

7/16/93
DATE

116.
AGENDA ITEM #

() APPROVED () DENIED

() CONTINUED TO _____

TO: Rich Ramirez, City Manager
FROM: Mike Compton, Director of Administrative Services 
SUBJECT: Alternative Method of Tax Apportionment
DATE: June 15, 1993

Need: For the City Council to consider approval of a resolution agreeing to an alternative method of property tax apportionment.

- Facts:
1. The County of San Luis Obispo is considering an alternative method of property tax apportionment.
 2. This alternative method is commonly referred to as the "Teeter Plan" and is authorized under the Revenue and Taxation Code, Section 4701.
 3. The County is considering this alternative method because based upon the property tax shift as currently proposed by the State legislature this method would soften the financial blow to the County.
 4. The County has the authority as the legal depository for property taxes to include all County Board governed special districts, schools and other districts such as fire, cemetery and sanitary, etc. This authority does not extend to cities.
 5. If the City of Paso Robles were desirous of participating in the financial benefits of this alternative method of property tax apportionment, the City Council must adopt by July 15, 1993 a resolution authorizing participation.
 6. Adoption of the resolution does not prevent the City from opting out later if the alternative method is determined not to be in our City's best interest. The ability to opt out is availability to the City until September 30, 1993.

Analysis and

Conclusion: Depending upon the final out come of the State proposed property tax shift, there would appear to some benefit to the City's participation in the alternative method of property tax apportionment.

As stated above, adoption of the participation resolution reserves the City's ability to benefit from the alternative methodology. Should further analysis and study after the

state budget is adopted indicate that the new methodology is not beneficial to the City, the City may opt out.

Fiscal

Impact:

The actual impact is unknown. Based upon current State budget proposals, the City would experience some degree of benefit from participating in the alternative method of property tax apportionment.

Options:

1. That the City Council approve a resolution indicating the City's desire to participate in the "Teeter Plan" methodology for property tax apportionment; or
2. That the City Council not approve a resolution indicating the City's desire to participate in the "Teeter Plan" methodology for property tax apportionment; or
3. Amend, modify or reject any of the options above.

A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF EL PASO DE ROBLES AGREEING THAT THE
ALTERNATIVE METHOD OF DISTRIBUTING PROPERTY
TAX LEVIES AND ASSESSMENTS BE APPLICABLE TO
THE TAX LEVIES MADE BY THE COUNTY OF SAN LUIS
OBISPO ON THE BEHALF OF THE CITY OF EL PASO DE ROBLES

WHEREAS, on or before July 15, 1993, the County of San Luis Obispo will consider making the election provided in the Revenue and Taxation Code, Chapter 3, Part 8, Division 1 (beginning with Section 4701) which authorizes an alternative method for the distribution of property tax levies and assessments on the secured roll for the 1993-94 fiscal year and fiscal years thereafter as well as for delinquencies for prior fiscal years; and

WHEREAS, the County is prohibited from using such alternative method for any public agency for which the County treasury is not the legal depository unless such public agency agrees thereto by resolution of the public agency's governing board adopted no later than July 15, 1993; and

WHEREAS, the City Council of the City of El Paso de Robles is desirous of participating in said alternative method of distributing property tax levies and assessments.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of El Paso de Robles that upon the County's election to implement the alternative method of distributing property tax levies and assessments as authorized by the Revenue and Taxation Code, Chapter 3, Part 8, Division 1 (beginning with Section 4701) the County shall apply the same distribution formula for property tax levies and assessments to the City of El Paso de Robles.

APPROVED AND ADOPTED by the City Council of the City of El Paso de Robles this 6th day of July, 1993 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Christian Iversen, Mayor

Attest:

Richard J. Ramirez, City Clerk

County of San Luis Obispo
Office of the Auditor-Controller

Room 300 County Government Center
San Luis Obispo, California 93408
(805) 781-5040 FAX (805) 781-1220



GERE W. SIBBACH, CPA
Auditor-Controller

BILL ESTRADA
Assistant

TO: CITIES AND LOCAL TAXING DISTRICTS

FROM: GERE SIBBACH, COUNTY AUDITOR-CONTROLLER *GS*
ROBERT HENDRIX, COUNTY ADMINISTRATIVE OFFICER *RE*

DATE: JUNE 11, 1993

SUBJECT: ALTERNATIVE METHOD OF TAX APPORTIONMENT
(R&T CODE SECTION 4701 et seq "Teeter Plan")

On or before July 15, 1993, we will be asking the SLO County Board of Supervisors to consider adopting the alternative method of tax apportionment which has been an option for counties for many years. The method is commonly known as the "Teeter Plan" and is authorized under Section 4701 et seq of the Revenue and Taxation Code.

