

Restoring Property Tax in Lieu of VLF for New Cities: An Explainer

1. **Prior to the VLF Swap of 2004**, Vehicle License Fee (VLF) revenues were collected and allocated statewide among cities and counties. After special allocations and allocations to counties, the city share of statewide VLF was allocated according to the population of each city (i.e. per capita).

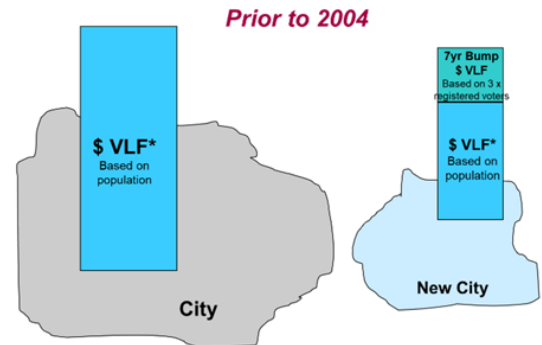
Base VLF. When a new city incorporated, that new city, like all other cities, would receive an amount based on its population.

Bump. The new city also received an additional amount for its first seven years only. This amount, called the “bump” was based on the difference between three times the number of registered voters in the city on the date of incorporation and the actual population.

Thus:

- a. As the city grew, the difference between three-times-registered voters (on date of incorporation) and actual population would decline and
- b. A new city with a large proportion of registered voters would receive a larger annual bump. These bumps varied substantially.

Vehicle Lic Fee \$ Allocation

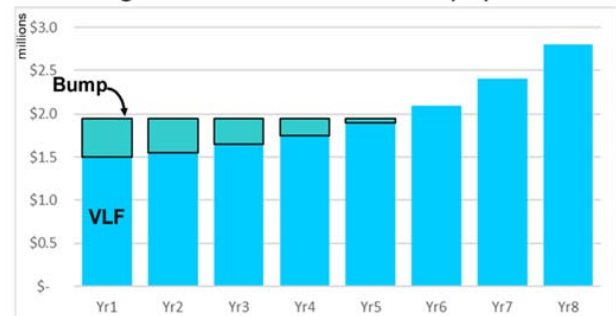


*includes backfill from state general fund for VLF tax cut

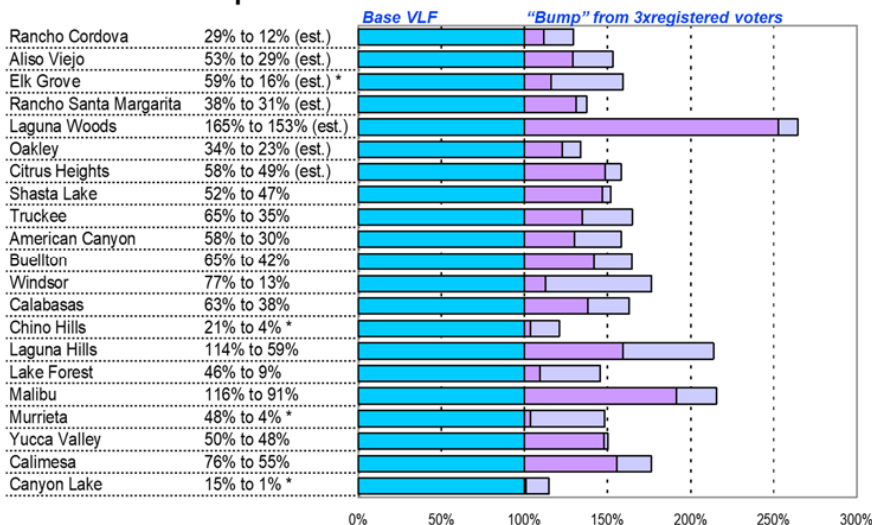
New City Bump

Prior to 2004 VLF Swap

3 x registered voters vs actual population



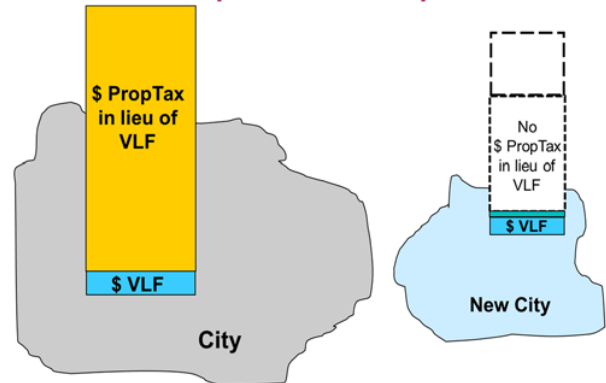
Bump for New Cities Varied



*City population exceeded 3x registered voters at time of incorporation before 7 years.

