



F. Milene Henley, Auditor San Juan County

PO Box 638
(360) 378-2161

Friday Harbor, Washington 98250
FAX (360) 378-6256

How Are We Doing?

A quarterly review of County finances by County Auditor F. Milene Henley Third quarter 2014

This is a very late third quarter financial report. It's been a tough one to write, in part because I've been busy with the 2015 budget. But more than that, this report has been tough because it conveys a mixed message.

The good news is that the local economy has continued to perform well this year, and as a result, County revenues have outperformed projections. Sales tax revenue will come in around 5% above budget. The Land Bank's real estate excise tax has topped \$2.1 million, and will likely finish the year 50% above budget – though still barely more than half its historic high of \$3.9 million. Lodging taxes have hit a record \$1 million, running about 15% above budget. Planning and permitting activities did not experience the drop-off expected earlier this year, and will also finish 12-15% above budget.

The bad news is that revenues to the County's general fund are still not keeping up with needs. In such a good year, one has to ask why.

Part of the answer has to do with the nature of county funding. Many sources of funding are restricted in use; that is, they can be used only for specific purposes. Land Bank funds, most obviously, can be used only to purchase and maintain Land Bank properties. Capital Improvement real estate excise taxes (.5% of real estate sales) can be used only for capital expenditures, such as buildings, roads, park facilities, and stormwater projects. Lodging taxes can be used only for tourism promotion, activities, or facilities. Planning and building permit revenue, by design, pays only for the people who issue the planning and building permits.

Most of the County's sales tax revenue can be used for any purpose, but part of it is restricted to expenditure on criminal justice activities. Since criminal justice expenditures all come out of the general fund, those activities consume a lot of the general fund revenue.

That leaves the bulk of general fund expenditures – for administration, finance, legal, courts, policing, cooperative extension, health, senior services, planning, etc. – largely dependent on property taxes, unrestricted sales taxes, and grants. Yet grants are shrinking and property taxes are growing slowly, more slowly even than the consumer price index (CPI). And all of our expenses, including payroll, services, utilities, and supplies, are growing more rapidly than either CPI or property taxes.

So while it's true, and wonderful news, that the local economy is recovering, local governments still find themselves in a place where revenues are growing more slowly than expenditures. This structural imbalance made the preparation of the 2015 budget particularly challenging. To resolve it, Council had to elect to use about \$650,000 of cash to plug the gap between revenue and expenditures. Projections for 2016 and 2017, based on current growth rates, show that the gap will increase in future years. Ultimately, the

State will have to address the problem by allowing property taxes to grow more than 1% (plus new construction) each year, or the County will have to make some tough choices about service reductions.

Not much of a holiday message, I know. But knowing what lies ahead prepares us better for dealing with it. Enjoy your holidays, and I'll check in with you again next year.