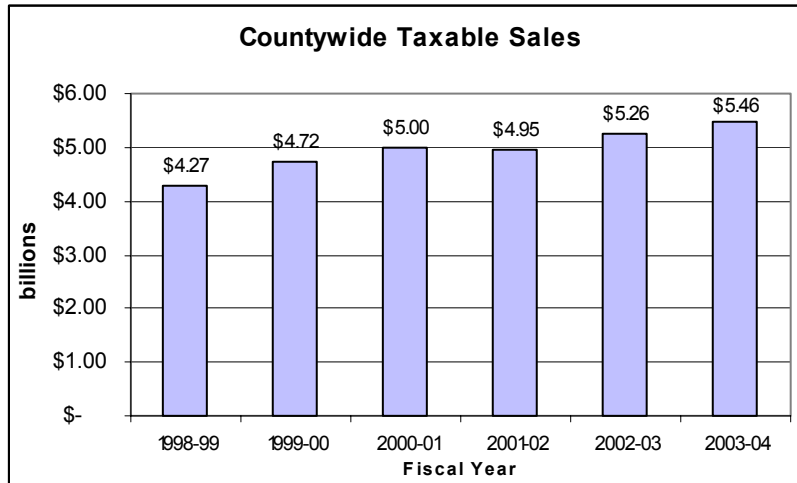




County of Santa Barbara Annual Sales & Use Tax Report

Fiscal Year Ended June 30, 2004

Countywide Taxable Sales



REVENUE REPORTS INSIDE

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Taxable sales countywide reached \$5.46 billion during fiscal year 2003-04. Retail sales tax is one of the more economically sensitive revenue sources. Retailers in Santa Barbara County saw an overall increase in taxable sales of 3.74% over the prior fiscal year total of \$5.26 billion. Over the last 2 years retail sales have shown a steady increase due to the recovery of the national and state economy.

Countywide Sales Tax Revenue Distribution

The \$5.46 billion in taxable sales in the County of Santa Barbara for fiscal year 2003-04 multiplied by the 7 ³/₄% sales tax rate generated \$422.85 of sales tax revenue for state and local governments. The distribution of the 7 ³/₄% sales tax is illustrated below. The actual distribution back to local governments varies due to legislative formulas. In summary, the State received \$273 million; Santa Barbara County \$71 million; cities in Santa Barbara County \$68 million; other counties \$8 million; and other entities within Santa Barbara County \$3 million.

Santa Barbara County generated \$422.85 million in sales tax revenue for fiscal year 2003-04.

Sales and Use Tax Distribution

	Rate	Tax Amount (in millions)
State of California General Fund	5 %	\$ 272.81
Allocated to Local Agencies for Public Safety — Prop. 172	1/2 %	27.28
To Counties for Health and Welfare — Realignment	1/2 %	27.28
Designated to maintain and improve city and county roads — Measure D	1/2 %	27.28
Designated by statute for countywide transportation — LTF	1/4 %	13.64
SB County & Cities to support general operations — Local 1%	1 %	54.56
Total Santa Barbara Countywide Sales Tax Generated	7 ³/₄ %	\$ 422.85

State 5 %: California General Fund

Five percent of the taxable sales statewide go to the State's General Fund. Sales and Use tax is a major contributor to the State's General Fund, representing 33.6%, second to personal income tax of 48.6%. For fiscal year 2003-04 Santa Barbara County contributed an estimated \$273 million in sales tax to the State General Fund.

- K-12 Education continues to be the State's top funding priority—over 43 cents of every General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State will spend over 57 cents of every General Fund dollar on education.
- Education, health and human services, and state corrections expenditures constitute over 90 percent of all State General Fund expenditures.

STATE GENERAL FUND

Revenues		Expenditures	
Personal Income Tax	48.6%	Education K - 12	43.6%
Sales & Use Tax	33.6%	Health & Human Services	24.1%
Corporation Tax	9.2%	Higher Education	13.6%
Other	4.8%	Youth & Adult Correctional Agency	9.0%
Insurance Tax	2.7%	Tax Relief	2.6%
Estate Tax	0.6%	Courts	1.9%
Liquor Tax	0.4%	Other	5.2%
Tobacco Tax	0.1%		
	100.0%		100.0%

The State General Fund received \$273 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 2003-04, property taxes which are the County's largest revenue source generated \$108.8 million in revenue, while sales taxes generated \$70.92 million.

