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How Are We Doing?

A quarterly review of County Finances by County Auditor F. Milene Henley
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I am a worrier. It's not a fun job, but somebody has to do it. It's the worriers of the world (WOW) who make sure the heat is turned off during vacation, that we have enough turkey for all our guests, and that we have a backup plan in case that restaurant we're going to requires too long a wait.

Unfortunately, it's also the worriers of the world who can't see a good thing without worrying about it. For me, that thing is sales tax. Sales tax revenue in San Juan County has grown phenomenally in the past four years. Looking just at the County's basic 1% sales tax, its annual growth has been between 6% and 13% from 2013 through 2016. Growth rates of sales tax countywide – which includes the Public Safety Sales Tax (which went into effect in 2013), the mental health sales tax, and the rapidly growing lodging tax – ranged from 9% to 16.5%.

Growth of San Juan County Sales Tax, 2013-2016

	2013	2014	2015	2016
Basic 1% Sales Tax	5.76%	8.90%	8.43%	12.90%
Lodging Tax	12.13%	16.59%	11.58%	9.45%
All County Sales Tax	16.58%	10.71%	9.23%	11.52%

Sales tax revenue is more significant to San Juan County than to most counties. Most sales activity takes place in cities and towns, where the stores and restaurants are. Because San Juan County has only one town, much of its sales activity takes place outside of town, increasing the significance of sales tax revenue to this County, relative to other counties.

The tremendous recent growth of sales tax revenue in San Juan County, combined with its already higher significance to the County, has created an extraordinary dependence on this source of revenue. In 2008, sales tax represented about 30% of the County's general fund revenue, and property tax represented about 36%. In 2010, sales tax dropped to 26% and property tax increased to 42%. The large change in the relative importance of the two revenue sources was caused by a combination of falling sales tax revenue caused by the recession and increased property tax revenue caused by the 2009 voter-approved property tax "levy lid lift."

Since 2010, as sales tax has recovered and thrived, property tax has been constrained in how much it can grow. Property tax, since the 2001 passage of Initiative 747, is limited in growth to 1% per year, plus an adder for new constructive. Property tax growth had averaged about 4% from 2001 through 2007, but the demise of the construction industry in 2008-2009 dropped that growth rate to 1-2% thereafter, because of the loss of revenue from new construction. So while sales tax was growing as a percentage of general fund revenue, property tax was falling.

Final 2016 revenue figures show that property tax represented only 36% of general fund revenue, and sales tax represented an almost equal share, at 35%. At their relative growth rates, it won't be long before sales tax bypasses property tax.

So what's wrong with that? Nothing, for now. The local economy and government are being boosted by local sales and sales tax, and that's a good thing. But as a worrier, I worry that sales tax may not continue this strong forever. In the event of another economic correction, sales tax could even drop, as it did in 2009. The results would be even more catastrophic now than they were then, since the County is more reliant on sales tax now than it was eight years ago.

For now, I'm grateful for what we have. But I have to admit: I'm worried.