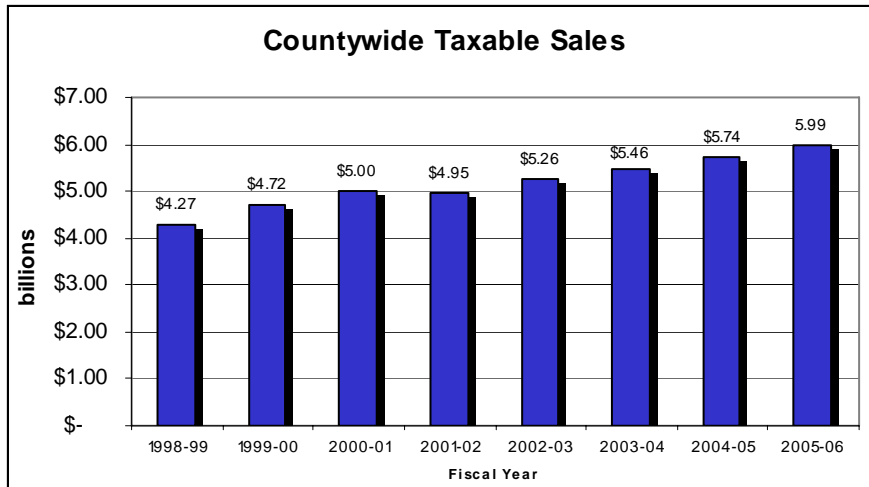




County of Santa Barbara Annual Sales & Use Tax Report

Fiscal Year Ended June 30, 2006

Countywide Taxable Sales



REVENUE REPORTS INSIDE	
	Page
California's Budget	2
State General Fund	3
Proposition 172	4
Health & Welfare Realignment	4
Measure D	5
Local Transportation Fund	5
Local 3/4%	6
Top 25 Retailers Countywide	7
Business Activity Groups	7
Audit Results	8

Taxable sales countywide reached \$5.99 billion during fiscal year 2005-06. Retailers in Santa Barbara County saw an overall increase in taxable sales of 4.38% over the prior fiscal year total of \$5.74 billion. Over the last 4 years retail sales have shown a steady increase due to the performance of the national and state economy.

Countywide Sales Tax Revenue Distribution

The \$5.99 billion in taxable sales in the County of Santa Barbara for fiscal year 2005-06 multiplied by the 7¾% sales tax rate generated \$464.05 million of sales tax revenue for state and local governments. The distribution of the 7¾% sales tax is illustrated below. The actual distribution back to local governments varies due to legislative formulas. In summary, the State received \$314 million; Santa Barbara County \$76 million; cities in Santa Barbara County \$59 million; other counties \$8 million; and other entities within Santa Barbara County \$7 million.

Sales and Use Tax Distribution

	Rate	Tax Amount (in millions)
State of California	5¼%	\$ 314.35
Allocated to Local Agencies for Public Safety — Prop. 172	½%	29.94
To Counties for Health and Welfare — Realignment	½%	29.94
Designated to maintain and improve city and county roads — Measure D	½%	29.94
Designated by statute for countywide transportation — LTF	¼%	14.97
SB County & Cities to support general operations — Local 3/4%	¾%	44.91
Total Santa Barbara Countywide Sales Tax Generated	7¾%	\$ 464.05

Santa Barbara County generated \$464 million in sales tax revenue for fiscal year 2005-06.

