



San Juan County Budget

2011 SECOND QUARTER REPORT

VOLUME 2, ISSUE 2

SPECIAL POINTS OF INTEREST:

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Mid-Year Corrections Were Wise

An analysis of general fund revenue in the first half of the 2011 budget year confirms that the decision to start a mid-year budget reduction process was wise. We see indications that the size of the shortfalls in revenue may be decreasing as we move into the third quarter, but income remains below the level we expected when the 2011 budget was adopted.

Mid-year revenue is nearly \$620,000 below 2010's, and each category of revenue (taxes, licenses and permits, etc) is short of the previous year's. Those results and trends are detailed in the pages that follow. Aggravating the revenue decreases, we find that General Fund expenditures are higher than last year's, though departments are managing to live within the allocations they are given.

The term "institutional fatigue", discussed at the mid-year Council Retreat, is an apt description of the current budget situation. The General Fund includes, by far, the majority of

operating departments and about 60% of the County's staff. The managers and employees in these departments are now enduring their fifth budgeting process in 2-1/2 years. It is a seemingly never-ending process that continues to reduce the size, services and security of this county organization, and it is a process that has worn on leadership, management and employees, none of whom like to see things going backwards.

San Juan County's budget situation mirrors what is happening to state and local governments nationwide. The September state budget forecast update has already generated speculation about another major revenue shortfall. If the state pulls back further, it will ripple through health and community services funding and will challenge our ability to provide basic services.

On the positive side, non-General Fund revenues and expenditures remain in pretty good shape. As shown in the chart below, those funds are generally performing within expectations.

2010 & 2011 2nd Quarter Revenues and Expenditures by Fund

Fund	2010 Budget	2010 Q2 Actual	PCT	2011 Budget	2011 Q2 Actual	PCT	% Change
General Fund							
Revenue	13,617,586	7,334,349	53.9%	13,768,918	6,715,076	48.8%	-5.1%
Expense	13,623,063	6,223,765	45.7%	13,736,343	6,611,948	48.1%	2.4%
General Fund Grants							
Revenue	\$ 2,411,101	\$ 1,340,670	55.60%	\$ 2,653,075	\$ 1,413,713	53.29%	-2.32%
Expense	\$ 2,420,101	\$ 1,273,758	52.63%	\$ 2,676,124	\$ 1,346,695	50.32%	-2.31%
Budget Stabilization Fund							
Revenue	-	-	0.0%	85,000	85,000	100.0%	100.0%
Expense	-	-	0.0%	85,000	-	0.0%	0.0%
Special Revenue Funds							
Revenue	16,857,461	7,356,691	43.6%	18,178,559	7,807,779	43.0%	-0.7%
Expense	21,181,113	7,766,638	36.7%	20,571,241	5,207,262	25.3%	-11.4%
Bond Fund							
Revenue	2,946,315	413,987	14.1%	2,959,574	373,089	12.6%	-1.4%
Expense	2,967,505	415,756	14.0%	3,090,870	376,174	12.2%	-1.8%
Enterprise Funds							
Revenue	5,519,939	1,360,273	24.6%	4,097,665	1,914,842	46.7%	22.1%
Expense	5,121,995	1,192,825	23.3%	4,520,508	1,571,304	34.8%	11.5%
Internal Service							
Revenue	2,101,047	1,040,516	49.5%	2,726,409	1,297,036	47.6%	-2.0%
Expense	4,315,321	879,640	20.4%	5,138,456	1,419,251	27.6%	7.2%
Totals							
Revenue	\$ 43,453,449	\$ 18,846,486	43.37%	\$ 44,469,200	\$ 19,606,535	44.09%	0.72%
Expense	\$ 49,629,098	\$ 17,752,381	35.77%	\$ 49,818,542	\$ 16,532,634	33.19%	-2.58%

General Fund Revenue

Total **General Fund revenues** have dropped \$620,000 below 2nd quarter revenue in 2010, a decrease of about 5%. It leaves a larger gap between actual and budgeted revenue than in any of the previous four years.

Although each revenue category shown in the chart below was lower at mid-year than in 2nd Quarter 2010, we need to focus on taxes, licenses & permits, and charges for goods & services to get a clear picture of the trouble areas.

Fund Title	2010 Budget	2010 Q2 Actual	2010 PCT	2011 Budget	2011 Q2 Actual	2011 PCT
Taxes	9,827,437	5,146,252	52.4%	9,913,387	5,053,433	51.0%
Licenses and Permits	1,115,263	641,921	57.6%	1,144,259	442,045	38.6%
Intergovernmental Revenue	1,151,015	825,644	71.7%	1,323,384	671,974	50.8%
Charges for Goods and Services	898,732	395,477	44.0%	878,388	344,583	39.2%
Fines and Forfeits	155,482	51,589	33.2%	148,062	44,293	29.9%
Miscellaneous Revenues	146,288	66,676	45.6%	118,923	53,360	44.9%
Nonrevenues	0	0	.0%	0	0	.0%
Other Financing Sources	323,369	206,790	63.9%	242,515	105,388	43.5%
Totals	13,617,586	7,334,349	53.9%	13,768,918	6,715,076	49%

Taxes: Property taxes are 42% of general fund revenue. First half property tax payments have been collected and have been distributed to all taxing jurisdictions by this point in the year. The Q-2 receipts stand at 51% for the year, a credible comparison to the 2010 receipts of 52.4%. Hidden in this favorable result are two things: the good efforts by the Treasurer to bring in prior-years' taxes to keep our citizens out of tax foreclosure and by the Assessor to follow through on current use program anomalies that surfaced in earlier hearings and in check-ups in the appraisal area. This resulted in the general property tax receipts and penalties/interest sub-categories receiving a higher percentage than the prior four years. This has partially masked the continued poor performance of sales tax in the overall taxes category.

