



**Town of Atherton
Office of the Mayor
80 Fair Oaks Lane
Atherton, California 94027
Phone: (650) 752-0500**

February 7, 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 Phil Ting
California State Assembly
1021 O Street, Suite 8230
Sacramento, CA 95814

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

RE: Budget Request for San Mateo County and its Cities for FY 21-22 VLF In-Lieu Shortfall

On behalf of the Town of Atherton, 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, Town of Atherton is due \$270,538.

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 streets and road infrastructure, drainage improvements, and other critical infrastructure. 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 Atherton 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,

A handwritten signature in black ink, appearing to read "Bill Widmer". The signature is fluid and cursive, written in a dark ink on a white background.

Bill Widmer, Mayor
Town of Atherton