A brief history of the
Car Tax (Vehicle License Fee)

- **1935** – State Vehicle License Fee (a tax) established
  - motor vehicles eliminated from the local property tax
  - revenue subvened to cities and counties
- **1981-84** – State budget trouble. Legislature diverts hundreds of millions of city & county VLF $
- **1986** – Prop47: VLF must go to cities and counties
  - but Legislature still decides the rate, the tax base and the allocation
- **1998** - Legislature & Gov Wilson pass VLF cut
  - with backfill for cities and counties
- **2003** – Gray Davis admin pulls trigger, raises VLF
- **2004** – Davis Recalled, Schwarzenegger elected
  - On his first day in office, Schwarzenegger cuts VLF - restoring backfill and punching a $4 billion ongoing hole in the state budget without any way to pay for it
Prior to 2004, Vehicle License Fee Revenues were allocated statewide in proportion to population. There was a pot for counties and a separate pot for cities. When a city annexed a populated area it would get a greater share of the city VLF pot. County allocations were unaffected by annexations.

The VLF-Property Tax Swap of 2004

$4.4 b^* from VLF Backfill to State General Fund

$4.4 b from State General Fund to Property Tax in Lieu of VLF

$4.4 b from Property Tax in Lieu of VLF to Schools

$4.4 b^* in FY2004-05
Vehicle License Fee $  
Prior to 2004

Annexation  
Existing City

$ VLF

Vehicle License Fee $  
AB1602Laird(’06) Special VLF for New Cities & Annexations

Annexation  
Existing City

$ VLF  
Property Tax in lieu of VLF
Vehicle License Fee \$

After VLF – Property Tax Swap 2004

Property Tax in lieu of VLF

Special VLF allocation

VLF

Annexation

Existing City

SB89 (2011) Legislature takes all remaining VLF

Property Tax in lieu of VLF
No Property Tax in Lieu of VLF Makes Many Annexations Unviable

Denied Property-Tax-in-Lieu-of-VLF that all other areas of city get