Taxes	2010 Q2	2011 Q2
General Property Tax	\$ 3,349,021	\$ 3,364,084
Sales & Use Tax	\$ 1,547,450	\$ 1,386,633
Excise Taxes	\$ 13,975	\$ 24,555
Penalty / Delinquent	\$ 235,806	\$ 277,991
	\$ 5,146,252	\$ 5,053,263

Sales Taxes: As budgeted, sales taxes provide 26.4% of general fund revenue, which highlights its importance as a revenue source. The five year data shows that Q-2 has ranged between 38.1% and 44.1%, with the current receipts being at a five year low of 38.1%. At mid-year, the difference between 2010 and 2011 receipts is \$160,817. By mid-year, the rate of decline had flattened and only grown by about \$20K since April.

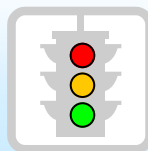


Sales Tax	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Budget
Q2	\$ 1,585,496	\$ 1,693,293	\$ 1,544,457	\$ 1,547,450	\$ 1,386,633
Total for Year	\$ 3,821,566	\$ 4,022,839	\$ 3,504,599	\$ 3,607,625	\$ 3,638,037
Q2 Percent	41.5%	42.1%	44.1%	42.9%	38.1%

A sneak peek ahead one month shows the drop-

off has at least temporarily reversed, with one of the strongest July's in years. Using the projection model, reduced sales tax receipts are now being projected in a range between 90% (\$3,275,000) and 96% (\$3,492,500) of a projected budget of \$3,638,037. The volatility, makes it clear that the 2010 year-end receipts did not represent the "reset" point, from which sales tax would again begin to grow. We will look at the August receipts and then forecast a new reset point for 2012.

LEGEND:



- RED**—Annual performance in this area is a **cause for concern**
- YELLOW**—Annual performance indicates this **may become an area of concern** in the future
- GREEN**—Annual performance **within expectations** set in budget

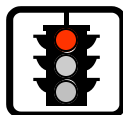
General Fund Revenue

(continued)

Licenses & Permits:

Six departments budget for license or permit revenue. Community Development & Planning (CD&P) plus Health

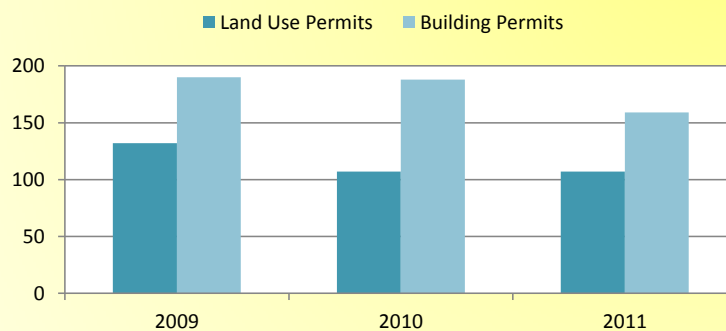
& Community Services (H&CS) produce 99% of that revenue. CD&P revenues continued to fall behind budget in the second quarter, presumably because its services are sensitive to the economy.



Building permit income had produced only 30.6% of its annual budget at the end of the second quarter. A year earlier, permit income had hit the 55% in the first six months. Looking ahead, July income was slightly higher than average, but we expect that building permits will generate only about two-thirds of the budgeted revenue.

H&CS permit revenue reached 63% at the end of the second quarter. It should be noted that some H&CS revenues are seasonal and the normal trend is for collections to slow down in quarters 3 and 4.

Land Use and Building Permits Q2 - 2009-2011



Building and Land Use Permit Revenue

Fund Title	2010 Budget	2010 Q2 Actual	2010 PCT	2011 Budget	2011 Q2 Actual	2011 PCT
Building Permits	852,081	466,700	54.8%	860,602	263,686	30.6%
Land Use Permits	309,168	108,370	35.1%	312,259	110,685	35.4%
Totals	1,161,249	575,070	49.5%	1,172,861	374,371	31.9%

Charges for Goods & Services: Fourteen County departments charge the public, user agencies or other departments for goods and services ranging from recording fees to court filings to maps. At the midpoint of the year this category had produced 39.2% of its budgeted revenue, compared to 44% in 2010. The combined Goods and Services budget was near \$95,000 below expectations at the end of Q-2. Nearly half of the gap is land use permitting income. District Court receipts, which is a function of caseload, is also significantly lower than expected. The H&CS revenue shortfall is found in the immunizations line item –income dependent on the community’s need, and demand for immunizations (and offset by lower expenditures).



