



San Juan County Budget

2011 FIRST QUARTER REPORT

VOLUME 2, ISSUE 1

SPECIAL POINTS OF INTEREST:

- General Fund Revenues & Expenditures (pages 2—4)
- Special Revenues (page 5—7)
- Enterprise and Internal Service Funds (pages 8 & 9)
- Financial Issues (pages 9 - 10)

Weather Report:

Stable quarter except storm clouds in General Fund revenue

The first three months of 2011 were cold and wet, a time when many islanders were content to hunker down and wait for warmer days.

Unfortunately, with first quarter revenue down more than \$400,000 from last year, expenditures slightly better than budget, and economic indicators disappointing; we cannot forecast sunnier days in the immediate future for the County's General Fund.

The County's Bond, Enterprise, Internal Service and Special Revenue funds held their own in the first quarter, at the reduced level we have come to expect since 2008. The difficult work the Council, bargaining units and management has done over the past two years brought the 2011 budget into an uneasy balance.

This first quarter financial data alone offers neither a call for change nor reassurance that we've made all of the sacrifices that need to be made. The only firm conclusion to be drawn from the figures it contains is that the County must continue to proceed with extreme caution. And there are strong external indications that our current situation is not sustainable.

Purpose

The budget is the most important annual policy document adopted by the County Council. The home rule charter calls for a report on the revenues and expenditures of the county within six weeks of the end of each calendar quarter. If the budget is considered an expression of the service and capital policies of San Juan County, the quarterly report is a method of assessing the health of those policies as the year unfolds.

2010 and 2011 First Quarter Revenues and Expenditures by Fund

Fund	2010 Budget	2010 Q-1 Actual	PCT	2011 Budget	2011 Q-1 Actual	PCT	% Change
General Fund							
Revenue	\$ 13,617,586	\$ 2,699,954	19.83%	\$ 13,728,918	\$ 2,283,742	16.63%	-3.19%
Expense	\$ 13,623,063	\$ 3,061,018	22.47%	\$ 13,689,731	\$ 3,145,913	22.98%	0.51%
General Fund Grants							
Revenue	\$ 2,411,101	\$ 719,579	29.84%	\$ 2,653,075	\$ 772,830	29.13%	-0.71%
Expense	\$ 2,420,101	\$ 552,382	22.82%	\$ 2,676,124	\$ 611,966	22.87%	0.04%
Budget Stabilization Fund							
Revenue	\$ -	\$ -	0.00%	\$ 85,000	\$ -	0.00%	0.00%
Expense	\$ -	\$ -	0.00%	\$ -	\$ -	0.00%	0.00%
Special Revenue Funds							
Revenue	\$ 16,857,461	\$ 2,911,269	17.27%	\$ 16,232,209	\$ 3,313,602	20.41%	3.14%
Expense	\$ 21,181,113	\$ 3,131,844	14.79%	\$ 18,988,733	\$ 2,181,273	11.49%	-3.30%
Bond Fund							
Revenue	\$ 2,946,315	\$ 183	0.01%	\$ 2,959,574	\$ 73	0.00%	0.00%
Expense	\$ 2,967,505	\$ 0	0.00%	\$ 3,088,332	\$ 905	0.03%	0.03%
Enterprise Funds							
Revenue	\$ 5,519,939	\$ 559,906	10.14%	\$ 3,739,245	\$ 1,251,817	33.48%	23.33%
Expense	\$ 5,121,995	\$ 416,398	8.13%	\$ 4,139,245	\$ 928,381	22.43%	14.30%
Internal Service							
Revenue	\$ 2,101,047	\$ 417,448	19.87%	\$ 2,502,772	\$ 674,390	26.95%	7.08%
Expense	\$ 4,315,321	\$ 304,910	7.07%	\$ 4,151,095	\$ 1,009,117	24.31%	17.24%
Totals							
Revenue	\$ 43,453,449	\$ 7,308,339	16.82%	\$ 41,900,793	\$ 8,296,454	19.80%	2.98%
Expense	\$ 49,629,098	\$ 7,466,552	15.04%	\$ 46,733,260	\$ 7,877,555	16.86%	1.81%

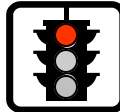
General Fund Revenue

Total **General Fund revenues** dropped by 3.2% as compared to 1st quarter of 2010. In dollars, the difference in income between the two 1st quarters was **\$416,211 less in 2011**.

The first quarter of 2011 feels more like Q-1 of 2009 than 2010. In 2009, weakness showed immediately in some categories, especially permitting with growing weakness in sales tax all through the year. In Q-1 of 2011, all but one category of revenue showed a net drop in a quarter over quarter comparison from 2010 to 2011. There are clear drop-offs in permitting-related revenues and retail sales tax.

