



# San Juan County

## QUARTERLY FINANCIAL REVIEW

1ST QUARTER 2013

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## Sluggish First Quarter Sales Tax Challenges Revenue Projections for 2013



Sales tax revenue to San Juan County in the first quarter of 2013 did not meet expectations. Whether the County can meet revenue projections for the year will depend on activity picking up in this and other key sectors in the following quarters.

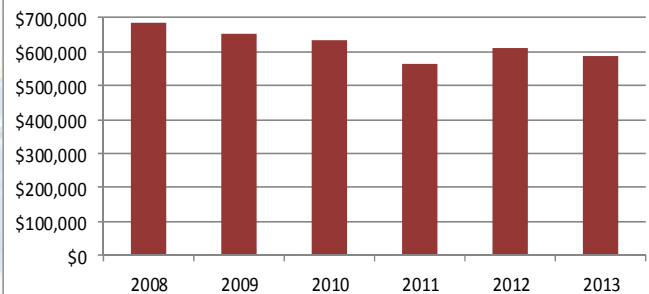
First quarter sales tax collections in 2013 lagged first quarter collections in each of the previous five years except 2011, and for no obvious reason. Sales tax revenue follows sales by two months. That is, sales tax collected by merchants in December 2012 doesn't show up in the County's coffers until February 2013. So the sales period represented by sales tax receipts in the first quarter of 2013 is November 2012 through January 2013. Having enjoyed a fairly mild weather this winter, we can't blame the weather for lack of sales. Notably also, retail trade state-wide was up in the first quarter compared to 2012.

Real estate sales were mixed. On San Juan Island, both dollar volume and number of transactions were significantly down (22% and 18%, respectively), compared to first quarter last year. Orcas picked up the slack, with a 73% increase in dollar volume and a 36% increase in number of transactions. Transactions on other islands were flat. County-wide, there was a 9% increase in dollar volume over first quarter 2012.

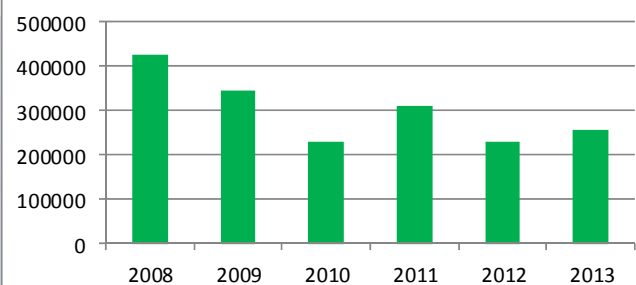
Income to the County from real estate sales comes in the form of real estate excise tax: .5% of sale price for capital improvement funds, and 1% for Land Bank funds. With increased sales county-wide, excise tax collections in the first quarter have

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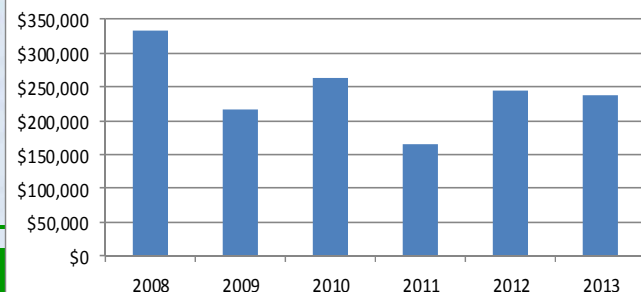
**First Quarter Sales Tax Revenue, 2008-2013**



**First Quarter Land Bank Tax Revenue, 2008-2013**



**First Quarter Permitting & Planning Revenue, 2008-2013**



## Sluggish First Quarter Sales Tax (continued)



been strong, and increasing each month.

Another favorable revenue area is permitting and planning, which holds the promise of future building and associated sales tax revenue. First quarter 2013 revenue in this area almost matched the first quarter of 2012, which ended as our strongest year since 2008.

Total Current Expense (general fund) collections for the first quarter just met budget projections, despite low sales tax collections. Part of this achievement is because of unusually high “Medicaid Match” funding in Health and Community Services. Unfortunately, the high level of this income was a timing issue and does not reflect any real increase in revenue. So while it made the first quarter look good, it is no substitute for lost sales tax revenue.

## General Fund & County Revenue by Type



The table on the following page reports the amount of revenue received by the Current Expense (general) Fund and by the County in

total during the first quarter of 2013, and shows that amount as a % of total budget for the year. The final column shows the average percent received for each revenue type in the first quarter of 2009 through 2012.