Intergovernmental Revenue: The caution light has been removed from this revenue source, which has jumped from 18% at the end of the first quarter to 50.8% at mid-year. At \$1.3 million, Intergovernmental revenue funds nearly 10% of the general fund budget. It also produces

more than 99% of the General Fund grants budget – \$2.6 million. The low revenue figures recorded in the first quarter appear to be due entirely to slow billing and other billing difficulties, which have been cleared up.

Fine & Forfeits produce approximately 1% of the budget. At mid-year it had produced a disappointing \$44,293 of its budgeted \$148,062. It is important to keep in mind that fines and forfeits are a by-product of the court process, not its purpose.

Miscellaneous Revenue: In 2006 this source produced 6% of the County’s general fund revenue. In 2011 it will produce only about 1%. The dramatic decline in interest rates for government investments, and the reductions in multi-fund cash reserves over the past five years, make year to year comparisons only marginally relevant. For the record, this source finished Q-2 at 44.9% of budget, about \$13,000 less in actual revenue than in the first half of 2010.

General Fund Grant Revenues

General Fund Grants Revenues: This fund supports services in five general fund departments (Health, Juvenile, CD&P, Prosecutor and Sheriff) with consistent and repetitive grants and one special revenue fund (Emergency Management). 53.2% of the total \$2,653,075 budget has been received, close to mid-year 2010 receipts.



Quarterly General Grant Fund Revenue

Fund Title	2010 Budget	2010 Q2 Actual	2010 PCT	2011 Budget	2011 Q2 Actual	2011 PCT
Intergovernmental Revenue	2,360,901	1,313,739	55.6%	2,633,287	1,379,260	52.4%
Charges for Goods and Services	6,000	8,685	144.8%	6,000	3,360	56.0%
Fines and Forfeits	500	365	73.0%	500	141	28.1%
Miscellaneous Revenues	7,500	75	1.0%	0	7,658	.0%
Other Financing Sources	36,200	17,806	49.2%	13,288	23,294	175.3%
Totals	2,411,101	1,340,670	55.6%	2,653,075	1,413,713	53.3%

General Fund Expenditures: Q-2 results show the collective will of the department managers to spend within resources. Second quarter expenditures reached the mid-point at 48.1% (\$6,611,948 of the \$13,763,343 budgeted). Over the past five years this percentage has varied from a high of 49% in 2009, to a low of 46.5% in 2010.



The ability to spend within resources will be challenged in the second half of 2011, as general fund revenue shortfalls must be matched by reductions in budgeted expenditures – the reason the yellow light is displayed. Q-3 will show the results of budget adjustments.

The chart on the following page provides the reader with a 2010/2011 year over year and second quarter over second quarter comparison. With 50% of the operating year completed, the reader can focus on the percentage column of the 24 operating departments (some are under the management of a larger department). The same 8 departments that were above the quarter-point at the end of Q-1 are now over the mid-point. The three departments with significant distance from the mid-point have cyclical explanations (e.g. BOE has finished its hearing year). No departments were given an individual yellow light. It should be noted that the driver of the overage in Dispatch was the overtime line item. That will be addressed in the budget amendment.

General Fund Expenditures

General Fund Grant Expenditures

General Fund Grant Expenditures finished the second quarter in good shape. The expended percentage of budget – 50.3% of the \$2,676,124 budget – is slightly lower than last year’s, and revenues received to date are slightly above expenditures, indicating that those departments are keeping up-to-date on billing.

(Please see complete General Fund & General Fund Grant expenditures spreadsheet on the following page.)

Quarterly General Fund & Grant Expenditures

	2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT
0001.00 General	0	131	.0%	0	121,464	.0%
0001.13 County Administration	621,684	262,105	42.2%	633,161	301,495	47.6%
0001.16 Assessor	718,280	320,268	44.6%	720,699	346,958	48.1%
0001.19 Auditor	720,857	350,614	48.6%	722,828	338,245	46.8%
0001.22 Board of Equalization	17,103	9,233	54.0%	17,803	11,144	62.6%
0001.25 Facilities	542,201	219,517	40.5%	528,722	219,036	41.4%
0001.28 Civil Service	15,653	5,020	32.1%	15,995	7,242	45.3%
0001.31 Clerk	339,194	162,883	48.0%	332,474	168,296	50.6%
0001.34 County Council	472,044	226,725	48.0%	471,468	237,800	50.4%
0001.37 Dispatch	692,622	357,250	51.6%	703,647	346,275	49.2%
0001.40 Community Dev & Planning	1,307,441	589,462	45.1%	1,409,347	632,028	44.8%
0001.43 County Agent	198,014	82,374	41.6%	187,233	86,367	46.1%
0001.46 District Court/Probation	684,454	335,551	49.0%	650,979	335,748	51.6%
0001.49 Election Reserve	210,593	122,454	58.1%	196,592	86,443	44.0%
0001.52 General Administration	815,927	271,656	33.3%	966,554	465,209	48.1%
0001.55 Health & Community Services	1,201,296	487,147	40.6%	1,181,116	527,374	44.7%
0001.58 Jail	418,631	162,667	38.9%	369,593	130,741	35.4%
0001.61 Juvenile Court	369,050	173,183	46.9%	351,681	170,508	48.5%
0001.64 Law Library	27,092	15,411	56.9%	22,732	14,804	65.1%
0001.67 Operating Transfers	340,384	151,346	44.5%	394,372	207,467	52.6%
0001.73 Prosecuting Attorney/Coroner	908,902	445,243	49.0%	927,301	458,404	49.4%
0001.76 Sheriff	2,446,950	1,228,500	50.2%	2,417,844	1,128,962	46.7%
0001.82 Superior Court	196,930	69,976	35.5%	172,754	92,482	53.5%
0001.85 Treasurer	357,761	175,050	48.9%	341,448	177,457	52.0%
General Fund Expenses	13,623,063	6,223,765	45.7%	13,736,343	6,611,948	48.1%
	2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT
0002.00 Current Expense Grants Clearing	0	83,255	.0%	0	0	.0%
0002.37 Dispatch Grants	0	0	.0%	0	0	.0%
0002.55 Health & Comm Services Grants	1,572,714	805,597	51.2%	1,478,295	713,068	48.2%
0002.61 Juvenile Court Grants	141,623	42,378	29.9%	132,624	69,558	52.4%
0002.70 Planning Grants	347,100	167,878	48.4%	566,839	334,282	59.0%
0002.71 Emergency Management Grants	0	0	.0%	150,800	92,208	61.1%
0002.73 Prosecutor Grants	222,800	105,265	47.2%	207,066	106,457	51.4%
0002.76 Sheriff Grants	135,864	69,386	51.1%	140,500	31,122	22.2%
General Grant Fund Expenses	2,420,101	1,273,758	52.6%	2,676,124	1,346,695	50.3%
Total General Fund Expenses	16,043,164	7,497,522	46.7%	16,412,467	7,958,643	48.5%

