a few hidden issues.

Many believe the Governor's estimate of how much revenue will be generated by the increased taxes is generous, to say the least. The revenue to pay for the services shifted to local government comes primarily from new sales taxes. The amount of sales tax collected tends to shift with the economy. In good times, people shop and sales tax revenues are high. When the economy is weaker, people spend less, and less sales tax is collected; this means less revenue for local government services. Furthermore, when the economy is bad, more people use government services leaving local legislators and their staff in the position of trying to provide services to more people with less money.

The real devil in the Governor's budget proposal is in the details. The Governor proposes cutting the Vehicle License Fee (VLF) “backfill” (a subsidy to local governments) by over \$4 billion.

Californians pay the VLF when registering their cars. The Vehicle License Fee was cut when the California economy was booming. The VLF funds are a large percentage of local government's small amount of discretionary funding. In better economic times, the governor cut the fees by more than 66%. To clarify, before the cut, the VLF was 2% of the value of the vehicle, now it is .065% of the value of your vehicle.

Previously, to replace the lost money from the fees, the State would “backfill” the lost revenue by shifting cash to local governments. Alameda County will loose an estimated \$27 million in the remaining fiscal year (02/03), if the VLF backfill is cut during the mid-year budget adjustments. The County will loose an estimated \$64.5 million if the there is

no backfill in the next fiscal year. The upshot: in yesterday's boom times, constituents get a cut in the VLF and local governments are able to provide the same level of service; in today's bust times, the constituents get a break in the VLF fee, the Governor yanks the subsidy, local constituents get less service and local government is left holding the bag.

I believe the Governor knows the budget can't be balanced without restoring the VLF revenue (either by raising the fee or continuing the backfill). The Governor's budget proposal does neither, forcing the legislature to increase the VLF. Herb Wesson Jr., Speaker of the California State Assembly is sponsoring a bill that will automatically trigger an increase in the VLF when the economy is slow; I applaud him for that. However, for being fiscally responsible, Speaker Wesson and other supporters of the VLF increase will have to face the criticism of vehicle owners and others opposing any fee hike. Governor Davis should have included an increase of the VLF in his December budget proposal, instead of leaving others to clean up behind him.

For years I have championed the issue of returning adequate funding to local governments, as a member of the California State Association of Counties, while serving on the Board of Supervisors, and during my campaign for State Senate. Speaker Wesson and everyone in local government that advocates for an increase in the VLF need your support. Nobody likes increased fees or taxes, but lets put things in perspective. According to the January 22, 2003 edition of the S.F. Chronicle the VLF increase would cost the average car owner \$103 a year. Essentially if the average car owner spends an extra \$103 a year, local governments may not have to ponder cutting healthcare services, cutting resources for youth or cutting support for community-based organizations. I think preserving local services is \$103 well spent.

I have no idea how the issue will play out in the next few months, but don't be fooled by anyone who says the VLF increase is unnecessary or that local government's funding shortfall is a result of overspending. A reinstatement of the VLF to its 1998 level is essential to the health and well being of our residents, our local governments and the State of California.