

**SUBMITTAL TO THE BOARD OF SUPERVISORS  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

811



**FROM:** Executive Office

**SUBMITTAL DATE:**  
September 7, 2005

**SUBJECT:** Report on Benefits of Continuing the County Teeter Plan

**RECOMMENDED MOTION:** That the Board of Supervisors receive and file this report on the benefits of continuing the County's Teeter Plan.

**BACKGROUND:** On July 26, 2005, the Board of Supervisors directed the Executive Office to return with a review of the benefits of continuing the County's Teeter Plan. This report is in response to that request.

During the early 1990's, California concurrently experienced both a serious governmental budget crisis, and a recession that included a steep downturn in the real estate market. The decline in the real estate market impacted counties both by depressing property tax revenues, and increasing delinquency rates, which exacerbated the budget crisis at both the state and local levels. The state further hurt the counties with the ERAF shift, which diverted property tax revenues away from counties to the state's Education Resource Augmentation Fund (ERAF). To somewhat offset this loss of county revenue, the state provided a one-time incentive to counties to encourage them to initiate Teeter Plans, as allowed under existing state law. Many counties throughout the state, including the County of Riverside, started Teeter Plans at that time.

*Denise C. Harden*  
Denise C. Harden, Principal Management Analyst

|                       |                               |       |                         |    |
|-----------------------|-------------------------------|-------|-------------------------|----|
| <b>FINANCIAL DATA</b> | Current F.Y. Total Cost:      | \$ NA | In Current Year Budget: | NA |
|                       | Current F.Y. Net County Cost: | \$ NA | Budget Adjustment:      | NA |
|                       | Annual Net County Cost:       | \$ NA | For Fiscal Year:        | NA |

|                         |                                  |                          |
|-------------------------|----------------------------------|--------------------------|
| <b>SOURCE OF FUNDS:</b> | Positions To Be Deleted Per A-30 | <input type="checkbox"/> |
|                         | Requires 4/5 Vote                | <input type="checkbox"/> |

**C.E.O. RECOMMENDATION: APPROVE.**

County Executive Office Signature *Bill Luna*

- Dep't Recomm.:  Consent  Policy
- Per Exec. Ofc.:  Consent  Policy

Prev. Agn. Ref.: 07/26/05 #3.65

District:

Agenda Number:

3.76

Departmental Concurrence

### **How Teeter Works**

Each year, some property owners default on their property tax obligations, and their property taxes become delinquent. On average, the delinquency rate is currently running at about 3 percent. In the early 1990's, it was running three times that at nearly 10 percent. In 1993, when the Teeter Plan started, over \$100 million in delinquent property taxes were owed to local governments all over Riverside County.

The Teeter Plan enables the County to use short-term borrowing to obtain the cash necessary to cover delinquent property taxes owed to participating local government agencies at the end of each fiscal year. Participation by local government agencies is entirely voluntary. Agencies that choose to participate in the Teeter Plan receive their full share of the property taxes owed to them out of the cash borrowed by the County. The County assumes responsibility for collecting the delinquent property taxes owed and managing the debt, and assumes the risk of loss in the event the taxes cannot be collected.

In exchange, the participating local agencies give up their share of the penalties and interest due on the delinquent property taxes. The penalties and interest are deposited to a specially designated reserve, the Tax Losses Reserve Fund, to protect the County from loss in the event cash received at tax sale does not cover the total back amounts due. The County General Fund receives discretionary interest revenue from this reserve fund, and if the reserve grows larger than required, the County is allowed to transfer some of the excess balance to the County General Fund for discretionary use. In FY '06, the amount of Teeter overflow budgeted as discretionary revenue to the County General Fund is \$10 million. The County also pays the cost of the borrowing and all administrative expenses from the resources in this fund.

### **Benefits of Teeter**

The Teeter Plan offers participating agencies a number of significant benefits:

- ◆ Since 1993, the County of Riverside's Teeter Program enabled participating local agencies to recognize approximately \$500 million in delinquent property tax revenues in the year the taxes are due that they would not have otherwise received at that time.
- ◆ Without the Teeter Plan, these local agencies, including the County of Riverside, would have to wait for the taxpayer to present payment. In cases of total default, it can take Tax Collector over five years to recover defaulted property taxes through tax sale.

- ♦ The Teeter Plan enables all participating local agencies to rely on a stable property tax base, regardless of fluctuations caused by delinquencies that exacerbate revenue losses caused by reversals in assessed valuation during serious recessionary periods.
- ♦ Eliminating fluctuations in property tax revenue due to delinquency helps assure that essential local services continue during economic down turns, when the recessionary forces that generate high delinquency rates also tend to drive down revenues and drive up the need for services.
- ♦ The Teeter Plan also acts as insurance against losses in the event tax defaulted properties are auctioned for less than the taxes due, since the participating agencies get their full share in the year the taxes are first owed. The county assumes the risk of covering losses out of the Tax Losses Reserve Fund. Agencies which do not participate in Teeter must bear the write-off themselves when tax defaulted properties are auctioned off by the Tax Collector for less than the amount of back taxes owed. In such cases, those agencies may never recover revenue to compensate for the years of government services provided.

### **Conclusion**

In spite of recent administrative problems pertaining to the accounting for deposits of the delinquent supplemental property taxes, the underlying principles, laws and regulations pertaining to the Teeter Plan are sound, and the benefits to the county's local government agencies are substantial. While not inconsequential, the magnitude of the error that occurred is far less than the amounts that were and will be available to participating agencies through Teeter over the life of the plan. Eliminating the Teeter Plan in this county would reintroduce variability in the revenue stream to local governments due to delinquencies, and eliminate the guarantee of receiving their full share of property tax revenues that participating agencies currently enjoy.