Dear County Official:

Effective July 1, 2004 to December 31, 2015, the general purpose sales and use tax rate for local governments decreased from 1 percent to 0.75 percent. The rate returned to 1 percent on January 1, 2016. Pursuant to Chapter 211, Statues of 2004, a county's Educational Revenue Augmentation Fund was reduced by the "countywide adjustment amount," which was deposited in a Sales and Use Tax Compensation Fund that was established in the treasury of each county. These property tax revenues from the Educational Revenue Augmentation Fund were provided to offset the reduction in sales and use tax revenues for the period of July 1, 2004 to June 30, 2015. A transfer directly from the Fiscal Recovery Fund to the counties will offset the remaining loss in sales tax revenues.

In the Supplemental Report of the 2006 Budget Act, the Legislature indicated its intent that the annual estimates and recalculations of the "countywide adjustment amount" reflect the actual amount of sales and use tax revenue loss to cities and counties net of any deductions that would have been made by the Board of Equalization for tax administration.

Pursuant to Revenue and Taxation Code section 97.68(d)(3)(A)(i)(I), Finance sent a letter to the State Controller on June 24, 2016, directing the Controller to transfer from the Fiscal Recovery Fund to the Sales and Use Tax Compensation Fund of each county an amount equal to sales tax lost due to the reduced sales tax rate from July 1, 2015 to December 31, 2015, as well as a true-up for the April-June 2015 quarter. This will be the final reimbursement for lost sales tax revenues due to the 0.25-percent reduced rate in effect from July 1, 2004 to December 31, 2015. This transfer is expected to occur in early July 2016.

Pursuant to Revenue and Taxation Code section 97.68(d)(5), within 60 days of the transfer by the Controller of revenues from the Fiscal Recovery Fund to the Sales and Use Tax Compensation Fund for each county, each county auditor shall allocate revenue to the county and each city in the county per the attached schedule.

On September 1, 2015, Finance notified the county auditors of their final countywide adjustment amount, which was calculated to reimburse the counties for their lost sales tax from April 1, 2015 to June 30, 2015 and a true-up for the prior 12 months. Certain jurisdictions had a calculated true-up from overpayments in the prior 12 months greater than the anticipated allocation for the April-June quarter. The amount transferred to these jurisdictions was reduced to zero rather than being set at a negative amount. This resulted in an overpayment of $8.211 million to these jurisdictions which is being settled up with this final reimbursement from the Fiscal Recovery Fund to the counties.

The 2015-16 May Revision estimate of revenue loss for the April-June 2015 quarter was $418.612 million. The final calculated revenue loss for April-June 2015 due to the 0.25 percent reduction in the local sales and use tax was $406.339 million, before administrative costs. This results in a negative settle-up of -$12.273 million.

The final calculated revenue loss for the six months from July to December 2015 is $831.602 million, before administrative costs.

After adjusting for the -$12.273 million settle-up amount, the $8.211 overpayment, and $12.499 million in administrative costs for the entire three quarters, the transfer from the Fiscal Recovery Fund to the counties is calculated to be $798.619 million.

This letter contains a summary sheet for all counties plus two attachments for each individual county. Attachment 1 displays the amounts that the county is to allocate from its Sales and Use Tax Compensation Fund to each of its jurisdictions. Attachment 2 displays the actual revenue loss for the three quarters from April 1, 2015 to December 31, 2015.

If you have any questions, please contact Colby White, Principal Program Budget Analyst, at (916) 322-2263.

Sincerely,

AMY M. COSTA
Chief Deputy Director

Attachment