



# San Juan County

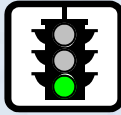
## QUARTERLY FINANCIAL REVIEW

1ST QUARTER 2014

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## 2014 Starts with Promising First Quarter



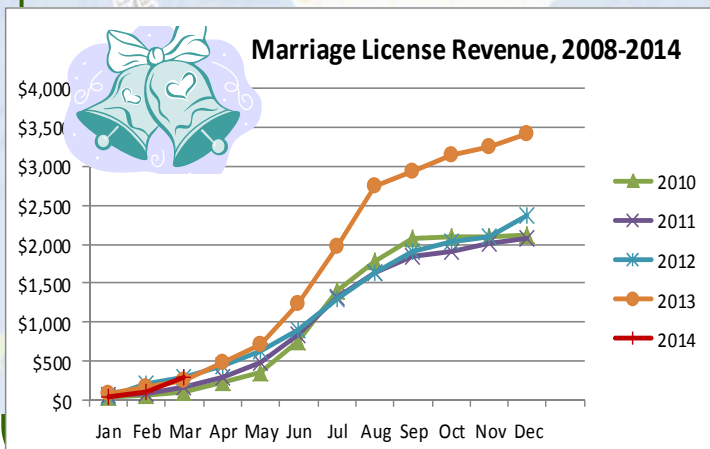
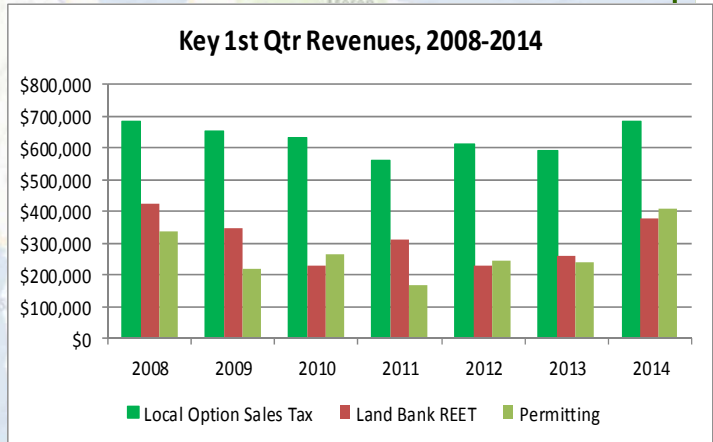
The first quarter of 2014 has proven a pleasant change from previous years. Early revenues suggest that sales tax (which includes lodging tax) revenue may more than meet expectations in 2014. Real estate excise taxes, permitting revenue, and, in fact, most other revenues have also started the year strong.

Total sales tax revenues in the first quarter of 2014 were

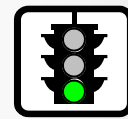
predictably higher than in previous first quarters. After all, this is the first year in which the Public Safety Sales Tax, adopted by the voters in November 2012, has been in effect for the first quarter. But even looking at just the local option sales tax – the base 1% that the County gets – first quarter 2014 is the highest since 2008. Following a strong sales tax finish in 2013, this adds fuel to the hope that some sectors of the economy may finally be recovered.

Real estate is another sector which appears to be recovering. Sales in the first quarter of 2014 were up more than 100% over the same period last year. Average prices were up barely 4%, however, as inventory continues to climb and therefore suppress prices. But the large volume generated higher-than-expected real estate excise taxes (REET) for the County. Like sales taxes, Land Bank taxes – a subset of REET – experienced their highest first quarter since 2008. REET can be used only for capital assets, but with substantial deferred capital needs in the County, the capital dollars are much appreciated.

Permitting revenue had a truly extraordinary first quarter. This spike is easy to explain, as the March 31 effective date for the Critical Areas Ordinance clearly motivated a lot of permit applications. Still, the sharp peak portends more economic activity, and more revenue, to come.



Across the board, in fact, most revenue sources are starting out 2014 in fine form. One insignificant but fun little revenue source, which was up sharply in 2013 and continues strong in 2014, is marriage license applications. The legalization of same-gender marriages in 2012 probably had something to do with that performance. Still, the dramatic uptick in marriage applications suggests much more than an economy's recovery. It suggests hope, and we can all use a little of that.



