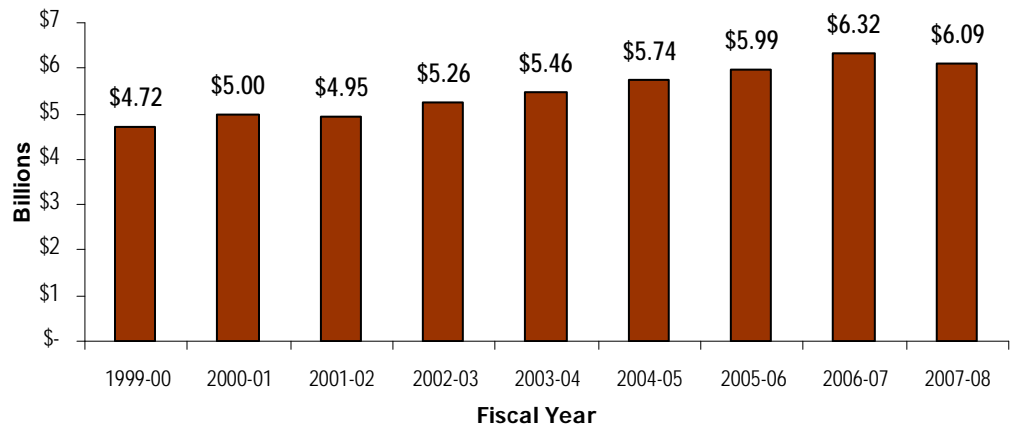


# Annual Sales & Use Tax Report Fiscal Year Ended June 30, 2008



## Countywide Taxable Sales Revenue

For fiscal year ended June 30, 2008, countywide taxable sales were \$6.09 billion, a 3.71% decline compared to the prior fiscal year of \$6.32 billion. It was the first year since FY 2001-02 that the County had a decline in retail sales revenue. We expect the decreasing trend to continue into FY 2008-09.



## Countywide Sales Tax Revenue Distribution

The \$6.09 billion in taxable sales in the County of Santa Barbara for FY 2007-08 generated \$472.2 million of sales tax revenue for state and local governments. However, the actual distribution back to local and other governments is \$2.6 million more than tax revenue generated in FY 07-08 due to allocation formulas. The following chart illustrates sales tax revenue received (\$ in millions) by each program and entity:

### INSIDE THIS ISSUE:

California's Complex Budget	2
"Triple Flip" Facts	2
State General Fund	3
County Generated Revenues	3
Proposition 172	4
Realignment	4
Measure D	5
LTF	5
Local 0.75% Sales Tax	6
Top Retailers Countywide	7
Business Groups Highlights	7
County Audit Work Results	8
Taxable Sales Growth/ Decline	8

Sales & Use Tax	Rate (%)	County (\$)	Cities & Other Entities (\$)	State (\$)	Total Amount (\$)
State of California - General fund plus	5.00	-	-	304.7	304.7
Economic Recovery Fund: "Triple Flip"	0.25	-	-	15.2	15.2
Public Safety - Prop 172	0.50	30.0	0.8	-	30.8
County Health & Welfare - Realignment	0.50	21.1	9.4	-	30.5
City & County Road - Measure D	0.50	16.9	15.7	-	32.6
Countywide Transportation - LTF	0.25	1.3	14.0	-	15.3
County & Cities General Operations - Local Bradley Burns Sales Tax	0.75	7.9	37.8	-	45.7
<b>Total Tax Revenue Received:</b>	<b>7.75</b>	<b>77.2</b>	<b>77.7</b>	<b>319.9</b>	<b>474.8</b>

