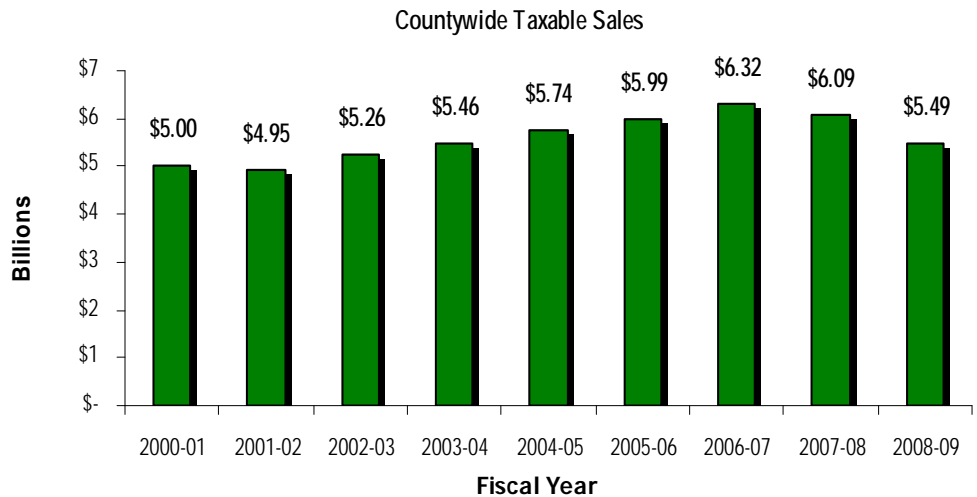


# Annual Sales & Use Tax Report Fiscal Year Ended June 30, 2009



## Countywide Taxable Sales Revenue

For fiscal year (FY) ended June 30, 2009, countywide taxable sales were \$5.49 billion, a **9.9% decline** compared to the prior fiscal year amount of \$6.09 billion. We expect the decreasing trend to continue into the middle of FY 2009-10. As we end FY 2009-10, we anticipate the beginning of a modest recovery.



The \$5.49 billion in taxable sales in the County of Santa Barbara, for FY 2008-09, generated \$440 million of sales tax revenue for state and local governments. The significant sales tax revenue decline of \$34.8 million, from the prior year, reflects the severity of the largest economic decline in the last 20 years. The following chart illustrates sales tax revenue received in FY 2008-2009 (\$ in millions):

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Sales & Use Tax	Rate (%)	County (\$)	Cities & Other Entities (\$)	State (\$)	Total Amount (\$)
State of California - General Fund	5.00	-	-	274.4	274.4
Temporary 1% Sales Tax Rate Increase*	1.00	-	-	13.2	13.2
Economic Recovery Fund: "Triple Flip"	0.25	-	-	13.7	13.7
Public Safety - Prop 172	0.50	25.8	0.7	-	26.5
County Health & Welfare - Realignment	0.50	18.3	9.1	-	27.4
City & County Road - Measure D	0.50	7.0	22.8	-	29.8
Countywide Transportation - LTF	0.25	.9	12.9	-	13.8
County & Cities General Operations - Local Bradley Burns Sales Tax	0.75	7.5	33.7	-	41.2
<b>Total Tax Revenue Received:</b>	<b>8.75</b>	<b>59.5</b>	<b>79.2</b>	<b>301.3</b>	<b>440.0</b>

\* The Sales and Use Tax Rate increased on April 1, 2009, resulting in the State's rate increasing from 5% to 6%.

