



## CITY COUNCIL AGENDA REPORT

**Meeting Date:** 12/9/2021

**From:** Stuart Schillinger Assistant City Manager

**Subject:** Letter of Support for Solution to Property Tax in lieu of Vehicle License Fee Shortfall

### Community Goal/Result

Fiscally Prudent

### Purpose

Ensure the City of Brisbane receives the full allotment of Property Tax owed to the City during the fiscal year it is to be received.

### Recommendation

Have the Mayor sign the attached letter of support as written by San Mateo County supporting a legislative fix to the property tax in lieu of vehicle license fee shortfall.

### Background

The Vehicle License Fee (VLF) "Swap" was an integral part of the 2004 budget compromise (SB 1096). Under the terms of that compromise, the State permanently reduced VLF revenues to cities and counties by 67.5% and also shifted \$1.3 billion in local property taxes to pay the State's school funding obligation for two fiscal years. Through these actions, the counties and cities gave up significant revenues to address the State's budget deficit. In exchange, the State guaranteed the counties and cities an in-lieu VLF payment that is adjusted annually by the growth in property tax.

The VLF Swap legislation identified two sources of funding to pay the State's in-lieu VLF obligation: (1) ERAF distributions to non-basic aid schools and (2) property tax revenues of non-basic aid schools. The State would then backfill those losses by the schools to ensure minimum funding obligations were met. In recent years as more school districts within the county have moved into basic aid status, there has not been funding available to fulfill the State's in-lieu VLF obligation, which has resulted in a shortfall. For 2020-21, the countywide shortfall was approximately \$96 million, which resulted in a nearly \$6 million shortfall for the City. When these shortfalls have occurred, the State has made the county and its cities whole by reimbursing the shortfalls 14 months after the fiscal year in which the shortfall occurred through special appropriations in the State budget.

Currently, there is no procedure for the State to fulfill its obligation in a predictable manner when these shortfalls occur, and thus, the law needs to be amended to fix this unintended consequence. The County of San Mateo has proposed a statutory mechanism for reimbursement to enable the State, counties, and cities to manage future VLF shortfalls in a more sustainable way. The County has requested that all cities sign onto a letter of support for this proposal, which will be sent to Governor Newsom, Senator Skinner (Chair, Senate Budget Committee), and Assembly Member Ting (Chair, Assembly Budget Committee).

### **Discussion**

The County is currently estimating the City of Brisbane's impact due to the shortfall is approximately \$113,000 in FY 2021/22. This is subject to change based on many factors including the number of Basic Aid School Districts, final student counts, and the State Funding Formula for School Districts. It is anticipated that this number will grow over time as the number of Basic Aid School Districts in San Mateo County decreases.

### **Fiscal Impact**

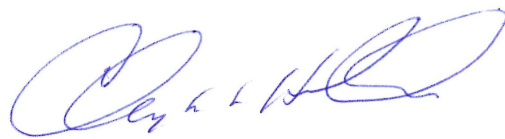
There is no fiscal impact by sending the letter, however, if there is a legislative fix it will assist with ensuring the City is guaranteed its full allotment of Property Tax in lieu of Vehicle License Fees.

### **Measure of Success**

There is a legislative fix for the shortfall issue.

*Stuart Schillinger*

Stuart Schillinger, Assistant City Manager



Clay Holstine, City Manager

December, 2021

The Honorable Gavin Newsom  
Governor, State of California  
State Capitol, First Floor  
Sacramento, CA 95814

The Honorable Nancy Skinner  
Chair, Senate Budget Committee  
State Capitol, Room 5064  
Sacramento, CA 9581

The Honorable Phil Ting  
Chair, Assembly Budget Committee  
State Capitol, Room 6026  
Sacramento, CA 95814

**RE: Fix to VLF Shortfalls for San Mateo County and its Cities**

Dear Governor Newsom, Chair Skinner, and Chair Ting:

On behalf of the residents of City of Brisbane, we write to support Senator Josh Becker, Senator Scott Wiener, Assembly Member Kevin Mullin, and Assembly Member Marc Berman's request to include language in the 2022-23 budget agreement to resolve an important fiscal issue for the City of Brisbane as well as all of the other cities in San Mateo County and the County itself (and for other counties as well), namely, insufficient revenues to cover the State's statutory Vehicle License Fee (VLF) Swap obligation. Absent budget action to resolve this issue, there will be a severe and increasing financial impact on the County and its cities' budgets. With no mechanism currently in the statute to pay for the VLF Swap, it is critical that we address this problem in the 2022-23 State budget to ensure a solution is in place to resolve this important issue.

The VLF "Swap" was an integral part of the 2004 Budget compromise (See SB 1096). Under the terms of that compromise, the State permanently reduced annual VLF revenues that were a significant funding source for counties and cities, by 67.5%, and also shifted \$1.3 billion more in property taxes away from all counties, cities and special districts to pay the State's school funding obligations for two fiscal years. By way of these shifts, the counties and cities gave up significant revenue to address the State's budget deficit. In exchange, the State guaranteed counties and cities an in-lieu VLF payment (adjusted annually for property tax growth).

The VLF Swap legislation identified two sources of funding to pay the State's in-lieu VLF obligation to counties and cities: (a) ERAF distributions to non-basic aid schools; and (b) property tax revenues of non-basic aid schools. **Non-basic aid schools do not suffer any financial loss since they are backfilled by the State.** The Legislature did not anticipate the funding sources would be insufficient to fulfill the State's in-lieu VLF obligation. In recent years, however, in-lieu VLF revenue shortfalls have occurred and will continue to occur

in counties around the state, including San Mateo County, as more districts turn basic aid (and therefore have sufficient property tax revenue to exceed the State's minimum funding guarantee.)

Historically, the State has made counties and cities whole by reimbursing in-lieu VLF revenue shortfalls 14 months after the fiscal year in which the shortfall occurred through special appropriations in the State budget. This delay causes significant cash flow issues for impacted counties and cities.

The current statutes do not provide a mechanism to fully reimburse counties and cities their entire State in-lieu VLF obligation when there are insufficient funds from ERAF and property taxes of non-basic aid schools. In other words, there is no procedure for the State's obligation to be fulfilled in a predictable manner when revenue shortfalls occur. Hence, the law needs to be amended to fix this unanticipated consequence.

We along with others are supporting a proposal to solve this problem by providing a statutory mechanism for reimbursement to enable the State and counties and cities to manage VLF shortfalls. Under this proposal, (a) counties are to submit claims for insufficient in-lieu VLF revenues for the next fiscal year and adjustments for 3 prior fiscal years and (b) the State is provided with advance notice of one year before any reimbursement is due. The proposed solution enables the State and counties and cities to manage in-lieu VLF revenues and would create a subvention mechanism to cover any funding shortfalls.

Although this issue was raised during the 2021-22 Budget Process, it was not included in the final budget agreement given other competing priorities. We are respectfully requesting that this language be included in this year's budget to help protect the important public services provided by our County and cities.

In sum, the proposed amendment to the VLF Swap statute fulfills the State's promise from 2004 in a predictable and stable manner, fixes a hole in the statute that was not anticipated when enacted and has no impact on school funding. Without this proposed mechanism to fund insufficient revenues in the current fiscal year, counties and cities will continue to face substantial budget impacts that impair important public services.

Thank you for your consideration of this critical measure.

Sincerely,