

## STAFF REPORT

**SUBJECT:** Measure D Local Allocations

**MEETING DATE:** October 21, 2004

**AGENDA ITEM:** 10

**RECOMMENDATION:**

Review options for annual apportionment of Measure D Local Allocations and provide direction to staff.

**SUMMARY**

At the June SBCAG meeting there was discussion regarding the use of Department of Finance (DOF) population estimates to apportion and allocate the local portion of Measure D sales tax revenues. Your board approved the Measure D allocations for FY 04-05 that were developed using the same method that has been used since Measure D was enacted, but also directed staff to examine and report back on options for possible future changes to the process.

TTAC reviewed 3 options for local allocation methodology in July (including the status quo). In October, TTAC again reviewed the 3 options as well as a new Option 4 developed City of Goleta and Santa Maria staff. Representatives from Santa Maria and Goleta expressed their concerns that the current allocation formula was insensitive to the needs of faster growing cities. SBCAG staff indicated that any changes in the process should be equitable and reasonable to administer. Members expressed their sensitivity to the needs of fast growing communities and observed that in prior years other fast growing communities in the county could have been similarly impacted but would not benefit from a current change in the local allocation process. All members expressed their continued support for Measure D.

Following extensive discussion at the October meeting, TTAC approved a motion stating that TTAC did consider various Measure D apportionment options, but given the short time until Measure D expires, the current system should be retained. The approved motion also included a recommendation that the next reauthorization of Measure D should reflect adjustments to the allocations in June of each year that reflect the most current population estimates. The motion passed on a 9-2 vote with the cities of Santa Maria and Goleta opposed.

**DISCUSSION:**

At the June SBCAG board meeting there was discussion regarding the use of Department of Finance (DOF) population estimates to apportion and allocate the local portion of Measure D

Member Agencies

Buellton ■ Carpinteria ■ Goleta ■ Guadalupe ■ Lompoc ■ Santa Barbara ■ Santa Maria ■ Solvang ■ Santa Barbara County

sales tax revenues. Your board approved the Measure D allocations for FY 04-05 using the same methodology that has been used since Measure D funds were first disbursed to local agencies in FY 1990-91. However, the board also directed staff to examine and report back on options for possible future changes to the process. Staff has developed three options and reviewed these options with TTAC. In addition, the Cities of Santa Maria and Goleta have prepared an additional option to address their concerns that the existing Measure D local allocation process does not address the needs of rapidly growing communities. TTAC met to review their proposal and address the policy issues associated with changes to the Measure D allocation formula.

Under Measure D, 70% of the net revenues are allocated annually by SBCAG to the cities and the County. Each agency receives a base allocation of \$50,000 and the balance of the 70% is apportioned according to each agency's share of the total county population.

At issue is the fact that the State Department of Finance (DOF) puts out revised population estimates each year between the time that apportionments are made and the allocations are approved and some agencies would like to see the revised estimates used for allocation purposes. In order to understand the problem, the first step is to review and explain the current schedule.

SBCAG staff begins the Measure D allocation process in January with the development of a revenue estimate for the coming fiscal year. Apportionment calculations, based on the most recent DOF population estimates from May of the prior year, reflect the amounts expected to be available to all eligible recipients and this information is presented to TTAC and SBCAG in February for approval. By the end of February, an updated Measure D rules manual with a time schedule and apportionment table is sent to each agency. The Measure D rules manual states that the apportionments must reflect the most current population estimates at the time apportionments are made. This requirement is in the Measure D Ordinance that was approved by your board.

Agencies have until mid-April to prepare the required program of projects, have it approved following a local public hearing and submit it to SBCAG. Before the end of May, SBCAG staff must review and compile the individual programs into an overall Program of Projects for approval by TTAC and the SBCAG board in June. The June approval is necessary to provide disbursement instructions to the Auditor-Controller before the first revenues arrive in July. Waiting until May for revised DOF estimates would change the current schedule and prevent the disbursement of revenues in the early months of each new fiscal year.

Before looking at possible alternatives, it is also necessary to understand how the DOF provides, and regularly revises, population estimates. City/County population estimates are generally released each May and are labeled as the "January 1" estimate for that year. Each new estimate is compared with the prior year "January 1" (May) estimate to show the percent change from year to year. It is important to note, however, that as the DOF releases each new estimate for the current year, the estimate for the previous year is routinely revised at the same time. In other words, all of the January 1, 2004 estimates (released this May) will be adjusted in May of 2005. Table 1 provides a summary over the last two years that illustrates the preliminary estimates and subsequent adjustments to population made by DOF.

Possible approaches to be considered for allocation of Measure D local funds in future years would include variations of the following options which are summarized in Table 2.

