

# SALES AND USE TAX HIGHLIGHTS

FISCAL YEAR ENDED JUNE 30, 2017



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In fiscal year 2016-17, the County of Santa Barbara reached an estimated \$7.1 billion in taxable sales which generated \$555.7 million in sales tax revenue for State and local programs. The Education Protection Account (Prop 30) expired December 31, 2016, decreasing our County's sales tax rate from 8.0% to 7.75%.

FY 2016-17 Sales & Use Tax Revenue Generated		Rate (%)	Total
State of California — General Fund		3.94	\$ 277.8
Local Revenue Fund — 2011 Realignment		1.06	75.0
County & City General Operations — Bradley Burns Sales Tax		1.00	70.6
County & City Public Safety — Proposition 172		0.50	35.3
County Health & Welfare — 1991 Realignment		0.50	35.3
County & City Roads — Measure A		0.50	35.3
Countywide Transportation — Local Transportation Fund (LTF)		0.25	17.6
<b>Subtotal</b>		<b>7.75%</b>	<b>\$ 546.9</b>
Education Protection Account — Proposition 30 <sup>1</sup>		0.25%	8.8
<b>Total</b>		<b>8.0%</b>	<b>\$ 555.7</b>

<sup>1</sup> The Education Protection Account sales tax rate expired December 31, 2016.

## 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.

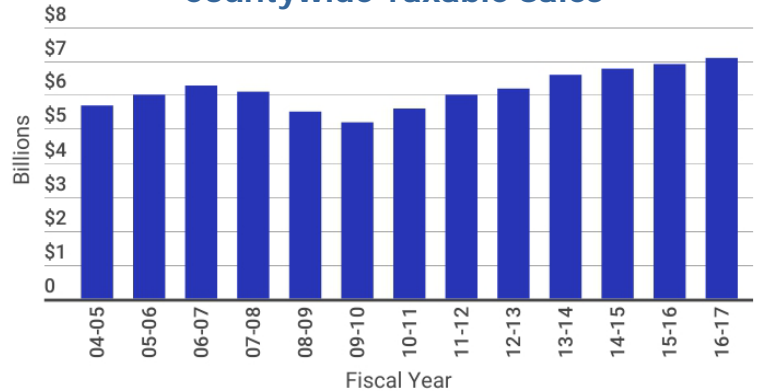


## TAXABLE SALES TREND

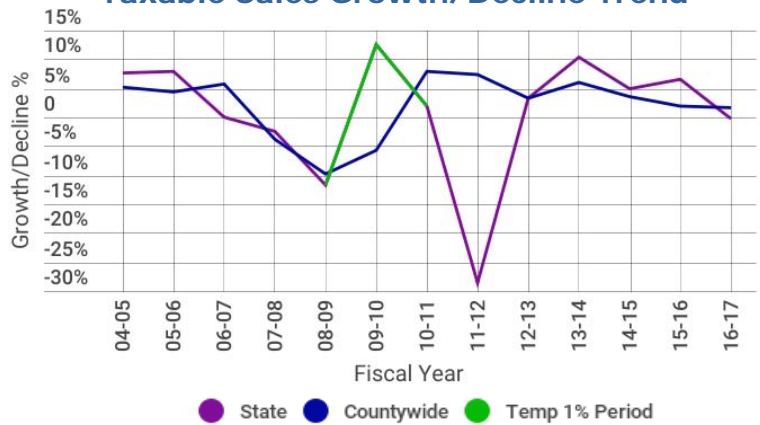
Taxable sales within the entire County of Santa Barbara geographic area reached approximately \$7.1 billion in fiscal year 2016-17. This was a 1.7% increase compared to the prior fiscal year taxable sales of \$6.9 billion. The growth is smaller than what we have seen in the past years but continues a positive trend. Countywide sales generated \$555.7 million to support State and local government agencies. The taxable sales trend reflects declines during the recession years and moderate growth at the County level for the last three years.

The Statewide taxable sales declined by 0.3% in FY 2016-17. The County's taxable sales growth generally mirrors statewide taxable sales growth. However, the County taxable sales growth is less volatile and generally lags statewide changes. The current economy and consumer confidence in the market affect taxable sales growth rates over time. The large 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 for the State General Fund and its expiration.

