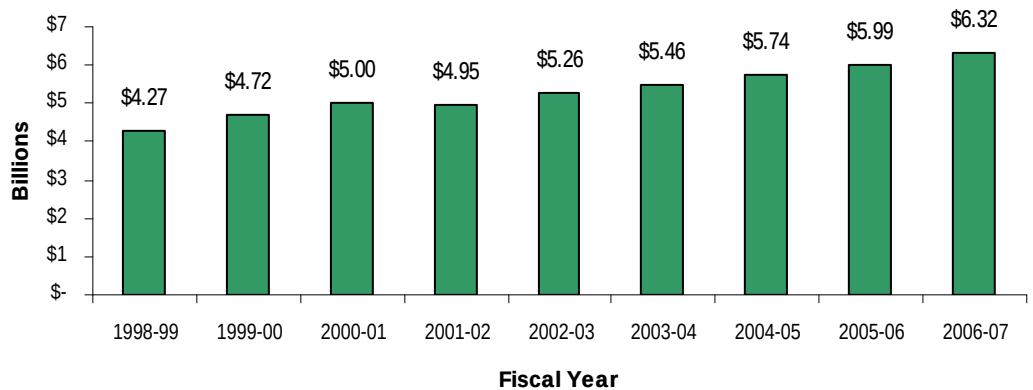


Annual Sales & Use Tax Report Fiscal Year Ended June 30, 2007



Countywide Taxable Sales Revenue

For fiscal year ended June 30, 2007, countywide taxable sales reached \$6.32 billion. Retailers in Santa Barbara County gained 5.68% in taxable sales revenue compared to the prior fiscal year of \$5.99 billion. This is the fifth year of steady growth in retail sales revenue.



Countywide Sales Tax Revenue Distribution

The \$6.32 billion in taxable sales in the County of Santa Barbara for FY 2006-07 generated \$490 million of sales tax revenue for state and local governments. However, the actual distribution back to local governments is over \$9 million less than tax revenue generated in FY 06-07 due to legislative formulas. The following chart illustrates sales tax revenue received (\$ in millions) by each program and entity:

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Sales & Use Tax	Rate (%)	County (\$)	Cities & Other Entities (\$)	Total Amount (\$)
State of California - General fund plus	5.00	-	-	316.4
Economic Recovery Fund: "Triple Flip"	0.25	-	-	15.8
Public Safety - Prop 172	0.50	30.8	0.8	31.6
County Health & Welfare - Realignment	0.50	21.2	-	21.2
City & County Road - Measure D	0.50	7.2	25.5	32.7
Countywide Transportation - LTF	0.25	1.4	14.1	15.5
County & Cities General Operations - Local Bradley Burns Sales Tax	0.75	9.2	38.3	47.5
Total Tax Revenue Received:	7.75	69.8	78.7	480.7

California's Most Complex Budget Component

Did you know...

The State balanced its 2003-04 budget by issuing \$20 billion in deficit financing bonds to reduce the state budget deficit. 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 new revenue "swapping" procedure: the "Triple Flip."

The Triple Flip does not increase taxes, but is simply a mechanism to re-characterize one-quarter of the original 1% local sales and use tax as State revenue. This quarter percent of the local sales tax loss will be offset by local property tax revenues within the County, previously allocated by the State to schools.

