

Grand Jury Report

RESPONSE FORM

Grand Jury Report Title : *A Report on the Teeter Plan*

Report Dated : March 21, 2012

Response Form Submitted By:

Shari L. Schapmire
Treasurer-Tax Collector
County of Mendocino
501 Low Gap Road, Room 1060
Ukiah, CA 95482

Response MUST be submitted, per Penal Code §933.05, no later than:
July 7, 2012

I have reviewed the report and submit my responses to the FINDINGS portion of the report as follows:

I (we) agree with the Findings numbered:
_____ 6, 8-9, 11, 14, 19-30 _____

I (we) disagree wholly or partially with the Findings numbered below, and have **attached, as required**, a statement specifying any portion of the Finding that are disputed with an explanation of the reasons therefore.
_____ 2-5, 7, 10, 12-13, 15, 17-18, 31 _____

I have reviewed the report and submit my responses to the RECOMMENDATIONS portion of the report as follows:

The following Recommendation(s) have been implemented and **attached, as required**, is a summary describing the implemented actions:
_____ 4, 6-7 _____

The following Recommendation(s) have not yet been implemented, but will be implemented in the future, **attached, as required** is a time frame for implementation:

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- The following Recommendation(s) require further analysis, and **attached as required**, is an explanation and the scope and parameters of the planned analysis, and a time frame for the matter to be prepared, discussed and approved by the officer and/or director of the agency or department being investigated or reviewed: (This time frame shall not exceed six (6) months from the date of publication of the Grand Jury Report)
- _____

- The following Recommendations will NOT be implemented because they are not warranted and/or are not deemed reasonable, **attached, as required** is an explanation therefore:

1-3, 5

I have completed the above responses, and have attached, as required the following number of pages to this response form:

Number of Pages attached: 4

I understand that responses to Grand Jury Reports are public records. They will be posted on the Grand Jury website: www.co.mendocino.ca.us/grandjury. The clerk of the responding agency is required to maintain a copy of the response.

I understand that I must submit this signed response form and any attachments as follows:

First Step: E-mail (word documents or scanned pdf file format) to:

- The Grand Jury Foreperson at: grandjury@co.mendocino.ca.us
- The Presiding Judge: grandjury@mendocino.courts.ca.gov

Second Step: Mail all originals to:

Mendocino County Grand Jury
P.O. Box 939
Ukiah, CA 95482

Printed Name: Shari L. Schapmire

Title: Treasurer-Tax Collector

Signed: *Shari L. Schapmire*

Date: July 3, 2012

Findings

2) The GJ found written agreements from 22 Pool participants regarding the Teeter Plan.

Treasurer-Tax Collector: The Treasurer-Tax Collector has no specific information regarding these findings and, therefore, is unable to agree or disagree with the referenced findings.

3) The County never sought judicial approval in adopting the Teeter Plan as suggested in the California Debt Issuance Primer.

Treasurer-Tax Collector: Disagree. In 1993, the Teeter Plan was adopted by the County, as an obligation imposed by law, per the Revenue and Taxation Code Sections 4701-4717. As there have been revisions to the California Debt Issuance Primer since 1993, it is unclear what guidance was provided in the document at the time of inception.

4) The Plan funding Note #1993-1 was issued on November 1, 1993 and expired on June 30, 2000.

Treasurer-Tax Collector: Partially Disagree. The original note issued in 1993 indicated *the Note shall be payable in full upon maturity which shall be October 1, 1994; provided, however, that the County may renew said note at the expiration of this period for seven consecutive one year periods. Renewal shall occur automatically unless the Note is redeemed as permitted herein.* The intent of the maker was to issue the equivalent of an annual note, with the option to renew ending on June 30, 2000; this was not simply a note that was issued and expired on June 30, 2000.

5) The Plan funding Note #2003-1 was issued on May 23, 2003 and expired on April 1, 2011.

Treasurer-Tax Collector: Partially Disagree. As with the 1993 Note, the 2003 Note was issued for a term of one year, renewable at the option of the County for up to seven one-year terms. Again, the intent of the maker was to issue the equivalent of an annual note, with the option ending after seven years.

7) Interest payments on the Plan debt are computed on a short-term basis.

Treasurer-Tax Collector: Disagree. Interest payments on the Plan debt are computed at the pooled rate based on the average quarterly balance. Securities held in the treasury pool have a maximum maturity of five years.

10) Long-term notes are issued for periods of over one year.

Treasurer-Tax Collector: Disagree. Long-term notes are generally considered to have a maturity of 10 years or longer. Medium-term notes are generally considered to have a maturity of 2-10 years.

12) At the November 8, 2011 Board of Supervisors meeting, it was announced that the County couldn't get refinancing on Certificates of Participation (COPs) because the County can't get insurance for refinancing due to the long-term credit rating.

Treasurer-Tax Collector: Partially Disagree. While the long-term credit rating reflects the overall financial health of the County, the major driver for the initial denial appeared to be the 2009-10 negative \$16 million ending fund balance.

13) However, at the March 13, 2012 meeting, the Board of Supervisors announced that the Insurance Company reconsidered their position and agreed to cover the COPs. This change of position was a result of the over 400 employee layoffs and other cost saving actions taken to balance the budget by the Board of Supervisors.

