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Buffett Suggests Property Taxes Aren't High Enough in California

Adviser to Schwarzenegger Hits State's Proposition 13; Unlikely Republican Stance

By JOSEPH T. HALLINAN

Warren Buffett, the billionaire financial adviser to Arnold Schwarzenegger's campaign for California governor, strongly suggested in an interview that the state's property taxes need to be higher.

Mr. Buffett, the chairman of Berkshire Hathaway Inc., took on California's famous Proposition 13 that has limited property taxes there since 1978. As an example, he pointed out the difference between his own property-tax bills for homes he owns in California and Nebraska.

His home in Omaha, he said, is valued at roughly \$500,000. His current property tax bill on that home: \$14,401.

In California, he owns a Laguna Beach home valued at \$4 million, or eight times as much. The property taxes on that home are just \$2,264—a fraction of what he pays in Omaha.

More to the point, said Mr. Buffett, the taxes on his Omaha home rose \$1,920 this year—compared with \$23 on the Laguna Beach home. Mr. Buffett attributed the scant jump in California to the restrictions of Proposition 13, which generally

limits property-tax increases to 2% a year, no matter how much the value of a property appreciates.

Mr. Buffett stopped short of saying he would urge Mr. Schwarzenegger to seek a reversal of Proposition 13 to increase property taxes—a move that would almost certainly be attacked by many of Mr. Schwarzenegger's fellow Republicans. But he left little doubt that that is where he is leaning.



Warren Buffett

"This property-tax illustration, that tells you, you can draw certain conclusions from that," said Mr. Buffett.

"But you've got to look at everything," he added. "I took the job yesterday. And it's going to be his [Schwarzenegger's] policies. Any advice I give is going to be to him."

Proposition 13 limits on property taxes aren't directly responsible for California's current fiscal problems, which had the state facing a deficit of \$38 billion for the fiscal year that started July 1. But in general, the limitations on property taxes have forced state government to rely on other taxes, such as the personal income tax, and to engage in complicated maneuvers to reallocate the state's revenue and help entities that faced funding gaps, especially schools.

Suggestions from the Schwarzenegger camp that tax increases could help deal with California's budget crisis could represent a problem for Republicans and the Bush White House, who have pursued tax cuts as the best way to improve the overall economy.

Democrats are sure to leap on the suggestion as support for the idea that their arguments against recent Bush tax cuts, for instance, were correct. Moreover, the Buffett comments are likely to deepen the biggest fear of many national Republicans: that the moderate views of Mr. Schwarzenegger, for all his appeal as a candidate, could spark infighting within the party.

In the interview, Mr. Buffett also said people approached Berkshire Hathaway and other financial firms a few months ago on behalf of the state of California, seeking to secure buyers for the state's bonds if necessary. "California was looking in the financial market for, in effect, a 'put,' or guarantee, by financial institutions that they would be able to come to market with bonds about nine months hence," said Mr. Buffett.

A spokesman for the California Treasurer said the department had "no knowledge of any state representative approaching Mr. Buffett." An official with the state's finance department suggested any such overture might have been made independently by investment bankers from the state.

Mr. Buffett said that in the discussion with Berkshire Hathaway, the state was willing to pay 75 basis points, or about \$80 million, to firms such as Berkshire if they would agree to buy between \$10 billion and \$11 billion in bonds.

"That's a lot of money to pay for a put," said Mr. Buffett. "It's a couple bucks for every citizen of California." Just a year earlier, said Mr. Buffett, the fee for such a put was just 18 basis points, or 18/100ths of a percentage point. "I thought about doing it," he said, but decided against it. Berkshire, he said, owns no California bonds.

Steve Peace, California's director of finance, said any conversation with Mr. Buffett would have been a "prospective research conversation" about the market for the bonds, most likely conducted by investment bankers. He said no one was officially authorized by the state of California to make deals on its behalf. He also said the bond issue most likely involved—a \$10.7 billion limited sales tax bond—has not yet been issued.

Mr. Buffett's comments come a day after he startled many political observers by jumping into politics in the nation's biggest state, especially on the side of a Republican candidate. He is usually associated with Democratic causes.

"I don't worry about that," he said. "I vote for far more Democrats than I vote for Republicans. But I vote for plenty of

Republicans. I look to the person. It doesn't make any difference in my view whether there's an R or D. What I want is an 'A'—for ability."

Among Mr. Schwarzenegger's competitors for the governor's seat is a longtime acquaintance of Mr. Buffett, former baseball commissioner Peter V. Ueberroth, who sits on the board of the Coca-Cola Co. with Mr. Buffett. Mr. Buffett said he hadn't known Mr. Ueberroth would be a candidate.

Referring to Mr. Ueberroth and former Los Angeles Mayor Richard Riordan, another candidate, he said, "Peter is very able. Dick Riordan is very able. But Arnold, he's a very smart fellow. He has brains and muscle. Some of us have neither."

Mr. Buffett, through Berkshire, has billions of dollars invested in the state of California. Those holding include about \$2.67 billion in stock of San Francisco based Wells Fargo & Co., along with other businesses, such as See's Candies and MidAmerican Energy Holdings Co., the nation's third-largest owner of natural gas pipelines. Although MidAmerican is based in Iowa, it does substantial business in California. Its Kern River Gas Transmission Co. operates a vital 926-mile pipeline that runs from the gas and oilfields of southwestern Wyoming to the San Joaquin Valley near Bakersfield, Calif.

Mr. Buffett said Berkshire's performance is affected by the U.S. economy, and that California certainly plays a large part in the health of that economy.

"The truth is California has got very

serious financial problems. It's an economy that's the size of France and there's no way the U.S. is going to have a healthy economy if California continues to have the problems it has," he said. "I've got a selfish interest in this country doing well, no doubt about that."

The state has been roiled by financial troubles tied to the economic downturn and the recent state energy crisis, factors fueling the effort to recall Gov. Gray Davis. Standard & Poor's Corp. has downgraded California bonds to a triple-B rating, the worst in the nation and two notches above junk-bond status. Mr. Schwarzenegger has vowed to improve the state's economy, a move that, if successful, would almost certainly benefit holders of the bonds.

Mr. Buffett said his preliminary assessment of California showed that the state's budget had depended on billions of dollars collected in capital gains taxes, much of it generated by the bull market of the late 1990s. "In effect," he said, "they set their financial planning based on a financial bubble."

Now that those gains are gone, California's budget must be balanced by finding the money elsewhere.

"You're going to have to get it in balance—and get it in real balance. And it is not in balance now," said Mr. Buffett. "And they have to do whatever is necessary on spending or taxes to get it in balance."

"California is a vibrant economy that's got all kinds of things going for it. The problems are solvable," said Mr. Buffett. "Now, we go to work."

—Gerald F. Seib and Scott Thurm contributed to this article.