

CITY ANNEXATIONS AND THE NEW PUBLIC FINANCE

How do changes in VLF subventions and property tax allocations affect cities that want to annex more unincorporated territory?

The property tax exchange negotiations remain unchanged.

- Local officials can still negotiate an exchange of property tax revenues. See Revenue and Taxation Code §99.
- Note that the property tax revenues come from Revenue and Taxation Code §93 which does not include the property tax revenues that a county receives to backfill its lost VLF revenues under Revenue and Taxation Code §97.7.

The annexing city still inherits revenues from the county's situs-based taxes.

- The annexing city gets the sales tax revenues that used to go to the county.
- The annexing city gets the revenues from the county's other situs-based taxes, including any transient occupancy taxes, business license taxes, and utility user taxes.

Annexing cities do not get property tax revenues to backfill VLF revenue losses.

- Cities and counties that formerly received VLF revenues and VLF backfill payments from the State General Fund now receive additional property tax revenues to backfill their lost VLF revenues. See Revenue and Taxation Code §97.7.
- Because the annexing city never received VLF revenues or VLF backfill payments from the annexation area, it will not receive these additional property tax revenues. Those revenues stay with the county government.

Instead, annexing cities get a specially calculated share of the residual VLF revenues.

- The VLF rate used to be 2% but now it's 0.65%. See Revenue and Taxation Code §10752.
- After paying for the DMV's costs, the county realignment program, and the special Orange County set-aside, there will be about \$200 million in VLF revenue to allocate.
- A city that incorporated before August 5, 2004, which annexes new areas between August 5, 2004 and July 1, 2009, receives a \$50 per capita allocation of VLF revenues based on the population in those newly annexed areas at the time of annexation. This per capita amount is adjusted over time to reflect changes in total VLF revenues relative to changes in the total population of all cities. See Revenue and Taxation Code §11005 (d).
- Remaining VLF revenues, after allocations to new cities and recent city annexations, go to all cities on a per capita basis. As a result, an annexing city's VLF revenues will increase as the annexation area develops and people move in. See Revenue and Taxation Code §11005 (e).