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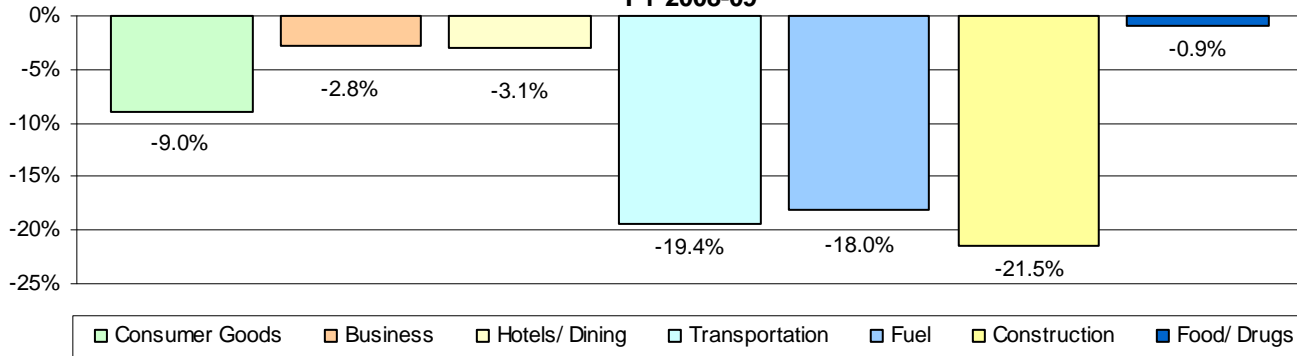
<http://www.countyofsb.org/auditor/home.asp>

# Sales Tax Highlights

This was the second consecutive year in which the County's combined sales tax revenues decreased. Despite the recent fourth quarter 1% sales tax rate increase, this was the third consecutive year of decreasing sales tax revenues for the State. As the following charts demonstrate, the current economic downturn resulted in larger than anticipated declines across all business groups and tax sectors; the severity of these declines increased as the fiscal year progressed.

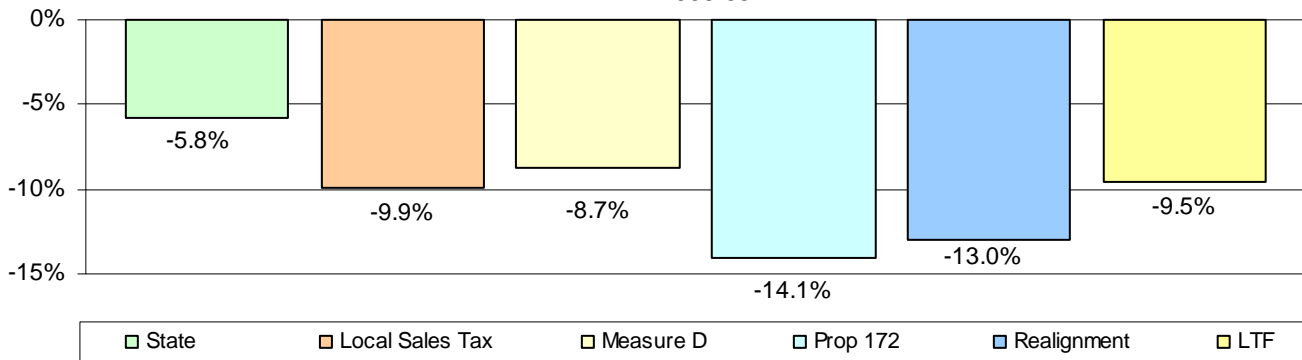
## Sales Tax Decline by Business Group

FY 2008-09



## Sales Tax Decline by Tax Sector

FY 2008-09



## 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 2008-09, property taxes generated \$208.8 million in revenue, while sales taxes generated \$59.5 million.

County Sales Tax Revenue FY 2008-09	
	Revenue (in millions)
Public Safety - Prop 172	\$ 25.8
Health & Welfare Realignment	18.3
General Operations	7.5
County Roads - Measure D	7.0
Transportation - LTF	0.9
<b>Total</b>	<b>\$ 59.5</b>

County Property Tax Revenue FY 2008-09	
	Revenue (in millions)
General Fund	\$ 165.8
Special Revenue Funds	43.0
<b>Total</b>	<b>\$ 208.8</b>

## State 6%: California General Fund

As part of a 2007-2008 budget deficit-closing plan, Governor Schwarzenegger and lawmakers agreed to various revenue generating tax increases. Among the various tax increases, **effective April 1, 2009, the sales and use tax rate was increased by 1%**. Whereas in the past, the State's General Fund received 5% on statewide taxable sales, it is now scheduled to receive 6%. However, the 1% tax rate increase is temporary and due to expire on July 1, 2011. For FY 2008-09 Santa Barbara County generated an estimated \$301.3 million for the State's General Fund

- K-12 Education continues to be the State's top funding priority: 40 cents of every State General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State will spend over 51 cents of every State General Fund dollar on education.
- Education, health & human services, and state corrections expenditures constitute 90 percent of all State General Fund expenditures.

