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***County Controller Publishes Property Tax Highlights for FY
2022-23
County and cities facing potential \$184 million VLF revenue
shortfall.***

Redwood City – The Property Tax Highlights publication, which shows tax revenues collected and distributed to local governments operating within San Mateo County, is now available for fiscal year (FY) 2022-23.

Countywide combined property taxes totaled \$3.6 billion for FY 2022-23, an increase of \$258 million (or 7.7 percent) compared to the prior year, representing 12 consecutive years of property tax growth. Over the last ten years countywide assessed values and taxes have increased 84 percent.

These taxes help fund the operations of local cities, school districts, special districts and the County which provide services to the county's residents.

The \$3.6 billion consists of the 1 percent General Tax totaling \$2.9 billion, \$373 million in special charges and \$316 million for debt service.

Vital to public services is the countywide 1 percent General Tax. About 52 percent of General Taxes collected are distributed to school districts, 25 percent to the County, 15 percent to cities, 7 percent to special districts and 1 percent to successor agencies of former redevelopment agencies.

Special charges totaling \$373 million received primarily by cities and special districts are included in property tax bills for services such as sewer maintenance, mosquito abatement, flood control, etc. Additional taxes, per original tax levy, to service debt accounted for \$316 million, which is primarily used to pay for voter approved bonds of local school districts.

Another vital source of funding for public services for the County and cities is the in-lieu Vehicle License Fee (VLF). Their budgets are currently facing a potential combined VLF revenues shortfall of \$70 million from the prior year, FY 2022-23, and a presently estimated shortfall of \$114.4 million for the current year, FY 2023-24.

In FY 2004-05, Senate Bill 1096 enacted a process commonly referred to as the “VLF Swap.” Prior to such legislation, VLF collected by the Department of Motor Vehicles were distributed to the cities and counties. This legislation redirected these funds to the State, creating a state obligation to pay in-lieu VLF revenues to counties and cities. To pay the VLF amounts (representing about 1/3 of prior amounts) owed to the cities and counties, the legislation specified that property taxes meant for non-basic aid school districts would be used to pay for the State’s VLF obligations. Any property taxes used from these school districts to fund the VLF Swap are paid back to the districts by the State.

Historically, when these funding sources were insufficient in a given year, the State’s Department of Finance (DOF) would include these VLF shortfall obligation amounts in the Governor’s budgets for counties experiencing a shortfall. In fact, the FY 2022-23 Governor’s budget included \$96 million for local governments in San Mateo County to address the shortfall generated in FY 2020-21.

In 2022, trailer bill language proposed by the DOF to address future VLF shortfalls was rejected by the legislature. Local state representatives, with County’s and cities’ support, worked together to remove the proposed change in law that would have required the County and cities to pay for the State’s obligations using the County’s and cities’ own funds, their property taxes. Paying yourself is the same as not being paid.

Local state representatives worked to appropriate funds for the \$32.4 million VLF shortfall from FY 2021-22 into the State’s current FY 2023-24 budget.

In FY 2022-23, countywide VLF revenues due from the State totaled \$251 million, while available funds totaled \$181 million, resulting in a shortfall of \$70 million - \$41.5 million is due to the County and \$28.5 million to the cities.

The FY 2024-25 proposed Governor’s budget does not include the expected funding for the FY 2022-23 shortfall of \$70 million. The County and cities are working with their representatives in the state legislature to advocate for them.

The total estimated shortfall for the current fiscal year (2023-24) is \$114.4 million (\$67.8 million for County and \$46.6 million for cities), while total expected VLF revenues equaled \$268 million.

Given the State's reliance on volatile personal income tax revenues its budgets are known to experience episodes of large deficits or surpluses. As such, it may require advocating at a better time for a legislative solution that eliminates or addresses VLF shortfalls on a permanent basis.

To learn more about property taxes and the County's finances, we encourage residents and taxpayers to visit the Controller's Office website at <http://controller.smcgov.org/>. "It's important to our team that we provide taxpayers and residents visibility into the local tax dollars they pay and where those local dollars go," said County Controller Juan Raigoza.

In addition to the Property Tax Highlights publication, you will find other annual reports including the Tax Rate Book which shows assessed property values by taxing agency and property tax rates by tax rate area, as well as the County's Annual Comprehensive Financial Report and Financial Highlights Report.

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