# 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 a revenue "swapping" procedure: the "Triple Flip."

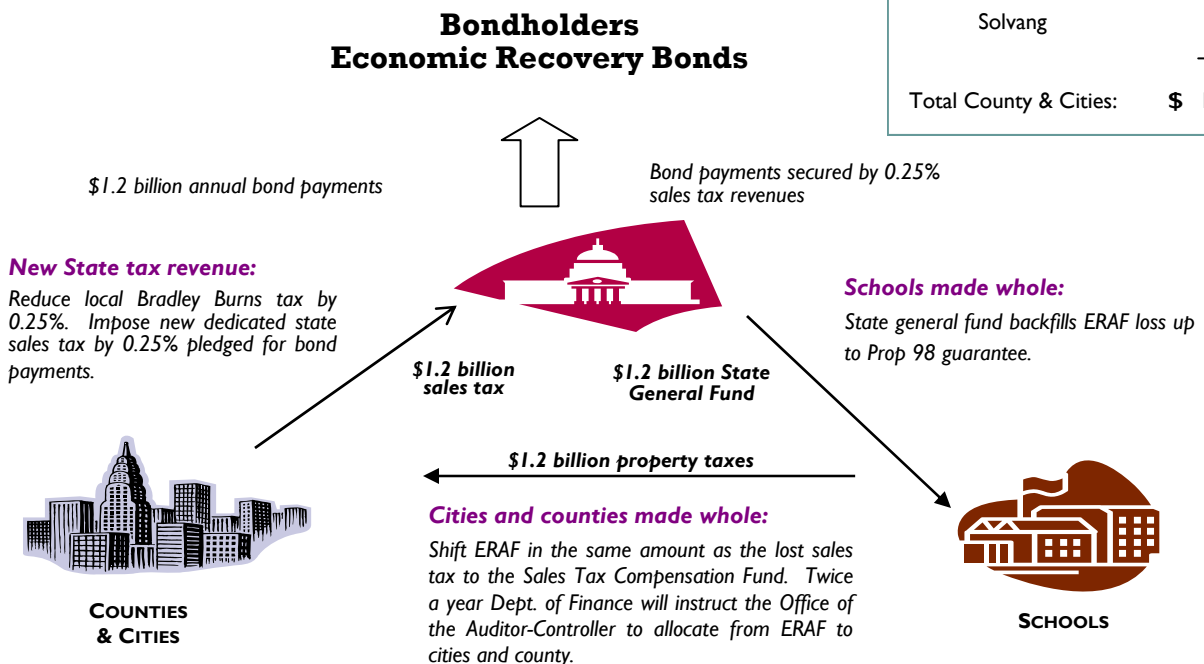
The Triple Flip does not increase taxes, but is a mechanism to re-characterize one-quarter of the 1% local sales and use tax as State revenue. This quarter percent of the local sales tax will be offset by local property tax revenues within the County, previously allocated by the State to schools.

**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 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.

County of Santa Barbara	\$ 2,242,198
Cities:	
Buellton	472,395
Carpinteria	423,173
Goleta	992,345
Guadalupe	64,466
Lompoc	917,245
Santa Barbara	4,926,221
Santa Maria	4,215,952
Solvang	307,765
<b>Total County &amp; Cities:</b>	<b>\$ 14,561,760</b>



## State 5%: California General Fund

Five percent of the taxable sales statewide goes to the State's General Fund, representing 28.5% of the State General Fund, second to personal income tax, which is 54.6% of the State's General Fund. For FY 2007-08 Santa Barbara County contributed an estimated \$305 million. The following is an overview of State General Fund Revenues and Expenditures for FY 07-08. For more information on FY 07-08 state budget highlights, visit: <http://www.dof.ca.gov/budget/historical/2007-08/documents/statebudgethighlights07-08.pdf>.

- K-12 Education continues to be the State's top funding priority: over 40 cents of every State General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State will spend over 52 cents of every State General Fund dollar on education.
- Education, health and human services, and state corrections expenditures constitute over 91 percent of all State General Fund expenditures.

### STATE GENERAL FUND

Revenues		Expenditures	
Personal Income Tax	54.6%	Education K - 12	40.4%
Sales & Use Tax	28.5%	Health & Human Services	29.1%
Corporation Tax	10.9%	Higher Education	11.7%
Insurance Tax	2.2%	Corrections & Rehabilitation	9.6%
Other	3.4%	Other	4.0%
Liquor Tax	0.3%	Legislative, Judicial, Executive	3.7%
Tobacco Tax	0.1%	General Government	1.5%
Total	100.0%	Total	100.0%

The State General Fund received \$305 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 2007-08, property taxes generated \$204.6 million in revenue, while sales taxes generated \$77.2 million.

