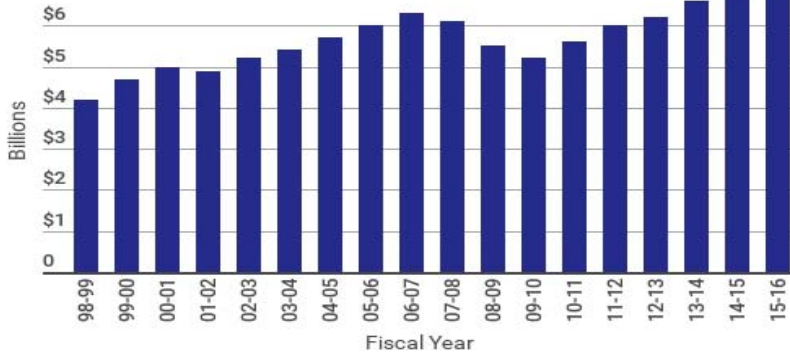


SALES & USE TAX HIGHLIGHTS

County of Santa Barbara — Fiscal Year End June 30, 2016

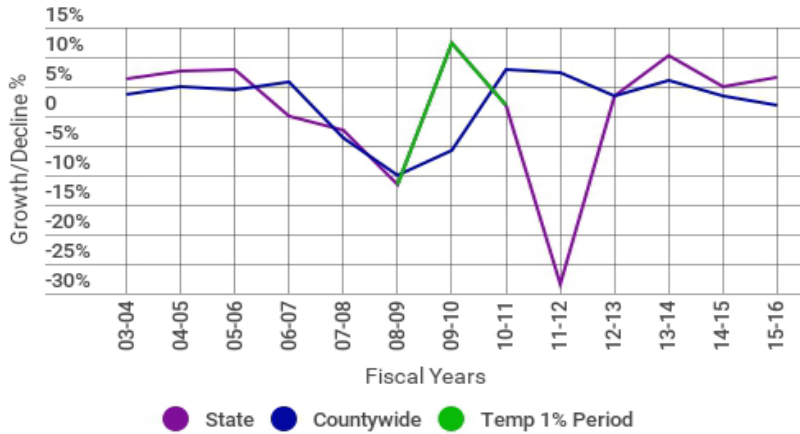


Countywide Taxable Sales



Taxable sales within the County of Santa Barbara reached approximately \$6.9 billion in fiscal year (FY) 2015-16. Countywide sales generated \$555.1 million to support State programs and local government agencies. The taxable sales trend reflects declines during the recession years and moderate growth for the last two years. The current economy and consumer confidence in the market affects taxable sales.

Taxable Sales Growth/Decline Trend



Countywide taxable sales increased 2% compared to the prior fiscal year. The growth is a smaller growth than we have seen in the past five years. The Statewide taxable sales increased 6.7% in FY 2015-16. The County taxable sales growth generally mirrors statewide taxable sales growth. However, the County taxable sales growth is less volatile and generally lags statewide changes. The large State increase and subsequent large decrease, seen in FY 2009-10 and FY 2011-12 respectively, were the result of a temporary 1% sales tax rate increase and its expiration.

Sales & Use Tax Revenue FY 2015-16

	Rate (%)	Total	Inside
State of California - General Fund	3.9375	\$ 273.3	State General Fund 2
Education Protection Account	0.25	17.3	Education Protection Account 3
County & City Public Safety - Proposition 172	0.50	34.7	Proposition 172 3
County Health & Welfare - 1991 Realignment	0.50	34.7	Realignment 4
County Local Revenue Fund - 2011 Realignment	1.0625	73.7	Measure A 5
County & City Roads - Measure A	0.50	34.7	Local Transportation Fund (LTF) 5
Countywide Transportation - Local Transportation Fund (LTF)	0.25	17.3	Bradley Burns Sales Tax 6
County & City General Operations - Bradley Burns Sales Tax	1.00	69.4	Top Retailers Countywide 7
Total Tax Revenue	8.00%	\$ 555.1	County Audit Results 8

This publication contains sales tax revenue allocated to the County by the Board of Equalization (BOE). The BOE was recently audited by the State Controller's Office and several misallocated sales tax revenues have been identified. Sales tax information contained in this publication is subject to change as the BOE corrects the misallocated sales tax revenue.

