File No. 170954 Committee Item No. 9
Board Item No. 22

COMMITTEE/BOARD OF SUPERVISORS

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Committee: Budget & Finance Committee Date October 5, 2017

Board of Supervisors Meeting Date October 17, 2017

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Completed by: Linda Wong Date September 28, 2017
Completed by: Linda Wong Date October 12, 2017

FILE NO. 170954 RESOLUTION NO.

[Teeter Plan Extension - School Facilities Special Tax]

Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District under the School Facilities Special Tax.

WHEREAS, State law allows the Board of Supervisors to adopt a vehicle for the allocation and distribution of property taxes and tax sale proceeds (California Revenue and Taxation Code Sections 4701 et seq.), the object of which is to simplify the tax-levying and tax-apportioning process and increase flexibility in the use of available cash resources ("Teeter Plan"); and

WHEREAS, In 1993, in Resolution No. 830-93, the Board of Supervisors resolved to adopt the Teeter Plan for the allocation and distribution of property tax levies and collections of tax sale proceeds; and

WHEREAS, State law also allows the Board of Supervisors to extend the Teeter Plan for the allocation and distribution of assessments that are entered on the secured tax roll for any assessment levying agency in the county (California Revenue and Taxation Code Section 4702.5); and

WHEREAS, In June 2010, pursuant to San Francisco Ballot Proposition A, the voters of San Francisco approved the "School Facilities Special Tax"; and

WHEREAS, The Board of Supervisors will levy this parcel tax for the purposes specified in the School Facilities Special Tax; now, therefore, be it

RESOLVED, By the Board of Supervisors of the City and County of San Francisco as follows:

Section 1. That the foregoing recitals are true and correct.

Section 2. The Board of Supervisors hereby extends the Teeter Plan for the allocation and distribution of the School Facilities Special Tax.

Section 3. The extension of the Teeter Plan to the School Facilities Special Tax shall remain in effect unless otherwise discontinued in accordance with applicable law.

Section 4. The officers and employees of the City, including the Controller, Treasurer, and Office of Public Finance, and their respective designees, are hereby authorized and directed to do any and all things necessary or advisable to effectuate the purpose of this Resolution, and all action previously taken by such officers consistent with this Resolution are hereby ratified and approved.

Section 5. This Resolution shall take effect from and after its adoption.

Items 6, 7, 8 and 9 Files 17-0951, 17-0952, 17-0953 and 17-0954	Department: Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The four resolutions extend the Teeter Plan to special taxes levied for (1) the San Francisco Unified School District (SFUSD) under the School Parcel Tax; (2) the Community College District under the City College Parcel Tax; (3) the San Francisco Bay Restoration Authority under the Bay Habitat Restoration Tax; and (4) the SFUSD under the School Facilities Special Tax.

Key Points

- Under the Teeter Plan, counties allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. In exchange, the counties receive the penalties and interest on the delinquent taxes when collected.
- In May 2017, the Board of Supervisors approved the extension to the Teeter Plan to special taxes levied for the Transbay Transit Center Community Facilities District, which was the first instance of San Francisco using the Teeter Plan for special taxes.

Fiscal Impact

- SFUSD and the Community College District are owed $1,944,340 for delinquent special taxes, including penalties and interest as of July 1, 2017. Under the proposed resolutions, the Controller would (a) buy the total amount of the delinquent special taxes, including penalties and interest, from SFUSD and the Community College District, and (b) for each tax year going forward, would allocate all special taxes that are levied to SFUSD and the Community College District, and retain the delinquent taxes, penalties, and interest when collected in accordance with the Teeter Plan.
- The Bay Habitat Restoration Tax of $12 per parcel was approved by the voters in June 2016 and is being collected for the first time in FY 2017-18.
- The Controller's Office would deduct approximately $1.94 million in General Fund revenues to the City in FY 2017-18 in order to purchase an estimated $1.94 million in existing delinquent special taxes from SFUSD and the Community College District.
- The Controller's Office estimates that the City's General Fund would receive about $300,000-$400,000 in additional revenues annually on average under the Teeter Plan. The City would be fully repaid for the estimated $1.94 million purchase of existing delinquent special taxes in approximately five to six years, and in subsequent years the additional revenues would accrue to the General Fund.

Recommendation

- Approve the proposed resolutions.

MANDATE STATEMENT

California Revenue and Taxation Code Sections 4701 and 4702 allow the Board of Supervisors of a county to adopt an alternative vehicle for the allocation and distribution of property taxes and sale proceeds.

BACKGROUND

First enacted in 1949, the Teeter Plan is an alternative method for collecting taxes in California counties and allocating delinquent property tax revenues. Under the Teeter Plan, counties allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. The County finances the allocation by borrowing money to advance cash to each taxing jurisdiction in an amount equal to the current year's delinquent property taxes. In exchange, the counties receive the penalties and interest on the delinquent taxes when collected. For counties not under the Teeter Plan, entities that levy the direct charge would be the sole beneficiary of the penalties revenues associated with that charge on the tax bill.