County Sales Tax Revenue FY 2007-08	
	Revenue (in millions)
Public Safety - Prop 172	\$ 30.0
Health & Welfare Realignment	21.1
County Roads - Measure D	16.9
General Operations	7.9
Transportation - LTF	1.3
Total	\$ 77.2

County Property Tax Revenue FY 2007-08	
	Revenue (in millions)
General Fund	\$ 162.6
Special Revenue Funds	42.0
Total	\$ 204.6

## 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 2007-08 fiscal year totaled \$2.8 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, 2008, was 1.10%. In FY 2007-08, while a 0.5% sales tax in Santa Barbara County generated \$30.5 million in taxes for the State pool, we received \$30.8 million under the formulas.

**During FY 2008-09, Santa Barbara County will allocate an estimated \$30.09 million:**

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

**In FY 2007-08, Proposition 172 allocated:**

- \$30 million for the County public safety departments.
- \$797 thousand for the cities' public safety agencies.

### Public Safety Revenue Twelve -Year Trend

Fiscal Year	Revenues (in millions)	Growth
2008-09 (est)	\$ 30.09	-2.21%
2007-08	30.77	-0.36%
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%
<b>Total</b>	<b>\$ 322.15</b>	

## 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 dedicated revenue stream to pay for the funding changes.

The change is known as realignment. The state increased the sales tax and vehicle license fee (VLF) and devoted 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 2007-08, while a 0.5% sales tax in Santa Barbara County generated \$30.5 million in taxes for the State pool, the County received only \$21.1 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	2005-2006		2006-2007		2007-2008	
	Amount	% Change FY 05-06	Amount	% Change FY 06-07	Amount	% Change FY 07-08
Mental Health	\$8,286,207	0.0%	\$8,345,396	0.7%	\$8,194,997	-1.80%
Social Services	8,439,342	15.6%	9,633,866	14.2%	9,677,181	0.45%
Health Services	3,210,861	0.0%	3,276,275	2.0%	3,217,230	-1.80%
<b>Total</b>	<b>\$19,936,410</b>	<b>6.0%</b>	<b>\$21,255,537</b>	<b>6.6%</b>	<b>\$21,089,408</b>	<b>-0.78%</b>

**Countywide Revenue History  
Twenty - Year Trend**

Fiscal Year	Revenue (in millions)	Average Growth
2009-10 (est)	\$ 34.46	3.0%
2008-09 (est)	33.46	2.5%
2007-08	32.63	-0.4%
2006-07	32.77	5.6%
2005-06	31.02	5.2%
2005-10	164.34	3.2%
2000-05	136.20	4.4%
1995-00	103.77	7.3%
1990-95	66.17	3.6%
Total	\$ 470.48	

## 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.

During the November 2008 Presidential election, the voters of the County of Santa Barbara passed Measure A, which extended the Santa Barbara Roads Improvement Program for an additional 30 years.

**FY 2007-08 distribution received by entity:**

- The County Road Fund: 22.48%.
- Incorporated cities of Santa Barbara County: 46.96%.
- Debt Service: 18.27%; Capital Projects Fund: 11.06%.
- Easy Lift Transportation: 0.23%.

*The countywide estimate for Measure D sales tax revenue for FY 2008-09: \$33.46 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 table below summarizes the LTF revenue received in the past three fiscal years and yearly growth trend:

Entities	2005-2006		2006-2007		2007-2008	
	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%	\$1,345,005	-1.4%
Cities	5,773,279	6.2%	6,321,775	9.5%	6,260,404	-1.0%
SBCAG	289,983	6.3%	303,263	4.6%	300,246	-1.0%
Easy Lift	352,024	5.8%	362,845	3.1%	359,232	-1.0%
SBMTD	6,688,446	5.8%	6,894,066	3.1%	6,825,406	-1.0%
SMOOTH	213,764	7.4%	226,082	5.8%	228,391	1.0%
<b>Total</b>	<b>\$14,909,619</b>	<b>6.8%</b>	<b>\$15,472,626</b>	<b>3.8%</b>	<b>\$15,318,684</b>	<b>-1.0%</b>

