

2009 Budget Message

TO: County Council
FROM: Pete Rose, County Administrator
DATE: October 18, 2008

SUBJECT: 2009 Annual Budget Message: *Washington's Shrinking Counties*

A time of adversity is upon us. If it is true that leadership can grow from adversity, San Juan County will need leadership from all of us for the next few weeks and the next few years. The adversity will become apparent as you read on.

The year 2009 will begin with the first County Council fully elected under the home rule charter. The 2008 general election will provide the Council seated on the second Monday in January with at least two new members. That Council will have to focus on the clear financial challenges ahead.

San Juan County is being swept along in a national financial crisis, the proportions of which few of us have ever seen. State and local governments nationwide are delivering dire predictions and cutback budgets. Each successive revenue forecast about which we read in the media is lower than its predecessor. Nationwide, the precipitous drop in government revenue is affecting local government budgets across the state and across the nation.

This rapid drop has mostly come since the Auditor shared a first cut at a long range forecast with you about six months ago. You may recall that forecast indicated a range of revenues and expenditures based on several years of recent history. The message of that first forecast was that if we were mindful about expenditures and revenues continued along the recent upper trend line, we could stay in balance. You may also recall that the 2009 budget revenue forecast you received earlier this fall added a pronounced drop in the revenue trend line and that the budget immediately was under stress.

In 2006, the state Department of Community, Trade and Economic Development (CTED) issued a report entitled *Washington State Local Government Fiscal Stress Analysis*. In it, San Juan County was identified as one of the local governments under fiscal stress. Some warning signs were identified for a government under fiscal stress and structural deficiencies identified in the ways that county governments are funded. Those deficiencies have been partially masked over in the past few years, as a robust local (construction, tourism) and state economy have provided us with unanticipated revenue to help get budgets balanced. Such help is not available for 2009, and will not likely be available for the next few years.

This budget has been the most difficult to balance in my career, having been provided the largest financial gap to close. As a result, this county government must shrink – the question through this budget development process has been, “How”? There are many potential answers to that question, many questions to be asked of the final priorities used to craft this budget, and many points of view to consider prior to reaching a final product.

Much of the programs and the staffing level built by you over the past several years is at risk and may be lost. Certain things may remain suspended for next 2-4 years as we wait for recovery. The changes needed to get in balance, are stark and fundamental. The Parks, Health and Juvenile programs are set back to service levels of 15 to 20 years ago. Long-time support and recent support of the programs with which many identify as good county programs are proposed to be set aside to get in balance. The budget reductions described below are needed - - yet are discretionary expenditures at a time when discretionary spending must be scrutinized.

It is against this backdrop of financial stress that I present the 2009 San Juan County preliminary budget. The recommendations herein are a product of collaboration with the elected and appointed department heads of this county. Departmental cooperation was paramount in completing the project – not always happy, but always helpful. Our budget discussions have clearly shown that this group will provide valuable insight and input as you have discussions on shaping the 2009 budget and budgets of the future.

The budget recommended herein is a balanced budget. Since it is balanced, you must keep in mind that to add a dollar of expenditure, you must either add a dollar of revenue, or take out a dollar of another expenditure or reduce ending fund balance (which provides operational cash reserves).

Thinking About Tomorrow While We Think About Today

Some of the hard decisions in this recommended budget are focused on the reality that financial market losses in the trillions and bailouts in hundreds of billions will not be quickly fixed and turn around overnight. We need to keep a watchful eye on the size and services of the organization that emerges from this year’s budget deliberations, as we want to make it as sustainable as we can for the next three to five years.

