



California Democrats Seek Tax Boost as Battle Looms (Update2)

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By Michael B. Marois



June 16 (Bloomberg) -- Democrats who control **California's** Legislature said tax increases are needed to help close a \$24 billion deficit, setting up a battle with Republicans that may leave the state short of cash next month.

Speaker of the Assembly **Karen Bass**, a Los Angeles Democrat, said higher taxes and fees are needed instead of all \$16 billion in cuts proposed by Republican Governor **Arnold Schwarzenegger**. His reductions would eliminate entire welfare programs and leave 1 million children without health insurance. Democrats yesterday suggested a \$15 automobile license fee and said they may consider a 9.9 percent per-barrel charge on oil produced in the state.

The Democrats' stance sets the stage for a confrontation with Republican lawmakers because California law requires a two-thirds vote to approve tax increases. While Democrats control both chambers, they are six votes short of a supermajority. State Controller **John Chiang** has warned lawmakers since May that they had until June 15 to fill the budget gap or the state will be unable to pay all its July bills.

"The budget that we will be voting for on the floor will be a balanced approach and it will be a combination of cuts and new revenues," Bass told reporters in her office yesterday.

The state's projected cash shortage, absent a fix to next year's budget, led Standard & Poor's late yesterday to place California's credit rating, already the lowest among U.S. states, under review for a possible cut.

'Fundamental Capacity'

"Although we continue to believe the state retains a fundamental capacity to meet its debt service, insufficient or untimely adoption of budget reforms serve to increase the risk of missed payments in our view," S&P analysts, led by **Gabriel Petek** in San Francisco, said in a news release.

Fitch Ratings on May 29 revised California's credit-rating outlook to negative, indicating a longer-term likelihood of reduction if lawmakers don't act quickly to solve the latest budget problems. California's full faith and credit pledge is rated A by S&P and Fitch, and a comparable A2 by Moody's Investors Service, five steps below the top investment grade.

California taxable 30-year Build America Bonds paying 7.55 percent traded at about 93 cents on the dollar today to yield 8.18 percent, down from 94.7 cents and 8.02 percent yesterday, according to Municipal Securities Rulemaking Board trade data.

State Parks

The Democrats' new \$15 vehicle registration fee would raise about \$300 million a year that would be used to finance the operation of California's 275 state parks. Anyone driving a vehicle with California license plates would be allowed to enter state parks without paying an entrance fee. Schwarzenegger wants to eliminate all funding for parks.

The latest tax proposal comes after six Republicans broke ranks with their party in February and approved \$14 billion in tax increases to end a four-month impasse over how to close what was then a record \$42 billion deficit. To fill that gap, lawmakers also agreed to cut \$15 billion in spending.

The deficit reopened since then as California's economy worsened amid the national recession, though Schwarzenegger and Republicans have said they won't support tax increases again.

"Tax increases are unacceptable," said Schwarzenegger's spokesman **Aaron McLear**.

No Federal Help

Without a balanced budget in place, officials including Chiang have said it would be costly -- and potentially difficult -- for the state to secure the loans it needs to pay bills until the majority of tax collections are received later in the fiscal year. Treasurer **Bill Lockyer**'s request that the U.S. Treasury Department use some of the Wall Street bailout fund to guarantee such a debt sale was rebuffed.

The Obama administration is monitoring California's budget crisis and is leaving it to state leaders to find a solution, White House press secretary **Robert Gibbs** said today during his daily briefing with reporters.

"We agree with the Obama administration," McLear said. "We have to live within our means. This is our own mess and we are on our own to get out of it."

Bass said the budget plan may be put up for a vote as early as next week. It would include \$13 billion in spending cuts instead of the \$16 billion sought by Schwarzenegger. Another \$6 billion would be raised through higher fees and taxes, transferring funds between accounts and fiscal years, and accelerating personal and corporate income tax withholdings.

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