# 1Q14 General Fund Revenue

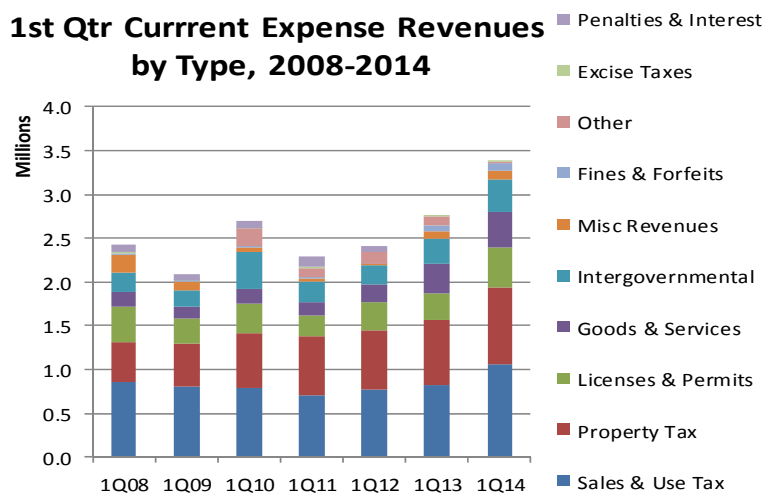
The table below shows budgeted and actual revenue in the Current Expense (general) fund for the first quarter of 2014. It also shows the percent of budgeted revenue received through the first quarter. Revenue types which are unusually high, compared to budget, are circled.

Licenses and permits revenue through the first quarter is quite high, at almost 46% of budget. This is where most of the permitting revenue from Community Development and Planning is reported. As noted on page 1, there was a clear spike in permit applications in the first quarter, motivated by the March 31 effective date for the Critical Areas Ordinance. It is our expectation that permitting in the rest of the year will follow a more normal pattern.

Intergovernmental revenue is high because of unbudgeted reimbursements received in 2014 from 2013 activities, in both the Assessor's and the Auditor's offices.

The graph below compares first quarter revenues for the current and six preceding years. First quarter 2014 is notably higher, largely because of the increase in sales tax because of the adoption of the Public Safety Sales Tax. The spike in first quarter 2010 revenues was because of the adoption of the levy lid lift in 2009.

**1st Qtr Current Expense Revenues by Type, 2008-2014**



## General Fund Revenue by Type

BASUB	Revenue Type	Budget	Revs 1Q14	% Rcvd
300	Cash	176,576	0	0.00%
311	General Property Taxes	6,165,194	879,175	14.26%
313	Retail Sales and Use Taxes	4,635,925	1,057,677	22.81%
317	Excise Taxes	15,500	3,020	19.48%
310	Total Taxes	10,816,619	1,939,872	17.93%
320	Licenses and Permits	983,964	449,382	45.67%
330	Intergovernmental Revenue	971,768	374,303	38.52%
340	Charges for Goods and Services	1,622,379	414,270	25.53%
350	Fines and Forfeits	289,250	82,021	28.36%
360	Miscellaneous Revenues	380,686	103,994	27.32%
380	Nonrevenues	50,000	0	0.00%
390	Other Financing Sources	186,840	9,940	5.32%
	<b>Grand Total</b>	<b>15,478,082</b>	<b>4,437,245</b>	<b>28.67%</b>

# 1Q14 County Revenue



The table below shows budgeted and actual revenue, and revenue as a percent of budget, for the first quarter of 2014

ing, paid 100% in the first quarter), and Roads (reimbursement of Mr. Baker Road, guardrails, and signs grants). Intergovernmental revenue is often "lumpy" - that is, not occurring evenly through the year - because much of it is reimbursements for discrete projects.