In his budget presentation, the King County Executive urged that efforts be oriented to fixing the problem rather than fixing the blame. From crisis comes opportunity. The crisis has found us. We just have to find the “opportunity”. That “opportunity” is to try to fix the budget problem in a way that is sustainable in the long term and provides budgeted reserves to handle the economic highs and lows. The “opportunity” in this situation is to take all the time necessary in the first half of 2009 to work with our boards, committees and commissions, staff,

labor unions and community at large to evaluate the size and priorities of government of the future. While county revenue options are not as flexible as those provided to cities, the legislature has provided options for us to ask our voters whether they would support changes in service level. This process can determine whether there is enough agreement on the plan for a local funding option package to take to the voters

We should also use this “opportunity” to try not to be all things to all people. That will be difficult. San Juan County residents, groups and other governments speak with many and conflicting voices and responsible elected officials listen. I urge you to set few, but key goals for 2009. Focus them on creating a financially strong and sustainable organization. This includes building reserves, modifying forecasting to allow us to evaluate and implement priorities during an economic downturn. Have the confidence in our projections to begin early migrations of costs and services to survive losses. In other words, strategically plan – and strategic planning begins with strategic budgeting.

Location of Difficulty: Revenues

The main difficulty in balancing this budget is the Current Expense (general) Fund, and those special revenue funds that have traditionally received support from Current Expense (Parks, Fair). There are three revenues that are forecast to trend downward after several years of growth – property tax, sales tax and interest earnings. The overall all-revenues forecast is nearly \$1 million less than the 2008 revenue forecast.

Property tax revenue has a structural difficulty. It funds staff-oriented services with costs that grow faster than the 1% cap. Growth is allowed at 1% plus new construction. In the past few years, new construction has covered over the difficulty of operating within the 1% cap. For example, property tax receipts, bolstered by strong construction rose 4.5% from 2005 to 2006. With lagging construction, the forecast from 2008 to 2009 drops 1%, anticipating that some in the county will have problems paying the property taxes. Since this structural “difficulty” was decided by the voters at a state level, it can only be changed at a state level. Our current task is to find ways to deal with it.

Sales tax revenue in San Juan County is elastic and forecast to contract as building projects fall off. Construction sales tax categories account for fully 37% of the sales tax receipts. Building permits are still being received and issued, but at a noticeably slower rate. Sales tax for discretionary items and that related to vacation and weekend travel will be soft. As a result, after five years of good overall growth in sales tax, it is prudent to forecast an overall 5% reduction from the 2008 level ... and to hope the reduction is enough.

Interest Earnings are an important aspect of the revenue sources. Currently, the federal reserve is keeping a low prime lending rate, so we have the conundrum of the Sheriff and Public Works paying \$4 - \$5 for gas and diesel on these islands and low interest earnings. Even at these low rates, all interest-related earnings in the general fund are about \$685,000.

A second area of difficulty is those funds dependent on the real estate excise tax (REET). This tax comes directly from the sale of property in the islands. This revenue stream affects the capital budget and the Land Bank.

The **capital budget** is almost completely dependent on the REET, and occasional grants. We must remain conservative in anticipating 2009 REET revenue. This revenue reached its high in 2006 at \$900,000 and 2007 at \$800,000. This year, the forecast is \$500,000. The capital budget is highly leveraged by debt, and 2009 debt service (some of which comes off the books in 2010), is \$450,000. We will seek a delay from the state in order to try to hold onto the Historic Courthouse Grant as there are no matching funds available for 2009. The Parks capital program has been substantially set aside for the past two budgets, and will remain so unless new sources of funding are considered.

The **Land Bank** has REET as its largest revenue source. At a budget amendment hearing earlier in the year, you may recall the Land Bank Director noting that 2008 REET receipts were tracking at 62% of forecast. By comparison, the 2006 actual REET revenue was \$3.8 million and the 2007 figure was \$3.3 million. The Land Bank forecast for 2009 is \$2.5 million. That still seems like a good number until the bonds sold at the time of the Turtleback Mountain purchase are considered. That is to be compared with annual debt service of approximately \$2.1 million. It should be noted that the Land Bank has a current fiscal policy of having at least a year's debt service in reserve, so it has room to retool its budget in a stalled property market. It also should be noted that interest earnings are anticipated at \$300,000, down from a 2006 high water mark of \$511,000.

