

County of Santa Clara
Board of Supervisors
Supervisory District Four
Supervisor James T. Beall, Jr.



TEAREF1.10.06

DATE: January 10, 2006

TO: Board of Supervisors

FROM: *James T. Beall Jr.*
James T. Beall, Jr.
Supervisor, District 4

Liz Kniss
Liz Kniss
Supervisor, District 5

SUBJECT: TEA agreement with the cities of Los Altos Hills, Cupertino, Saratoga and Monte Sereno

RECOMMENDED ACTION

Direct Administration to meet with representatives and consultants from Los Altos Hills, Cupertino, Saratoga and Monte Sereno to discuss their current TEA agreement with the County of Santa Clara and explore the possibility of developing a mutual beneficial amendment that will allow the cities to offer other agreements for services with the County in exchange for their TEA funding and forward recommendations to the Finance and Government and Operations Committee for review.

FISCAL IMPLICATIONS

This action could reduce County revenues, however, it is anticipated that any loss will be offset by service and project agreements with cities. The report back will include potential costs.

REASONS FOR RECOMMENDATION

This recommendation will allow the County to explore an agreement with these four cities, with the goal of rectifying this funding inequity in a way that is satisfactory to the County.

These four cities currently contract with the County for several key services within their communities. These include, but are not limited to, contracting for Sheriff, Disaster Preparedness and Library Services. In addition, the cities have worked with us in recent years to annex County pockets and reduce our costs of servicing these neighborhoods under a good government approach. All of the cities have expressed a willingness to discuss other agreements for services with the County in exchange for their TEA funding. They understand the County's financial picture and are interested in a win-win situation as a result of these meetings. To encourage discussion along these lines, the cities have prepared a list of potential services and funds that they would be willing to provide to the County in exchange for the TEA funds (see attachment A).

We have requested that this item be referred to staff so that they might review the cities' proposals and develop a County list of proposed services. If these negotiations prove fruitful, the state legislature will need to enact legislation changing the TEA formula for these cities. Several legislators have offered to assist in this effort. In order to meet legislative deadlines, the cities and County must develop a tentative agreement by early this year that they can present to the legislature for passage in 2006. It is recommended that the legislative process be allowed to proceed so that any agreement could be put in place in 2006.

BACKGROUND

When Proposition 13 passed in 1978, it froze property taxes at their current levels. This action created significant problems for cities that at the time had low property tax rates, because they couldn't raise those rates to meet their community needs. In Santa Clara County, four cities

were significantly below the average rate: Los Altos Hills, Cupertino, Saratoga and Monte Sereno.

Section 98 of the California Revenue and Taxation Code was passed to correct this situation, giving qualified cities what is referred to as Tax Equity Allocation (TEA). If the County accepted trial court funding, it also had to provide at least 7% of the property tax to its cities. Santa Clara County told its TEA cities that the amount of revenues the County would receive from trial court funding would not offset the amount it would lose by bringing its TEA cities up to 7%.

Consequently, State Senator John Vasconcellos, representing much of Santa Clara County, authored an amendment which limited the four TEA cities in Santa Clara to just 55% of what other TEA cities in the state received; (55% of the 7% floor of the 1% of assessed valuation). The four TEA cities in the Santa Clara County are the only cities in the state disadvantaged by this legislation.

The amount of money lost each year, while amounting to just 2/10 of 1% of the County's budget, is significant to these small cities. In recent years these cities and the County have made several attempts to change this formula, but these efforts were unfruitful largely because the County was concerned about losing this revenue stream during a period of fiscal restraint. The last attempt was in 2001, and though the cities and County were unable to reach agreement, they agreed to revisit this issue when everyone felt it was possible to create a win-win solution for all parties.

Understanding this, the cities recently decided to take a different approach. Given the inherently political nature of this issue, they have decided to focus on the development of an agreement between County Supervisors and elected officials from each city. It is felt that this approach would focus less on budget items and more on larger policy issues that need to be resolved for an agreement to take place.

While the cities understand the County's reluctance to change current policy, they feel it is possible to change the TEA formula in a way that is fair to the County.

