



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

File #: 20-181

Board Meeting Date: 4/7/2020

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Manager

Subject: Alternate Method of Tax Apportionment ("Teeter Plan")

RECOMMENDATION:

Adopt a resolution authorizing the President of the Board to execute an agreement between the County of San Mateo and the Treasurer-Tax Collector regarding the financing of the alternate method of tax apportionment (the "Teeter Plan") for FY 2019 20.

BACKGROUND:

On October 12, 1993, the Board of Supervisors adopted a resolution implementing the Teeter Plan for the 1993-94 tax year. This plan, which has been in effect in San Mateo County since that time, is set forth in Revenue & Taxation Code sections 4701 *et seq.* and allows the apportionment of all secured property taxes to the taxing agencies on the basis of taxes levied, not collected, with all rights to the collection of delinquencies and penalties belonging to the County. The Teeter Plan benefits the cities, school districts, and special districts because they regularly and predictably receive the full amount of taxes levied during a tax year through periodic apportionments from the County Controller. The County benefits because it collects penalties and interest on delinquent taxes which generally exceed the taxes advanced to the other agencies over time.

DISCUSSION:

Pursuant to State law, the second installment of countywide property taxes for fiscal year 2019-20 is due on April 10th of each year (the "Second Installment"). In light of the current novel coronavirus (COVID-19) pandemic, many taxpayers are experiencing financial distress and may be unable to make their Second Installment payment on time.

On April 15th of each year, the County Controller apportions property tax revenues to the taxing entities in the County (the "April Apportionment"). Pursuant to past practice, following the April Apportionment, taxing entities receive 90% of their secured taxes for the fiscal year. With respect to the upcoming April apportionment, the County Controller is required to apportion approximately \$637,000,000 in property tax revenues to cities, school districts, and special districts throughout San Mateo County.

According to the most recent property tax collections information available, it appears that property tax collections this year are trailing collections when compared to FY 2018-19. For example, as of March 31, 2019, property tax collections available for distribution in the April 2019 apportionment were approximately \$332,000,000. In comparison, as of March 31, 2020, property tax collections available for distribution in the April 2020 apportionment were approximately \$290,000,000. Pursuant to State law, the County maintains a "Tax Losses Reserve Fund" for the purposes of funding the payment of property taxes to cities, school districts, and special districts when the funds available from property tax collections, penalties, and interest would otherwise be insufficient for the Controller to make an apportionment. Currently, the Tax Losses Reserve Fund holds approximately \$156,000,000 that is available for the April 2020 apportionment. As a result of the economic uncertainty caused by the COVID-19 pandemic as well as related delays in receiving Second Installment tax payments, and assuming the County delays the receipt of its share of the April Apportionment in the approximate amount of \$72,000,000, additional funds of approximately \$192,000,000 still may be needed in order for the County to satisfy its Teeter obligations to the cities, school districts, and special districts.

During the first year of the County's participation in the Teeter Plan, the County entered into a loan agreement with the Treasurer-Tax Collector in order to fund the December 1993 apportionment payment to cities, school districts, and special districts. In light of the current situation, it is recommended that the County enter into a similar agreement, with the loan to be paid with property tax collections, penalties, and interest that will be received in the coming months. As with the County's 1993 Teeter loan, the interest rate on the loan to be paid by the County will be the earnings rate of the Treasury Pool in the prior quarter, net of costs and fees, provided, however, that such interest rate shall not be less than 0%. The maximum amount of the loan necessary to fund the April 2020 apportionment is estimated to be \$192,000,000, although the exact amount of monies needed will be decreased as additional property taxes are received prior to April 15th.

It should be noted that all property taxes due by the Second Installment date will eventually be paid, as well as, in some cases, penalties and interest. Since 2000, the highest property tax delinquency rate in San Mateo County, even in the midst of the 2008 recession, was approximately 3.44%. As a result, the instant situation primarily reflects issues regarding cashflow as opposed to insufficient revenues. The Treasurer-Tax Collector has confirmed that sufficient liquidity exists in the Treasury Pool to loan the aforementioned funds for the purposes of the April 2020 Apportionment.

This resolution has been reviewed and approved by County Counsel as to form.

FISCAL IMPACT:

Due to ongoing property tax collections the loan amount will likely be less than \$192,000,000. Additionally, assuming that the delinquency rate for FY 2019-20 property tax collections does not exceed 3.44%, it is anticipated that the County will be able to pay off the loan following the quarter ending June 30, 2020. Staff will calculate the actual return and report to the Board of Supervisors in connection with the Board's approval of the FY 2020-21 Adopted Budget in September 2020.