In October 1993, the Board of Supervisors passed a resolution that adopted the Teeter Plan. The City and County of San Francisco currently uses the Teeter Plan for secured ad valorem property taxes.

In May 2017, the Board of Supervisors approved the extension to the Teeter Plan to special taxes levied for the Transbay Transit Center Community Facilities District in order to provide credit enhancement for bond sales. Resolution 245-17 was the first instance of the County of San Francisco using the Teeter Plan for special taxes levied.

DETAILS OF PROPOSED LEGISLATION

17-0951: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District (SFUSD) under the School Parcel Tax

17-0952: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Community College District under the City College Parcel Tax

17-0943: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Bay Restoration Authority under the San Francisco Bay Clean Water, Pollution Prevention and Habitat Restoration Program (Bay Habitat Restoration Tax)

17-0954: Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District under the School Facilities Special Tax

SFUSD and Community College District Special Taxes

SFUSD and the Community College District are owed $1,944,340 for delinquent special taxes, including penalties and interest as of July 1, 2017, as shown in Table 1 below.[1] Under existing

[1] The voters approved the following special taxes on property: (a) in 2008, a parcel tax of $198 per parcel per year to fund increases in teacher salaries and other compensation, and to support school improvements; (b) in 2010, a special tax on property not-to-exceed $32.20 for single family residential and nonresidential parcels, and $16.10

practice, the Controller's Office allocates tax revenues, penalties and interest to SFUSD and the Community College District when the delinquent taxes are collected. Under the proposed resolutions (Files 17-0951, 17-0952, and 17-0954), the Controller would (a) buy the total amount of the delinquent special taxes, including penalties and interest, from SFUSD and the Community College District, and (b) for each tax year going forward, would allocate all special taxes that are levied to SFUSD and the Community College District, and retain the delinquent taxes, penalties, and interest when collected in accordance with the Teeter Plan.

According to the Mr. Jamie Whitaker, Property Tax Manager at the Controller's Office, the Controller estimates the initial cost to buy out the existing receivables for the SFUSD and City College defaulted secured taxes as of July 1, 2018 to be approximately $1.94 million. This estimate is based on the balance of secured direct charges that were levied but remain unpaid along with ten percent penalties and 1.5 percent per month redemption interest as of July 1, 2017.

Table 1: Defaulted taxes on the County's redemption roll as of July 1, 2017

Direct Levy	Delinquent Tax	Delinquent Penalties and Redemption of Interest	Total Accounts Receivables
School Facilities Special Tax (17-0954)	$154,231	$65,396	$219,628
City College Parcel Tax (17-0952)	306,638	88,258	394,896
School Parcel Tax (17-0951	974,727	355,090	1,329,816
Total	**$1,435,596**	**$508,744**	**$1,944,340**

Bay Habitat Restoration Tax (File 17-0953)

The Bay Habitat Restoration Tax of $12 per parcel was approved by the voters in June 2016 and became effective as of July 1, 2017. The tax is being collected for the first time in FY 2017-18. The San Francisco Bay Restoration Authority's Board would also need to pass a resolution allowing San Francisco to Teeter their parcel tax since they do not participate in San Francisco's County Pool.

FISCAL IMPACT

According to Mr. Whitaker, the Controller's Office would deduct approximately $1.94 million in General Fund revenues to the City in FY 2017-18 in order to purchase an estimated $1.94 million in existing delinquent special taxes from SFUSD and the Community College District. In addition, there will be a small amount needed to purchase the delinquent special taxes in FY 2017-18 from the Bay Restoration Authority.

Beginning in FY 2018-19, the Controller's Office would allocate all special taxes that are levied in the fiscal year to SFUSD, the Community College District, and the Bay Restoration Authority.

per dwelling unit in mixed use and multifamily parcels, adjusted for inflation, to fund seismic and other capital repairs to SFUSD facilities; and (c) in 2012, a parcel tax of $79 per parcel per year to offset State funding reductions and fund other operating costs of the Community College District, which was increased to $99 per parcel per year as of January 1, 2017.

Under the proposed Teeter Plan, the City's General Fund accrues the entirety of the ten percent penalties and 1.5 percent redemption interest per month accrued on those particular charges when they are paid by either the property owner or via tax sale or auction of the defaulted property.

The Controller's Office estimates that the City's General Fund would receive about $300,000-$400,000 in additional revenues annually on average under the Teeter Plan. Therefore, the City would be fully repaid for the estimated $1.94 million purchase of existing delinquent special taxes, penalties and interest in approximately five to six years. The Board of Supervisors has the option of choosing the standard or alternative method of apportioning property taxes each fiscal year.

