



San Juan County Budget

2011 THIRD QUARTER REPORT

VOLUME 2, ISSUE 3

SPECIAL POINTS OF INTEREST:

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2011 BUDGET FIXED – MANY WORRIES ABOUT FUTURE

The third quarter budget report comes during the budget review season. The sentiments expressed in the budget message and in this report play off one another. The mid-year budget correction was the acceptance that we are again resetting to a “new normal” focused on revenues that reflect economic activity, after a more robust 2010 made us feel like 2009 was the bottom.

The reader should follow information and insets in these pages that discuss shaky retail sales taxes, building & land use permitting, and excise taxes – especially REET, Solid Waste, and revenue shared from motor vehicle fuel taxes. An outlier is lodging tax, which continues to recover from its 2009 reset and may, in its own way, also be driven by the economy to the extent that “stay-cations” draw more local tourists unwilling to spend the money to travel abroad. The 2012 preliminary budget accepted the premise of the mid-year correction that certain revenues would reset and the 2012 expenditures are built from those income estimates.

The state legislature is preparing for a special session to cut the state budget. The Governor has given suggestions for how to reduce by \$1.6 billion. Many of those 165 proposed reductions could impact our county budget by reducing revenue sharing, reducing grants or requiring cost-sharing in state programs. The County Council would be wise to work with WSAC and with its elected and appointed department heads to form a thoughtful, prioritized and united front on the items that must be protected.

Below, is a 2010 year over 2011 year and third quarter over third quarter chart for the entire budget. For the most part, this 20,000 foot overview indicates that things are all right. Of most concern are the differences between General Fund revenues and expenditures. The year over year percentages are broader than we would like. They will be monitored at the end of the 2011 second half property tax payment deadline October 31.

2010 & 2011 3rd Quarter Revenues and Expenditures by Fund

Fund	Class	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT	% Change
General Fund								
	Revenue	13,647,189	9,541,682	69.92%	13,455,413	9,000,388	66.89%	-3.03%
	Expense	13,497,598	9,782,969	72.48%	13,478,765	10,068,554	74.70%	2.22%
General Fund Grants								
	Revenue	2,411,101	2,004,436	83.13%	2,653,075	1,982,686	74.73%	-8.40%
	Expense	2,420,101	1,856,568	76.71%	2,676,124	1,869,824	69.87%	-6.84%
Budget Stabilization Fund								
	Revenue	-	0	0.00%	85,000	85,000	100.00%	100.00%
	Expense	-	0	0.00%	85,000	0	0.00%	0.00%
Special Revenue Funds								
	Revenue	16,857,461	10,800,548	64.07%	18,286,255	11,028,595	60.31%	-3.76%
	Expense	21,181,048	11,638,122	54.95%	20,678,609	9,599,956	46.42%	-8.52%
Bond Fund								
	Revenue	2,946,315	414,165	14.06%	2,959,574	373,138	12.61%	-1.45%
	Expense	2,967,505	527,756	17.78%	3,090,870	376,174	12.17%	-5.61%
Enterprise Funds								
	Revenue	5,519,939	2,244,724	40.67%	4,115,665	2,791,100	67.82%	27.15%
	Expense	5,121,995	2,129,606	41.58%	4,538,508	2,244,133	49.45%	7.87%
Internal Service								
	Revenue	2,089,990	1,958,819	93.72%	2,644,167	2,133,705	80.69%	-13.03%
	Expense	4,304,264	1,352,540	31.42%	5,056,214	2,194,811	43.41%	11.98%
TOTALS								
	Revenue	43,471,995	26,964,374	62%	44,199,149	27,394,612	62%	-0.05%
	Expense	49,492,511	27,287,561	55%	49,604,090	26,353,452	53%	-2.01%


General Fund Revenue

Total **General Fund revenue** expectations were lowered by \$313,505 by the mid-year budget correction (including use of cash), even after we identified \$163,824 in new revenue. The mid-year correction changed expectations in all BASUB categories, and the Q3 percentages are calculated from the new adopted budget. Care must be taken to track sales taxes (25.9%) and property taxes (43.7%), as they comprise nearly 70% of the budget revenue.

Quarterly General Fund Revenues		Q3				
Fund Title	2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT
Taxes	9,827,437	6,528,805	66.4%	9,921,518	6,449,348	65.0%
Licenses and Permits	1,115,263	854,026	76.6%	800,718	700,076	87.4%
Intergovernmental Revenue	1,173,818	1,124,168	95.8%	1,474,850	1,054,402	71.5%
Charges for Goods and Services	905,532	579,182	64.0%	757,131	513,703	65.8%
Fines and Forfeits	155,482	91,352	58.8%	148,062	74,113	59.7%
Miscellaneous Revenues	146,288	114,380	78.2%	123,150	102,570	83.3%
Other Financing Sources	323,369	249,769	77.2%	229,984	106,175	46.2%
Totals	13,647,189	9,541,682	69.9%	13,455,413	9,000,388	66.9%
Use of Fund Balance				23,352		
				* 13,478,765		

