



May 17, 2023

The Honorable Nancy Skinner  
Chair, Senate Budget and Fiscal Review Committee  
1021 O Street, Suite 8630  
Sacramento, CA 95814

The Honorable Phil Ting  
Chair, Assembly Budget Committee  
1021 O Street, Suite 8230  
Sacramento, CA 95814

Re: **Request Appropriation for Insufficient ERAF Amounts in Alpine, Mono, and San Mateo Counties and Their Respective Cities**

Dear Senator Skinner and Assembly Member Ting:

On behalf of the Urban Counties of California (UCC), the Rural County Representatives of California (RCRC), the California State Association of Counties (CSAC), and the League of California Cities (Cal Cities), we write to respectfully urge your consideration for including an appropriation to backfill the insufficient ERAF amounts in the Counties of Alpine, Mono, and San Mateo, and the cities therein. The Governor's proposed 2023-24 state budget is the first to fail to include a backfill of these revenues since the passage of Proposition 1A in 2004; the lack of backfill will significantly impact local programs and services.

Alpine County 2021-22 Amount:	\$155,920
Alpine County Previously Appropriated Amount:	\$319,771
Mono County 2021-22 Amount:	\$2,997,801
San Mateo County 2021-22 Amount:	\$32,898,051
<hr/> Total:	<hr/> \$36,371,543

In 2004, a state budget compromise between the state and its counties and cities was struck to permanently reduce taxpayer's Vehicle License Fee (VLF) obligations by 67.5 percent. The VLF had served as an important general purpose funding source for county and city programs and services since its inception. In exchange for this revenue reduction, the state provided counties and cities with an annual in-lieu VLF amount (adjusted annually to grow with assessed valuation) to compensate for the permanent loss of VLF revenues with revenues from each county's Educational Revenue Augmentation Fund (ERAF); this transaction became known colloquially as the "VLF Swap." The 2004 budget agreement made clear that excess ERAF funds – shifted property tax revenues that were not needed to fully fund K-14 schools – would not be used to fund the in-lieu VLF amount. Further, the Legislature and Administration agreed to a ballot measure – Proposition 1A – that amended the Constitution to ensure that future shifts or transfers of local agency

property tax revenues could not be used to pay for state obligations. That November, Proposition 1A was approved by 83.7 percent of voters.

Legislation to implement the VLF swap carefully and purposefully identified the sources of funds that were available to pay the state's in-lieu VLF obligation: ERAF distributions to non-basic aid schools and property tax revenues of non-basic aid schools. Proposition 98 ensures that state funds are provided to those schools to meet their constitutional funding guarantee, so they do not experience any financial loss. However, in those instances where there are too few non-basic aid schools in a county from which to transfer sufficient funds to pay the state's in-lieu VLF obligation, the state has historically provided annual appropriations to make up for the revenue shortfalls.

The Governor's 2023-24 proposed January budget and the May Revision failed to include funds to ensure that these local agencies were held harmless for losses associated with the VLF Swap. Without backfill, these counties and cities— through no fault of their own – will endure a significant reduction in general purpose revenue that will directly affect the provision of local programs and services in their respective communities, including public safety and public health services, at precisely the time when our respective members are being asked to do more. Our collective constituents rely on these services. As a result, we respectfully urge you to consider appropriating funds for this purpose in the final 2023-24 state budget.

Sincerely,



Jean Kinney Hurst  
Legislative Advocate  
Urban Counties of California  
California



Mary-Ann Warmerdam  
Senior Vice President, Government Affairs  
Rural County Representatives of



Kalyn Dean  
Legislative Advocate  
California State Association of Counties



Ben Triffo  
Legislative Advocate  
League of California Cities

cc: Members, Senate Budget and Fiscal Review Committee  
Members, Assembly Budget Committee  
Christian Griffith, Chief Consultant, Assembly Budget Committee  
Elisa Wynne, Staff Director, Senate Budget and Fiscal Review Committee  
Chris Hill, Principal Program Budget Analyst, Department of Finance