



LEAGUE OF
CALIFORNIA
CITIES



April 29, 2024

The Honorable Steve Padilla
Chair, Senate Budget Subcommittee No. 4
1021 O Street, Suite 6640
Sacramento, CA 95814

Re: **Item 9210: VLF Backfill**
Request Appropriation for Insufficient ERAF Amounts in Alpine, Mono, and San Mateo Counties

Dear Senator Padilla:

On behalf of the Urban Counties of California (UCC), the Rural County Representatives of California (RCRC), the California State Association of Counties (CSAC), and the League of California Cities (CalCities), we write to respectfully urge your consideration for including an appropriation to backfill the insufficient ERAF amounts in the Counties of Alpine, Mono, and San Mateo. The Governor’s proposed 2024-25 state budget, regrettably, does not include a backfill of these funds, which will significantly impact local programs and services.

Alpine County 2022-23 Amount:	\$175,215
Alpine County Past Years’ Amount:	\$319,771
Mono County 2022-23 Amount:	\$2,313,845
San Mateo County 2022-23 Amount:	\$70,048,152
Total:	\$72,856,983

In 2004, a state budget compromise between the state and its counties and cities was struck to permanently reduce taxpayer’s Vehicle License Fee (VLF) obligations by 67.5 percent. The VLF had served as an important general purpose funding source for county and city programs and services since its inception. In exchange for this revenue reduction, the state provided counties and cities with an annual in-lieu VLF amount (adjusted annually to grow with assessed valuation) to compensate for the permanent loss of VLF revenues with revenues from each county’s Educational Revenue Augmentation Fund (ERAF); this transaction became known colloquially as the “VLF Swap.” The 2004 budget agreement made clear that excess ERAF funds – shifted property tax revenues that were not needed to fully fund K-14 schools – would not be used to fund the in-lieu VLF amount. Further, the Legislature and Administration agreed to a ballot measure – Proposition 1A – that amended the Constitution to ensure that future shifts or transfers of local agency

property tax revenues could not be used to pay for state obligations. That November, Proposition 1A was approved by 83.7 percent of voters.

Legislation to implement the VLF swap carefully and purposefully identified the sources of funds that were available to pay the state's in-lieu VLF obligation: ERAF distributions to non-basic aid schools and property tax revenues of non-basic aid schools. Proposition 98 ensures that state funds are provided to those schools to meet their constitutional funding guarantee, so they do not experience any financial loss. However, in those instances where there are too few non-basic aid schools in a county from which to transfer sufficient funds to pay the state's in-lieu VLF obligation, the state has historically provided annual appropriations to make up for the revenue shortfalls.

The Governor's 2024-25 proposed budget failed to include funds to ensure that these counties and cities were held harmless for losses associated with the VLF Swap. Without backfill, these counties and the cities therein – through no fault of their own – will endure a significant reduction in general purpose revenue that will directly affect the provision of local programs and services in their respective communities, at precisely the time when our respective members are being asked to do more. As a result, we respectfully urge you to consider appropriating funds for this purpose.

Sincerely,



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Legislative Advocate
Urban Counties of California



Mary-Ann Warmerdam
Senior Vice President, Government Affairs
Rural County Representatives of California



Eric Lawyer
Legislative Advocate
California State Association of Counties



Ben Triffo
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cc: Members and Consultants, Senate Budget Subcommittee No. 4
Chris Hill, Principal Program Budget Analyst, Department of Finance