Countywide Taxable Sales



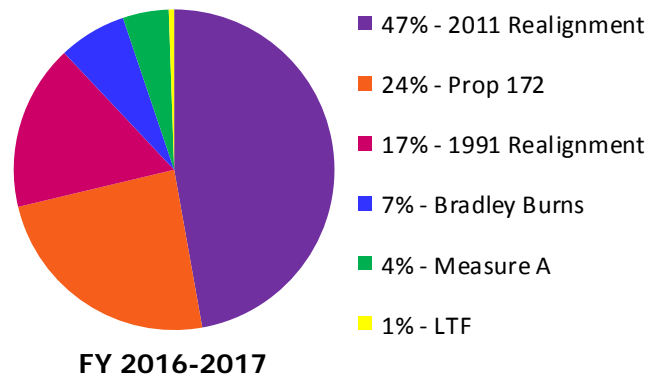
Taxable Sales Growth/Decline Trend



## COUNTY SALES TAX REVENUES

Sales in the Unincorporated area of Santa Barbara generated approximately \$147.6 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)	2015 - 2016	2016 - 2017
2011 Realignment	\$ 67.8	\$ 69.4
Public Safety — Prop 172	33.8	35.1
1991 Realignment	24.9	25.2
Bradley Burns — General Ops	8.7	10.2
Measure A	6.8	6.9
Transportation — LTF	0.8	0.8
<b>Total</b>	<b>\$ 142.8</b>	<b>\$ 147.6</b>



## THE EDUCATION PROTECTION ACCOUNT (PROP 30) ENDS

California voters approved a sales tax increase of 0.25% from January 1, 2013 through December 31, 2016 for the Education Protection Account (Prop 30). All moneys generated during this period were appropriated for the support of school districts, county offices of education, charter schools, and community college districts. In FY 2016-17, Santa Barbara County received an estimated \$8.8 million in sales tax and a total of \$75.0 million over the lifetime of Prop 30 for the Education Protection Account before it ended on December 31, 2016.

## STATE OF CALIFORNIA 3.94%: GENERAL FUND

Revenues		Expenditures	
Personal Income Tax	69.3%	Education K-12	41.9%
Sales & Use Tax	21.4%	Health & Human Services	27.1%
Corporation Tax	9.1%	Higher Education	11.9%
Insurance Tax	1.9%	Corrections & Rehabilitation	8.6%
Other	0.6%	General Government	2.8%
Alcohol Beverage Tax	0.3%	Legislative, Judicial, Executive	2.9%
Cigarette Tax	0.1%	Natural Resources	2.3%
Budget Stabilization Acct	-2.7%	Other	2.5%
<b>Total</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>

In FY 2016-17, Santa Barbara County generated an estimated \$277.8 million in sales tax for the State's General Fund.

- K-12 Education continues to be the State's top funding priority: 42 cents of every General Fund dollar is spent on K-12 education.
- Combined with higher education funding, the State spends almost 53 cents of every General Fund dollar on education.
- Education, health & human services and State corrections expenditures constitute 90% of all State General Fund expenditures.

Source: California Department of Finance

## 2011 REALIGNMENT: 1.06% LOCAL REVENUE FUND

As part of the 2011-12 budget plan, 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 the county. The **Support Services** program provides funding for protective services of the child welfare system, seniors and dependent adults, as well as funding for Behavioral Wellness's 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.

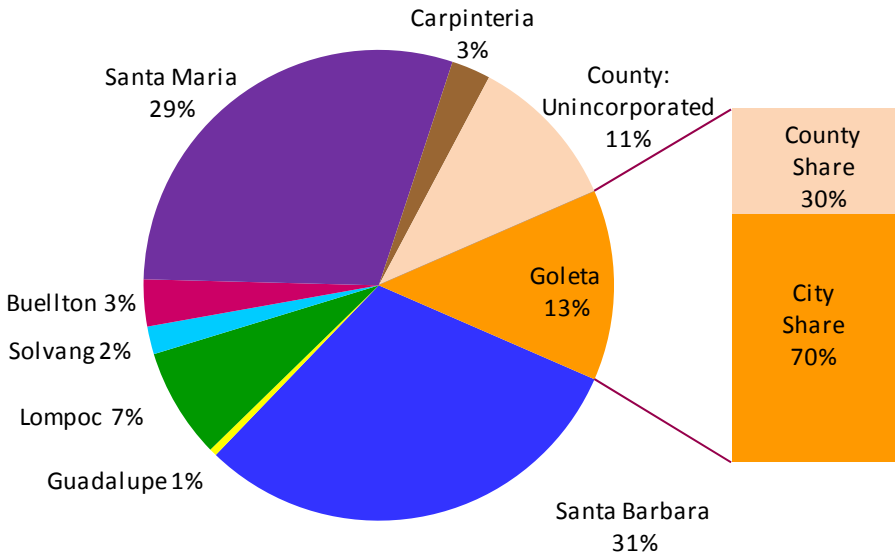
For FY 2016-17, the County received an estimated \$69.4 million out of the \$75.0 million that the 1.06% sales tax generated within the County. The 2011 Realignment revenue increased by 1.0%, reflecting a growth in Law Enforcement Services revenue from the prior year.

