



# TOWN OF ATHERTON

CITY COUNCIL  
8 FAIR OAKS LANE  
ATHERTON, CALIFORNIA  
(650) 752-~~4900~~007

May 17, 2022

*(via Email)*

The Honorable Sydney Kamlager

Chair, Senate Budget Subcommittee #4 on State Administration and General Government  
1021 O Street, Suite 6510  
Sacramento, CA 95814

The Honorable Wendy Carrillo

Chair, Assembly Budget Subcommittee #4 on State Administration  
1021 O Street, Suite 5730  
Sacramento, CA 95814

**Re: May Revise – Excess ERAF Trailer Bill Language-- OPPOSE**

Dear Chair Kamlager & Chair Carrillo:

On behalf of the Town of Atherton I write to convey our opposition to a revised proposed trailer bill released in connection with the May Budget Revision currently titled “*Act to Amend Section 97.70 of Revenue and Taxation Code relating to taxation and making an appropriation therefor.*” This proposed trailer bill (like a previous, version) would change current law in a way that would significantly harm counties and cities by permanently “capping” the ERAF funds that should be returned to them (after schools have been fully funded) and, instead, use such local tax revenues to pay the State’s in-lieu Vehicle License Fee (VLF) obligation back to the local jurisdictions.

If enacted, this proposal would cause significant immediate and future financial losses to the local agencies’ revenues and require reductions in critical public services so that the State can offload its VLF obligation to local agencies with the ERAF funds received from the local agencies themselves. This bill will ultimately result in San Mateo County and its cities losing hundreds of millions of dollars every year, funds that are already budgeted by many municipalities for important local services.

As we have noted previously, the VLF “Swap” was an integral part of the 2004 Budget compromise under which counties and cities gave up significant revenue to address the State’s budget deficit in 2004. The VLF Swap legislation identified two direct 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. While the statute identifies these two funding sources, the State effectively pays the VLF obligation to local agencies because it backfills the non-basic aid school districts for these amounts so school districts do not suffer any financial loss from the in-lieu VLF obligation.

The VLF Swap law, which codified this compromise and remains in effect, explicitly provides that counties and cities' excess ERAF monies are not available to pay the State's VLF obligation. When this compromise was reached, neither local agencies nor the Legislature anticipated that the two funding sources to pay the State's in-lieu VLF obligation would ever be insufficient to do so. In recent years, however, VLF revenue shortfalls have occurred and, as a result, cities and counties have been required to make special appropriation requests to receive their full amount of VLF in arrears.

The State is now proposing to address this shortfall by taking local agencies' own funds to pay for the State's VLF obligation. Specifically, this bill would amend Revenue & Taxation Code § 97.70(f)(1) to reverse the current statutory restriction on using local agencies' excess ERAF and instead permanently cap it so that future growth can be used to fund the State's VLF obligation. This fundamental change will harm local agencies by tens of millions of dollars growing to hundreds of millions, as the State's share of the VLF shortfall shrinks. Under this proposal, local capped excess ERAF will decline in value while the State absorbs all of the growth to offset its statutory VLF obligation. The trailer bill would also violate constitutional provisions approved by the voters, including as Proposition 1A and 22, that prohibit the State from raiding local agency funds to pay for its responsibilities. Indeed, the act would penalize local agencies that seek to vindicate their constitutional rights by including a provision to immediately terminate State funding for shortfalls if its cap on excess ERAF is invalidated in Court.

Moreover, excess ERAF monies comprise a large percentage of the Town's overall property tax revenues and fund critically important services and programs, such as:

- Capital Infrastructure
  - Streets
  - Drainage
  - Green Infrastructure
  - Bicycle & Pedestrian Safety Projects
- Reduction of Long-Term Debt

Capping this funding and allocating any growth to instead pay the State's VLF obligation effectively cements the VLF shortfall—now transformed under the trailer bill into an excess ERAF shortfall—as a permanent loss in local revenues that will have a devastating impact on our budget and ability to continue providing these needed local services. Under this proposal, the City's excess ERAF dollars will be frozen while local needs grow and the State absorbs all future excess ERAF dollars to fund its own statutory obligation to make VLF payments.

As such, we ***urge*** you to reject this trailer bill language so that none of its amendments to Revenue and Taxation Code § 97.70 are enacted into law.

In sum, the Town strongly opposes the proposed trailer bill offered in the May Revise. The trailer bill reneges on commitments that the State previously enacted into law regarding the source of VLF funding, violates State constitutional provisions that prohibit such raids of local funds and the 2004 budget compromise between the State and local agencies. The State must fund its VLF obligation without diverting hundreds of millions of dollars from local agencies' budgets, requiring cuts and further constraining their ability to deliver critical public safety and health services to their communities.

*Excess ERAF Ltr.*

*May 17, 2022*

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Sincerely,



Rick DeGolia  
Mayor  
Town of Atherton

CC: Senator Josh Becker Senator  
Scott Weiner

Assembly Member Kevin Mullin  
Assembly Member Marc Berman  
Assembly Member Phil Ting

San Mateo County Board of Supervisors

San Mateo County, County Executive Mike Callagy  
Cities and Town of San Mateo County