Priorities in Budget Recommendation

In the past three weeks, I have scheduled items to discuss general budget priorities with you. This has generated good conversation, but has not congealed into a specific set of priority values. That would be difficult to do, not knowing the actual depth of reductions needed and what would be on the "chopping block" to meet them. Given that difficulty, I have worked from the draft listing included in that briefing. Those priorities were drawn from two separate meetings of department heads in which fiscal priorities and process were discussed. At the end of the day, I must bear the burden of deciding the priorities in this recommendation. The priorities I used to make choices were:

- Public Safety
- Core & mandated services
- Continuing on the path to GMA compliance
- Public health
- Environment
- Quality of life

An overarching priority over all of this is sustainability. It appears that we could be in a period of 3-5 years of reduced revenues as the financial and housing markets shake out and are re-established. As a result, there is no reliance on spending down reserves below \$1.5 million and no proposal for increased levy shift from the Road Fund. Indeed, you will see the Road Fund is also experiencing a period of stress and is proposed to end the year at \$1 million in cash reserves.

Missing from this list, but important on reduction priorities in similar work in prior years is the role and priority of Economic Development. This is one area where interests in San Juan County do not speak with one voice. Further discussion of the role and desired type of economic development would be useful, as long term economic drivers can help in difficult budget times.

From the “status quo” budget requests, each department was asked to contribute something. It must be understood that in a situation where approximately 80% of the costs are personnel, a budget that retains the level of service from one year to the next is more costly.

Public Safety is a system called Law & Justice. As an example, the combined law & justice budgets increased 11% (or \$665,000) in 2008 over the prior year. In order to hold them roughly equal in expenditures to 2008 (1.2% decrease), it will take the proposed reduction of a deputy, ½ corrections officer, 0.6 FTE financial clerk, 1/2 dispatcher, ¼ emergency manager, 0.1 FTE clerk, a juvenile probation officer, removal of the Prosecutor’s seasonal and summer help, and adding ½ department assistant for the only clerical help for the Superior Court Judge. It also must respect increases for Sheriff’s fuel, and transportation and detention contracts for the Sheriff, Coroner and Juvenile.

When that exercise is done, you have dealt with \$6.25 million of a current expense fund of \$13.5 million, or roughly 45% of County Current Expense and related subsidized funds. Judging what can be reduced requires meetings, looking at the items on the reduction exercise and reflects art as much as science in developing a feel for how much can be cut.

If the same exercise is done for General Government and related subsidized departments, another \$4.9 million is segregated, or roughly 35%. This represents a decrease over the prior year of about 10.4%. Those same

departments increased approximately 5.2% between 2007 and 2008. In making these reductions, it took approximately 5.0 FTE to achieve this.

That leaves the Community Services departments to take up the remaining \$700,000. In it are some of the most visible, popular and positive programs in San Juan County, including Health, Parks, Fair, Extension and CD&P. Almost by process of elimination, those budgets are reduced in the collective by approximately 26%. For Fair and Parks, it backs these departments most of the way out of County Current. For CD&P, it represents a 17.6% reduction, and for Health & Community Services, it represents 17.8%. For Extension, it represents a 24% reduction. In making these reductions, it took 9 FTE to achieve this. It is not fair, it is not good – it is simply necessary.

Individual Departments

The **County Administration** department, including Information Services (IS) performs a number of core services delivered countywide. This budget continues the IS, risk, human resources, contracting, several grant application programs, public records coordination, public defender, Board of Equalization oversight, benefit program placement and others. This budget retains the webmaster portion of the Communications Coordinator position and ramps down much of the media work. One-fourth FTE is dedicated to Public Works to continue support of outreach on its projects. The web-site is a valuable tool for communicating County information and is considered a core service. The training portion of the Applications Support position is ramped down and the applications support is limited to core needs and help desk distributed among remaining staff. Total reduction is 1.25 FTE.

The **Assessor** has a major software conversion in 2009. Its main computer program was acquired in the early 1980's, when people were playing *Donkey Kong*. The cost is subsidized by grant and is expected to be a major productivity gain in the next two to three years. The Assessor had 1.25 positions added in 2008. They had very positive effects in putting out the notice cards earlier this year, but the appraisers are still not close to their statutory mailing date. This budget reduces ½ field appraiser, adds 0.1 FTE to the personal property appraiser, and proposes to share a single customer service window with the Treasurer at a reduction of ½ FTE. It is not known how effective this will be, but the department heads are willing to try.