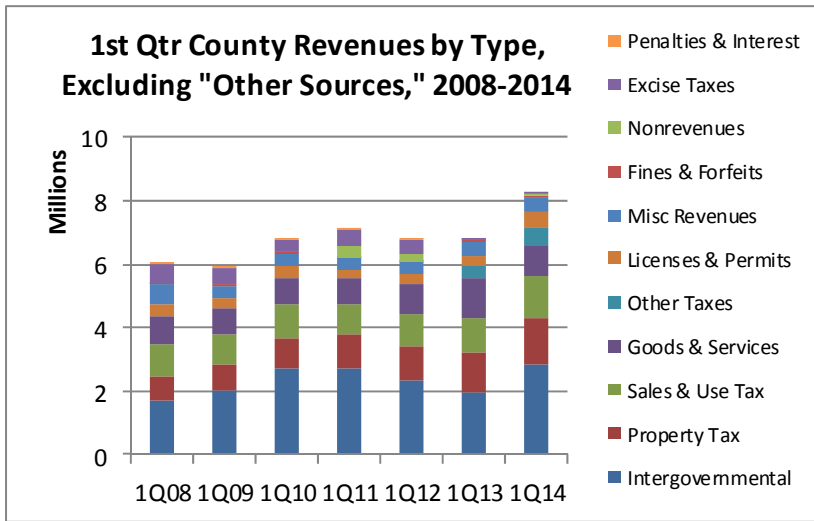
county-wide. Again, revenue types which are unusually high, compared to budget, are circled.

Intergovernmental Revenue is realized in many departments. Higher than expected receipts occurred in the Parks & Fair Fund (state fair fund-

The graph to the left below compares first quarter county revenues in 2014 with first quarter revenues in the preceding six years. As in the general fund, a large part of the spike in first

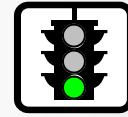
quarter 2014 revenue is because of the Public Safety Sales Tax.

One difference between the county first-quarter graph and the current expense first-quarter graph is that "Other Financing Sources" have been omitted from the county graph. The primary "other financing source" is transfers between funds. Including them would artificially increase total county revenue.



## County Revenue by Type

BASUB	Revenue Type	Budget	Revs 1Q14	% Rcvd
300	Cash	11,429,860	15,533	0.14%
311	General Property Taxes	10,009,764	1,450,436	14.49%
313	Retail Sales and Use Taxes	6,275,925	1,335,438	21.28%
316	Business Taxes	157,000	0	0.00%
317	Excise Taxes	26,700	3,561	13.34%
318	Other Taxes	2,419,000	619,550	25.61%
310	Total Taxes	18,888,389	3,408,986	18.05%
320	Licenses and Permits	1,033,314	471,207	45.60%
330	Intergovernmental Revenue	10,550,543	3,912,200	37.08%
340	Charges for Goods and Services	3,733,634	895,511	23.98%
350	Fines and Forfeits	291,750	82,589	28.31%
360	Miscellaneous Revenues	2,737,948	465,442	17.00%
380	Nonrevenues	150,000	15,296	10.20%
390	Other Financing Sources	5,654,216	606,773	10.73%
	<b>Grand Total</b>	<b>54,469,654</b>	<b>9,873,538</b>	<b>18.13%</b>



# General Fund Expenditures

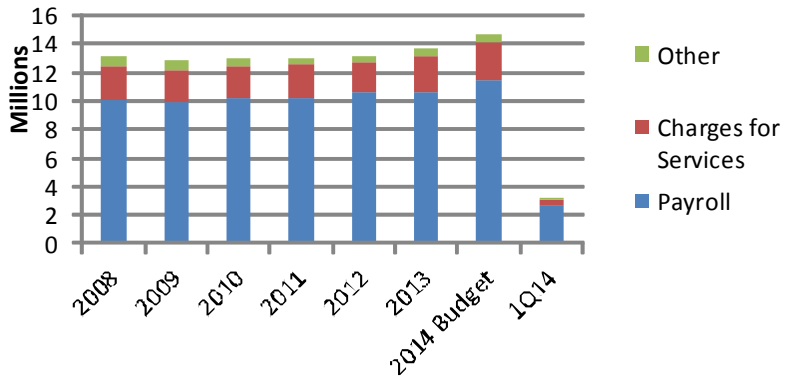
The table below shows Current Expense expenditures for the first quarter of 2014, both in absolute dollars and as a percentage of budget for the year.

