



TOWN OF FAIRFAX

STAFF REPORT

June 1, 2022

TO: Mayor and Town Council

FROM: Heather Abrams, Town Manager

SUBJECT: Authorize Mayor to send a letter to the State Legislature in opposition to a revised proposed trailer bill released in connection with the California May Budget Revision regarding “insufficient Educational Revenue Augmentation Fund (ERAF) backfills.”

RECOMMENDATION

Authorize Mayor to submit the attached letter in opposition to a revised proposed trailer bill released in connection with the May Budget Revision regarding “insufficient Educational Revenue Augmentation Fund (ERAF) backfills.”

DISCUSSION

The Marin County Board of Supervisors provided the template for the attached letter of opposition and urged cities and towns to submit a similar letter. The League of California Cities is also opposed to the revised proposed trailer bill.

The proposed trailer bill would significantly harm counties, cities, and potentially special districts by permanently capping their excess ERAF funds at 2022-23 levels to be returned to them (after schools have been fully funded) and would instead use such local tax revenues to pay the State’s in-lieu Vehicle License Fee (VLF) obligation.

ATTACHMENT

Letter of Opposition

June __, 2022

The Honorable Sydney Kamlager
Chair, Senate Budget Subcommittee #4 on State Administration and General Government
1021 O Street, Suite 6510
Sacramento, CA 95814

The Honorable Wendy Carrillo
Chair, Assembly Budget Subcommittee #4 on State Administration
1021 O Street, Suite 5730
Sacramento, CA 95814

Dear Chair Kamlager and Chair Carrillo:

On behalf of the Fairfax Town Council, I write to join the California State Association of Counties (CSAC), Urban Counties of California (UCC), the Rural County Representatives of California (RCRC), and the League of California Cities (CalCities) in conveying our strong opposition to a revised proposed trailer bill released in connection with the May Budget Revision regarding “insufficient Educational Revenue Augmentation Fund (ERAF) backfills.”

This proposed trailer bill would change current law in a way that would significantly harm counties, cities, and potentially special districts by permanently “capping” their excess ERAF funds at 2022-23 levels that would be returned to them (after schools have been fully funded) and would instead use such local tax revenues to pay the State’s in-lieu Vehicle License Fee (VLF) obligation. The trailer bill would violate constitutional provisions approved by the voters, including Proposition 1A and 22, which explicitly prohibit the State from seizing local agency funds to pay for State obligations. The proposed act even includes a retaliatory provision that would penalize local agencies that seek to vindicate their constitutional rights by immediately terminating State funding for VLF shortfalls if its cap on excess ERAF is invalidated in court.

The “VLF swap” was a component of a 2004 State budget compromise between the State and its counties and cities in which the State permanently reduced taxpayers’ VLF obligations by 67.5 percent; cities and counties had previously received the bulk of VLF revenues as general-purpose funding for local programs and services. In exchange for this revenue reduction, the State provided counties and cities with an annual in-lieu VLF amount (adjusted annually to grow with assessed valuation) to compensate for the permanent loss of VLF revenues. This agreement made clear that excess ERAF funds would not be used to fund the in-lieu VLF amount. Further, the Legislature and Administration agreed to a ballot measure – Proposition 1A – that amended the Constitution to ensure that future shifts or transfers of local agency property tax revenues could not be used to pay for State obligations. That November, Proposition 1A was approved by 83.7 percent of voters.

Legislation to implement the VLF swap carefully and purposefully identified the sources of funds that were available to pay the State’s in-lieu VLF obligation: ERAF distributions to non-basic aid schools and property tax revenues of non-basic aid schools. Proposition 98 ensures that State funds are provided to those schools to meet their constitutional funding guarantee, so they do not experience any financial loss. However, in those instances where there are too few non-

basic aid schools in a county from which to transfer sufficient funds to pay the State's in-lieu VLF obligation, the State has provided annual appropriations to make up for the revenue shortfalls. Counties that have been subject to these circumstances include Alpine, Amador, and San Mateo, with Napa County likely joining them soon.

While we appreciate that the State desires a more predictable process for identifying such shortfalls, the proposed trailer bill perpetuates the problem by utilizing local agencies' existing revenues to fulfill the State's in-lieu VLF obligation. Not only does that approach have grave consequences for those local agencies who now face the loss of excess ERAF, it runs counter to the 2004 agreement that resulted in Proposition 1A and violates the constitutional provisions that were overwhelmingly supported by voters.

We respectfully urge that your subcommittees reject the proposed trailer bill language as amended and instead work with affected local agencies to resolve this unintended consequence in a manner that is consistent with the 2004 agreement and Proposition 1A. The current trailer bill reneges on commitments made by the State previously enacted into law regarding the source of VLF funding and violates State constitutional provisions that prohibit such raids of local funds, as well as the 2004 budget compromise between the State and local agencies.

Sincerely,

Stephanie Hellman, Mayor
Town of Fairfax

Cc: Senator Mike McGuire
Assembly Member Marc Levine