For general fund sales tax, the substantial difference between average percent received in the first quarter over the last four years and percent of budget received in the first quarter of this year suggests that we may not achieve our projected sales tax revenue for 2013. In fact, based on percent received to date this year compared to previous years, current projection is that we will receive only about 92% of budgeted general fund sales tax revenue, a shortfall of about \$240,000

for the year. While it’s too early to panic about this potential shortfall, it is an area we will be watching carefully.

The high amount of “Intergovernmental Revenue” received in the first quarter compared to previous years reflects the early distribution of Medicaid Match to Health & Community Services.



The higher percent of “Charges for Goods and Services” received by the County this year reflects largely the fact that the Solid Waste Fund is not projected to operate for the entire year. Revenue received by it in the first quarter, then, would represent substantially more of the budgeted amount than it would if the fund were going to operate for the entire year.

**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

# 1Q13 General Fund & County Revenue by Type

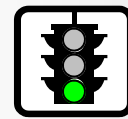


## GENERAL FUND REVENUE

| BASUB | Revenue Type                 | Budget            | Thru 1Q13        | % Rcvd        | Avg 1Q % Rcvd 2009-2012 |
|-------|------------------------------|-------------------|------------------|---------------|-------------------------|
| 300   | Cash                         | -111,752          | 0                | 0.00%         |                         |
| 311   | General Property Taxes       | 5,916,336         | 748,051          | 12.64%        | 10.89%                  |
| 313   | Retail Sales and Use Taxes   | 4,419,763         | 815,754          | 18.46%        | 21.62%                  |
| 317   | Excise Taxes                 | 12,785            | 3,409            | 26.66%        | 13.55%                  |
| 310   | Total Taxes                  | 10,348,884        | 1,567,214        | 15.14%        | 15.18%                  |
| 320   | Licenses and Permits         | 1,148,701         | 306,014          | 26.64%        | 28.23%                  |
| 330   | Intergovernmental Revenue    | 1,116,947         | 286,565          | 25.66%        | 18.78%                  |
| 340   | Charges for Goods & Services | 1,528,161         | 336,851          | 22.04%        | 19.22%                  |
| 350   | Fines and Forfeits           | 327,092           | 60,115           | 18.38%        | 19.37%                  |
| 360   | Miscellaneous Revenues       | 357,871           | 88,890           | 24.84%        | 20.73%                  |
| 390   | Other Financing Sources      | 186,816           | 105,490          | 56.47%        | 46.58%                  |
|       | <b>Grand Total</b>           | <b>14,902,720</b> | <b>2,751,138</b> | <b>18.46%</b> | <b>17.58%</b>           |

## COUNTY REVENUE

| BASUB | Revenue Type                 | Budget            | Thru 1Q13        | % Rcvd        | Avg 1Q % Rcvd 2009-2012 |
|-------|------------------------------|-------------------|------------------|---------------|-------------------------|
| 300   | Cash                         | 7,746,253         | 0                | 0.00%         |                         |
| 311   | General Property Taxes       | 9,751,526         | 1,241,462        | 12.73%        | 11.00%                  |
| 313   | Retail Sales and Use Taxes   | 5,948,263         | 1,078,001        | 18.12%        | 19.78%                  |
| 316   | Business Taxes               | 127,000           | 55,220           | 43.48%        | 16.84%                  |
| 317   | Excise Taxes                 | 22,485            | 4,379            | 19.48%        | 12.93%                  |
| 318   | Other Taxes                  | 1,987,000         | 377,597          | 19.00%        | 19.00%                  |
| 310   | Total Taxes                  | 17,836,274        | 2,756,659        | 15.46%        | 14.75%                  |
| 320   | Licenses and Permits         | 1,190,551         | 327,073          | 27.47%        | 28.29%                  |
| 330   | Intergovernmental Revenue    | 11,663,674        | 1,981,516        | 16.99%        | 25.95%                  |
| 340   | Charges for Goods & Services | 4,116,106         | 1,234,869        | 30.00%        | 18.70%                  |
| 350   | Fines and Forfeits           | 332,292           | 60,898           | 18.33%        | 19.32%                  |
| 360   | Miscellaneous Revenues       | 2,660,379         | 432,883          | 16.27%        | 15.77%                  |
| 380   | Nonrevenues                  | 100,000           | 17,392           | 17.39%        | 24.36%                  |
| 390   | Other Financing Sources      | 6,539,756         | 607,885          | 9.30%         | 15.77%                  |
|       | <b>Grand Total</b>           | <b>52,185,285</b> | <b>7,419,174</b> | <b>14.22%</b> | <b>18.30%</b>           |



# General Fund Expenditures

The table below reflects the first quarter 2013 performance of each department and fund in the general fund, including the Grant Fund, against budget. While expenditures are more evenly distributed throughout the year than revenues, they are not completely evenly distributed. There is seasonality in many departments, such as the cost of sending out property tax statements in the Treasurer's Office, and the cost of individual elections in the Elections Department.