### Option 1—Status Quo

This would represent no change from the process and schedule used in past years. It would reflect consistency in terms of the way things have always been done and all claimants would know what to expect. In addition, it would ensure that SBCAG is using the same population estimates for all annual apportionment processes including TDA Local Transportation Funds.

Status quo would not, however, address the concerns of some claimants about revenue losses due to the use of “older” population estimates.

### Option 2—Current Year Adjustment

This option might involve holding back a portion of each year’s total estimate when apportionments are distributed and allocations are approved. All claimants would initially receive a reduced allocation (e.g., 98% of the estimated amount would be apportioned and allocated at the beginning of the year). Monthly disbursements would begin at the start of the fiscal year but adjustments would be made during the year using the unallocated balance to reflect revised population estimates.

This approach would respond to the desire of some claimants to have adjustments made as soon as possible after new estimates are released. Any adjustments, however, would be made based on DOF estimates that will be revised again the next year.

Each agency’s local program of projects would need to be amended and adopted by the policy board to ensure that it is consistent the revised apportionment amount.

### Option 3—Adjustment Based on Recalculation of Prior Year

This option would consist of “early” calculation of apportionments using latest available population figures (the same method and timing used in past years). When final revised figures are released, the prior year would be recalculated and the changes resulting from the use of the revised population figures would be applied as adjustments (added to or subtracted from) the apportionments for the next year. Table 3 illustrates how the revised population figures affect prior year percentages and dollar amounts and how the differences are carried forward as adjustments.

This would be a consistent method for correcting overpayments or underpayments and midyear changes to disbursement percentages would be avoided. There would be a time lag to adjustments, but the corrections would be based on revised population estimates that are not subject to further change. If accepted, this method would be applied next calendar year, 2005.

### Option 4—Proposal by cities of Goleta and Santa Maria: Using the differences in prior year estimated and actual population counts by DOF to adjust the next years apportionment of revenues.

A revision to the Measure D allocation process is proposed to correct for the time lag in the population estimates used by SBCAG in determining each jurisdiction’s Measure D allocation. This Option 4 is a modified version of the SBCAG Staff Measure D process using Staff Option 3 modified with the adjustment to occur in the year for which there is the Revised population.

The population figures are issued by Department of Finance (DOF) in May each year and consist of an estimate for the current year and a revised (final) population for the prior year. In this option, the current year estimate is used the following February as the basis of the subsequent fiscal year allocations and disbursements. This option would use the revised population to identify the appropriate adjustment to the allocation for the same year in which the estimated population was used to prepare the allocation. Thus the revised population is adjusting the allocation in the year that the revised population applies. That is, the revised 2003 population revises the 2003 appropriation, which itself was based on the estimated 2002 population. The changes resulting from the use of the revised population figures would be applied as adjustments (added to or subtracted from) to the apportionment's for the next year. Table 4 illustrates how the revised population figures affect the 2<sup>nd</sup> prior year percentages and dollar amounts and how the differences are carried forward as adjustments. Table 5 provides a quantitative estimate of the impacts of this option.

#### **COMMITTEE REVIEW:**

Staff presented the background information and options to TTAC in July and October. In October representatives from Goleta and Santa Maria prepared and presented a Option 4. All the options were distributed to representatives in advance of the October meeting and the options were subject to extensive discussion at the meeting. Representatives from Santa Maria and Goleta expressed their concerns that the current allocation formula was insensitive to the needs of faster growing cities. SBCAG staff indicated that staff support for changes were dependent on ensuring an equitable solution that had a formula that was reasonable to administer. TTAC members expressed their sensitivity to the needs of fast growing communities and observed that in prior years, since the inception of Measure D in 1989, other communities could have been similarly impacted but would not benefit from a current change in formula. All members expressed their continued support for Measure D. A broad ranging discussion revolved around issues of short and long term consideration of a fair and equitable solution. After considerable discussion, TTAC approved a motion that TTAC did consider various Measure D apportionment options but given the short time until the current Measure D expires, the current system should be retained; however, the next reauthorization of Measure D should reflect adjustments to the allocations in June of each year that reflect the most current population estimates. Of the 13 voting members on TTAC, 11 were present at the meeting of which 9 voted in favor, and two opposed the motion. The Cities of Santa Maria and Goleta were opposed to the motion expressing the aforementioned concern about the impacts of the current formula on fast growing cities.