Sales Tax Highlights

The End of the “Triple Flip” Tax Swap

As of January 1, 2016, local agencies began to receive the 1% Bradley-Burns local sales and use tax for sales and purchases within their jurisdictions due to the end of the “triple-flip” tax swap on December 31, 2015. The 1% sales tax began to be allocated to the local agencies in March 2016. Between July 1, 2004 and December 31, 2015 the Bradley Burns local sales tax rate was .75%.

Moderate Sales Tax Growth

The 2% growth of sales tax in FY 2015-16 reflects moderate growth after five consecutive years of strong growth.

Board of Equalization Audited

In 2015, the State Controller’s Office (SCO) audited the Board of Equalization (BOE) and identified material problems with the BOE’s internal controls resulting in misallocation of the Bradley Burns local sales tax, Local Transportation Fund, Proposition 172, 1991 Realignment, and 2011 Realignment. The BOE is currently working on resolving these issues and correct any identified misallocations.

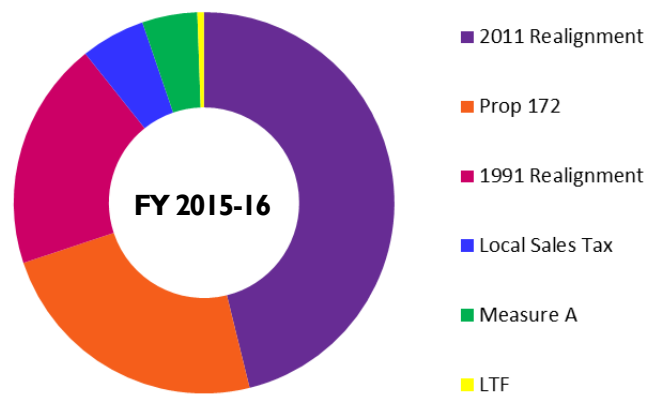
County Generated Revenues

Countywide sales in the unincorporated area generated approximately \$145 million in sales tax revenue, which represents the second largest general revenue source for the County, the largest being property tax revenue.

County Sales Tax Revenues (Millions)

	FY 2013-14	FY 2014-15	FY 2015-16
2011 Realignment	\$ 62.2	\$ 65.3	\$ 67.2
Public Safety - Prop 172	32.3	33.4	33.8
1991 Realignment	27.2	27.8	27.7
General Operations	7.3	7.8	8.7
Measure A	6.3	6.7	6.8
Transportation - LTF	0.7	0.8	0.8
Total	\$ 136.0	\$ 141.8	\$ 145.0

County Sales Tax Revenue



State of California 3.94%: General Fund

In FY 2015-16, Santa Barbara County generated an estimated \$273.3 million in sales tax for the State’s General Fund.

Revenues		Expenditures	
Personal Income Tax	68.3%	Education K - 12	42.8%
Sales & Use Tax	21.4%	Health & Human Services	27.4%
Corporation Tax	8.8%	Higher Education	12.3%
Insurance Tax	2.1%	Corrections & Rehabilitation	8.8%
Other	0.5%	General Government	1.8%
Alcohol Beverage Tax	0.3%	Legislative, Judicial, Executive	2.8%
Cigarette Tax	0.2%	Natural Resources	2.3%
Budget Stabilization Acct	-1.6%	Other	1.8%
Total	100.0%	Total	100%

- K-12 Education continues to be the State’s top funding priority: 43 cents of every State General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State spends almost 55 cents of every State General Fund dollar on education.
- Education, health & human services, and state corrections expenditures constitute 91% of all State General Fund expenditures.

Source: California Department of Finance

End of the “Triple Flip” - Economic Recovery Bonds Paid

The State balanced its FY 2003-04 budget by acquiring voter approval to receive up to \$15 billion through the sale of “Economic Recovery” bonds. The State issued \$14.1 billion in bonds, and received \$924 million in bond premiums, resulting in \$15 billion in cash receipts. The State developed the revenue “swapping” procedure referred to as the “Triple Flip” in order to have an identifiable dedicated revenue source to guarantee bond repayment. The Economic Recovery bonds were defeased on August 5, 2015 and on January 1, 2016 the Bradley Burns local Sales rate was restored to 1% for local governments, from .75% during the “Triple Flip”.