2011 Realignment Programs	2014 - 2015		2015 - 2016		2016 - 2017	
	Amount	% Change	Amount	% Change	Amount	% Change
Support Services	\$ 27,244,410	10.2%	\$ 26,916,315	2.5%	\$ 27,849,968	-0.2%
Mental Health	10,016,615	-4.4%	10,255,389	2.4%	9,894,136	-3.5%
Law Enforcement Services	28,088,193	4.2%	30,560,248	8.8%	31,699,116	3.7%
<b>Total</b>	<b>\$ 65,349,218</b>	<b>5.1%</b>	<b>\$ 68,731,952</b>	<b>5.2%</b>	<b>\$ 69,443,220</b>	<b>1.0%</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 in perpetuity.

### Allocation of the Bradley Burns Local Sales Tax

<u>Jurisdiction</u>	<u>2015 - 2016<sup>1</sup></u>	<u>2016 - 2017</u>
City of Santa Barbara	\$ 19,029,901	\$ 21,633,254
City of Santa Maria	18,007,773	20,941,117
City of Goleta (70%) — City	5,622,971	6,452,308
City of Goleta (30%) — County	2,409,845	2,765,275
Unincorporated — County	6,592,996	7,555,445
City of Lompoc	3,757,186	5,348,203
City of Buellton	1,896,240	2,270,061
City of Carpinteria	1,751,413	1,891,644
City of Solvang	1,127,807	1,345,639
City of Guadalupe	309,463	361,270
<b>Countywide Total</b>	<b>\$ 60,505,595</b>	<b>\$70,564,216</b>

<sup>1</sup> 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 0.75% sales tax at the first half of fiscal year 2015-16, during which the Triple Flip was still in effect. After the Triple Flip expired on January 1, 2016, the sales tax rate was restored to 1%, from the 0.75% rate used during the Triple Flip.

## 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 and vehicle license fee (VLF) and devoted these revenues to fund the increased financial obligations of the counties.

In FY 2016-17, the County of Santa Barbara received an estimated \$25.2 million for 1991 Realignment programs. This reflects a growth in Social Services and Child Poverty & Family Support programs from the prior year.

1991 Realignment Programs	2014 - 2015		2015 - 2016		2016 - 2017	
	Amount	% Change	Amount	% Change	Amount	% Change
Social Services	\$ 15,012,797	5.3%	\$ 15,125,356	0.7%	\$ 15,125,356	0.0%
CalWORKs	5,729,060	0.0%	5,729,060	0.0%	5,729,060	0.0%
Child Poverty & Family Support	671,334	-	671,334	0.0%	810,991	20.8%
Health Services	3,179,143	2.3%	3,194,557	0.5%	3,194,557	0.0%
Mental Health Services	309,437	-	309,437	0.0%	309,437	0.0%
<b>Total</b>	<b>\$ 24,901,771</b>	<b>5.2%</b>	<b>\$ 25,029,745</b>	<b>0.5%</b>	<b>\$ 25,169,401</b>	<b>0.6%</b>

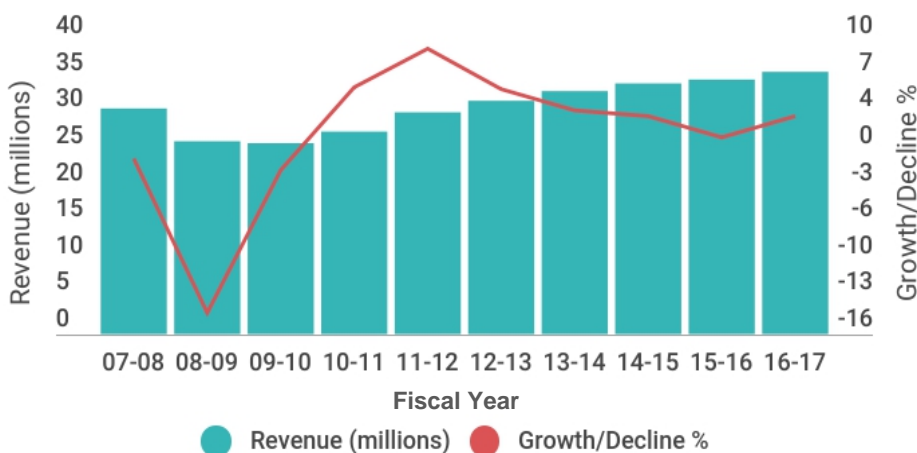
## PROPOSITION 172: 0.50% FOR PUBLIC SAFETY

During FY 1993-94, legislation was drafted 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 2016-17, Prop 172 generated \$36.0 million allocated as follows:

- \$35.1 million to the county public safety departments.
- \$0.9 million to the city public safety agencies.

