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Agenda

April 24, 2017

10:00 a.m. – State Capitol Room 112

BILL	**AUTHOR**	**SUBJECT**
S.B. 130	Budget and Fiscal Review	Local government finance: property tax revenue allocations: vehicle license fee adjustments.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Senator Holly J. Mitchell, Chair
2017 - 2018 Regular

Bill No:	SB 130	**Hearing Date:**	April 24, 2017
Author:	Committee on Budget and Fiscal Review		
Version:	April 19, 2017 As amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Mark Ibele		

Subject: Local government finance: property tax revenue allocations: vehicle license fee adjustments

Summary: This bill would modify the Vehicle License Fee (VLF) adjustment amount for a city incorporating after January 1, 2004, and on or before January 1, 2012, for the 2017–18 fiscal year, and for each fiscal year thereafter, by providing for a vehicle license fee (VLF) adjustment amount calculated on the basis of changes in assessed valuation.

Background: Instead of levying a property tax on motor vehicles, the state collects an annual in-lieu VLF and allocates the revenues, to cities and counties. In 1998, the VLF rate was reduced from two percent to 0.65 percent of a vehicle's value, and the lost VLF revenue to cities and counties was backfilled from the state's General Fund. Traditionally, VLF had been allocated on a per-capita basis, meaning new cities that incorporated, or existing cities that annexed inhabited areas, received larger shares of the VLF. As part of the 2004-05 budget agreement, the Legislature enacted the VLF-property tax swap, which replaced the VLF backfill from the state General Fund with property tax revenues (the VLF adjustment amount) that would otherwise have gone to schools through the Educational Revenue Augmentation Fund (ERAF). The state's General Fund backfilled schools for lost ERAF money to meet the Proposition 98 funding guarantee.

Prior to the VLF-property tax swap, a newly incorporated city received additional VLF revenues generally for the first seven years, based on a calculation of three times the number of registered voters in the city at the time of incorporation. However, the swap did not provide extra corresponding property tax revenues to cities yet to be incorporated. Therefore, cities incorporated after 2004 received less VLF funding than they would have if they had incorporated prior to the swap. AB 1602 (Laird), Chapter 556, Statutes of 2006, changed the allocation of VLF funds to restore the VLF revenues for city incorporations that were lost under the 2004 swap, based on a $50 per capita allocation, adjusted annually. SB 89 (Committee on Budget and Fiscal Review), Chapter 35, Statutes of 2011, implementing portions of the Governor's public safety realignment proposal, reversed these provisions of AB 1602 and shifted the funds to state public safety programs that had been realigned to local governments. SB 89 redirected VLF revenues from newly incorporated cities to the Local Law Enforcement Account to help fund realignment.

SB 89 subtracted $15 million in the Motor Vehicle License Fee Account revenues in 2011-12 from four newly incorporated cities. By reducing the allocation of VLF funds to newly incorporated cities, the realignment shift had a significant impact on the fiscal viability of communities that rely on VLF revenues. Four new cities incorporated after AB 1602 enacted new VLF funding allocations for new cities and before those allocations were repealed, specifically: City of Wildomar, (incorporated July 1, 2008); City of Menifee, (incorporated October 1, 2008); City of Eastvale, (incorporated October 1, 2010), and City of Jurupa Valley, (incorporated July 1, 2011).

SB 107 (Senate Committee on Budget and Fiscal Review), Chapter 325, Statutes of 2015, included a mechanism to provide nearly $24 million in fiscal relief to the four recently incorporated cities that lost funding under SB 89's reallocation of VLF revenues. The fiscal relief authorized by SB 107 was used to forgive more than $1 million in debts owed by the cities of Wildomar and Menifee and more than $21 million in debts owed by the City of Jurupa Valley for services the County of Riverside provided to those cities after they incorporated. The one-time fiscal relief provided by SB 107 did not address the ongoing fiscal impact of SB 89 on these cities.

Proposed Law: The bill would increase the amount on a continuing basis of property taxes that are received by certain cities that incorporated after 2004 and before 2012. The change would reflect the following:

- For the 2017-18 fiscal year, the city's base VLF adjustment amount is calculated by multiplying the city's population by the per capita amount of countywide VLFAA funding received by cities in the county.

- For each fiscal year thereafter, the prior year's VLF adjustment amount is recalibrated to reflect the year-to-year change in assessed property values within the city.

Fiscal Effect: The fiscal impact on the state General Fund is related to any increase in resources required to meet the Proposition 98 guarantee for K-14 education. To the extent that the measure results in a reduction in ERAF, the amount of General Fund amounts required for local school and community college districts could increase. The amount of the General Fund backfill would depend on the particular Proposition 98 test, and could range from $0 (in a Test 1 year) to $16 million to $18 million (in a Test 2 or 3 year), and potentially increasing along with the growth in property taxes.

Support: None on file.

Opposed: None on file.

Comments: As a result of reductions in the VLF and shifts of revenue sources pursuant to realignment (and previous legislation), some relatively recently incorporated cities – as well as cities with newly-annexed areas – do not receive revenue that they would otherwise have received under prior law. Specifically, cities used to receive additional VLF funding under the law prior to 2004. The reduction in financial resources has resulted in fiscal challenges for these cities, with potential impacts on their financial stability.

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