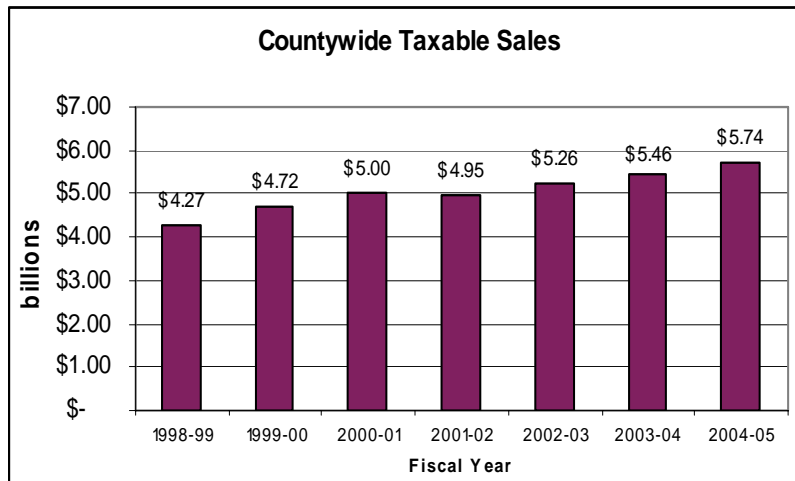




County of Santa Barbara Annual Sales & Use Tax Report

Fiscal Year Ended June 30, 2005

Countywide Taxable Sales



REVENUE REPORTS INSIDE

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Taxable sales countywide reached \$5.74 billion during fiscal year 2004-05. Retailers in Santa Barbara County saw an overall increase in taxable sales of 5.14% over the prior fiscal year total of \$5.46 billion. Over the last 3 years retail sales have shown a steady increase due to the recovery of the national and state economy.

Countywide Sales Tax Revenue Distribution

The \$5.74 billion in taxable sales in the County of Santa Barbara for fiscal year 2004-05 multiplied by the 7¾% sales tax rate generated \$444.57 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 \$301 million; Santa Barbara County \$72 million; cities in Santa Barbara County \$56 million; other counties \$8 million; and other entities within Santa Barbara County \$7 million.

Santa Barbara County generated \$444.57 million in sales tax revenue for fiscal year 2004-05.

Sales and Use Tax Distribution

	Rate	Tax Amount (in millions)
State of California	5¼%	\$ 301.17
Allocated to Local Agencies for Public Safety — Prop. 172	½%	28.68
To Counties for Health and Welfare — Realignment	½%	28.68
Designated to maintain and improve city and county roads — Measure D	½%	28.68
Designated by statute for countywide transportation — LTF	¼%	14.34
SB County & Cities to support general operations — Local ¾%	¾%	43.02
Total Santa Barbara Countywide Sales Tax Generated	7¾%	\$ 444.57

