

Estimating Your City's Property Tax in Lieu of VLF Revenues

As a part of the State Budget Act of 2004, the Legislature cut the backfill to cities and counties for reductions in the Vehicle License Fee and in return gave cities and counties additional property tax revenue. This revenue swap is described in detail in "The VLF for Property Tax Swap of 2004: Facts for Local Officials" www.californiacityfinance.com/VLFswapNtakeFAQ.pdf. The transition to this new revenue structure has been the subject of substantial discussion among city finance professionals, especially with regard to accounting treatment. More information on accounting for the Property Tax in Lieu of VLF, especially in its initial years, is available at www.californiacityfinance.com/#VLF. This memo describes how to estimate annual Property Tax in Lieu of VLF revenues for your city.

FY 04-05 is the "Base Year"

Fiscal Year FY04-05 was the inaugural year of the swap and all future revenues are based on the amounts calculated in this initial base year. Revenue and Taxation Code Section 97.70 specifies that each city and each county is to receive revenues from the remaining actual VLF revenue and from additional property tax in lieu of VLF to equal the amount of revenues that agency would have received under a full 2% rate and the allocation formulas existing prior to the Budget Act of 2004. In other words, for FY04-05, what a city doesn't get out of the remaining VLF, it is to be paid from additional property tax (the "VLF Adjustment Amount").

Under Revenue and Taxation Code Section 97.70(c)(1)(A), in the fall of 2004, the State Controller's Office estimated 1) the amount of VLF revenues for each city and each county under the 0.65% VLF rate and the new allocation formulas in the 2004 Budget Act, 2) the amount that each city and county would have been paid under a full 2% rate and the pre 2004 allocation formulas, and 3) the difference to be paid in the form of additional property tax revenue. County Auditor/Controllers made VLF Adjustment Amount payments to cities and counties based on these estimates.

The law also provides that the Controller is to calculate a "true-up" for FY04-05 based on actual VLF revenues and a determination of what these actual revenues would have meant at a 2% rate and the pre-2004 allocation formulas.¹ In January 2006, County Auditor Controllers paid cities and counties a one-time true-up amount for FY04-05 based on these calculations which are available at www.californiacityfinance.com/vlf_adj_amts0506calcsSCO.pdf.²

A city or county's base FY04-05 Property Tax in Lieu of VLF (VLF Adjustment Amount) is the sum of the VLF Adjustment Amounts paid to the agency in FY04-05 and the true-up amount paid in January 2006 for FY04-05. See column "C" of [vlf_adj_amts0506calcsSCO.pdf](http://www.californiacityfinance.com/vlf_adj_amts0506calcsSCO.pdf).

For example, in September 2004, based on its forecasts of VLF payments for the FY04-05 year, the State Controller estimated that the City of Alameda would have received \$4,377,160 in VLF revenues at a full 2% rate under the pre 2004 allocation formulas.³ The SCO also estimated

¹ Revenue and Taxation Code Section (c)(1)(B)

² Also see explanatory memos at http://www.californiacityfinance.com/vlf_adj_amts0506coverSCO.pdf and <http://www.californiacityfinance.com/VLFTrueUp05Notes.pdf>

³ See http://www.californiacityfinance.com/vlf_adj_amts0405estSCO.pdf and the explanation memo at <http://www.californiacityfinance.com/VLFadjAmtsexpl041130.pdf>

that the city would receive \$363,950 in VLF revenues under the actual 0.65% VLF rate and the new allocation formulas. Consequently, the SCO calculated that the city should be paid \$4,013,210 in Property Tax in Lieu of VLF (the VLF Adjustment Amount). In the fall of 2005, the SCO compiled actual VLF revenues for FY04-05 and determined that the city would have received \$4,743,787 at 2% and the old formulas⁴ and that the VLF Adjustment Amount should therefore be \$4,268,728 (because the city actually received \$475,059 in VLF)⁵. SCO calculated the true-up due the City of Alameda at \$255,518.

Property Tax in Lieu of VLF in FY 05-06 and Beyond Grows with Assessed Valuation

Revenue and Taxation Code Section (c)(1)(B)(i) specifies that in FY05-06 and beyond, the VLF Adjustment Amount for each city and county is to grow in proportion to the growth of gross assessed valuation in that jurisdiction from the prior year. That is, from FY05-06 and on, the Property Tax in Lieu of VLF will have no more relationship to actual VLF revenues, but will instead be essentially tied to the growth in property tax revenues. Note that this is the “gross” growth in assessed valuation in your jurisdiction. It is therefore not dampened by the presence of redevelopment project areas, and will in many communities grow at a greater rate than other property tax revenues.

In the example of the City of Alameda, the city’s assessed valuation grew 8.2669%, so the FY05-06 VLF adjustment amount is 1.082669 times the \$4,268,728 FY04-05 base year amount or \$4,621,620.⁶ If the city’s assessed values grow by 8% in the subsequent year, then the VLF Adjustment Amount for FY06-07 will be 1.08 times \$4,621,620 or \$4,991,350.

More Property Tax in Lieu of VLF with the Supplemental Property Tax

Supplemental property tax revenues are the result of interim increases in taxable property values. Because VLF Adjustment Amounts grow with growth in assessed valuation (AV), cities and counties are seeing another category of new property tax revenue: Supplemental Roll Property Tax in Lieu of VLF.

More Property Tax in Lieu of VLF with the Supplemental Property Tax

Because VLF Adjustment Amounts in FY05-06 and beyond are base on AV growth rather than on VLF payments, there will be no further true-up calculations. In FY05-06 and beyond, what an agency receives in property tax in lieu of VLF during the year is the entirety of what the agency will receive for that year.

Triple Flip Property Tax in Lieu of Sales Tax is Different.

Property Tax payments in lieu of Sales Tax under the Proposition 57 Triple Flip will continue to be tied to the actual sales and use tax diverted from each agency under the triple flip. As a result, there will continue to be true-up calculations once actual sales and use tax revenues for a fiscal year are known.

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⁴ Column A in http://www.californiacityfinance.com/vlf_adj_amts0506calcsSCO.pdf

⁵ Columns B and C

⁶ Columns I and K