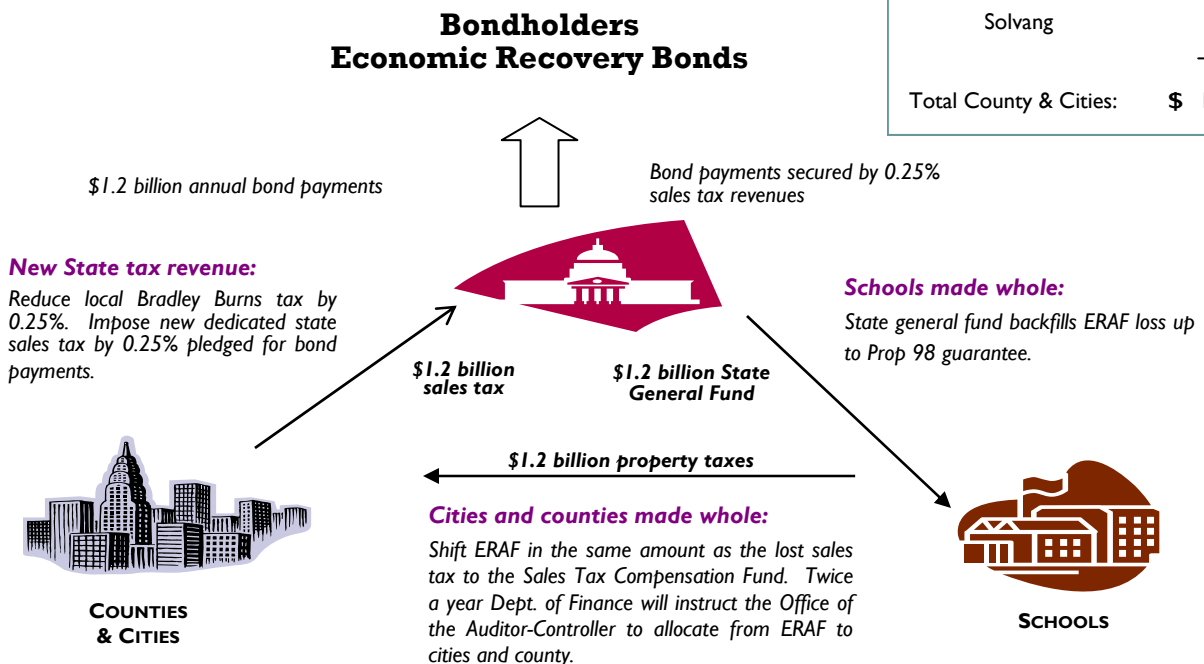
Senate Bill 1096 "The Triple Flip" reduced the local 1% to 0.75% beginning in FY 2004-05.

The "Triple Flip" Facts

- Reduces the local sales and use tax rate from 1% to 0.75% (effective on and after July 1, 2004).
- Replaces lost local sales tax revenues on a dollar-for-dollar basis with local property tax revenues from the County Educational Revenue Augmentation Fund, frequently referred to as "ERAF".
- Increases the State portion of sales tax rate from 5% to 5.25%. The new revenues will be dedicated to repay the State's deficit financing bonds. It is expected that the bonds will be retired in five years.

Triple Flip FY 2007-08

County of Santa Barbara	\$ 3,652,891
Cities:	
Buellton	439,837
Carpinteria	435,657
Goleta	1,093,918
Guadalupe	80,858
Lompoc	1,046,322
Santa Barbara	5,537,459
Santa Maria	4,668,410
Solvang	302,326
Total County & Cities:	\$ 17,257,678



State 5%: California General Fund

Five percent of the taxable sales statewide goes to the State's General Fund, representing 30.9% of the State General Fund, second to personal income tax, which is 53.2% of the State's General Fund. For FY 2006-07 Santa Barbara County contributed an estimated \$316 million. The following is an overview of State General Fund Revenues and Expenditures for FY 06-07. For more information on FY 06-07 state budget highlights, visit http://www.dof.ca.gov/Budget/Budget_2006-07/documents/EnactedBudget2006-07/StateBudgetHighlights2006-07.pdf

- K-12 Education continues to be the State's top funding priority: over 40 cents of every General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State will spend over 52 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	
Personal Income Tax	53.2%
Sales & Use Tax	30.9%
Corporation Tax	10.9%
Insurance Tax	2.6%
Other	2.0%
Liquor Tax	0.3%
Tobacco Tax	0.1%
Total	100.0%

Expenditures	
Education K - 12	40.7%
Health & Human Services	29.1%
Higher Education	11.5%
Corrections & Rehabilitation	8.2%
Other	5.1%
Legislative, Judicial, Executive	3.4%
General Government	2.0%
Total	100.0%

The State General Fund received \$316 million from sales & use tax generated in Santa Barbara County.

County Generated Revenues

Taxes generated from retail sales represent the second largest revenue source for the County; the largest is property tax revenues. During FY 2006-07, property taxes generated \$191.77 million in revenue, while sales taxes generated \$79.3 million.

