

# Estimating City VLF Revenue for FY05-06 and Beyond

With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. The state VLF backfill was eliminated and the formula allocating the remaining VLF revenues to cities and counties was altered. A new revenue, the Property Tax In-Lieu of VLF (or “VLF Adjustment Amount”) effectively compensates cities and counties for what they would have gotten at a full 2% VLF rate.

The new formula for allocating the remaining VLF revenues is substantially simplified. It consists primarily of a monthly allocation to cities in proportion to population. Prior to this allocation, amounts are apportioned to Orange County (related to prior debt service obligations) and to certain recently incorporated cities.<sup>1</sup>

As Table 1 below shows, for FY04-05 the total VLF revenue collected by the state under the 0.65% rate was \$2,108,987,998. County Health and Welfare programs receive 74.9% of these revenues. Administrative charges and other adjustments including charges from the DMV, State Controller and Franchise Tax Board totaled \$277.3 million (over 13% of total VLF collections), leaving \$250.7 million for allocation to local governments. Of this, the amount allocated to cities on population was \$188.8 million or \$6.34 per capita.

MVLF account revenue .....	\$ 542.7
DMV, SCO, FTB Admin charges .....	-277.3
Net available for allocation to local gov'ts .....	\$ 250.7
Orange County R&T11005(a) .....	54.0
Recently Incorporated Cities R&T11005(b).....	7.9
City Per capita Allocation R&T11005(c) .....	188.8

## Estimating a City’s FY05-06 VLF Revenue

Each city’s VLF revenue in FY05-06 will be a function of 1) growth in overall VLF revenues, 2) state administrative charges, and 3) annual change in the city’s population in relation to annual change in population in incorporated cities statewide. A reasonable estimate for the annual growth in VLF revenues is 7%. We conservatively assume that state administrative charges will increase over FY04-05 actuals proportionate to growth in total VLF revenues (7%). Statewide annual population growth in cities is currently about 1.9%. This leaves us with the following:

$$VLF_{FY05-06} = VLF_{FY04-05} \times 1.07 \times \frac{(1+\Delta P)}{1.019}$$

Where ...

“VLF<sub>FY04-05</sub>” is your city’s actual FY04-05 VLF revenue and

“ΔP” is the percentage change in your city’s population from January 1, 2004 to January 1, 2005.

<sup>1</sup> A full description of these allocation formulas is included in my VLF Fact Sheet at [www.californiacityfinance.com/VLFfacts.pdf](http://www.californiacityfinance.com/VLFfacts.pdf).

**Example:**

Hypotheticalville’s FY04-05 actual total VLF revenue was \$513,253. The city’s population was 80,955 on January 1, 2004 and 83,270 on January 1, 2005, a growth rate of 0.029%. The city estimates its FY04-05 VLF as follows:

$$\begin{aligned}
\text{VLF}_{\text{FY05-06}} &= \$513,253 \times 1.07 \times \frac{1.029}{1.019} \\
&= \$513,253 \times 1.0805 \\
&= \$554,570
\end{aligned}$$

Alternatively, you can compute an estimate of your city’s FY05-06 MVLF allocation using the estimated R&T11005(c) per capita figure of \$6.66 shown in Table 2 below.

<b>Table 2: Estimated FY05-06 R&amp;T11005(c) Per Capita</b>	
FY04-05 VLF per capita under R&T11005(c) .....	\$6.34
Estimated growth in R&T11005(c) MVLF FY05-06 .....	7.0%
Estimated growth of population in cities 2004 to 2005...	1.9%
6.34×1.07÷1.019=6.66	
Estimated FY05-06 R&T11005(c) per capita revenue ....	\$6.66
Hypotheticalville= \$6.66×83,270=\$554,570	

**Property Tax In Lieu of VLF in FY05-06 and Beyond**

For FY05-06 and beyond, the Property Tax in Lieu of VLF (“VLF Adjustment Amount”) for each city will grow essentially in proportion to the growth in each city’s change in gross assessed valuation. That is, the year to year change in the equalized assessment roll for the jurisdiction including AV growth in redevelopment project areas but net of exemptions. For example, if a city's AV is expected to grow by 7% from the 2005 to 2006, that city's FY06-07 Property Tax in Lieu of VLF (VLF Adjustment Amount) will be 1.07 times their FY05-06 amount.

For city’s that annex areas, under a peculiar provision of the law, the county auditor is to ignore the assessed valuation of the area at the time of annexation. Consequently, this AV never gets built into the city’s base Property Tax In-Lieu of VLF. However, AV growth in such an area subsequent to annexation does boost property tax in lieu of VLF.

In addition to the amounts shown on this schedule, cities and counties are receiving additional Property Tax in Lieu of VLF with supplemental property tax payments. The supplemental roll reflects increased AV. Consequently, added AV means additional Property Tax in Lieu of VLF. So for revenue estimating purposes, the example city above should estimate some supplemental property tax in lieu of VLF in addition to the 1.07 times prior year regular property tax in lieu of VLF.

mjgc