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California Gas Tax Repeal May Squeeze State in Next Recession.

- **November ballot measure would roll back a gas-tax increase**
- **Increased voter requirements could hamper budget flexibility**

A rare push in California to roll back taxes may jeopardize the state's finances the next time the economy falls into a recession.

In November, voters will decide whether to approve a ballot measure that would repeal a gas-tax increase passed by the legislature last year to fund transportation improvements and require future hikes to be approved at the polls. Proponents say it would instill discipline in a state they believe squanders the fuel-tax revenue for non-infrastructure expenses. But it could also make it difficult for the state to respond to a downturn in the economy, which is now in the second-longest expansion on record.

"It adds an element of risk to the state's credit profile in the event of a recession," said Paul Mansour, head of municipal research at Conning. He said he was "very concerned" about the measure. "It shows a potential lack of support for infrastructure and possibly shifting the burden to the general fund, which has been steadily built up. This can undo a lot of progress."

Carl DeMaio, a chairman of the committee behind the repeal, said the higher taxes and fees needlessly burden residents. He and other supporters are also spearheading another campaign for a potential ballot measure in 2020 that would require 100 percent of the gas tax to go to road repairs, instead of public transit and the controversial $77 billion high-speed rail project.

"We don't have revenue problem, we have a spending problem," said DeMaio.

In 2017, California Governor Jerry Brown signed a package that was estimated to raise $5 billion annually for transportation improvements through higher gas taxes and vehicle fees. Resentment in the state that already had some of the country's highest gas prices started almost immediately as opponents quickly got a repeal on the November ballot. Congressional Republicans seeking to preserve their edge in the House have funded the measure as they face Democrats energized by antipathy toward President Donald Trump.

The measure is "pretty unique" for California since it's a rollback of a tax that is already in place, said Mark Baldassare, president and chief executive officer of the Public Policy Institute of California. A September poll from the San Francisco-based group shows the repeal narrowly losing.

If passed, improvements to the state's infrastructure may end up competing for general fund dollars with other needs, Fitch Ratings said in a release. It ranks the state AA-. Brown in June signed a $138.7 billion budget that included a $13.8 billion rainy day fund, the largest ever for the state.

Fitch noted that the state legislature already needs the go-ahead from two-thirds of its members to pass tax increases. "Additional extensions of voter approval requirements for state revenue

increases could erode the state’s revenue framework and ultimately its ability to manage its budget in response to changes in the economy,” it said.

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By Romy Varghese

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