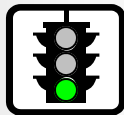
As a general rule, though, we monitor department expenditures for those that exceed 25% in any giv-

en quarter. Because all departments must come in *under* budget—it is against the law to spend more money than appropriated—all departments should spend, on average, less than 25% of their budget each quarter.

The departments which spent more than 25% of their budgets in the first quarter of 2013 are highlighted below. Few did, and none to an extent to cause concern.

| Fund & Dept # | Fund/Department Name                   | Budget            | Thru 1Q13        | % Used        |
|---------------|--|-------------------|------------------|---------------|
| <b>0001</b>   | <b>County Current - General</b>        |                   |                  |               |
| 00            | General                                | 0                 | 0                | 0.00%         |
| 13            | County Administration                  | 647,531           | 145,436          | 22.46%        |
| 16            | Assessor                               | 821,872           | 191,152          | 23.26%        |
| 19            | Auditor                                | 710,142           | 172,952          | 24.35%        |
| 22            | Board of Equalization                  | 8,356             | 1,433            | 17.15%        |
| 25            | Facilities                             | 507,552           | 112,505          | 22.17%        |
| 28            | Civil Service                          | 17,737            | 5,001            | 28.20%        |
| 31            | Clerk                                  | 354,319           | 88,523           | 24.98%        |
| 34            | County Council                         | 516,324           | 111,873          | 21.67%        |
| 37            | Dispatch / E911                        | 958,832           | 200,524          | 20.91%        |
| 40            | Community Development & Planning       | 1,474,953         | 311,047          | 21.09%        |
| 43            | County Agent                           | 228,737           | 43,707           | 19.11%        |
| 46            | District Court/Probation               | 620,187           | 129,018          | 20.80%        |
| 49            | Election Reserve                       | 212,502           | 54,013           | 25.42%        |
| 52            | General Administration                 | 1,158,419         | 301,532          | 26.03%        |
| 55            | Health & Community Services            | 1,251,766         | 263,134          | 21.02%        |
| 58            | Jail                                   | 381,861           | 63,227           | 16.56%        |
| 61            | Juvenile Court                         | 392,421           | 84,331           | 21.49%        |
| 64            | Law Library                            | 22,192            | 2,846            | 12.83%        |
| 67            | Operating Transfers                    | 476,956           | 110,718          | 23.21%        |
| 73            | Prosecuting Attorney/Coroner           | 975,631           | 231,584          | 23.74%        |
| 76            | Sheriff                                | 2,650,613         | 627,663          | 23.68%        |
| 82            | Superior Court                         | 184,913           | 42,974           | 23.24%        |
| 85            | Treasurer                              | 328,904           | 90,306           | 27.46%        |
| <b>Total</b>  | <b>County Current - General</b>        | <b>14,902,720</b> | <b>3,385,501</b> | <b>22.72%</b> |
| <b>0002</b>   | <b>Current Expense Grants Clearing</b> | <b>0</b>          | <b>0</b>         | <b>0.00%</b>  |
| 40            | Planning Grants                        | 509,425           | 139,885          | 27.46%        |
| 55            | Health & Community Services Grants     | 1,620,167         | 424,640          | 26.21%        |
| 61            | Juvenile Court Grants                  | 129,325           | 14,244           | 11.01%        |
| 71            | Emergency Management Grants            | 67,838            | 14,171           | 20.89%        |
| 73            | Prosecutor Grants                      | 219,842           | 45,628           | 20.75%        |
| 76            | Sheriff Grants                         | 134,655           | 23,272           | 17.28%        |
| <b>Total</b>  | <b>Current Expense Grants Clearing</b> | <b>2,681,252</b>  | <b>661,839</b>   | <b>24.68%</b> |

# Other Fund Expenditures



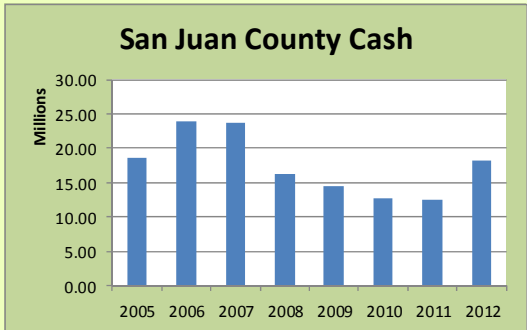
Funds other than the general fund are typically used to account for sources and uses of revenues which are either legally restricted in how they can be used, or are assigned by the Council for specific uses. These funds are often more project-oriented than the general fund; as such, they are more likely to underspend their appropriated budgets than general fund departments, as individual projects are cancelled or delayed.

