DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 29, 2008 **BILL NUMBER:** SB 301
POSITION: Neutral **AUTHOR:** G. Romero

BILL SUMMARY: Local Government Finance

Under current law, cities that incorporate after July 1, 2009 are prohibited from receiving enhanced Vehicle License Fee (VLF) payments in their first five years of existence. This bill would eliminate that prohibition.

FISCAL SUMMARY

This bill would not increase the total amount of VLF revenues available to cities. It would instead require that a larger share of existing VLF revenues be distributed to recently incorporated cities, with the consequent effect being that existing cities would receive a lesser share of these revenues. The bill would not change the overall level of VLF revenues.

Finance concurs with the State Controller's Office (SCO) that this bill would result in minimal state costs.

COMMENTS

Finance notes the following regarding this bill:

- Prior to enactment of Proposition 1A in 2004, newly incorporated cities received enhanced shares of VLF revenues in their first seven years of existence. These monies allowed new cities to cope with the structural challenges associated with establishing themselves. When Proposition 1A was enacted, related legislation stated that cities that incorporate after August 5, 2004 would no longer receive enhanced VLF payments in their first seven years of existence.

- Chapter 556, Statutes of 2006 (AB 1602, Laird), provided temporary relief from the aforementioned stricture by allowing cities that incorporated between August 5, 2004 and July 1, 2009 to receive enhanced VLF payments for their first five years of existence. This bill would delete the latter sunset date, thereby making permanent the ability of newly incorporated cities to receive enhanced VLF payments in their first five years of existence.

Analyst/Principal	Date	Program Budget Manager	Date
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Department Deputy Director Date

Governor's Office: By: Date: Position Approved_______
Position Disapproved

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ANALYSIS

A. Programmatic Analysis

The SCO allocates to cities and counties those revenues that are derived from the 0.65 percent Vehicle License Fee (VLF) paid by owners of registered vehicles in California.

Prior to enactment of Proposition 1A in 2004, newly incorporated cities received enhanced VLF payments during their first seven years of existence. These enhanced payments were primarily intended to allow new cities to create their basic infrastructure. The payments were calculated by the SCO, and were based on the larger of the following two criteria:

- The number of registered voters in the city, multiplied by three.
- The population of the city, in the proportion that its population bears to the population of all cities in the state, as measured by the Department of Finance.

When Proposition 1A was enacted, related legislation stated that cities that incorporate after August 5, 2004 would no longer receive enhanced VLF payments in their first seven years of existence. Chapter 556, Statutes of 2006 (AB 1602, Laird), provided temporary relief from this stricture by allowing cities that incorporate between August 5, 2004 and July 1, 2009 to receive enhanced VLF payments for their first five years of existence. These payments are calculated as follows:

- A formula which provides that a new city's population for purposes of VLF revenue distributions is increased by 50 percent in its first year after incorporation, decreasing by 10 percent each year thereafter, until the fifth year when the increase would be 10 percent. After five years the VLF funding is allocated in proportion to its actual population.

Under existing law, these additional payments will not be available to cities that incorporate after July 1, 2009.

This bill would make permanent the eligibility of newly incorporated cities to receive enhanced VLF payments in their first five years of existence.

B. Fiscal Analysis

This bill would not increase the total amount of VLF revenues available to cities. It would instead require that a larger share of existing VLF revenues be distributed to recently incorporated cities, with the consequent effect being that existing cities would receive a lesser share of these revenues. The bill would not change the overall level of VLF revenues.

Finance concurs with the SCO estimates that this bill would result in minimal state costs.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED) **Form DF-43**

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Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	2007-2008	FC	2008-2009	FC	2009-2010	Fund Code
				(Fiscal Impact by Fiscal Year) (Dollars in Thousands)					
0840/Controller	SO	No		------------------- No/Minor Fiscal Impact -------------------					0001
1136/MV Lic Fees	RV	No		------------------- No/Minor Fiscal Impact -------------------					0994

Fund Code	Title
0001	General Fund
0994	Other Unclassified Funds