

Calculating AB1602 Supplemental VLF Amounts For Inhabited Annexations and New Incorporations

AB1602(Laird 2006) provides new allocations of Vehicle License Fee (VLF) revenues to cities to remedy the negative effects of certain provisions of the VLF for Property Tax swap of 2004. For more background on the swap and the problems for annexations and new incorporations see “*The VLF for Property Tax Swap of 2004: Effects on Annexations and New Incorporations*” at <http://www.californiacityfinance.com/VLFswapAnnxIncFAQ.pdf>.

This memo provides information on estimating the revenues from these new provisions. Official calculations and allocations are made by the State Controller’s Office.

The new VLF for Annexations: Revenue & Taxation Code Sec 11005(d)

AB1602 adds a new section (d) to Revenue and Taxation Code Section 11005 to provide an extra allocation of VLF revenues to cities that annex areas after August 5, 2004, the date of the VLF for property tax swap.¹ The new section provides an additional per capita allocation for each person residing in the annexed area at the time of annexation. This is an annual allocation that continues into the future, the per capita amount increasing by a growth factor, but the multiplier – the number of persons in the area at the time of annexation – remaining constant.

The per capita amount is derived by multiplying \$50 times the growth in total VLF revenues from the most recent fiscal year since FY04-05, divided by the growth in population in cities in the state from the most recent fiscal year since FY04-05.² This adjustment approximately mirrors the overall annual change in VLF per capita revenues.

For example, the City of Localville completed a 700 acre annexation on November 1, 2005. According to the State Department of Finance Demographic Research Unit, there were 5,000 persons residing in the area at the time of annexation.

**Table One: Example R&T11005(d) Supplemental VLF Estimate
City of Localville - Annexation 11/1/05**

	FY04-05	FY05-06	FY06-07	FY07-08	FY08-09
a VLF Revenues (billions)	\$ 2.134	\$ 2.219	\$ 2.330	\$ 2.446	\$ 2.569
b VLF growth factor	1.00	1.04	1.09	1.15	1.20
c Population in cities	29,776,075	30,186,877	30,574,950	30,941,849	31,313,152
d Population growth factor	1.00	1.01	1.03	1.04	1.05
e Per capita [\$50*b/d]	\$ 50.00	\$ 51.28	\$ 53.16	\$ 55.16	\$ 57.23
f Population in annexation	5,000	5,000	5,000	5,000	5,000
g Annual allocation [f*e]	\$ 250,000	\$ 256,420	\$ 265,824	\$ 275,805	\$ 286,162

¹ Revenue and Taxation Section 11005(d) applies only to cities in existence on August 5, 2004, not those incorporating after. Cities incorporating after August 5, 2004 are compensated for all population growth, including annexations, through Revenue and Taxation Code Section 11005(c) which is explained below.

² Population as determined pursuant to Revenue and Taxation Code Section 11005.3. This includes population “bumps” for recently incorporated cities.

For annexations that have pre-existing residential development, AB1602 effectively increases the per capita VLF allocation to levels comparable to pre-2004 allocations. AB1602 provides a new per capita annual allocation of city VLF revenue to cities that annex areas after August 5, 2004 for the population residing in those annexed areas at the time of annexation. This additional allocation helps to compensate for the lack of VLF in lieu of property tax revenue related to pre-existing development.

However, annexing an area into a city *before* development will always provide greater tax revenue (i.e. VLF and property tax) than if annexation occurs *after* urban development.

The New VLF for New Incorporations: Revenue & Taxation Code Sec 11005(c)

To address the lack of property tax in lieu of VLF for cities that incorporate after the VLF for property tax swap, AB1602 adds a new section (c) to Revenue and Taxation Code Section 11005 to provide an extra allocation of city VLF revenues. This new section provides an additional per capita allocation to new cities incorporating after August 5, 2004. This annual allocation continues into the future, the per capita amount increasing by a growth factor for each resident of the city, including future population growth.

The per capita amount is calculated the same way as in Revenue and Taxation Code 11005(d) for annexations. It is derived by multiplying \$50 times the growth in total VLF revenues from the most recent fiscal year since FY04-05, divided by the growth in population in cities in the state from the most recent fiscal year since FY04-05.

For example, the City of Newbie Estates incorporates on July 1, 2007. According to the State Department of Finance Demographic Research Unit, there are 25,000 persons residing in the area at the time of incorporation. City planners expect the city population to grow by 1% per year on average.

The New VLF Bump for New Incorporations: Rev & Tax Code Section 11005.3(c)

In addition to providing a new VLF allocation to replace the lack of property tax in lieu of VLF, AB1602 establishes a new formula to “bump” VLF revenues to cities incorporating after August 5, 2004. For the purpose of allocating VLF revenues to a city incorporating after 2004, but before July 1, 2009, the city’s population will be determined as

- 150% of actual population in the first year of incorporation,
- 140% in the second year,
- 130% in the third year,
- 120% in the fourth year, and
- 110% in the fifth year.

Table Two shows the new estimated AB1602 VLF allocations for a new City of Newbie Estates.

**Table Two: Example R&T11005(c) Supplemental VLF Estimate
City of Newbie Estates - Incorporation 7/1/07**

	FY04-05	FY07-08	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
a VLF Revenues (billions)	\$ 2.134	\$ 2.446	\$ 2.569	\$ 2.697	\$ 2.832	\$ 2.974	\$ 3.122	\$ 3.278
b VLF Growth factor	1.00	1.15	1.20	1.26	1.33	1.39	1.46	1.54
c Population in cities	29,776,075	30,941,849	31,313,152	31,688,909	32,069,176	32,454,006	32,843,455	33,237,576
d Population growth factor	1.00	1.04	1.05	1.06	1.08	1.09	1.10	1.12
e Per capita [\$50*b/d]	\$ 50.00	\$ 55.16	\$ 57.23	\$ 59.38	\$ 61.61	\$ 63.92	\$ 66.32	\$ 68.82
f Newbie Estates population		25,000	25,250	25,503	25,758	26,015	26,275	26,538
g R&T11005.3(c) bump factor		1.5	1.4	1.3	1.2	1.1	1.0	1.0
h Bumped population		37,500	35,350	33,153	30,909	28,617	26,275	26,538
i Annual allocation [h*e]		\$ 2,068,540	\$ 2,023,163	\$ 1,968,686	\$ 1,904,340	\$ 1,829,305	\$ 1,742,703	\$ 1,826,222

The provisions of AB1602 sunset on July 1, 2009. Annexations completed after August 5, 2004 but before July 1, 2009, will receive an on-going AB1602 allocation. Cities that incorporate on or before June 30, 2009 will continue to receive these special allocations.

For more information on the VLF for Property Tax Swap of 2004, the Fiscal Effects of the Swap on Annexations and Incorporations and other city finance issues see www.californiacityfinance.com

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