California's Most Complex Budget Component

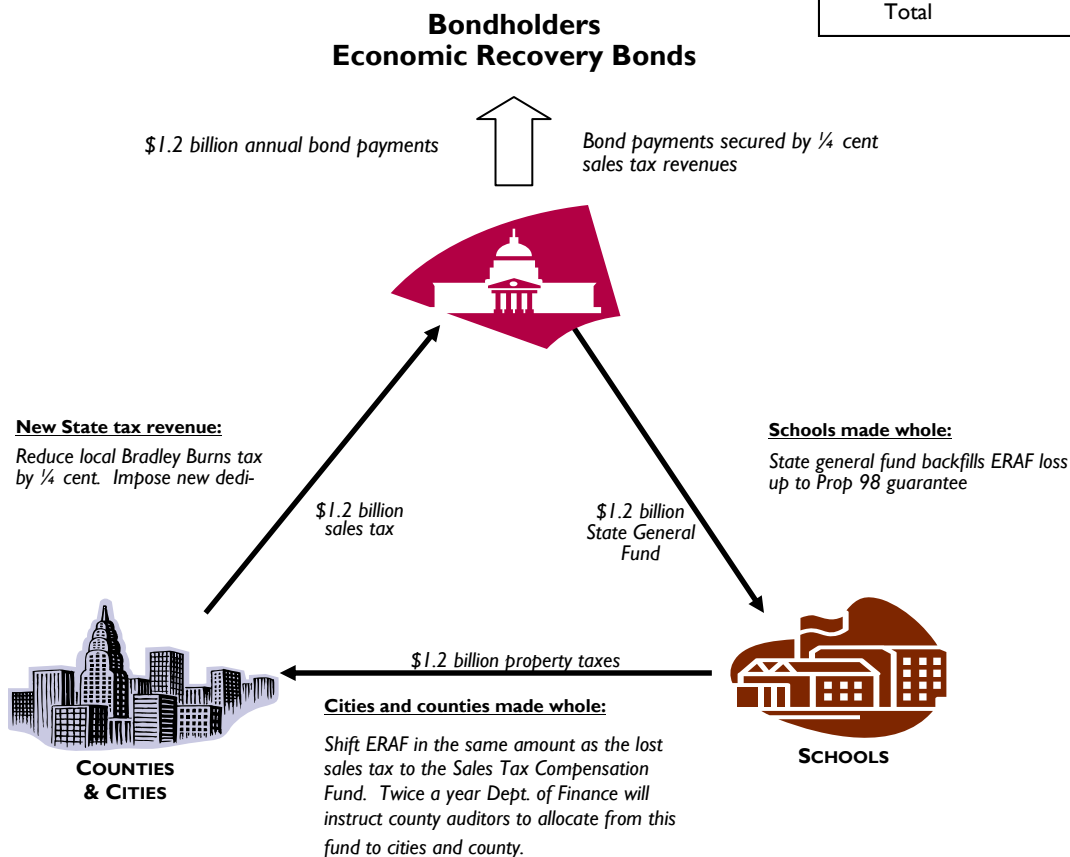
The State balanced their 2003-04 budget by issuing \$20 billion in 'deficit financing bonds.' The bonds require a dedicated State revenue source to guarantee bond repayment. In order to have an identifiable dedicated revenue source, the State developed and initiated the so-called "Triple Flip." The Triple Flip does not increase taxes, but is simply a mechanism to re-characterize one-quarter of the original 1% Bradley-Burns local sales tax as State revenue. This quarter percent of the Bradley-Burns tax that the State keeps from local government is returned as property taxes.

Senate Bill 1096 "The Triple Flip" reduced the local 1% to ¾% beginning in fiscal year 2004-05.

Estimated Countywide Adjustments Fiscal Year 2006-07	
County of Santa Barbara	\$ 2,615,392
Cities:	
Buellton	421,303
Carpinteria	333,232
Goleta	1,081,577
Guadalupe	105,543
Lompoc	1,011,107
Santa Barbara	4,894,421
Santa Maria	4,464,283
Svang	242,585
Total	\$15,169,443

The "Triple Flip"

- Reduces the local Bradley-Burns sales tax rate, originally 1%, to ¾% (effective with fiscal year 2004-05).
- Replaces lost local sales tax revenues on a dollar-for-dollar basis with local property taxes from the Educational Revenue Augmentation Fund, frequently referred to as "ERAF".
- Increases the State sales tax rate from 5% to 5.25%, an increase of ¼%, with new revenue dedicated to repaying the State's deficit financing bonds.



State 5%: California General Fund

Five percent of the taxable sales statewide goes to the State’s General Fund and one-quarter percent is to repay the State’s deficit financing bonds. Sales and Use tax is a major contributor to the State’s General Fund, representing 31.9%, second to personal income tax of 51.3%. For fiscal year 2005-06 Santa Barbara County contributed an estimated \$299 million in sales tax to the State General Fund.

- K-12 Education continues to be the State’s top funding priority—over 38 cents of every General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State will spend over 49 cents of every General Fund dollar on education.
- Education, health and human services, and state corrections expenditures constitute over 89 percent of all State General Fund expenditures.

