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2 April 2012

Senator Gloria Negrete McLeod
California State Senate
State Capital Room 4061
Sacramento, CA 95814

Subject: **Support of SB 1566**

Dear Senator Negrete McLeod:

The California Association of Local Agency Formation Commissions is pleased to support SB 1566 authored by yourself and Senator Emmerson. The bill reinstates allocations of motor vehicle license fees (VLF) to recently incorporated cities and cities which annexed inhabited areas, consistent with the allocation formula those communities relied upon when making the decision to incorporate or annex the affected territory.

The CALAFCO Board believes the VLF gap created by SB 89, one of the 2011 budget bills, created a financial disincentive for future city incorporations and annexations of inhabited territory. Further, it created severe fiscal penalties for those communities which chose to annex inhabited territories, particularly unincorporated islands. In several previous legislative acts the Legislature had directed LAFCos to work with cities to annex unincorporated inhabited islands. SB 89 also created severe penalties for those communities which have recently voted to incorporate themselves. SB 1566 eliminates these disincentives and penalties, and avoids the likely disincorporation or bankruptcies of some or all of the cities incorporated since 2005.

The availability of an equitable distribution of VLF funds to newly incorporated cities and city annexations of inhabited territory is vital to assure the financial feasibility of these actions. Without VLF funds the ability to achieve cityhood or the annexation of islands and disadvantaged unincorporated communities is all but impossible. Reinstating VLF revenues for incorporations and annexations is consistent with the CALAFCO legislative policy of providing communities with local governance and efficient service delivery options, including the ability to incorporate or annex.

Because SB 1566 reinstates a critical funding component to incorporations and inhabited annexations, CALAFCO supports this bill.

Thank you to you and Senator Emmerson for carrying this important legislation.

Sincerely Yours,



William Chiat
Executive Director

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c: Senator Bill Emmerson
Senator Lois Wolk, Chair, Senate Local Governance and Finance Committee
Samantha Lui, Consultant, Senate Local Governance and Finance Committee
Ryan Eisberg, Consultant, Senate Republican Caucus

AMENDED IN SENATE APRIL 10, 2012

SENATE BILL

No. 1566

**Introduced by Senators Negrete McLeod and Emmerson
(Coauthor: Senator De León)**

(Coauthors: Assembly Members Carter, Cook, Jeffries, Miller, Nestande,
and Smyth)

February 24, 2012

An act to amend Sections 11003 and 11005 of the Revenue and Taxation Code, relating to taxation, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 1566, as amended, Negrete McLeod. Vehicle license fees: allocation.

Existing law requires that a specified amount of motor vehicle license fees deposited to the credit of the Motor Vehicle License Fee Account in the Transportation Tax Fund be allocated by the Controller, as specified, to the Local Law Enforcement Services Account in the Local Revenue Fund 2011, for allocation to cities, counties, and cities and counties.

This bill would instead require, on and after July 1, 2012, that those revenues be distributed first to each city that was incorporated from an unincorporated territory after August 5, 2004, in an amount determined pursuant to a specified formula—and, second to each city that was incorporated before August 5, 2004, in an amount determined pursuant to a specified formula, *and third to the Local Law Enforcement Services Account in the Local Revenue Fund 2011, for allocation to cities, counties, and cities and counties.* By authorizing within the Motor Vehicle License Fee Account in the Transportation Tax Fund, a

continuously appropriated fund, to be used for a new purpose, the bill would make an appropriation.

Existing law requires the Legislature to determine and appropriate annually an amount for the use of the Department of Motor Vehicles and the Franchise Tax Board for the enforcement of the Vehicle License Fee Law.

This bill would not allow that amount to be appropriated from the Motor Vehicle License Fee Account in the Transportation Tax Fund.