County Sales Tax Revenue FY 2006-07

	Revenue (in millions)
Public Safety - Prop 172	\$ 30.8
Health & Welfare Realignment	21.2
County Roads - Measure D	16.7
General Operations	9.2
Transportation - LTF	1.4
Total	\$ 79.3

County Property Tax Revenue FY 2006-07

	Revenue (in millions)
General Fund	\$ 152.5
Special Revenue Funds	39.2
Total	\$ 191.7

Proposition 172: 0.5% 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 half cent sales tax to fund local public safety services. The 0.5% of statewide taxable sales, which, for the 2006-07 fiscal year totaled \$2.85 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, 2007, was 1.08%. In FY 2006-07, while a 0.5% sales tax in Santa Barbara County generated \$32 million in taxes for the State pool, we received \$30.88 million under the formulas.

During FY 2007-08, Santa Barbara County will allocate an estimated \$32.67 million:

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

In FY 2006-07, Proposition 172 allocated:

- \$30 million for the County public safety departments.
- \$800 thousand for the cities' public safety agencies.

Public Safety Revenue Twelve -Year Trend

Fiscal Year	Revenues (in millions)	Growth
2007-08 (est)	\$ 32.67	5.80%
2006-07	30.88	-1.91%
2005-06	31.48	5.18%
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%
Total	\$ 312.32	

Realignment: 0.5% for Health & Welfare Programs

To decrease the FY 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. The state increased the sales tax and vehicle license fee (VLF) and dedicated these revenues to fund the increased financial obligations of counties. The allocation mechanism is complex and is formula driven. The formula involves a base year amount and subsequent year growth revenues.

In FY 2006-07, while a 0.5% sales tax in Santa Barbara County generated \$32 million in taxes for the State pool, the County received only \$21.2 million under the formulas. Counties with higher caseload growth receive a bigger share of the allocation. The table below summarizes the realignment revenue received in the past three fiscal years and yearly growth trend:

County Programs	2004-2005		2005-2006		2006-2007	
	Amount	% Change FY 04-05	Amount	% Change FY 05-06	Amount	% Change FY 06-07
Mental Health	\$8,286,207	0.0%	\$8,286,207	0.0%	\$8,345,396	0.7%
Social Services	7,302,317	7.5%	8,439,342	15.6%	9,633,866	14.2%
Health Services	3,210,861	0.0%	3,210,861	0.0%	3,276,275	2.0%
Total	\$18,799,385	2.8 %	\$19,936,410	6.0 %	\$21,255,537	6.6 %

Countywide Revenue History Twenty - Year Trend

Fiscal Year	Revenue (in millions)	Average Growth
2009-10 (est)	\$ 35.65	4.0%
2008-09 (est)	34.28	4.0%
2007-08 (est)	32.96	0.6%
2006-07 (act)	32.76	5.6%
2005-06 (act)	31.01	5.2%
2005-10	166.66	3.9%
2000-05	136.20	2.8%
1995-00	103.77	7.3%
1990-95	66.17	3.6%
Total	\$ 472.80	

Measure D: 0.5% 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 0.5% 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 County 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.

FY 2006-07 distribution received by entity:

- The County Road Fund: 21.83%.
- Incorporated cities of Santa Barbara County: 47.7%.
- Debt Service: 13.8%; Capital Projects Fund: 15.44%.
- Easy Lift Transportation: 0.23%.
- County Association of Governments: 1% for planning.

*The countywide estimate for Measure D sales tax revenue for FY 2007-08: **\$32.96 million.***

LTF: 0.25% 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 0.25% 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. The following table is a trend analysis of the last few fiscal years:

Entities	2005-2006		2006-2007		2007-2008 (est)	
	Amount	% Change FY 05-06	Amount	% Change FY 06-07	Amount	% Change FY 07-08
County	\$1,592,123	13.8%	\$1,364,595	-14.3%	\$1,377,770	1.0%
Cities	5,773,279	6.2%	6,321,775	9.5%	6,421,503	1.6%
SBCAG	289,983	6.3%	303,263	4.6%	307,936	1.5%
Easy Lift	352,024	5.8%	362,845	3.1%	368,476	1.6%
SBMTD	6,688,446	5.8%	6,894,066	3.1%	7,001,045	1.6%
SMOOTH	213,764	7.4%	226,082	5.8%	234,268	3.6%
Total	\$14,909,619	6.8%	\$15,472,626	3.8%	\$15,710,998	1.5%