There is nothing alarming or surprising in the data. Although a very large amount of transfers for the year was made in the first quarter, this was by intent. Rather than making smaller transfers multiple times a year, we are making some transfers, in their entirety, at the beginning of the year. This change takes the worry out for funds which are dependent on those transfers for operations, as well as lightening the workload on the accounting departments.

The graph to the right shows first quarter Current Expense expenditures for 2014, by type, compared to budget and to annual expenditures for the last six years. The most interesting observation here is that only Payroll and Charges for Services are significant types of expenditures in the general fund. All other types of expenditures (including supplies, intergovernmental ex-

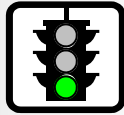
penditures, capital outlays, debt service, and interfund payments for services) represent less than 5% of the total. Of the primary expenditures, payroll (wages and benefits) represents about 80% and charges for services (including professional services, communication, travel, advertising, rentals, repairs and maintenance, and training/professional associations) about 15%.

**Current Expense Expenditures by Type, 2008-2014**



## General Fund Expenditures by Type

Object Code	Expenditure Type	Budget	Exps 1Q14	% Used
00	Cash and Transfers	855,881	470,262	54.94%
10	Salaries and Wages	8,485,405	2,022,467	23.83%
20	Personnel Benefits	2,953,833	627,318	21.24%
30	Supplies	255,992	71,176	27.80%
40	Charges for Services	2,689,271	453,344	16.86%
50	Intergovernmental	122,700	0	0.00%
60	Capital Outlays	110,000	14,008	12.73%
80	Debt Service: Interest and Related Costs	5,000	0	0.00%
90	Interfund Payments for Services	0	0	-
	<b>Grand Total</b>	<b>15,478,082</b>	<b>3,658,575</b>	<b>23.64%</b>



Expenditures in all funds of the County are represented, by type, in the table below. Only intergovernmental spending is high relative to budgeted amount.

awards to governmental agencies for improvements to publicly-owned capital facilities. The County reimbursed \$91,000 to the Town for capital projects and \$15,000 to the Port of Friday Harbor for airport capital projects during the first quarter.

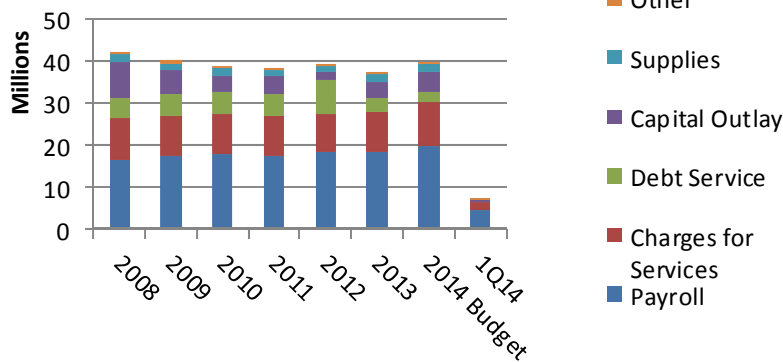
The graph to the left shows county expenditures by type from 2008 through 2013, compared to both the 2014 budget and the first quarter 2014 actuals. This table excludes transfers between funds. Notably, total county spending, excluding transfers, dropped after 2008 and remains significantly below the 2008 level.

Intergovernmental spending is a very small part of total County spending, accounting for only \$265,000 of the County's \$54.5 million 2014 budget. Yet \$108,000, or 40% of that amount, was spent in the first quarter. The expenditure was virtually all in the Public Facilities Fund, a fund which makes

Capital Outlay and Debt Service are notable line items in the County's budget, even though they are not so in the Current Expense budget. That is because most debt payment is made out of the Bond Redemption Fund and most capital expenditures out of either County Roads or Capital Improvement Funds.

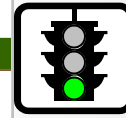
Still, payroll and charges for services remain the largest types of expenditures, representing together about 75% of the County's budget.

