



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: RES 25-154

October 21, 2025

Introduced: 10/15/2025

Current Status: Agenda Ready

Version: 1

Matter Type: BoS Resolution

Adopt a Resolution to:

- a) Authorize and approve the increase in appropriations of the Auditor-Controller's Fiscal Year (FY) 2025-26 Budget in Fund 001, Appropriation Unit AUD001 by \$1,700,000, financed by a) a release of \$1,700,000 from the Compensated Absences Assignment account 001-3115 or b) a reduction of \$1,700,000 to General Fund Contingencies Appropriation in Fund 001, Appropriation CAO020, Unit 8034 (4/5 vote required); and
- b) Authorize the Auditor-Controller to amend the Auditor-Controller's Fiscal Year (FY) 2025-26 Budget in Fund 001, Appropriation Unit AUD001 by \$1,700,000, financed by a) a release of \$1,700,000 from the Compensated Absences Assignment account 001-3115 or b) a reduction of \$1,700,000 to General Fund Contingencies Appropriation in Fund 001, Appropriation CAO020, Unit 8034.

RECOMMENDATION:

It is recommended that the Board of Supervisors consider adopting a Resolution to:

- a) Authorize and approve the increase in appropriations of the Auditor-Controller's Fiscal Year (FY) 2025-26 Budget in Fund 001, Appropriation Unit AUD001 by \$1,700,000, financed by a) a release of \$1,700,000 from the Compensated Absences Assignment account 001-3115 or b) a reduction of \$1,700,000 to General Fund Contingencies Appropriation in Fund 001, Appropriation CAO020, Unit 8034 (4/5 vote required); and
- b) Authorize the Auditor-Controller to amend the Auditor-Controller's Fiscal Year (FY) 2025-26 Budget in Fund 001, Appropriation Unit AUD001 by \$1,700,000, financed by a) a release of \$1,700,000 from the Compensated Absences Assignment account 001-3115 or b) a reduction of \$1,700,000 to General Fund Contingencies Appropriation in Fund 001, Appropriation CAO020, Unit 8034.

SUMMARY:

This request is to cover the recently identified error in State Disability Insurance (SDI) tax calculations, where the 457(b) deferred compensation and CalPERS retirement contributions were inadvertently excluded from taxable wages in calculating SDI tax. This resulted in an estimated under-withheld tax liability of \$1,200,000 from approximately 6,500 employees during the period of October 2022 through June 2025. The under-withheld tax is expected to incur approximately \$180,000 in penalties and \$98,000 in interest.

On October 14, 2025, the Board of Supervisors authorized remittance of \$1.7 million to the State of California Employment Development Department (EDD) for SDI tax under-withholding, including a late payment penalty and interest, for payroll tax returns filed after October 31, 2022, without recoupment from County employees. If the action recommended in this board report is approved, the ACO will remit payment on behalf of County employees to the State of California Employment Development Department (EDD) for SDI tax under-withholding, including a late payment penalty and interest,

DISCUSSION:

The County participates in the State Disability Insurance (SDI) Program which provides temporary wage replacement benefits to eligible employees within unions negotiated to participate in the program. For those participating in the SDI program, a deduction based on the SDI tax rate at the time of wage payment is calculated and deducted from the wages subject to SDI tax. The 457(b) deferred compensation contributions and CalPERS retirement contributions were erroneously excluded from the SDI tax calculation.

OTHER AGENCY INVOLVEMENT/COMMITTEE ACTIONS:

The ACO has coordinated with the County Administrative Office (CAO) to identify funding source. The CAO has reviewed this board report and requested inclusion of its recommendation of funding source. The Office of County Counsel has reviewed as to form. Budget Committee Chair has approved to bypass Budget Committee due to the payment due date.

FINANCING:

The SDI tax liability remittance will be funded by either a) the County General Fund Compensated Absences Assignment account which has a current balance of \$10,430,651, if approved remaining balance would be \$8,730,651 or b) the General Fund Contingencies Appropriation which has a current balance of \$5,481,262, if approved remaining balance would be \$3,781,262 as identified by the CAO. The CAO is recommending using the Compensated Absences Assignment account to fund the SDI tax liability.

The paragraphs below contain additional information provided by the CAO. The Compensated Absences Assignment account is designed to cover the cost of retirement or resignation payouts of accrued employee liabilities (Vacation, Sick, and Comp time) for departments who are not able to absorb these costs within their appropriated salary and benefits. As of June 30, 2024, the reported liability was \$69.6 million for all County employees (incl Natividad Medical Center). Current assignment balance is approximately 15% of outstanding liability. Using this designation would reduce the percentage to approximately 12.5%. In recent year's this balance has been reduced from \$12,670,138 (FY 2023-24) to \$10,430,651 (FY 2024-25) due to budgetary gaps. If the Compensated Absences Assignment is approved for this action, the remaining balance will be \$8,730,651.

The General Fund Contingencies was established at the beginning of the year at 1% of the General

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Fund with an allocation of \$8,738,087. Through current year allocation of Contingency this available contingency balance has been reduced to \$5,481,262. The CAO is anticipating additional demand on contingency for increased contracted costs for Jail Medical Services. If the Contingencies Appropriation is approved for this action, the remaining balance would be \$3,781,262, or 43%. This drops the balance to less than half of the original contingency allocation, with over eight months left in the fiscal year, adding financial strain and uncertainty when additional demands for County resources arise.

Other options considered by the CAO but not currently recommended were reducing previous board approved fund designations such as Strategic Reserves, FY 2024-25 Unassigned Fund Balance Carryover, and Capital assignment reductions.

BOARD OF SUPERVISORS STRATEGIC PLAN GOALS:

Mark a check to the related Board of Supervisors Strategic Plan Goals:

- Well-Being and Quality of Life
- Sustainable Infrastructure for the Present and Future
- Safe and Resilient Communities
- Diverse and Thriving Economy

If does not fall under any of the above Board of Supervisors Strategic Plan Goals (Other):

Administrative

The SDI Tax correction update will provide accurate tax reporting of the SDI taxes and ensure integrity in all County actions.

Link to the Strategic Plan:


<https://www.countyofmonterey.gov/home/showdocument?id=139569>

Prepared by: Enedina Garcia, Assistant Auditor-Controller, 784-5960

Approved by: Rupa Shah, CPA, Auditor-Controller, 755-5084

Attachments:

Exhibit A - Summary of SDI Tax Liability by Year

Signed by:

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