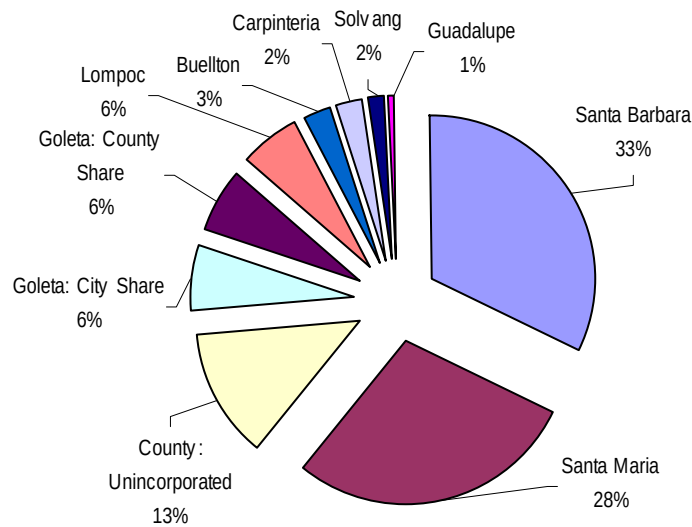
*The countywide estimate for LTF sales tax revenue for FY 2007-08: **\$15.7 million.***

Local 0.75% Tax to Support General Operations

The Local 0.75% 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 \$47 million of 0.75% sales tax for local jurisdictions.

By analyzing the local 0.75% tax revenue, cities and the County can identify trends in the local business economy. In FY 2006-07, the following facts are worth emphasizing:

FY 2006-07
Local 0.75% Sales Tax Revenue By Location



- Countywide retail sales tax had a 5.7% growth from the prior year. The largest increase occurred in the County unincorporated area due to a large one time sale of an art collection in the Business & Industrial category.
- The County also receives sales tax revenue from the City of Goleta. This area generated about \$6 million in revenue, which is split 50/50 between the city and County for 10 years under a revenue neutrality agreement required by the incorporation provisions (ending in FY 2011/12).

Local 0.75% Sales Tax Revenue by Jurisdiction Three -Year Trend

Jurisdiction	2004-2005			2005-2006			2006-2007		
	Amount	% Change FY 04-05		Amount	% Change FY 05-06		Amount	% Change FY 06-07	
City of Santa Barbara	\$14,054,529	2.1%		\$14,784,536	5.2%		\$15,357,311	3.9%	
City of Santa Maria	12,687,578	6.3%		13,234,714	4.3%		13,367,102	1.0%	
Goleta: City Share	2,999,960	8.5%		3,122,997	4.1%		3,056,455	-2.1%	
Goleta: County Share	2,999,960	8.5%		3,122,997	4.1%		3,056,455	-2.1%	
County: Unincorporated	4,319,279	6.6%		4,392,095	1.7%		6,144,579	39.9%	
City of Lompoc	2,823,607	6.8%		2,978,033	5.5%		2,976,767	0.0%	
City of Buellton	1,182,379	5.2%		1,201,261	1.6%		1,272,278	5.9%	
City of Carpinteria	974,193	7.8%		996,619	2.3%		1,138,968	14.3%	
City of Solvang	739,960	-2.9%		785,141	6.1%		835,694	6.4%	
City of Guadalupe	242,300	21.7%		289,785	19.6%		254,059	-12.3%	
Countywide Total	\$43,023,745	5.1%		\$44,908,178	4.4%		\$47,459,668	5.7%	

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, 2007.