Vote: majority. Appropriation: yes. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. The Legislature finds and declares all of the
2 following:

3 (a) It is the intent of the Legislature commencing with the
4 2012–13 fiscal year to reinstate allocations of motor vehicle license
5 fees to recently incorporated cities and cities which annexed
6 inhabited areas, consistent with the allocation formula those
7 communities relied upon when making the decision to incorporate
8 or annex the affected territory.

9 (b) It is also the intent of the Legislature to ensure that such
10 revenues and incentives remain available for other communities
11 considering incorporation, including unincorporated communities
12 of East Los Angeles, and annexations of inhabited areas, including
13 disadvantaged unincorporated communities.

14 (c) Numerous state laws support the policy of furthering orderly
15 development in compact forms, including the annexation of
16 inhabited territory and the incorporation of communities consistent
17 with state laws, the policies of local agency formation
18 commissions, and often the approval of local voters.

19 (d) The passage of Senate Bill 89 of the 2011–12 Regular
20 Session (Chapter 35 of the Statutes of 2011) removed critical
21 revenues from these communities without providing a reasonable
22 opportunity for input from the affected agencies and the public.

23 SEC. 2. Section 11003 of the Revenue and Taxation Code is
24 amended to read:

25 11003. The Legislature shall annually determine and
26 appropriate an amount for the use of the Department of Motor
27 Vehicles and the Franchise Tax Board for the enforcement of this

1 part. That amount shall not be appropriated from the Motor Vehicle
2 License Fee Account in the Transportation Tax Fund.

3 SEC. 3. Section 11005 of the Revenue and Taxation Code is
4 amended to read:

5 11005. After payment of refunds therefrom and reserving the
6 amount determined necessary by the Pooled Money Investment
7 Board to meet the transfers ordered or proposed to be ordered
8 pursuant to Section 16310 of the Government Code, the balance
9 of all motor vehicle license fees and any other money appropriated
10 by law for expenditure pursuant to this section, deposited to the
11 credit of the Motor Vehicle License Fee Account in the
12 Transportation Tax Fund, and remaining unexpended in that
13 account at the close of business on the last day of the calendar
14 month, shall be allocated by the Controller by the 10th day of the
15 following month in accordance with the following:

16 (a) On and after July 1, 2012:

17 (1) First, to each city that was incorporated from an
18 unincorporated territory after August 5, 2004, in an amount equal
19 to the product of the following two amounts:

20 (A) The quotient derived from the following fraction:

21 (i) The numerator is the product of the following two amounts:

22 (I) Fifty dollars (\$50) per year.

23 (II) The fraction determined as the total amount of vehicle
24 license fee revenue collected during the most recent fiscal year
25 divided by the total amount of vehicle license fee revenue collected
26 during the 2004–05 fiscal year.

27 (ii) The denominator is the fraction determined as the actual
28 population, as defined in subdivision (d) of Section 11005.3, of
29 all cities during the most recent fiscal year, divided by the actual
30 population, as defined in subdivision (d) of Section 11005.3, of
31 all cities in the 2004–05 fiscal year.

32 (B) The city's population determined in accordance with Section
33 11005.3.

34 (2) Second, to each city that was incorporated before August 5,
35 2004, in an amount equal to the product of the following two
36 amounts:

37 (A) The quotient derived from the following fraction:

38 (i) The numerator is the product of the following two amounts:

39 (I) Fifty dollars (\$50) per year.

1 (II) The fraction determined as the total amount of vehicle
2 license fee revenue collected during the most recent fiscal year
3 divided by the total amount of vehicle license fee revenue collected
4 during the 2004–05 fiscal year.

5 (ii) The denominator is the fraction determined as the actual
6 population, as defined in subdivision (d) of Section 11005.3, of
7 all cities during the most recent fiscal year, divided by the actual
8 population, as defined in subdivision (d) of Section 11005.3, of
9 all cities in the 2004–05 fiscal year.

10 (B) The actual population, as defined in subdivision (d) of
11 Section 11005.3, residing in areas annexed after August 5, 2004,
12 as of the date of annexation.

