

# SALES AND USE TAX HIGHLIGHTS

FISCAL YEAR ENDED JUNE 30, 2018



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In fiscal year (FY) 2017-18, taxable sales within the County of Santa Barbara totaled an estimated \$6.8 billion, which generated \$530.1 million in sales tax revenue for State and local programs.

FY 2017-18 Sales & Use Tax Revenue Generated	Rate (%)	Total
State of California — General Fund	3.94	\$ 269.3
Local Revenue Fund — 2011 Realignment	1.06	72.7
County & City General Operations — Bradley Burns Sales Tax	1.00	68.4
County & City Public Safety — Proposition 172	0.50	34.2
County Health & Welfare — 1991 Realignment	0.50	34.2
County & City Roads — Measure A	0.50	34.2
Countywide Transportation — Local Transportation Fund (LTF)	0.25	17.1
<b>Total</b>	<b>7.75%</b>	<b>\$ 530.1</b>

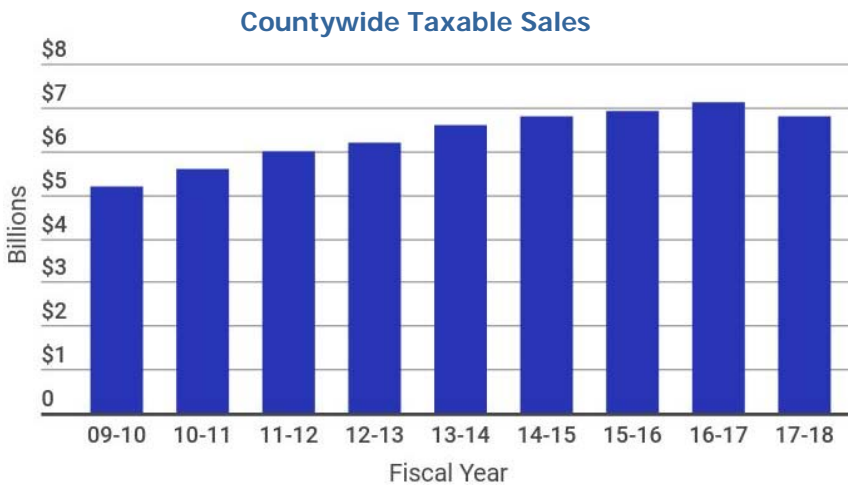
## OFFICE OF THE AUDITOR-CONTROLLER

Our mission is to ensure the County's financial integrity and promote efficient, effective and accountable government. Our vision is a well-run, financially sound County with an informed public that is served by knowledgeable and effective staff displaying honesty, integrity, independence and objectivity.



## TAXABLE SALES TREND

Taxable sales within the entire County of Santa Barbara geographic area reached approximately \$6.8 billion in FY 2017-18. This was a 4.2% decrease compared to the prior FY taxable sales of \$7.1 billion. The current year's decrease ends seven years of positive growth. The decrease reflected in FY 17-18 can be attributed to a decrease in taxable sales within the county and the State implementing a new system which created sales tax processing delays.

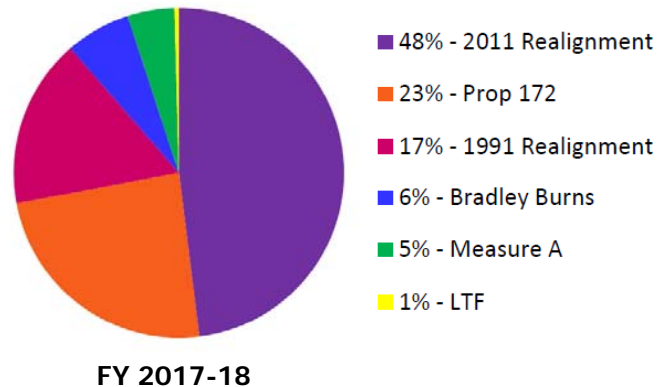


Fiscal Year	Revenue (billions)	% Growth
2017-18	\$ 6.8	-4.2%
2016-17	7.1	2.2%
2015-16	6.9	1.5%
2014-15	6.8	3.0%
2013-14	6.6	6.5%
2012-13	6.2	3.3%
2011-12	6.0	7.5%
2010-11	5.6	7.9%
2009-10	5.2	-5.8%

## COUNTY UNINCORPORATED AREA SALES TAX REVENUES

Sales in the unincorporated area of Santa Barbara generated approximately \$155.3 million in sales tax revenue, which represents the second largest general revenue source for the County, the largest being property tax.

