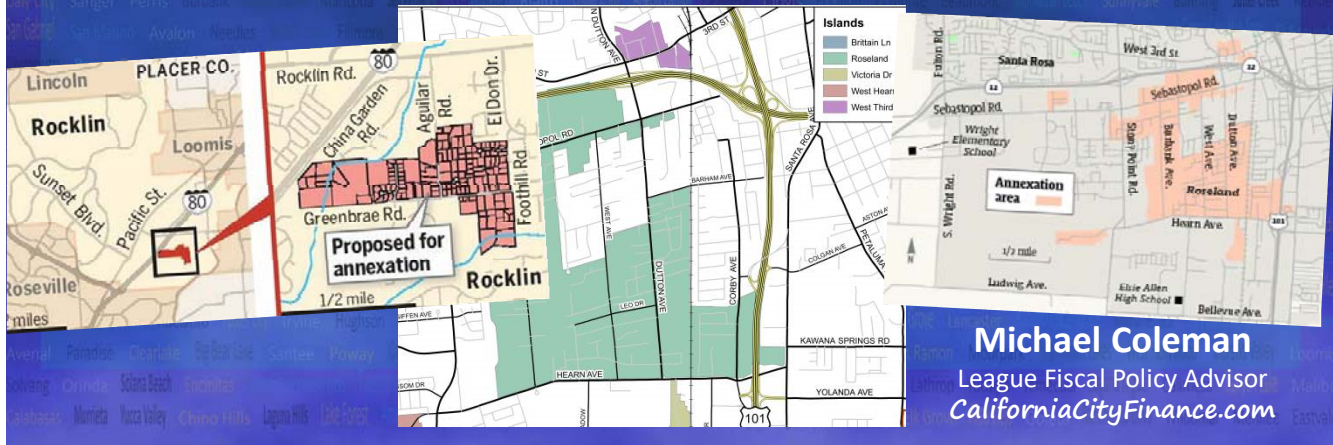


Annexations: Restoring Financial Viability



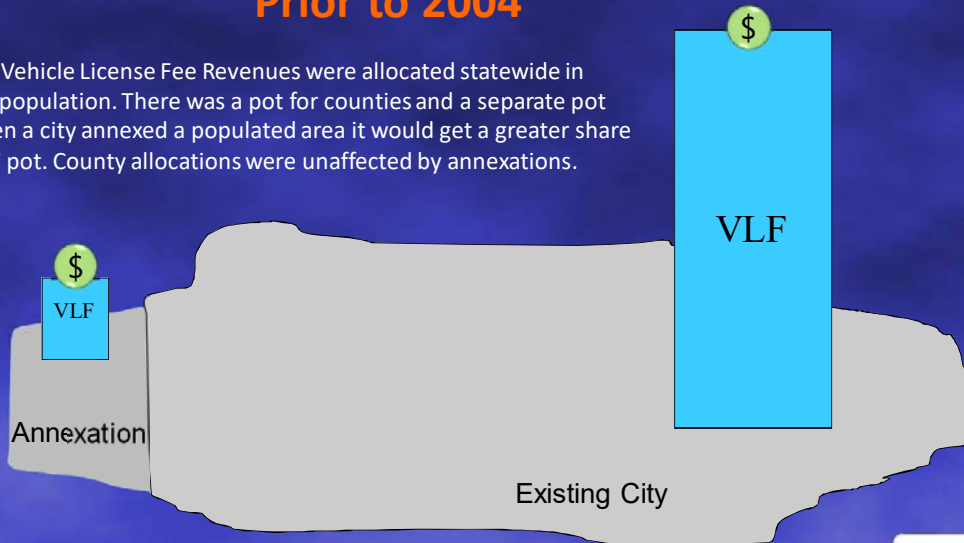
A brief history of the Car Tax (Vehicle License Fee)

- 1935 – State Vehicle License Fee (a tax) established
 - motor vehicles eliminated from the local property tax
 - revenue subvented 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

