



# San Juan County

## QUARTERLY FINANCIAL REVIEW

2ND QUARTER 2013

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## 2013 Revenues Continue to Disappoint, despite encouraging economic signs

### - Third quarter may hold promise



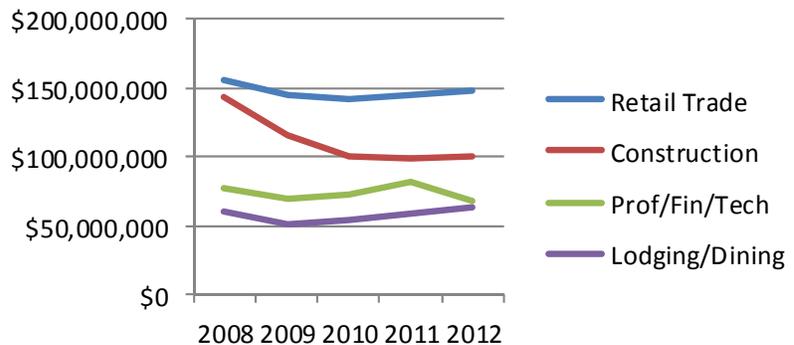
Sales tax revenue to San Juan County in the second quarter of 2013 continued to perform sluggishly, falling far short of 2013 projections.

Sales tax revenue as of the end of June was lower than at the same time in each of the previous four years except for 2011; and at the end of July, it was lower than all four preceding years. Adjusting for seasonality in sales tax receipts, projections through July show sales tax revenue to the general fund coming in at only 89.5% of projection, or \$450,000 below budget.

Sales tax revenue to the County follows sales revenue to merchants by two months. That is, sales made in May are reported by merchants to the state in June, and sales tax revenue is distributed to the cities and counties in July. August sales tax receipts—which represent June sales, or the beginning of our summer season—increased dramatically over previous months and years. They spiked, however, because of two single transactions within the county. Revenue net of those two transactions improved slightly, but it will take remarkably strong third and fourth quarters for the County to finish the year on budget for sales tax revenue.

In other areas, county revenue is also disappointing. Strong permitting and planning revenues in 2012 suggested that we might be heading toward a recovery in our beleaguered construction industry. After a strong first quarter, however, revenues for planning and permitting in the second quarter dipped, now suggesting a year-end finish below both 2013 budget and 2012 revenues. The drop suggests that the 2012 surge could have had more to do with landowners trying to get their permit applications in before the adoption of the Critical Areas Ordinance than with true economic activity.

### Gross Business Income for Major Sectors 2008-2012



(Continued on page 2)

## Revenues Disappointing (continued)

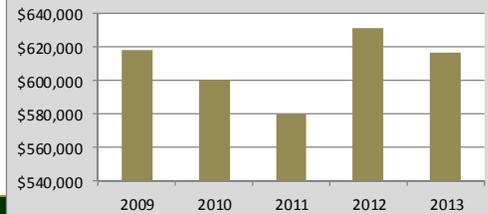


On the positive side, lodging tax revenue for 2013 looks good, continuing the positive trend apparent in the graph on page 1. At its current run rate, lodging tax for 2013 will exceed budget by 25% and set a new record for lodging tax revenues in one year.

Real estate excise taxes are also strong. This revenue, generated by taxes on real estate sales

in the county, benefits both the Land Bank and the County's Capital Improvement Fund. While falling short of the remarkable 2012 results, real estate excise taxes are still exceeding 2013 expectations, suggesting a recovering real estate market.

**First Half Land Bank Real Estate Excise Tax, 2008-2013**



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

In the general fund, the lower-than-average percent of Licenses and Permits revenue received through the second quarter reflects the slower permitting activity in Community Development and Planning, discussed on page 1. The higher run rate for Charges for Goods and Services reflects activities in several departments, including higher charges for dispatch and law enforcement services by the Sheriff.

Total revenue in the general fund is coming in more slowly than in most years. This overall trend, combined with the disappointing performance of sales tax and permitting revenue mentioned above, suggests that general fund revenue will fall short of budget by 1 or 2% at the end of 2013.

County-wide, the high percentage (over 100%) of business taxes received through the second quarter is attributable to the fact that the County is still in the solid waste business. Having expected to be out of that business before the end of the second quarter, we budgeted less refuse tax revenue than we have received. Solid waste operations are also largely responsible for the high run rate of Charges for Goods and Services, since we are still receiving tipping fees. Other factors include high receipts for state-reimbursed services in Health and higher-than-projected recording revenues.



Overall County revenue is coming in more slowly than usual, driven largely by intergovernmental revenue. Unlike service revenue, intergovernmental revenue tends not to come in evenly through the year. In addition, a delay in a single project or grant (in this case, two Roads grants totaling \$1.8 million, very little of which has been received to date) can significantly skew revenue. For these reasons, it is not a concern that overall County revenue is lagging.

