



San Juan County

QUARTERLY FINANCIAL REVIEW

4TH QUARTER 2013

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County Continues to See Slow Progress



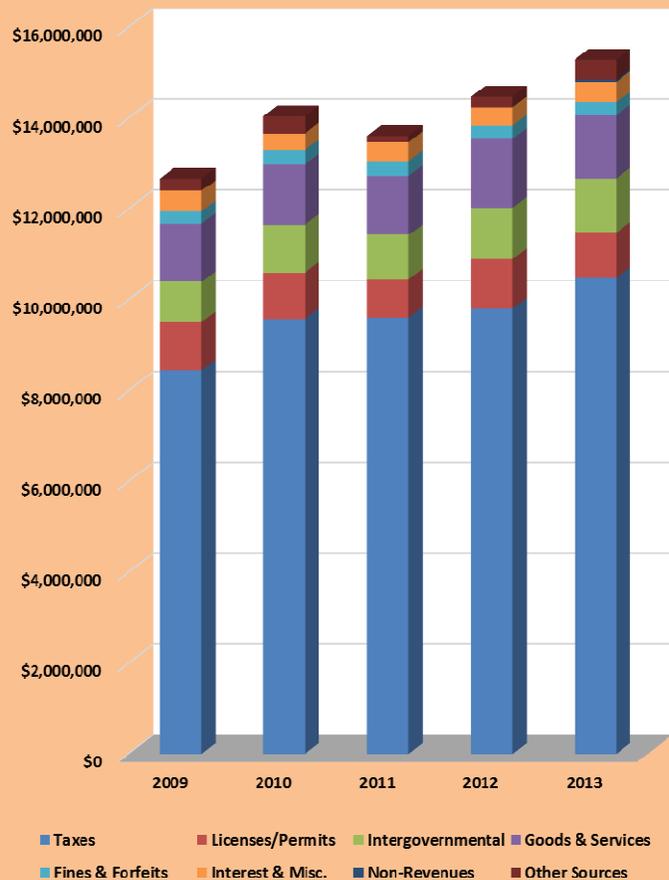
Like the proverbial tortoise, San Juan County is steadily inching its way to economic recovery. Current Expense (general) fund revenues in 2013 totaled \$15,286,124, an increase of 7.7% over 2012. Although about half of that increase was attributable to the voter-approved Public Safety Sales Tax, the remainder suggests small but steady increases in county economic activity, including strong retail sales, a vibrant tourism industry, moderate permitting and building activity, and a recovering real estate market.

Sales tax revenue started slow in 2013, but finished strong. The unrestricted "local option" sales tax exceeded 2012's performance by more than 5%. In addition, the Public Safety Sales Tax (PSST) adopted by voters in November 2012 added another 20% (almost \$600,000). The PSST funds must be spent on criminal justice or public service activities, which represented about 44% of total Current Expense expenditures in 2013.

Lodging tax is another restricted component of sales tax. These funds are available both to promote San Juan County as a tourist destination, and to fund local facilities and activities which serve tourists. Many of those facilities and activities also serve year-round residents. For example, the local performing art facilities (San Juan Community Theatre, Orcas Center, and Lopez Community Center) all receive funding from lodging taxes. The past two years have seen significant increases in lodging tax revenue, deriving from a healthy tourism economy and resulting in increased funding for local cultural, historical, and recreational activities.

Permitting activity in the county slowed in 2013 compared to 2012. Still, applications for permits continue to come in the door, and applications submitted in 2013 remained higher than the recent low point of 2011. Single-family residence (SFR) permits issued in 2013 exceeded the number issued in 2012, continuing the slow increase started in 2012.

Current Expense Revenue by Type, 2009-2013



(Continued on page 2)

County Continues to See Slow Progress (cont'd)



The real estate market has an effect on the building industry. Low prices and a high inventory of homes for sale will tend to decrease building activity. Real estate sales affect County

government by generating real estate excise taxes, which fund the Land Bank and most other capital activity in the County. Like permitting, real estate sales in the county in 2013 continued a slow climb. Total transactions were up slightly on Orcas and Lopez, and down slightly for the county as a whole. On the positive side, median home price was up.