FY 2006-07

Top 25 Sales Tax Producers Countywide

Businesses (Alphabetical Order)	Locations
CHRISTIES INC (*Sales generated in County Unincorporated area)	*
CONSOLIDATED ELECTRICAL DSTR INC	4
COSTCO WHOLESALE CORPORATION	2
GRAHAM CHEVROLET GEO NISSAN	1
HOME MOTORS	1
HOMER T HAYWARD LUMBER CO	3
HUGHES AUTOMOBILE COMPANY	4
INFINITI, JAG, LAND ROVER, SB	3
K-MART CORPORATION	2
LONG'S DRUG STORE	11
MACY'S DEPARTMENT STORES INC	3
MEL CLAYTON FORD	1
NORDSTROM INC	1
PALISADES GAS & WASH INC	1
PORTER & HOWARD INC	1
RITE AID	9
ROSS DRESS FOR LESS	3
SEARS-ROEBUCK AND CO	6
TARGET STORES	1
THE HOME DEPOT	3
THE VONS COMPANIES INC	10
TOYOTA OF SANTA BARBARA	1
UNION ASPHALT INC	6
WAL-MART STORES	2
WORLD OIL MARKETING COMPANY	4

The top 25 retailers generated \$9.9 million in 0.75% sales tax revenues, which represents 21% of the countywide total.

Business Groups

Retail activity can also be summarized in the following business groups. Each sales tax generating entity is categorized by 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 0.75% tax allocations of all the businesses operating and their growth in each group from FY 2005-06 to 2006-07.

Countywide Business Groups Comparison

Business Group	2005-06	2006-07	Growth
General Consumer Goods	\$ 11,109,402	\$ 11,592,887	4.4%
Business and Industry	8,399,271	9,547,103	13.7%
Autos and Transportation	6,576,205	6,641,199	1.0%
Restaurants and Hotels	5,431,357	5,505,377	1.4%
Building and Construction	5,354,720	5,445,494	1.7%
Fuel and Service Stations	3,843,064	4,349,291	13.2%
Food and Drugs	3,206,209	3,210,133	0.1%
Other Allocations	987,950	1,168,183	18.2%
TOTALS	44,908,178	47,459,667	5.7%

Business Groups Highlights

General Consumer Goods

- Sales tax revenue generated from General Consumer Goods reached \$11.6 million countywide during FY 2006-07.
- 67% of all General Consumer Goods transactions occurred in the cities of Santa Maria and Santa Barbara.

Building and Construction

- Compared to FY 05-06 growth of 9%, Building and Construction sector has grown at a lower rate of 1.7%.

Autos and Transportation

- The revenue generated in the Autos and Transportation category gained only 1% from the prior year.
- \$4.5 million of auto related transactions are generated in the cities of Santa Barbara and Santa Maria, representing 68% of all transactions in this category.

Business and Industry

- Business and Industry related transactions had an increase of 13.7% during FY 2006-07 due to a large one time sale of an art collection.

Fuel and Service Stations

- Fuel and Service Station transactions had a 13.2% increase for the fiscal year.

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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, CPFO has served the County of Santa Barbara as the Auditor-Controller since 1991.



Local Sales Tax: County Audit Results

Misallocation of the Local Sales Tax Revenue

In order to support local governments, the State Board of Equalization (BOE) allocates 0.75% of the Local Sales Tax to jurisdictions (cities and/or counties) in which the sales took place. The BOE requires that each retailer collecting Sales Tax register with the BOE and identify the jurisdiction in which the retailer is located. The Office of the Auditor-Controller receives this BOE data and performs its own audit to identify businesses located in the County unincorporated area that are incorrectly reporting their sales tax as being generated in a city. The County Auditor's Office submits a claim to the BOE, identifying potential misallocated revenue, and requesting appropriate corrections be made to transfer the misallocated revenue to the County, as permitted under statute.

Improving the Audit Program Process

In 1997, the County used a consultant to identify businesses that misallocated revenue (the audit process described above). For their services the consultant was compensated up to 25% of tax revenue shifted to the County for a two-year period. In 1998, the County began using an internally developed sales tax system to identify such businesses. In 2005 a new *Sales Tax Claims and Reporting System* was developed in-house to replace the older system. The new system has since greatly improved the overall process of identifying misallocated revenue and shifting it in a timely fashion.

Revenue Shifted to Date

The table below illustrates the misallocated revenue shifted to the County over the past ten years (*Revenue Shifted amount may change due to pending claims to be approved by the BOE):

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
2006-07	65	105,800	172,970
TOTALS:	611	\$ 1,070,115	\$ 6,382,915