Quarterly General Fund Revenues						
Fund	2010 Budget	2010 Q-1 Actual	2010 PCT	2011 Budget	2011 Q-1 Actual	2011 PCT
Taxes	9,827,437.00	1,504,747.45	15%	9,913,387.00	1,492,770.77	15%
Licenses and Permits	1,115,263.00	329,984.05	30%	1,144,259.00	237,439.77	21%
Intergovernmental Revenue	1,151,015.00	421,723.66	37%	1,283,384.00	234,923.87	18%
Charges for Goods and Services	898,732.00	177,945.62	20%	878,388.00	162,262.49	18%
Fines and Forfeits	155,482.00	16,710.41	11%	148,062.00	18,042.03	12%
Miscellaneous Revenues	146,288.00	42,052.44	29%	118,923.00	33,463.26	28%
Nonrevenues	-	-	0%	-	-	0%
Other Financing Sources	323,369.00	206,790.00	64%	242,515.00	104,840.00	43%
Total General Fund Revenues	13,617,586.00	2,699,953.63	20%	13,728,918.00	2,283,742.19	17%

Taxes: Both years show the Taxes category tracking at 15%. While taxes as a whole look to be within a few thousand of par, this inset shows a drop-off in **sales tax of \$85,000 less than 2010**. A sneak peek ahead one month shows the drop-off continues, with the difference growing to **\$140,600 less than 2010**. While these are the tax months of Nov-10, Dec-10, Jan-11 and Feb-11 and it was a cold, wet and dreary period, the numbers are too important to ignore. We should begin to make adjustments in expenditures.






TAXES	2010 Q1	2011 Q1
General Property Tax	\$ 629,829	\$ 671,923
Sales & Use Tax	\$ 783,515	\$ 698,560
Excise Taxes	\$ 5,626	\$ 12,243
Penalty / Delinquent	\$ 85,777	\$ 110,044
	\$ 1,504,747	\$ 1,492,770

Sales taxes are projected to be 26.5% of General fund revenues. For that reason alone, they are very important to track. The five year data shows that Q-1 yield has ranged between 21.3% and 23.1% of the year's receipts. Q-1 of 2011 came in at 19.2% of projected receipts.

SALES TAX	2007 Actual	2008 Actual	2009 Actual	20110 Actual	2011 Budget
Q-1	\$ 816,114	\$ 857,909	\$ 811,923	\$ 783,515	\$ 698,560
Total for Year	\$ 3,821,566	\$ 4,022,839	\$ 3,504,599	\$ 3,607,625	\$ 3,638,037
Q-1 Percent	21.3%	21.3%	23.1%	21.7%	19.2%

The **Licenses and Permits** Category shows a Q-1 year over year drop for the first quarter from 30% to 21%. Much of the drop is attributable to the Building Permits function. Although Land Use Permits are in the **Charges for Goods and Services** category, they are very tied to the building permits, and are discussed together in the charts here and on the following page.

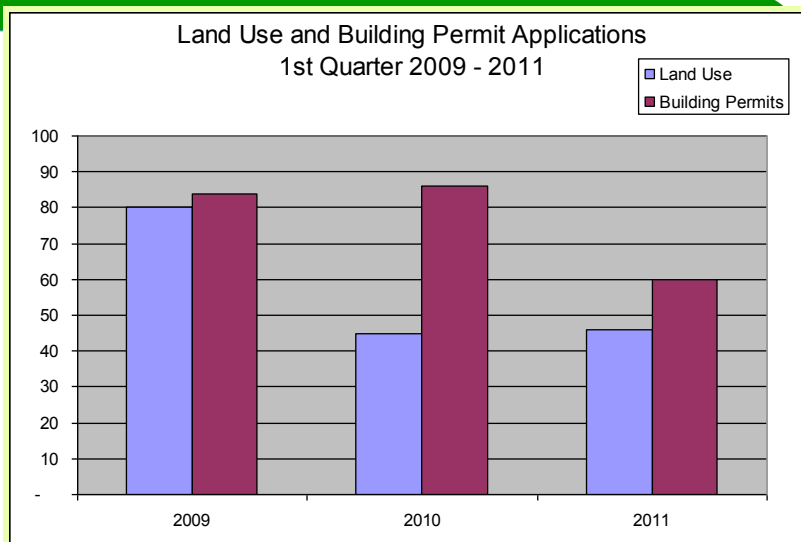
LEGEND:

-  Annual performance in this area is a **cause for concern**
-  Annual performance indicates this **may become an area of concern** in the future
-  Annual performance **within expectations** set in budget

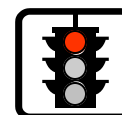
General Fund Revenue

(continued)

