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450 N STREET, MIC 27, SACRAMENTO, CALIFORNIA
(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0027)
TELEPHONE (916) 324-3000
FAX (916) 324-3001
www.boe.ca.gov

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May 21, 2009

City of
Finance Director

Tax Area Code:

Dear Finance Director:

Negative Adjustment-May 2009 Advance

This letter is to inform you that your jurisdiction's May 2009 advance was subject to an additional negative adjustment of -7.0% computed for the First Quarter 2009. The May 2009 *Advance adjustment* for your jurisdiction was –$(*adjustment amount*) for a total advance of $(*warrant amount*).

As you are aware, current economic conditions have caused a continuing dramatic decline in taxable sales activity and sales tax revenues flowing into the State's coffers. One of the factors considered when determining the amount due a local jurisdiction in the May 2009 advance cycle is cash receipts. Cash receipts for First Quarter 2009 were down dramatically below projections. The early assumption made by the Department of Finance was an estimated decline in cash receipts of -7.4 percent. Actual cash receipts for that period were more than -18% compared to the same time period one year earlier.

The following is an explanation of the projected impact to the First Quarter 2009 revenues due local jurisdictions prior to adjusting the May 2009 advance.

A review of the Fourth Quarter 2008 local tax revenues disclosed that collections for the state were down approximately -14.7%. This percentage decrease in collections was very close to the actual 4Q08 decrease in Cash Receipts of -14.97%. Accordingly, when the advances for the First Quarter 2009 were finalized in December 2008 we applied a growth factor of -7.4% which was the estimate provided by Department of Finance. Prior to releasing the First Quarter 2009 3rd advance payment we received the total payment figures for the 1Q09 Cash Receipts. Cash Receipts were down approximately -18.8% below the cash receipts for 1Q08. This was down approximately an additional -3.83% or -26% from the 4Q08. Given this information, it is necessary to make an additional reduction to the 1Q09 advances.

A comparison of 4Q08 Sales and Use Tax returns were made to 4Q07 Sales and use Tax returns for all jurisdictions. If the percentage decrease in revenues for a given jurisdiction were down less than -14.5% no adjustment was made to the scheduled advance. However, if the percentage decrease in revenues for a given jurisdiction was greater than -14.4% an additional adjustment of -7.0% was applied to the normalized allocation and deducted from the May 2009 advance payment. Those jurisdictions with projected losses that exceeded the amount of the remaining 3rd advance payment were reviewed in detail to determine if cancellation of the 3rd advance was warranted. The graph below shows the percentage decrease in Cash Receipts and the overall decline in revenues for the last four quarters.

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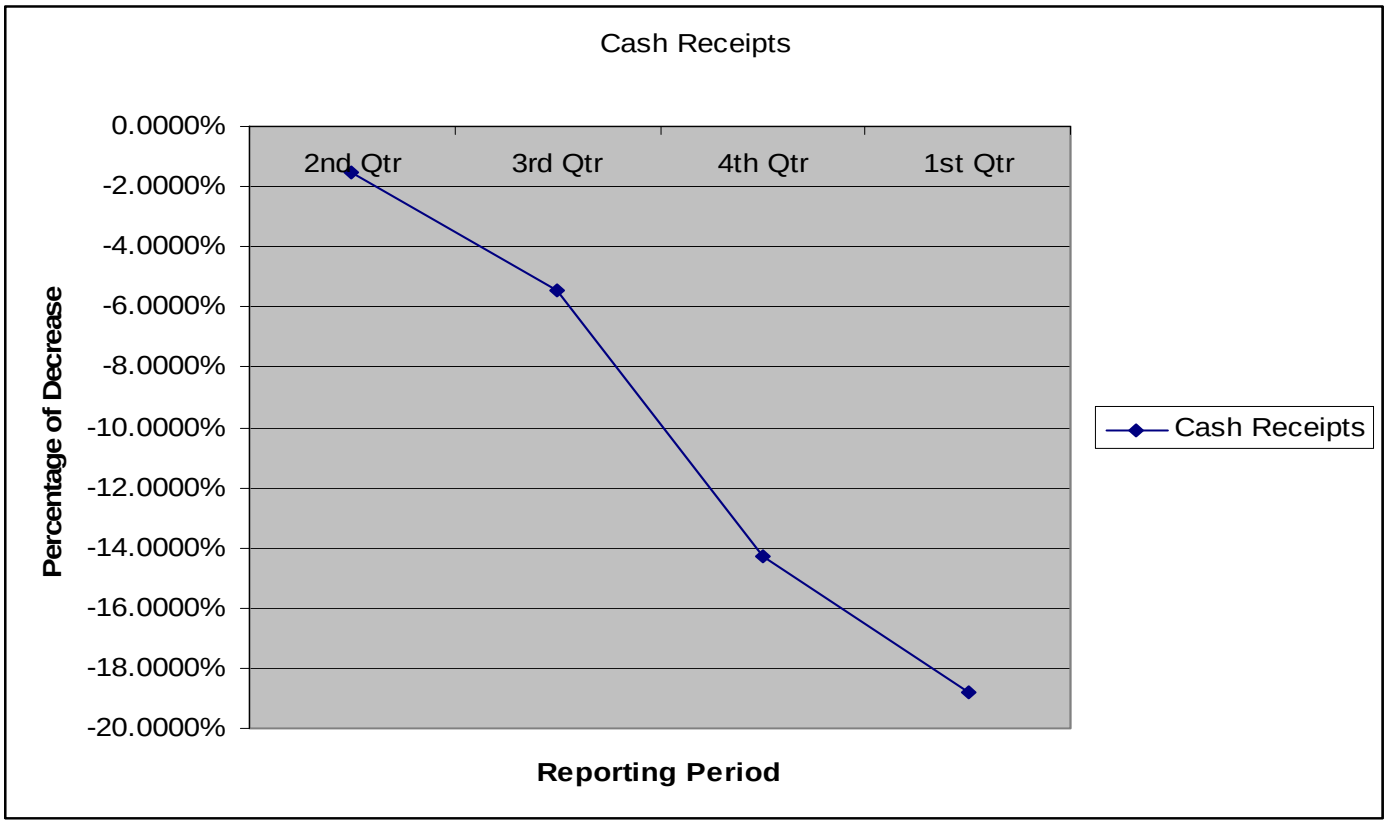

We believe this action was necessary to avoid over advancing tax dollars to a point that would impact payments in the future for your jurisdiction as well as those of your neighboring communities.

While not all local jurisdictions received a May 2009 allocation with an additional reduction, a majority of jurisdictions did receive May advances reduced further than previously anticipated. Given the continuing economic situation, we anticipate similar adjustments will be necessary to the Third and possibly the Fourth Quarter 2009 advances.

If you have any questions please call (*contact name and phone number*)

Sincerely,

Larry Micheli
Supervisor
Local Revenue Allocation Unit