California’s Most Complex Budget Component

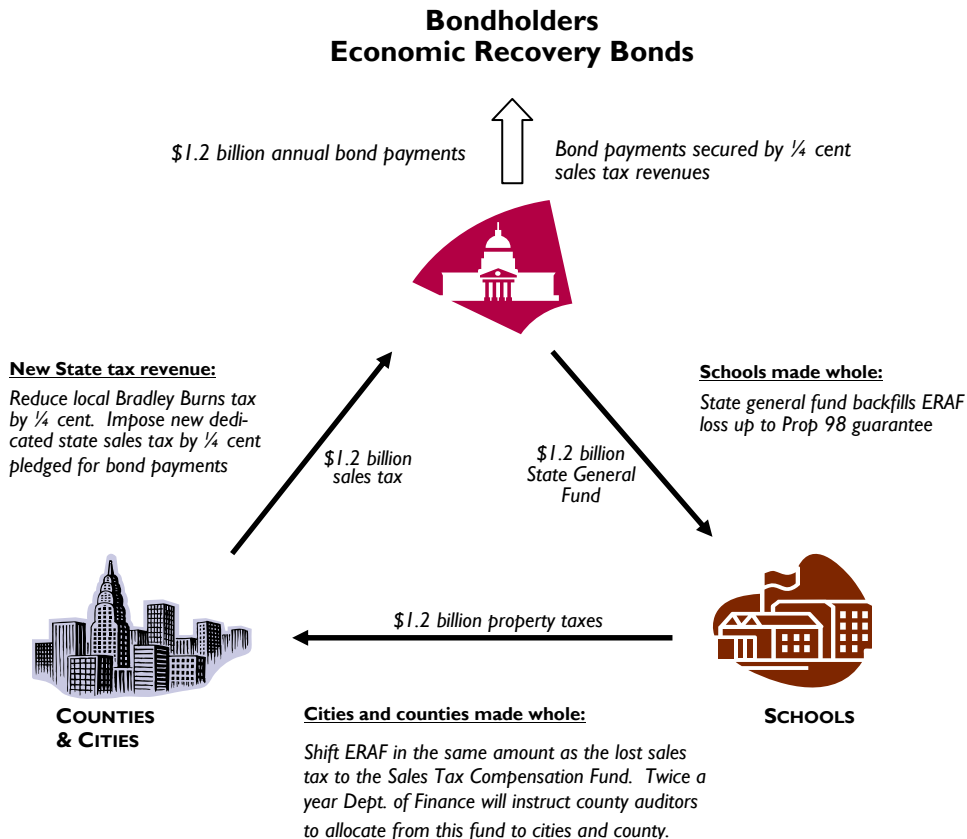
The State balanced their 2003-04 budget by issuing \$20 billion in ‘deficit financing bonds.’ The bonds require a dedicated State revenue source to guarantee bond repayment. In order to have an identifiable dedicated revenue source, the State developed and initiated the so-called “Triple Flip.” The Triple 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.

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.

Estimated Countywide Adjustments Fiscal Year 2004-05

County of Santa Barbara	\$ 2,052,022
Cities:	
Buellton	316,810
Carpinteria	289,663
Goleta	870,619
Guadalupe	83,300
Lompoc	848,101
Santa Barbara	3,993,674
Santa Maria	3,756,601
Solvang	214,211
Total	\$12,425,001



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 32.7%, second to personal income tax of 49.8%. For fiscal year 2004-05 Santa Barbara County contributed an estimated \$287 million in sales tax to the State General Fund.

- K-12 Education continues to be the State’s top funding priority—over 39 cents of every General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State will spend over 51 cents of every 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	49.8%	Education K - 12	39.9%
Sales & Use Tax	32.7%	Health & Human Services	32.3%
Corporation Tax	10.0%	Higher Education	11.4%
Other	4.0%	Youth & Adult Correctional Agency	7.5%
Insurance Tax	2.7%	Tax Relief	6.2%
Tobacco Tax	0.2%	Courts	2.1%
Liquor Tax	0.4%	Other	0.6%
Estate Tax	0.2%		
	100.0%		100.0%

The State General Fund received \$287 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 2004-05, property taxes which are the County’s largest revenue source generated \$151.68 million in revenue, while sales taxes generated \$71.75 million.

County Sales Tax Revenue Fiscal Year 2004-05	
	Revenue (in millions)
Public Safety—Prop 172	\$28.68
Health & Welfare Realignment	18.80
County Roads—Measure D	15.28
General Operations—Local ¾%	7.32
Transportation—LTF	1.67
Total	\$ 71.75

County Property Tax Revenue Fiscal Year 2004-05	
	Revenue (in millions)
General Fund	\$ 119.51
Special Revenue Funds	32.17
Total	\$ 151.68

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 2004-05 fiscal year totaled \$2.62 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, 2005, was 1.14%. In fiscal year 2004-05, while a 1/2% sales tax in Santa Barbara County generated \$28.68 million in taxes for the State pool, we received \$29.93 million under the formulas.

During fiscal year 2005-06, Santa Barbara County will allocate an estimated \$30.10 million:

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

In fiscal year 2004-05, Proposition 172 allocated:

- \$29.16 million for the County public safety departments.
- \$775 thousand for the cities' public safety agencies.



