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CONCURRENCE IN SENATE AMENDMENTS
AB 117 (Cohn)
As Amended August 24, 2006
2/3 vote. Urgency

ASSEMBLY: | | (May 31, 2005) | SENATE: | 39-0 | (August 28, 2006) |

(vote not relevant)

COMMITTEE VOTE: | 7-0 | (August 29, 2006) | RECOMMENDATION: | Concur |

(Local Government)

Original Committee Reference: HEALTH

SUMMARY : Repeals the 55% cap in Santa Clara County on tax equity allocation (TEA) funding for the county's four no/low-property-tax cities starting in the 2006-07 fiscal year (FY).

The Senate amendments delete the Assembly version of this bill, and instead, repeal the 55% limit in Santa Clara County on TEA funding for the county's four no/low-property-tax cities.

AS PASSED BY THE ASSEMBLY , this bill required the Department of Health Services to prepare a plan related to improving efficiencies in the Medi-Cal treatment authorization request process.

FISCAL EFFECT : According to the Senate Appropriations Committee, minor state-reimbursable costs for the county auditor to recalculate property tax.

COMMENTS : About 30 cities that never levied a property tax before Proposition 13 are called no property-tax cities, and about 60 cities that levied only low property tax rates are known as low property-tax cities. Counties must shift some of their own property tax revenues to these no/low cities. The payments to the no/low cities are called tax equity allocations, or TEA [AB 1197 (Willie Brown), 1988].

In most counties, TEA payments to the no/low cities are equal to 7%

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of the property tax revenues generated within their city limits. However, an exception requires Santa Clara County to allocate no more than 55% of the TEA funding that the four no/low cities in the county would otherwise be qualified to receive [AB 1175, Willie Brown, 1989]. The 55% limit was the product of an agreement, reached through intense negotiations, between Santa Clara County and the cities of Cupertino, Los Altos Hills, Monte Sereno, and Saratoga.

These four cities contend that the limit on their TEA funding has kept them from adequately funding city services. The cities have been talking with Santa Clara County officials about eliminating the 55% TEA cap, which currently saves the county \$4.2 million in property tax revenues. Eliminating the 55% limit would allow the four cities to receive the full 7% of the property tax revenues generated within their city limits. In exchange, the cities would provide additional services that reduce the county's costs. The Santa Clara County Board of Supervisors approved the cities' proposals.

Absent the 55% TEA cap, Santa Clara County's educational revenue augmentation fund (ERAF) would receive approximately \$600,000 more in property tax revenues from the four no/low cities but about \$2 million less from Santa Clara County, resulting in a net loss to ERAF of approximately \$1.4 million in FY 2006-07. This amount would be compounded in future years by the property tax growth rate. To prevent the state General Fund from having to backfill ERAF, this bill requires the four no/low cities in Santa Clara County to absorb the full ERAF impact. The amount of property tax allocated to the four cities would be reduced by an amount equal to the difference between the county portion of annual tax increment that is allocated to ERAF and the county portion of annual tax increment that would have been allocated to ERAF absent this bill.

Legislative reallocation of scarce property tax dollars frequently leads to bitter local controversies. By repealing Santa Clara County's unique 55% limit on TEA funding, this bill eliminates a long-standing source of contention between the County and its four no/low cities.

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