**County Expenditures by Type, 2008-2014**



**County Expenditures by Type**

Object Code	Expenditure Type	Budget	Total Exps 1Q14	% Used
00	Cash and Transfers	15,080,054	606,525	4.02%
10	Salaries and Wages	14,652,455	3,415,329	23.31%
20	Personnel Benefits	5,331,368	1,146,520	21.51%
30	Supplies	1,629,719	189,556	11.63%
40	Charges for Services	10,138,599	1,865,988	18.40%
50	Intergovernmental	265,244	108,657	40.96%
60	Capital Outlays	4,653,623	523,817	11.26%
70	Debt Service: Principal	2,161,290	0	0.00%
80	Debt Service: Interest and Related Costs	557,302	2,084	0.37%
	<b>Grand Total</b>	<b>54,469,654</b>	<b>7,858,475</b>	<b>14.43%</b>



# General Fund Expenditures by Department

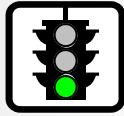
The tables below and to the right show the first quarter 2014 actual expenditures, compared to budget, of each department and fund in the County.

Departments whose expenditures exceeded 25% of budget are highlighted below. Few did, and those which did can be easily explained. To wit: Elections purchased supplies for the entire year; Law Library purchased books, a purchase which is not tied to an

annual schedule; the Prosecutor had a retirement and staffing overlap; and operating transfers were made early in the year rather than quarterly. In the Grants Fund, Emergency Management Grants made a large payment on a new vessel.

#	Fund / Department	Budget	Exps 1Q14	% Used
<b>0001</b>	County Current - General			
<b>13</b>	County Administration	599,357	129,929	21.68
<b>16</b>	Assessor	918,043	212,374	23.13
<b>19</b>	Auditor	813,685	153,548	18.87
<b>22</b>	Board of Equalization	7,947	539	6.78
<b>25</b>	Facilities	528,865	122,178	23.10
<b>28</b>	Civil Service	18,183	2,946	16.20
<b>31</b>	Clerk	362,253	86,482	23.87
<b>34</b>	County Council	492,649	122,364	24.84
<b>37</b>	Dispatch / E911	1,035,738	217,201	20.97
<b>40</b>	Community Development & Planning	1,559,392	362,386	23.24
<b>43</b>	County Agent	205,345	45,339	22.08
<b>46</b>	District Court/Probation	608,994	141,392	23.22
<b>49</b>	Election Reserve	217,594	58,388	26.83
<b>52</b>	General Administration	1,196,758	89,132	7.45
<b>55</b>	Health & Community Services	1,342,165	272,561	20.31
<b>58</b>	Jail	365,039	77,621	21.26
<b>61</b>	Juvenile Court	393,351	84,092	21.38
<b>64</b>	Law Library	22,893	7,098	31.00
<b>67</b>	Operating Transfers	505,057	449,976	89.09
<b>73</b>	Prosecuting Attorney/Coroner	1,007,318	273,287	27.13
<b>76</b>	Sheriff	2,723,176	601,632	22.09
<b>82</b>	Superior Court	204,119	46,836	22.95
<b>85</b>	Treasurer	350,161	101,276	28.92
<b>Total</b>	County Current - General	15,478,082	3,658,575	23.64
<b>0002</b>	Current Expense Grants Clearing			
<b>00</b>	Current Expense Grants Clearing	92,384	0	0.00
<b>40</b>	Planning Grants	726,416	78,675	10.83
<b>43</b>	WSU Extension	500	0	0.00
<b>55</b>	Health & Community Services Grants	2,037,106	428,738	21.05
<b>61</b>	Juvenile Court Grants	117,550	14,445	12.29
<b>71</b>	Emergency Management Grants	792,000	260,142	32.85
<b>73</b>	Prosecutor Grants	233,460	48,759	20.89
<b>76</b>	Sheriff Grants	522,212	40,996	7.85
<b>Total</b>	Current Expense Grants Clearing	4,521,628	871,755	19.28

## Other Fund Expenditures by Fund



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. Because they are more project-oriented than the general fund, they are more likely to underspend their appropriated budgets than general fund departments, as individual projects are cancelled or delayed.

Only two funds exceeded 25% of budget in the first quarter of 2014: Emergency Management and Information Technology. The Emergency Management Director works only 3/4 of the year. He usually takes his three months off in the summer months, when he goes to work with other jurisdictions on emergency management plans and events. Because he worked full time during the first quarter, his first quarter expenditures exceeded 25% of his budget.