*2011 General Fund Rev. Adjustments	Adopted 2011 Budget	April 26 Adjustment	Sept 13 Adjustment	Total As of Sept. 30
Adjusted Budget		13,689,731	13,736,343	13,478,765
Use of Fund Balance	-39,187	6,612	55,927	23,352
Taxes	9,913,387		8,131	9,921,518
Licenses and Permits	1,144,259		-343,541	800,718
Intergovernmental Revenue	1,283,384	40,000	151,466	1,474,850
Charges for Goods and Services	878,388		-121,257	757,131
Fines and Forfeits	148,062			148,062
Miscellaneous Revenues	118,923		4,227	123,150
Other Financing Sources	242,515		-12,531	229,984
NEW Total	13,689,731	13,736,343	13,478,765	13,478,765

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

Taxes	2010 Q3	2011 Q3
General Property Tax	\$ 3,565,193	\$ 3,564,230
Sales & Use Tax	\$ 2,626,292	\$ 2,505,031
Excise Taxes	\$ 28,944	\$ 37,783
Penalty / Delinquent	\$ 308,375	\$ 342,134
Total	\$ 6,528,804	\$ 6,449,178

Taxes stood at 65% collection through Q3, slightly less than the 66.4% the prior year. That is in some ways a victory, considering that sales tax production has been downgraded by \$145,521. Property tax revenue was upgraded (due to current use program reviews) in the mid-year correction.

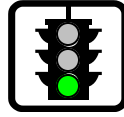
Sales Taxes have rebounded to closer-to-normal after a dismal winter. However, close-to-normal collections cannot overcome the shortfall through the first five months of 2011. With collections of \$2.5M, sales tax collections are now at 71.7% of the amended budget revenue, with one more high proceeds month to go.



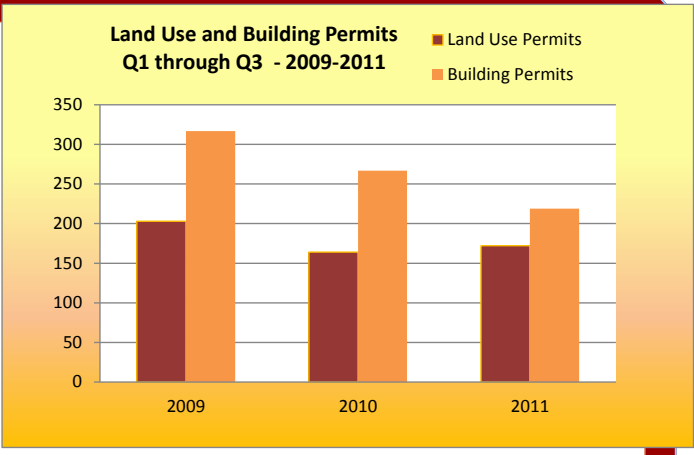
Sales Tax	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Budget
Q3	\$ 2,677,747	\$ 2,852,501	\$ 2,524,786	\$ 2,626,292	\$ 2,505,031
Total for Year	\$ 3,821,566	\$ 4,022,839	\$ 3,504,599	\$ 3,607,625	\$ 3,492,516
Q3 Percent	70.07%	70.9%	72.0%	72.8%	71.7%

General Fund Revenue (continued)

Licenses & Permits had its expectations reduced by \$343,541



(\$1,144,259 to \$800,718) due to the drop-off in building permits. It now represents 6% of general fund revenue. Although six departments budget for license or permit revenue, about 99% is from activity in CD&P or Health (mainly septic, water & food). This budget group now sits at 2011 receipts of 87.4%, a friendlier place to be heading into the traditionally slow winter months.



Building and Land Use Permit Revenue Q3						
Fund Title	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
Building Permits	852,081	617,880	72.5%	516,361	471,414	91.3%
Land Use Permits	309,168	164,735	53.3%	241,006	164,181	68.1%
Totals	1,161,249	782,615	67.4%	757,367	635,594	83.9%

Charges for Goods & Services is the companion of the Licenses & Permits category because it includes land use permits. It is a “supporting actor” in the budget, at less than 6% of revenue. Its revenue expectation was reduced by \$97,257, and is now at 65.8% of anticipated revenue for the year.

Intergovernmental revenue was increased at the mid-year correction due to increased grant income. It now represents nearly 11% of the general fund income. While that is good in the short term, it may not be sustainable in the long term as state and federal budget support is likely to shrink.

Fines & Forfeits are an indirect result of law enforcement and court activity, but do not track well to workload indicators. Although the mid-year correction reduced the expectation from this source by almost 17%, it is still having a weak revenue year at \$74,113 (59.7%). The reduced expectation drops this source to 0.9% of general fund revenue.

Miscellaneous Revenue in 2006 produced 6% of the general fund revenue. After the mid-year correction, it has proceeds of \$102,570 (83.3% of expectation) It is likely to meet its adjusted budget, but it has dropped to 0.9% of the general fund revenue.