STATE GENERAL FUND

Revenues		Expenditures	
Personal Income Tax	51.3%	Education K - 12	38.7%
Sales & Use Tax	31.9%	Health & Human Services	31.6%
Corporation Tax	10.4%	Higher Education	11.1%
Other	3.2%	Youth & Adult Correctional Agency	7.9%
Insurance Tax	2.7%	Legislative, Judicial, Executive	3.4%
Tobacco Tax	0.1%	General Government	2.8%
Liquor Tax	0.4%	Other	4.5%
	100.0%		100.0%

The State General Fund received \$299 million from sales & use tax generated in Santa Barbara County.

County Sales Tax Revenue

Taxes generated from retail sales represent the second largest revenue source for the County. During fiscal year 2005-06, property taxes which are the County’s largest revenue source generated \$175.81 million in revenue, while sales taxes generated \$75.73 million.

County Sales Tax Revenue Fiscal Year 2005-06	
	Revenue (in millions)
Public Safety—Prop 172	\$30.66
Health & Welfare Realignment	19.93
County Roads—Measure D	15.74
General Operations—Local ¾%	7.52
Transportation—LTF	1.88
Total	\$ 75.73

County Property Tax Revenue Fiscal Year 2005-06	
	Revenue (in millions)
General Fund	\$ 140.43
Special Revenue Funds	35.38
Total	\$ 175.81

Proposition 172: 1/2% for Public Safety

During the 1993-94 State Budget process, the State Legislature and Governor, found it necessary to shift local property tax revenues from local agencies to K-12 schools and community colleges in order to balance the State Budget. The voters partially offset these losses by approving Proposition 172, a 1/2 cent sales tax to fund local public safety services.

One-half percent of statewide taxable sales, which for the 2005-06 fiscal year totaled \$2.84 billion, is first deposited into the State's Local Public Safety Pool. This revenue is then allocated to county governments throughout the State based on a factor. Each year, the factor is determined based upon the actual sales in the County divided by the total State sales for the prior year. The County of Santa Barbara's factor for fiscal year ended June 30, 2006, was 1.11%. In fiscal year 2005-06, while a 1/2% sales tax in Santa Barbara County generated \$29.94 million in taxes for the State pool, we received \$31.48 million under the formulas.

During fiscal year 2006-07, Santa Barbara County will allocate an estimated \$33 million:

- County public safety service departments will receive 97.41%.
- City public safety agencies receive the remaining 2.59%.

In fiscal year 2005-06, Proposition 172 allocated:

- \$30.66 million for the County public safety departments.
- \$816 thousand for the cities' public safety agencies.

Public Safety Revenue Eleven Year Trend

Fiscal Year	Revenues (in millions)	Growth
2006-07(est)	\$ 33.08	5.00%
2005-06	31.48	5.10%
2004-05	29.93	6.70%
2003-04	28.05	8.47%
2002-03	25.86	6.46%
2001-02	24.29	-5.49%
2000-01	25.70	7.80%
1999-00	23.84	13.20%
1998-99	21.06	6.20%
1997-98	19.83	5.87%
1996-97	18.73	4.29%
1995-96	17.96	5.71%
Total	\$ 299.81	

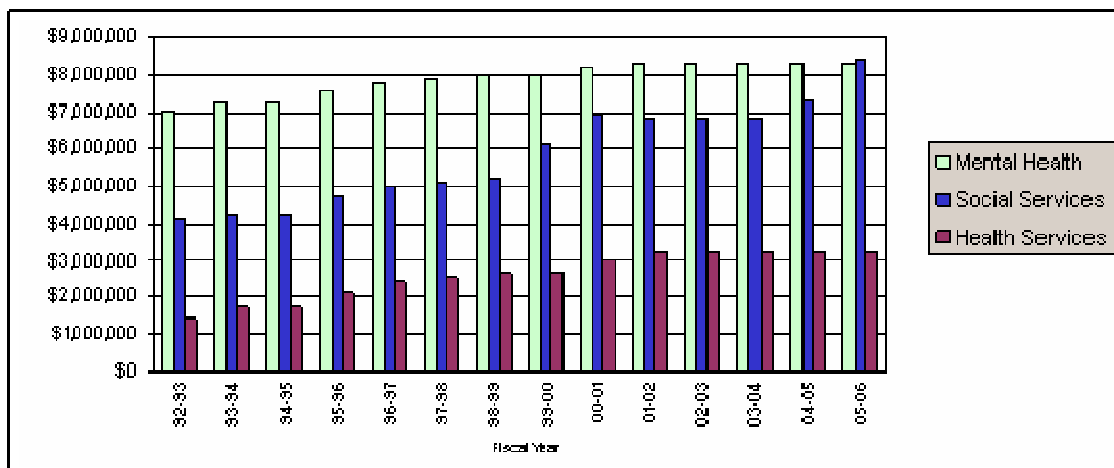
Realignment: 1/2% for Health & Welfare Programs

During the fiscal year 1991-92 state budget deficit, revenue increases were used to balance the budget and the legislature made a number of structural changes. Among the most significant was the shift of responsibility from the state to counties for health, mental health and various social services programs, accompanied by a source of revenue to pay for the funding changes.