Information Technology is discussed in detail on pages 8 and 9.

#	Fund / Department	Budget	Exps 1Q14	% Used
0003	Budget Stabilization Fund	484,836	0	0.00
0004	Veterans' Assistance Fund	80,000	18,030	22.54
0005	Insurance Cumulative Reserve	224,579	5,282	2.35
0007	Emergency Management	91,577	28,880	31.54
1021	SJC Conservation Area Fund	1,960,658	213,209	10.87
1031	Land Bank Stewardship & Management	545,832	133,992	24.55
1041	SJC Noxious Weed Control	304,608	49,930	16.39
1091	San Juan County Parks	1,982,529	232,279	11.72
1101	Treasurer's Operation & Maintenance	38,018	0	0.00
1111	Dog License	24,350	536	2.20
1121	County Roads	10,315,597	1,093,552	10.60
1221	Lodging Tax Fund	1,531,691	112,738	7.36
1251	Auditor Document Preservation	357,888	45,989	12.85
1271	Crime Victims	8,099	0	0.00
1281	Mental Health Tax Fund	1,350,376	172,272	12.76
1921	Septic Housing & Loans	529,566	17,105	3.23
1951	Public Facilities Improvement Receiving	1,184,700	115,102	9.72
1961	Affordable Housing Fund	374,166	17,644	4.72
1971	Criminal Justice Receiving Fund	251,175	0	0.00
2001	Bond Redemption Fund	1,673,758	172	0.01
3061	Capital Improvement Fund	2,294,197	103,558	4.51
4011	Solid Waste Fund	943,346	168,541	17.87
4017	Solid Waste Projects Fund	1,275,000	66,307	5.20
4151	Stormwater Utility Fund	1,229,196	108,534	8.83
4157	Stormwater Utility Capital Projects	161,230	2,407	1.49
5011	Equipment Rental & Revolving	4,387,111	219,740	5.01
5021	Information Technology	865,861	402,346	46.47
	<b>Grand Total All Funds</b>	<b>54,469,654</b>	<b>7,858,475</b>	<b>14.43</b>

## Changes in Information Technology

The past couple of years have seen much change in the County's Information Technology Fund. The fund, formerly called Central Services, has long provided computer and telephone services to most departments and funds – except Public Works – in the County. In 2012, it merged with Public Works' information technology group to bring all IT services for the County under one department. In addition to merging staff, that process included merging networks, email systems, and phone systems.

In 2013, the Fund also assumed responsibility for GIS (Global Information Systems). That function had been in County Roads, but there was growing demand for GIS services in other departments. Centralizing the service under one county-wide department made sense. The transition was complicated, however, by the need to figure out how to share the cost of GIS among all departments and funds which use the service.

The fund is organized as an internal services fund. As such, it provides services to other users within the County, and is supported by "user fees" assessed of those users. Internal service funds may assess charges directly, for specific services provided, or may assess charges on a cost allocation basis. To do the latter, the fund must allocate costs according to some rational algorithm, using metrics such as numbers of users, computers, website pages, etc. The Information Technology Fund has long used such an algorithm to charge

The State of Washington is committed to using the power of technology to make government more personal, more efficient and more effective.

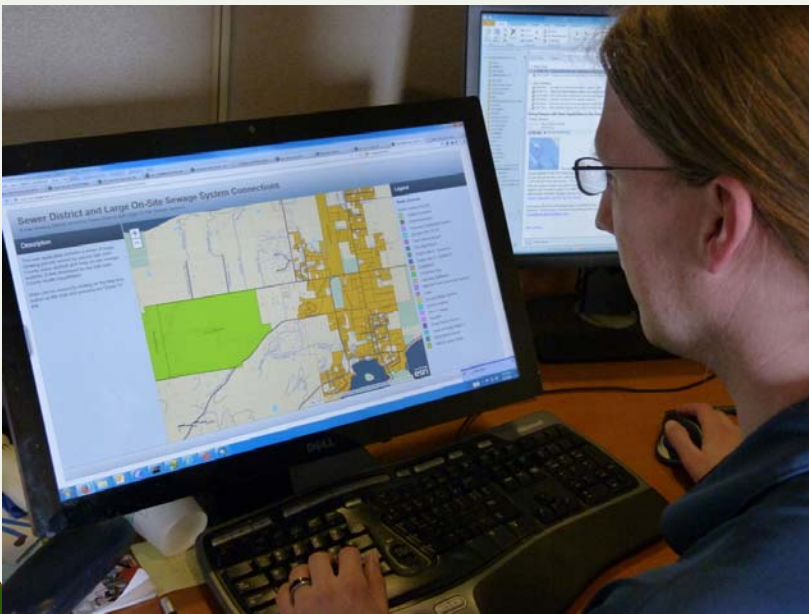
–Michael Cockrill, Washington State  
Chief Information Officer