CONSEQUENCES OF NEGATIVE ACTION

Trends in government funding and rising costs of providing service have necessitated the need for partnerships at the regional and local levels. The future will bring increased needs for such agreements between agencies to leverage both funding and service delivery – and to show our citizens that we provide efficient and effective government. The County has been very successful in the past in providing public safety, library, and other services to these communities. In return they have been cooperative in sharing street maintenance, park improvements and residential services. Failure to meet with the cities to negotiate a beneficial outcome for all agencies may jeopardize this partnership philosophy that has been so beneficial.

STEPS FOLLOWING APPROVAL

County staff will meet with city representatives and consultants, to explore the possibility of developing a mutually beneficial amendment to the current TEA agreement with the cities for consideration by the Finance and Government Operations Committee. Any legislative action that needs to occur should also be discussed in the meeting.

ATTACHMENTS

- TEA.History
- AttachA

County of Santa Clara

Office of the County Executive

County Government Center, East Wing
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San Jose, California 95110
(408) 299-2424



CO

TO: DAVE ANDERSON, SARATOGA CITY MANAGER
DAVID KNAPP, CUPERTINO CITY MANAGER
MAUREEN CASSINGHAM, LOS ALTOS HILLS CITY MANAGER
BRIAN LOVENTHAL, MONTE SERENO CITY MANAGER

FROM: RICHARD WITTENBERG *R.W.*
COUNTY EXECUTIVE

DATE: JUNE 28, 2001

SUBJECT: TEA HISTORY

I think we had a good meeting recently about the TEA issue and reached some understanding about each other's perspectives. You asked the County to chronicle the history of this issue to fill in some gaps for you. I hope the following achieves that end.

The first Trial Court Funding Legislation was passed in 1988 and provided for over \$400 million in State revenues to partially fund the trial courts which, up to that time, had been funded solely by counties. The State acknowledged that in fact these courts were State courts and that counties should not have to bear the burden. They also acknowledged that counties had significant fiscal problems as a result of ballot and State action and the Trial Court Funding measure was an attempt to provide some relief. Twenty of the smallest counties had their entire trial court costs bought out by the State and the rest were told that the 1988 legislation was a down payment and that additional costs would be picked up by the State in the future.

Language was added to the legislation as it was progressing that provided for payments from county property tax dollars to cities that were considered "no and low property tax cities". These cities were defined as those that after Proposition 13 had a property tax rate of less than ten percent. The cities in Santa Clara County were Cupertino, Saratoga, Los Altos Hills and Monte Sereno. The other cities were primarily located in Los Angeles County and Ventura County. The amendment required that counties begin transferring some of their property

taxes to these cities to bring them up to a seven percent property tax rate over time.

Our argument at the time against this amendment was that all of these cities were "contract cities". The four cities in this County contracted with the Sheriff for police services, which costs less than operating their own police departments. Also, these cities were part of the Central Fire District. If you added the Fire District tax rate to the cities' rates, they would all be well over the ten percent and consistent with the other cities in the county. (Attachment 1 shows current rates.) Counties were not successful in their arguments and the legislation passed with the TEA amendment.

After the legislation was signed, the County Executive met with the City Managers of the four cities to determine if they were amenable to minimizing the impact of the TEA property tax transfer. It was pointed out that the County's property tax rate of 26% was below the 33% average for counties. (This disparity remains since the ERAF transfer.) After several discussions, the cities agreed to accept 55% of what the chaptered legislation said they were entitled to and agreed to support new legislation that would provide for that in Santa Clara County. That legislation was enacted with the cities' support in 1989 and the TEA transfer was phased in as required. In the current fiscal year, over \$3 million in County property tax revenue was transferred to the four cities.

I want to emphasize that in addition to the TEA revenue received by the cities, the cities have received some additional benefits from the County:

- Statute requires that a TEA transfer be reduced dollar for dollar by any amount of tax revenue eliminated by that city. The City of Saratoga voters eliminated their utility users tax of approximately \$ 730,000. Instead of completely eliminating the TEA transfer in the applicable year, the County offered to reduce the transfer in three steps of 33% each over three years. This saved the City \$730,000 and cost the County a like amount.
- Later, when the voters of Saratoga approved a bond issue for the new library, the County did not oppose legislation which allowed the former utility tax to be replaced with debt service revenue and reinstated the TEA transfer. This will cost the County \$ 730,000 per year as long as the annual debt service equals or exceeds that amount.
- Through a miscalculation on the part of the County, the ERAF shift for the TEA cities was backfilled by the County for several years, costing the County \$2.6 million. Instead of recovering the overpayment, the County decided to forgive the overpayment and let the TEA cities keep the \$2.6 million.