Revenue Sources (in millions)	2016 - 2017	2017 - 2018
2011 Realignment	\$ 69.1	\$ 74.3
Public Safety — Prop 172	35.1	36.4
1991 Realignment	25.2	26.9
Bradley Burns — General Ops	10.2	9.9
Measure A	6.9	7.2
Transportation — LTF	0.8	0.6
<b>Total</b>	<b>\$ 147.3</b>	<b>\$ 155.3</b>



## STATE OF CALIFORNIA: 3.94% GENERAL FUND

The State of California General Fund is the primary fund from which ongoing expenses of state government are paid. About 90% of the fund's revenue comes from personal income tax and sales and use tax. In FY 2017-18, Santa Barbara County generated an estimated \$269.3 million in sales tax for the State's General Fund.

Revenues		Expenditures	
Personal Income Tax	70.4%	Education K-12	42.7%
Sales & Use Tax	19.4%	Health & Human Services	27.8%
Corporation Tax	8.6%	Higher Education	11.9%
Insurance Tax	2.0%	Corrections & Rehabilitation	9.0%
Other	0.6%	General Government	2.2%
Alcohol Beverage Tax	0.3%	Legislative, Judicial, Executive	2.8%
Cigarette Tax	0.1%	Natural Resources	2.3%
Budget Stabilization Acct	-1.4%	Other	1.3%
<b>Total</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>

- K through 12 Education teach pupils the skills necessary for successful adulthood, achieving career goals, obtaining gainful employment and pursuing higher education.
- Health & Human Services programs provide mental health, social services, and income and disability assistance to California's vulnerable and at-risk residents.
- Programs such as Transportation, Labor & Workforce Development, and Business, Consumer Services & Housing make up the majority of Other expenditures.

*Source: California Department of Finance*

## 2011 REALIGNMENT: 1.06% LOCAL REVENUE FUND

As part of the FY 2011-12 budget plan, the State Legislature enacted a realignment of State program responsibilities and revenues to local governments. The 2011 Realignment approved the diversion of 1.06% of the State's sales tax rate to fund three major programs for California counties. The **Support Services** program provides funding for protective services of the child welfare system, seniors and dependent adults, as well as funding for alcohol and drug programs. The **Mental Health** program provides funding for hospital and managed care services. **Law Enforcement Services** provides funding for community corrections, the district attorney and public defender, juvenile justice and trial court security.

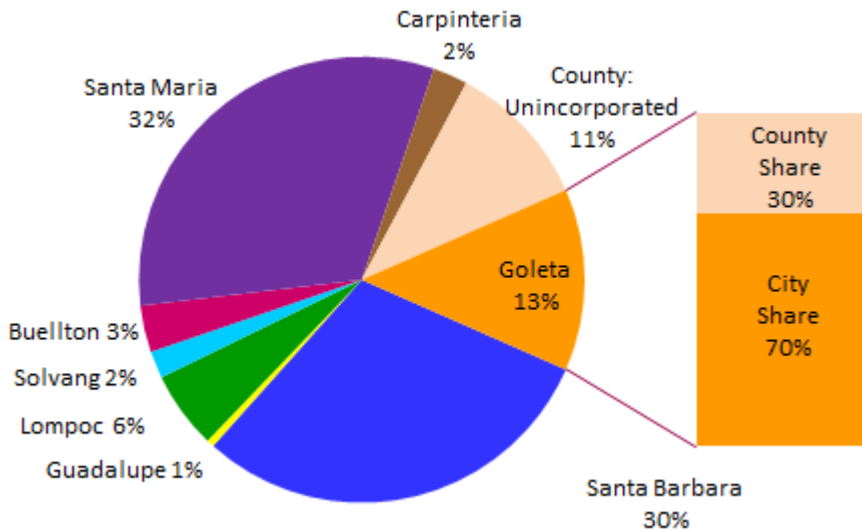
For FY 2017-18, the County received \$74.3 million for 2011 Realignment programs, an increase of 7.5% reflecting a growth in Support, Mental Health and Law Enforcement services from the prior year.

