



**COUNTY OF SAN MATEO**  
**Inter-Departmental Correspondence**

County Manager's Office

**DATE:** January 21, 2003

**BOARD MEETING DATE:** January 28, 2003

**TO:** Honorable Board of Supervisors

**FROM:** John Maltbie, County Manager

**CC:** San Mateo County Legislative Delegation

**SUBJECT:** County Manager's Report #3—2003-2004 State Budget—Vehicle License Fee funds for local governments

**Recommendation**

Adopt a resolution reaffirming the County's position of support for reduction of the Vehicle License Fee (VLF) offset and restoration of VLF in the proportionate amount to the shortfall in funding to reimburse local governments for the VLF "backfill."

**Background**

The Vehicle License Fee (VLF) has traditionally supported local governments, currently representing approximately \$5.5 billion. Constitutionally protected revenues for counties and cities, VLF is discretionary (allowing for general-purpose use) with the exception of about \$1 billion, which is dedicated to health and human services realignment programs.

In 1998, under then-Governor Pete Wilson, VLF rates were effectively reduced as part of an "offset." In all, the Legislature reduces VLF to 32.5%. Included in the offset legislation, assurances were supposed to protect local governments from a loss of revenue due to the offset. To satisfy those assurances, the state annually "backfills" the offset funds (67.5%, the offset amount) with approximately \$4 billion in General Funds.

**Discussion**

As part of his 2003-2004 Budget, Governor Davis proposes elimination of the VLF backfill as one element in reducing the state's budget deficit. However, the Governor has not

recommended reduction of the VLF offset. If enacted as proposed, cities and counties would lose \$4.2 billion (it would not include the \$1 billion for health and human services realignment) in general-purpose revenues between February 2003 and June 2004.

In San Mateo County, the VLF backfill elimination would result in a \$48 million (\$15 million in the current year and \$33 million in the budget year) shortfall representing approximately 20% of the annual general revenue. As other general revenues decline (sales tax, unsecured property tax and others) and demands for general revenue increase, the County could be faced with a \$60 million general revenue gap. Programmatic fund reductions from the state and federal levels would only widen this gap. The health and human services realignment funds, which would not be eliminated, average approximately \$14 million annually.

VLF funds are critical to the County's budget. In addition to being a stable revenue source (especially in comparison to sales tax), VLF funds and general revenues in whole fund state-mandated programs that the state fails to adequately fund. They also fund alcohol and drug programs that divert individuals who would otherwise fall into the criminal justice system. These funds also serve to match grant funds and enable the county to leverage its funds to develop more funds. As a result, elimination of these funds could result in a loss of funds to the County well in excess of \$48 million.

According to the California State Association of Counties (CSAC), Assembly Speaker Herb Wesson has initiated an effort to eliminate the VLF backfill and restore full VLF rates. As a result, CSAC is coordinating counties to educate their respective legislative delegations about the importance of these revenues to counties and cities.

With the approval of the 2003-2004 Legislative Program, President Jacobs Gibson sent a letter to San Mateo County's Legislative Delegation regarding this issue. This resolution would reaffirm the County's position as found in the Legislative Program.

Assembly Speaker Herb Wesson has introduced ABx1 4 which would provide that the Director of Finance is required to make the determination of whether there are insufficient moneys in the General Fund for the Controller to fully reimburse local governments for losses resulting from the vehicle license fee offsets. Current law enables the offset to be reduced. This bill would simply designate who would determine then the offset reduction component of existing law is triggered.

#### **Vision Alignment**

Approval of this resolution would further the County's commitment to provide responsive, effective and collaborative government and support Goal #20 that government decisions be based on careful consideration of future impact rather than temporary relief or immediate gain.

#### **Fiscal Impact**

Potential loss or maintenance of \$48 million in VLF related funds.