13 (3) *Third, to the Local Law Enforcement Services Account in*
14 *the Local Revenue Fund 2011, as established by Section 30025 of*
15 *the Government Code, for allocation to cities, counties, and cities*
16 *and counties.*

17 (b) On and after July 1, 2011, and before July 1, 2012, to the
18 Local Law Enforcement Services Account in the Local Revenue
19 Fund 2011, as established by Section 30025 of the Government
20 Code, for allocation to cities, counties, and cities and counties.

21 (c) On or after July 1, 2004, but before July 1, 2011:

22 (1) First, to the County of Orange. For the 2004–05 fiscal year,
23 that county shall be allocated fifty-four million dollars
24 (\$54,000,000) in monthly installments. For the 2005–06 fiscal year
25 and each fiscal year thereafter, that county shall receive, in monthly
26 installments, an amount equal to the amount allocated under this
27 section for the prior fiscal year, adjusted for the percentage change
28 in the amount of revenues credited to the Motor Vehicle License
29 Fee Account in the Transportation Tax Fund from the revenues
30 credited to that account in the prior fiscal year. Moneys allocated
31 to the County of Orange under this subdivision shall be used first
32 for the service of indebtedness as provided in paragraph (1) of
33 subdivision (a) of Section 11001.5. Any amounts in excess of the
34 amount required for this service of indebtedness may be used by
35 that county for any lawful purpose.

36 (2) Second, to each city, the population of which is determined
37 under Section 11005.3 on August 5, 2004, in an amount equal to
38 the additional amount of vehicle license fee revenue, including
39 offset transfers, that would be allocated to that city under Sections
40 11000 and 11005, as those sections read on January 1, 2004, as a

1 result of that city's population being determined under subdivision
2 (a) or (b) of Section 11005.3.

3 (3) Third, to each city that was incorporated from an
4 unincorporated territory after August 5, 2004, in an amount equal
5 to the product of the following two amounts:

6 (A) The quotient derived from the following fraction:

7 (i) The numerator is the product of the following two amounts:

8 (I) Fifty dollars (\$50) per year.

9 (II) The fraction determined as the total amount of vehicle
10 license fee revenue collected during the most recent fiscal year
11 divided by the total amount of vehicle license fee revenue collected
12 during the 2004–05 fiscal year.

13 (ii) The denominator is the fraction determined as the actual
14 population, as defined in subdivision (e) of Section 11005.3, of
15 all cities during the most recent fiscal year, divided by the actual
16 population, as defined in subdivision (e) of Section 11005.3, of
17 all cities in the 2004–05 fiscal year.

18 (B) The city's population determined in accordance with Section
19 11005.3.

20 (4) Fourth, to each city that was incorporated before August 5,
21 2004, in an amount equal to the product of the following two
22 amounts:

23 (A) The quotient derived from the following fraction:

24 (i) The numerator is the product of the following two amounts:

25 (I) Fifty dollars (\$50) per year.

26 (II) The fraction determined as the total amount of vehicle
27 license fee revenue collected during the most recent fiscal year
28 divided by the total amount of vehicle license fee revenue collected
29 during the 2004–05 fiscal year.

30 (ii) The denominator is the fraction determined as the actual
31 population, as defined in subdivision (e) of Section 11005.3, of
32 all cities during the most recent fiscal year, divided by the actual
33 population, as defined in subdivision (e) of Section 11005.3, of
34 all cities in the 2004–05 fiscal year.

35 (B) The actual population, as defined in subdivision (e) of
36 Section 11005.3, residing in areas annexed after August 5, 2004,
37 as of the date of annexation.

38 (5) Fifth, to the cities and cities and counties of this state in the
39 proportion that the population of each city or city and county bears
40 to the total population of all cities and cities and counties in this

1 state, as determined by the Demographic Research Unit of the
2 Department of Finance. For the purpose of this subdivision, the
3 population of each city or city and county shall be determined in
4 accordance with Section 11005.3.

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