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TO: City Of Cupertino, Legislative Review Committee
FROM: Anthony, Jason, And Paul Gonsalves
SUBJECT: Consider adopting a position on Vehicle License Fee (VLF) Trailer Bill
DATE: **MAY 31, 2022**

Bill Information:

The official text of SB 897 can be found [here](#)¹:

Summary:

In 2004, the state permanently reduced the vehicle license fee (VLF) from 2% to 0.65%, which reduced funding for cities and counties by approximately \$4.4 billion (in 2004 dollars). To mitigate this impact, the State agreed to backfill the lost VLF revenues dollar-for-dollar by allocating more property tax revenues to cities and counties.

A 2022 budget trailer bill proposed by the Department of Finance would renege on this agreement in counties where there are more Educational Revenue Augmentation Fund (ERAF) dollars than required to fund schools up to their minimum state funding levels—so-called “excess ERAF” counties.

In November 2004, the voters enacted Proposition 1A. Among other things, Proposition 1A prohibits the Legislature from enacting laws that reduce the existing allocations of property taxes among cities, counties, and special districts beyond what the laws in effect on November 3, 2004 would have provided. This would include any statutory amendments affecting excess ERAF.

In 2020, DOF proposed amendments to Revenue and Taxation Code section 97.2(d) that would have given it the authority to publish ERAF guidance and impose penalties on county auditors who failed to comply. DOF issued its own

¹ <https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/576>

ERAF Guidance, which contained numerous erroneous statutory interpretations that were aimed at reducing the excess ERAF returned to cities, counties, and special districts. The LAO issued a [report](#)² supporting DOF's erroneous claims.

DOF's VLF trailer bill would require county auditors to use excess ERAF beyond what existed in fiscal year 2021-22 to cover part of the VLF offset. The trailer bill also proposes to authorize continuous state appropriations for any VLF insufficiencies. However, the bill includes a "poison pill" invalidating this provision if the fiscal year 2021-22 cap on excess ERAF is challenged and invalidated by a court.

Status:

The VLF Trailer Bill was presented as part of the May Revise and will be reviewed as part of the June 15th budget.

Legislative Platform:

This bill falls under Cupertino's 2022 Legislative Platform in the Fiscal Responsibility Section on page 1, "The City of Cupertino has a fiduciary responsibility to its residents to ensure assets and resources are properly safeguarded and deployed in a fair, prudent, and efficient manner. As such, the City supports the protection of existing federal, state, and local funding sources and the authorities that provide revenues to the City. Likewise, the City has an interest in the solvency of public entities that provide resources to the City. The City opposes any new mandates that are unfunded or inadequately funded, and supports efforts to eliminate, or provide funding for currently unfunded mandates."

Recommended Action:

Adopt an oppose position on the VLF Trailer Bill and authorize the Mayor to send letters to the state legislature.

² <https://lao.ca.gov/Publications/Report/4193>