### PROPOSITION 172 REVENUE & GROWTH



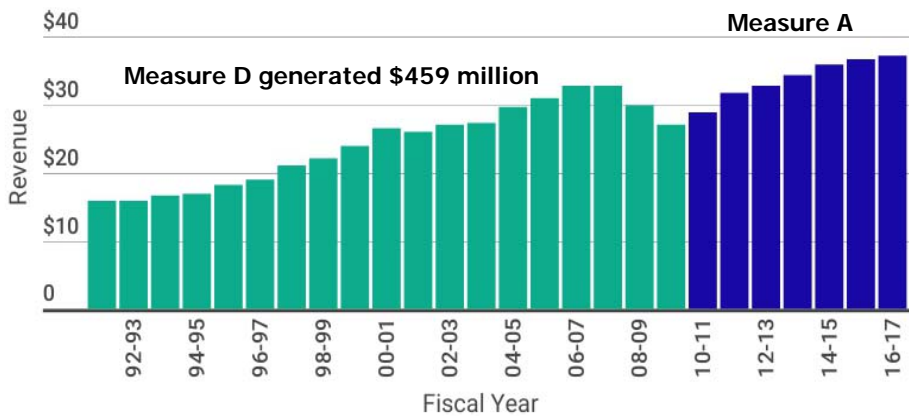
Countywide Prop 172 10 Year Revenue Trend			
Fiscal Year	Factor	Revenue (millions)	Growth
2016-17	1.0682%	\$ 36.0	3.7%
2015-16	1.0747%	34.7	1.2%
2014-15	1.0797%	34.3	3.3%
2013-14	1.0842%	33.2	3.8%
2012-13	1.0986%	32.0	5.7%
2011-12	1.1129%	30.2	9.5%
2010-11	1.1191%	27.6	5.9%
2009-10	1.1074%	26.1	-1.4%
2008-09	1.0825%	26.4	-14.1%
2007-08	1.0974%	30.8	-0.4%
<b>Total</b>		<b>\$311.3</b>	

## MEASURE A: 0.50% FOR COUNTY ROADS

In 1989, the voters of Santa Barbara County approved a roads improvement program known as Measure D. The County increased local sales tax rate by 0.5% to fund this program. Measure D generated over \$459 million for local and regional transportation projects during its twenty year life span. The transportation sales tax was set to expire in March 2010. In 2008, voters in 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 \$37.1 million, a 1.6% growth from the prior year.

### MEASURE A & MEASURE D REVENUE TREND



Countywide Measure A		
Fiscal Year	Revenue (millions)	% Growth
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	6.7%
<b>Total</b>	<b>\$ 237.7</b>	

## LTF: 0.25% FOR COUNTYWIDE TRANSPORTATION

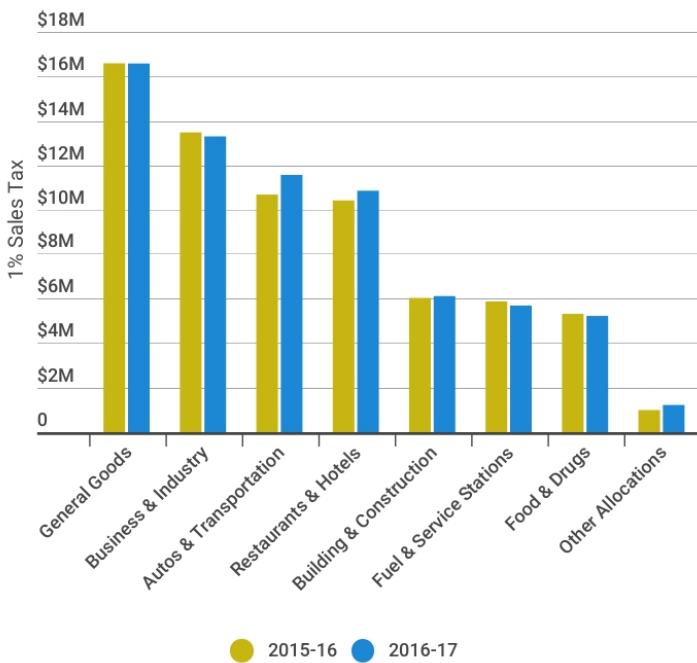
The Local Transportation Fund (LTF) is a source of funding created by the 1972 Transportation Development Act (TDA). The TDA established that the revenue source for the LTF would be derived from the 0.25% statewide sales tax. This tax made funding available to transportation providers such as cities, counties, and other entities that provide transit services for a community. Within Santa Barbara County, Santa Barbara County Association of Governments allocated the LTF funds towards transit, transportation planning, pedestrian & bicycle facilities, and for street & road purposes. LTF sales tax revenue increased by 3.1% in FY 16-17.