The table below reflects this lower spending level. Note that only three funds spent more than 20% of their budgets through the first quarter. Two of those are well over 25%—Solid Waste, which is expected to operate for only about six months in 2013, and the Criminal Justice Receiving Fund. The Criminal Justice Receiving Funds receives state funds for criminal justice purposes; as soon as those are received, approximately \$105,000 is distributed from that fund to the general fund for criminal justice purposes.

| Fund #                       | Fund Name                               | Budget            | Thru 1Q13        | % Used        |
|------------------------------|---|-------------------|------------------|---------------|
| 0003                         | Budget Stabilization Fund               | 173,200           | 0                | 0.00%         |
| 0004                         | Veterans' Assistance Fund               | 90,000            | 16,023           | 17.80%        |
| 0005                         | Insurance Cumulative Reserve            | 160,100           | 608              | 0.38%         |
| 0007                         | SJC-FH Emergency Management Fund        | 86,908            | 20,022           | 23.04%        |
| 1021                         | SJC Conservation Area Fund              | 1,881,759         | 160,138          | 8.51%         |
| 1031                         | Land Bank Stewardship & Management      | 503,229           | 88,010           | 17.49%        |
| 1041                         | SJC Noxious Weed Control                | 254,000           | 15,198           | 5.98%         |
| 1091                         | San Juan County Parks                   | 1,801,746         | 182,384          | 10.12%        |
| 1101                         | Treasurer's Operation & Maintenance     | 21,500            | 0                | 0.00%         |
| 1111                         | Dog License                             | 25,350            | 0                | 0.00%         |
| 1121                         | County Roads                            | 11,583,365        | 1,231,899        | 10.64%        |
| 1221                         | Lodging Tax Fund                        | 1,150,000         | 128,359          | 11.16%        |
| 1251                         | Auditor Document Preservation           | 321,650           | 25,692           | 7.99%         |
| 1271                         | Crime Victims                           | 38,890            | 0                | 0.00%         |
| 1281                         | Mental Health Tax Fund                  | 1,310,000         | 131,183          | 10.01%        |
| 1921                         | Septic & Housing Loans                  | 818,100           | 301              | 0.04%         |
| 1951                         | Public Facilities Improvement Receiving | 1,090,558         | 100,582          | 9.22%         |
| 1961                         | Affordable Housing Fund                 | 411,585           | 23,006           | 5.59%         |
| 1971                         | Criminal Justice Receiving Fund         | 266,525           | 104,790          | 39.32%        |
| 2001                         | Bond Redemption Fund                    | 3,044,852         | 604              | 0.02%         |
| 3061                         | Capital Improvement Fund                | 1,613,543         | 0                | 0.00%         |
| 4011                         | Solid Waste Fund                        | 1,279,678         | 375,767          | 29.36%        |
| 4017                         | Solid Waste Projects Fund               | 287,000           | 34,681           | 12.08%        |
| 4151                         | Stormwater Utility Fund                 | 809,000           | 52,759           | 6.52%         |
| 4157                         | Stormwater Utility Capital Projects     | 526,033           | 2,929            | 0.56%         |
| 5011                         | Equipment Rental & Revolving            | 4,426,953         | 197,433          | 4.46%         |
| 5021                         | Information Technology                  | 625,789           | 121,486          | 19.41%        |
| <b>Grand Total All Funds</b> |   | <b>52,185,285</b> | <b>7,061,193</b> | <b>13.53%</b> |

# Financing Contingencies - Cash vs Reserves

We have spoken in these pages before about San Juan County's cash position. County-wide cash dropped from a high of almost \$24,000,000 in 2006 to a recent low of not quite \$12,500,000 in 2011, before starting to recover at the end of 2012.

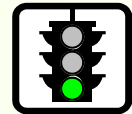


The graph to the left refers to total cash and investments

in all funds at the end of each year. Some parts of that total cash were being held, or "reserved," for specific purposes. For example, part of the cash in the Current Expense Fund was maintained in order to ensure that the County had enough cash on hand to pay its bills. Because revenue is more seasonal than expenditures, we must maintain a certain amount of cash on hand to pay bills before the revenue has come in. That required reserve—formerly called "Working Reserves" but now called "Operating Cash"—has long been informally maintained, but was first codified when the County adopted its first reserve policy in 2009.