2011 Realignment Programs	2015 - 2016		2016 - 2017		2017 - 2018	
	Amount	% Change	Amount	% Change	Amount	% Change
Support Services	\$ 27,916,315	2.5%	\$ 27,849,968	-0.2%	\$ 29,583,343	6.2%
Mental Health Services	10,255,389	2.4%	9,584,698	-6.5%	9,897,975	3.3%
Law Enforcement Services	30,560,248	8.8%	31,699,116	3.7%	34,805,808	9.8%
<b>Total</b>	<b>\$ 68,731,952</b>	<b>5.2%</b>	<b>\$ 69,133,782</b>	<b>0.6%</b>	<b>74,287,126</b>	<b>7.5%</b>

## BRADLEY BURNS LOCAL SALES TAX: 1.0% GENERAL REVENUE

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.

### 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.

### Allocation of the Bradley Burns Local Sales Tax

Jurisdiction	2016 - 2017 <sup>1</sup>		2017 - 2018	
	Amount	Amount	Amount	% Change
City of Santa Barbara	\$ 21,694,992	\$ 20,537,017		-5.3%
City of Santa Maria	21,166,095	21,948,833		3.7%
City of Goleta (70%) — City	6,544,413	6,317,375		-3.5%
City of Goleta (30%) — County	2,804,749	2,707,447		-3.5%
Unincorporated — County	7,550,630	7,265,843		-3.8%
City of Lompoc	5,418,364	3,844,504		-29.0%
City of Buellton	2,269,350	2,315,850		2.0%
City of Carpinteria	1,884,413	1,733,471		-8.0%
City of Solvang	1,341,495	1,353,518		0.9%
City of Guadalupe	361,099	372,104		3.0%
<b>Countywide Total</b>	<b>\$71,035,600</b>	<b>\$68,395,962</b>		<b>-3.7%</b>

Source: Hinderliter, de Llamas and Associates

<sup>1</sup>Amounts may differ from prior year publication due to the change in source.

## 1991 REALIGNMENT: 0.50% HEALTH & WELFARE PROGRAMS

In FY 1991-92, legislation was drafted to decrease the State budget deficit. 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 State increased the sales tax by 0.50% and dedicated vehicle license fee revenue to fund the increased financial obligations of the counties. Actual amounts received from the State are based off additional factors such as population.

In FY 2017-18, the County of Santa Barbara received an estimated \$26.9 million for 1991 Realignment programs. This reflects a growth in Social Services and California Work Opportunity and Responsibility for Kids (Calworks) programs from the prior year.

1991 Realignment Programs	2015 - 2016		2016 - 2017		2017 - 2018	
	Amount	% Change	Amount	% Change	Amount	% Change
Social Services	\$ 15,125,356	0.7%	\$ 15,125,356	0.0%	15,948,953	5.4%
Calworks	5,729,060	0.0%	5,729,060	0.0%	6,615,382	15.5%
Child Poverty & Family Support	671,334	0.0%	810,991	20.8%	810,991	0.0%
Health Services	3,194,557	0.5%	3,194,557	0.0%	3,210,435	0.5%
Mental Health Services	309,437	0.0%	309,437	0.0%	309,437	0.0%
<b>Total</b>	<b>\$ 25,029,744</b>	<b>0.5%</b>	<b>\$ 25,169,401</b>	<b>0.6%</b>	<b>\$26,895,198</b>	<b>6.9%</b>