County Sales Tax Revenue Fiscal Year 2003-04	
	Revenue (in millions)
Public Safety—Prop 172	\$27.28
Health & Welfare Realignment	18.29
County Roads—Measure D	14.54
General Operations—Local 1%	9.08
Transportation—LTF	1.73
Total	\$ 70.92

County Property Tax Revenue Fiscal Year 2003-04	
	Revenue (in millions)
General Fund	\$ 81.6
Special Revenue Funds	27.1
Total	\$ 108.8

Proposition 172: 1/2% for Public Safety

During the 1993-94 State Budget process, the State Legislature and Governor, for the second time, 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 ½ cent sales tax to fund local public safety services.

One-half percent of statewide taxable sales, which for the 2003-04 fiscal year totaled \$2.43 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, 2004, was 1.2%.

In fiscal year 2004-05, Santa Barbara County will allocate an estimated \$28.01 million:

- County public safety service departments will receive 97.5%.
- City public safety agencies receive the remaining 2.5%.

During fiscal year 2003-04 Proposition 172 generated:

- \$27.33 million for the County public safety departments.
- \$727 thousand for the cities’ public safety agencies.



Fiscal Year	Revenues	Growth
2004-05 (est)	28.01	-.14%
2003-04	28.05	9.36%
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%
1994-95	16.99	8.22%
1993-94	15.70	—
Total	265.66	

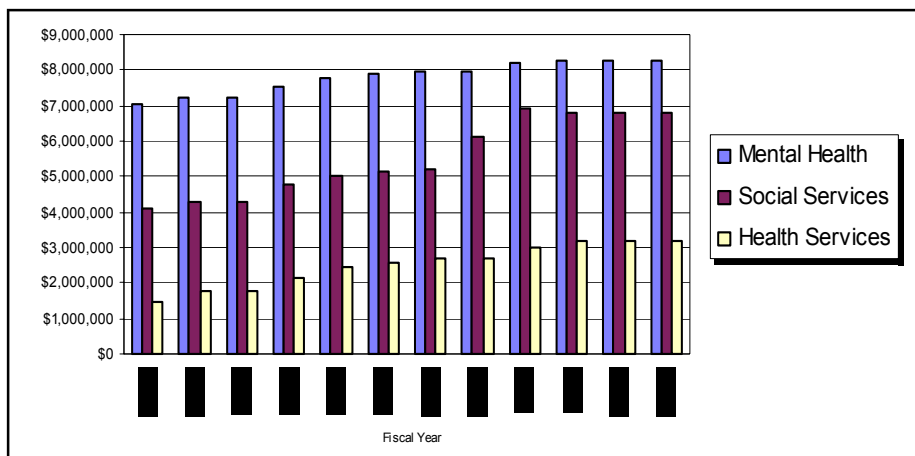
Realignment: 1/2% for Health & Welfare Programs

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 ½% 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 2003-04, while a ½% sales tax in Santa Barbara County generated \$27.28 million in taxes for the State pool, we estimate to receive only \$18.29 million under the formulas. Counties with higher caseload growth receive a bigger share of the allocation. During fiscal year 2002-03 through 2003-04 the revenue base for Mental Health, Public Health, and Social Services remained constant.

Realignment Revenue— Twelve Year Trend



**Countywide Revenue History
20 Year Trend**

Fiscal Year	Revenue (millions)	Growth
2006-11 (est)	\$165.93	4.3%
2005-06 (est)	28.94	3.0%
2004-05 (est)	28.10	3.0%
2003-04	27.28	1.4%
2002-03	26.90	3.1%
2001-02	26.09	1.4%
2001-06	\$137.31	2.6%
1996-01	\$111.36	7.2%
1991-96	\$84.33	3.2%
Total	\$498.93	

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 ½% effective April 1, 1990. The transportation sales tax will remain in effect for 20 years, with the revenues being 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 2002-03 distribution:

- The County Road Fund received 22.86%.
- Incorporated cities of Santa Barbara County received 46.69%.
- Debt Service received 16.69% and the Capital Projects Fund 12.53%.
- Easy Lift Transportation received .23%.
- County Association of Governments received 1.0% for planning.

The countywide estimate for Measure D sales tax revenue for fiscal year 2004-05 is \$28.10 million.

**County Road Fund LTF Revenue
Eight Year Trend**

Fiscal Year	Revenue (in millions)	Growth
2004-05 (est)	\$13.73	2.5%
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%
1997-98	\$9.88	9.2%
1996-97	\$9.05	4.9%

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 ¼% 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 2003-04 distribution:

- Santa Barbara Metropolitan Transit District received 45.66%.
- Incorporated cities of Santa Barbara County received 38.42%.
- The County Road Fund received 10.1%.
- Easy Lift Transportation received 2.38%.
- Santa Maria Organization of Transportation Helpers received 1.4%.
- County Association of Governments received 1.94%.

