Larry Haugh

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Auditor-Controller BOARD AGENDA # *B-7

Urgent ☐ Routine ☒ AGENDA DATE September 9, 2008

CEO Concurs with Recommendation YES ☒ NO ☐ (Information Attached) 4/5 Vote Required YES ☐ NO ☒

SUBJECT:

Approval to Reduce Tax Loss Reserve Funding Level to 1% of Secured Taxes and Assessments as Provided in Revenue and Taxation Code 4703/Teeter Plan - Auditor-Controller

STAFF RECOMMENDATIONS:

1. Approve the reduction of the Tax Loss Reserve Funding level to 1% of secured taxes and assessments in order to minimize reserve requirement (Revenue and Taxation Code 4703).

2. Authorize the Stanislaus County Auditor-Controller and Treasurer to take such action as may be permitted by law to enact this change.

FISCAL IMPACT:

On December 14, 1993, the Board of Supervisors approved the County's participation in and implementation of the alternative method of tax apportionments known as the "Teeter Plan." Stanislaus County's benefit from the one-time "buyout" of delinquent property taxes was approximately $3.5 million. In addition to this, Stanislaus County received a one-time benefit from the "Teeter Credit" of approximately $8 million. A County that opted into the plan that year was allowed to use their previous years' apportionment factor, which was known as the "Teeter Credit". Under the Teeter Agreements taxing agencies are made whole for their secured property taxes and bonded indebtedness. In return the County earns interest (1 ½ % per month) and penalties (10%) on the taxes outstanding.

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BOARD ACTION AS FOLLOWS:

No. 2008-641

On motion of Supervisor Monteith, Seconded by Supervisor DeMartini and approved by the following vote,
Ayes: Supervisors: O'Brien, Grover, Monteith, DeMartini and Chairman Mayfield
Noes: Supervisors: None
Excused or Absent: Supervisors: None
Abstaining: Supervisor: None
1) X Approved as recommended
2) ____ Denied
3) ____ Approved as amended
4) ____ Other:
MOTION:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk File No.

FISCAL IMPACT (continued):

Adoption of the Teeter Plan also required implementing a Tax Loss Reserve Fund and selection of the methodology to determine the funding level. The purpose of this fund was to cover losses that may occur in the amount of tax liens recoverable from the sale of tax-defaulted property. There are two options available to determine the level of funding in the Tax Loss Reserve Fund. The first level of funding being 1% of the total of all taxes and assessments levied on the secured roll. The second option is 25% of the total delinquent secured taxes and assessments for participating entities. The County adopted this latter funding option.

Funds in the Tax Loss Reserve Fund that exceed the requirement can be transferred to the General Fund. With the increase in delinquencies the amount of funding required to be maintained in the Tax Loss Reserve Fund has risen significantly and therefore has prompted a reexamination of this funding level option. A funding amount of $10,983,191 was required under the current 25% delinquent funding option for fiscal year 2007/2008. This was due to an increase in property tax delinquencies from 6.59 % to 7.99%. Fluctuations in the delinquency rate can significantly impact available funding resources that come to the General Fund from the Tax Loss Reserve Fund. If the 1% of Secured Taxes methodology had been adopted, the Tax Loss Reserve Fund requirement would have been $4,809,501.

DISCUSSION:

Historically losses that may occur as the result of a sale of tax-defaulted property have been minimal. In the 2007/2008 fiscal year only one loss was experienced for less than $5,000. However, the increase in delinquencies, under the current funding level methodology, has required an increase in the amount of funds set aside in the Tax Loss Reserve Fund. This has impacted the funding that can be made available in the General Fund from the Tax Loss Reserve Fund. While the funding level requirement has increased, there has not been a corresponding increase in losses or exposure. The current adopted reserve requirement is based upon 25% of the total delinquent secured taxes as calculated at the end of each fiscal year.

Approval to change the method to 1% of all taxes teetered would result in a smaller reserve requirement. As interest and penalties are deposited into this account the amount over the requirement becomes discretionary funds available to meet budgetary needs in the 2008/2009 fiscal year. The smaller reserve requirement makes a one-time infusion of available resources and can be budgeted as approved by the Board of Supervisors.

POLICY ISSUES:

Approval of this item will support the Board's priority of "Efficient Delivery of Public Services" and is consistent with Revenue & Taxation Code 4703.

STAFFING IMPACT:

This agenda item will have minimal impact on staff.