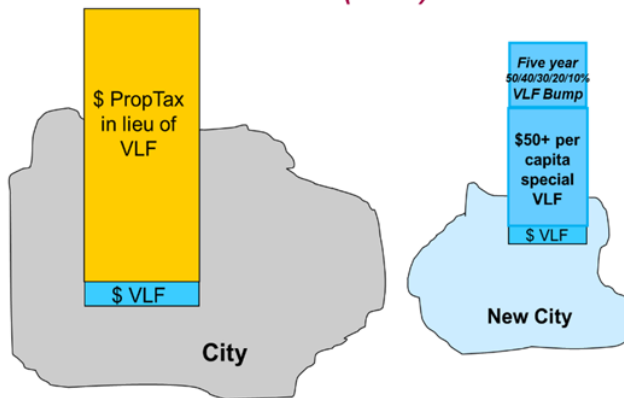
2. **The VLF Swap of 2004** contained no provisions to establish a Property-Tax-in-Lieu-of-VLF amount (referred to in statute as a “VLF Adjustment Amount” in statute) for a new city. As a result, after the 2004 swap a new city incorporation was only entitled to receive an amount from the remaining city VLF, less than 1/10 of what the pre-2004 VLF provided.

Vehicle Lic Fee \$ Allocation With PropTax – VLF Swap of 2004



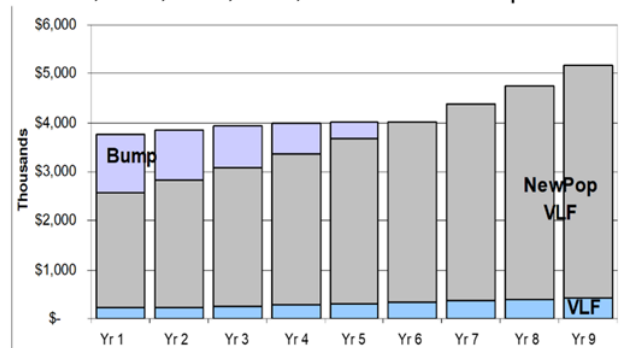
3. **AB1602 (Laird)**, signed into law in 2006, provided a special allocation from the remaining city VLF to compensate for the lack of Property-Tax-in-Lieu-of-VLF for new incorporations. AB1602 also contained a bump, but for uniformity and simplicity, the bump was designed as an additional 50%, 40%, 30%, etc. of actual population for the first five years (i.e. *not* registered voters).

Vehicle Lic Fee \$ Allocation With AB1602 (Laird) 2006



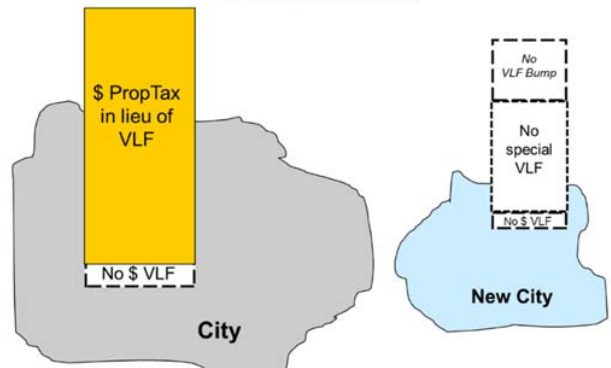
AB1602 Five Year “Bump”

