

## *Auditor's Report*

TO: COUNTY COUNCIL  
FROM: F. MILENE HENLEY, AUDITOR  
SUBJECT: MENTAL HEALTH TAX FUND  
FOR MEETING OF: Tuesday, March 31, 2009

### ISSUE:

Shall the Council pass an ordinance to establish a new Mental Health Tax Fund to account for the proceeds and expenditures of revenues generated by the .1% mental health sales tax?

### ATTACHMENTS:

Ordinance Creating a Mental Health Tax Special Revenue Fund.

### BACKGROUND:

Fund Accounting is an accounting system used by non-profits and public sector entities. The purpose of private sector accounting is to show how much profit is earned. The purpose of fund accounting, by contrast, is to show where money comes from and how it is spent. A fund is defined in the Washington State Budgeting, Accounting, & Reporting System (BARS) manual as:

...a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

A governmental entity may have as many funds as it needs in order to properly account for its revenues and expenditures, but it should have no more funds than it needs, as an excess of funds can result in inflexibility and undue complexity.

Washington State uses five different types of funds:

- General funds, the primary operating fund of the jurisdiction. In San Juan County, we call it the Current Expense fund. Our Grants Fund is also a general fund, through which we choose to run grant activities.
- Special Revenue funds, legally restricted to finance particular activities. We have many, including the Roads Fund, the Lodging Tax funds, the Auditor's

Document Preservation Fund, the Dog License Fund, the Veterans Assistance fund, and the Insurance Cumulative Reserve Fund.

- Debt Service funds, used to accumulate resources to pay principal and interest on long-term debt. Our Bond Redemption Fund is a debt service fund.
- Capital Projects funds, designated for the acquisition or construction of capital projects. Our Capital Improvement Fund is such a fund. The Public Improvement Facilities Fund, which also finances capital projects, is a Special Revenue fund, however, because its revenue comes from the rural sales and use tax and must be expended only on eligible public facilities projects.
- Permanent funds, from which only the earnings are used. In the non-profit world, these are known as endowment funds. San Juan County has none of this type.

#### ANALYSIS:

In January, Council adopted a .1% increase to the county sales tax rate. The additional .1% is authorized by RCW 82.14.460

...for the purpose of providing for the operation or delivery of new or expanded chemical dependency or mental health treatment programs and services and for the operation or delivery of new or expanded therapeutic court programs and services. For the purposes of this section, "programs and services" includes, but is not limited to, treatment services, case management, and housing that are a component of a coordinated chemical dependency or mental health treatment program or service.

Because the mental health tax is a tax which may be used to fund only specific authorized activities, it is the opinion of the Auditor that these funds should be segregated and accounted for in a special revenue fund. The Director of Health and Community Services, who will be the manager for the fund, concurs.

Certain funds are designated as "receiving funds," because they are used primarily to receive special revenue funds. Those funds are then disbursed to other departments or funds for expenditure. San Juan County's Criminal Justice Receiving Fund is an example. In consultation with the Director of Health, we determined that most of the activities funded by the mental health tax will be spent out of the Mental Health Tax Fund, rather than out of other departments. The reasons are first, accountability, and second, the non-supplant language of the enabling legislation. We therefore recommend not setting this new fund up as a receiving fund.

#### RECOMMENDED MOTIONS:

**The Auditor recommends that the Council adopt the attached ordinance, setting up a Mental Health Tax Fund, and designating the Director of Health and Community Services as the fund manager.**