



County of Monterey

Item No.

Board Report

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

Legistar File Number: 25-708

October 14, 2025

Introduced: 10/3/2025

Current Status: ATS Review

Version: 2

Matter Type: General Agenda Item

- a. Authorize remittance by the Auditor-Controller of up to \$1.7 million to the State of California Employment Development Department ("EDD"), for State Disability Insurance (SDI) tax under-withholding, including a late payment penalty and interest, for payroll tax returns filed after October 31, 2022; and
- b. Authorize payment of the SDI tax under-withholding without recoupment from County employees.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Authorize remittance by the Auditor-Controller of up to \$1.7 million to the State of California Employment Development Department ("EDD"), for State Disability Insurance (SDI) tax under-withholding, including a late payment penalty and interest, for payroll tax returns filed after October 31, 2022; and
- b. Authorize payment of the SDI tax under-withholding without recoupment from County employees.

SUMMARY:

The Auditor-Controller's Office (ACO) recently identified an error in 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 \$1.2 million 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.

If the recommended action is approved, the County will treat the SDI taxes paid on behalf of County employees as reportable wages in the year paid, subject to payroll tax withholdings.

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.

The total estimated under-withheld tax liability from October 2022 through June 2025 stemming from the 457(b) deferred compensation contributions and CalPERS retirement

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contributions subject to SDI tax is \$1.2 million as shown in Exhibit A. This amount is subject to additional penalties and interest approximately, in the amount of \$180,000 and \$98,000, respectively. During this period of October 2022 through June 2025, approximately 6,500 employees to include active and separated, are identified to be under-withheld of SDI tax.

The SDI taxes paid by the County on behalf of the employees are considered reportable wages in the year paid and subject to payroll tax withholdings.

The Auditor-Controller's Office (ACO) plans to implement the adjustment to reportable wages for active employees for the pay period ending on October 17, 2025. The reportable wages will be reflected on the affected County employees' paystub for checks dated October 24, 2025. The ACO will be issuing a formal notification to the employees in advance, providing clear guidance regarding the adjustment.

The ACO will be seeking the Board approval to increase appropriations for remittance to the state.

For separated employees, the County paid SDI tax is subject to be reported on the annual tax reporting form W-2. This requirement will be fulfilled during the calendar year 2025 end W-2 preparation process by the ACO.

OTHER AGENCY INVOLVEMENT/COMMITTEE ACTIONS:

The Human Resources Department has provided notifications to affected labor unions of the planned adjustment. The ACO has coordinated with the County Administrative Office (CAO) to identify funding source. The Office of County Counsel has reviewed as to form.

FINANCING:

The SDI tax liability remittance will be funded by the County General Fund Compensated Absences Assignment account as identified by the CAO.

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:

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

DocuSigned by:



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