Vehicle License Fee \$

Prior to 2004

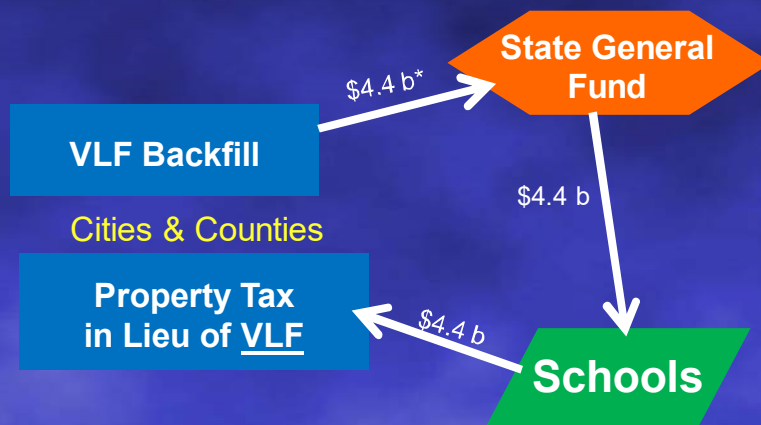
Prior to 2004, Vehicle License Fee Revenues were allocated statewide in proportion to population. There was a pot for counties and a separate pot for cities. When a city annexed a populated area it would get a greater share of the city VLF pot. County allocations were unaffected by annexations.



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The VLF-Property Tax Swap of 2004



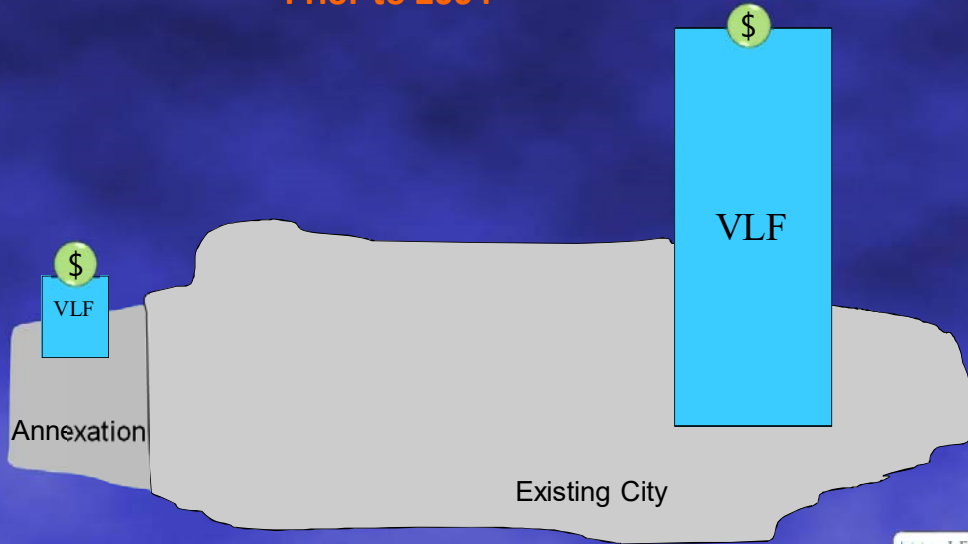
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* in FY2004-05