General Fund Expenditures finish Q3 at just less than form, at \$10,068,554 of the \$13,478,765 budget (74.7% of expenditures). The same quarter in 2010 showed spending at 72.5%. If general fund revenues are short of par after the October property tax payments, some efforts to reduce spending for the remainder of the year may be needed. For this reason, this section is given an indicator of yellow light.

The chart on the following page provides a 2010/2011 year over year and 3rd quarter over 3rd quarter comparison. Seven department budgets are above 75% after three quarters. In this comparison, four of the eight departments shown over par at mid-year remain above the Q3 75th percentile. Of those, Board of Equalization will have few additional expenditures in the 4th quarter. The Law Library has made its major acquisitions for the year. The Superior Court has had two long civil trials that have run up costs, and two annual fixed costs expenditures in the Treasurer budget are finished. New overages by County Administration appear to be an instant in time as costs and reimbursements for insurance (a Q3 payment) flow through the departments. General Administration (public defense) and Juvenile are carrying the burden of an arrest and trial of note.

General Fund Expenditures



General Fund Expenditures (continued)

Third Quarter General Fund & General Fund Grant Expenditures							
Fund No.	Fund Title	2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT
0001.00	General	0	104	.0%	0	190,185	.0%
0001.13	County Administration	649,172	471,165	72.6%	627,510	499,946	79.7%
0001.16	Assessor	705,347	496,770	70.4%	713,784	515,972	72.3%
0001.19	Auditor	713,229	530,048	74.3%	680,639	491,546	72.2%
0001.22	Board of Equalization	17,067	11,417	66.9%	16,501	12,860	77.9%
0001.25	Facilities	531,717	337,939	63.6%	520,003	338,756	65.1%
0001.28	Civil Service	15,641	7,570	48.4%	15,933	10,752	67.5%
0001.31	Clerk	337,126	247,357	73.4%	329,489	243,371	73.9%
0001.34	County Council	462,613	338,747	73.2%	482,317	353,897	73.4%
0001.37	Dispatch	692,622	517,004	74.6%	690,861	509,010	73.7%
0001.40	Community Development & Planning	1,277,463	921,253	72.1%	1,342,499	967,722	72.1%
0001.43	County Agent	196,634	135,937	69.1%	183,522	128,493	70.0%
0001.46	District Court/Probation	675,530	498,921	73.9%	667,730	497,065	74.4%
0001.49	Election Reserve	209,313	172,963	82.6%	187,748	134,555	71.7%
0001.52	General Administration	869,173	732,882	84.3%	1,053,269	835,581	79.3%
0001.55	Health & Community Services	1,183,760	739,786	62.5%	1,122,684	786,065	70.0%
0001.58	Jail	349,806	235,962	67.5%	321,095	191,422	59.6%
0001.61	Juvenile Court	368,686	265,855	72.1%	340,834	268,523	78.8%
0001.64	Law Library	27,020	21,374	79.1%	22,372	19,454	87.0%
0001.67	Operating Transfers	340,384	247,692	72.8%	359,372	258,467	71.9%
0001.73	Prosecuting Attorney/Coroner	903,999	672,604	74.4%	930,046	694,849	74.7%
0001.76	Sheriff	2,445,839	1,802,932	73.7%	2,358,431	1,723,523	73.1%
0001.82	Superior Court	174,261	116,817	67.0%	171,197	132,624	77.5%
0001.85	Treasurer	351,196	259,870	74.0%	340,929	263,912	77.4%
General Fund Expense Total		13,497,598	9,782,969	72.5%	13,478,765	10,068,554	74.7%
0002.00	Current Expense Grants Clearing	0	200,650	.0%	0	0	.0%
0002.37	Dispatch Grants	0	0	.0%	0	0	.0%
0002.43	WSU Extension	0	0	.0%	0	205	.0%
0002.55	Health & Community Services Grants	1,572,714	1,137,411	72.3%	1,478,295	1,005,103	68.0%
0002.61	Juvenile Court Grants	141,623	62,969	44.5%	132,624	86,315	65.1%
0002.70	Planning Grants	347,100	217,924	62.8%	566,839	438,830	77.4%
0002.71	Emergency Management Grants	0	0	.0%	150,800	118,306	78.5%
0002.73	Prosecutor Grants	222,800	152,558	68.5%	207,066	158,567	76.6%
0002.76	Sheriff Grants	135,864	85,055	62.6%	140,500	62,498	44.5%
General Fund Grant Expense Total		2,420,101	1,856,568	76.7%	2,676,124	1,869,824	69.9%
Totals General Fund Expenses		15,917,699	11,639,537	73.1%	16,154,889	11,938,378	73.9%

General Fund Grants

General Fund Grants supports services in five general fund departments (Health, Juvenile, CD&P, Prosecutor & Sheriff) with consistent and repetitive grants and one Special Revenue Fund (Emergency Management). These grants have staffing and services associated with them that would require a policy and budget decision to continue the services if the outside funding ended. Grants requiring a local match

find that match in the associated general fund department.