Special Revenue Funds

Special Revenue Funds are an eclectic mix of funds, created or authorized by state law, that provide revenue to accomplish specific governmental purpose. The intent of the legislature is almost universally to ensure that the revenue is spent for the work or service funded by the law.

Of the 21 funds, four controlled by Parks/Fair, Land Bank and Roads make up 73% of the expenditures in 2011. All other funds, except Noxious Weed Control and Emergency Management, have custodians in General Fund operating departments (and Emergency Management is closely associated with the Sheriff).

Special Revenue funds can carry both operating and capital expenditures. Funds accumulated in one year may be held over and spent in another. It is not uncommon to see cumulative special revenue funds have budgeted expenditures that exceed a single year's revenue. However, actual figures at mid-year show that special revenue funds have taken in \$2.6 million more in revenue than has been spent.

Special Revenue Funds (continued)

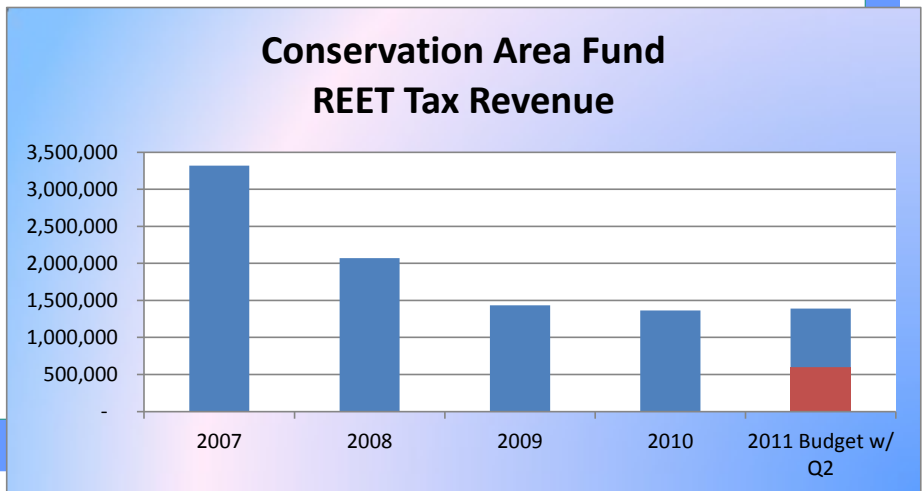
The chart below shows the 2010 year over the 2011 year plus the Q-2 2010 over Q-2 2011 expenditures. All funds are doing quite well in managing expenditures. The high percentage spent in Emergency Management represents the flow of transfers out of the fund.

Some funds, notably Land Bank, Emergency Management, County Roads and Capital Improvement, are dealing with significant revenue decreases. The Mental Health Tax Fund and Public Improvements Receiving have been affected by the sales tax slow-down, but they have either reserves or do not spend money until it is in the county's pocket.