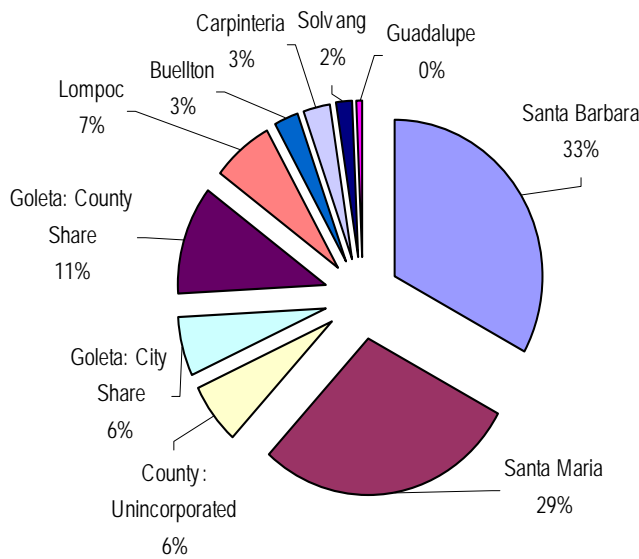
*The countywide estimate for LTF sales tax revenue for FY 2008-09: \$15.7 million.*

## Local 0.75% Tax to Support General Operations

The Local 0.75% Tax (frequently referred to as the “Bradley-Burns Tax” was 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 \$45.7 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 2007-08, the following facts are worth emphasizing:

**FY 2007-08  
Local 0.75% Sales Tax Revenue By Location**



- Countywide retail sales tax declined 3.7% from the prior year. The decrease is due to large declines in sales tax from the following categories: Business and Industry, Autos and Transportation, and General Consumer Goods.
- The County receives sales tax revenue from the City of Goleta. This area generated about \$5.7 million in revenue, which is split 50/50 between the city and County for 10 years under a revenue neutrality agreement required by the city incorporation provisions (ending in FY 2011/12).

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

Jurisdiction	2005-2006		2006-2007		2007-2008	
	Amount	% Change FY 05-06	Amount	% Change FY 06-07	Amount	% Change FY 07-08
City of Santa Barbara	\$14,784,536	5.2%	\$15,357,311	3.9%	\$15,050,727	-2.0%
City of Santa Maria	13,234,714	4.3%	13,367,102	1.0%	13,135,691	-1.7%
Goleta: City Share	3,122,997	4.1%	3,056,455	-2.1%	2,871,999	-6.0%
Goleta: County Share	3,122,997	4.1%	3,056,455	-2.1%	2,871,999	-6.0%
County: Unincorporated	4,392,095	1.7%	6,144,579	39.9%	5,048,099	-17.8%
City of Lompoc	2,978,033	5.5%	2,976,767	0.0%	2,984,473	0.3%
City of Buellton	1,201,261	1.6%	1,272,278	5.9%	1,342,500	5.5%
City of Carpinteria	996,619	2.3%	1,138,968	14.3%	1,309,478	15.0%
City of Solvang	785,141	6.1%	835,694	6.4%	862,777	3.2%
City of Guadalupe	289,785	19.6%	254,059	-12.3%	220,122	-13.4%
<b>Countywide Total</b>	<b>\$44,908,178</b>	<b>4.4%</b>	<b>\$47,459,668</b>	<b>5.7%</b>	<b>\$45,697,865</b>	<b>-3.7%</b>

## Business Groups

### 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, 2008.

#### FY 2007-08 Top 25 Sales Tax Producers Countywide

Businesses (Alphabetical Order)	Locations
AMERICAN STORES COMPANY LLC	6
CHEVRON STATION #1407	6
CHRISTIES INC	1
CONSOLIDATED ELECTRICAL DSTR INC	5
COSTCO WHOLESALE CORPORATION	2
DELL MARKETING L P	1
DEPT OF MOTOR VEHICLES ALLOCATION	1
HOME MOTORS	1
HOMER T.HAYWARD LUMBER CO.	3
HUGHES AUTOMOBILE COMPANY	4
INFINITI,JAG,LAND ROVER,STA BARB	3
K-MART CORPORATION	2
LONG'S DRUG STORE	12
MACY'S DEPARTMENT STORES INC	3
NORDSTROM INC.	1
PORTER & HOWARD INC.	1
SEARS-ROEBUCK AND CO.	7
TARGET STORES	1
TESORO WEST COAST COMPANY LLC	5
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 \$9.5 million in 0.75% sales tax revenues, which represents 21% of the countywide total.*

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 2006-07 to 2007-08.