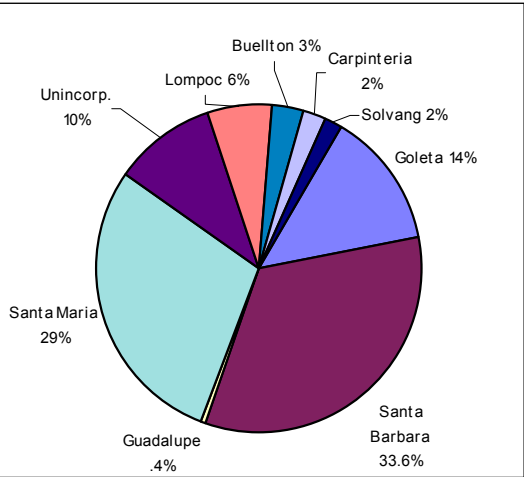
The countywide estimate for LTF sales tax revenue for fiscal year 2004-05 is \$13.73 million.

Local Tax: 1% to Support General Operations

The Local 1% Tax (frequently referred to as the “Bradley-Burns Tax”) was enacted to return 1% 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 \$54.6 million in 1% sales tax for local jurisdictions.

The local 1% tax revenue also provide local jurisdictions with an indicator of the trends in the local business economy. Cities and the County can analyze the revenue to identify trends in the economy.

Local 1% Sales & Use Tax Revenue FY 2003-04 Distribution



Senate Bill 1096 “The Triple Flip” reduces the local 1% to .75% starting in fiscal year 2004-05.

During fiscal year 2003-04:

- Percent change of retail sales for the northern incorporated areas of Santa Barbara County outperformed the southern areas by approximately 1%.
- The City of Lompoc (6.8%), Solvang (8.7%) , and Guadalupe (24.3%) all showed strong growth for the year.
- The City of Santa Barbara, Santa Maria, Goleta, and Carpinteria all had steady growth from 3.1% to 4.7%.
- The City of Buellton had a 3.3% decline resulting primarily in the auto and transportation sector.
- The City of Caripteria for the first time in four years showed a positive growth of 3.1%.
- Retail sales in the unincorporated area of Santa Barbara County saw slight decline of 1.2%. The County also receives revenue from the Goleta City area. This area generated \$7.38 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. The combination of the City of Goleta and the unincorporated area grew 3.8%.

Local 1% Sales Tax Revenue by Jurisdiction—Three Year Trend

Jurisdiction	FY 2001-02	% Change	FY 2002-03	% Change	FY 2003-04
City of Santa Barbara	\$17,475,570	1.0%	\$17,643,446	4.0%	\$18,352,134
City of Santa Maria	14,241,237	6.8%	15,205,834	4.7%	15,921,456
City of Goleta	807,724 a	340.0%	3,554,575	3.8%	3,687,912
County share of Goleta	807,724 a	340.0%	3,554,575	3.8%	3,687,912
Unincorporated—County	10,668,212	-48.8%	5,465,285	-1.2%	5,401,384
City of Lompoc	3,189,484	3.5%	3,301,095	6.8%	3,525,162
City of Buellton	1,445,680	7.32%	1,551,513	-3.3%	1,499,354
City of Carpinteria	1,188,789	-1.6%	1,169,410	3.1%	1,205,229
City of Solvang	1,004,322	6.9%	934,473	8.7%	1,016,248
City of Guadalupe	178,403	19.7%	213,496	24.3%	265,396
Countywide	\$50,023,548	3.11%	\$52,593,702	3.74%	\$54,562,187

(a) represents five months of sales.

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, 2004.

Fiscal Year 2003-04

Top 25 Sales Tax Producers Countywide

<u>Businesses (Alphabetical Order)</u>	<u>Locations</u>
Best Buy Stores	2
Big K-Mart	3
Circuit City Stores	3
Costco Wholesale Corporation	2
Cutter Motors	1
Graham Chevrolet Geo Nissan	3
Hayward Lumber Co.	4
Home Motors	1
Hughes Automobile Co.	4
Iversen Motor Co.	1
Longs Drug Stores	11
May Department Stores	2
Mel Clayton Ford	1
Nordstron Inc.	1
Palisades Gas and Wash	4
Ross Stores Inc.	4
Santa Maria Ford Inc.	1
Sears-Roebuck and Co.	7
Stowasser Pontiac Cadillac Inc.	3
Target Stores	1
The Home Depot	3
Thrifty Payless Inc.	12
Toyota of Santa Maria	2
Vons Companies	20
Wal-Mart Stores Inc.	2

The top 25 retailers generated \$11.8 million in 1% sales tax revenues, which represents 22.4% of the countywide total 1% revenues.