Auditor and Elections: The Auditor is picking up bill processing for several departments that are losing clerical staff. In addition, a centralized office supply purchasing system is being set up for all departments except Public Works, allowing those departments to be more productive with their staff and anticipating a 10% reduction in supply costs. The Auditor is also reducing ½ FTE licensing staff and will do all customer service work out of the Friday Harbor. The web site will provide information as to how to do on-line or telephone licensing business.

The Elections office is reducing $\frac{1}{4}$ FTE. It is a non-general election year and costs have been accordingly reduced.

Buildings & Grounds continues to be underfunded, but is not able to be increased in this budget. Positions in the amount of 1.7 FTE are withdrawn from this budget. Utilities costs and deterioration to wear surfaces of the buildings are the major risks in this budget.

Clerk has reduced the Archivist position by 0.1 FTE.

County Council is proposed to be reduced by 1 FTE. Travel is proposed to be reduced. Lobbyist and video-conferencing program requests are unfunded.

Community Development & Planning: This budget has been stripped of virtually all costs not having to do with permitting, code enforcement and long-range planning. All support contracting and CAO assistance is not funded, including 0.25 FTE. One support position is proposed to be eliminated in long-range planning. Positions in permitting are elastic as to demand for building services. These FTE will be adjusted depending on demand for services and fee revenue to support them. An approximate 5% fee increase is supported for building permits to keep County Current from subsidizing it. Also, stormwater regulatory application fees are proposed for an increase to cover actual costs of the position to CD&P.

The marine environmental planning positions are moved to grant-funded positions on January 1. They are able to be supported on current grant sources through June. Their continuation will be dependent on continued grant funding.

WSU Extension: This program continues the same function except 4-H, where one contracted 4-H coordinator position is reduced, and one remains. The Agricultural Resources Committee coordinator contract is proposed to be terminated. The Extension Agent and Ag Coordinator will take over support of the ARC, but likely at a reduced level.

District Court: This program continues at approximately the same level of service, with minor reductions. Its workload is primarily programmed by the work of others, which will not be reduced. A proposed trade-out of the Jury Manager to Superior Court in exchange for $\frac{1}{2}$ new FTE was not accepted in the proposed budget.

General Administration: Contingency funds are reduced. The most visible reduction is \$41,400 for various youth/recreation programs provided by other agencies. Retaining them is a difficult choice in the face of reductions in Health and Parks funding. Similarly, reductions include the departmental coffee and tea, as well as the employee recognition allocations, which appear to be luxuries when major staff layoffs are proposed.

Health & Community Services: Close to 20% of the County Current portion of this department is proposed to be reduced. There are notable reductions in Environmental Services, Senior Services, Environmental Health, and Public Health. Numerous positions are affected, totaling approximately 6 FTE. The Director has done an excellent job of keeping these programs alive through these reductions, but all will be on a more limited basis. Field clinics, immunizations programs, and senior transport are among the reductions. Water and septic review will be slowed. The derelict vessel program must be suspended for the year due to limited availability of staff support to do the work.

Juvenile Court: A one FTE reduction in juvenile probation is proposed. This decision is more science than art. The juvenile program is very effective in this county. Statistically, the caseload is manageable between the Administrator and remaining probation officer.

Operating Transfers to special revenue funds are reduced in the areas of Parks, Fair, Emergency Management. Fair was reduced by about 6% and backed nearly out of Current Expense. Parks takes major reductions, including closing (or not maintaining) five properties. Efforts will focus on keeping the camping parks open, as well as those facilities which produce income.

Prosecutor, Law Library, and Victim's Services: Program request to remodel Law Library is turned down, leaving movement of staff into future vacated space "on hold". Prosecutor main staff kept intact due to difficulties in keeping up with service demand and litigation. Temporary help dropped, grant support of Victim's Services increased, and Victim Service staff FTE shown at current working levels.

