

COUNTY OF SAN MATEO



Vehicle License Fee Overview and Update

February 24, 2026

COUNTY OF SAN MATEO



Vehicle License Fee Shortfall Summary

- Under a 2004 statute, all cities and counties across the State receive a revenue source known as “in-lieu VLF,” by which the State distributes more than \$12 billion to local jurisdictions annually.
- Due to a technicality in the payment mechanism, San Mateo County and its cities (along with two other small counties) have not received their full entitlement under the statute in recent years.
- For 5 years, the State made up for this shortfall with an annual appropriation to the County and cities, but this funding is now at risk.
- In the most budget recent year, the State failed to fully reimburse the County and cities, and the Governor’s recommended budget for next year does not include any funding for the current shortfall of \$119 million.



What is the In-Lieu Vehicle License Fee (VLF) Statute?

- Before 2004, annual vehicle license fees were a major source of revenue for local governments.
- In the 2003 governor recall election, the amount of vehicle registration fees paid by Californians became a campaign issue.
- Following the election, the State reached a compromise on the 2004 budget that not only addressed the significant State budget crisis, which included the reallocation of billions in local revenues, but also permanently changed the structure of VLF.



What is the In-Lieu Vehicle License Fee (VLF) Statute?

- As part of 2004 State budget compromise, local governments agreed to give up their historic share of vehicle license fees.
- In exchange, local governments were promised an annual “in-lieu vehicle license fee” amount.
- The new payment mechanism for this in-lieu VLF was tied to the local property tax distribution system and school funding in every county in the State.
- The 2004 VLF structure is known as the “VLF Swap”



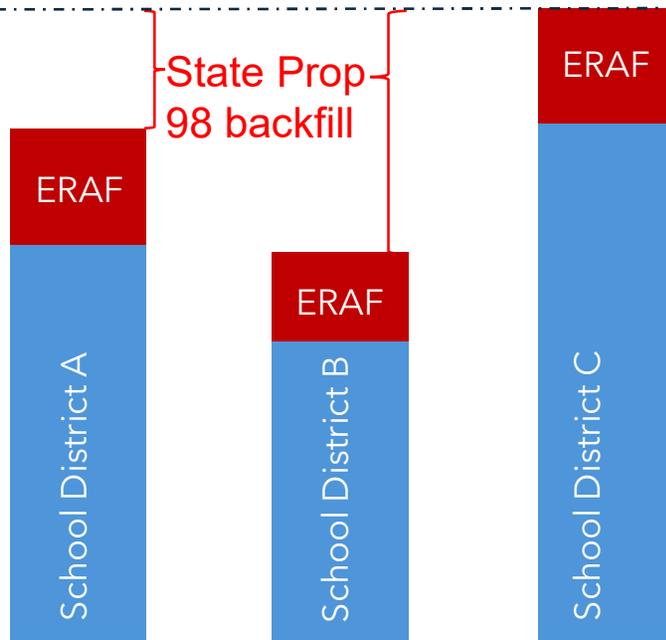
VLF Payments are Tied to School Funding

- The VLF statute's payment mechanism utilizes the Prop. 98 school funding process:
 - In-lieu VLF amounts to counties and cities are paid locally from the property tax and ERAF entitlement of non-basic-aid school districts
 - The State then reimburses every “swapped” dollar of the VLF in the form of Prop. 98 backfills to all school districts impacted by the VLF payment
- By this funding mechanism, the State (through Prop. 98 reimbursement) pays more than \$12 billion annually to local governments in all 58 counties

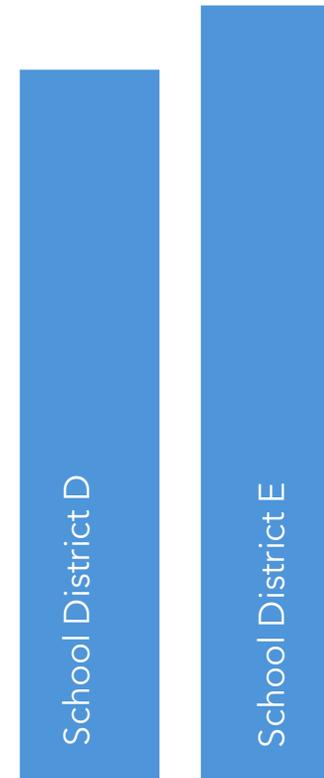


School District Funding Model

LCFF (Local Control Funding Formula)