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 1% Tax allocations of all the businesses operating in each group and the growth in each group from fiscal year 2002-03 to 2003-04.

Countywide Business Group Comparison

Fiscal Year 2002-03 and 2003-04

<u>Business Group</u>	<u>2002-03</u>	<u>Growth</u>	<u>2003-04</u>
General Consumer Goods	\$ 13,580,131	3.52%	\$ 14,057,814
Business and Industry	9,942,200	-.7%	9,872,644
Autos and Transportation	8,993,597	1.59%	9,137,017
Restaurants and Hotels	6,083,023	5.13%	6,395,323
Building and Construction	5,464,265	9.91%	6,005,655
Food and Drugs	3,750,974	2.12%	3,830,569
Fuel and Service Stations	3,587,743	11.0%	3,982,479
Other Allocations	1,115,657	6.1%	1,183,755
TOTALS	\$ 52,517,590	3.71%	\$ 54,465,260

Business Group Highlights**General Consumer Goods**

- 1% Tax revenue from General Consumer Goods reached \$14 million countywide during FY 2003-04.
- 69% of all General Consumer Goods transactions occurred in the cities of Santa Maria and Santa Barbara.

Business and Industry

- Largest increases in Business and Industry category for fiscal year 2003-04 were the City of Guadalupe with a 20% and City of Buellton with a 16%.
- The City of Carpinteria saw the largest decrease for the year of -7%.

Autos and Transportation

- Sales in the Autos and Transportation Group have grown 1.6% from FY 2002-03 to FY 2003-04. Prior years growth was 6.35%.
- \$6.1 million of auto related transactions are generated in the cities of Santa Barbara and Santa Maria, representing 67% of all transactions in this category.

Fuel and Service Stations

- Fuel and Service Stations transactions increased over 11% countywide during fiscal year 2003-04, 49% in the City of Carpinteria, 24% in the City of Buellton, 20% in the City of Guadalupe and 15% in the City of Goleta due to the increase in the price of fuel.

California's Most Complex Budget Component

The State has proposed to balance the current year's budget with borrowed funds. To do this, the State proposes to issue 'deficit financing bonds' in an amount up to \$20 billion. In order to do so, a dedicated State revenue source needs to be created to guarantee bond repayment. The so-call "Triple Flip" does not increase taxes, but is simply a mechanism to re-characterize one-quarter of the 1% Bradley-Burns local sales tax as State revenue. A quarter percent of the Bradley-Burns tax that the State takes from local governments will be replaced by the State's returning to local governments part of the property taxes taken away during the ERAF shifts in the early 1990's.

The "Triple Flip"