Treasurer-Tax Collector: Partially Disagree. While the County has pro-actively reduced permanent positions over the past four years, there have not been 400 employee layoffs. Reductions in staffing have primarily been attributed to attrition and the CEO's limited approvals for filling vacant positions.

15) The numbers supplied to the Board of Supervisors in anticipation of the November 8, 2011, meeting, which were prepared on October 4, 2011, were not in agreement with the printout of the actual Teeter Receivable worksheet supplied to the GJ.

Treasurer-Tax Collector: Partially Disagree. While data provided from the Auditor's Office and the Tax Collector's Office may have been different, the variances can be reconciled. There are corrections being processed to the tax roll throughout the year.

17) It did not appear that any of the current County officials responsible for administering the Plan, who were interviewed by the GJ, were initially aware of the notes or the respective expiration dates prior to contact by the GJ.

Treasurer-Tax Collector: Partially Disagree. The current Treasurer-Tax Collector was aware that an initial note in the amount of \$5.4 million was issued to establish the Teeter Plan in 1993.

18) Communications among the County Treasurer, County Auditor, County Counsel and the Board of Supervisors are lacking in clarity on the issue of the Plan debt.

Treasurer-Tax Collector: Disagree. While there has been a lack of clarity on the issue of Plan debt in the past, the CEO's formation of the Debt Committee (CEO, Treasurer, Auditor and County Counsel) has remedied this situation.

31) The County is currently paying interest on the Plan debt at a taxable short-term rate.

Treasurer-Tax Collector: Disagree. Plan debt interest is being paid at the pooled rate.

Recommendations:

1) The County hires a Bond Counsel to advise them on how to handle the historical Plan debt (Findings all).

Treasurer-Tax Collector: The recommendation of the Treasurer-Tax Collector is the County does not hire a Bond Counsel as it is not warranted and should not be implemented. Bond Counsel is the attorney that prepares the legal opinion for the issuance of a municipal bond. In relation to the Teeter Plan, a bond counsel would only be appropriate in the event the County decided to issue Teeter Notes through the securities market.

2) If the Bond Counsel so advises, the Board of Supervisors issue formal recognition of the Plan debt as a long-term obligation of the County (Findings 4-5, 8-10, 28-31).

Treasurer-Tax Collector: As referenced in Recommendation 1, the recommendation to hire a Bond Counsel is not warranted and should not be implemented. The Board of Supervisors adopted an amortization schedule to formally recognize the Teeter Plan debt. According to staff in the Auditor's Office, the Teeter Plan debt is expected to be eliminated within the next five to seven years; a long-term obligation is considered over ten years in duration. Therefore, the recommendation for the Board of Supervisors to issue formal recognition of the Plan debt as a long-term obligation of the County is not warranted and should not be implemented.

3. If the Bond Counsel so advises, the Board of Supervisors corrects the historical underpayment of interest to the Pool (Findings 7-11, 24-31).

Treasurer-Tax Collector: As referenced in Recommendation 1, the recommendation to hire a Bond Counsel is not warranted and should not be implemented. The treasury pool correctly receives the interest apportionment rate on all accounts with a negative account balance, including the Teeter Plan debt. There has been no historical underpayment of interest to the treasury pool for the Board of Supervisors to correct; therefore, the recommendation is not warranted and should not be implemented.

Since 1992, the County has issued Tax and Revenue Anticipation Notes (TRANS) to address the periodic cash flow deficits due to the timing of property tax revenues. TRANS proceeds are not mandated to be placed in the treasury pool; however, the TRANS proceeds have historically been incorporated in the treasury pool, which more than off-sets the Teeter Plan debt. This practice will continue provided the County annually issues TRANS and the Teeter Plan debt remains outstanding. If the County chooses to no longer issue TRANS at any time in the future and the Teeter Plan debt remains, an appropriate interest rate will be charged to the County.

4) The Board of Supervisors continues to pay off the Plan debt as quickly as possible using the current repayment plan (Findings 28-30).

Treasurer-Tax Collector: The recommendation has been implemented.

5) If the Bond Counsel so advises, the Board of Supervisors provide for the payment of the proper amount of interest to the Pool for all future years reflecting the fact that the County's current long-term credit rating is BBB- (Findings 7-13, 24-31).

Treasurer-Tax Collector: As referenced in Recommendation 1, the recommendation to hire a Bond Counsel is not warranted and should not be implemented. The Auditor-Controller, not the Board of Supervisors, will provide for the payment of the proper amount of interest to the treasury pool in all future years, as has been done in the past. As referenced in Recommendation 3, regardless of the long-term credit rating of the County, TRAns proceeds have historically been placed in the treasury pool thereby off-setting any Teeter Plan debt. While the County's long-term credit rating has been at an extremely low level for the past several years, the County's short-term credit rating reflects the highest short-term credit rating assigned by Standard & Poor's Rating Agency for both the 2011-12 and 2012-13 fiscal years.

6) In all presentations to the Board of Supervisors, the respective elected County Officials provide accurate, concise and meaningful documentation for the Board of Supervisors regarding the Teeter Plan debt and particular areas of exposure to increases in defaults (Findings 12-20).

Treasurer-Tax Collector: The recommendation has been implemented.

7) The Plan debt continues to be reflected in the budget as a separate line item until eliminated by the completion of the current payment plan in the interest of transparency (Findings 15-18, 28-30).

Treasurer-Tax Collector: The recommendation has been implemented.