50%, 40%, 30%, 20%, 10% of Actual Population



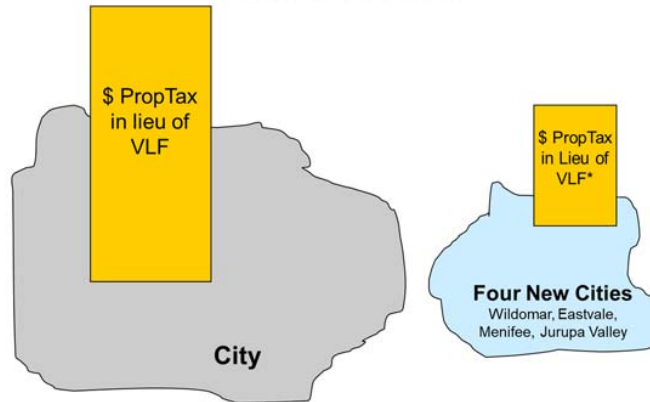
4. **SB89 of 2011** wiped out the remaining city VLF and with it, the special allocations to new cities. SB89 took city VLF revenues to fund programs previously paid from the state general fund.

Vehicle Lic Fee \$ Allocation With SB89 2011



- 5. **SB130 of 2017** established Property-Tax-In-Lieu-of-VLF amounts for the four new cities that had incorporated under AB1602, restoring the massive revenue losses these cities suffered under SB89.

Vehicle Lic Fee \$ Allocation With SB130 2017



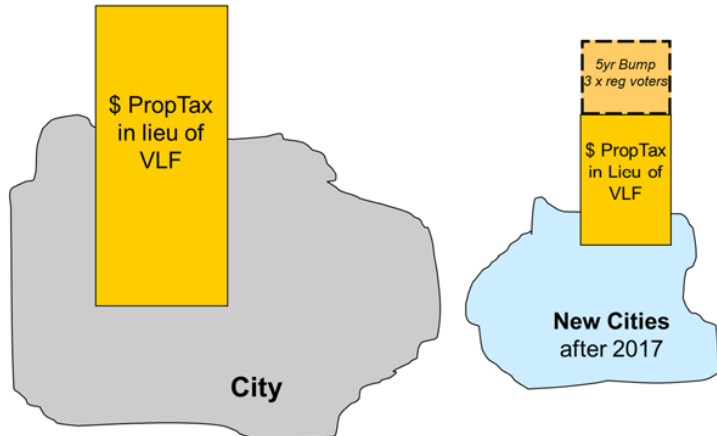
*When SB130 was signed in 2017, these cities were beyond their 5 year bump periods.

- 6. **AB2491 (Cooley)** would establish a Property-Tax-In-Lieu-of-VLF amount a new city incorporating after 2017. The bill also provides a “bump” for the first five years based on the difference between 3 x registered voters (on the date of incorporation) and actual population.

AB2491 (Cooley) adds a new section to the Revenue and Taxation code which mirrors the formula for Property Tax in Lieu of VLF for a new city established in SB130(2017). The bill:

- a) Establishes a VLFAA for the city’s first year of incorporation proportionate to the VLFAA amounts of other cities in the county relative to population.
- b) Provides that, in subsequent years, the VLFAA grows by the amount of AV growth in the city, just like all other cities and counties.

Vehicle Lic Fee \$ Allocation With SB2491 (Cooley)



7. **Formulas in AB2491 (Cooley)** mirror the formulas established in SB130.

First Year VLFAA Formula. The city's first year VLFAA is established proportionate to other city VLFAAs in the county with the following formula:

$$V_{c1} = V_{all} \times P_c \div P_{all}$$

... where:

V_{c1} = the city's first year VLFAA

V_{all} = sum of VLFAAs of all other cities in county

P_c = population of the city in its first year

P_{all} = sum of populations of all other cities in county

Subsequent Years VLFAA Formula. Just as in other cities, the city's VLFAA will grow annually with AV.

$$V_c = V_p + (V_p \times \%change\ from\ AV_p\ to\ AV_c)$$

... where:

V_c = the city's VLFAA in years after first year

V_p = city's VLFAA in prior year

AV_p = city's AV in prior year

AV_c = city's AV in current year

VLFAA Bump Formula. The bill provides a bump, additional revenue in each of the first five years of incorporation as follows:

$$B_c = V_{c1} \times (3XR - P) \div P$$

... where:

B_c = the city's additional VLFAA "bump"

V_{c1} = city's first year VLFAA

R = registered voters in the city on the day of incorporation

P = current year population of the city