Grant **revenue** finished Q3 at \$1,982,686 (74.7%). Grant expenditures stood at \$1,869,619 (69.9%).

Quarterly General Grant Fund Revenue Q3						
Fund Title	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
Intergovernmental Revenue	2,360,901	1,952,992	82.7%	2,633,287	1,937,680	73.6%
Charges for Goods and Services	6,000	11,460	191.0%	6,000	8,360	139.3%
Fines and Forfeits	500	419	83.8%	500	177	35.5%
Miscellaneous Revenues	7,500	17,489	233.2%	0	9,933	.0%
Other Financing Sources	36,200	22,076	61.0%	13,288	26,535	199.7%
Totals	2,411,101	2,004,436	83.1%	2,653,075	1,982,686	74.7%

Special Revenue Funds

The county maintains 20 **Special Revenue Funds** to carry out specific legislated purposes. They range from bedrock public ser-

vices (Roads, E-911) to important community services (Land Bank, Parks & Fair) to special purposes (Veteran's Assistance, Dog License) for a few examples. The common thread is that their revenues and expenditures are separately tracked in a unique fund to assure that they lawfully accomplish their legislated charge. Six of the funds are part of five staffed, self-contained operating departments (Roads, Land Bank, Parks/Fair, Emergency Management, and Noxious Weeds) and make up 71.4% of expenditures for 2011. The others (and arguably Emergency Management) have general fund custodians. For reason of preponderance, only certain funds will be highlighted.

Special revenue funds can carry both operating and capital expenditures. Funds accumulated in one year may be held over in cash balance and expended in another year. For that reason, it is

not uncommon to see cumulative special revenue funds to have expenditures that exceed a single year's revenue. Through Q3, Special Revenue Funds have taken in **revenues** of \$11,028,590 (60.3% of budget) and have spent \$9,599,956.

The chart below shows the Q3 2010 year over the Q3 2011 year in **expenditures**. All funds are doing quite well with the exception of Emergency Management, which has been working all year to deal with a cash problem. These funds also are a window into the economy (Land Bank REET, Roads fuel-related income, Document Preservation recordings, Lodging Tax, Capital Improvement REET, Mental Health Tax, Public Facilities, and Affordable Housing). Of these, only Lodging Tax shows comfortable growth. A few of these funds are also a window into need – something that tends to grow during economic hardship (Veterans' Assistance, Crime Victims, Mental Health Tax, Grants/Septic loans, Affordable Housing).



Quarterly Special Revenue Fund Expenditures	Q3					
	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
SJC Conservation Area Fund	4,992,145	2,387,034	47.8%	3,589,377	667,039	18.6%
Land Bank Stewardship & Management	450,557	328,394	72.9%	468,647	307,959	65.7%
SJC Noxious Weed Control	174,379	79,600	45.6%	206,717	77,795	37.6%
Veterans' Assistance	92,062	40,471	44.0%	91,536	16,536	18.1%
SJC Dept of Emergency Management	281,716	154,472	54.8%	105,762	83,572	79.0%
San Juan County Fair	0	57,292	.0%	0	0	.0%
San Juan County Parks	1,238,530	873,228	70.5%	2,405,593	1,146,445	47.7%
Tax Sale Expense	4,530	294	6.5%	6,635	125	1.9%
Dog License	27,057	18,214	67.3%	24,459	15,796	64.6%
County Roads	7,627,236	5,435,699	71.3%	7,980,541	5,221,413	65.4%
Enhanced 911	816,500	144,391	17.7%	757,156	164,257	21.7%
Multipurpose Facilities Fund	396,674	225,895	56.9%	460,739	273,211	59.3%
Lodging Tax Fund	418,518	254,098	60.7%	483,800	271,785	56.2%
Auditor Document Preservation	514,902	142,614	27.7%	225,563	57,371	25.4%
Capital Improvement Fund	278,932	171,093	61.3%	578,087	183,250	31.7%
Crime Victims 20%	43,564	0	.0%	29,899	0	.0%
Mental Health Tax Fund	527,850	76,810	14.6%	1,137,640	396,234	34.8%
Other Grants / Septic Loans	1,284,565	816,441	63.6%	491,353	175,185	35.7%
Public Facilities Improvement Receiving	1,362,101	149,045	10.9%	952,998	243,827	25.6%
Affordable Housing Fund 60%	383,607	122,244	31.9%	417,037	165,365	39.7%
Criminal Justice Receiving Fund	265,623	160,790	60.5%	265,070	132,790	50.1%
Totals	21,181,048	11,638,122	54.9%	20,678,609	9,599,956	46.4%

Special Revenue Funds (continued)



