



## CITY COUNCIL AGENDA REPORT

**Meeting Date:** March 16, 2023

**From:** Carolina Yuen

**Subject:** Property Tax In Lieu of Vehicle License Shortfall – Letter of

Support

### **Community Goal/Result**

Fiscally Prudent – Brisbane’s fiscal vitality will reflect sound decisions which also speak to the values of the community

### **Purpose**

Offer support to the County of San Mateo and its cities and address the Property Tax in Lieu of Vehicle License Fee shortfall backfill that was omitted from the initial release of the Governor’s 2023-24 State Budget.

### **Recommendation**

To authorize the Mayor to sign a letter of support on behalf of the City Council to State officials requesting their assistance in getting the Property Tax in Lieu of Vehicle License Fee shortfall backfill included in the Governor’s May Revision Budget.

### **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.

## Discussion

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 2021-22, the countywide shortfall was approximately \$32 million, which resulted in a nearly \$66 thousand shortfall for the City. When these shortfalls have occurred in the past, 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.

The backfill for the 2021-22 VLF shortfall was not included in the initial release of the 2023-24 State budget. As such, the County and its cities are initiating efforts to advocate for this funding to be included in the Governor's May Revision budget. One of the initial steps in this process is to send letters to State officials requesting their assistance in getting the VLF shortfall backfill included in the May Revision. The draft letter to be signed by Mayor Davis and sent on behalf of the City is included as Attachment 1. Staff is also requesting authorization from Council to send any additional letters from the Mayor on behalf of the City to the State delegation or other stakeholders as requested by the County on this issue.

## Fiscal Impact

There is no direct budget impact for authorizing the Mayor to sign this letter of support. However, should the State not include backfill funding to address the VLF shortfall, the City's fiscal year 2023-24 budgeted revenues will be reduced by approximately \$66 thousand.

## Measure of Success

The State re-introduces the Property Tax in-lieu of VLF shortfall backfill into the Governor's May Revision budget.

## Attachments

1. Letter to State Delegation



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Carolina Yuen, Finance Director



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Clay Holstine, City Manager



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March 16, 2023

The Honorable Josh Becker  
California State Senate  
1021 O Street, Suite 7250  
Sacramento, CA 95814-4900

The Honorable Scott D. Wiener  
California State Senate  
1021 O Street, Suite 8620  
Sacramento, CA 95814-4900

The Honorable Marc Berman  
California State Assembly  
1021 O Street, Suite 6130  
Sacramento, CA 95814

The Honorable Diane Papan  
California State Assembly  
1021 O Street, Suite 4220  
Sacramento, CA 95814

The Honorable Phil Ting  
California State Assembly  
1021 O Street, Suite 8230  
Sacramento, CA 95814

Re: Budget Request for San Mateo County and its Cities for FY21-22 VLF In-Lieu Shortfall Subject

Dear Senator Becker, Senator Weiner, Assemblymember Berman, Assemblymember Papan, and Assemblymember Ting:

On behalf of the City of Brisbane, we respectfully request your assistance securing \$32,898,051 in Property Tax in lieu Vehicle License Fee (VLF) shortfall funding due to the County of San Mateo and its cities for FY21-22 through the state budget process. Of the total, the City of Brisbane is due \$66 thousand.

Historically, the State has made counties and cities whole by reimbursing in-lieu VLF shortfalls through a special appropriation in the State budget. This appropriation ensures that all counties and cities receive their full in-lieu payment required by law. Unfortunately,

an appropriation to cover San Mateo's County shortfall for the fiscal year 2021-22 was not included in the Governor's January Budget.

As background, the State's in-lieu VLF payment obligation arises from the VLF "Swap" which was an integral part of the 2004 Budget compromise. Under the terms of that compromise, the State permanently reduced the annual VL rate, which significantly decreased counties' and cities' revenues and, for two fiscal years, shifted an additional \$1.3 billion in property taxes away from counties, cities and special districts to pay the State's school funding obligations and address the State's budget deficit in exchange, the State guaranteed counties and cities an "in-lieu" VLF payment for the lost revenues. This ongoing in-lieu VLF obligation is adjusted annually based on growth in the assessed value of property within local agency boundaries (Rev. & Tax. Code Section 97.70).

In San Mateo County, the direct funding sources identified in the statute are insufficient to cover the full amount of the in-lieu VLF payment, causing a funding shortfall. The shortfall specifically arises because there are insufficient funds from ERAF and property taxes of the relatively few non-basic aid schools in San Mateo County to cover the State's total payment obligation. (The State backfills the school districts, so they do not suffer any loss from the in-lieu VLF payment.) As a result, these shortfalls are beyond the counties' and cities' control and cause cash flow issues and significant fiscal harm until reimbursed by the State.

Failure to make the full in-lieu VLF payment will cause significant financial harm to San Mateo County and cities, which rely on these revenues to fund core services such as police, fire, libraries, parks, streets, traffic and transportation. It would also be contrary to the 2004 Budget Compromise in which these payments were guaranteed in exchange for substantial financial contributions by local governments. Failure to provide the total payment would devastate local budgets and services that depend on these funds.

For these reasons, the City of Brisbane requests your assistance in ensuring that the \$32,898,051 in FY 21-22 VLF in-lieu shortfall due to the County of San Mateo and its 20 cities be included in this year's budget to ensure there is no adverse fiscal impact on our local governments.

We appreciate your consideration of this critical request.

Sincerely,

Madison Davis  
Mayor, City of Brisbane