We believe it is necessary for the County to position itself to take advantage of this alternative because of the likelihood of additional tax shifts next fiscal year by the state legislature. Depending on the specifics of the actual tax shift legislation, the one-time benefit of collecting prior year taxes in the first year of implementation of the Teeter Plan could significantly soften the financial blow to the County, the Cities, and the Special Districts without harming the local schools in any way. It would also provide a predictable cash flow from secured property taxes in future years, without the worry of delinquent taxes. The Teeter Plan could be a win-win situation for the County and other taxing agencies. However, we strongly recommend that your agency not count on the use of this new revenue until the State and Local Budget processes are complete. Attached is an issues paper with more details.

Under the law, "Public Districts" for which the County Treasury is the legal depository would automatically be included in the Teeter plan. This would include all County Board-governed special districts, all schools, fire, sanitary, and cemetery districts. Any "Public District" for which the County Treasury is not the legal depository (even if it voluntarily uses the Treasury Pool) can participate in this alternative method only if the governing board of the district adopts a resolution on or before July 15. This would include cities, community service districts, and other independent districts. Attached is a sample resolution which would meet this requirement.

Alternative Method of Tax Apportionment
June 11, 1993
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We have also attached some rough calculations for a typical agency which show a comparison of the current method and the Teeter method of distribution for Year 1 and Year 2. When the state budget details are known (and the details of the shift mechanism are clear), an actual comparison could be made for each agency. We believe, however, that the mathematics of the Teeter Plan would always create a significant one-time benefit for taxing agencies in the first year of implementation.

If after examining the actual state budget and its implementing legislation we find that this alternative method is not financially advantageous to the County, sometime before the 1993-94 property tax bills are mailed, we will recommend that the Board of Supervisors rescind their decision to adopt the Teeter Plan. We would then proceed to allocate taxes to all agencies as would have been done under existing law and procedures for the 1993-94 fiscal year and all prior years. On the other hand, should the County decide to implement the Teeter Plan, we also see no reason why any individual City or District could not rescind their decision to "opt in" as long as such decision was made prior to September 30, 1993. After that date, we would normally begin the tax allocation processes and a decision to "opt out" by a City or District would be too late to implement for that year.

We apologize for the short time frames for your agency to act. We only recently became aware of the potential advantages of this method ourselves. Nevertheless, under existing law your agency must act by July 15, 1993 to keep its option open to "opt in". The possibility to "opt out" will be available to your district through September 30, 1993. We would be willing to schedule some meetings with your representatives during the month of August to fully describe the mechanisms involved, and (hopefully) to review the impact of the State Budget settlement.

We have also scheduled a meeting next Thursday, June 17, to answer any questions you may have about the Teeter Plan, based on the current law. The informational meeting will be held from 3:00 PM to 5:00 PM in the City/County Library Conference Room (Corner of Palm and Osos in SLO, small conference room downstairs). In the meantime, you may call Gere Sibbach or Marsha Stillman in the Auditor's Office at 781-5037 if they can be of assistance to you.

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ALTERNATE METHOD OF TAX APPORTIONMENT (TEETER)

Background:

In 1949, the State Legislature adopted Revenue and Taxation Code section 4701 which authorized the "Alternative Method of Property Tax Distribution". This alternative method was proposed by the Contra Costa Auditor-Controller whose last name was Teeter, and therefore, the method is sometimes referred to as the "Teeter" plan. As stated in section 4701, "It is . . . the object of this alternative procedure to accomplish a simplification of the tax-levying and tax-apportioning process and an increased flexibility in the use of available cash resources". This method has been used by Contra Costa County for over 40 years and is used in four other counties (Solano, Siskiyou, El Dorado and Toulomme). It is our understanding that many other counties are considering it for fiscal year 1993/94.