Proposition 30: 0.25% Education Protection Account

In 2012, California voters approved a 0.25% increase to the sales tax rate for four years from January 1, 2013 through December 31, 2016. The new tax revenue is guaranteed in the California Constitution to go directly to an Education Protection Account. All moneys in the Education Protection Account are appropriated for the support of school districts, county offices of education, charter schools, and community college districts. Santa Barbara County generated an estimated \$17.3 million for the Education Protection Account in FY 2015-16.

Proposition 172: 0.50% for Public Safety

During the FY 1993-94 State budget process, the State Legislature and the 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 0.5% sales tax to fund local public safety services.

State Allocation Method:

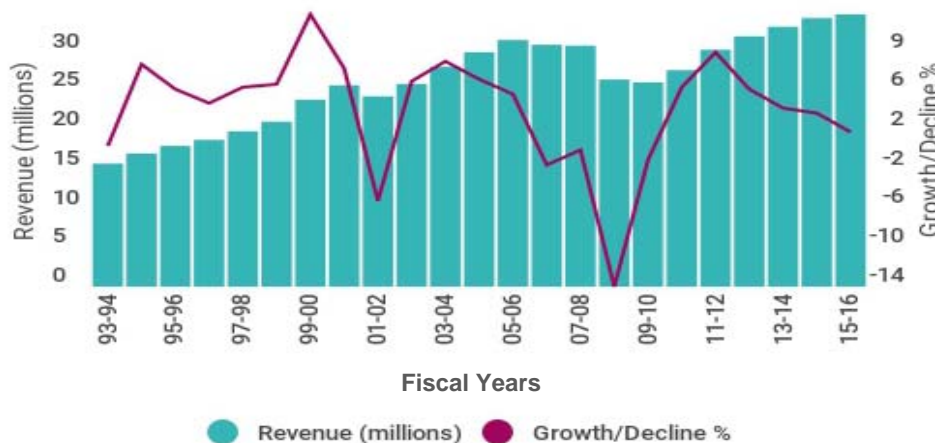
Proposition 172 revenues are allocated to county governments throughout the State, based on a taxable sales factor. The factor is based upon the actual sales in the county (cities plus unincorporated areas) divided by the total State sales from the prior year. Each year, the State releases the updated allocation factor for each county and it performs a retroactive adjustment for all county allocations/payments made in September through December of the current fiscal year.

In FY 2015-16, Prop 172 generated \$34.7 million and the allocation is as follows:

- \$33.8 million to the county public safety departments.
- \$0.9 million to the city public safety agencies.

Countywide Prop 172 10 Year Revenue Trend			
Fiscal Year	Factor	Revenue (millions)	Growth
2015-16	1.0747%	\$34.7	1.2%
2014-15	1.0797%	34.3	3.3%
2013-14	1.0842%	33.2	3.8%
2012-13	1.0986%	32.0	5.7%
2011-12	1.1129%	30.2	9.5%
2010-11	1.1191%	27.6	5.9%
2009-10	1.1074%	26.1	-1.4%
2008-09	1.0825%	26.4	-14.1%
2007-08	1.0974%	30.8	-0.4%
2006-07	1.0830%	30.9	-1.9%
Total		\$306.2	

Proposition 172 Revenue & Growth



1991 Realignment: 0.50% for Health & Welfare Programs

To decrease the FY 1991-92 State budget deficit, the legislature made a number of structural changes. Among the most significant was the shift of responsibility from the State to the counties for health, mental health and various social services programs, accompanied by a dedicated revenue stream to pay for the funding changes; this shift is known as "Realignment-1991." The State increased the sales tax and vehicle license fee (VLF) and devoted these revenues to fund the increased financial obligations to the counties.

State Allocation Method:

The allocation mechanism is formula driven and designed to at least maintain the funding levels from FY 1991-92; funding levels are then adjusted annually and the funding is distributed proportionately based on the population and poverty calculations performed by the State Department of Finance (DOF). In addition, the revenues received in one year (plus any growth in revenues for that FY) become the base level of funding for the following fiscal year.

In FY 2015-16, while the 0.5% sales tax in Santa Barbara County generated \$34.7 million in taxes for the State pool, the County only received an estimated \$27.7 million. At this time, the BOE has not allocated the FY 2015-16 realignment growth.