The red light concern continues for the **Land Bank Conservation Area Fund** due to continued property sales that are low by number and by amount. The Q3 REET revenue is \$1,030,988 (62.6%), lower than the previous four years at this point. Total **revenue** is \$1,636,390 (48.7%) a figure that is skewed by an annual item for property sales. Land Bank **expenditures** finish Q3 at \$667,039 (18.6%), an expenditure figure that

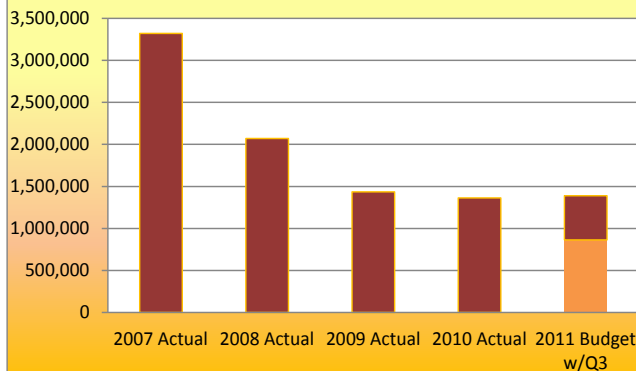


The **Roads Fund** continues to live within its means and a yellow light indicator is assigned. **Revenues** at the three-fourths point are \$5,276,385 (67.3%). Two key state shared revenues related to fuel tax are 43% of the budget, and are performing nearly to par, at a combined 73.1%. **Expenditures** are \$5,221,413 (65.4%). The majority of the major maintenance and preservation projects have come through the budget by this point. Two capital projects, the last of the Buck Bay (Pt. Lawrence) bridge and nearly all of the Roche Harbor Dock still have some costs to wash through the system and will be paid in Q4. Roads is living according to the sustainable budget plan presented in June of 2010, and has reduced total FTE by 10. Two points must be made: Although a few more staff positions are anticipated to be lost due to attrition, the challenge is to stop that attrition at the selected point. County roads are in quite good shape. The plan is to emphasize the preservation projects while watching for indications of long-term deterioration.

Parks & Fair Department revenues finished Q3 at \$1,025,077 (45.2%). That is an anomaly because the budget provides for \$900K in bridge (\$350K) and long-term (\$550K) financing for the Odlin Park project. The bridge interfund loan will not be needed. Other grant sources have been used and only \$125K will be borrowed for the Phase 1 portion of the project. Once those unused numbers are backed out, revenue is good. **Expenditures** finished the quarter at \$1,146,445 (47.7%). After accounting for lower expenses on the Odlin project, the budget is in good shape.

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Conservation Area Fund
Reet Tax Revenue



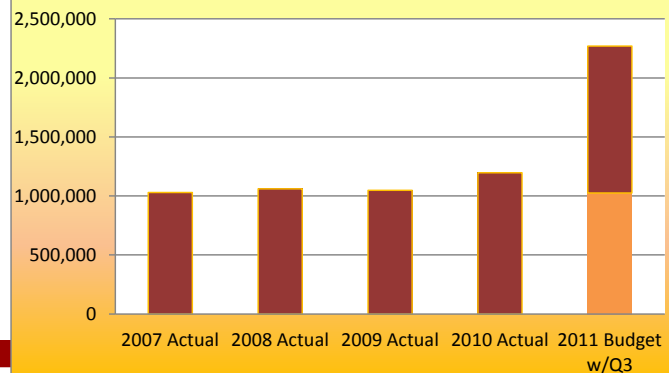
is distorted because the bond redemption transfer of \$2.1M, which consumes most of its expenditure budget, will not occur until the 4th quarter.

The **Land Bank Stewardship Fund** red light indicator continues as the Commission and management wrestle with spending reserves to take care of responsibilities. Regardless of the election outcome, a new paradigm of stewardship income and/or effort will be needed. As a reminder from the Q2 report, this paradigm work is already being done. The Land Bank has formed an alliance with the San Juan Preservation Trust. It has accepted financial responsibility for maintenance of Turtleback Mountain, the largest Land Bank property by far. Land Bank stewardship staff care for the property and bill the Trust for work done within prescribed limits.

Income from interest is even lower than budgeted. The Q3 five year high in 2007 was \$133,958, compared to \$9,904 in Q3 2011. Total Q3 **revenue** was \$230,992 (49.3%). **Expenditures** through the 3rd quarter were \$307,959 (65.7%).



