

Date of Hearing: April 24, 2017

ASSEMBLY COMMITTEE ON BUDGET
Philip Ting, Chair
AB 48 (Ting) – As Introduced December 5, 2016

SUBJECT: Vehicle License Fee Adjustment

SUMMARY: Expands existing Vehicle License Fee Adjustment to include cities established between January 1, 2004 and January 1, 2012.

EXISTING LAW: Existing law provides, in lieu of a property tax on motor vehicles, the state collects an annual VLF and allocates the revenues, minus administrative costs, to cities and counties. In 1998, the Legislature began cutting the Vehicle License Fee rate from 2% to 0.65% of a vehicle's value. The state General Fund backfilled the lost Vehicle License Fee revenues to cities and counties.

As part of the 2004-05 Budget agreement, the Legislature enacted the "Vehicle License Fee-property tax swap" (SB 1096, Senate Budget and Fiscal Review Committee, Chapter 211, Statutes of 2004) which replaced the state General Fund backfill with property tax revenues that otherwise would have gone to schools through the Educational Revenue Augmentation Fund (ERAF). This replacement funding is known as the "VLF adjustment amount." The state General Fund backfills schools for their lost ERAF money.

Advocates for cities asked the Legislature to reallocate a portion of existing cities' remaining VLF funds to new cities to help make new city incorporations financially feasible. In response, the Legislature passed AB 1602 (Laird, Chapter 556, Statutes of 2006), which changed the allocation of VLF funds to restore the VLF revenues for city incorporations that were lost under the VLF-property tax "swap." AB 1602's formula allocated \$50 per capita adjusted annually for growth.

As part of the 2011-12 Budget Plan, the Legislature enacted a major shift-or "realignment"-of state program responsibilities and revenues to local governments. As part of this realignment plan the Budget redirected an estimated \$453 million from the base 0.65% VLF rate to pay for local law enforcement grant programs (SB 89, Senate Budget and Fiscal Review Committee, Chapter 35, Statutes of 2011).

Four new cities incorporated after the Laird bill enacted new VLF funding allocations for new cities and before those allocations were repealed. The City of Wildomar incorporated on July 1, 2008. The City of Menifee incorporated on October 1, 2008. The City of Eastvale incorporated on October 1, 2010. Most recently, the City of Jurupa Valley officially incorporated on July 1, 2011, only two days after SB 89 repealed the VLF allocation formulas for new cities.

FISCAL EFFECT: The Department of Finance estimates that this bill will cost between \$17 million to \$19 million per year.

COMMENTS: The Vehicle License Fee adjustment is credited against the amount of property tax revenue that a city must pay towards their ERAF responsibility. Cities established after 2004 are unable to earn this adjustment and thus have a higher ERAF payment. These four cities are Wildomar, Menifee, Eastvale, and Jurupa Valley. This bill would allow these four

cities to receive a VLF adjustment, which will allow the cities to keep more of their property tax revenues. The State General Fund will make up the lost revenue to schools, estimated to cost between \$17 to \$19 million per year.

The language in the bill is identical to that of SB 817 (Roth) of 2016, which was vetoed by the Governor after passing the Assembly with a 77-0 vote and the Senate with a 39-0 vote.

REGISTERED SUPPORT / OPPOSITION:

Support

None on File.

Opposition

None on File.

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