1991 Realignment Programs	2013-14	% Change	2014-15	% Change	2015-16	% Change
Social Services	\$ 14,258,426	3.3%	\$ 15,012,797	5.3%	\$ 15,012,797	0.0%
CalWORKs	9,734,357	-1.2%	8,526,777	-12.4%	8,526,777	0.0%
Child Poverty & Family Support	—		671,334		671,334	0.0%
Health Services	3,108,589	3.6%	3,179,143	2.3%	3,194,557	0.5%
Mental Health Services	—		309,437		309,437	0.0%
Total	\$ 27,101,372	1.7%	\$ 27,699,488	2.2%	\$ 27,714,903	0.1%

2011 Realignment: 1.0625% Local Revenue Fund 2011

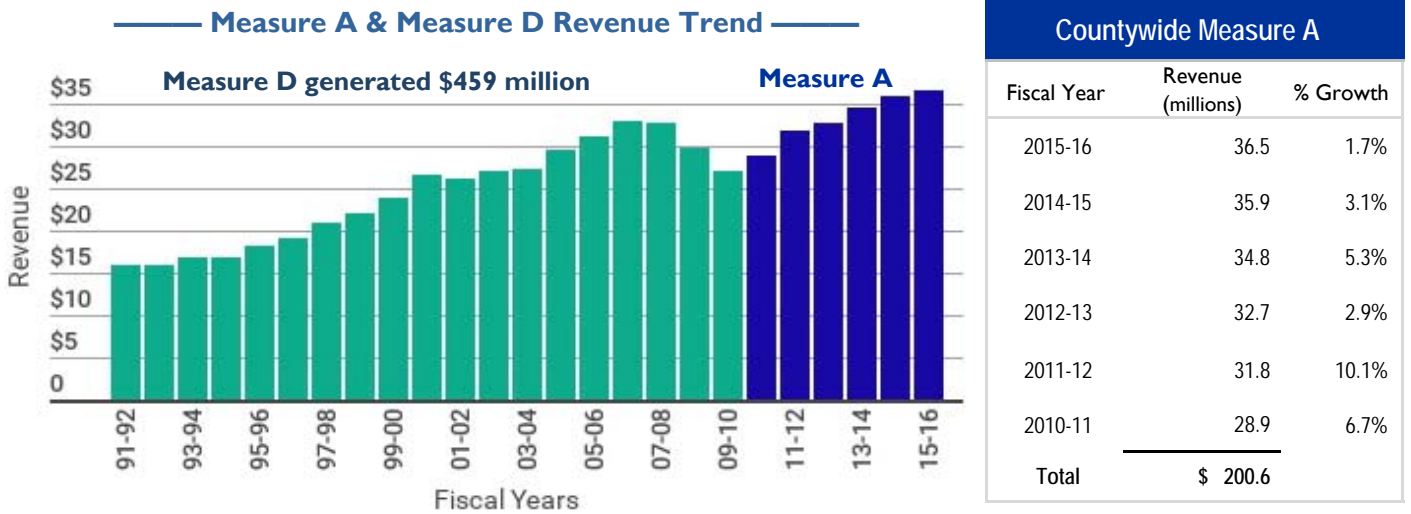
As part of the 2011-12 budget plan, the Legislature enacted another realignment of State program responsibilities and revenues to local governments. The Legislature approved the diversion of 1.0625% of the State's sales tax rate to counties to fund the 2011 Realignment revenue which provides funding for three major programs. The support Services program provides funding for protective services for the child welfare system, seniors and dependent adults, as well as behavioral health to fund alcohol and drug programs. The Mental Health program provides replacement funding for the 1991 Realignment mental health programs. The Law Enforcement Services program provides funding for trial court security, community corrections, juvenile justice, district attorney and public defender, as well as funding for enhancing law enforcement activities.

For FY 2015-16 the County received an estimated \$67.2 million out of the \$73.7 million that the 1.0625% sales tax rate generated for the County. The 2011 Realignment revenue increased 2.8% from the prior year.