Revenues	
Personal Income Tax	54.9%
Sales & Use Tax	28.4%
Corporation Tax	11.6%
Other	2.5%
Insurance Tax	2.2%
Liquor Tax	0.3%
Tobacco Tax	0.1%
Total	100.0%

Expenditures	
Education K - 12	39.7%
Health & Human Services	29.0%
Higher Education	11.7%
Corrections & Rehabilitation	9.7%
Other	3.8%
Legislative, Judicial, Executive	3.8%
General Government	2.3%
Total	100%

## State 0.25%: Economic Recovery Fund

The State balanced its 2003-04 budget by acquiring voter approval to borrow up to \$15 billion through the sale of "Economic Recovery" bonds. The State has issued \$14.1 billion in bonds and received \$924 million in bond premiums, resulting in \$15 billion in cash receipts. 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 revenue "swapping" procedure that is referred to as the "Triple Flip."

### 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 are dedicated to repay the State's deficit financing bonds. The estimated repayment date is on or before June 30, 2024.

Economic Recovery Bonds			
Fiscal Year	Issued	Principal Payment	Balance
2003-2004	\$ 10.9	\$ -	\$ 10.9
2004-2005	-	-	10.9
2005-2006	-	1.0	9.9
2006-2007	-	0.9	9.0
2007-2008	3.2	2.2	10.0
<b>Total</b>	<b>\$ 14.1</b>	<b>\$ 4.1</b>	

## Proposition 172: 0.5% for Public Safety

During the 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 half percent sales tax to fund local public safety services.

### State Allocation Method:

Prop. 172 revenues are allocated to county governments throughout the State, based on a taxable sales factor. Each year, 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. In December, 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 2008-09, while a 0.5% sales tax in Santa Barbara County generated \$27.44 million in taxes for the State pool, we received \$26.44 million under the factor allocation.

### In FY 2008-09, Prop. 172 revenues were allocated as follows:

- \$25.8 million for the County public safety departments.
- \$685 thousand for the cities' public safety agencies.

### Public Safety Revenue Ten -Year Trend

Fiscal Year	Revenue Factor	Revenue (millions)	Growth
2009-10 (est)	1.0895%	\$ 24.77	-6.32%
2008-09	1.0825%	26.44	-14.10%
2007-08	1.0974%	30.77	-0.36%
2006-07	1.0830%	30.88	-1.91%
2005-06	1.1097%	31.48	5.18%
2004-05	1.1419%	29.93	6.70%
2003-04	1.1527%	28.05	8.47%
2002-03	1.1377%	25.86	6.46%
2001-02	1.0950%	24.29	-5.49%
2000-01	1.1260%	25.70	7.80%
Total		\$ 278.17	

## Realignment: 0.5% 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; 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 to the counties.

### State Allocation Method:

The allocation mechanism is complex and formula driven. The following is an overly simplified explanation of the allocation. Realignment formulas are designed to at least maintain the funding levels from FY 1991-1992, funding levels are adjusted annually, and funding is distributed proportionately based on the population and poverty calculations performed by State Department of Finance. In addition, the revenues received in one year (plus any growth in revenues for that fiscal year) become the base level of funding for the following fiscal year.