# 2013 General Fund & County Revenue by Type



## GENERAL FUND REVENUE

BASUB	Revenue Type	Budget	Thru 2Q13	% Rcvd	Avg 2Q % Rcvd 2009-2012
300	Cash	152,268	0	0.00%	0.00%
311	General Property Taxes	5,916,336	3,442,505	58.19%	56.81%
313	Retail Sales and Use Taxes	4,419,763	1,648,030	37.29%	42.04%
317	Excise Taxes	12,785	8,360	65.39%	44.45%
310	Total Taxes	10,348,884	5,098,895	49.27%	50.97%
320	Licenses and Permits	1,148,701	578,294	50.34%	54.07%
330	Intergovernmental Revenue	1,118,747	547,382	48.93%	52.75%
340	Charges for Goods & Services	1,453,700	711,353	48.93%	44.32%
350	Fines and Forfeits	327,092	133,048	40.68%	48.19%
360	Miscellaneous Revenues	357,871	217,895	60.89%	52.02%
390	Other Financing Sources	440,418	359,092	81.53%	64.41%
	<b>Grand Total</b>	<b>15,347,681</b>	<b>7,645,959</b>	<b>49.82%</b>	<b>50.86%</b>

## COUNTY REVENUE

BASUB	Revenue Type	Budget	Thru 2Q13	% Rcvd	Avg 2Q % Rcvd 2009-2012
300	Cash	10,406,708	0	0.00%	0.00%
311	General Property Taxes	9,751,526	5,682,487	58.27%	57.00%
313	Retail Sales and Use Taxes	5,948,263	2,143,709	36.04%	38.32%
316	Business Taxes	127,000	132,250	104.13%	40.26%
317	Excise Taxes	22,485	13,722	61.03%	48.41%
318	Other Taxes	1,987,000	905,005	45.55%	41.45%
310	Total Taxes	17,836,274	8,877,172	49.77%	48.88%
320	Licenses and Permits	1,190,551	618,027	51.91%	54.06%
330	Intergovernmental Revenue	11,723,064	4,278,472	36.50%	51.34%
340	Charges for Goods & Services	4,131,145	2,430,204	58.83%	42.18%
350	Fines and Forfeits	332,292	134,607	40.51%	48.15%
360	Miscellaneous Revenues	2,660,379	1,430,182	53.76%	48.28%
380	Nonrevenues	100,000	37,775	37.77%	48.30%
390	Other Financing Sources	7,217,219	1,967,072	27.26%	30.30%
	<b>Grand Total</b>	<b>55,597,632</b>	<b>19,773,511</b>	<b>35.57%</b>	<b>45.57%</b>



# General Fund Expenditures

The table below shows expenditures in the Current Expense Fund, by department, through the second quarter of this year. Highlighted are departments which are near or above 50% expenditures. Typically, expenditures should be below 50% at year-end, to allow capacity for “13th month” expenditures, which are payments in January for services or goods delivered during the previous year. Individual departments may have reasons for exceeding 50% at mid-year. For example, the Treasurer’s expenditures are front-loaded in the year because of the cost of mailing tax statements in February. “Operating Transfers,” which is a department out of which transfers from the general fund to other funds are made, makes some of its transfers at the beginning of the year. Similarly, General Admin-

istration is high because of transfers to reserves made early in the year. Civil Service, which tests civil service employees, has been busy with many new hires for the Sheriff early this year, but all positions are now filled.

Overall, the status of general fund expenditures is satisfactory.

In the Current Expense Grants Fund “00” department (see the next page), expenditures are high because of a transfer to the general fund. The status of the Emergency Management Grants department is discussed on the following page.

Fund & Dept #	Fund/Department Name	Budget	Thru 2Q13	% Used
<b>0001</b>	<b>County Current - General</b>			
00	General	0	0	0.00
13	County Administration	647,531	308,958	47.71
16	Assessor	819,254	404,714	49.40
19	Auditor	710,142	354,216	49.88
22	Board of Equalization	8,356	3,376	40.40
25	Facilities	507,552	229,978	45.31
28	Civil Service	17,737	9,303	52.45
31	Clerk	356,119	176,619	49.60
34	County Council	516,324	225,309	43.64
37	Dispatch/E911	958,832	414,349	43.21
40	Community Development & Planning	1,474,953	685,015	46.44
43	County Agent	228,737	88,916	38.87
46	District Court/Probation	619,387	277,764	44.85
49	Election Reserve	212,502	100,244	47.17
52	General Administration	1,558,419	773,744	49.65
55	Health & Community Services	1,270,569	579,869	45.64
58	Jail	381,861	131,676	34.48
61	Juvenile Court	392,421	150,472	38.34
64	Law Library	22,192	7,453	33.59
67	Operating Transfers	504,732	335,982	66.57
73	Prosecuting Attorney/Coroner	975,631	469,540	48.13
76	Sheriff	2,650,613	1,340,562	50.58
82	Superior Court	184,913	90,415	48.90
85	Treasurer	328,904	170,400	51.81
<b>Total</b>	<b>County Current - General</b>	<b>15,347,681</b>	<b>7,328,875</b>	<b>47.75%</b>

