

December 15, 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 San Mateo County, 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 San Mateo County and its cities (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,



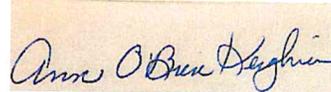
Elizabeth Lewis, Mayor
Town of Atherton



for, Charles Stone, Mayor,
City of Belmont



Coleen Mackin, Mayor
City of Brisbane



Ann O'Brien Keighran, Mayor,
City of Burlingame



Helen Fiscaro, Mayor
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City of Foster City



Robert Brownstone, Mayor
City of Half Moon Bay



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Town of Hillsborough



Drew Combs, Mayor

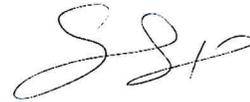
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Sue Beckmeyer, Mayor
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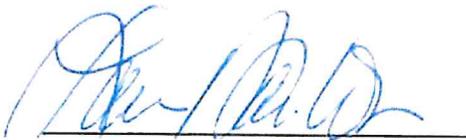
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