

Agenda Report

JANUARY 27, 2003

TO: CITY COUNCIL
THROUGH: Finance Committee

FROM: CITY MANAGER

SUBJECT: APPROVAL OF A RESOLUTION SUPPORTING A PROPOSAL BY THE STATE LEGISLATURE TO RESTORE THE VEHICLE LICENSE FEE TO ITS PRE-1998 RATES AND TO INSIST THAT THE METHODOLOGY USED BY THE LEGISLATURE TO ALLOCATE THE VEHICLE LICENSE FEE BETWEEN AND AMONG COUNTIES AND CITIES REMAINS INTACT

RECOMMENDATION

It is recommended that the City Council approve a Resolution supporting a proposal by the State Legislature that would restore the Vehicle License Fee (VLF) to its pre-1998 rates and to insist that the methodology used by the legislature to allocate the VLF between and among counties and cities remain intact.

BACKGROUND

The Vehicle License Fee is a local revenue collected by the State and distributed to cities and counties based upon population. In 1998, the State was experiencing record surpluses and instead of lowering a state revenue decided to lower the VLF. In order to protect local services, the state legislature incorporated into the annual state budget enough funding from the State's general fund to backfill the VLF for local government. Now with the state facing a record deficit, the Governor's proposed fiscal year 2004 budget calls for an end to this backfill. In addition, while the Governor's budget calls for increasing several taxes and fees, it does not call for restoring the VLF. Legislation has been introduced in Sacramento that would restore the VLF.

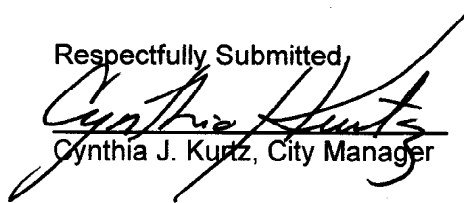
DISCUSSION

While not specifically designated, VLF is a local general fund revenue that is used to support critical services to the community. Annually, the City receives approximately \$8 million from this source, nearly 5% of the general fund budget. The State backfill represents nearly two-thirds of this amount or \$6.2 million annually. There is no question that the State has huge challenges in balancing its budget and the City stands to lose millions of dollars annually should the proposed changes in how redevelopment tax increment is allocated. Should the City also lose a significant portion of its VLF, programs and services would have to be reduced or eliminated.

FISCAL IMPACT

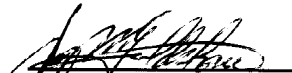
Currently the City receives approximately \$8 million in VLF, of which nearly \$6.2 million represents the current backfill. Should the legislature restore the VLF rates to their pre-1999 level and continue distributing these funds to the City as it has in the past, the City would retain \$6.2 million annually and the State would save approximately \$4 billion annually.

Respectfully Submitted,



Cynthia J. Kurtz, City Manager

Approved By:



Jay M. Goldstone
Director of Finance