2011 Realignment Programs	2013-14	% Change	2014-15	% Change	2015-16	% Change
Support Services	\$ 24,722,329	-0.4%	\$ 27,244,410	10.2%	\$ 27,916,315	2.5%
Mental Health	10,474,112	0.0%	10,016,615	-4.4%	10,348,317	3.3%
Law Enforcement Services	26,964,955	10.4%	28,088,193	4.2%	28,918,779	3.0%
Total	\$ 62,161,396	4.0%	\$ 65,349,218	5.1%	\$ 67,183,411	2.8%

Measure A: 0.50% 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 rate was increased 0.5% countywide. Measure D generated \$459 million for local and regional transportation projects during the twenty years it was in effect. The transportation sales tax was set to expire in March 2010. In 2008, the voters of the County of Santa Barbara passed Measure A, which extended the Santa Barbara Roads Improvement Program for an additional 30 years. Measure A sales tax revenue generated approximately \$36.5 million in FY 15-16, a 1.7% growth from prior year.



LTF: 0.25% for County Transportation

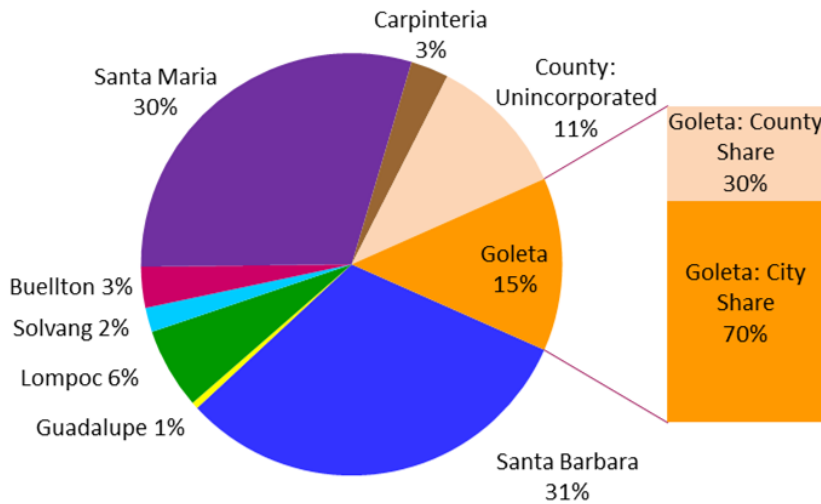
The Transportation Development Act (TDA) went into effect in 1972, and provided for two major sources of funding for local transportation providers, the Local Transportation Fund (LTF) and the State Transit Assistance (STA) Fund. The TDA established that the revenue source for the LTF would be derived from the 0.25% statewide sales tax. This tax made funding available to transportation providers such as cities, counties, and other entities that provide transit services for a community. Within Santa Barbara County, Santa Barbara County Association of Governments (SBCAG) allocates the LTF funds towards transit, transportation planning, pedestrian & bicycle facilities, and for street & roads purposes. LTF sales tax revenue increased by 1.1% in FY 2015-16.

Entities	2013-14	% Change	2014-15	% Change	2015-16	% Change
Cities	\$ 7,329,515	1.5%	\$ 7,596,120	3.6%	\$ 7,625,096	0.4%
County	698,480	45.8%	845,979	21.1%	823,815	-2.6%
Easy Lift	364,956	3.6%	385,352	5.6%	385,441	0.0%
SBCAG	311,457	3.9%	329,368	5.8%	500,782	52.0%
SBMTD	6,934,150	3.6%	7,321,681	5.6%	7,323,381	0.0%
SMOOTH	250,317	3.8%	263,396	5.2%	263,096	-0.1%
Total	\$15,888,875	4.0%	\$16,741,896	5.4%	\$16,921,610	1.1%

Bradley Burns Local Sales Tax: .75%/1% for General Operations

In order to support the general operations of the local government (cities and counties), the 1% Bradley Burns Local Sales and Use Tax was enacted to return a percentage of each taxable sale to the jurisdiction in which the sale took place. The allocation of the 1% tax rate to the cities was reduced to .75% in 2004 to provide a dedicated revenue source referred to as the “Triple Flip” for the repayment of the Economic Recovery bonds. In FY 2015-16, the Economic Recovery bonds were paid off and on January 1, 2016 the 1% local sales tax for local governments was restored.

