



Date: October 11, 2018

To: Patrick H. West, City Manager *T.H.W.*

From: John Gross, Director of Financial Management *J.G.*

For: Mayor and Members of the City Council

Subject: **State System Issues with the Allocation of Sales and Measure A Taxes May Impact FY 18 Year-End**

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The California Department of Tax and Fee Administration (CDTFA) collects the City's Sales and Use Tax and the Measure A Transaction and Use Tax, then allocates it to the various cities in the State based on tax return information. In May 2018, the State implemented a new system, which has resulted in significant delays in processing returns covering sales tax revenues from January through June of 2018. According to the CDTFA, they are prioritizing processing of returns and resolving the current backlog over the course of the next several months. At this point, there is no certainty that the problem has been completely fixed for future quarters.

As the State works towards processing and resolving the current backlog, some of the revenue payments received are below what we anticipated and may be inaccurate. The State is working to fix the issues and is expected to send a reconciling amount for our unprocessed tax returns by the end of November. If the reconciled revenue is received by end of November, we will be able to book the revenue to FY 18. Any reconciled revenue received after November will be booked in FY 19, resulting in less revenue for FY 18, and an equivalent one-time revenue overage in FY 19.

At this time, there is no indication that the State can resolve the issues by the end of November 2018. Full information to resolve potential FY 18 bottom line budget issues may not be available until well into FY 19, and will impact how much of the FY 19 revenue will be a one-time adjustment. These uncertainties could make revenue projections difficult and make it challenging to determine effective FY 18 year-end status.

We will keep the City Council informed as we receive more information on this topic.

JG:GYGA  
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