Quarterly Special Revenue Funds Expenditures

FundTitle	2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT
1021 SJC Conservation Area Fund	4,992,210	1,800,135	36.1%	3,589,705	589,395	16.4%
1031 Land Bank Stewardship & Mngment	450,557	192,194	42.7%	468,647	195,766	41.8%
1041 SJC Noxious Weed Control	174,379	50,652	29.0%	206,717	49,995	24.2%
1051 Veterans' Assistance	92,062	26,017	28.3%	91,536	15,429	16.9%
1071 SJC Dept of Emergency Management	281,716	116,775	41.5%	105,762	74,764	70.7%
1091 San Juan County Parks & Fair	1,238,530	441,650	35.7%	2,262,897	488,622	21.6%
1101 Tax Sale Expense	4,530	24	.5%	6,635	125	1.9%
1111 Dog License	27,057	15,711	58.1%	24,459	11,295	46.2%
1121 County Roads	7,627,236	3,435,002	45.0%	7,980,541	2,509,630	31.4%
1191 Enhanced 911	816,500	93,602	11.5%	757,156	94,277	12.5%
1211 Multipurpose Facilities Fund	396,674	145,303	36.6%	460,739	135,402	29.4%
1221 Lodging Tax Fund	418,518	162,118	38.7%	483,800	158,739	32.8%
1251 Auditor Document Preservation	514,902	141,609	27.5%	225,563	35,376	15.7%
1261 Capital Improvement Fund	278,932	110,679	39.7%	613,087	52,147	8.5%
1271 Crime Victims 20%	43,564	0	.0%	29,899	0	.0%
1281 Mental Health Tax Fund	527,850	38,736	7.3%	1,137,640	272,842	24.0%
1921 Other Grants / Septic Loans	1,284,565	606,607	47.2%	491,353	161,814	32.9%
1951 Public Facilities Improv Receiving	1,362,101	142,331	10.4%	952,998	142,323	14.9%
1961 Affordable Housing Fund 60%	383,607	110,702	28.9%	417,037	114,531	27.5%
1971 Criminal Justice Receiving Fund	265,623	136,790	51.5%	265,070	104,790	39.5%
Totals	21,181,113	7,766,638	36.7%	20,571,241	5,207,262	25.3%

Land Bank Conservation Area Fund: The red light concern continues here as a result of comparatively low property sales. As noted in Q-1, the REET returns are about 38% of the five year high. The Land Bank Commission and management anticipated the revenue decrease and have taken a very cautious approach to the budget expenditures. Though much lower than in the past, Q-2, revenue is on track to meet its budget.



Special Revenue Funds (continued)



Land Bank Stewardship Fund: The red light continues as the Commission and management wrestle with the problem of having to spend down reserves in order to take care of its responsibilities.

The interest earnings chart has not changed and is not included, but as a reminder, five years ago, interest earnings paid 50% of the stewardship costs. This year, it is projected pay only 8%. Plummeting interest rates, more property made accessible to the public over the past five years, and more acquisitions have formed a triple convergence at the bank account.

The Land Bank has formed a creative alliance with the San Juan Preservation Trust, which has accepted financial responsibility for maintenance of the largest Land Bank property, Turtleback Mountain. Land Bank stewardship staff now cares for the property and bills the Trust for the work done within prescribed limits.

The Roads Fund has been surviving the previous red light problem of low beginning balance by carefully managing expenditures. The property tax collection and enforcement work of the Assessor and Treasurer has helped tax receipts in this fund.

The main continuing revenue sources for this fund – road property tax; Capron refund and other state shared operating revenues make up 82.5% of the Road Fund revenue anticipated in 2011.

The chart below shows the five-year track record of these revenues. Note the flat performance of state revenues which are based on fuel tax receipts. The mid-point 2011 performance percentages for these revenues are: property tax 59.8%, state shared 45.9%, state entitlement 48.1%.

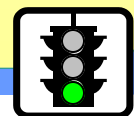
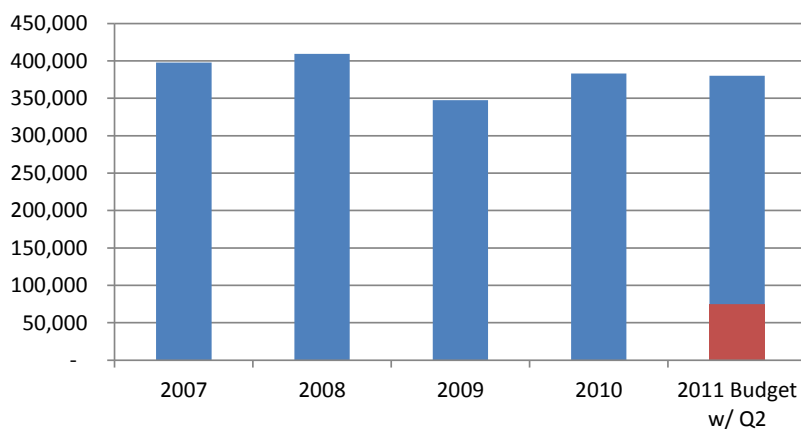
	2006	2007	2008	2009	2010	2011 Budget
Property Tax	\$2,665,504	\$2,823,078	\$2,823,412	\$2,881,199	\$3,014,461	\$3,089,000
Capron	\$3,065,425	\$2,890,266	\$2,661,491	\$2,426,156	\$2,297,274	\$2,500,000
State Ent.	\$896,088	\$907,946	\$877,982	\$859,564	\$883,165	\$884,000
Total	\$6,627,017	\$6,621,290	\$6,362,885	\$6,166,919	\$6,194,900	\$6,473,000

Lodging Tax/Multipurpose Facilities Fund had a fading green light at the end of the first quarter.