Bradley Burns Local Sales Tax Revenue by Jurisdiction



As part of the revenue neutrality agreement required by the City of Goleta’s (City) incorporation provisions, the City shares sales tax revenue with the County. The sales tax revenue generated in the City was split 50/50 between the City and the County for 10 years that ended on June 30, 2012. Beginning in FY 2012-13 the revenue split changed to 70/30, with 70% allocated to the City and the remaining 30% allocated to the County in perpetuity.

FY 2015-16 was a transition year in which the Bradley Burns local sales tax rate changed in the middle of the fiscal year due to the end of the “Triple Flip”. Local jurisdictions were allocated sales tax revenue based on the .75% sales tax rate at the beginning of the fiscal year, during which the triple flip was still in effect. After the end of the triple flip, the second half of the year, the local jurisdictions were allocated sales tax based on the 1% sales tax rate.

Allocation of the Bradley Burns Local Sales Tax

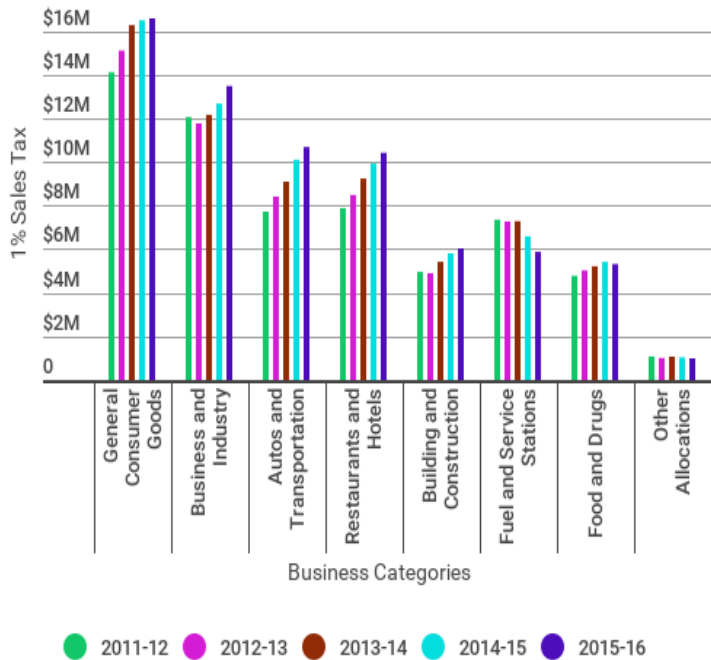
Fiscal Year 2015-16 – The End of the “Triple Flip”

Jurisdiction	.75% Sales Tax	1% Sales Tax	Total
	Jul - Dec	Jan - Jun	
Lompoc	\$ 1,662,580	\$ 2,094,607	\$ 3,757,187
Santa Maria	7,964,329	10,043,443	18,007,772
Guadalupe	131,098	178,366	309,464
Carpinteria	798,114	953,299	1,751,414
Solvang	502,245	625,562	1,127,808
Buellton	839,967	1,056,275	1,896,241
Goleta	2,470,594	3,152,374	5,622,968
Santa Barbara	8,425,658	10,604,242	19,029,901
Unincorporated	3,886,929	5,115,908	9,002,837
Countywide Total	\$ 26,681,516	\$ 33,824,076	\$ 60,505,592

Business Groups

Retail activity can also be summarized by 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 eight groups. The following table represents changes in the various business groups.

Countywide Business Groups



Business Group Highlights

Business and Industry

- Business and Industry grew 6.3% and generated \$13.5 million in sales tax revenue.

Autos and Transportation

- Autos and Transportation grew at 5.8% and generated \$10.7 million in sales tax revenue.

Restaurants and Hotels

- Restaurants and Hotels generated \$10.4 million in sales tax revenue which was an increase of 4.9% from the prior year.

Building and Construction

- Building and Construction grew 3.9% and generated \$6 million.

Fuel and Service Stations

- Sales tax revenue generated from Fuel and Service Stations decreased by 10.8% and generated \$5.9 million.

Top Retailers Countywide

In FY 2015-16 the top 25 retailers generated \$14 million in local sales tax revenues, which represents 20% of the countywide total.

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 FY ended June 30, 2016.

