



## **STAFF REPORT**

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### **Resolution Urging the State to Honor 1998 Commitment to Restore the Vehicle License Fee**

Honorable Mayor and Council Members

#### **Summary**

As part of his budget proposal, the Governor is recommending the state take away more than \$4 billion in Vehicle License Fee (VLF) revenue from local governments. If enacted, for Belmont it would be an immediate loss of \$475,000 and an ongoing loss in excess of \$1 million in future years. The League of California Cities and Assemblyman Mullin are urging cities to pass resolutions asking the Legislature to oppose the Governor's efforts and support Speaker Wesson's effort to restore the VLF to the amount it was prior to the reduction enacted in 1998. Attachment A is a resolution in support of the restoration for Council's consideration. Staff recommends Council approve the resolution.

#### **Background and Discussion**

In the past two decades, the State of California has repeatedly shifted local government General Fund revenues to the State General Fund. The most egregious example was in the early 1990's when the state took a large piece of local property tax revenue in order to balance their budget and fund schools. This "takeaway" has led to the loss of more than \$500,000 *annually* in discretionary revenue for Belmont. In addition, earlier this year, a "one-time" property tax shift of Redevelopment Agency funds was also imposed by the State. In total, cities statewide are losing \$740 million *each year* as a result of state policy changes since 1980 (net of new or restored subventions). This would fund more than 6,500 police officers, 700 fire engines, or 240 libraries.

With the State facing a \$25-35 billion deficit, and a long-term structural budget problem, the Governor has recently proposed eliminating all VLF "backfill" *beginning February 2003*. The Governor had already proposed taking transportation and housing funds, eliminating booking fee reimbursements and delaying payment on state mandates. All told, the impact of the Governor's proposals is almost \$2 million in lost revenue to the City of Belmont. See Attachment B for a summary of the cuts and impact on the City. The VLF "backfill" alone in Belmont is equivalent to about 31% of our Police patrol

costs, 71% of our park and open space budget, and 83% of the annual street maintenance budget.

At the same time, the City is struggling with its own budget problems due to the economy and higher benefit costs. Last year, the City cut \$500,000 in expenses and staff will be proposing \$1.3 million in additional cuts next month. Should the state proposals be enacted, the City would need to make even more cuts and/or increase revenues.

By way of background, it should be noted that cities and counties historically collected property tax on motor vehicles to fund local health and safety services. In 1935, the state enacted the VLF to replace the local property tax on vehicles. In 1986, voters passed Proposition 47 by a margin of 82% and constitutionally dedicated the proceeds of the VLF to fund city and county services. The 1998 law creating the “VLF tax holiday” did not change this policy; it simply committed the state general fund to financing an offset to local government against the VLF obligation of a vehicle owner. At the same time, legislators from both parties agreed to language specifically providing that the VLF would return to higher levels whenever “insufficient moneys are available” in the general fund. Certainly, that day has arrived.

Increasing the VLF is consistent with existing law and the right thing to do to protect critical local services. Residents concerned about the impact of the Governor’s proposals are encouraged to communicate with state legislators. See Attachment C for a list of local legislators.

**Fiscal Impact**

There is no direct fiscal impact to this report.

**Recommendation**

Staff recommends that the City Council approve the attached resolution urging restoration of the Vehicle License Fee.

**Alternatives**

1. Do not support the resolution.
2. Provide alternative direction.
3. Take no action at this time.

**Attachments**

- A. Resolution opposing VLF takeaway
- B. Summary of state impacts on Belmont
- C. List of local legislators
- D. Letter from Assemblyman Mullin

Respectfully submitted,

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