In FY 2008-09, while a 0.5% sales tax in Santa Barbara County generated \$27.44 million in taxes for the State pool, the County received only \$18.3 million under the allocation formulas. **The base allocation across the State was reduced by 13% due to the decline in taxable sales.**

County Programs	2006-2007		2007-2008		2008-2009	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
Mental Health	\$8,345,396	0.7%	\$8,194,997	-1.80%	\$7,129,270	-13.0%
Social Services	9,633,866	14.2%	9,677,181	0.45%	8,418,702	-13.0%
Health Services	3,276,275	2.0%	3,217,230	-1.80%	2,798,843	-13.0%
<b>Total</b>	<b>\$21,255,537</b>	<b>6.6%</b>	<b>\$21,089,408</b>	<b>-0.78%</b>	<b>\$18,346,815</b>	<b>-13.0%</b>

# Measure D: 0.5% for County Roads

Countywide Revenue History Twenty - Year Trend		
Fiscal Year	Revenue (in millions)	Average Growth
2009-10 (est)	\$ 26.10	-12.4%
2008-09	29.78	-8.7%
2007-08	32.63	-0.4%
2006-07	32.77	5.6%
2005-06	31.02	5.2%
2005-10	152.30	-2.1%
2000-05	136.20	4.4%
1995-00	103.77	7.3%
1990-95	66.17	3.6%
Total	\$ 458.44	

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, effective April 1, 1990, the local sales tax rate was increased countywide by 0.5%. The transportation sales tax was to remain in effect for 20 years (until April 2010). However, **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 2008-09 distribution received by entity:

- The County Road Fund: 23.2%.
- Incorporated cities of Santa Barbara County: 46.4%.
- Debt Service: 29.0%; Capital Projects Fund: 0.2%.
- Easy Lift Transportation: 0.2%.
- County Association of Governments: 1.0% for planning.

*“...voters of the County of Santa Barbara passed Measure A, which extended the Santa Barbara Roads Improvement Program for an additional 30 years.”*

# LTF: 0.25% for County Transportation

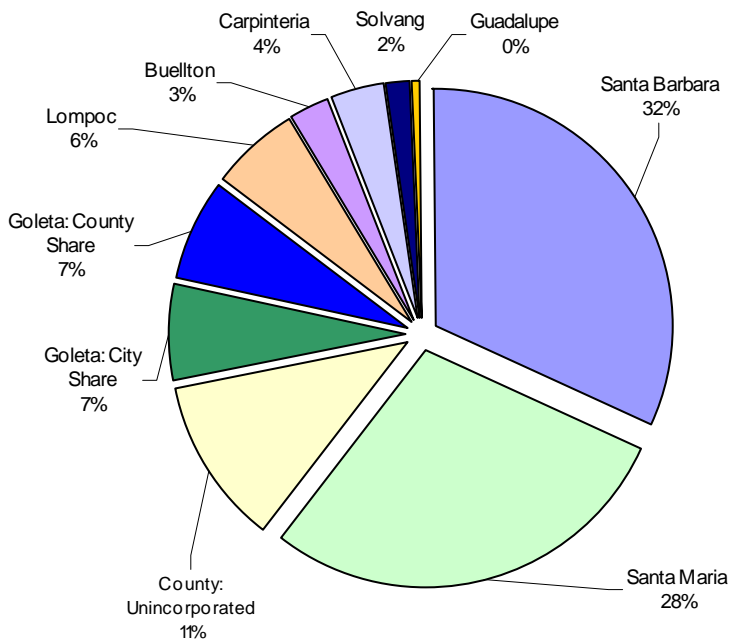
The Transportation Development Act (TDA) went into effect in 1972, and provided for two major sources of funding for local transportation providers. One of those revenue sources became the 0.25% statewide sales tax for the Local Transportation Fund (LTF). This tax made funding available to transportation providers such as cities, counties, and other entities that provide transit services for a community. Within Santa Barbara County, SBCAG allocates the LTF funds towards transit, paratransit, transportation planning, pedestrian & bicycle families, and for street & road purposes. **During FY 2008-09, LTF sales tax revenue declined 9.5%.**

