File #: 2020-0841, **Version:** 1

To: Board of Supervisors
Department or Agency Name(s): Auditor-Controller Treasurer-Tax Collector
Staff Name and Phone Number: Dawn Calahan (707) 565-3294
Vote Requirement: Majority
Supervisorial District(s): All

Title:

Annual Financing for the Alternative Method of Property Tax Allocation (Teeter Plan) for delinquent property taxes for the fiscal year ending 2019-20

Recommended Action:

Approve resolution authorizing the $13,091,900 annual financing used to advance delinquent taxes to taxing jurisdictions in fiscal year 2019-20 and renew the issuance of $7,894,000 in prior delinquent tax anticipation notes as authorized by the Alternative Method of Property Tax Allocation.

Executive Summary:

In 1949, the State Legislature adopted Revenue and Taxation code sections 4701-4722 which authorized the Alternative Method of Property Tax Allocation. This alternative method was proposed by Mr. Desmond Teeter, the Auditor-Controller for Contra Costa County, and is now commonly referred to as the Teeter Plan. Under the alternative method, counties allocate current secured property tax revenues based on total property tax billed but not yet paid; whereas, the previous cash method only allows allocation of paid secured property taxes. This alternative method provides for more stable and reliable annual property tax revenues, and simplifies the property tax estimation and allocation process. This requested action will allow for the continued operation of the Alternative Method of Property Tax Allocation for another year and has no impact on Teeter revenues currently budgeted in Fiscal Year 2020-21.

Discussion:

Due to budget shortfalls in the early 1990's, the 1993 State budget included the 1993-94 Educational Revenue Augmentation Fund (ERAF II) shift, which transferred property tax revenues from counties to schools for the second consecutive year. SB742 was passed by the State Legislature and allowed counties that implemented a Teeter Plan to take a one-time credit against the ERAF shift. In June 1993 with the endorsement of taxing jurisdictions, the Sonoma County Board of Supervisors approved the Alternative Method of Property Tax Allocation.

Under the alternative method, taxing jurisdictions, including the County General Fund, receive their portion of current secured taxes that are delinquent at year-end. State law allows these property tax advances to be funded through the issuance of Delinquent Tax Anticipation Notes (Notes). Notes are issued for a term of one year and are renewable for up to ten consecutive one-year terms. As security for the Notes, the County pledges all secured taxes to be collected which were delinquent and advanced to taxing jurisdictions. The principal balance of the Notes is reduced as property owners pay delinquent taxes or from the proceeds of the sale of tax-defaulted properties. Repayment of these Notes can take several years and, under the County's Teeter Plan, the Board of Supervisors (Board) is required to annually approve each year's delinquency Note for the outstanding principal amount. Interest on the Notes is paid from the Tax Loss Reserve Fund.

The Tax Loss Reserve Fund is made up of penalties and interest portion of delinquent secured tax, and is required by state law to maintain a minimum of 1% of the current secured property tax levy to ensure that sufficient funds are available to repay the Notes in the event that the full value of the delinquent taxes are not recovered. In FY 2009-10, the Board adopted a Teeter Policy that established a restricted reserve requirement equal to 2% of the levy. In FY 2015-16, the Board temporarily reduced the reserve target to 1.25% to finance a one-time roads pavement preservation investment with the objective of re-establishing the 2% reserve from the future collection of penalties. The Tax Loss Reserve Fund is projected to have a balance of $16.2 million at June 30, 2021. This projected balance includes the estimated impact of COVID-19-related delinquent penalty waivers pursuant to the Governor's Executive Order N-61-20, and is $1.9 million greater than the temporarily reduced reserve target of 1.25% and $6.8 million short of the 2% reserve policy.

The delinquency rate and delinquent secured tax amount have increased since the last reporting period:

- Delinquent secured taxes totaled $21.0 million at the start of FY 2020-21, up from $15.7 million at the start of FY 2019-20.
- The secured roll delinquency rate increased from 0.81% in 2018-19 to 1.19% in FY 2019-20.

Interest expense on the Notes is calculated on the outstanding balance of delinquent secured taxes and is estimated to be $175,000 in FY 2020-21.

A detailed breakdown of the prior delinquent tax anticipation notes being renewed is included in the Resolution (Attachment 1).

Prior Board Actions:
June 29, 1993: Adopted the Alternative Method of Property Tax Allocation. August 31, 1993: Implemented the Alternative Method of Property Tax Allocation & approved financing. Each year thereafter annually approve financing.

FISCAL SUMMARY

Expenditures	**FY 20-21 Adopted**	**FY 21-22 Projected**	**FY 22-23 Projected**
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			

General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:
Click or tap here to enter text.

Staffing Impacts:			
Position Title (Payroll Classification)	**Monthly Salary Range (A-I Step)**	**Additions (Number)**	**Deletions (Number)**

Narrative Explanation of Staffing Impacts (If Required):
Click or tap here to enter text.

Attachments:
Attachment 1- Resolution Authorizing The Issuance Of County Of Sonoma 2020-1 Delinquent Tax Anticipation Note
Attachment 2- Notes for renewal of Series 2010-1, 2011-1, 2012-1, 2013-1, 2014-1, 2015-1, 2016-1, 2017-1, 2018-1 and 2019-1 Sonoma County Delinquent Tax Anticipation Note and for issuance of Series 2020-1 Delinquent Tax Anticipation Note

Related Items "On File" with the Clerk of the Board:
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