These two special revenue funds support the promotion contract and the facilities grants. Despite having February seeming to linger through May this year, lodging receipts have strengthened to the point that June's returns brought projects up to nearly 100% of budget. A sneak peek ahead at July

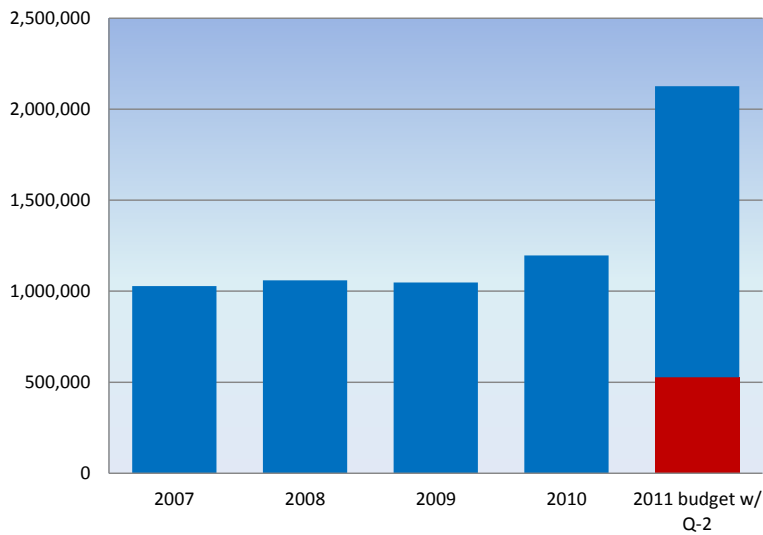
receipts shows the current projection at 103% of budget, which puts the shine back in the green light. When looking at the chart, note that the receipts are very uneven during the year. After six months, less than 25% has been received, however; the projection model incorporates many years of actual experience and it has been reliable enough over the years to tell us this revenue will be OK.

Lodging Tax Receipts



Special Revenue Funds (continued)

Parks and Fair



Parks & Fair has had at least a yellow light warning for the past two reports, mainly because Fair division funding has been weak enough to forecast deficits. The Council has twice supported Fair funding with additional lodging tax grants. Aging equipment and facilities, some of which are at risk of failure, have become serious problems in the last two years. One was as humorous as the door falling off a pick-up (if you were not the driver). The most recent is a failed water system, discovered during work on the Odlin capacity improvement project. The Public Facilities Financing process has helped to improve a few fair buildings, but aging structures are a risk. This indicates that a

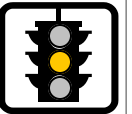
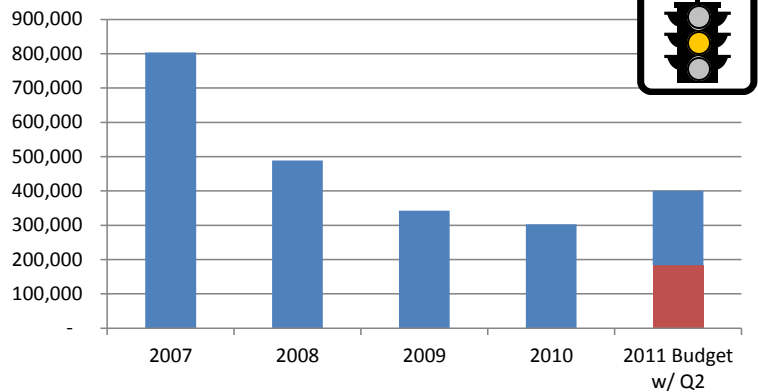


yellow warning needs to be kept – not for what we know, but for what we do not know.

The **Capital Improvement Fund's** revenue decline has mirrored the Land Bank REET over the past four years. While there was hope after Q-1 that REET 1 would run ahead of projections, the chart shows receipts well behind budget at mid-year.

The approval of REET 2 gives the Council the ability to assure that this fund does not need to finish the year with an interfund loan. However, urgent needs are running ahead of resources, and we must plan the best use of this money carefully.

REET - Capital Improvement Fund



Enterprise Funds

Quarterly Enterprise Funds Revenue

Fund Title	2010 Budget	2010 Q2 Actual	2010 PCT	2011 Budget	2011 Q2 Actual	2011 PCT
4011 Solid Waste Fund	2,655,667	911,990	34.3%	2,281,191	915,479	40.1%
4017 Solid Waste Projects Fund	2,038,620	137,390	6.7%	924,161	752,451	81.4%
4151 Stormwater Utility Fund	378,000	249,580	66.0%	320,000	206,104	64.4%
4157 Stormwater Utility Capital Projects	447,652	61,313	13.7%	572,313	40,808	7.1%
Totals	5,519,939	1,360,273	24.6%	4,097,665	1,914,842	46.7%

Quarterly Enterprise Funds Expenditures

Agg Fund Title	2010 Budget	2010 Q2 Actual	2010 PCT	2011 Budget	2011 Q2 Actual	2011 PCT
4011 Solid Waste Fund	2,421,021	883,188	36.5%	1,889,489	833,417	44.1%
4017 Solid Waste Projects Fund	1,447,517	153,764	10.6%	1,423,036	632,381	44.4%
4151 Stormwater Utility Fund	752,618	144,258	19.2%	522,191	58,928	11.3%
4157 Stormwater Utility Capital Projects	500,839	11,615	2.3%	685,792	46,578	6.8%
Totals	5,121,995	1,192,825	23.3%	4,520,508	1,571,304	34.8%