Parks & Fair Revenue



Special Revenue Funds (continued)

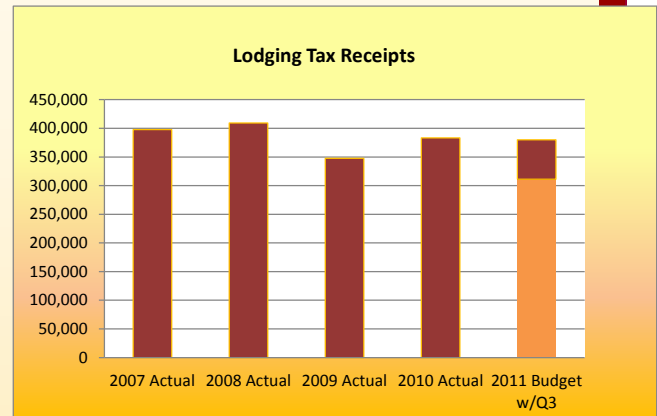
(Parks & Fair continued)



The yellow light indicator remains for two reasons, one for what we know and the other for what we do not know. The water emergency at Odlin Park will result in approximately \$45K in construction and soft costs. Currently there is a boil water order for the campground. A Q4 report and recommendation to fund it should relieve the budget pressure. The Council has shored up funding for the Fair with successive increases in the Lodging Tax grants. The last one has enabled the master plan to go forward. The long-term health of the fairgrounds as a year-round community facility rests with the identified needs for the buildings, the trajectory of the projects, and a funding plan to execute them.

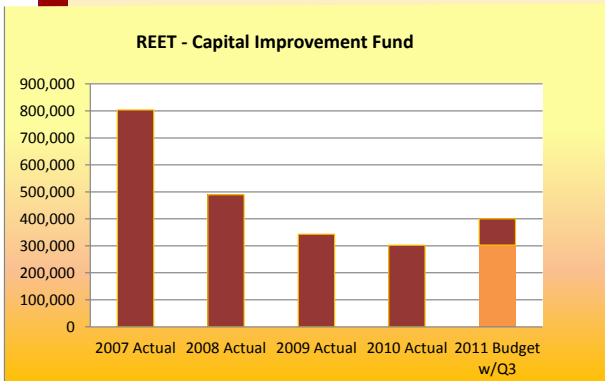


The **Lodging Tax/Multipurpose Facilities Funds** have returned to a relative position of strength. While the Orcas L-Tax payers have noted declining sales, overall lodging tax **revenue** appears to be climbing back toward previous highs. Combined revenue is at \$460,125 (60.5%) with one summer month yet to report. A peek ahead at October revenue shows the best October (August receipts) since 2005. Orcas lodging should be an area of concern, as it used to be consistently over 60% of the revenue and is likely to finish 2011 at approximately 48%. Should the LTAC make a 5-year plan, as recommended at the recent Council meeting, investments or strategies to overcome this situation should be



considered. Gross **Expenditures** are \$544,996 (57.7%). When adjusted for reserved operating cash, expenditures are nearly spot-on at 76%.

The Capital Improvement Fund has moved from a yellow light to a green light indicator. This is the result of the passage of REET 2 and, due to financial uncertainty heading into 2011, not taking on any additional projects. **Revenue** finished Q3 at \$431,896 (81.7%). That includes an interfund loan of \$100K. **Expenditures** finished Q3 at \$183,250 (31.7%). There is more debt service to be paid from the fund this year, but even with that, the fund has been able to pay back its interfund loan early.



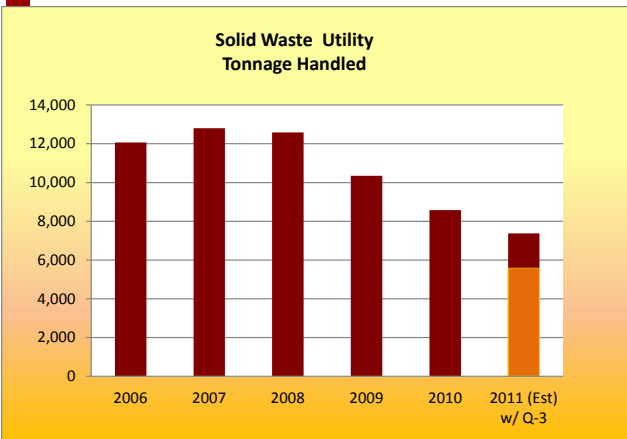
Enterprise Funds

Quarterly Enterprise Funds Revenue Q3						
Fund Title	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
Solid Waste Fund	2,655,667	1,560,528	58.8%	2,281,191	1,657,033	72.6%
Solid Waste Projects Fund	2,038,620	293,818	14.4%	924,161	848,332	91.8%
Stormwater Utility Fund	378,000	264,907	70.1%	320,000	217,174	67.9%
Stormwater Utility Capital Projects	447,652	125,471	28.0%	590,313	68,561	11.6%
Totals	5,519,939	2,244,724	40.7%	4,115,665	2,791,100	67.8%
Quarterly Enterprise Funds Expenditures Q3						
Fund Title	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
Solid Waste Fund	2,421,021	1,542,938	63.7%	1,889,489	1,382,768	73.2%
Solid Waste Projects Fund	1,447,517	217,860	15.1%	1,423,036	665,919	46.8%
Stormwater Utility Fund	752,618	196,728	26.1%	522,191	90,047	17.2%
Stormwater Utility Capital Projects	500,839	172,079	34.4%	703,792	105,399	15.0%
Totals	5,121,995	2,129,606	41.6%	4,538,508	2,244,133	49.4%



The **Solid Waste Fund** (Operations) continues to perform as expected. The tonnage projection at the end of the Q3 is at the low end of tolerance (7,030 tons projected at year-end), so costs and revenues will need to be watched closely though there is little room for adjustment. Revenue through 3 quarters was \$1,657,033 (72.6% of budget). Expenditures through Q3 were

\$1,382,768 (73.2% of budget).