The Teeter Plan does not result in any change to the overall budget of the City.

RECOMMENDATION

Approve the proposed resolutions.

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

BOARD of SUPERVISORS

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

MEMORANDUM

TO: Ben Rosenfield, City Controller, Office of the Controller
Jose Cisneros, Treasure, Office of the Treasurer and Tax Collector
Nadia Sesay, Director, Office of Public Finance
Dr. Vincent C. Matthews, Ed.D., Superintendent, San Francisco Unified School District

FROM: Linda Wong, Assistant Clerk, Budget and Finance Committee

DATE: September 26, 2017

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Budget and Finance Committee has received the following proposed legislation:

File No. 170954

Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District under the School Facilities Special Tax.

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Todd Rydstrom, Office of the Controller
Michelle Allersma, Office of the Controller
Amanda Kahn Fried, Office of the Treasurer and Tax Collector
Viva Mogi, San Francisco Unified School District

Print Form

Introduction Form

By a Member of the Board of Supervisors or Mayor

BOARD OF SUPERVISORS
SAN FRANCISCO
2017 SEP -5 PM 1:24
Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- [x] 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- [ ] 2. Request for next printed agenda Without Reference to Committee.
- [ ] 3. Request for hearing on a subject matter at Committee.
- [ ] 4. Request for letter beginning :"Supervisor [ ] inquiries"
- [ ] 5. City Attorney Request.
- [ ] 6. Call File No. [ ] from Committee.
- [ ] 7. Budget Analyst request (attached written motion).
- [ ] 8. Substitute Legislation File No. [ ]
- [ ] 9. Reactivate File No. [ ]
- [ ] 10. Question(s) submitted for Mayoral Appearance before the BOS on [ ]

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- [ ] Small Business Commission
- [ ] Youth Commission
- [ ] Ethics Commission
- [ ] Planning Commission
- [ ] Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.

Sponsor(s):

Supervisor Peskin

Subject:

[Teeter Plan Extension - School Facilities Special Tax]

The text is listed:

Resolution extending the Teeter Plan to special taxes levied for the San Francisco Unified School District under the School Facilities Special Tax.

Signature of Sponsoring Supervisor: [signature]

For Clerk's Use Only

File#. 170951-954
Received in Committee 10/5/2017
Jw.

Controller's Office

Utilizing the Teeter Tax Apportionment Method for Existing Citywide Parcel Taxes

Board of Supervisors
Budget & Finance Committee
October 5, 2017 – Items 6, 7, 8, and 9
Jamie Whitaker, Property Tax Manager

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Controller's Office

Property Tax Revenue Distribution Methods Overview

- Two methods of property tax revenue distribution allowed by California Revenue & Taxation Code Sections 4651-4717:
  - Distributions based upon property tax collections (Non-Teeter Method)
  - Distributions based upon property tax levies or amounts billed (Teeter Method)

- San Francisco utilizes the Teeter Method for the ad valorem taxes and usually the Non-Teeter Method for the special taxes or assessments on a secured property tax bill.

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Benefits of the Teeter Method

Controller's Office

- Benefits to affected taxing entities
  - Stable and reliable annual property tax revenues.
  - Potentially higher credit rating and lower interest for those entities which decide to bond against their special taxes.
- Benefits to the City and County of San Francisco
  - Receives any penalties (10% late penalty) and redemption interest (1.5% per month or 18% per year) in addition to the original tax levies when payment is received.
    - Based upon the past 4 fiscal years, anticipate about $300k-$400k in additional general fund revenue from the penalties and interest.

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Relevant Data

Controller's Office

Description	2017-18 Tax Levy	Expiration
SA 46 – SF Bay Restoration Auth.	$2,377,440.00	FY 2035-36
SA 89 – SFUSD School Facilities	$8,316,121.26	FY 2029-30
SA 91 – City College Parcel Tax	$19,612,098.00	FY 2031-32
SA 98 – SFUSD School Parcel Tax	$40,949,239.60	FY 2027-28
Total	**$71,254,898.86**	

- FY 2016-17 overall secured property tax bill delinquency rate was 0.52%.
- FY 2016-17 secured and redemption (defaulted) tax roll penalties and interest revenues about $14.9 million (unaudited).

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Controller's Office

Next Steps

- San Francisco Bay Restoration Authority needs to approve their own resolution to allow the City and County of San Francisco to "Teeter" their parcel tax.
- The City and County of San Francisco would need to "buy" the receivable taxes already in default as of July 1, 2018 utilizing funds from the Property Tax Losses Reserve Fund. This occurs as a part of fiscal year-end accounting closing.
- The City and County would begin to utilize the Teeter method in FY 2018-19 for these particular special taxes, if fully approved.

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