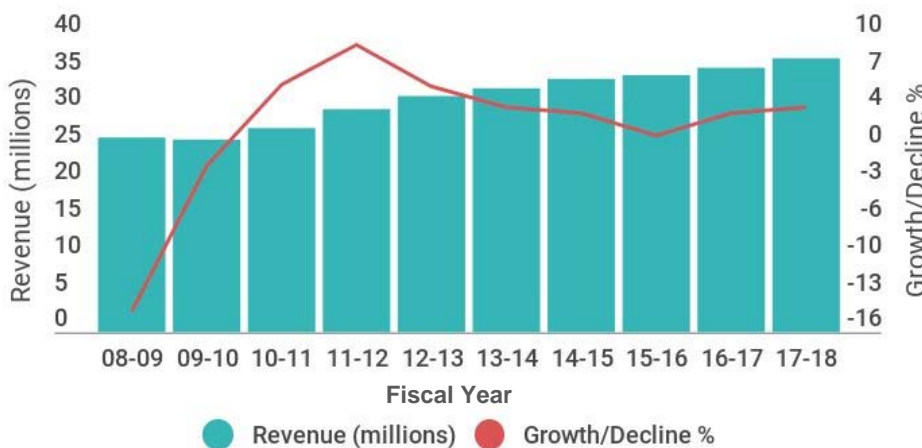
## PROPOSITION 172: 0.50% FOR PUBLIC SAFETY

During FY 1993-94, legislation was passed to shift property tax revenues from local agencies to K-12 schools and community colleges. Voters partially offset these losses by approving Proposition 172, a 0.5% sales tax to fund local public safety services.

In FY 2017-18, Prop 172 generated \$37.3 million allocated as follows:

- \$36.4 million to the county public safety departments.
- \$0.9 million to the city public safety agencies.

### PROPOSITION 172 REVENUE & GROWTH



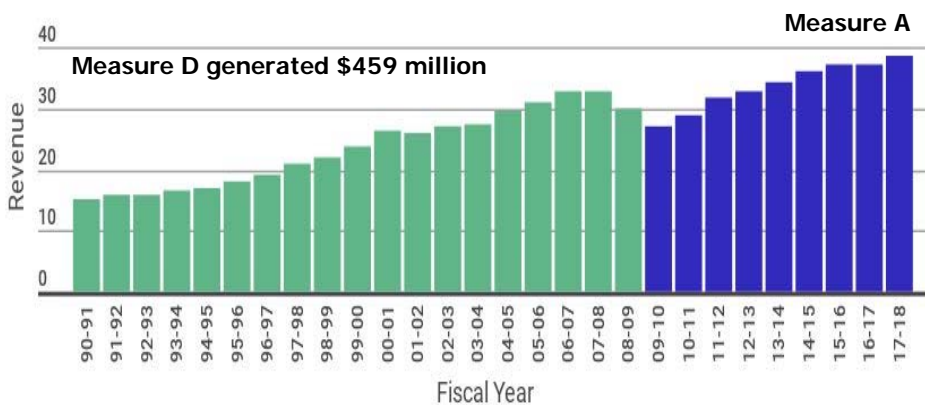
Countywide Prop 172 10 Year Revenue Trend			
Fiscal Year	Factor	Revenue (millions)	Growth
2017-18	1.0577%	\$ 37.3	3.8%
2016-17	1.0682%	36.0	3.7%
2015-16	1.0747%	34.7	1.2%
2014-15	1.0797%	34.3	3.3%
2013-14	1.0842%	33.2	3.8%
2012-13	1.0986%	32.0	5.7%
2011-12	1.1129%	30.2	9.5%
2010-11	1.1191%	27.6	5.9%
2009-10	1.1074%	26.1	-1.4%
2008-09	1.0825%	26.4	-14.1%
<b>Total</b>		<b>\$317.8</b>	

## MEASURE A: 0.50% FOR COUNTY ROADS

In 1989, the voters of Santa Barbara County approved Measure D, a 0.5% local sales tax for road improvements that generated over \$459 million for local and regional transportation projects during its twenty year life span. Measure D was set to expire in March 2010, but in 2008, voters passed Measure A, extending the Santa Barbara Roads Improvement Program for an additional 30 years. Measure A revenues have funded projects such as the 101 Highway Widening, Safe Routes to School program, Goleta Overpass Improvement and many more.

In FY 2017-18, County of Santa Barbara Measure A sales tax receipts totaled \$38.8 million. This was a 4.6% growth from prior year receipts.