the costs of computer and telephone services to other departments and funds.



### FUND BALANCE

The decision to move GIS from County Roads to IT was made in the middle of 2013, when a GIS lead position needed to be filled and the Public Works Department agreed that it made sense to transition management of the division then. At that time, there was not a complete plan for how to allocate costs of GIS to non-Roads Fund users. Some 2013 costs were billed directly to using departments; others, particularly those incurred during the transition, were never billed to any department. For that reason, the GIS part of IT started 2014 with a negative cash balance of \$27,320. That means that the GIS function spent \$27,320 more in 2013 than it was reimbursed by other funds. How to cover that negative opening balance is one of the questions currently facing the Information Technology Fund.



By contrast, the Information Services (IS) part of IT (the part which is still responsible for computers and telephones) started 2014 with a fund balance of \$183,657. The reason for this large fund balance derives from the difference between appropriation authority and cash.

Funds cannot spend more money than is budgeted (appropriated) for them to spend, even if the fund has adequate cash. IT added a significant project in 2013 – the aerial photography project – which should have added both expenditures, and the revenues to cover them, to the 2013 budget. Unfortunately, although the project was approved by Council, and

GIS Lead Technician Nick Peihl



## Information Technology (cont'd)

expenditures were made and revenue received as projected, the budget was never amended to take either into account. Having spent money on the project, the fund ran out of appropriation authority – i.e., budget – to spend on other, budgeted projects, even though the cash was available. As a result, the unspent cash rolled forward, and the unfunded projects were postponed, to 2014. An adjustment to the 2014 budget will be required in order to add both the higher beginning cash and the additional expenditures to the adopted budget.

### 2014 PROJECTS

Two primary projects are being pursued by IT in 2014:

- An enterprise agreement to expand the County's system software options, in order to help develop a workflow system and to ease the upgrade path for all Microsoft software. The payments will be approximately \$58,000 annually for each of three years, then \$35,000 annually thereafter. Sadly, the enterprise agreement was slightly more expensive than originally quoted because, in delaying the purchase, we incurred an increase in licensing cost.
- Two years' worth of desktop equipment in one year. In this case, a delay in timing worked in our



Incoming equipment waiting to be deployed



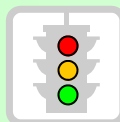
IT Network Administrator Norman Varsovia

favor. By delaying the purchase until 2014, we were able to get the next generation of Intel CPUs, which are more energy efficient and effectively double the life of laptop computers. IT staff are currently deploying several replacement computers each week. Most of the computers being replaced are more than six years old, and many were using the now unsupported Windows XP operating system.

IT is also hoping to update the County's telephone system in 2014. The system we have identified would significantly reduce maintenance costs and increase efficiency and reliability. It would also continue to operate in circumstances such as occurred last November when CenturyLink's line failure caused older generation phones to be unable to connect to the mainland. Funds for the phone system upgrade had been identified last year; however a compatibility problem with the aging emergency dispatch system prevented that project from moving forward at that time.

Expenditures on the enterprise software and desktop equipment pushed first quarter expenditures well past 25% of budget. Once the budget is adjusted for projects pushed forward and for higher-than-budgeted beginning cash, the expenditures will be in line with budget.