**STAFF CONTACT:** Michael Powers, Bob Perkins

**TABLE 1**

**RELEASED IN MAY 2003 BY DOF:**

**City/County Population Estimates with Annual Percent Change  
January 1, 2002 and 2003**

County City	Total Population		Percent Change
	1/1/2002 <i>revised</i>	1/1/2003 <i>estimated</i>	
<b>SANTA BARBARA</b>	406,200	410,300	1.0
BUELLTON	3,970	4,210	6.0
CARPINTERIA	14,350	14,400	0.3
GOLETA *	28,400	28,788	0.1
GUADALUPE	6,075	6,275	3.3
LOMPOC	41,500	41,850	0.8
SANTA BARBARA	90,300	90,500	0.2
SANTA MARIA	80,200	82,100	2.4
SOLVANG	5,425	5,450	0.5
BALANCE OF COUNTY **	136,000	136,712	0.5

**RELEASED IN MAY 2004 BY DOF:**

**City/County Population Estimates with Annual Percent Change  
January 1, 2003 and 2004**

	Total Population		Percent Change
	1/1/2003 <i>revised</i>	1/1/2004 <i>estimated</i>	
	410,300	414,800	1.1
	4,200	4,460	6.2
	14,350	14,350	0.0
	30,800	30,850	0.2
	6,250	6,300	0.8
	41,750	42,250	1.2
	90,200	90,500	0.3
	81,900	85,300	4.2
	5,425	5,425	0.0
	135,300	135,300	0.0

\* no DOF figures available - estimates from local studies

\*\* adjusted for Goleta

**TABLE 2**

ALLOCATION OPTION	YEAR 1			YEAR 2
<b>Option 1 EXISTING</b>	<b>Jan. - Feb.</b> <ul style="list-style-type: none"> <li>▪ SBCAG revenue estimate</li> <li>▪ Apportionments to local agencies</li> <li>▪ Based on DOF population estimate from May of prior year</li> </ul>	<b>April - June</b> <ul style="list-style-type: none"> <li>▪ Local Program of Projects submitted</li> <li>▪ Approval by SBCAG</li> </ul>	<b>July -</b> <ul style="list-style-type: none"> <li>▪ Disbursement of allocated revenues begins</li> </ul>	<ul style="list-style-type: none"> <li>▪ Same</li> </ul>
<b>Option 2 CURRENT YEAR ADJUSTMENT</b>	<ul style="list-style-type: none"> <li>▪ SBCAG revenue estimate</li> <li>▪ 98% of estimated revenue apportioned</li> <li>▪ Based on DOF population estimate from May of prior year</li> </ul>	<ul style="list-style-type: none"> <li>▪ Local Program of Projects submitted</li> <li>▪ Approval by SBCAG</li> </ul>	<ul style="list-style-type: none"> <li>▪ Disbursement of allocated revenues begins</li> <li>▪ Delayed adjustments based on May DOF estimates using the remaining 2%</li> <li>▪ Local Program of Projects revised as needed.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Same</li> </ul>
<b>Option 3 ADJUSTMENT BASED ON RECALCULATION OF PRIOR YEAR</b>	<ul style="list-style-type: none"> <li>▪ Same as existing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Same as existing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Same as existing</li> </ul>	<ul style="list-style-type: none"> <li>▪ SBCAG revenue estimate in January</li> <li>▪ Apportionments to local agencies</li> <li>▪ Based on DOF population estimate from May of prior year <u>and</u> adjustment from recalculation of previous year apportionments</li> </ul>

TABLE 3

Option 3 Measure D  
Local Program Allocations

Jurisdiction	January 1, 2003 Estimate (May 2003) (for 04-05 calculation)			January 1, 2004 Estimate (May 2004) (for 05-06 calculation)			Change	Adj. based on revised Jan. 2003 population
	Population	% of Total Population	Allocations	Population	% of Total Population	Allocations		
Buellton	4,210	1.026116%	\$244,086	4,460	1.075385%	\$259,982	\$15,896	
	4,200	1.023953%	\$243,677			\$259,572	\$15,486	(\$409)
Carpinteria	14,400	3.509755%	\$713,856	14,350	3.460041%	\$725,613	\$11,757	
	14,350	3.498507%	\$711,729			\$723,486	\$9,630	(\$2,127)
Goleta	28,788	7.016586%	\$1,377,160	30,850	7.438485%	\$1,502,451	\$125,291	
	30,800	7.508990%	\$1,470,296			\$1,595,587	\$218,427	\$93,136
Guadalupe	6,275	1.529425%	\$339,285	6,300	1.519042%	\$346,610	\$7,325	
	6,250	1.523740%	\$338,209			\$345,534	\$6,249	(\$1,076)
Lompoc	41,850	10.200227%	\$1,979,333	42,250	10.187228%	\$2,039,176	\$59,843	
	41,750	10.178582%	\$1,975,239			\$2,035,081	\$55,748	(\$4,094)
Santa Barbara City	90,500	22.057838%	\$4,222,153	90,500	21.821163%	\$4,310,838	\$88,685	
	90,200	21.990614%	\$4,209,438			\$4,298,123	\$75,970	(\$12,715)
Santa Barbara County	136,712	33.321227%	\$6,352,579	135,300	32.623242%	\$6,420,070	\$67,491	
	135,300	32.985921%	\$6,289,157			\$6,356,648	\$4,069	(\$63,422)
Santa Maria	82,100	20.010481%	\$3,834,904	85,300	20.567350%	\$4,066,016	\$231,112	
	81,900	19.967087%	\$3,826,696			\$4,057,808	\$222,904	(\$8,208)
Solvang	5,450	1.328345%	\$301,251	5,425	1.308064%	\$305,415	\$4,164	
	5,425	1.322606%	\$300,166			\$304,330	\$3,079	(\$1,085)
<b>Total</b>	<b>410,285</b>	<b>100.000000%</b>	<b>\$19,364,607</b>	<b>414,735</b>	<b>100.000000%</b>	<b>\$19,976,171</b>		

