



Special Notice

STATE BOARD
OF EQUALIZATION

450 N Street
Sacramento
California 95814

How Local Governments Will Be Reimbursed for the Upcoming Reduction in the Local Sales and Use Tax Rate

In March, voters approved Proposition 57, the California Economic Recovery Bond Act, which allowed the state to purchase bonds to reduce the state budget deficit. The legislature enacted provisions* that will change how sales and use taxes and other revenues are distributed to schools and local governments on and after July 1, 2004. These changes will remain in effect until the State Director of Finance notifies the Board of Equalization that the state's bond obligations have been satisfied.

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The Triple Flip

Under the new revenue "swapping" procedures—commonly referred to as the "triple flip"—the following changes will occur:

Local sales and use tax revenues will decrease, beginning July 1, 2004

The statewide base sales and use tax rate will remain at 7.25%. However, the local government portion of the statewide rate will decrease by 0.25%, and the state portion will increase by 0.25% (see the table on the back for a detailed breakdown of the new rate structure).

Local sales and use tax losses will be offset by property tax revenues

The County Auditor in each county will use property tax revenues to reimburse the county and cities within the county. They will set aside some funds from the County Educational Revenue Augmentation Fund and place them in a Sales and Use Tax Compensation Fund. In January and May of each year, the State Director of Finance will instruct County Auditors to allocate revenues from the Compensation Fund to the county and to the cities within the county.

State General Fund revenues will be used to help schools

Since a portion of the County Educational Revenue Augmentation Fund will be set aside to offset sales and use tax losses, schools will receive less revenue from county property taxes. The State of California will use state General Fund revenues to protect the minimum-funding guarantee of Proposition 98.

* See ABX5 9 and ABX1 7, which were passed in the 2002-2003 legislative session.

See over for information on how the "triple flip" will affect warrants issued by the Board to local jurisdictions.

When will warrants show the adjustment for the "triple flip?"

To avoid an overpayment during the "triple flip," we will reduce each of your three monthly advances by an amount equal to the 0.25% portion of the local tax. This change will start with the first advance issued for Third Quarter 2004 (covering July 1 through September 30). The first advance will be issued September 24, 2004, in conjunction with the balance payable for the Second Quarter 2004 (this amount will be at the full 1%).

Advances will continue to reflect the method of computation outlined in publication 28, *Tax Information for City and County Officials*. Advances will also include appropriate growth factors, as established by the Department of Finance.

Monthly and quarterly statements will have a new look

(See pages 3 and 4 for samples of the new statements.)

Beginning in September 2004, your monthly and quarterly statements will be renamed *Statement of Bradley-Burns Local Tax Distribution*.

The quarterly statements will provide details of the total payment made to your jurisdiction, pursuant to section 7203.1 of the Revenue and Taxation Code.

The quarterly statements will

- Continue to show the total due to your jurisdiction at the 1% local sales and use tax rate
- Show a deduction of 0.25% state tax from the total due (see attached samples, under 'STATE TAX')

Statements can be found on the Board's website at www.boe.ca.gov and on the deposit advice mailed to your jurisdiction.

Ordinances and contracts

Local jurisdictions are not required to amend an existing Contract for Administration or to adopt new ordinances.

Pending legislation

Currently, cities and counties will be reimbursed for lost revenues based on taxable sales in the county in the prior fiscal year. There is pending legislation that would instead require that cities and counties be reimbursed for lost revenues based on the 0.25% state tax as shown on the quarterly statements.

For more information

Please contact the Local Revenue Allocation Section at 916-324-3000 and ask to speak to Jim Kendrick, Sonia Calistro, Karina Aguilar, or Cleveland Turner.

Summary of Tax Rate Changes

Old Tax Rate Structure		New Tax Rate Structure (as of July 1, 2004)	
6.00%	State	6.00%	State
		0.25%	State (Fiscal Recovery Fund)
1.25%	Local (City/County)	1.00%	Local (City/County)
	1.00% City and County general operation		0.75% City and County general operations
	0.25% County transportation funds		0.25% County transportation funds *
7.25%	Total statewide base sales and use tax rate	7.25%	Total statewide base sales and use tax rate

* There will be no change to the 0.25% designated by statute for county transportation purposes.

Sample Statements

Quarterly Statement for a City

STATE OF CALIFORNIA - BOARD OF EQUALIZATION

STATEMENT OF BRADLEY-BURNS LOCAL TAX DISTRIBUTION

01XXX DATE: MM/DD/2004 FOR THE PERIODS SHOWN BELOW
PAYEE: CITY TREASURER
 CITY OF XXXXXXXX

NET COLLECTIONS	mm/dd-mm/dd	1,000,000.00
COUNTY AMT (CITY RATE 100.00%)		0.00
IN-LIEU AMT		0.00

TOTAL DUE	mm/dd-mm/dd	1,000,000.00
STATE TAX		250,000.00-

LOCAL TAX		750,000.00
PRIOR ADVANCES	mm/dd-mm/dd	673,500.00-
ADJUSTED COST OF ADMIN		10,200.00-

BALANCE	mm/dd-mm/dd	66,300.00
CURRENT ADVANCE	mm/dd-mm/dd	240,600.00
TOTAL PAYMENT PER SECTION 7203.1		306,900.00

Monthly Statement for a City

STATE OF CALIFORNIA - BOARD OF EQUALIZATION
STATEMENT OF BRADLEY-BURNS LOCAL TAX DISTRIBUTION

01XXX DATE: MM/DD/2004 FOR THE PERIODS SHOWN BELOW
PAYEE: CITY TREASURER
 CITY OF XXXXXXXXXXXX

CURRENT ADVANCE	mm/15-mm/13	263,300.00
PRIOR CREDITS		0.00
TOTAL PAYMENT PER SECTION 7203.1		263,300.00

Sample Statements

Quarterly Statement for a County

STATE OF CALIFORNIA – BOARD OF EQUALIZATION
 STATEMENT OF BRADLEY-BURNS LOCAL TAX DISTRIBUTION

xx998 DATE: MM/DD/2004 FOR THE PERIODS SHOWN BELOW
 PAYEE: COUNTY TREASURER
 COUNTY OF XXXXXXXXX

TAX JURISDICTION	NET COLLECTIONS	% CO. SHARE	COUNTY AMOUNT
AAAAAAAA	0.00	0.00	0.00
BBBBBBBBBB	0.00	0.00	0.00
CCCCC	0.00	0.00	0.00
DDDDDDDD	0.00	0.00	0.00
PAYEE	1,000,000.00	100.00	1,000,000.00

TOTAL DUE	mm/dd-mm/dd		1,000,000.00
STATE TAX			250,000.00-

LOCAL TAX			750,000.00
PRIOR ADVANCES	mm/dd-mm/dd		673,500.00-
ADJUSTED COST OF ADMIN			10,200.00-

BALANCE	mm/dd-mm/dd		66,300.00
CURRENT ADVANCE	mm/dd-mm/dd		240,600.00
TOTAL PAYMENT PER SECTION 7203.1			306,900.00

Monthly Statement for a County

STATE OF CALIFORNIA - BOARD OF EQUALIZATION
 STATEMENT OF BRADLEY-BURNS LOCAL TAX DISTRIBUTION

XX998 DATE: MM/DD/2004 FOR THE PERIODS SHOWN BELOW
 PAYEE: ASSISTANT TREASURER
 COUNTY OF XXXXXXXXXXXXX

CURRENT ADVANCE	mm/15-mm/13	263,300.00
PRIOR CREDITS		0.00
TOTAL PAYMENT PER SECTION 7203.1		263,300.00