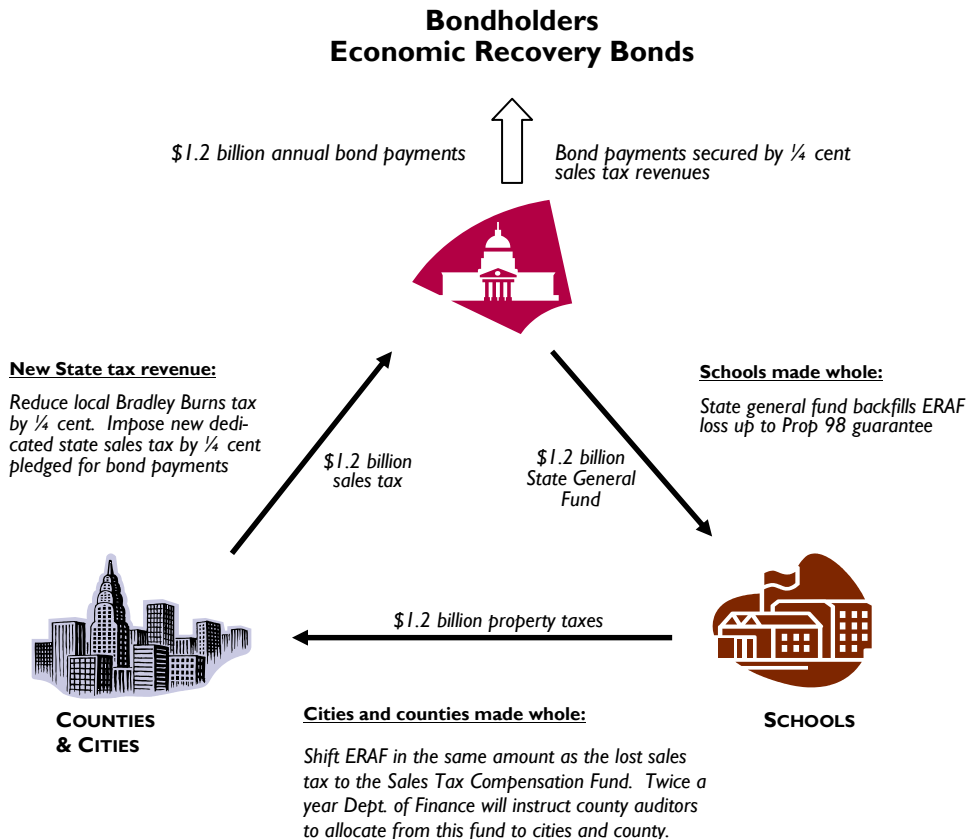
- Reduce the local 1.0% Bradley-Burns sales tax rate to 0.25%.
- Replaces lost local sales tax revenues on a dollar-for-dollar basis from the Educational Revenue Augmentation Fund, frequently referred to as "ERAF".
- Increases the State sales tax rate from 5.0% to 5.25% an increase of 0.25%, with new revenue dedicated to repaying State's proposed \$11 billion in deficit financing bonds.

Conclusion

- This financing permits the State to borrow the funds for the current year and not make their first repayment until fiscal year 2004-05. This will require additional appropriations in fiscal year 2004-05 to begin the payoff of the bonds.

Estimated Countywide Adjustments Fiscal Year 2004-05

County of Santa Barbara	\$ 2,134,000
Cities:	
Buellton	353,000
Carpinteria	275,500
Goleta	843,500
Guadalupe	56,600
Lompoc	802,500
Santa Barbara	4,228,500
Santa Maria	3,649,000
Solvang	228,000
Total	\$12,570,600



Office of the Auditor-Controller



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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.

The Mission Statement of the Auditor-Controller

The Auditor-Controller is dedicated to act in a way that will serve the public interest, honor the public trust and demonstrate a commitment to professionalism. To achieve these ends, we **pledge** ...

... to perform all duties with integrity and honesty

... to remain independent, objective, and accountable to the citizens for our actions

... to be prompt, careful and thorough when rendering our services to the public, other County departments, special districts, and other government agencies

...to maintain an effective financial accounting and reporting system that will communicate information to the public in an accurate and timely manner

... to continuously seek ways to improve the effectiveness and efficiency of our processes and to assist other departments to do the same

... to hire, train, motivate and retain the highest quality work force in a non-discriminatory manner

Local Tax: Audit Work Results

The Local 1% Tax collected by retailers is allocated back to the jurisdiction in which the sale took place. Retailers are required to register with the State Board of Equalization (BOE) and identify the jurisdiction in which they are located (i.e. in a city or the unincorporated area). The County Auditor conducts a program to identify businesses that are incorrectly reporting their locations as being in a city. The corrections are communicated to the State BOE who will then shift previous misallocated 1% revenue to the correct jurisdiction and change registration records to ensure correct allocations in the future. Prior to February 1, 1998, the County used a consultant to identify such businesses and paid them up to 25% of all taxes they had shifted to the County for two years.

The County Auditor currently receives data directly from the State and conducts its own audits of businesses in the County. The data is also used to produce various analyses of the countywide retail environment in a timely manner.

County Audit Results

	Revenue Shifted	Consultant Fee	Net Revenue
Consultant (1/1/97 — 1/31/98)	\$ 261,958	\$ 59,817	\$ 202,141
In-House (2/1/98 — 6/30/99)	630,949	—	630,949
In-House (7/1/99 — 6/30/00)	575,768	—	575,768
In House (7/1/00 — 6/30/01)	1,026,064	—	1,026,064
In House (7/1/01 — 6/30/02)	759,455	—	759,455
In House (7/1/02 — 6/30/03)	668,538	—	668,538
In House (7/1/03 — 6/30/04)	694,672	—	694,672
TOTAL REVENUE SHIFTED	\$ 4,497,770	\$ 59,817	\$ 4,557,587