

California Commentary

Taxpayers' Leaders Meet With Governor

By Jon Coupal

On April 17th, Governor Schwarzenegger called a meeting of taxpayer leaders throughout California. In addition to inviting the Howard Jarvis Taxpayers Association, business groups were also well represented by the California Taxpayers Association, the California Chamber of Commerce, and the California Manufacturers and Technology Association, among others. Representing a national taxpayer group was the National Tax Limitation Committee and, in recognition of their importance, the leaders of some of the larger local taxpayer groups were also invited.

It is interesting to note that the meeting was initiated by the Governor, not by the taxpayer groups. The Governor's stated purpose was two-fold: First, to thank fiscal conservatives for their support in the past and, second, to start laying the political groundwork for his infrastructure package. Although the infrastructure bond deal had not been reached at the time of this meeting, it doesn't take a rocket scientist to conclude that any massive new debt undertaking would be closely scrutinized by those who hold themselves out as fiscal watchdogs.

The Governor started out, as he frequently does, by noting that he has not raised taxes and has no intention of doing so in the future. Let's give the Governor credit. While Republican Governors in other states have raised taxes, Arnold Schwarzenegger has not. This is even more remarkable when, unlike several of the tax-raising governors, California's Governor has a

state legislature dominated by the opposing party — a party which has expressly embraced tax increases as a way to “solve” the budget crisis.

That Schwarzenegger has taken tax increases off the table may be yesterday's news, it was nonetheless good to hear him say it again. But what was not expected was his unconditional statement equating “fees” with *taxes*.

To paraphrase what he said, “No new taxes means no new fees either — like those Sinclair type fees.” In expressly saying he would oppose taxes disguised as fees, the Governor has committed to vetoing a host of bills that will hit his desk in coming months. “Fee” increases, unlike tax increases which require a two-thirds vote, can be approved by a *simple majority* vote of each house of the Legislature.

His reference to “Sinclair” fees is based on a California Supreme Court decision in which the Sinclair Paint Company was a litigant. Regrettably, the high court removed virtually all “nexus” requirements between a “fee” and the fee payer. In other words, the longstanding requirement that a fee have some sort of relationship to some mitigation or benefit to the fee payer *no longer exists*. This has caused enormous mischief at the state and local levels with the tax-and-spend lobby proposing a myriad of so-called “fee” increases in order to circumvent constitutionally imposed voter approval requirements or vote thresholds at the state level.

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From a taxpayer's perspective, the Governor gets good grades on the revenue side. But what about the spending side? At the meeting, there was an extended discussion about government waste. In short, there's lots of it. Just one example was raised involving the costs of medical treatment for inmates in the state prison system. Some have suggested that we are spending up to ten times the amount necessary to ensure that inmates get adequate medical care. And yet very little is being done about it.

When the Governor first won the recall election, he spoke of "blowing up the boxes" and launched an aggressive "Performance Review" project. However, for whatever reason, that project was dropped suddenly and, since then, the administration has *not* made addressing waste, fraud and abuse a major priority of his administration. That's too bad. There are literally hundreds of millions of dollars to be saved by making government more efficient or, at least, less fraudulent.

The prevailing attitude in Sacramento, unfortunately, is that there is no pressure to address waste, fraud and abuse because revenues are so good. But this is wrong. At the time revenues are good is *precisely* the time our elected officials should be investing a modest amount of resources to pay for oversight, audits, investigations, and management improvements relating to how we spend over \$100 Billion in taxpayer dollars every year.

And, as long as we are talking about shortcomings, let's not forget that California still has a structural deficit. While the Governor has made substantial progress in closing the budget gap, there is broad disappointment that, even with several billion dollars in unanticipated revenue, we are *still* spending more money than we are taking in.

Our hope is that, should the Governor win reelection this year, a renewed focus of his administration will be on the *expenditure* side of the fiscal equation — meaning addressing waste and fraud as well as closing the budget gap. Being a fiscal conservative means not raising taxes, certainly. But how our money is spent is just as important.

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