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

# Other Fund Expenditures



As with revenues, other fund expenditures are more likely than general fund expenditures to be below budget. In fact, only the emergency management and solid waste funds are near or over 50% at mid-year. Solid Waste is high because it is still in the solid waste business, after it was supposed to have ceased operation. Fortunately, because it is not making any capital expenditures and has only limited management, its cash position is staying in the black.

Emergency Management expenditures are high in both grant-funded and County-funded operations. This is an area of concern, as the department has also already spent 91% of its grant funds for the year. The Auditor's Office is working with the director to keep his fund in the black, and to amend the budget, if needed, to account for additional expenditures supported by additional revenue.



Fund & Dept #	Fund/Department Name	Budget	Thru 2Q13	% Used
<b>0002</b>	<b>Current Expense Grants Clearing</b>			
00	Current Expense Grants Clearing	92,384	253,602	274.51%
40	Planning Grants	523,046	258,507	49.42%
43	WSU Extension	0	260	0.00%
55	Health & Community Services Grants	1,986,965	1,009,656	50.81%
61	Juvenile Court Grants	137,249	40,205	29.29%
71	Emergency Management Grants	67,838	61,776	91.07%
73	Prosecutor Grants	219,842	95,444	43.41%
76	Sheriff Grants	220,825	28,756	13.02%
<b>Total</b>	<b>Current Expense Grants Clearing</b>	<b>3,248,149</b>	<b>1,748,210</b>	<b>53.82%</b>

Fund #	Fund Name	Budget	Thru 2Q13	% Used
0003	Budget Stabilization Fund	373,200	0	0.00%
0004	Veterans' Assistance Fund	70,782	31,770	44.88%
0005	Insurance Cumulative Reserve	194,654	608	0.31%
0007	SJC-FH Emergency Management Fund	86,962	46,980	54.03%
1021	SJC Conservation Area Fund	1,881,759	495,640	26.34%
1031	Land Bank Stewardship & Management	503,229	202,872	40.31%
1041	SJC Noxious Weed Control	260,610	30,309	11.63%
1091	San Juan County Parks	1,794,812	536,497	29.89%
1101	Treasurer's Operation & Maintenance	22,422	94	0.42%
1111	Dog License	25,350	11,754	46.37%
1121	County Roads	11,840,401	3,932,988	33.22%
1221	Lodging Tax Fund	1,192,743	396,141	33.21%
1251	Auditor Document Preservation	385,122	60,214	15.64%
1271	Crime Victims	32,643	0	0.00%
1281	Mental Health Tax Fund	1,423,498	282,148	19.82%
1921	Septic & Housing Loans	723,866	87,287	12.06%
1951	Public Facilities Improvement Receiving	1,155,623	132,535	11.47%
1961	Affordable Housing Fund	418,905	128,224	30.61%
1971	Criminal Justice Receiving Fund	264,440	104,790	39.63%
2001	Bond Redemption Fund	3,044,290	294,149	9.66%
3061	Capital Improvement Fund	1,983,996	65,547	3.30%
4011	Solid Waste Fund	1,368,075	887,380	64.86%
4017	Solid Waste Projects Fund	722,303	96,688	13.39%
4151	Stormwater Utility Fund	1,160,971	140,360	12.09%
4157	Stormwater Utility Capital Projects	527,415	7,287	1.38%
5011	Equipment Rental & Revolving	4,795,953	718,911	14.99%
5021	Information Technology	747,778	333,561	44.61%
<b>Grand Total All Funds</b>		<b>55,597,632</b>	<b>18,101,830</b>	<b>32.56%</b>

## When is a Sales Tax not a Sales Tax?

Klickitat	7.0%
Asotin	7.5%
Garfield	7.5%
Pend Oreille	7.6%
Stevens	7.6%
Wahkiakum	7.6%
Adams	7.7%
Benton	7.7%
Clark	7.7%
Cowlitz	7.7%
Ferry	7.7%
Lincoln	7.7%
Okanogan	7.7%
Skamania	7.7%
Douglas	7.8%
Lewis	7.8%
Pacific	7.8%
Skagit	7.8%
Whitman	7.8%
Columbia	7.9%
Grant	7.9%
Thurston	7.9%
Whatcom	7.9%
Yakima	7.9%
Franklin	8.0%
Kittitas	8.0%
San Juan	8.1%
Spokane	8.1%
Walla Walla	8.1%
Chelan	8.2%
Clallam	8.4%
Grays Harbor	8.4%
Mason	8.5%
Kitsap	8.6%
Snohomish	8.6%
Island	8.7%
Pierce	8.8%
Jefferson	9.0%
King	9.5%

Sales tax is comprised of many components. The allowed uses, and sometimes the sources, of those components differ. Here's a little primer on the components and allowed uses of sales tax.

