

# Agenda Report

**TO:** CITY COUNCIL **DATE:** May 18, 1998  
**FROM:** Acting City Manager  
**SUBJECT:** OPPOSITION OF VARIOUS LEGISLATION IMPACTING VEHICLE LICENSE FEES:

## RECOMMENDATION

It is recommended that the City Council adopt the attached resolution and authorize the Mayor to send a letter to the appropriate officials *opposing* the following legislation:

- Assembly Bill 1776 (Taxation: Vehicle License Fee),
- Senate Bill 1998 (Sales and Use Taxes: Vehicle License Fees),
- Assembly Constitutional Amendment No. 45 (ACA No. 45),
- Senate Bill 2001 (Vehicles: License Tax), and
- Senate Bill 1723 (Taxation: Vehicle License Fee) which would negatively impact vehicle license fees.

## BACKGROUND

The Vehicle License Fee (VLF) is the fee that registered vehicle owners pay annually instead of paying local property taxes on their vehicles. The law provides that the amount of the license fee for any vehicle is 2% or the market value of the vehicle. The State created the VLF in 1935 to replace the personal property tax on motor vehicles, which had been levied and collected by local governments. In 1986, California voters approved Proposition 47 and reserved VLF revenue for local governments so that the State could not reallocate the money to pay for their programs. All money collected by the Department of Motor Vehicles under the law is deposited in the Motor Vehicle License Fee Account in the State Transportation Fund or the Local Revenue Fund, as specified, and is appropriated for designated state and local purposes.

**AB 1776:** Assembly Member McClintock introduced Assembly Bill 1776 on February 5, 1998 which would, over a 5-year period, abolish the vehicle license fee on all vehicles subject to registration under the Vehicle Code effective July 1, 1999. While this bill proposes to replace this revenue by transferring State sales and use tax revenues to the Sales and Use Tax Account of the Local Government Independence Fund which this bill would create, concerns are that this bill reflects one more action at the state level to negatively impact local revenues. In addition, local share of State sales tax is more vulnerable to swings in the State's economy.

**SB 1998:** Senator Hurtt introduced Senate Bill 1998 on February 20, 1998 which aims to reduce Vehicle License fees by adjusting the depreciation schedule for the market value of vehicles. This bill would be effective upon the Governor's signature. Senator Hurtt also introduced Senate Bill 2001 on February 20, 1998 which would abolish the license fee effective immediately.

Under AB 1288 which was passed in 1991, a portion of revenues from sales tax proceeds and from vehicle license fees was designated to fund general public health services. The 1991 statutes required establishment and maintenance of a local health and welfare trust fund in each local health jurisdiction. These funds have been commonly called Realignment Funds since the defining legislation realigned programs in health, mental health and social services. A percentage of sales tax and VLF proceeds deposited in the Local Revenue Fund must be spent to maintain certain service levels in health. Pasadena residents have benefited from a Realignment budget which has grown from \$1.2 million in fiscal year 1992 to \$1.7 million estimated in fiscal year 1999. Historically, at least 68% of the Realignment Health Account base funds are from VLF revenues. The City of Pasadena Public Health Department has received at least \$1.0 million in VLF revenues each year since 1995. VLF estimates for fiscal year 1999 represents 14% of the entire Health Department budget.

**ACA 45:** Assembly Member McClintock also introduced Assembly Constitutional Amendment No. 45 on April 28, 1998 which would repeal Section 15 of Article XI that requires that the revenues derived from taxes imposed pursuant to Vehicle License Fee Law after costs of collection and any required refunds, be allocated to counties and cities according to statute. It would over a five-year period abolish the Vehicle License Fee on all vehicles subject to registration under state law. The measure would create, an amount based upon reduction or abolishment of vehicle license fee on these vehicles. The measure would appropriate that amount for allocation to local governments. At the end of the five-year period, this measure would exempt all vehicles subject to registration under state law from any ad valorem property tax.

**SB 1723:** Senator Haynes introduced Senate Bill 1723 on February 17, 1998 which phases out the Vehicle License Fee over five (5) years effective July 1, 1998. Beginning in fiscal year 2003, the Vehicle License Fee would be eliminated for all noncommercial vehicles regardless of year of purchase.

Staff recommends opposing the following legislation: Assembly Bill 1776, Senate Bill 1998, Senate Bill 2001, and Senate Bill 1723. Passage of any of these pieces of legislation would severely impact the current and proposed operating budget. The State Legislature has taken billions in local property tax dollars since the early 1990's to help offset their budget deficits. VLF represents one of the few revenue sources which local government can use at its discretion. Additionally, it is one of the most stable revenue sources since unlike the others – sales and property tax – it does not dramatically rise and fall with the state's unpredictable economy.

Public Health professionals are vehemently opposed to any legislation which would abolish the collection and disbursement of VLF for local health and welfare trust funds. These revenues represent flexible core public health funding which supports the delivery of cost-effective prevention-oriented public health services, such as communicable disease control activities not funded by categorical grants and the infrastructure necessary to support effective service delivery and fulfill the public health mission. Loss of VLF revenues would result in loss of staff and services and destabilize the health of the community. No adequate plan for replacement of the VLF revenues has been offered.

The City currently receives an estimated \$5.4 million into the General Fund from Motor Vehicle License fees. Various programs and services would be impacted without the continuation of these revenues.

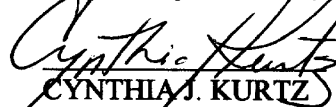
Vehicle License Fee Legislation Status

Bill Number	Sponsor	Current Status	Committee
AB 1776	McClintock	5/11/98 Hearing cancelled	ASM Revenue & Taxation
SB 1998	Hurt	5/7/98 Second Hearing cancelled at request of author	Senate Revenue & Taxation
ACA 45	McClintock	Referred to Committees	Revenue & Taxation and Transportation
SB 2001	Hurt	4/16/98 First Hearing cancelled at request of author	Senate Revenue & Taxation
SB 1723	McClintock	4/14/98 First Hearing cancelled at request of author	Senate Revenue & Taxation

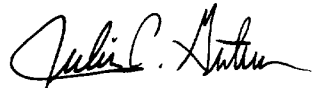
**FISCAL IMPACT**

Cities and counties are recipients of Vehicle License Fee revenue with approximately \$3.7 billion currently going to local governments with cities receiving \$1.2 billion. Since this revenue is based on the personal property tax, it is a discretionary revenue source that can therefore be spent on public safety and other non-transportation related municipal services. The passage of Assembly Bill 1776, Senate Bill 1998, Senate Bill 2001 or Senate Bill 1723 would endanger the City of Pasadena's receipt of Vehicle License Fees which is projected at \$5.4 million in fiscal year 1998 to the General Fund.

Respectfully submitted,

  
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