Fiscal Year	Revenues (in millions)	Growth
2005-06(est)	\$ 30.10	.57%
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%
1994-95	16.99	8.22%
Total	\$ 282.34	

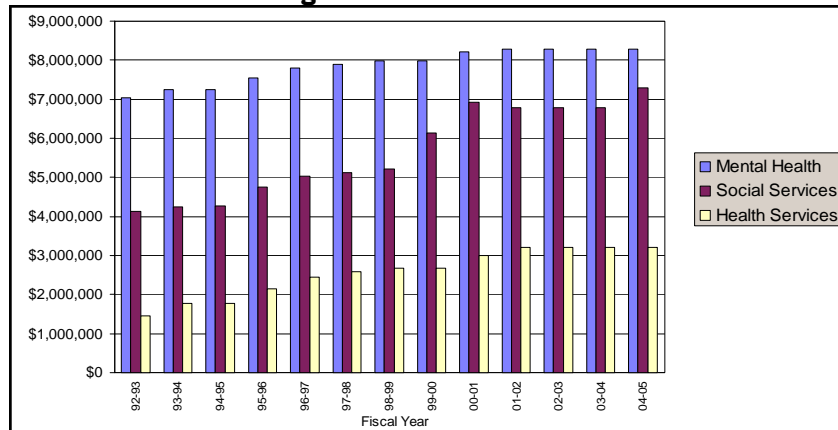
Realignment: 1/2% for Health & Welfare Programs

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 2004-05, while a 1/2% sales tax in Santa Barbara County generated \$28.68 million in taxes for the State pool, we received only \$18.80 million under the formulas. Counties with higher caseload growth receive a bigger share of the allocation. During fiscal year 2004-05 the revenue base for Mental Health and Public Health remained constant. However, there was a slight increase in the revenue base for Social Services.

Realignment Revenue Trend



**Countywide Revenue History
20 Year Trend**

Fiscal Year	Revenue (millions)	Growth
2006-11 (est)	\$165.93	4.3%
2005-06 (est)	29.33	-0.5%
2004-05	29.50	5.4%
2003-04	27.98	4.0%
2002-03	26.90	3.1%
2001-02	26.09	1.4%
2001-06	\$139.80	2.6%
1996-01	\$111.36	7.2%
1991-96	\$84.33	3.2%
Total	\$501.42	

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 2004-05 distribution:

- The County Road Fund received 22.65%.
- Incorporated cities of Santa Barbara County received 46.58%.
- Debt Service received 14.50% and the Capital Projects Fund 14.62%.
- Easy Lift Transportation received .23%.
- County Association of Governments received 1.42% for planning.

The countywide estimate for Measure D sales tax revenue for fiscal year 2005-06 is \$29.33 million.

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

Fiscal Year	Revenue (in millions)	Growth
2005-06 (est)	\$13.90	-0.4%
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%
1997-98	\$9.88	9.2%

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 2004-05 distribution:

- Santa Barbara Metropolitan Transit District received 45.28%.
- Incorporated cities of Santa Barbara County received 38.94%.
- The County Road Fund received 10.02%.
- Easy Lift Transportation received 2.38%.
- Santa Maria Organization of Transportation Helpers received 1.43%.
- County Association of Governments received 1.95%

The countywide estimate for LTF sales tax revenue for fiscal year 2005-06 is \$13.90 million.

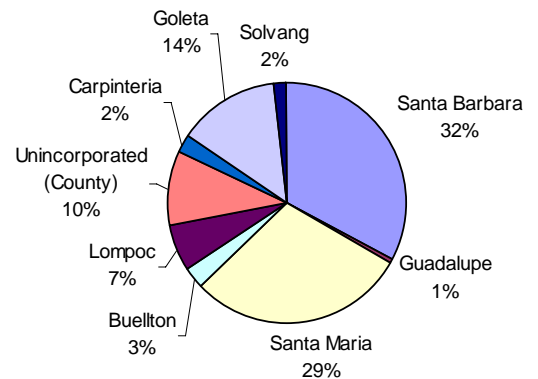
Local Tax: 3/4% to Support General Operations

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 \$43 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.

Senate Bill 1096 “The Triple Flip” reduced the local 1% to 3/4% beginning in fiscal year 2004-05.

