2. STATE-ADMINISTERED REVENUE SOURCES

MOTOR VEHICLE LICENSE FEE (MOTOR VEHICLE HIGHWAY USER TAX)

The Motor Vehicle License Fee (VLF) is a tax on the ownership of a registered vehicle. The tax rate is 0.65 percent of the vehicle’s value paid by owners to the Department of Motor Vehicles.

Key things to know
- VLF is constitutionally dedicated to cities and counties.
- The Constitution guarantees that the VLF at the 0.65 percent rate goes to counties and cities. State statute specifies the allocation among cities and counties.
- In addition to revenues from the 0.65 percent VLF rate paid by vehicle owners, cities and counties receive additional property tax equal to the difference between revenues from the VLF at 2 percent rate and the VLF at the 0.65 percent rate.
- After fiscal year 2004-05, the property tax in lieu of VLF for each city and county increases annually in proportion to the growth in gross assessed valuation in that jurisdiction from the prior year.
- VLF revenues may be used for any purpose.

GASOLINE TAX (HIGHWAY USERS TAX, MOTOR VEHICLE FUEL LICENSE TAX)

The gasoline tax is an 18-cent per gallon tax on fuel used to propel a motor vehicle or aircraft.

Key things to know
- Use of gasoline tax revenue is restricted to research, planning, construction, improvement, maintenance, and operation of public streets and highways or public mass transit guideways.

3. INTERGOVERNMENTAL GRANTS

Cities may receive grant funding from other public agencies. The federal and state governments have been significant sources of support in the past, but their contribution to city revenues has declined.

Key things to know
- “Categorical” grants support a defined program or area. They are typically allocated either to applicants whose predetermined funding criteria or to applicants who compete for project funding through an application process.
- “Block” grants provide funding to a broad functional area. For example, federal Community Development Block Grant (CDBG) funds support local housing and economic development activities.

4. EXPENDITURES

Revenues that are not designated for a specific expenditure go into a fund called the general fund. General fund revenues include proceeds from property taxes, sales taxes and other revenues that may be used for discretionary purposes. In most cases revenues from special taxes, fees and other limited purpose revenue sources must be deposited special funds associated with their particular purpose.

PUBLIC PURPOSE

All expenditures of public funds, regardless of their source, must be for a public purpose of the agency making the expenditure.

GIFT OF PUBLIC FUNDS

A city may not make a gift of public funds. This means that a city may not spend public funds to benefit a private person or business.

DEBT LIMIT

Cities may not incur indebtedness or liability for any purpose in a given year that exceeds the income and revenue they expect to receive that year, without a two-thirds vote of the electorate. This prohibition prevents the pledge of general fund revenues beyond the year in which that revenue is received.

APPROPRIATIONS LIMIT

Local agencies are subject to annual spending limits.

APPRAISAL LIMIT

Local agencies subject to appraisal limitations.

1. LOCAL REVENUES

TAXES

All cities have the power to impose a variety of taxes. All taxes are either general or special taxes. Special taxes must be used for the specific purpose for which they are imposed.

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