

Remedy for City Annexations and New Incorporations From Impacts of SB89(2011) and the VLF-Property Tax Swap

Problem/Background

The state Vehicle License Fee has been a significant source of general purpose revenue to cities since 1935 when it was established in lieu of the taxation of motor vehicles in the local property tax system. Section 15 of Article XI of the California Constitution requires that these revenues be allocated among cities and counties.

The VLF-for-Property-Tax swap of 2004 reduced city VLF allocations by about 90% and compensated with new property tax share, but the swap does not provide compensating “property tax in lieu of VLF” (PTIL-VLF) for

- new cities incorporating after 2004 or for
- annexations to cities where there is pre-existing development.

AB1602(2006) established special allocations from city VLF to mitigate this problem but these funds were deleted in 2011 when the Legislature took all city VLF revenues to fund state law enforcement grants which had previously been funded by the State.

Remedy: Property Tax In Lieu of VLF for New Cities and Annexations

This proposal will provide new¹ cities and annexations with PTIL-VLF like other cities. For a new city incorporating after 2004, a formula in statute will establish a base year PTIL-VLF. In subsequent years the amount will be adjusted according to the same rules applied to other cities. For a city annexing inhabited area, the added assessed valuation in the annexed area will be included in the annual calculation of a city’s growth in PTIL-VLF.

Important Points

- ✓ These changes will have no effect on realignment or state law enforcement grant funding.
- ✓ The proposal will remove the substantial negative fiscal effects on city incorporation of the 2004 VLF Swap and the 2011 SB89 VLF shift. It will also restore funds to the cities that incorporated since 2004.
- ✓ This is not new money for cities. The proposal will restore funds that
 - existed for new cities and annexations prior to 2004,
 - were omitted in the VLF-for-Property-Tax swap of 2004,
 - were restored with a special allocation from the VLF in 2006 (AB1602 Laird)
 - were wiped out when city VLF funds were taken to pay state law enforcement grants previously funded by the state general fund (SB89-2011).

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¹ Incorporations and annexations after 2004 – the year of the VLF-Property-Tax swap.