County revenues reflect the general economic condition of county residents, and for 2013, most signs were to the good. We look for more improvement for both residents and government in 2014.

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 2013, and shows that amount as a % of total budget.

Sales tax performance exceeded budget in both the general fund and county-wide, despite getting off to a slow start in 2013. There is evidence to suggest that patterns of sales tax revenue are shifting, with a larger percentage of sales tax coming in the summer months than previously, resulting in a “peakier” revenue. (See article on “Seasonality of Revenues in the San Juans” on page 6.)

Revenue for “Licenses and Permits” fell far short of budget in both the general fund and county-wide, because of slowed building permit activity.

“Intergovernmental Revenue” was slightly higher than projected in the general fund, primarily

because of unbudgeted grant reimbursements for the Shoreline Master Program. This revenue reflects the County’s increasing reliance on grants and other state payments, even in the Current Expense fund.



“Miscellaneous Revenues” in the general fund are primarily interest earnings. For the first time in several years, the County received more interest income than budgeted. Sadly, that reflects not higher interest rates, but lower expectations.

In total, general fund revenue slightly exceeded budget revenue (excluding beginning cash, which is budgeted as a revenue in cash-basis entities). County revenue fell short of budget primarily because some budgeted internal transfers (“Other Financing Sources”) did not happen. Operational revenue came in very close to budget.

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

NOTE: This is the first quarter all indicators have been green!

4Q13 General Fund & County Revenue by Type



GENERAL FUND REVENUE

BASUB	Revenue Type	Budget	Thru 4Q13	% Rcvd
300	Cash	220,974	0	0.00%
311	General Property Taxes	5,916,336	5,929,911	100.23%
313	Retail Sales and Use Taxes	4,419,763	4,538,168	102.68%
317	Excise Taxes	12,785	17,454	136.52%
310	Total Taxes	10,348,884	10,485,533	101.32%
320	Licenses and Permits	1,148,701	997,155	86.81%
330	Intergovernmental Revenue	1,178,747	1,192,024	101.13%
340	Charges for Goods & Services	1,453,700	1,386,104	95.35%
350	Fines and Forfeits	327,092	286,118	87.47%
360	Miscellaneous Revenues	357,871	451,995	126.30%
380	Nonrevenues	0	50,000	
390	Other Financing Sources	440,418	437,195	56.47%
	Grand Total	15,476,387	15,286,124	98.77%
	Grand Total, excluding cash	15,255,413	4,833,875	100.2%

COUNTY REVENUE

BASUB	Revenue Type	Budget	Thru 4Q13	% Rcvd
300	Cash	10,475,414	0	0.00%
311	General Property Taxes	9,751,526	9,773,999	100.23%
313	Retail Sales and Use Taxes	5,948,263	6,289,442	105.74%
317	Excise Taxes	22,485	29,587	131.59%
318	Other Taxes	2,114,000	2,778,426	139.83%
310	Total Taxes	17,836,274	18,871,453	105.80%
320	Licenses and Permits	1,190,551	1,056,741	88.76%
330	Intergovernmental Revenue	12,148,753	10,169,234	83.71%
340	Charges for Goods & Services	5,034,211	5,169,057	102.68%
350	Fines and Forfeits	332,292	290,584	87.45%
360	Miscellaneous Revenues	2,660,379	2,909,774	109.37%
380	Nonrevenues	132,000	163,715	124.03%
390	Other Financing Sources	7,221,399	4,572,743	63.32%
	Grand Total	57,031,273	43,203,301	75.75%
	Grand Total, excluding cash	46,555,859	43,203,301	92.80%



General Fund Expenditures

The tables below and to the right show the 2013 actual expenditures, as compared to budget, of each department and fund in the County.

Departments whose expenditures exceeded budget are highlighted below. Few did, and none to an extent to cause concern.

The Assessor's Office exceeded budget because of unbudgeted expenditures on computer equipment. The increase in expenditures was balanced by an increase in state grant reimbursements.

A big hiring year for the Sheriff caused the very

small Civil Service department to exceed budget by a big percentage but a small dollar amount.