### MEASURE A & MEASURE D REVENUE TREND



Countywide Measure A		
Fiscal Year	Revenue (millions)	% Growth
2017-18	\$ 38.8	4.6%
2016-17	37.1	1.6%
2015-16	36.5	1.7%
2014-15	35.9	3.1%
2013-14	34.8	5.3%
2012-13	32.7	2.9%
2011-12	31.8	10.1%
2010-11	28.9	6.6%
2009-10	27.1	—
<b>Total</b>	<b>\$ 303.6</b>	

## LTF: 0.25% FOR COUNTYWIDE TRANSPORTATION

The Local Transportation Fund (LTF) is a 0.25% statewide sales tax created by the 1972 Transportation Development Act (TDA). This tax made funding available to transportation providers such as cities, counties, and other entities. Within Santa Barbara County, LTF funds are used towards transit, transportation planning, pedestrian & bicycle facilities, and for street & road purposes.

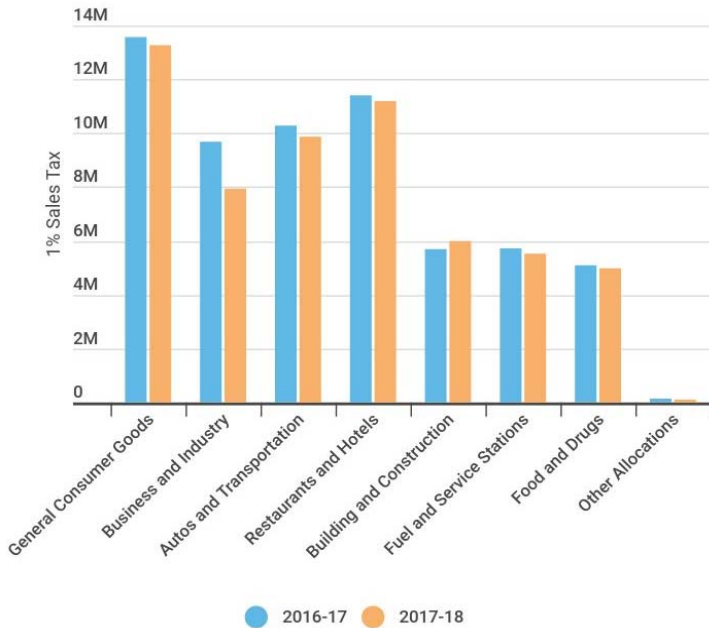
Overall, LTF sales tax revenue increased by 1.3% in FY 17-18. Entity allocations change on a yearly basis and are derived from Department of Finance population statistics.

Entities	2015 - 2016		2016 - 2017		2017 - 2018	
	Amount	% Change	Amount	% Change	Amount	% Change
Cities	\$ 7,625,096	0.4%	\$ 7,807,661	2.4%	\$ 8,030,452	2.9%
County	823,815	-2.6%	789,249	-4.2%	635,945	-19.4%
Easy Lift	385,441	0.0%	397,684	3.1%	403,387	1.4%
SBCAG	500,782	52.0%	503,995	0.6%	516,400	2.5%
SBMTD	7,323,381	0.0%	7,555,989	3.2%	7,664,362	1.4%
SMOOTH	263,096	-0.1%	389,457	48.0%	423,362	8.7%
<b>Total</b>	<b>\$16,921,611</b>	<b>1.1%</b>	<b>\$17,444,035</b>	<b>3.1%</b>	<b>\$17,673,908</b>	<b>1.3%</b>

## 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 graph below represents changes in the various business groups.

### Countywide Business Groups



### Business Group Highlights<sup>1</sup>

#### General Consumer Goods

- General Consumer Goods generated \$13.3 million, a 2.2% decline from the prior year.

#### Restaurants and Hotels

- Restaurants and Hotels generated \$11.2 million in sales tax revenue which was a 2.0% decrease from the prior year.

#### Building and Construction

- Building and Construction increased by 5.3% and generated \$6.0 million in revenue.

#### Business and Industry

- Business and Industry generated \$7.9 million in sales tax revenue, a decrease of 18.0% from the prior year.

#### Fuel and Service Stations

- Sales tax revenue from Fuel and Service Stations totaled \$5.5 million, a 3.5% decrease.

Source: Hinderliter, de Llamas and Associates

<sup>1</sup>Prior year comparisons may differ from FY 2016-17 publications due to change in source.

## TOP RETAILERS COUNTYWIDE

In FY 2017-18 the top thirty retailers generated roughly 25% of the countywide total.