Entities	2014 - 2015		2015 - 2016		2016 - 2017	
	Amount	% Change	Amount	% Change	Amount	% Change
Cities	\$ 7,596,120	3.6%	\$ 7,625,096	0.4%	\$ 7,807,661	2.4%
County	845,979	21.1%	823,815	-2.6%	789,249	-4.2%
Easy Lift	385,352	5.6%	385,441	0.0%	397,684	3.1%
SBCAG	329,368	5.8%	500,782	52.0%	503,995	0.6%
SBMTD	7,321,681	5.6%	7,323,381	0.0%	7,555,989	3.2%
SMOOTH	263,396	5.2%	263,096	-0.1%	389,457	48.0%
<b>Total</b>	<b>\$16,741,896</b>	<b>5.4%</b>	<b>\$16,921,611</b>	<b>1.1%</b>	<b>\$17,444,035</b>	<b>3.1%</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

#### Autos and Transportation

- Autos and Transportation grew by 8.3% and generated \$11.5 million in sales tax revenue.

#### Restaurants and Hotels

- Restaurants and Hotels generated \$10.8 million in sales tax revenue which was a 4.2% increase from the prior year.

#### Building and Construction

- Building and Construction increased by 1.4% and generated \$6.1 million in revenue.

#### Business and Industry

- Business and Industry generated \$13.3 million in sales tax revenue a decrease of 1.3%

#### Fuel and Service Stations

- Sales tax revenue from Fuel and Service Stations totaled \$5.6 million, a 3.2% decrease.

## TOP RETAILERS COUNTYWIDE

In FY 2016-17 the top 25 retailers generated \$14.2 million in local sales tax revenues—roughly 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 of Santa Barbara for the FY ended June 30, 2017.

### Top 25 Sales Tax Producers

Businesses (Alphabetical Order)	Locations
ALBERTSONS LLC	7
AMAZON.COM LLC	-
AUDI, BMW, PORSCHE SB AUTO GROUP	3
BEST BUY STORES 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
NORDSTORM 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 State Board of Equalization (BOE) allocates the Local 1.0% 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 and identify the jurisdiction in which the retailer is located. Retailers often register using an incorrect jurisdiction which results in misallocated 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 misallocated 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 misallocated revenue is identified, the Auditor submits a claim to the BOE and requests that the appropriate corrections be made to transfer the misallocated revenue to the County, as permitted under statute.

### Revenue Shifted to Date

The table below illustrates the number of claims submitted to and approved by the BOE over the past fifteen years. Included in the table is the claim estimate (misallocated 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 – 2013	1196	1099	\$1,646,389	\$1,232,662	\$7,156,310
2014-15	87	64	65,440	42,264	120,040
2015-16	63	56	141,370	41,254	198,380
2016-17	61	44	44,614	30,247	58,535
<b>Total</b>	<b>1,407</b>	<b>1,263</b>	<b>\$1,897,813</b>	<b>\$1,346,427</b>	<b>\$7,533,265</b>

## State Controller Restructures the Board of Equalization

In 2015, the State Controller audited the Board of Equalization and identified a number of problems including a material lack of internal controls and misallocation of several different taxes. As a result, the Taxpayer Transparency and Fairness Act was introduced in July of 2017 which restructured the BOE into three separate entities: The State Board of Equalization, California Department of Tax and Fee Administration (CDTFA) and the Office of Tax Appeals.

The newly created **California Department of Tax and Fee Administration** will be housed within the Government Operations Agency and will handle most of the taxes and fees previously collected by the BOE, including sales and use tax. The **State Board of Equalization** will be an independent agency and continue to administer property, alcoholic beverage and insurance tax. The **Office of Tax Appeals** is formed as an independent entity, serving as a fair and impartial adjudicatory appellate body, but does not begin full operation and hearing appeals until January 1, 2018. This restructure serves to guarantee impartiality, equity and efficiency in tax appeals while protecting civil service employees and ensuring fair tax collection statewide.