Excess and unexpected accrued interest expense pushed the Treasurer over budget, more than balanced by greater-than-budgeted interest income.

Overall, Current Expense came in at a comfortable 96% of budget.

Fund & Dept #	Fund/Department Name	Budget	Thru 4Q13	% Used
0001	County Current - General			
00	General	0	17,785	--
13	County Administration	647,531	611,069	94.37%
16	Assessor	819,254	870,339	106.24%
19	Auditor	710,142	711,625	100.21%
22	Board of Equalization	8,356	3,440	41.17%
25	Facilities	507,552	505,108	99.52%
28	Civil Service	17,737	20,592	116.10%
31	Clerk	356,119	353,094	99.15%
34	County Council	516,324	464,073	89.88%
37	Dispatch / E911	958,832	958,696	99.99%
40	Community Development & Planning	1,543,659	1,490,167	96.53%
43	County Agent	228,737	179,938	78.67%
46	District Court/Probation	619,387	566,256	91.42%
49	Election Reserve	212,502	206,010	96.95%
52	General Administration	1,618,419	1,338,817	82.72%
55	Health & Community Services	1,270,569	1,225,189	96.43%
58	Jail	381,861	324,134	84.88%
61	Juvenile Court	392,421	323,982	82.56%
64	Law Library	22,192	17,697	79.75%
67	Operating Transfers	504,732	496,956	98.46%
73	Prosecuting Attorney/Coroner	975,631	989,113	101.38%
76	Sheriff	2,650,613	2,651,862	100.05%
82	Superior Court	184,913	188,988	102.20%
85	Treasurer	328,904	355,322	108.03%
Total	County Current - General	15,476,387	14,870,253	96.08%
0002	Current Expense Grants Clearing	0	0	0.00%
00	Current Expense Grants Clearing	253,602	253,602	100.00%
40	Planning Grants	501,983	536,828	106.94%
43	WSU Extension	0	260	--
55	Health & Community Services Grants	1,625,167	1,876,404	115.46%
61	Juvenile Court Grants	129,325	76,074	58.82%
71	Emergency Management Grants	422,588	278,265	65.85%
73	Prosecutor Grants	219,842	205,327	93.40%
76	Sheriff Grants	118,646	78,808	66.42%
Total	Current Expense Grants Clearing	3,271,153	3,305,568	101.05%

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. Only two funds exceeded budget: The Land Bank Stewardship & Management Fund, and the Lodging Tax Fund. The LB Stewardship Fund is a division of and is reported with the SJC Conservation Area (Land Bank) Fund; combined, they fell well below budget.

The Lodging Tax Fund exceeded budget because of an accounting change. Two funds (Facilities and Promotion) were combined into one Lodging Tax Fund in 2013. At the beginning of the year, a fund balance had to be transferred from the old, closed Facilities Fund to the new combined fund. Expenditures for the year exceeded budget because of that transfer.