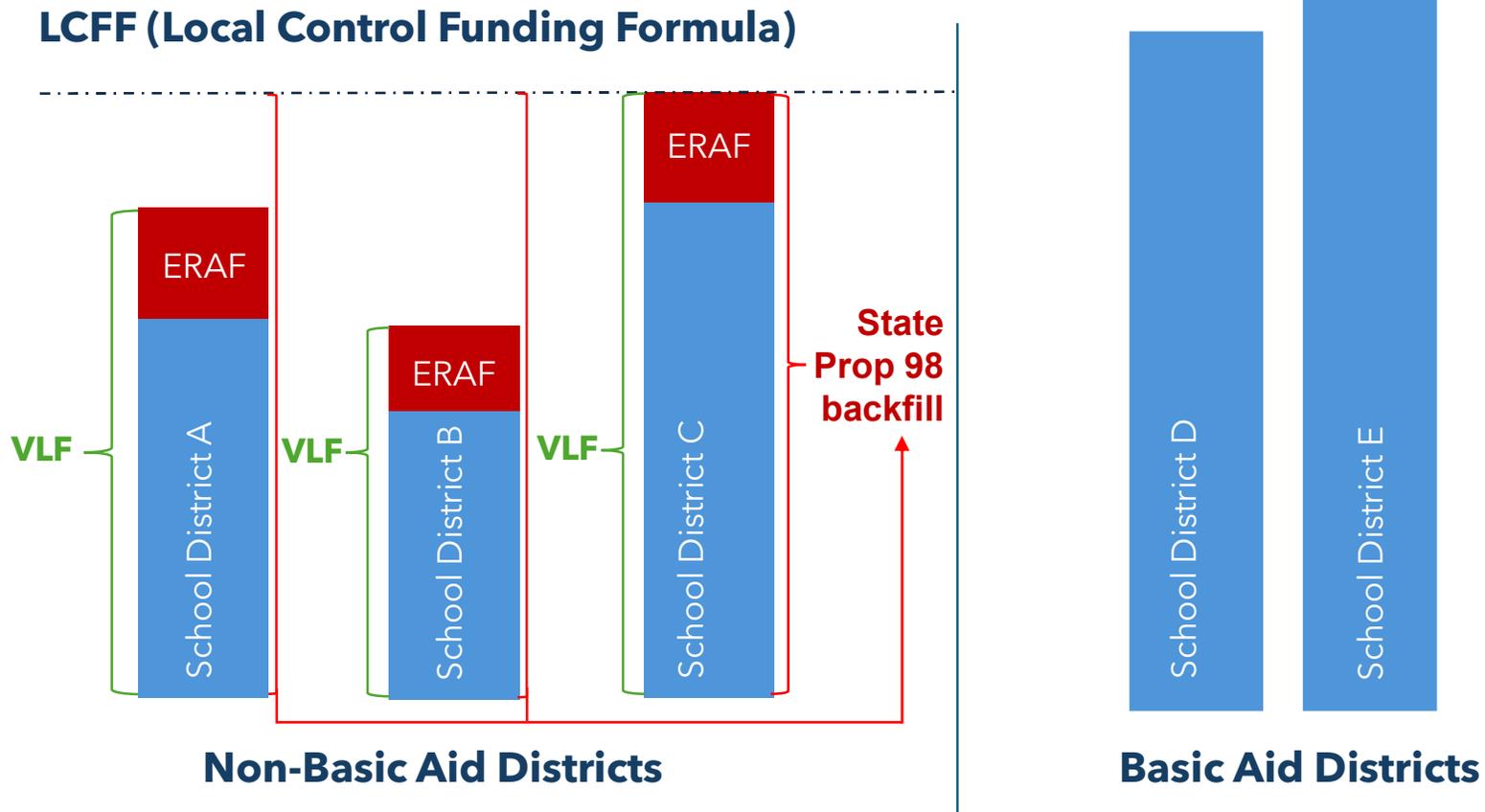
Non-Basic Aid Districts



Basic Aid Districts



In-Lieu VLF Funding Mechanism



VLF Funds Local Government

- The in-lieu VLF payments are a critical source of annual general fund revenue for the County and all 20 cities and towns.
- In FY24-25, the in-lieu VLF amount owed to SMC county/cities was **\$283 million**
- This funding supports all major categories of county and city priorities, personnel, and programs, including:
 - Public safety and emergency response
 - Healthcare, mental health services, and programs for seniors and youth
 - Local libraries and parks
 - Homelessness prevention services and affordable housing
 - Wildfire prevention, climate change, and sea level rise initiatives



The San Mateo County VLF Shortfall Crisis

- The VLF Statute depends on the availability of revenues from non-basic-aid school districts for the payment mechanism to work
- Because of the phenomenon of San Mateo County school districts achieving community-funded status in large numbers, the “VLF swap” no longer works in our county
 - Only 4 of 23 school districts remain non-basic-aid
 - Just 10 years ago, there were 12 non-basic-aid districts



VLF Shortfall Claims and Reimbursement History

FISCAL YEAR VLF SHORTFALL	STATE BUDGET SOLUTION
FY11-12: \$432,286	Governor's FY 2013-14 proposed budget
FY19-20: \$10,098,355	Governor's FY 2021-22 proposed budget
FY20-21: \$96,051,945	Governor's FY 2022-23 proposed budget
FY21-22: \$32,440,253	Legislature's FY 2023-24 approved budget
FY22-23: \$70,048,146	Legislature's FY 2024-25 approved budget
FY23-24: \$114,390,900	Legislature's FY 2025-26 approved budget (\$76,572,000 → \$38M unfunded)

- Each year, the County and cities face a cycle of increasingly contentious fights with the State to get reimbursement for the VLF shortfall