The change is known as realignment and the new revenues allocated to counties to fund these programs were a 1/2% sales tax and increases in the Vehicle License Fee. The allocation mechanism is complex and is formula driven. The formula involves a base year amount and subsequent year growth formulas.

In fiscal year 2005-06, while a 1/2% sales tax in Santa Barbara County generated \$29.94 million in taxes for the State pool, we received only \$19.94 million under the formulas. Counties with higher caseload growth receive a bigger share of the allocation. During fiscal year 2005-06 the revenue base for Social Services increased by \$1.14 million, while the revenue base for Mental Health, and Public Health remained constant.

Realignment Revenue Trend



**Countywide Revenue History
20 Year Trend**

Fiscal Year	Revenue (millions)	Average Growth
2010-11 (est)	—	—
2009-10 (est)	35.64	4.0%
2008-09 (est)	34.27	4.0%
2007-08 (est)	32.95	4.0%
2006-07 (est)	31.68	4.0%
2006-11	\$134.54	4.0%
2001-06	\$141.49	3.8%
1996-01	\$111.36	7.2%
1991-96	\$84.33	3.2%
Total	\$471.72	

Measure D: 1/2% for County Roads

On November 7, 1989, the voters of the County of Santa Barbara approved Measure D, the Santa Barbara Roads Improvement Program. As a result of the passage of Measure D, the local sales tax was increased countywide by 1/2% effective April 1, 1990. The transportation sales tax will remain in effect for 20 years (until April 2010), with revenues allocated by the Santa Barbara Association of Governments (SBCAG), the Local Transportation Authority for transportation improvements.

The SBCAG adopts a resolution each year that determines the allocations for the coming fiscal year based on the provisions of the original voter adopted ordinance.

Fiscal year 2005-06 distribution:

- The County Road Fund received 21.76%.
- Incorporated cities of Santa Barbara County received 47.12%.
- Debt Service received 13.83% and the Capital Projects Fund 15.14%.
- Easy Lift Transportation received .23%.
- County Association of Governments received 1.92% for planning.

The countywide estimate for Measure D sales tax revenue for fiscal year 2006-07 is \$32 million.

LTF: 1/4% for County Transportation

The Transportation Development Act went into effect in 1972, and provided for two major sources of funding for local transportation providers. One of those revenue sources became the 1/4% statewide sales tax for the Local Transportation Fund (LTF). This tax made funding available to transportation providers such as cities, counties, and other entities that provide transit services for a community.

Fiscal year 2005-06 distribution:

- Santa Barbara Metropolitan Transit District received 44.86%.
- Incorporated cities of Santa Barbara County received 38.72%.
- The County Road Fund received 10.69%.
- Easy Lift Transportation received 2.36%.
- Santa Maria Organization of Transportation Helpers received 1.43%.
- County Association of Governments received 1.94%

**Local Transportation Fund
Eight Year Trend**

Fiscal Year	Revenue (in millions)	Growth
2006-07 (est)	\$15.23	2.1%
2005-06	\$14.91	6.8%
2004-05	\$13.96	4.2%
2003-04	\$13.40	3.7%
2002-03	\$12.92	2.3%
2001-02	\$12.63	2.3%
2000-01	\$12.34	7.6%
1999-00	\$11.47	9.6%
1998-99	\$10.47	6.0%

The countywide estimate for LTF sales tax revenue for fiscal year 2006-07 is \$15.23 million.