Top 25 Sales Tax Producers Countywide

Businesses (Alphabetical Order)	Locations
ALBERTSONS LLC	7
AMAZON.COM LLC	-
AUDI, BMW, PORSCHE, SB AUTO GROUP	3
BEST BUY STORE LP	2
BUNNIN CHEVROLET CADILLAC	1
CONSERV FUEL - #6115	6
COSTCO WHOLESALE CORPORATION	2
CROP PRODUCTION SERVICES, INC	2
CVS/PHARMACY	12
FOOD CO #371	4
HOME MOTORS	1
HOMER T. HAYWARD LUMBER CO.	4
HONDA OF SANTA MARIA	1
MACY'S WEST STORES, INC.	3
NORDSTROM INC.	1
PORTER & HOWARD INC.	1
ROSS DRESS FOR LESS	4
ROYAL WHOLESALE ELECTRIC INC	4
SANTA MARIA CHRYSLER JEEP DODGE RAM	1
TARGET STORES	1
THE HOME DEPOT	3
THE VONS COMPANIES, INC.	7
TOYOTA OF SANTA BARBARA	1
USA GASOLINE	5
WAL-MART STORES	4

Local Sales Tax: County Audit Results

Jurisdictional Allocations of the Local Sales Tax Revenue

The BOE allocates the Bradley Burns local sales tax to jurisdictions (cities and counties) in which the sales took place to support the general operations of the local governments. The BOE requires that each retailer collecting sales tax register with the BOE and identify the jurisdiction in which the retailer is located. Retailers often register using an incorrect jurisdiction which results in incorrectly allocated revenue. The Auditor Controller’s Office (Auditor) receives and reviews BOE data to perform its own audits. The Auditor uses a system developed in-house, the Sales Tax Claims and Reporting System, to identify revenue that is generated from businesses located in the County unincorporated area that are incorrectly reporting their sales tax as being generated in a city. When incorrectly allocated revenue is identified, the Auditor submits a claim to the BOE and requests that the appropriate corrections be made to transfer the incorrectly allocated revenue to the County, as permitted under statute.

Revenue Shifted to Date

This table illustrates the number of claims submitted to and approved by the BOE over the past years. Included in the table is also the claim estimate (incorrectly allocated revenue) and the revenue reallocated to the County (actual transfers) based on the approved claims. The table also includes an estimate of the total revenue reallocated to date.

Fiscal Year(s)	Claims Submitted	Claims Approved	Claim Estimate	Revenue Reallocated	Estimated Revenue to Date
1998 – 2011	836	781	\$1,387,014	\$1,000,173	\$6,565,400
2011-12	168	149	101,114	94,288	258,000
2012-13	62	48	57,785	61,800	184,020
2013-14	130	121	100,476	76,401	148,890
2014-15	87	64	65,440	42,264	120,040
2015-16	63	56	141,370	41,254	198,380
Totals	1,346	1,219	\$1,853,199	\$1,316,180	\$7,474,730

State Controller Audits BOE Sales Tax Allocations

State Controller Identifies Deficiencies in Board of Equalization Fiscal Controls

In 2015, the SCO audited the BOE and found a number of problems, including a material lack of internal controls and a misallocation of several different taxes, including the Bradley Burns Local Sales Tax, Local Transportation Fund, Proposition 172, 1991 Realignment, and 2011 Realignment. The audit also identified inaccurate calculations of the quarterly true-ups for local funds and Prop 172.



BOE Response to the State Controller’s Audit Results

“The BOE recognized that there were challenges with its fund allocation process and began reviewing its methodology, data, and quarterly reconciliation.” In an effort to resolve these issues, the BOE “suspended performing quarterly reconciliations (True-Ups), effective with the first quarter of 2015”, and began developing “reports that provide more accurate accounting data to allocate revenues to the various funds.” The BOE anticipates that these reports will be available by July 2017. “In the meantime, the BOE is modifying the application of the statistical factors to ensure that daily allocations more closely align with reported allocations for the period derived from returns, audits, and payments” and “anticipates that such modifications will minimize fund adjustments that result from the quarterly reconciliation.”

The BOE is analyzing allocations for the period of July 1, 2011, through March 31, 2016 to determine the proper adjustments needed to correct fund balances. “The BOE is in contact with the Department of Finance (DOF) regarding potential adjustments. The DOF has assured BOE that any adjustments required to correct fund balances will be made in partnership with localities and conducted in such a manner as to minimize any potential impact.”