- When the local fire districts, including Saratoga, Los Altos, South County and Central Fire, were threatened with a significant loss in property taxes, the County made forgiveness legislation its highest legislative priority for two years. That effort saved the fire districts approximately \$13 million. This was of direct benefit to the TEA cities which all depend on these fire districts.

I believe we all left the meeting with the understanding that the County would be supportive of efforts that could help the cities, but not at the expense of the County. We would be happy to work with you to achieve greater financial stability for your cities and the County.

Attachment

cc: Jane Decker, Deputy County Executive
John Guthrie, Director, Finance Agency
Dave Elledge, Controller-Treasurer

City	TEA City	TRA	Acct	City/Fire Share of Tax	
				Detail	Total
Campbell		010-006	00901	0.1334945646	0.1334945646
Gilroy		002-001	01901	0.1293115351	0.1293115351
Milpitas		012-003	03401	0.1803140611	0.1803140611
Morgan Hill		004-001	03901	0.1379574134	0.1379574134
Mtn. View		005-001	04401	0.2003815069	0.2003815069
Palo Alto		006-014	05001	0.1202294931	0.1202294931
San Jose		041-341	05401	0.1951868061	0.1951868061
Santa Clara		007-007	05905	0.1189250867	0.1189250867
Sunnyvale		009-000	06403	0.1641434793	0.1641434793
Los Altos w/Fire		011-001	02401	0.1506466341	0.1506466341
Los Altos no Fire		011-069	02401	0.0487583767	
Fire		011-069	23036	0.1156506350	0.1644090117
Cupertino	Yes	013-003	01401	0.0223600481	
Fire		013-003	23018	0.1509126349	0.1732726830
Los Gatos		003-001	02651	0.1204020765	
Fire		003-001	23018	0.1312962427	0.2516983192
Los Altos Hills	Yes	014-010	02601	0.0432236156	
Fire		014-010	23036	0.1025226624	0.1457462780
Monte Sereno	Yes	016-001	03801	0.0082698844	
Fire		016-001	23018	0.1461492938	0.1544191782
Saratoga	Yes	015-001	06101	0.0335164787	
Fire		015-001	23018	0.1424287534	0.1759452321