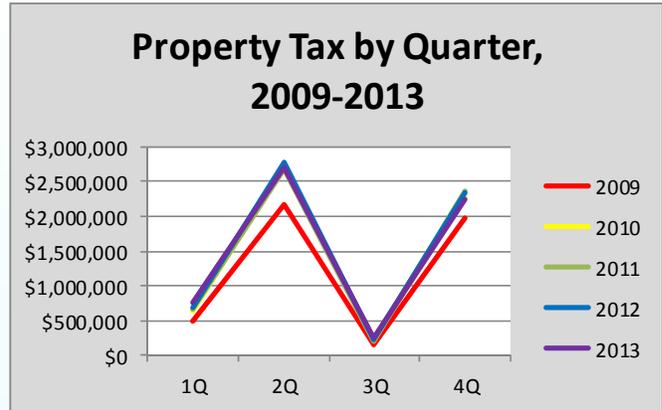
Fund #	Fund Name	Budget	Thru 4Q13	% Used
0003	Budget Stabilization Fund	0	0	0.00%
0004	Veterans' Assistance Fund	60,782	55,538	91.37%
0005	Insurance Cumulative Reserve	194,654	9,863	5.07%
0007	SJC-FH Emergency Management Fund	86,962	86,947	99.98%
1021	SJC Conservation Area Fund	1,881,759	1,705,221	90.62%
1031	Land Bank Stewardship & Management	503,229	506,418	100.63%
1041	SJC Noxious Weed Control	118,517	80,111	67.59%
1091	San Juan County Parks	1,797,835	1,603,849	89.21%
1101	Treasurer's Operation & Maintenance	3,050	2,180	71.47%
1111	Dog License	20,350	18,503	90.93%
1121	County Roads	10,398,034	9,301,972	89.46%
1221	Lodging Tax Fund	779,761	962,334	123.41%
1251	Auditor Document Preservation	160,206	107,605	67.17%
1271	Crime Victims	32,643	18,875	57.82%
1281	Mental Health Tax Fund	796,915	632,335	79.35%
1921	Septic & Housing Loans	456,980	456,980	34.15%
1951	Public Facilities Improvement Receiving	608,186	322,809	53.08%
1961	Affordable Housing Fund	254,586	186,377	73.21%
1971	Criminal Justice Receiving Fund	169,790	169,790	100.00%
2001	Bond Redemption Fund	3,010,204	1,779,794	59.13%
3061	Capital Improvement Fund	855,950	313,812	36.66%
4011	Solid Waste Fund	1,884,656	1,709,830	90.72%
4017	Solid Waste Projects Fund	274,823	212,909	77.47%
4151	Stormwater Utility Fund	786,379	290,498	36.94%
4157	Stormwater Utility Capital Projects	438,420	100,398	22.90%
5011	Equipment Rental & Revolving	2,592,183	1,646,312	63.51%
5021	Information Technology	668,362	652,985	97.70%
Grand Total All Funds		47,582,756	41,094,532	86.36%

Seasonality of Revenues in the San Juans

It's no news to those of us who live here that the San Juan Islands have seasons. Midwesterners may laugh at us for our exaggerated sense of climatic seasons, including our aversion to snow and our wilting when the temperature gets over 75°. But few communities experience the revenue seasonality that we do, and that is no laughing matter.

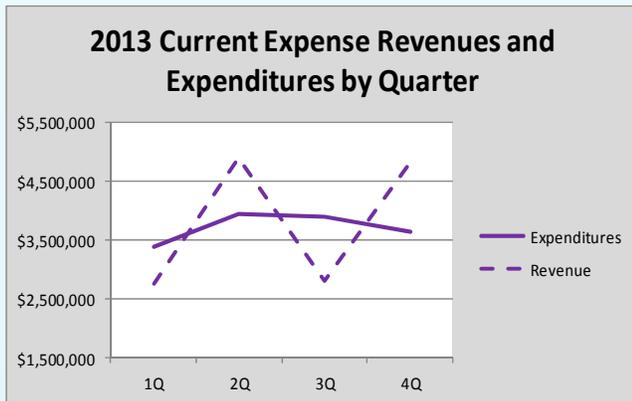
For residents, many jobs go away or diminish in the winter. For the County, some forms of revenue do the same. You'd expect lodging tax to decrease in the winter, but did you know that sales tax overall does the same thing? Permitting revenue also varies with the seasons. Surprisingly, even fines and forfeit revenue has marked seasonality. And of course, property tax has its own seasonality, which has nothing to do with the weather.

Unfortunately, expenditures are much less seasonal. (See chart below.) It's because revenue is seasonal but expenditures are not that the County takes care to maintain operating reserves of cash. Without a couple months' revenue in reserve, the County could easily run out of cash before property taxes start trickling in in March.



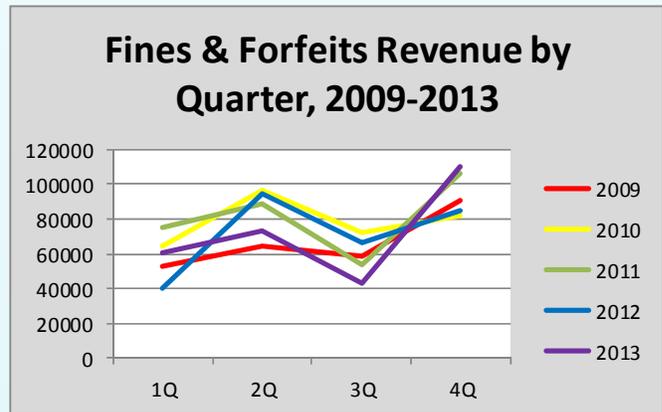
the levy lid lift amounts approved by voters in November 2009. Second, first quarter receipts are always higher than third quarter, because some happy customers always pay their property tax as soon as the bill is received. A slight increase each year in the amount received in the first quarter suggests some more taxpayers (though still a very small number) are paying early, perhaps low interest rates mean there's little value to keeping money in the bank.