**Local 3/4% Sales & Use Tax Revenue
FY 2004-05 Distribution**



During fiscal year 2004-05:

- The northern incorporated areas of Santa Barbara County outperformed the southern areas by approximately 1.5%.
- Several cities showed strong growth for the year: Goleta (8.5%), Carpinteria (7.8%) , and Guadalupe (21.7%) .
- The cities of Santa Maria and Lompoc all had steady growth at 6.3% and 6.8% respectively.
- The City of Solvang had a 2.9% decline resulting primarily in the restaurant and hotel sector.
- The City of Santa Barbara had a modest 2.1% growth from the previous year.
- Retail sales in the unincorporated area of Santa Barbara County saw strong growth of 6.6%. The County also receives revenue from the Goleta City area. This area generated \$5.99 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 FY 2011/12). The combination of sales tax revenue from the unincorporated area and the county share from the City of Goleta area grew 7.4%.

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

Jurisdiction	FY 2003-04 (1%)	FY 2003-04 (3/4%)	FY 2004-05 (3/4%)	% Change
City of Santa Barbara	\$18,352,134	\$13,764,101	\$14,054,529	2.1%
City of Santa Maria	15,921,456	11,941,092	12,687,578	6.3%
City of Goleta	3,687,912	2,765,934	2,999,960	8.5%
County share of Goleta	3,687,912	2,765,934	2,999,960	8.5%
Unincorporated—County	5,401,384	4,051,038	4,319,279	6.6%
City of Lompoc	3,525,162	2,643,872	2,823,607	6.8%
City of Buellton	1,499,354	1,124,516	1,182,379	5.1%
City of Carpinteria	1,205,229	903,922	974,193	7.8%
City of Solvang	1,016,248	762,186	739,960	-2.9%
City of Guadalupe	265,396	199,047	242,300	21.7%
Countywide	\$54,562,187	\$40,921,642	\$43,023,745	5.1%

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, 2005.

Fiscal Year 2004-05

Top 25 Sales Tax Producers Countywide

<i>Businesses (Alphabetical Order)</i>	<i>Locations</i>
Audi, BMW, Porsche, SB Auto	3
Best Buy Stores	2
Big K-Mart	3
Circuit City Stores	3
Consolidated Electrical Dstr Inc.	4
Costco Wholesale Corporation	2
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
Nordstrom Inc.	1
Pacific Capital Bank, N.A.	24
Palisades Gas and Wash	4
Santa Maria Ford Inc.	1
Sears-Roebuck and Co.	7
Stowasser Pontiac Cadillac Inc.	3
Target Stores	1
The Home Depot	3
Toyota of Santa Maria	2
Vons Companies	20
Wal-Mart Stores Inc.	2

The top 25 retailers generated \$9.2 million in ¾% 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 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 2003-04 to 2004-05.

*Countywide Business Group Comparison
Fiscal Year 2003-04 and 2004-05*

Business Group	2003-04	2004-05	Growth
General Consumer Goods	\$ 10,543,361	\$ 10,942,766	3.79%
Business and Industry	7,404,483	8,120,421	9.67%
Autos and Transportation	6,852,763	6,666,311	-2.72%
Restaurants and Hotels	4,796,492	4,986,717	3.97%
Building and Construction	4,504,241	4,895,722	8.69%
Fuel and Service Stations	2,986,859	3,307,768	10.74%
Food and Drugs	2,872,927	3,004,878	4.59%
Other Allocations	960,514	1,099,163	14.43%
TOTALS	\$ 40,921,640	\$ 43,023,746	5.14%

Business Group Highlights

General Consumer Goods

- ¾% Tax revenue from General Consumer Goods reached \$10.9 million countywide during FY 2004-05.
- 69% of all General Consumer Goods transactions occurred in the cities of Santa Maria and Santa Barbara.

Business and Industry

- The City of Guadalupe with a 80% increase & City of Goleta with a 34% increase, represents the largest increases in the this category for FY 2004-05.
- The City of Santa Barbara saw the largest decrease for the year of -3%.

Autos and Transportation

- The Autos and Transportation Group has decreased by -3%, with the greatest decline of -29% in the unincorporated area.
- \$6.1 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 increased 11% countywide during fiscal year 2004-05 due to the increase in the price of fuel. The major growth was in the City of Carpinteria with a 28% increase and in the City of Guadalupe with an increase of 24%.



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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 ¾% 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 of the county). The County Auditor receives data directly from the State and conducts an audit 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 ¾% 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 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
In House (7/1/04 — 6/30/05)	692,953	—	692,953
TOTAL REVENUE SHIFTED	\$ 5,310,357	\$ 59,817	\$ 5,250,540