



AUDITOR-CONTROLLER INTER-OFFICE MEMO

Date: August 11, 2015
To: Board of Supervisors
From: Tracy A. Schulze
Auditor-Controller
Subject: 2015-2016 Teeter Plan Implementation

At the end of each fiscal year, an analysis is completed in connection with the continued implementation of an Alternate Method of Property Tax Allocation (hereafter "Teeter Plan"). Based on the analysis, I am requesting the following action to complete the process:

Adoption of the Resolution for Teeter Plan implementation for fiscal year 2015-2016. This action provides the authority to:

- a. Establish the minimum balance for the Tax Loss Reserve Fund in accordance with Section 4703.2 of the Revenue and Taxation Code;
- b. Create the 2015 Teeter Repayment Fund;
- c. Issue a Note to Fund Prepayment of 2014-2015 Delinquent Taxes; and
- d. Execute the Note.

Teeter Plan Implementation

On April 5, 1994, the County completed the appropriate authorizations for implementing the Teeter Plan in Napa County. The benefit to the County's General Fund over the past twenty-two fiscal years has been approximately \$15.3 million. We are estimating the 2015-2016 Tax Loss Reserve Fund (hereafter "Fund") will generate approximately \$500,000 which is reflected in the County's General Fund budget.

Establish the Minimum Balance for the Tax Loss Reserve Fund

The minimum balance that must be included in the Fund is set forth in the Revenue and Taxation Code Section 4703. There are two alternate methods of computing the minimum. The first method requires the Fund to maintain a minimum balance of no less than 1% of the total of all taxes levied on the secured roll for the year involved (hereafter "Section 4703 method"). The second method requires the Fund to maintain a minimum balance of not less than 25% of the total delinquent secured taxes of all participating entities as of the end of the fiscal year (hereafter "Section 4703.2 method").

In recent years, the Board has opted to utilize both the Section 4703 method and the Section 4703.2 method; whichever was most advantageous to the County. For the 2014-2015 year the County opted to use the Section 4703.2 method.

The Auditor-Controller's office has completed an analysis of which method would offer the most benefit to the County. The Section 4703 method (1% of the total of all taxes levied on the secured roll) requires a minimum balance in the Fund of \$3,254,300. The Section 4703.2 method (25% of the total prior year's delinquent secured taxes) requires a minimum balance in the Fund of \$1,258,055. Since the Section 4703.2 method will be most beneficial to the County's General Fund, it is recommended for fiscal year 2015-2016 the County use the Section 4703.2 method. The cash balance in this Fund as of 6/30/15 is \$6.5 million net of future commitments and fund

reserve requirement. The attached resolution includes the use of the Section 4703.2 method of determining the balance in the Fund for fiscal year 2015-2016.

Issue a Promissory Note with the Treasurer and Create a Reserve Fund

Each year a note must be issued to fund the payment of the prior year's delinquent taxes. The structure of the attached note is identical to those of the previous twenty-two years. The 2015 Note is for \$2,329,880 and is between the County of Napa and the Treasurer of Napa County. The amount represents the 2014-2015 delinquencies for those taxing agencies included in the Teeter Plan. The note is for five years with the interest rates as stated in the note. The note also requires that the general fund must contribute a reserve amount for potential uncollected delinquencies. The reserve amount for the 2015 Note is \$69,896.

Each note is issued for five years. The County has previously issued twenty-two notes (commencing in 1993), the present note being the twenty-third and is continuing the fifth five-year cycle. The County's Central Services budget (Subdivision 1052000) has an appropriation each year to pay the interest for the outstanding notes and the reserve amount for the new note issued. The source of revenue to support the appropriation is the Tax Loss Reserve Fund. This cycle of notes will continue as long as the County uses the Teeter Plan to apportion taxes.

Please see Attachment "A" for the history of Teeter Notes issued.

Conclusion

The above items need to be reviewed and the necessary recommended actions taken in order to fully implement the Teeter Plan for the 2015-2016 fiscal year.

I will be available at the Board meeting to answer any questions you might have regarding the ongoing implementation of the Teeter Plan.

Attachment A - History of Teeter Notes Issued

The following table details the twenty-two notes that have previously been issued and the new 2015 Note affected by your action today.

Note	Year Matured or Paid Off	Delinquency Rate for Current Secured at Date of Issuance	Original Principal	Outstanding Note Balances 6/30/15
1993	1998	NA	\$5,952,213	\$0
1994	1999	NA	2,730,795	0
1995	1999	NA	2,500,781	0
1996	2000	NA	2,106,087	0
1997	2001	NA	2,094,137	0
1998	1999	NA	1,227,754	0
1999	2003	NA	1,887,177	0
2000	2003	1.57%	1,572,934	0
2001	2006	1.68%	2,035,165	0
2002	2007	1.56%	2,009,986	0
2003	2008	1.78%	2,524,243	0
2004	2008	1.47%	2,263,932	0
2005	2008	1.81%	2,886,199	0
2006	2011	1.66%	3,972,372	0
2007	2012	2.32%	5,339,600	0
2008	2013	3.33%	7,686,681	0
2009	2014	3.58%	9,308,650	0
2010	2015	2.82%	6,920,620	0
2011	2016	2.15%	4,952,007	586,112
2012	2017	2.35%	4,271,055	433,565
2013	2018	1.62%	3,252,981	681,376
2014	2019	1.42%	2,310,450	825,889
2015	2020	1.27%	2,329,880	NA
Totals			\$82,135,699	\$2,526,942