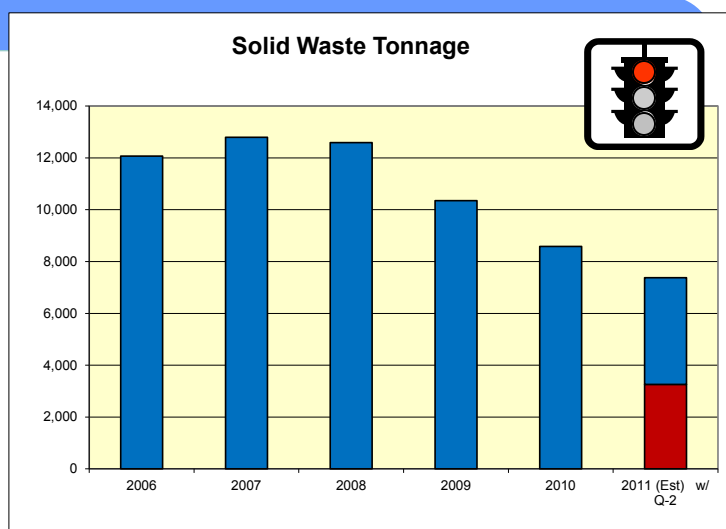
Enterprise Funds *(continued)*

The **Solid Waste Fund** (operations) is performing largely as expected through the first six months of the year. At mid-year operations had produced 48.5% of its \$1,889,489 budget while spending just 44.4%. With three of its busier months still ahead, it remains to be seen if revenues can get far enough ahead of expenditures to support the system through the colder months.

The **Solid Waste Projects Fund** has been busy making stormwater permit improvements at the Orcas transfer station. While revenues sit at 52.9% of its \$1,423,036 budget, officially outpacing expenditures, it should be remembered that revenues are being propped up by loans and unearned proceeds. The Orcas station improvements were complete at the end of the quarter and position the County to have good storm system tests.

The **Stormwater Utility Fund** is in a transitional period. While a budget was approved for 2011, the Stormwater Advisory Committee is still trying to decide what to recommend the program be when it "grows up." As a result, while revenue has been steady with \$206,104 of its expected \$320,000 in parcel fees collected; expenditures have been conservative, with only 11.3% of its \$522,191 budget expended. (The fund entered the year with a \$202,191 beginning balance.)

The **Stormwater Projects Fund** shows an even larger imbalance at the midpoint of the service year. The years main focus is the constructed wetland project in Eastsound, with work set to begin until the latter part of the third quarter. Because the two main project grants work on a reimbursement basis, Q-2 revenues sit at just 5.9% of its \$685,792 budget and expenditures sit at a modest 6.8% of budget.



Internal Services Funds

The **Equipment Repair & Revolving Fund (ER&R)** revenues were \$1,031,167 or 49.8% of budget. ER&R expenditures were \$1,189,263 or 27% of budget. This included

\$649,161 in expense to Solid Waste for land reconciliation. Large replacement expenditures for two backhoes and a boat were authorized in the quarter, but payments have not yet washed through the system. These pieces of equipment were major lifetime cost drains to ER&R.

Information Services received \$265,856 (44.7%) of its projected \$595,103 revenue budget. Nearly all of this income was transfers from user departments. Q2 2011 Information Services expenses were \$206,648 (34.6%) of budget.

The **Insurance Cumulative Reserve** has received \$13.00 (.01%) of its planned \$60,000 income. Nearly all will eventually be transferred from user departments. It has spent \$23,340 (18.2%) of its budget.

Quarterly Internal Services Funds Revenue

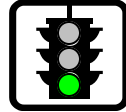
Fund Title	2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT
5011 Equipment Rental & Revolving	1,509,216	760,676	50.4%	2,071,206	1,031,167	49.8%
5021 Information Services	559,234	279,792	50.0%	595,103	265,856	44.7%
5051 Insurance Cumulative Reserve	32,597	48	.1%	60,100	13	.0%
Total	2,101,047	1,040,516	49.5%	2,726,409	1,297,036	47.6%

Quarterly Internal Services Expenditures

Fund Title	2010 Budget	2010 Q2 Actual	2010 PCT	2011 Budget	2011 Q2 Actual	2011 PCT
5011 Equipment Rental & Revolving	3,690,957	643,173	17.4%	4,407,193	1,189,264	27.0%
5021 Information Services	552,826	211,691	38.3%	602,680	206,648	34.3%
5051 Insurance Cumulative Reserve	71,538	24,776	34.6%	128,583	23,340	18.2%
Total	4,315,321	879,640	20.4%	5,138,456	1,419,251	27.6%

Where Does the County's Money Come From? Or, Why Sales Tax Matters

Not surprisingly, San Juan County's primary source of unrestricted operating funds is property taxes. More surprisingly, its second largest source is sales tax. Sales tax is normally the province of cities and towns, as it is in the cities and towns that most commerce takes place. Indeed, more than 25% of sales tax collected in San Juan County is collected in the Town of Friday Harbor. Because San Juan County has only one incorporated town, however, sales tax is a much more significant source of revenue to the county than it is to most counties. Prior to the property tax levy lid lift adopted by the voters in 2009, sales tax represented just under 1/3 of San Juan County's general fund revenue. Since the lid lift, it has dropped to about 26%, but remains the second largest revenue source.



