CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

August 7, 2017

The Honorable Edwin Lee
Mayor, City and County of San Francisco
City Hall, Room 200
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

The Honorable Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Ladies and Gentlemen:

Accompanying this letter are four resolutions for your consideration which would change the method by which the City and County of San Francisco (County) allocates and distributes property tax direct levies and collections and tax sale proceeds for those direct levies. This alternative method is commonly called the Teeter Plan, named after former Contra Costa County Auditor-Controller Desmond Teeter who first suggested it in the 1940s. It is anticipated that after 3-4 years of first recouping the costs of buying the outstanding secured tax receivables of these direct levies as of the start of FY 2018-19, the County's general fund would receive about $300,000 - $400,000 in additional revenues annually on average from this change in distribution method, assuming the direct levy amounts, tax delinquency rates, and redemption to avoid tax sale activity remain consistent with the recent past.

How the Teeter Plan works

The taxing entities levying these countywide charges attain greater budgeting certainty from the change of distribution method to the Teeter Plan. Currently, the taxing entities do not know the level of property tax delinquencies that may occur. Under the Teeter Plan, the taxing entities will receive 100% of the total amount of their direct levies from the County, and the County essentially buys out the secured tax receivables and takes on the relatively minor risk of being paid at some future date.

The County benefits by receiving the penalties (currently at 10%) and redemption interest (currently accrues at 1.5% per month or 18% per year) in addition to the original direct levy amount owed by property owners in return for assuming the risks of uncertain payment timing.

The County would need to buy the balance of secured tax receivables on our redemption (defaulted secured) tax roll as of July 1, 2018 for these four direct charges in order to enact the Teeter Plan method in FY 2018-19 for those charges. Fiscal Year 2017-18 is the first in which the San Francisco Bay Restoration Authority's $12 per parcel direct levy will appear on San Francisco property tax bills. However, we do have a snapshot of the approximate balance of secured tax receivables on our redemption tax roll for the other three direct levies proposed as these charges have been levied for several successive years.

As of May 18, 2017, the balance of secured tax receivables was $1,251,069. That balance is comprised of the direct charges that were levied in prior years and remained unpaid along with the 10% penalties and 1.5% per month redemption interest that accrue on unpaid secured property tax charges. If the County had already been utilizing the Teeter method and paying SFUSD and City College based upon their levy versus what was paid by property owners, the County would realize approximately $415,493 in benefit once the amounts owed were redeemed by payment from the property owners or via tax sale proceeds.

The table below provides details for each of the three charges with defaulted taxes on the County's redemption roll as of May 18, 2017:

Direct Levy	Delinquent Tax	Delinquent Penalties and Redemption Interest as of 5/18/2017	Total Accounts Receivable as of 5/18/2017
Special Assessment 89 –SFUSD Facility District	$89,938	$56,731	$146,669
Special Assessment 91 – City College of San Francisco Parcel Tax	$165,347	$65,587	$230,934
Special Assessment 98 – SFUSD Teacher Support	$571,291	$302,175	$873,466
Totals	**$826,576**	**$415,493**	**$1,251,069**

Anticipated financial benefit to the County

For the four fiscal years ending June 30, 2017, the difference between the taxes with delinquency fees and redemption interest collected minus that year's tax levy for the three existing direct levies averaged a net positive cash flow of $405,067 ($223,414 in FY 2013-14 – the first year the City College Parcel Tax was on the tax bill, $474,082 in FY 2014-15, $340,111 in FY 2015-16, and $582,661 in FY 2016-17). This provides us with a sample range of how much the County's general fund may benefit by utilizing the Teeter method – approximately $300,000 to $400,000 in a typical fiscal year.

Because the County will incur an initial cost to buy the secured tax receivables of these direct charges, it would likely take three to four years before the net positive cash flow to the County's general fund offsets the upfront cost.

Who needs to approve the change?

Only the Board of Supervisors' approval is required for any agency whose funds are in the County Treasurer's Investment Pool. This applies to the two SFUSD and the single City College of San Francisco direct charges shown in the table above. The resolutions must be adopted by July 15, 2018 to apply to the 2018-19 Fiscal Year (California Revenue and Taxation Code Section 4702).

For the fourth resolution, relating to the San Francisco Bay Restoration Authority's $12 direct levy, the governing board of the Authority also needs to approve their own resolution authorizing

San Francisco to utilize the Teeter Plan for their charges on our County's property tax bills (California Revenue and Taxation Code Section 4715). The Authority would need to authorize the change for the 2018-19 Fiscal Year and notify the Controller's Property Tax Unit of their governing board's approval by July 15, 2018.

Why not Teeter all the direct levies that may appear on San Francisco property tax bills?
The four proposed direct levies apply countywide and are relatively low, ranging from $12 to $237, thereby limiting the County's overall financial risks. However, the majority of all other direct charges that appear on San Francisco property tax bills apply to limited geographic areas, may be for a limited type of land use (industrial, residential, commercial), can range from thousands to millions of dollars per parcel, or may be City departments' liens created by already unpaid garbage or water bills. The lack of diversification of the properties that comprise the majority of property tax direct levies and the County's lack of control over amounts levied (which are determined by the taxing entities levying the charges) increase the financial risks for the County.

Can we switch back?
Yes. Each fiscal year, the Board of Supervisors has the option of choosing the standard or this alternative method of apportioning property taxes.

If I can answer any questions, please feel free to contact me at 415-554-7593.

Sincerely,

Jamie Whitaker

Jamie Whitaker
Property Tax Manager
Office of the Controller

CC: Ben Rosenfield, Controller

Attachments:

- Resolution titled Teeter Plan Extension – Bay Restoration Authority Parcel Tax
- Resolution titled Teeter Plan Extension – School Facilities Special Tax
- Resolution titled Teeter Plan Extension – City College Parcel Tax
- Resolution titled Teeter Plan Extension – School Parcel Tax