TEA Transfer per AB 8 Calculation

		FY0506	FY0405	FY0304	FY0203	FY0102	FY0001
Cupertino							
AB8 before TEA	a	\$ 1,666,059	\$ 1,551,326	\$ 1,501,565	\$ 1,438,210	\$ 1,404,304	\$ 1,224,643
Current TEA @ 55%	b	\$ 2,719,363	\$ 2,511,868	\$ 2,428,899	\$ 2,271,590	\$ 2,186,814	\$ 1,910,745
AB8 after TEA	c=a+b	\$ 4,385,422	\$ 4,063,194	\$ 3,930,464	\$ 3,709,800	\$ 3,591,117	\$ 3,135,389
If TEA @ 100%	d	\$ 4,944,296	\$ 4,567,033	\$ 4,416,179	\$ 4,130,164	\$ 3,976,025	\$ 3,474,082
County additional loss if TEA @ 100%	e=b-d	\$ (2,224,933)	\$ (2,055,165)	\$ (1,987,281)	\$ (1,858,574)	\$ (1,789,211)	\$ (1,563,337)
Los Alto Hills							
AB8 before TEA	a	\$ 1,349,087	\$ 1,226,706	\$ 1,131,875	\$ 1,059,022	\$ 1,034,524	\$ 849,059
Current TEA @ 55%	b	\$ 500,926	\$ 456,535	\$ 421,983	\$ 396,319	\$ 381,417	\$ 313,976
AB8 after TEA	c=a+b	\$ 1,850,014	\$ 1,683,240	\$ 1,553,858	\$ 1,455,341	\$ 1,415,940	\$ 1,163,035
If TEA @ 100%	d	\$ 910,775	\$ 830,068	\$ 767,241	\$ 720,579	\$ 693,485	\$ 570,866
County additional loss if TEA @ 100%	e=b-d	\$ (409,849)	\$ (373,528)	\$ (345,259)	\$ (324,261)	\$ (312,068)	\$ (256,890)
Monte Sereno							
AB8 before TEA	a	\$ 57,586	\$ 52,121	\$ 49,271	\$ 45,612	\$ 43,932	\$ 36,792
Current TEA @ 55%	b	\$ 399,233	\$ 360,606	\$ 340,786	\$ 315,441	\$ 301,595	\$ 252,000
AB8 after TEA	c=a+b	\$ 456,819	\$ 412,727	\$ 390,056	\$ 361,053	\$ 345,526	\$ 288,792
If TEA @ 100%	d	\$ 725,878	\$ 655,646	\$ 619,610	\$ 573,530	\$ 548,354	\$ 458,181
County additional loss if TEA @ 100%	e=b-d	\$ (326,645)	\$ (295,041)	\$ (278,825)	\$ (258,088)	\$ (246,759)	\$ (206,182)
Saratoga							
AB8 before TEA	a	\$ 2,012,377	\$ 1,827,178	\$ 1,718,742	\$ 1,604,068	\$ 1,550,284	\$ 1,318,576
Current TEA @ 55%	b	\$ 1,532,918	\$ 1,392,602	\$ 1,308,728	\$ 1,220,469	\$ 1,156,947	\$ 577,244
AB8 after TEA	c=a+b	\$ 3,545,294	\$ 3,219,780	\$ 3,027,470	\$ 2,824,537	\$ 2,707,231	\$ 1,895,820
If TEA @ 100%	d	\$ 2,787,123	\$ 2,532,003	\$ 2,379,506	\$ 2,219,035	\$ 2,103,540	\$ 1,049,534
County additional loss if TEA @ 100%	e=b-d	\$ (1,254,205)	\$ (1,139,401)	\$ (1,070,778)	\$ (998,566)	\$ (946,593)	\$ (472,290)

Santa Clara County - tax loss to TEA cities

Current TEA @ 55%	sum b	\$ 5,152,439	\$ 4,721,610	\$ 4,500,395	\$ 4,203,819	\$ 4,026,772	\$ 3,053,965
If TEA @ 100%	sum d	\$ 9,368,072	\$ 8,584,745	\$ 8,182,537	\$ 7,643,308	\$ 7,321,404	\$ 5,552,663
County additional loss if TEA @ 100%	sum e	\$ (4,215,632)	\$ (3,863,135)	\$ (3,682,141)	\$ (3,439,488)	\$ (3,294,632)	\$ (2,498,699)

City	Population	Potential Projects--FOR DISCUSSION ONLY
Cupertino	51,000	Assume maintenance for Creston area and Stevens Canyon Road; annex Creston, if possible politically; annex Quarry area; assume maintenance for Stevens Creek County park; take over library or assume some/all library costs
Los Altos Hills	8,000	Expand senior and recreation services and funding
Monte Sereno	3,800	3-5 yr road/storm maintenance contract for at least the amount of TEA funds; fund storm drain expansion or other specific County project benefiting the city
Saratoga	30,000	Give CDBG funds back to County; restore cuts to Sheriff's Office (2 traffic deputies, DARE and School Resource Officers) Assume routine road maintenance on Mt. Eden Rd. from Villa Oaks to City Limits and Bainter Rd. City limits to Redberry Rd and Redberry from Bainter to end. Take over signal Maintenance at Lawrence Expressway at Saratoga Ave. Also roadside litter and landscape maintenance along Lawrence with in the City limits)
General		Some cities already give their CDBG funding to the County, this practice could be reviewed and expanded; cities will consider "maintenance of effort" contracts with County in which the County might provide services that are currently performed by other entities; Cities will also consider other County proposals on a case by case basis. It must be noted that all projects in this list are for discussion only, and do not constitute a commitment on the part of any city.