In simple terms, this distribution method authorizes the Auditor-Controller to allocate to agencies 100% of the secured property taxes billed, but not yet paid; whereas, the current method only allows allocation of secured property taxes paid (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest are allocated, when collected, by a separate allocation process. Therefore, the alternate method only requires one allocation process; whereas, the current (old) method requires two allocation processes.

As described later in this issue paper, the alternate method offers the following benefits:

- Simplifies the property tax revenue estimation and allocation process for the agencies and the Auditor-Controller.
- Stabilizes property tax revenues.
- Generates higher property tax revenues during years of higher property tax delinquencies.
- Provides a one time increase in property tax revenues to all taxing agencies.

Potential benefits:

During years in which the delinquent taxes are increasing, each agency would receive more property taxes under the alternate method versus the current method. Likewise, during years the delinquent taxes are decreasing, the opposite would be experienced. During the last three years, delinquent taxes have increased. We believe all taxing jurisdictions would have received more property taxes during this three year time period under the alternate method.

However, the single largest benefit of the alternate method is the one time allocation of the prior years' delinquent property taxes. Once the decision is made to use this method, 95% of delinquent property taxes will be allocated to all agencies as if they had been collected. In addition, as the delinquent property taxes are collected, the Tax Collector collects penalties (10%) and interest (18%). These funds are deposited to a Tax Loss Reserve Fund required by the alternative method. When the total proceeds in this fund exceeds 4% of

the current year property tax levy, the excess is credited to the County General Fund. These penalties and interest will be used to pay interest expense for the tax advances to all agencies.

In addition to the dollar benefits, the alternate method allows the taxing agencies to accurately estimate their annual property tax revenues. Under the alternate method, the agencies know that they will receive 100% of the secured property taxes billed. After the Assessor submits the property tax roll to the Auditor, and the property value changes are calculated, we know the total secured property taxes that will be billed. Based on its allocation factor, each taxing agency will receive 100% of its portion of the total and will not receive delinquent secured taxes and penalties.

Under the current method, estimating the property tax revenues is very complex. First, taxing agencies must obtain, from the Auditor, the total secured property taxes billed. From this amount, they would subtract their estimate of the annual delinquent taxes. This would determine the net Current Year Secured Tax Revenue. Second, they must estimate the amount to be collected on Prior Year Property Taxes and Penalties and Interest. This amount is very difficult to estimate.

Remaining issues:

As mentioned above, during the first year of using the alternate method, it is necessary to pay to the participating taxing jurisdictions an amount equal to the total prior and current delinquent secured property taxes outstanding. In addition, the County must establish a reserve equal to 4% of the total tax levy. We are proposing to use internal financing which would include using all of the one-time Teeter revenue to the County General Fund to finance the required advances and the reserve. As the delinquent property taxes and penalties are collected, we will repay the principal and interest on the borrowing. The excess penalties and interest will go to the Tax Loss Reserve Fund and be distributed to the County General Fund at some time in the future after they equal 4% of the tax levy.

Many California counties are looking into the feasibility of changing to the alternate method. We are in the process of comparing our studies of the effects, determining the best method of financing the plan, and discussing the possible changes to our property tax computer systems.

Steps to Implementation:

- Resolve the issues discussed above.
- Communicate this change to the taxing jurisdictions within San Luis Obispo County.
- Prepare a Board of Supervisors resolution, by July 15, 1993, for adoption.
- Implement any system modifications prior to the first property tax allocation, December, 1993.

DISTRICT "X" OR CITY "Y"
 SAMPLE CALCULATIONS
 NORMAL (CURRENT) METHOD VS. TEETER METHOD

	YEAR 1		YEAR 2 (NO SHIFT)		YEAR 2 (10% SHIFT)	
	Normal	Teeter	Normal	Teeter	Normal	Teeter
Current Secured Tax Receipts	3,653	3,949	3,835	4,146	3,451	3,731
Prior Secured Taxes and Penalties	237	--	249	--	249	--
One-time Buyout of Prior A/R (95%)	--	460	--	--	--	--
Total Receipts	3,890	4,409	4,084	4,146	3,700	3,731
Net Benefit of Teeter	519		62		31	

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