The **Solid Waste Projects Fund** has finished making capital improvements at the Orcas station and received a one year reprieve on industrial stormwater improvements at the San Juan station. **Revenue** received was \$848,332 (91.8%), an increase of 10% during the quarter. **Expenditures** were \$665,919 (46.8%) with the majority of 2011 capital work completed.

The **Stormwater Utility Fund** had received \$217,174 (67.9%) of its **revenue** through the 3rd quarter. This is anticipated, as the remainder will come with second half property tax payments. **Expenditures** were \$90,047 (17.2%). Based on a County Council direction in July, preparations are being made

to commence the monitoring program in the 4th quarter.

The **Stormwater Projects Fund** had received **revenue** of \$68,561 (11.6% of \$590,313) through the 3rd quarter, and had made \$105,399 (15.0%) in **expenditures**. This Fund has as its centerpiece for the year a constructed wetland in Eastsound, supported by two grants that pay on reimbursement. The construction project started after Labor Day and the majority of expenditures and reimbursed

Internal Services Funds

The **Equipment Repair and Revolving Fund (ER&R)** provides fleet, corporation yard and material services for Roads as required by RCW 36.33A and similar services for most other departments as allowed by that law, including a motor pool. Through the 3rd quarter, this fund had received \$1,673,413 (80.8%) of its **revenue**. The large equipment replacements of the year were made, a boat and two backhoes. As noted elsewhere, the replaced pieces of equipment were major life-time cost drains. By the end of this period, ER&R had **expenditures** of \$1,842,401

(41.8%), which was very much in line with the pace of expenditures in the first two quarters.

Quarterly Internal Services Revenue Q3						
Fund Title	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
Equipment Rental & Revolving	1,509,216	1,448,693	96.0%	2,071,206	1,673,413	80.8%
Information Services	548,177	415,764	75.8%	512,861	404,977	79.0%
Insurance Cumulative Reserve	32,597	94,362	289.5%	60,100	55,315	92.0%
Totals	2,089,990	1,958,819	93.7%	2,644,167	2,133,705	80.7%

Quarterly Internal Services Expenditures Q3						
Fund Title	2010 Budget	2010 Q3 Actual	2010 PCT	2011 Budget	2011 Q3 Actual	2011 PCT
Equipment Rental & Revolving	3,690,957	963,113	26.1%	4,407,193	1,842,401	41.8%
Information Services	541,769	359,048	66.3%	520,438	324,643	62.4%
Insurance Cumulative Reserve	71,538	30,379	42.5%	128,583	27,768	21.6%
Totals	4,304,264	1,352,540	31.4%	5,056,214	2,194,811	43.4%

Information Services is a department that reduced expenditures by \$82,242 during the mid-year correction. Part of this was a calculated risk to defer equipment replacements while the fleet size is being reduced – a deferral which is unwise to do again. By quarter's end, this fund had received \$404,977 (79%) of its budgeted **revenue** of \$512,861 almost exclusively via transfers from the user departments. Through the 3rd quarter, **expenditures** were \$324,643 (62.4%) of the adjusted budget of \$520,438.

The **Insurance Cumulative Reserve** is comprised of funds held to pay accepted claims within the \$10,000 liability deductible as well as the deductible for those few claims that exceed \$10,000. Fund **revenue** starts with cash carryover (\$68,483). Income is comprised of transfers from user departments assessed by worker hours and meager interest earnings. Most transfers were made by the end of the 3rd quarter as \$55,315 of the \$60,100 (or 92%) of the annual projected income has been received. Fund **expenditures** were low in the 3rd quarter at \$4,428. Payouts through the quarter were \$27,268, or 21.6% of the budget of \$128,583.

Financial Issues

Prepared by County Auditor Milene Henley

Where Does the County's Money Come From? (Part 2) Or, Even Islands Aren't Islands

The State, in order to balance its budget, is currently contemplating significant budget reductions, many of which will directly impact County finances.

Too often we in San Juan County see ourselves as apart from the rest of the State or the nation. Our truly unique island character makes many of the rules and standards developed for mainland counties appear irrelevant, or at least less important than some of our more immediate concerns. As a result, we don't want to follow the same rules or be held to the same standards. In particular, we sometimes feel that it would be better for us to turn down state or federal money than to meet the requirements imposed by the grantors of those funds.

