County of Orange

MEMO

S31C

DATE: July 19, 2007

TO: Chris Norby, Chairman

FROM: Thomas G. Mauk, County Executive Officer

SUBJECT: Exception to the Rule 21

07 JUL 19 PM 1:54

The County Executive Office is requesting a supplemental for the July 24, 2007 Board Hearing Meeting:

Board Meeting Date	**July 24, 2007**
Subject:	**Authorize Transfer from Designated Special Revenue Fund to Teeter Fund**
Calendar:	**Supplemental**
Districts:	**All**

Reason for Supplemental: **To meet County obligations underlined in the Teeter Program.**

Concur: CNorby

Chris Norby, Chairman
Orange County Board of Supervisors

cc: Rob Richardson
Assistant to the County Executive Officer

Agenda Item S31C

AGENDA STAFF REPORT

ASR Control 07-001775

MEETING DATE: 07/24/07
LEGAL ENTITY TAKING ACTION: Board of Supervisors
BOARD OF SUPERVISORS DISTRICT(S): All Districts
SUBMITTING AGENCY/DEPARTMENT: County Executive Office (Pending)
DEPARTMENT CONTACT PERSON(S): Thomas L. Beckett (714) 834-5969

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SUBJECT: Authorize Transfer from Fund 15S to Teeter Fund 599

CEO CONCUR	COUNTY COUNSEL REVIEW	CLERK OF THE BOARD
Pending Review	N/A	Discussion 3 Votes Board Majority

Budgeted: No **Current Year Cost:** $2.5 Million **Annual Cost:** N/A

Staffing Impact: No **# of Positions:** **Sole Source:** N/A
Current Fiscal Year Revenue: N/A
Funding Source: General Fund 15S

Prior Board Action: N/A

RECOMMENDED ACTION(S)

Authorize an operating transfer in the amount of $2.5 million from the Designated Special Revenue Fund 15S to the Orange County Special Financing Authority Debt Service Fund 599 to meet the County's obligation under the Teeter program to purchase delinquent property tax receivables.

BACKGROUND INFORMATION:

The County's Teeter Plan program was adopted in 1993 and permits the County to operate an alternate method of apportionment of property taxes, which provides participants (certain cities, school districts, etc.) with an annual payment of 100% of their secured property tax revenue allocation whether or not such taxes are collected. Since it's establishment, the Teeter Plan has resulted in a stable cash flow and elimination of collection-related risks for participants in the Plan. In exchange for these benefits, the County is entitled to all delinquency and redemption penalties from the delinquent taxes.

There are currently 122 participants in the Orange County Teeter Plan.
Prior to the County bankruptcy, the County borrowed funds annually by issuing short-term notes to fund the Teeter Plan. However, in order to avoid defaulting on the repayment of the 1994-1995 short term notes issued to fund Teeter and recognizing its inability to issue short-term debt during the Chapter 9 Case, the County obtained special legislation to allow the County to finance the Teeter Plan with long-term debt.

The $155 million Teeter Bonds were issued June 27, 1995 by the Orange County Special Financing Authority, (the "Authority") in five series (A through E) with a maturity date of November 1, 2014. The outstanding principal balance is $126.5 million. The Teeter Bonds are payable solely by revenues generated under the Teeter Plan program.

Revenues are generated as taxes and penalties are collected and funds flow into the program as well as through investment earnings. In addition to paying debt service on the Teeter Bonds, revenue generated by the Teeter program is used to purchase receivables and fund the annual payments to participating taxing agencies attributable to the delinquent property taxes. Pursuant to the Sale and Servicing Agreement between the County, Authority and Trustee, the County is obligated to sell the delinquent property taxes ("the receivables") to the Authority and the Authority is obligated to pay the County the full amount to the extent cash is available in the Teeter Funding Account after certain tests are met.

In addition, surplus cash is transferred to the general fund each November. From 1995 through 2000 the surplus flowed to the Plan of Adjustment to amortize County Administered Accounts. Since then, the surplus cash has flowed to the general fund. Surplus distributions from the program to the County are limited to $10 million annually and are based upon an asset to liability test of 1.15 calculated in November of each year. Since 2001, an average of $7.9 million has been transferred to the general fund annually.

Teeter receivables are purchased by the Authority in July of each year. Prior to last year, years 1995 through 2005, the Teeter receivables purchases averaged $27.6 million. Last year, the Teeter purchases were $48.3 million. This year, the purchase amount is $89.5 million, an increase of 85% from last year. The source of funding for this transaction, Fund 599, currently does not have enough cash to fund the entire amount required for the transfer. Since there are currently insufficient cash balances in the Teeter program, the County is obligated to make up the difference in order to meet its obligation for the entire FY 06-07 tax apportionment. Therefore, it is recommended that the shortfall be made up with funds from the Designated Special Revenue Fund 15S. Funds were previously set aside in 15S for future strategic priorities. This transaction is being expedited in order to accommodate the County's fiscal year end financial closing process.

Upon receipt of the November 2007 surplus amount from the Teeter program to the County, the intention is that the first use of funds released will be to restore Fund 15S.

The Teeter Bonds mature in 2014 and will be paid off with Teeter Plan funds. As stated in the Insurance Agreement between Ambac and the Authority, the County is required to make determinations in 2008 as to how to wind the program down toward final maturity of the Teeter Bonds. In light of current trends, this process will be accelerated. Staff is initiating an evaluation process of the Teeter Plan in order to determine what the options are for restructuring or collapsing the Teeter program.

Staff recommends the County transfer $2.5 million from the Designated Special Revenue Fund 15S to the Orange County Special Financing Authority Debt Service Fund 599 to meet the County's obligation.

FINANCIAL IMPACT:

The budget includes $84.3 million in appropriations for the purchase of receivables. The remaining $5.2 million will be transferred from the other existing appropriations within Fund 599. Necessary adjustments will be presented to the Board in the First Quarter Budget Report.

STAFFING IMPACT:

N/A

REVIEWING AGENCIES:

CEO, Auditor-Controller