Now the surprising one: Fines and Forfeits (basically,



The graphs below illustrate the seasonality of various County revenue sources. Each tracks revenue by quarter for the last five years.

Let's start with the easy one: property tax. Most of us pay our property taxes when they're due, and not a moment sooner. That's why there are big spikes in property tax revenue in April and October (bleeding into May and November). That's a pattern that's not likely to change, unless state law changes the due dates. Two things to notice about this chart: First, the increase from 2009 to subsequent years reflects

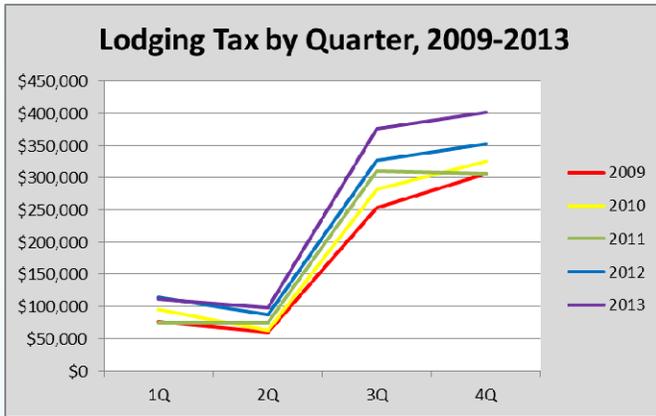


penalties and fines, both civil and criminal) are also seasonal. There are two reasons for this seasonality: First, more people here in the summer makes for more traffic and parking violations, as well as other unacceptable behavior. And second, the largest component of this revenue is penalties for late payment of property taxes. As with regular property taxes, payment of property tax penalties peaks in April and October.

With more people in the county, many of them staying in vacation accommodations, eating in restaurants and spending money in our stores, we should expect more

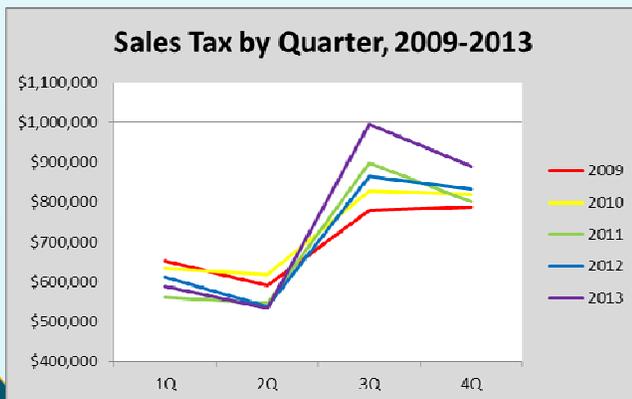
Seasonality of Revenues in the San Juans

sales and lodging tax revenue in the summer months. The only surprise may be that fourth quarter (October through December) revenue for lodging tax is consist-



ently higher than third quarter (July through September). Here's why: Sales tax revenue to the County comes in two months after it is paid (that is, June sales are reported to the state in July, and the money is distributed to the counties in August). But small businesses – which many of our lodging establishments are – pay quarterly instead. That means that they report their sales for July, August & September in October, and we get the revenue in November.