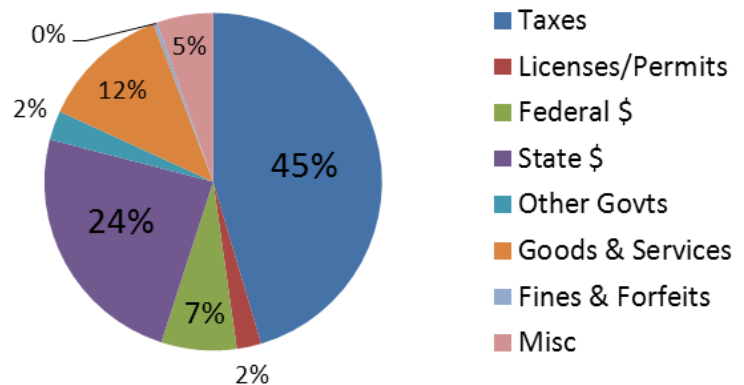
In fact, we are highly dependent on state funding. Next to taxes—in which I am including all tax revenues to the County, the most significant of which are property tax, sales tax, and excise taxes—State revenues are the County's largest source of revenue. State revenues comprise almost a quarter of the County's 2011 revenue budget, excluding financing sources and cash. Add Federal revenues, and that number becomes almost one-third of the County's revenue.

For that reason, we should all be concerned about the state of State's budget. Among the items on the Governor's list to be considered for reduction are:

- Early childhood education programs
- Public Health immunization and communicable disease control
- Community mobilization grants for substance abuse prevention
- Developmental disabilities services
- Chemical dependency programs
- Maternity support services
- Funding to county juvenile courts
- Victim services programs
- Funding of county fairs
- Refund of rural sales and use tax for local economic development projects
- Criminal justice assistance
- Funding for sexually violent predator commitment trials
- State portion of County Prosecutor salary
- Liquor profits sharing, which goes to Health and to Sheriff
- Criminal Justice Training (police academy)

Many of these proposed cuts would directly and significantly affect County revenues and services. Regardless of which reductions are finally adopted, it's clear from these proposals that we are a long way from being out of the woods on this recession, and that our legislators in Olympia are right in there with us.

2011 County Revenues by Source

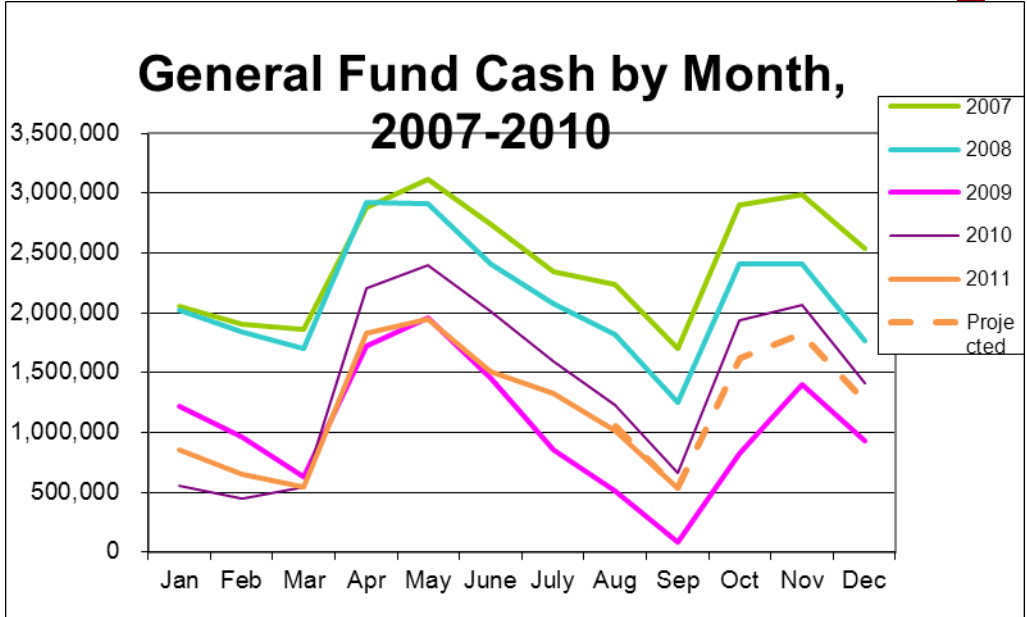


Financial Issues (continued)



Operating Cash

The County's cash situation improved slightly in the 3rd quarter of 2011. Improved sales tax results led the improvement. We are still projecting to end the year with less cash in the general fund than last year, but more than our recent low of 2009. Final data for October, when most of the balance of property tax revenue for the year comes in, are not yet available as of press time. That data will determine how we will finish the year.



Update on Interfund Loans

We remain in a wait-and-see position with regard to interfund loans. The fate of the \$800,000 owed by the Solid Waste Fund to other funds in the County hangs on the Solid Waste User Charge ballot measure which will be decided on November 8. Once the results from that vote are in, the Council will determine how and on what schedule to pay back the loans to Solid Waste. The Finance Committee, which is comprised of the County Treasurer, the County Auditor, and the Chair of the County Council, will continue to monitor the loans.



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