shaded cells reflect recalculations and adjustments based on revised Jan. 03 population figures

Table 4

**Option 4  
Adjustments Proposed by  
Cities of Santa Maria and Goleta**

	MAY 2002	FEB 2003	MAY 2003	FEB 2004	MAY 2004	FEB 2005	July 2005
		FY03/04 ALLOCATION		FY04/05 ALLOCATION		FY05/06 ALLOCATION	
DOF POPULATION							
ESTIMATED	JAN 02	JAN 02	JAN 03	JAN 03	JAN 04	JAN 04	
REVISED	JAN 01		JAN 02		JAN 03		
						PLUS	
<b>ADJUSTMENT USING DOF</b>						<b>ADJUSTMENT OF FY03/04</b>	
<b>REVISED</b>		JAN 03					

**Table 5**

**Option 4  
Goleta and Santa Maria City  
Proposal**

**Measure D**

**Local Program Allocation Adjustments to Account for January 2003 Revised DOF Population**

9/22/2004

Jurisdiction	Adjustment to the FY03/04 Allocation based on the DOF Revised January 2003 Population					January 1, 2004 Estimate (May 2004) (For 05-06 Calculation)			
	Population	% of Total Population	Population	FY03/04 Allocation	FY03/04 Adjustment	Population	% of Total Population	Allocations Before Adjustment	Allocation after Adjustment
Buellton	3,980	0.98%				4,460	1.08%	\$259,982	\$268,885
	4,200	1.02%	0.05%	\$230,811	\$8,904				
Carpinteria	14,450	3.54%				14,350	3.46%	\$725,613	\$717,343
	14,350	3.50%	-0.04%	\$706,462	(\$8,270)				
Goleta	28,400	6.96%				30,850	7.44%	\$1,502,451	\$1,603,483
	30,800	7.51%	0.55%	\$1,340,208	\$101,032				
Guadalupe	6,100	1.50%				6,300	1.52%	\$346,610	\$351,801
	6,250	1.52%	0.03%	\$327,122	\$5,191				
Lompoc	41,650	10.21%				42,250	10.19%	\$2,039,176	\$2,032,875
	41,750	10.18%	-0.03%	\$1,942,154	(\$6,301)				
Santa Barbara City	90,700	22.24%				90,500	21.82%	\$4,310,838	\$4,264,695
	90,200	21.99%	-0.25%	\$4,170,490	(\$46,142)				
Santa Barbara County	136,600	33.49%				135,300	32.62%	\$6,420,070	\$6,325,871
	135,300	32.99%	-0.51%	\$6,255,721	(\$94,200)				
Santa Maria	80,500	19.74%				85,300	20.57%	\$4,066,016	\$4,108,346
	81,900	19.97%	0.23%	\$3,707,105	\$42,330				
Solvang	5,450	1.34%				5,425	1.31%	\$305,415	\$302,870
	5,425	1.32%	-0.01%	\$297,593	(\$2,545)				
<b>Total</b>	<b>407,830</b>	<b>100.00%</b>	<b>0.00%</b>	<b>\$18,977,666</b>	<b>\$0</b>	<b>414,735</b>	<b>100.00%</b>	<b>\$19,976,171</b>	<b>\$19,976,170</b>
	410,175			(\$450,000)					
				\$18,527,666					
	410,175	1	0						

**Shaded cells reflect recalculations and adjustments based on revised Jan. 03 population figures**  
**Red cells reflect recalculations and adjustments based on estimated Jan. 02 population figures**

**Proposal**