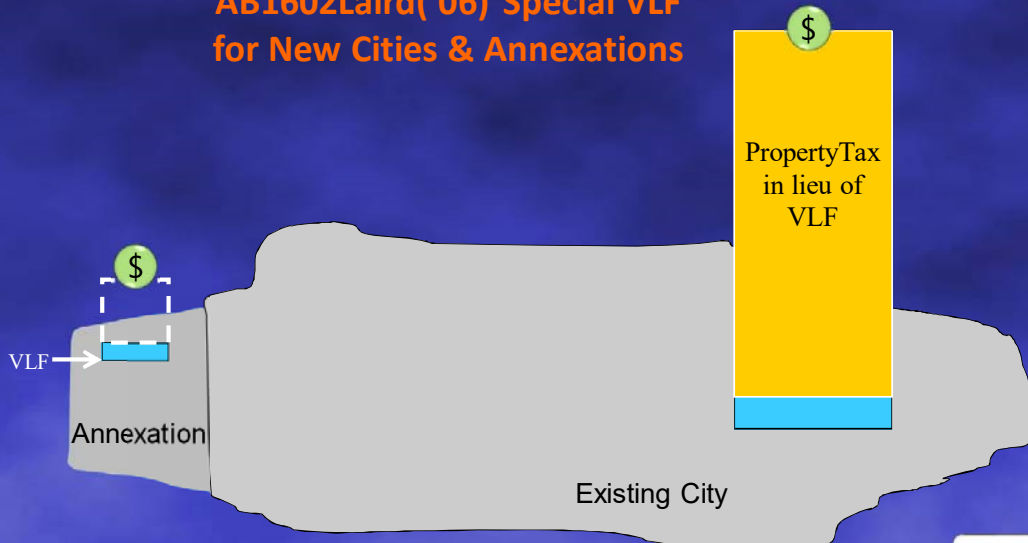
Vehicle License Fee \$

Prior to 2004



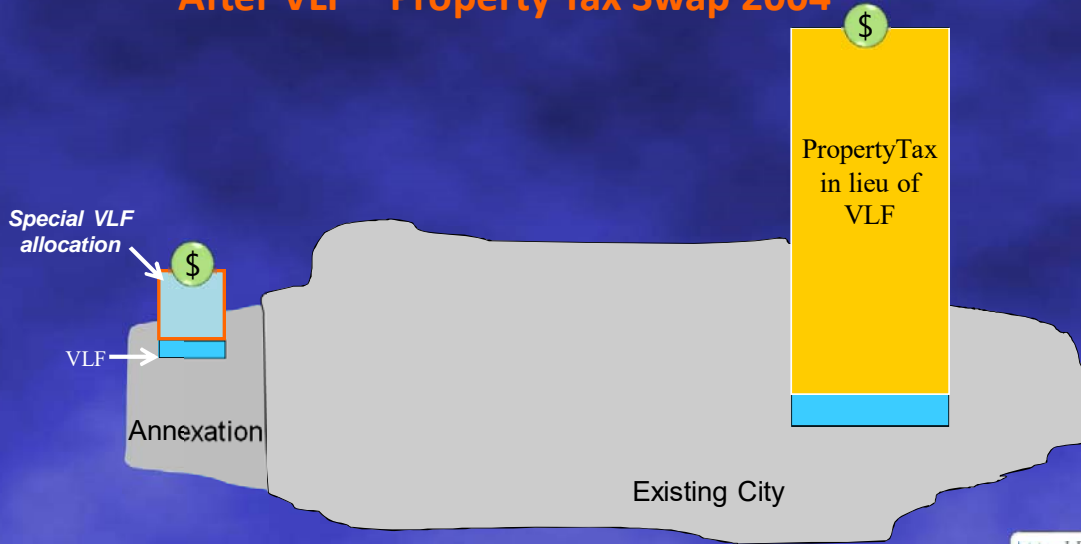
Vehicle License Fee \$

AB1602Laird('06) Special VLF for New Cities & Annexations



Vehicle License Fee \$

After VLF – Property Tax Swap 2004

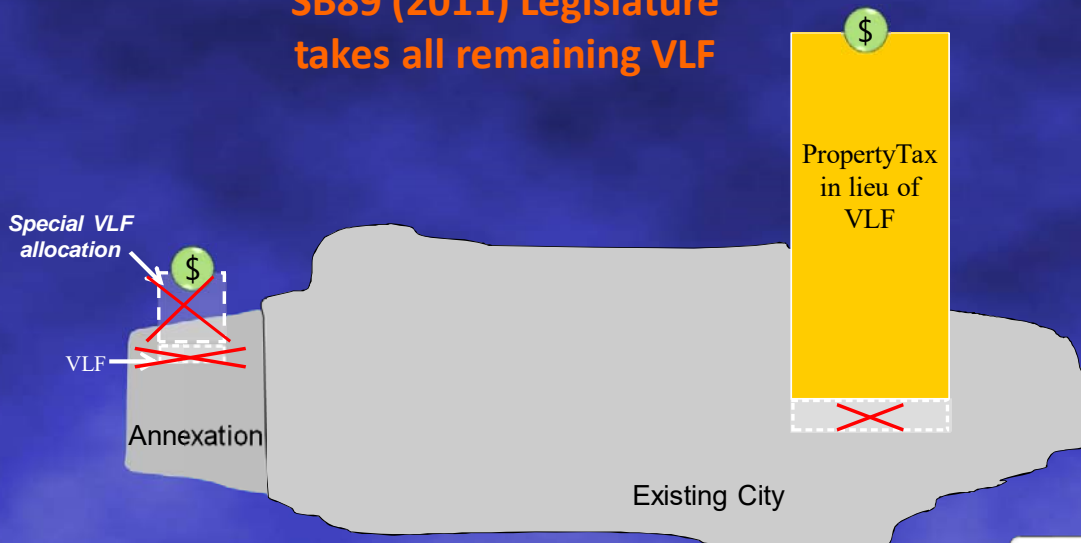


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Vehicle License Fee \$

SB89 (2011) Legislature takes all remaining VLF



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No Property Tax in Lieu of VLF Makes Many Annexations Unviable

