

GOVERNOR SCHWARZENEGGER SWORN IN

Actor/businessman Arnold Schwarzenegger was sworn in this morning as the 38th Governor of California by Chief Justice Ronald George. In a heavily-idealistic inaugural address reaffirming his commitment to working with both Republicans and Democrats and the end of “politics as usual,” Schwarzenegger promised to immediately sign an executive order repealing the recent 300% increase in the Vehicle License Fee (see story below) and to call the Legislature into special session to deal with the state’s massive budget deficit and to repeal [SB 60](#), the bill enacted last September to permit illegal immigrants to obtain California drivers licenses.

In anticipation of the promised proclamation, the Assembly was scheduled to meet in special session at 4:00 p.m. Tuesday, November 18. The Senate was also anticipating meeting at the same time, though no official announcement had yet been made.

Capitol sources suggested that the Legislature would meet briefly this week in special session, then recess until the first week in December.

MORE KEY STAFF POSITIONS FILLED

Governor Schwarzenegger last week appointed [Margita Thompson](#) as Press Secretary and [Cynthia Bryant](#) as Chief Deputy Legislative Secretary.



Thompson, 36, was most recently a producer of CNN’s “Larry King Live.” She worked in the past for two of Schwarzenegger’s primary advisers – former Gov. Pete Wilson and former Los Angeles Mayor Richard Riordan.

Bryant, 44, is a 20-year Capitol veteran, and is currently the director for the Senate Republican Office of Policy. She has been legal counsel to the Assembly Republican Caucus and deputy chief administrative officer and legal counsel to the Assembly Rules Committee.

VEHICLE LICENSE FEES

Governor Schwarzenegger’s inaugural address restatement of his intent to repeal the recent tripling of the state’s Vehicle License Fee (VLF) was perhaps the major applause line of the speech. The question is how the repeal will be achieved.

The vehicle license fee is a fee on the ownership of a registered motor vehicle in California, in lieu of a personal property tax on vehicles. Originally, motor vehicles were subject to a property tax, which is administered by local governments. In 1934, in order to simplify the tax administration, vehicles became subject to a state-imposed VLF and were specifically exempted from property tax levies. However, the revenues derived from the VLF were returned to local governments for their discretionary use.

In 1998, with the state experiencing a revenue surplus of over \$4 billion, then-Governor Wilson and the Legislature were eager to provide Californians with some form of tax relief after the fiscal constraints and substantial tax increases of the early 1990’s. The VLF had become a popular target for tax cuts when Virginia repealed its vehicle license fee. Thus, as part of the 1998-99 budget, the VLF was reduced permanently by 25 percent, with potential additional reductions tied directly to state General Fund revenue growth. If specified revenue forecasts (triggers) were attained, reductions would increase to 35 percent in 2001 and further increase up to 67.5 percent in future fiscal years. Each time the VLF was reduced, the statute provided that cities and counties would continue to receive the same amount of revenues as under prior law, with the reduced VLF amounts supplanted by state General Fund dollars.

However, the legislation implementing the VLF also contained a provision for increasing the fee when state revenue forecasts declined. Such forecast came into play earlier this year as the state sought to deal with a massive budget deficit estimated to be as high as \$38 billion. The Dept. of Finance, in early June, notified the DMV that, as of June 20, 2003, the state would not have sufficient moneys available to be transferred from the General Fund to fund the VLF offsets. Since such funding was guaranteed under Proposition 47 of 1986, the DOF letter thus “pulled the trigger” to restore the VLF to its full prior level, without the need for legislative action.

Given the nature of the trigger mechanism, there has been considerable debate regarding whether the Governor can unilaterally rescind the VLF increase by executive order. The questions are how many lawsuits will be filed in a effort to block the return to lower vehicle license fees, and where the state will find the money – roughly \$3 billion – to backfill VLF revenues slated for allocation to local governments.