- The FY25-26 budget was the first time the State failed to fully fund the VLF shortfall.



Current VLF Shortfall

- In FY 24-25, there was a countywide VLF shortfall of **\$119 million** (out of countywide obligation of \$283M)
- County and cities filed a claim for reimbursement of this \$119 million shortfall in August 2025, but the Governor's recommended FY26-27 budget did not include any funding for the shortfall.
- To give a sense of scale, the shortfall amount is greater than the County's annual funding for the countywide homelessness support system, affordable housing, the Big Lift literacy program, and foster youth support system, *combined*.

FY 24-25 Shortfalls by Local Jurisdiction

Taxing Agency	FY 2024-25 VLF Shortfall <i>as of 06/2025</i>
San Mateo County	\$70,791,933
Atherton	\$740,511
Belmont	\$1,822,923
Brisbane	\$282,431
Burlingame	\$2,360,463
Colma	\$69,476
Daly City	\$6,508,613
East Palo Alto	\$2,461,332
Foster City	\$2,340,648
Half Moon Bay	\$709,075
Hillsborough	\$760,797
Menlo Park	\$2,890,107
Millbrae	\$1,642,823
Pacifica	\$2,402,495
Portola Valley	\$305,120
Redwood City	\$5,380,190
San Bruno	\$2,961,313
San Carlos	\$2,328,964
San Mateo	\$6,879,037
South San Francisco	\$5,195,430
Woodside	\$405,070
Total Countywide VLF Shortfall	\$119,238,751

How the County and Cities are Responding

- Lawsuit filed against State for FY23-24 unfunded \$38 million
- Working with San Mateo County legislative delegation to secure funding for current and future shortfalls
- Outreach and engagement with local officials, schools, and other stakeholders to build the coalition to convince the State to distribute the full VLF amount to the cities and County just as occurs without question in 55 counties across the State.
- Planning for necessary service impacts from loss of VLF



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