



# TOWN OF PORTOLA VALLEY

## STAFF REPORT

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**TO:** Mayor and Members of the Town Council

**FROM:** Cindy Rodas, Finance Director

**DATE:** March 22, 2023

**RE:** Property Tax In-Lieu of Vehicle License Fee Shortfall – Letter of Support

### RECOMMENDATION

Staff recommends that the Town Council authorize the Mayor to sign a letter supporting backfilling the property tax in-lieu of Vehicle License Fee shortfall to be included in the Governor's May Revise 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. 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 \$90,466 shortfall for the Town. 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.

### DISCUSSION

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 Revise 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 Revise. The draft letter to be signed by Mayor Lee and sent on behalf of the Town is included as Attachment 1. Staff is also requesting authorization from Council to send any additional letters from the Mayor on behalf of the Town 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 Town's fiscal year 2023-24 budgeted revenues will be reduced by \$90,466.

### **ATTACHMENT**

1. Draft Letter to State Legislative Delegation



# TOWN of PORTOLA VALLEY

Town Hall: 765 Portola Road, Portola Valley, CA 94028 - Tel: (650) 851-1700 Fax: (650) 851-4677

March 22, 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 FY 21-22 VLF In-Lieu Shortfall

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

On behalf of the Town of Portola Valley, we respectfully request your assistance securing \$32,898,051 in in- lieu Vehicle License Fee (VLF) shortfall funding due to the County of San Mateo and its cities for FY 21- 22 through the state budget process. Of the total, the Town of Portola Valley is due \$90,466.

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 VLF payment required by law. Unfortunately, an appropriation to cover San Mateo County's shortfall for the fiscal year 2021-22 was not included in the Governor's January Budget this year.

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 VLF 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§ 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 Town of Portola Valley 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 is 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,

Jeff Aalfs  
Mayor, Town of Portola Valley