LEGEND:



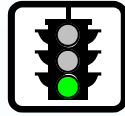
**RED**—Annual performance in this area is a **cause for concern**

**YELLOW**—Annual performance indicates this **may become an area of concern** in the future

**GREEN**—Annual performance **within expectations** set in budget

## "Reserves" vs "Reserved Fund Balance"

San Juan County has worked hard to increase its reserves in the last five years. Never again do we wish to find ourselves in the position we were in in 2009, when we had to dramatically cut the budget because we had no reserves to keep it afloat in the face of falling revenues.



### Reserved Fund Balance

But there is some confusion between "reserves" and "reserved fund balance." The latter is something we are required to report to the State Auditor in the County's annual report. Reserved funds are funds which are restricted in use by state law, by external grantors, or by the highest level of local legislative authority (e.g., by County ordinance). Many funds are reserved funds, including most revenue into the County's special revenue funds, such as the Roads Fund, the Parks Fund, the Land Bank Fund, and the Dog License Fund.

Some reserved funds even go into the general fund.

### Reserved Funds as reported in the 2013 Annual Report

Fund #	Fund Name	Fund Balance
0002	Current Expense Grants Clearing	343,127
0003	Budget Stabilization Fund	373,352
0004	Veterans' Assistance Fund	7,522
1021	SJC Conservation Area Fund	3,133,968
1031	Land Bank Stewardship & Mgt	3,001,202
1041	SJC Noxious Weed Control	186,661
1091	San Juan County Parks	144,400
1101	Treasurer's Operation & Maint	29,187
1111	Dog License	7,696
1121	County Roads	990,711
1221	Lodging Tax Fund	629,079
1251	Auditor Document Preservation	287,872
1271	Crime Victims	9,603
1281	Mental Health Tax Fund	785,126
1921	Septic Housing & Loans	214,820
1951	Public Facilities Improvement	855,919
1961	Affordable Housing Fund	246,667
1971	Criminal Justice Receiving Fund	122,789
3061	Capital Improvement Fund	1,715,541
4011	Solid Waste Fund	593,874
4017	Solid Waste Projects Fund	567,372
4151	Stormwater Utility Fund	749,420
4158	Stormwater Utility Capital	89,713
5011	Equipment Rental & Revolving	2,915,216
	<b>Total Restricted Fund Balances</b>	<b>18,535,376</b>

### County Reserves at the beginning of 2014

Fund #	Fund Name	Fund Balance
0001	Current Expense - Operating Cash	1,573,424
0002	Grants Fund Reserve - grants "float"	400,000
0003	Budget Stabilization Fund	373,352
0005	Insurance Cumulative Reserve	182,458
1111	Dog License - livestock reserve	5,000
1221	Lodging Tax Fund - operating reserves	629,079
1251	Auditor Document Preservation - capital reserves	100,000
1281	Mental Health Tax Fund - therapeutic court reserve	50,000
3061	Capital Improvement Fund - reserves for debt and for capital	732,941
5011	Equipment Rental & Revolving - equipment reserve	1,378,322
	<b>Total Restricted Fund Balances</b>	<b>5,424,576</b>

As an example, revenue from the recently adopted Public Safety Sales Tax (PSST) goes into the general fund. The PSST must be spent on public safety or criminal justice. The amount of money the County spends on criminal justice is many times the amount generated by the PSST, so there is no need to track the PSST funds separately. In addition, the County has a policy to spend reserved funds before it spends unreserved funds, so any funds left in the general fund at the end of the year are unreserved funds.

### Reserves

"Reserves," on the other hand, are funds that are locally assigned to save for future use. They may also be reserved funds, as in the Capital Improvement Fund. Council has required that the Capital Improvement Fund "reserve" one year's worth of debt payments in both the REET 1 and REET 2 sections of the fund. Yet all of the REET 1 and REET 2 (real estate excise tax) funds in the Capital Improvement Fund are also reserved funds, because their use is restricted by state law. On the other hand, some County "reserves" are not reserved funds. For example, our Insurance Cumulative Reserve Fund, a County "reserve" to pay for insurance claims, is funded by unrestricted general fund dollars. Therefore, though a "reserve," it is not a reserved fund balance.

Both reserves and reserved fund balance have increased in recent years, as the County has recovered from the past recession and prepared for the next.