Countywide Business Groups Comparison			
Business Group	2006-07	2007-08	Growth
General Consumer Goods	\$11,592,887	\$ 11,197,874	-3.4%
Business and Industry	9,547,103	8,403,642	-12.0%
Autos and Transportation	6,641,199	6,064,800	-8.7%
Restaurants and Hotels	5,505,377	5,707,595	3.7%
Building and Construction	5,445,494	5,145,002	-5.5%
Fuel and Service Stations	4,349,291	4,967,559	14.2%
Food and Drugs	3,210,133	3,376,247	5.2%
Other Allocations	1,168,183	835,143	-28.5%
<b>TOTALS</b>	<b>\$47,459,667</b>	<b>\$45,697,862</b>	<b>-3.7%</b>

### Business Groups Highlights

#### General Consumer Goods

- Sales tax revenue generated from General Consumer Goods declined 3.4% to \$11.2 million during FY 2007-08.

#### Building and Construction

- Continuing a downward trend, Building and Construction sales tax growth decreased for the second straight year.

#### Autos and Transportation

- After posting a paltry growth rate of 1% in FY 2006-07, Autos and Transportation sales tax growth decreased 8.7% during the FY 2007-08.

#### Business and Industry

- The Business and Industry category decreased \$1.14 million during FY 2007-08, this decrease is largely attributable to an art sale that occurred during the FY 2006-07.

#### Fuel and Service Stations

- Driven by sharp increases in gas prices, the Fuel and Service Station category yielded a 14.2% increase during the fiscal year.

## 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. In 2005, the *Sales Tax Claims and Reporting System* was developed in-house to replace an older system. The new system has since greatly improved the overall process of identifying misallocated revenue and shifting it in a timely fashion.

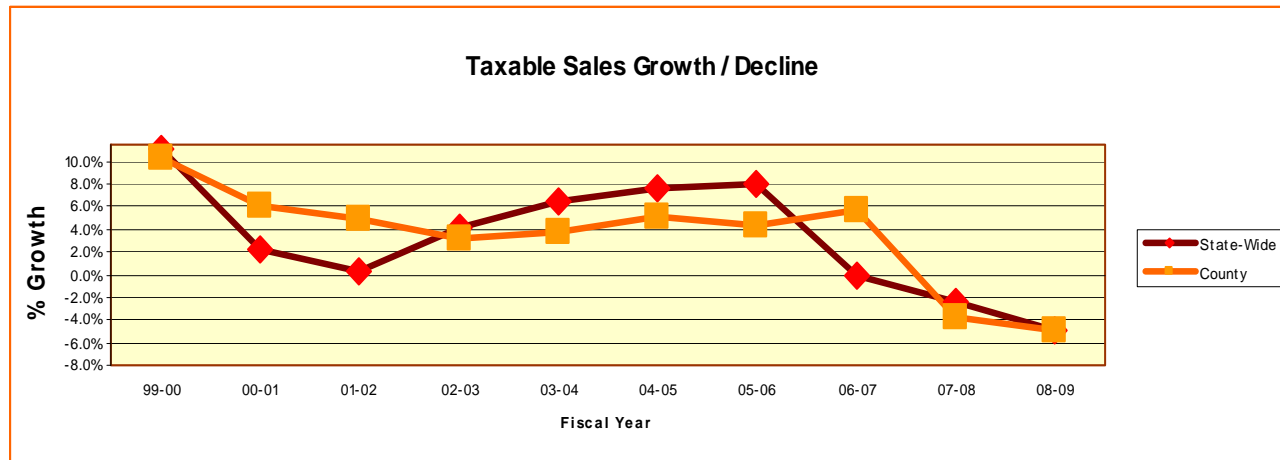
### Revenue Shifted to Date

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(s)	Number of Claims	Claim Estimate	Revenue Shifted*
1998-2003	345	508,834	4,385,254
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
2007-08	85	65,296	130,069
<b>TOTALS:</b>	<b>676</b>	<b>\$ 997,788</b>	<b>\$ 5,370,723</b>

## Taxable Sales Growth/ Decline Trend

For the last ten years, the County taxable sales growth appears to mirror the State-Wide taxable sales growth. However, the County taxable sales growth is less volatile and generally lags State-Wide increases and declines. In analyzing the current data, we expect the County's taxable sales to decline between 3-5% in FY 2008-09.



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