"Sales tax" is collected by retail sale outlets, including stores, restaurants, online sellers (if they have a physical presence in the state), and providers of lodging and many other services.

If you purchase something online that is not taxed, or buy something in a state with no sales tax, and you plan to use that item in Washington State, you are liable for "use tax." Use tax is the same as sales tax, except that it is reported and remitted to the State by the purchaser. The State doesn't monitor use tax with individuals, but does aggressively pursue use tax from businesses, through education and audits.

The "base" rate for sales and use tax in Washington is 6.5%. That's the State amount, and all of it goes to the State—unless they choose to give it back, and we'll see two instances of that below. Counties and cities are allowed at Council/Commission discretion to add an additional 1% "local option" tax. Only one county—Klickitat—has not adopted the full 1% allowed, but all of its incorporated cities and towns have. So effectively, the base rate in Washington State is 7.5%.

The nominal rate in San Juan County is 8.1%—not the lowest, but far from the highest in Washington State (see table to left). So how did we get from the 7.5% "base" rate to 8.1%? Cities and counties are allowed to add various other components to sales tax. Some require a public vote, and some can be adopted by

and .1% for jails and juvenile detention.

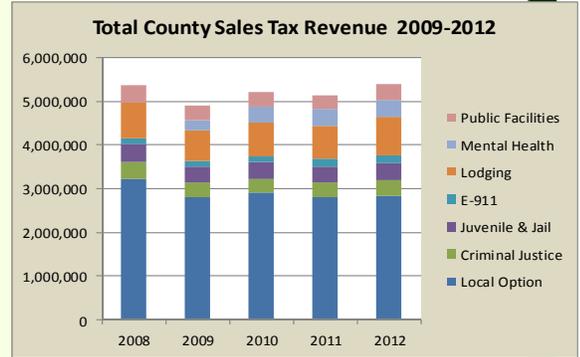
In December of 2008 Council adopted the .1% Mental Health Sales Tax, which may only be used to support mental health and

substance abuse programs. Then in November of 2012, the public voted to add a .3% Public Safety tax. Forty percent of the amount collected must be divided between all the incorporated areas in the county; in our case, that means it all goes to the Town of Friday Harbor. As a "public safety" sales tax, at least one-third of the proceeds must be used by both the Town and the County to provide criminal justice and fire protection services. This particular tax is assessed on all sales subject to retail sales tax except for automobile sales.

But there's more! In addition to our 8.1% sales tax, guests of our local lodging establishments pay another 2% called "lodging tax." Actually, the total lodging tax is 4%. The first 2% of it the State gives back to us out of its 6.5%. The second 2% is added to the 8.1%, so lodging guests pay a total of 10.1% sales tax for their accommodations. Advised by a local Lodging Tax Advisory Committee, the County Council awards all of the lodging taxes collected to build tourism facilities, support tourism activities, or promote San Juan County as a travel destination.

The .09% Rural Sales and Use Tax, also called the Public Facilities Sales Tax, is distributed to small counties of low population density out of the State's 6.5% - another place where we get some of that 6.5% back. The money must be used on capital projects belonging to public entities, and must encourage economic development. A committee meets annually to grant awards out of these dollars; the Town, Port of Friday Harbor, and local Economic Development Commission are part of the committee that recommends how to spend those funds.

Here's another secret: that "E-911" tax you pay on your cell or landline is also technically classified as a sales tax. Local proceeds are used to support our E-911 dispatch center.



Council. Unlike the 1% local option tax, all are limited to specific uses.

Until recently, San Juan's rate was 7.7%, which was the base 7.5% plus .1% for criminal justice funding

### Local Components of San Juan County's 8.1% Sales Taxes

Tax	Rate	RCW	Permitted Uses	Notes
"First Half Cent"	.5%	82.14.030(1)	Unrestricted	
"Second Half Cent"	.5%	82.14.030(1)	Unrestricted	
Criminal Justice	.1%	82.14.340	Criminal justice purposes, broadly defined	10% to County, rest to Town/County based on population
Juvenile Detention & Jails	.1%	82.14.350	Juvenile detention facilities & jails	
Mental Health	.1%	82.14.460	Mental health and chemical dependency	
Public Safety	.3%	82.14.450	At least 1/3 on criminal justice or fire protection	40% goes to incorporated areas in the county