Entities	2006-2007		2007-2008		2008-2009	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
County	\$1,364,595	-14.3%	\$1,345,005	-1.4%	\$942,704	-29.9%
Cities	6,321,775	9.5%	6,260,404	-1.0%	5,953,120	-4.9%
SBCAG	303,263	4.6%	300,246	-1.0%	271,882	-9.5%
Easy Lift	362,845	3.1%	359,232	-1.0%	324,857	-9.6%
SBMTD	6,894,066	3.1%	6,825,406	-1.0%	6,172,289	-9.6%
SMOOTH	226,082	5.8%	228,391	1.0%	206,683	-9.5%
<b>Total</b>	<b>\$15,472,626</b>	<b>3.8%</b>	<b>\$15,318,684</b>	<b>-1.0%</b>	<b>\$13,871,535</b>	<b>-9.5%</b>

# Local 0.75% Tax to Support General Operations

The Local 0.75% Tax (frequently referred to as the "Bradley-Burns Tax") 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). Fiscal Year 2008-09 taxable sales countywide generated \$41.2 million of Local 0.75% Tax for local jurisdictions; this represents an annual **decline of 9.9%**.

## Local 0.75% Sales Tax Revenue By Location



- Countywide retail sales tax declined 9.9% from the prior year. The decrease is due to large declines in sales tax from the following categories: Autos and Transportation, Business and Industry, General Consumer Goods, and Fuel and Service Stations.
- The County receives sales tax revenue from the City of Goleta. This area generated about \$5.5 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). Beginning in FY 2012-13 the split will become 70/30, with 70% going to the City and the remainder going to the County.

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

Jurisdiction	2006-2007		2007-2008		2008-2009	
	Amount	% Change from PY	Amount	% Change from PY	Amount	% Change from PY
City of Santa Barbara	\$15,357,311	3.9%	\$15,050,727	-2.0%	\$13,207,040	-12.2%
City of Santa Maria	13,367,102	1.0%	13,135,691	-1.7%	11,646,508	-11.3%
Goleta: City Share	3,056,455	-2.1%	2,871,999	-6.0%	2,753,048	-4.1%
Goleta: County Share	3,056,455	-2.1%	2,871,999	-6.0%	2,753,048	-4.1%
County: Unincorporated	6,144,579	39.9%	5,048,099	-17.8%	4,706,274	-6.8%
City of Lompoc	2,976,767	0.0%	2,984,473	0.3%	2,508,869	-15.9%
City of Buellton	1,272,278	5.9%	1,342,500	5.5%	1,195,117	-11.0%
City of Carpinteria	1,138,968	14.3%	1,309,478	15.0%	1,451,234	10.8%
City of Solvang	835,694	6.4%	862,777	3.2%	763,973	-11.5%
City of Guadalupe	254,059	-12.3%	220,122	-13.4%	174,393	-20.8%
<b>Countywide Total</b>	<b>\$47,459,668</b>	<b>5.7%</b>	<b>\$45,697,865</b>	<b>-3.7%</b>	<b>\$41,159,504</b>	<b>-9.9%</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, 2009.

#### FY 2008-09 Top 25 Sales Tax Producers Countywide

Businesses (Alphabetical Order)	Locations
AMERICAN STORES COMPANY LLC	6
BEST BUY STORE L P	2
CHEVRON STATION #1407	6
COMMUNITY VOLKSWAGEN	1
CONSOLIDATED ELECTRICAL DSTR INC	5
COSTCO WHOLESALE CORPORATION	2
DEPT OF MOTOR VEHICLES ALLOCA-	1
GTE MOBILNET OF SANTA BARBARA LP	5
HOME MOTORS	1
HOMER T.HAYWARD LUMBER CO.	3
INFINITI,JAG,LAND ROVER,STA BARB	3
K-MART CORPORATION	2
MACY'S DEPARTMENT STORES INC	3
NORDSTROM INC.	1
PORTER & HOWARD INC.	1
RALPHS GROCERY COMPANY	5
ROSS DRESS FOR LESS	3
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
WAL-MART STORES	2
WORLD OIL MARKETING COMPANY	4

*The top 25 retailers generated \$8.3 million in the Local 0.75% sales tax revenues, which represents 20% 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 eight groups. The following table represents the Local 0.75% tax allocations of all the businesses operating and their growth in each group from FY 2007-08 to FY 2008-09.