Since taxpayer sales information is confidential, business activity is disclosed in ways that do not reveal the actual sales results of the taxpayer. The following list identifies the top thirty taxable sale businesses within the County of Santa Barbara for FY 2017-18.

### Top 30 Sales Tax Producers

#### Businesses (Alphabetical Order)

- ALBERTSONS LLC
- AUDI, BMW, PORSCHE SB AUTO GROUP
- BEST BUY
- BUNNIN CHEVROLET CADILLAC
- CONSERV FUEL
- CONSOLIDATED ELECTRICAL DISTRIBUTORS
- COSTCO WHOLESALE CORPORATION
- CROP PRODUCTION SERVICES, INC
- CVS/PHARMACY
- EXXON
- HAYWARD LUMBER CO.
- HOME DEPOT
- HOME MOTORS CHEVROLET & CADILAC
- HONDA OF SANTA MARIA
- MACY'S
- NORDSTORM INC.
- QUINN CAT COMPANY
- RALPHS
- RIO VISTA CHEVROLET
- ROSS
- SANTA MARIA BMW/VW
- SANTA MARIA FORD
- STOWASSER BUICK GMC
- TARGET
- TOYOTA OF SANTA BARBARA
- TOYOTA OF SANTA MARIA
- TURNPIKE SHELL
- USA STATION
- VONS
- WALMART SUPERCENTER

## Transition to HdL Sales Tax

The Auditor-Controller's Office (ACO) uses sales tax data to analyze revenue trends, generate revenue projections, and produce reports. The ACO also uses sales tax data to perform its own audits and identify potentially misallocated sales tax. This auditing function has identified and generated transfers of over \$1.3 million in misallocated sales tax revenue (sales tax corrections) from other jurisdictions to the County, as permitted under statute.

The ACO previously used the Sales Tax Claims and Reporting System, a software application developed in house during the early 2000's, to analyze, report, and audit sales tax data. However, this software application has reached the end of its lifecycle. The ACO weighed the options of investing resources to upgrade the in-house application or looking for third party solutions. Ultimately, a vendor-provided system was selected for its reasonably priced services. This option will allow both accounting and information technology staff to focus on essential ACO core responsibilities.

Hinderliter, de Llamas and Associates (HdL) was selected as the new vendor due to their substantial knowledge on the sales and use tax. HdL will provide the same reporting capability and auditing service of identifying potential misallocated sales tax. The intent of this collaboration is for the County to benefit from HdL's enhanced sales tax and economic analysis services as well as continue to recover the misallocated sales tax revenue in favor of the County.

## CDTFA new Automated System

After the Board of Equalization restructure in 2017, the Department of Tax and Fee Administration (CDTFA) was formed to administer the tax and fee programs. In May 2018, the CDTFA implemented the Centralized Revenue Opportunity System (CROS), an online system to improve the administration of these programs. The sales and use tax was one of the taxes impacted by the implementation of CROS. After the initial implementation, some sales tax remittances did not get included with the CDTFA's quarterly distribution to local jurisdictions leaving the second quarter of 2018 dramatically less than the prior year. This prompted the CDTFA to advance money to local jurisdictions to make up for the cash shortfall. Processing the backlog of sales tax remittances was completed over the course of several months and the delayed sales tax was eventually allocated to the local jurisdictions.

Due to efficiency of the online system, local jurisdictions are now allocated "current distributions" which consist of monthly return payments (due and processed during the same month), audit adjustments, fund transfers, refund adjustments, other period return payments, installation payments, etc. Traditionally, these distributions would have been withheld until the end of the quarter and disbursed along with the clean-up payment to the local jurisdictions. Now, these distributions are allocated each month along with the local jurisdiction's base advances. Due to this change, the CDTFA has updated the sales tax allocation methodology and created a new payment calendar. The new allocation methodology combines the previous third monthly advance with the clean-up payment and the local jurisdictions now receive their clean-up payments one month earlier.

The CDTFA considers CROS a solution that will maximize the effectiveness of staff operations, generate additional revenue, and provide efficiencies that will benefit businesses. As the CROS implementation continues, the CDTFA will continue to report on system updates, most recent achievements, and the next anticipated milestone.