Sheriff, Communications, Jail: Patrol services are left intact. One investigative deputy position will be reduced, along with ½ dispatcher, and ½ corrections officer. Some impacts will be felt in work crew and court security programs. 0.6 FTE reduction in financial clerk will be partially compensated by Auditor picking up bill entry.

Superior Court: This has the only net position increase in any department. The Superior Court Judge has reduced more than enough from the budget to pay for this. This has been a lighter year in trial needs, and the budget has been accordingly adjusted. If court demand increases, an emergency appropriation may be needed.

Treasurer: One-half FTE is reduced. The Treasurer and Assessor are proposed to try sharing a customer service window. Some assistance may be needed during tax bill mailing and tax payment months.

Noxious Weeds: This budget is put together assuming the proposed increase is approved. If Council adjusts it, those adjustments will be included in the adopted budget.

Emergency Management: The Sheriff believes strongly in keeping a decent level of service in this program. County Current support has been reduced by \$48,000, including ¼ FTE and \$29,000 reductions in O&M subsidy. Also, a portion of salary is proposed to be picked up by grant.

Fair: This program has been substantially reduced out of Current Expense, but should be fully operational.

Parks: A reduced Parks department can no longer support the San Juan trails program. There is approximately \$40,000 in County Current subsidy to Orcas Island Recreation Program recommended to be reduced. A very visible reduction is the closure of the Eastsound Village Green Restroom. Portions of 10 positions are reduced for a total of 1.135 FTE. A camping fee increase is proposed, as well as increases for event permits. Most noticeable will be at the Eastsound Village Green, which impacts the farmer's market costs. In addition, the farmer's market did not have a lodging tax grant come through the LTAC process for 2009 grants.

Land Bank: Significant reduction in the REET will limit the purchasing power of this important preservation program. The Commission and Director are cognizant of watching the rate of revenue.

Capital Budget: The capital budget has been drastically reduced. The reduction in REET is the largest revenue loss by percentage in San Juan County. At this point, we are unable to take care of our facilities. The proposed review of county finances in 2009 should include consideration of the second ¼% REET, which is available to us. This 2009 budget will be able to take care of little more than debt service. The Courthouse Restoration grant will need to be suspended until more local match can be raised.

Lodging Tax: This program has so far defied the economic downturn, and another good grant year is anticipated.

Public Facilities Financing Program: This program has performed well with three more infrastructure grants awarded in 2008 for Eastsound sewers, Eastsound storm projects and the Town's Guard Street final phase. New revenue (diverted state sales tax) is expected to be down by approximately \$40,000, but will still bring about \$340,000 into this important local program.

Roads: The most noteworthy item for the Roads program is the anticipated reduction in ending fund balance, which is projected at approximately \$1 million. This has eroded from approximately \$3 million. County discussions on long-term

budget financing must include strategies to stem the flow of Road Tax into County Current, or the road facilities maintained will be degraded over time. Highlights of the Road Fund activities in 2009 will be the Fisherman Bay Road construction project and several miles of chip seal resurfacing on Lopez and Shaw, as well as several smaller projects.

Equipment Repair & Replacement: The equipment list for this year includes two motor pool vehicle replacements, 4 one-ton truck replacements, two PW pick-up replacements and an oil distributor system for an existing truck chassis.

Solid Waste: The selection of a San Juan transfer station site is anticipated early in the year. Several other key activities and decisions must take place to continue on this path, which could take up to two years to complete. A rate increase of more than 5% is anticipated.

Stormwater: The budget submitted is assuming that the program passes as introduced. Key capital projects are funded in Eastsound. More basin studies are on tap, and water quality monitoring will be ramped up. A citizens committee will be selected to provide lay and technical review.

Biosolids Removal: Done, done, done!!

Final Comments:

The 2007 budget message was entitled *Many More Crossroads*. It anticipated some of the challenges in post-charter San Juan County. It did not anticipate a national financial crisis that is shrinking county governments all over this state and threatening some of our most popular programs. However, it becomes the number one challenge for San Juan County, which is at a financial sustainability crossroads.