Local 3/4% Tax to Support General Operations

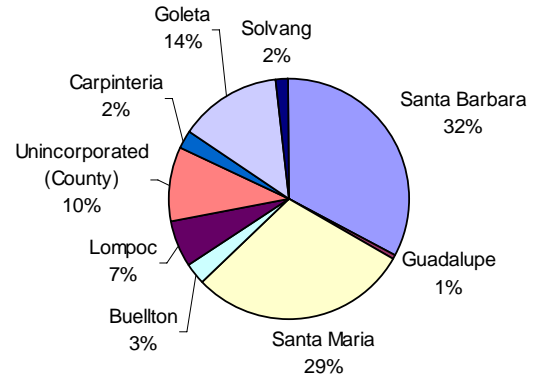
The Local 3/4% Tax (frequently referred to as the “Bradley-Burns Tax” and originally 1%) was enacted to return a percentage of each taxable sale to the jurisdiction in which the sale took place in order to support the general operations of the local government (cities and county). Taxable sales countywide generated \$44.9 million in 3/4% sales tax for local jurisdictions.

By analyzing the local 3/4% tax revenue, cities and the County can identify trends in the local business economy.

During fiscal year 2005-06:

- Countywide retail sales tax had a 4.4% growth from the prior year.
- Several cities showed strong growth for the year: Santa Barbara (5.2%), Lompoc (5.5%), Solvang (6.1%), and Guadalupe (19.6%) .
- The cities of Santa Maria and Goleta had steady growth at 4.3% and 4.1% respectively.
- The City of Buellton and the Unincorporated Area of the County had a modest 1.6% and 1.7% growth from the prior year.
- Retail sales in the unincorporated area of Santa Barbara County saw growth of 1.7%. The County also receives sales tax revenue from the City of Goleta. This area generated \$6.2 million in revenue that is split 50/50 between the city and county for 10 years under a revenue neutrality agreement required by the incorporation provisions (ending in Fiscal Year 2011/12).

Local 3/4% Sales & Use Tax Revenue



Local 3/4 % Sales Tax Revenue by Jurisdiction—3 Year Trend

Jurisdiction	FY 2003-04 (1%)	FY 2003-04 (3/4%)	% Change	FY 2004-05 (3/4%)	% Change	FY 2005-06 (3/4%)
City of Santa Barbara	\$18,352,134	\$13,764,101	2.1%	\$14,054,529	5.2%	\$14,784,536
City of Santa Maria	15,921,456	11,941,092	6.3%	12,687,578	4.3%	13,234,714
City of Goleta	3,687,912	2,765,934	8.5%	2,999,960	4.1%	3,122,997
County share of Goleta	3,687,912	2,765,934	8.5%	2,999,960	4.1%	3,122,997
Unincorporated—County	5,401,384	4,051,038	6.6%	4,319,279	1.7%	4,392,095
City of Lompoc	3,525,162	2,643,872	6.8%	2,823,607	5.5%	2,978,033
City of Buellton	1,499,354	1,124,516	5.1%	1,182,379	1.6%	1,201,261
City of Carpinteria	1,205,229	903,922	7.8%	974,193	2.3%	996,619
City of Solvang	1,016,248	762,186	-2.9%	739,960	6.1%	785,141
City of Guadalupe	265,396	199,047	21.7%	242,300	19.6%	289,785
Countywide	\$54,562,187	\$40,921,642	5.1%	\$43,023,745	4.4%	\$44,908,178

Top Retailers Countywide

Since taxpayer sales information is confidential, we can only disclose business activity in ways that do not reveal the actual sales results of the taxpayer. The following list identifies the top twenty-five taxable sale businesses within the county for the fiscal year ended June 30, 2006.

Fiscal Year 2005-06

Top 25 Sales Tax Producers Countywide

<u>Businesses (Alphabetical Order)</u>	<u>Locations</u>
Albertson's	6
Audi, BMW, Porsche, SB Auto	3
Best Buy Stores	1
Circuit City Stores	2
Consolidated Electrical Dstr Inc.	4
Costco Wholesale Corporation	2
Graham Chevrolet Geo Nissan	1
Hayward Lumber Co.	3
Home Motors	1
Hughes Automobile Co.	4
Iversen Motor Co.	1
K-Mart Corporation	2
Longs Drug Stores	11
Nordstrom Inc.	1
Palisades Gas and Wash	4
Porter & Howard Inc.	1
Rite Aid	9
Robinson's-May	2
Santa Maria Ford	1
Sears-Roebuck and Co.	6
Target Stores	1
The Home Depot	3
Vons Companies	10
Union Asphalt Inc	6
Wal-Mart Stores Inc.	2

The top 25 retailers generated \$8.9 million in ¾% sales tax revenues, which represents 20% of the countywide total.

