

June 15, 2026

The Honorable Gavin Newsom  
Governor, State of California  
1021 O Street, Suite 9000  
Sacramento, CA 95814

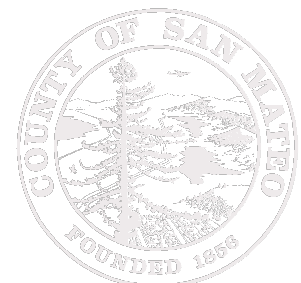
**RE: Budget Request for San Mateo County and its Cities for FY 23-24 & FY 24-25 VLF Shortfall**

Dear Governor Newsom:

On behalf of the San Mateo County Board of Supervisors, I respectfully request your support for the Legislature's appropriation of **\$80 million** to backfill San Mateo, Alpine, and Mono Counties for insufficient local property taxes to offset lost Vehicle License Fee (VLF) revenue, as included in AB 109, the 2026-27 Budget Bill. Of this amount, \$76,950,000 is allocated to our County and its cities as a partial payment toward a \$119 million shortfall incurred in FY 2024-25. I also urge your support for an additional provision in the Budget Bill that would authorize the Director of the Department of Finance (DOF) to allocate an additional \$80 million to San Mateo County and its cities to address shortfalls incurred in FYs 2023-24 and 2024-25.

The State's in-lieu VLF payment obligation stems from the VLF "Swap," an integral part of the 2004 Budget compromise. Under that compromise, the State permanently reduced the annual VLF rate, significantly reducing counties' and cities' revenues and, for two fiscal years, shifted an additional \$1.3 billion in property taxes from counties, cities, and special districts to pay the State's school funding obligations and address the State's budget deficit. In exchange, the State guaranteed counties and cities a mandatory "in-lieu" VLF payment for the lost revenues, adjusted annually based on growth in assessed property value. The payment is drawn from non-basic aid school districts' ERAF and property taxes, with the State backfilling the school districts for each dollar so they do not suffer any loss from the in-lieu VLF payment. Through this backfill, the State effectively pays the entire in-lieu VLF amount for every county and city statewide, regardless of the amount.

In San Mateo County, the direct funding sources identified in the statute are insufficient to cover the full amount of the in-lieu VLF payment, resulting in a shortfall. The shortfall is not due to any fault of the County or its cities, and it cannot be offset by recourse to their constitutionally protected returned ERAF monies, which, by law, cannot be reduced to fund the in-lieu VLF payment.



Historically, the State has made counties and cities whole by funding in-lieu VLF shortfalls through a special appropriation in the State budget. This appropriation ensures that San Mateo County and its cities, like all other counties and cities in the state, receive their full in-lieu VLF payment required by law.

We are grateful to the Legislature for including \$77 million of the VLF funds owed to San Mateo County and its cities, as the County's VLF entitlement represent **18% of our County's General Fund**. However, as noted, this amount is only a partial payment toward the \$119 million due to the County for FY 2024-25, leaving a \$42 million deficit. In addition, the County has not yet received \$38 million owed for VLF from FY 2023-24, making this the second consecutive year the County has received only a portion of the payment due, for a total of \$80 million still unpaid.

If not funded, the loss of these in-lieu VLF funds for FYs 2023-24 and 2024-25 will necessitate immediate cuts to essential County services, which include, in part:

- Homeless Programs
- Housing Outreach, Support and Development
- Support Programs for Seniors, Veterans, and At-Risk Youth
- Public Safety Programs and
- Disaster Preparedness and Wildfire Prevention Programs.

In addition, without state aid, looming H.R. 1-related cuts to health and safety net programs are estimated to cost our County approximately \$56.6 million by FY 2027-28, further straining our ability to provide essential services to our County's most vulnerable residents.

Given the severe impact of the cuts our County and cities now face due to the \$80 million shortfall in past-due in-lieu VLF funding, we also respectfully request your support for a provision included in the 2026-27 Budget Bill that would authorize the Director of the DOF to allocate an additional \$80 million to address shortfalls in FYs 2023-24 and 2024-25, as these funds continue to be due to our County.

While the County filed an action last year to recover VLF shortfall amounts due for FY 2023-24, the County has decided to dismiss the lawsuit to facilitate discussions with the Legislature and the Administration toward a mutually agreeable, long-term solution to the VLF shortfall issue. We hope you will consider this a demonstration of our good faith and desire to collaborate in crafting a permanent legislative solution without recourse to litigation, which some perceived as an impediment to progress.

San Mateo County acknowledges the State's fiscal constraints. However, without this vital funding, both San Mateo County and its cities will face a significant revenue shortfall, which will

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critically undermine our capacity to deliver essential services to residents, including for matters

that we know are important to the State as well. We therefore urge your support for this appropriation. If you have any questions, please contact Connie Juarez-Diroll, San Mateo County's Chief Legislative Officer (650-599-1341, [cjuarez-diroll@smcgov.org](mailto:cjuarez-diroll@smcgov.org)).

Sincerely,



Noelia Corzo, President  
Board of Supervisors

Cc: Senate President Pro Tempore, Monique Limon  
Chair, Senate Committee on Budget, John Laird  
Speaker, California State Assembly, Robert Rivas  
Chair, Assembly Budget Committee, Jesse Gabriel  
Members, Senate Budget and Fiscal Review Committee  
Members, Assembly Budget Committee  
Joe Stephenshaw, Director, Department of Finance  
Elisa Wynne, Staff Director, Senate Budget and Fiscal Review Committee  
Christian Griffith, Chief Consultant, Assembly Budget Committee  
San Mateo County Delegation  
San Mateo County Board of Supervisors  
San Mateo County Executive  
San Mateo County Controller