Countywide Business Groups Comparison			
Business Group	2007-08	2008-09	Growth
General Consumer Goods	\$ 11,197,874	\$ 10,187,410	-9.0%
Business and Industry	8,403,642	8,165,431	-2.8%
Autos and Transportation	6,064,800	4,888,081	-19.4%
Restaurants and Hotels	5,707,595	5,533,093	-3.1%
Building and Construction	5,145,002	4,039,158	-21.5%
Fuel and Service Stations	4,967,559	4,071,288	-18.0%
Food and Drugs	3,376,247	3,345,729	-0.9%
Other Allocations	835,146	929,314	11.3%
<b>TOTALS</b>	<b>\$45,697,865</b>	<b>\$41,159,504</b>	<b>-9.9%</b>

#### Business Groups Highlights

##### General Consumer Goods

- Sales tax revenue generated from General Consumer Goods declined 9.0% to \$10.2 million during FY 2008-09.

##### Building and Construction

- Building and Construction sales tax growth decreased for the third straight year. This category sported the largest decline of all the categories at 21.5%.

##### Autos and Transportation

- Car dealerships had a difficult time selling vehicles during FY 2008-09 as evidenced by Autos and Transportation sales tax decrease of 19.4%.

##### Fuel and Service Stations

- Driven by sharp decreases in gas prices and demand, the Fuel and Service Station category declined 18.0% during the fiscal year.

##### Food and Drugs

- As would be expected for these types of consumer staples, the Food and Drug category remained relatively constant.

# 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.

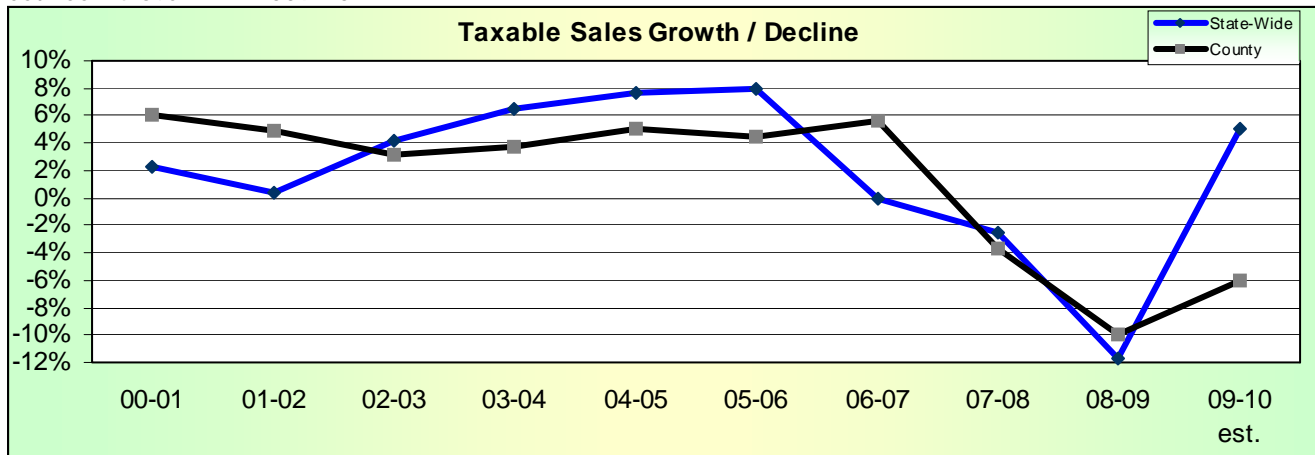
## Revenue Shifted to Date

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

Fiscal Year(s)	Number of Claims	Claim Revenue Estimate	Actual Revenue Shifted*
1998-04	409	\$565,573	\$4,657,430
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
2008-09	52	255,640	15,821
<b>Totals</b>	<b>728</b>	<b>\$1,253,428</b>	<b>\$5,386,544</b>

## Taxable Sales Growth / Decline Trend and Forecast

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 5-7% in FY 2009-10.** However, as we end FY 2009-10, we anticipate the beginning of a modest recovery. Due to the temporary one percent increase in the sales tax rate, we expect the State's sales tax collections to increase between 4-6% in FY 2009-10.



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