Even in a recession, property tax is a very stable and predictable form of revenue. Sales tax is not. In fact, sales tax revenues have been eluding prediction since before we even noticed there was a recession. After years of growth, sales tax fell 5% short of budget in

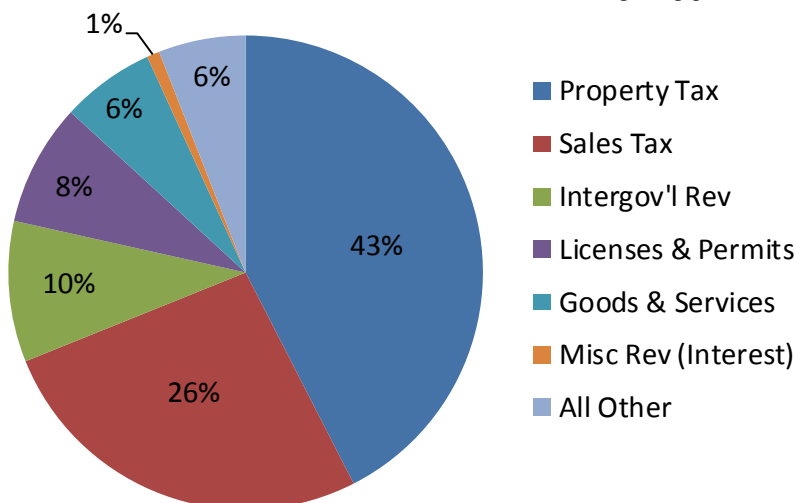
2007, coming in at barely over its 2006 mark. After recovering that 5% in 2008, sales tax crashed in 2009, starting the year strong but finishing at almost 9% less than 2008.

2010 saw an almost 3% increase in sales tax revenue, encouraging the County to budget a slight (less than 1%) increase for 2011. As of the end of the first quarter of 2011, however, all indications pointed toward another severely down year for sales tax. January sales tax revenue was lower than 4 of the 5 previous Januarys, and every month from February through May showed lower sales tax revenue in 2011 than in any of the preceding five years. Then something inexplicable happened. Sales tax revenue for June was *higher* than any of the previous five Junes. And in July, sales tax was up more than 50% over June, and far exceeded any of the previous five Julys.

The State Department of Revenue confirmed the anomalous results, and noted that sales tax revenues were generally up statewide in July.

Is this the beginning of real recovery for San Juan County? Though it's too early to say that, our outlook for sales tax has certainly improved since the end of the first quarter. At that time, a 15% shortfall seemed likely; now, only 5% is indicated. If the economic winds blow our way, a long summer, a warm fall and a late winter may yet improve even those numbers.

2011 General Fund Revenue by Type



Financial Issues (continued)

Update on Inter-fund Loans

Attention on the national debt level has led all governmental entities to examine closely their own debts. San Juan County is not overladen with debt. As of year-end 2010, the County's external debt was only \$17,567,338, or .215% of assessed valuation. By statute, counties may not incur debt in excess of 1.5% of assessed valuation without a vote, or 2.5% with a vote. Debt ratios for all counties in 2009 ranged from 0% to 1.3%.



Those limitations apply to external debt only. In addition, San Juan County, as of the end of 2010, had \$1,288,819 in interfund debt—that is, loans from one operating unit of the County to other operating units. \$46,819 of that was an old loan from ER&R to Solid Waste, and \$1,242,000 were loans made at the end of 2010 to resolve negative fund balances in three funds. \$1,125,000 of those loans was made to the Solid Waste Fund.

The Finance Committee, which consists of the Treasurer, the Auditor, and the Chair of the County Council, recommended the loans for periods up to three years, based on each of the lending funds' ability to loan the money for that amount of time. The Council approved the loans as recommended, and the loans planned to be paid back in 2011, as well as the

old loan of \$46,891, were all paid back in the first quarter of this year.

\$800,000 of interfund debt remains, all of it to Solid Waste. Half of that is scheduled to be paid back in 2012, and half in 2013. Unfortunately, the outlook for paying those loans back as scheduled is not good, because of anticipated continuing negative operations in Solid Waste.

This is an issue which the Finance Committee will continue to monitor closely.

Operating Cash

Operating Cash is defined as the projected ending balance of the County's general fund. Operating cash mitigates short-term imbalances between general fund revenues and general fund expenditures. In lay terms, it's the money you keep in your checking account to make sure you never run out of cash, even with uneven influxes of income. In the 2010 and 2011 budgets, San Juan County maintained its operating cash at approximately 10% of budgeted expenditures, as required by the 2009 Reserve Ordinance.



The County continues to manage its operating cash in concert with that ordinance, despite recent shortfalls in revenue. A budget reduction amendment, which is currently under development, is reducing expenditures in

line with reduced revenues in order to preserve operating cash. Although the amendment will likely result in some incursion into ending cash, the intent is to smoothly reduce expenditures with a two-year planning horizon in order to end 2012 with the required 10% reserve. This intent, along with the surprising influx of sales tax revenue in July, is contributing to improving our current operating cash outlook.

Ending Cash by Month, 2007-2010

