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How Are We Doing?

A quarterly review of County finances by the County Auditor, F. Milene Henley Second quarter 2011

Our local economy is looking a lot like the weather: a depressing winter followed by a cold, wet spring has yielded to glimpses of summer warmth and sunshine, but with the uncertainty of fall and winter still ahead. And unfortunately, our ability to predict the economic future has proven no better than meteorologists' ability to predict the weather.

The County's two largest sources of unrestricted revenue are property tax and sales tax. Even in a recession, property tax is a stable and predictable form of revenue. Sales tax is not. After years of growth, sales tax fell 5% short of budget in 2007, then crashed in 2009, finishing at almost 9% less than 2008. 2010 saw a 3% increase in sales tax revenue, encouraging the outlook for 2011. As of the end of the first quarter of 2011, however, signs pointed toward another bad year for sales tax. Every month from February through May realized lower sales tax revenue than in any of the preceding five years. Then something inexplicable happened. Sales tax revenue for June was *higher* than any of the previous five Junes. And in July, sales tax was up more than 50% over June, and far exceeded any of the previous five Julys.

As much as I love good news—despite my reputation to the contrary—that kind of turnaround puzzled me. So I called the State Department of Revenue, and chatted with the Tax Administration Manager about last month's sales tax results. He confirmed the anomalous results, and added that sales tax revenues were generally up statewide in July.

As a result, our outlook for sales tax has improved to only a 5% shortfall—a significant improvement over the 15% shortfall projected at the end of the first quarter.

Unfortunately, not all sources of revenue fared so well in the second quarter. The very strong real estate excise tax of the first quarter, a quarter marked by several high-end sales, fizzled in the second quarter. Building permit revenue remains depressed. Charges for goods and services, and fine and forfeiture revenue, both flagged in the second quarter. And no matter how low we budget interest revenue, it always comes in lower.

Still, the net effect of all revenue changes in the second quarter was good news. Revenue shortfalls in the general fund will come in around \$600,000 for the year, as opposed to the \$6-900,000 projected at the end of the first quarter. Even better news is that grants and other sources of revenue will likely make up half of that shortfall, leaving only about a \$300,000 expenditure problem. And the best news of all is that the Council will adopt next month a budget reduction ordinance which will reduce general fund expenditures to nearly match the reduction in revenues.

Does the turnaround in sales tax signal the beginning of real recovery for San Juan County? While it's too early to say that, things do look better now than three months ago. If the economic winds continue to blow our way, maybe a long summer, a warm fall and a late winter will bring more good news our way.