

# NEWS

---

Nov. 20, 2025

For Immediate Release

## **Every City in San Mateo County Joins the County’s Lawsuit Against State of California to Recover \$38 Million Funding Shortfall**

**Redwood City, CA** – In a powerful demonstration of unified local government support, all 20 cities in San Mateo County have joined a lawsuit originally filed in August 2025 by the County of San Mateo accusing the State of California of withholding nearly \$38 million in funds legally owed to local governmental agencies. These funds are shared annually by the County and all 20 cities providing critical dollars for programs and services that include health care, public safety, and affordable housing.

The lawsuit details that this year San Mateo County local governments received only \$76.5 million of the \$114.3 million owed under a state funding formula – a nearly \$38 million gap. The State’s initial 2025 budget proposal excluded San Mateo County’s funding entirely, but successful lobbying by the County and its State Assembly and Senate members restored two-thirds of the total owed to support critical local services for this year only. It is highly likely that the State budget will exclude the County and its cities once again next year.

“At a time when the County and our cities are working hard to sustain critical services while confronting ongoing fiscal challenges, it’s essential that the state maintain the local funding that nearly every other jurisdiction in California continues to receive,” said Supervisor Lisa Gauthier.

All 20 cities have joined the lawsuit, underscoring the magnitude of what is at risk to local government budgets if the current \$38 million is not restored and a permanent solution negotiated. Additionally, Mono County and Alpine County are dealing with similar challenges with the State of California and have joined the lawsuit.

“When we are faced with a significant challenge or crisis in San Mateo County, our elected leaders and public officials come together to find common sense solutions and fight on behalf of the residents we serve,” said Redwood City Mayor Elmer Martínez Saballos.

“I’m extremely pleased with the collaboration of all cities and towns in our County as this unjust taking by the State impacts all County residents. I also appreciate my colleagues in the Counties of Alpine and Mono joining us in this suit, as we have collectively been singled out by the State and treated differently than every other county,” said County Executive Officer Michael Callagy. “It is extremely important for every resident to be informed about the real impacts of this State taking, this year and beyond, and to join us in the fight to keep our tax dollars in San Mateo County.”

The lawsuit alleges that the State of California violated its own law and a 2004 budget compromise known as the “VLF Swap,” in which counties and cities gave up vehicle license fee revenues to help the State close its budget deficit. In exchange, the Legislature guaranteed ongoing replacement funding through a complex system reliant on annual property tax allocations known as the Vehicle License Fee Adjustment Amount (VLFAA). However, because of technical aspects of the payment mechanism beyond local control, that system shorts San Mateo County and all its cities millions of dollars. Meanwhile, the State pays the full amount to local jurisdictions in 55 other counties through the funding mechanism in the statute, without question.

“The magnitude of funding cuts to local government services and programs in every city as a result of the State’s actions is deeply concerning,” stated City of San Mateo Mayor Rob Newsom. “In the City of San Mateo alone, our share of the \$38 million is \$2.2 million. Absorbing that shortfall has impacted essential city services and core neighborhood programs. We need these funds restored and a permanent solution to guarantee full funding in future years as soon as possible.”

“For communities like East Palo Alto, every dollar of state-promised funding matters. We rely on these resources to support youth programs, neighborhood safety, and essential services our residents depend on every day,” said East Palo Alto Mayor Martha Barragan. “Standing united with all 20 cities sends a clear message: San Mateo County deserves fair and consistent funding.”

“Receiving the full amount of VLF funds promised by the State is critical for Pacifica city services. We depend on that funding to provide life-saving police, fire and emergency response services - not just for the Pacificans who paid those vehicle license fees, but also for the millions of motorists that travel through Pacifica on Hwy 1 each year,” stated Pacifica Mayor Sue Beckmeyer. “We count on that on-going source of revenue. Now the State wants to unilaterally take those funds away.”

The lawsuit, in which the State of California and Governor Newsom’s finance director Joe Stephenshaw are named as defendants, asserts that the full amount remains owed to all the impacted local governments and that the State needs to meet its complete obligation now and in the future without annual budget fights in Sacramento.

**COUNTY OF SAN MATEO**



The case is currently pending at the Superior Court of California, County of San Francisco. The State of California is expected to respond to the suit in January.

The suit was filed in the Superior Court of California, County of San Francisco Case Number: CPF25519270

###