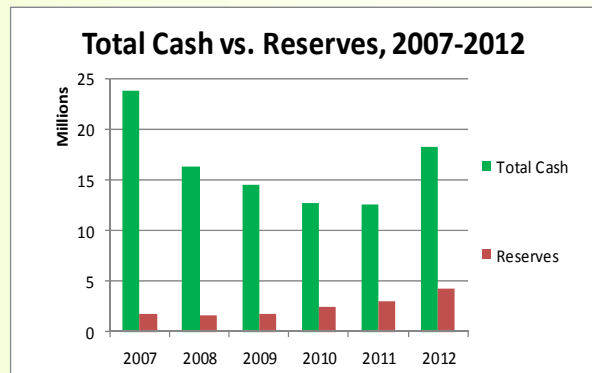
The cash crisis of recent years has made the County aware of the need to maintain cash reserves for other purposes, as well. We have long had insurance reserves to pay the County's deductible of insurance claims against the County, and grant cash reserves to fund grant expenditures prior to reimbursement of

those expenditures by the granting agency. In 2009, we added operating cash reserves to the lodging tax funds, because those funds typically spend the lodging tax revenue faster than it comes in; reserves in the Mental Health Tax Fund to operate a therapeutic court, as required by the enabling legislation; and reserves for recording equipment in the Auditor's Document Preservation Fund and for livestock reimbursements in the Dog License Fund.



In addition to establishing these reserves, the Council has been conscientiously funding them—even increasing them—for the past several years. In fact, when 2012 ending cash came in almost \$500,000 more than budgeted, the Council moved all of that money to reserves: \$200,000 to the Budget Stabilization Fund (AKA Rainy Day Fund), \$200,000 to capital reserves, and \$100,000 to grant cash reserves.

As a result, the percentage of the County's cash on hand that is reserved for specific purposes has markedly increased in recent years, as shown in the graph below. Continued conscientious reserving will keep the County better prepared for future financial challenges.



## San Juan County Reserve Accounts, 2007-2012

| Fund Name             | Reserve Account                 | 2007             | 2008             | 2009             | 2010             | 2011             | 2012             | 2013 adopted     | 2013 amended     |
|-----------------------|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Current Expense       | Operating Cash                  | 1,400,188        | 1,267,982        | 1,268,331        | 1,054,836        | 1,306,055        | 1,400,610        | 1,621,752        | 1,574,734        |
| Grants Fund           | Grants Cash Reserve             | 300,000          | 300,000          | 300,000          | 300,000          | 300,000          | 300,000          | 300,000          | 400,000          |
| Budget Stabilization  | "Rainy Day" Reserves            |                  |                  |                  |                  | 85,000           | 85,000           | 173,200          | 373,200          |
| Insurance Reserve     | Fund Balance                    | 80,735           | 62,006           | 38,941           | 68,483           | 88,696           | 134,554          | 100,000          | 134,554          |
| Dog License           | Livestock Reserves              |                  |                  | 5,000            | 5,000            | 5,000            | 5,000            | 5,000            | 5,000            |
| Facilities Account    | Cash Reserves                   |                  |                  | 75,174           | 73,000           | 101,459          | 124,922          | 190,000          | 210,452          |
| Promotion Account     | Cash Reserves                   |                  |                  | 75,174           | 75,400           | 106,459          | 109,892          | 126,953          | 160,000          |
| Auditor's Doc Pres    | Capital Reserves                |                  | 11328            | 25,000           | 75,000           | 100,000          | 100,000          | 100,000          | 100,000          |
| Mental Health Tax     | Therapeutic Ct Reserves         |                  |                  | 12,500           | 25,000           | 37,500           | 50,000           | 50,000           | 50,000           |
| Capital Improvement   | Reserves for Capital & for Debt |                  |                  |                  | 25,000           | 120,000          | 195,000          | 523,595          | 723,590          |
| ER&R                  | Equipment Reserves              |                  |                  |                  | 800,000          | 704,945          | 1,800,000        | 1,000,000        | 1,000,000        |
| <b>Total Reserves</b> |                                 | <b>1,780,923</b> | <b>1,641,316</b> | <b>1,800,120</b> | <b>2,501,719</b> | <b>2,955,114</b> | <b>4,304,978</b> | <b>4,190,495</b> | <b>4,731,530</b> |