Business Groups

Retail activity can also be summarized in the following business groups. Each sales tax generating entity is categorized at the State Board of Equalization. Each category is then placed in one of the following seven groups. The following table represents the point of sale Local ¾% Tax allocations of all the businesses operating in each group and the growth in each group from fiscal year 2004-05 to 2005-06.

Countywide Business Group Comparison

<u>Business Group</u>	<u>2004-05</u>	<u>2005-06</u>	<u>Growth</u>
General Consumer Goods	\$ 10,942,766	\$ 11,109,402	1.5%
Business and Industry	8,120,421	8,399,271	3.4%
Autos and Transportation	6,666,311	6,576,205	-1.4%
Restaurants and Hotels	4,986,717	5,431,357	8.9%
Building and Construction	4,895,722	5,354,720	9.4%
Fuel and Service Stations	3,307,768	3,843,064	16.2%
Food and Drugs	3,004,878	3,206,209	6.7%
Other Allocations	1,099,162	987,950	-10.1%
TOTALS	\$ 43,023,745	\$ 44,908,178	4.4%

Business Group Highlights

General Consumer Goods

- Sales tax revenue generated from General Consumer Goods reached \$11.1 million countywide during fiscal year 2005-06.
- 67% of all General Consumer Goods transactions occurred in the cities of Santa Maria and Santa Barbara.

Building and Construction

- There was a 9% increase in Building and Construction from the prior year.
- Building and Construction had the greatest increase of 55% in the City of Solvang mainly due to an increase in sales of building materials.

Autos and Transportation

- The revenue generated in the Autos and Transportation category continued to decline with a decrease of -1.4% from the prior year.
- \$6 million of auto related transactions are generated in the cities of Santa Barbara and Santa Maria, representing 69% of all transactions in this category.

Fuel and Service Stations

- Fuel and Service Station transactions had the greatest increase of 16% during fiscal year 2005-06 due to the increase in the price of fuel.



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The Auditor-Controller is the Chief Fiscal Officer of the county. The office is elected by Santa Barbara County voters to provide accounting, budgeting, and financial services to the public, county agencies, school districts, special districts, and cities as defined under the Government Code.

Robert W. Geis, CPA has served the County of Santa Barbara as the Auditor-Controller since 1991.

3/4% Local Sales Tax: County Audit Work Results

Misallocation of the Local ¾% Tax

The State Board of Equalization (BOE) allocates ¾% of the Local Sales Tax to the jurisdiction (city or county) in which the sale took place in order to support the local governments. The BOE requires that each retailer collecting Sales Tax register with the BOE and identify the jurisdiction in which the sale took place. The county auditor receives this BOE data and performs its own audits to identify potential businesses located in the unincorporated area of the county that are incorrectly reporting their sales tax as being generated in the city. The county auditor will submit a claim to the BOE to notify them of the potential misallocated revenue and request that the appropriate corrections are made to correct the data and transfer the misallocated revenue permitted under statute to the county.

Improving the Audit Program Process

In 1997, the county used a consultant to identify the businesses that were misallocating revenue and paid them up to 25% of all taxes they had shifted to the county to identify those businesses. In 1998, the county began using a sales tax system developed internally to identify such businesses. In 2005 the County Auditor realized that due to the complexity of the data there was a need to upgrade the system to newer technology to improve stability, efficiency, and maintainability. *The Sales Tax Claims and Reporting System* was developed internally during FY 2005-06 to replace the older sales tax system. The Sales Tax Claims and Reporting System improved the mechanism to identify potential misallocations of revenue, submit misallocated revenue claims to the BOE and to generate various analytical reports.

Revenue Shifted to Date

The Sales Tax Claims and Reporting System also improved the calculation that determines the revenue shifted to the county. Among the various improvements accomplished, the new system has the ability to track the audit process results and to identify transactions that are a direct result of the corrections processed by the BOE from the misallocated claims submitted by the county. These new transactions identified by the new system have now been included in the calculation that determines the revenue shifted to the county.

Fiscal Year	Number of Claims	Claim Estimate	Revenue Shifted
1997-98	20	\$ 137,623	\$ 1,142,261
1998-99	30	45,164	719,859
1999-00	80	43,658	270,830
2000-01	71	238,736	2,237,409
2001-02	107	113,647	796,820
2002-03	57	67,629	360,336
2003-04	64	56,739	272,176
2004-05	49	70,828	287,701
2005-06	68	190,291	122,553
TOTAL	546	\$ 964,315	\$ 6,209,945