Sales tax, unlike lodging tax, does show a dip in the fourth quarter. Perhaps the late summer/early fall visitors spend less money on things other than accommodations than the summer visitors. Another thing to notice about sales tax receipts is that they are becoming "peakier"; that is, first and second quarter revenues have been lower, and third and fourth quarter revenues higher, in recent years. This change is one of the reasons we have started off the last two years expecting poorer sales tax performance than we have ultimately seen. The pre-recession years of 2007 and



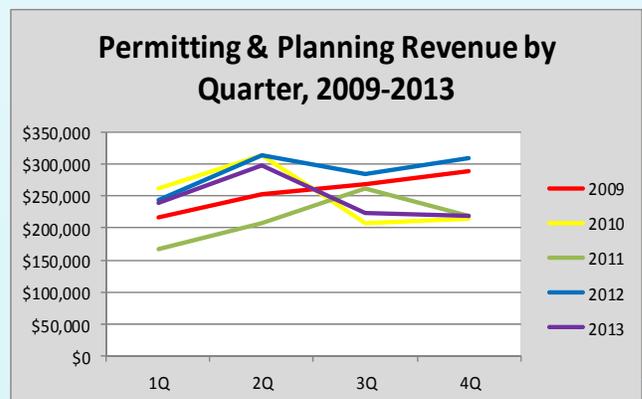
2008 (not shown on the graph) are also much less "peaky" than 2012 and 2013, adding to the conviction that revenue patterns have changed. I can't explain why, so if you have theories, let me know.

Here's another fact that may surprise: real estate sales are also seasonal. I guess it's true that people come here, fall in love with the place, and buy. Or maybe they just come to look when the weather is good. Either way, there appears to be a seasonal peak in the third quarter. The recession years of 2010 and 2011 did not show that peak, but overall sales were so depressed that regular patterns may not have held. 2012, by contrast, was such a remarkable sales year that the peak continued into



the fourth quarter, sales increasing each quarter all year. 2013 returned to a more normal pattern.

Finally, permitting and planning revenues are also seasonal. Although there's considerable variation year-to-year, the general annual pattern is that owners and builders plan in the fall, apply in the winter, and pick up their permits in the spring so they can build in the good weather of summer. Here's to more building in the future!



Economic Development in the San Juans

Long-term economic improvement for both County residents and the government that serves them depends on economic development. An economy dependent on the well-being of wealthy retired residents would lack both diversity and the vitality that comes of a thriving family community. Yet most residents of San Juan County would agree that we don't want the kind of development that some communities seek. Certainly, we would be no more interested in having a Wal*Mart nearby than Wal*Mart would be interested in us, this community being too small to support such a business. So what options are available for clean, conscionable economic development here in the islands?

The Economic Development Council of San Juan County hosted an Economic Development Summit in November of 2013. The meeting discussed strengths and weakness of the current San Juan County economy, and strategies to improve it. Of the plethora of ideas discussed, five areas of potential economic impact were identified, and workgroups assigned to pursue each. The five areas identified for further work were:

- Improved broadband Internet service to the county
- Business incubation services
- Local educational opportunities to help our younger workforce find work in our community
- The Salish Sea as a learning destination



- Brand identification for the county and the islands



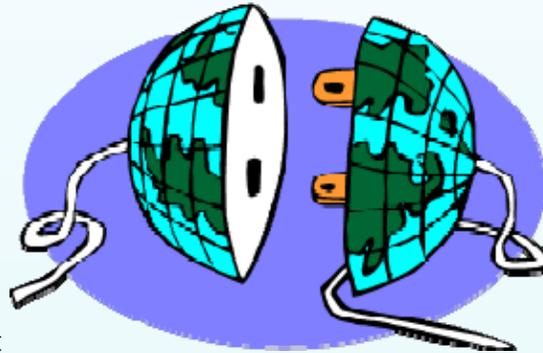
A follow-up meeting for the summit is planned for this spring. Workgroups will discuss actions and ideas developed since the summit, and collaborative plans to take action may be developed.

For more information about the Economic Development Summit or other economic development news, contact Victoria Compton, EDC Director, at (360) 378-2906.

In other industry news, the Agricultural Resources Committee is sponsoring a San Juan Islands Agricultural Summit March 7 and 8, 2014.

"Planning for the Next Generation" is the theme of the

summit. For more information, contact Peggy Bill, Agricultural Resources Committee Coordinator, at (360) 370-7666.



San Juan Island Distillery opened near Roche Harbor in 2011, making gin, hard cider and other spirits.