An area of great concern is building and land use permitting, not only as a revenue as measured against form, but as a barometer of economic vitality. This permitting activity in Q-1 of 2010 was \$262,280, or 22.5% of budget. The same quarter in 2011 has yielded \$166,760, or 14.2% of budget. **Permitting revenue in Q-1 2011 is \$95,520 less than 2010.** A glance ahead at April permitting revenues shows 2010 4-month revenue at \$367,270, or 31.6% of budget and 2011 4-month revenue at \$243,313, or 20.7% of budget. **Four month revenue for 2011 is \$123,957 less than 2010.**



PERMIT REVENUES: BUILDING & LAND USE						
	Budget	Q-1 2010	%	Budget	Q-1 2011	%
Building	\$ 852,801	\$ 217,710	26%	\$ 860,602	\$ 110,653	13%
Land Use	\$ 309,168	\$ 44,570	14%	\$ 312,259	\$ 55,806	18%
Total	\$ 1,161,969	\$ 262,280	22.6%	\$ 1,172,861	\$ 166,459	14.2%



Intergovernmental Revenue: is grants, interagency contracts, etc. It shows a precipitous **drop from 37% in Q-1 2010 to 18% in Q-1 2011.** This is only given a caution light because of inconsistencies in billing and delays in starting certain 2011 grants.

Fines and Forfeits: This revenue source is 1% of the budget and Q-1 in 2011 is comparable in revenue and slightly ahead of Q-1 in 2010.

Miscellaneous Revenues: Less than 1% of the General Fund revenue is anticipated from this source. Its largest component is interest and this category is comprised of an eclectic array of small sources such as NSF fees and donations. By percentage, it performed nearly as well in Q-1 2011 as Q-1 2010, but that is with a lowered annual expectation, producing **\$8,600 less in actual revenue than Q-1 2010.**

Other Financing Sources: The main attraction in this area is interfund transfers. While the Q-1 2010 to Q-1 2011 comparison shows a **drop from 64% to 43%**, one year does not necessarily track to the next and the trans-

Quarterly General Fund Grant Revenue							
FundTitle	2010 Budget	2010 Q-1 Actual	2010 PCT	2011 Budget	2011 Q-1 Actual	2011 PCT	
Intergovernmental Revenue	2,360,901	708,589	30.0%	2,633,287	763,500	29.0%	
Charges for Goods and Services	6,000	7,685	128.1%	6,000	3,000	50.0%	
Fines and Forfeits	500	-	0.0%	500	70	14.0%	
Miscellaneous Revenues	7,500	-	0.0%	-	2,991	0.0%	
Other Financing Sources	36,200	3,306	9.1%	13,288	3,269	24.6%	
Total General Grant Fund Revenues	\$ 2,411,101.00	\$ 719,579.27	29.8%	\$ 2,653,075.00	\$ 772,829.92	29.1%	

General Fund Grants support services in five general fund departments (Health, Juvenile, Community Development & Planning, Prosecutor, Sheriff) and one special revenue fund (Emergency Management – new budget placement in 2011) closely associated with the Sheriff. Its **Q-1 2011 revenue is tracking in the same percentile (29.1%) with the Q-1 2010 revenue (29.8%).**

General Fund Grants Revenue

General Fund Expenditures

General Fund Expenditures finished the **first quarter** well, at **23% of budget**. The corresponding first quarter in **2010 was slightly better, at 22.5%**. If 2011 unfolds as a year of general fund revenue shortfall, a tightening of the expenditures (in already tight times) will be in order. Even though the fund cumulatively is spending less than budget, it will be given a yellow light to signal the caution that must be taken with expenditures in 2011.

The chart below provides the reader with a year over year and first quarter over first quarter comparison between 2010 and 2011. With 25% of the operating year completed, the reader can train the eye down the percentage column for a snapshot of the expenditures of the 24 formal operating departments (some are under the management of a larger department). You will see

that 8 departments exceeded 25% of expenditures.

Some of this is cyclical with timing of certain expenditures (Council travels more during legislative session; BOE does most tax hearings in first six months of year). There was also a 10-day trial in Superior Court that drove up some expense line items.

General Fund Grant Expenditures cumulatively finished the first quarter with nearly the same percentage expenditures as 2010 (2010 = 22.8%, 2011 = 22.9%) **Q-1 2011 cumulative revenues (\$772,830) exceeded expenditures (\$661,966)**.



Quarterly General Fund and General Fund Grant Expenditures

		2010 Budget	2010 Q-1 Actual	2010 Pct	2011 Budget	2011 Q-1 Actual	2011 Pct	%Change
0001.00	General	-	1,088.31	0.0%	-	70,176.50	-	0.0%
0001.13	County Administration	621,684.00	137,368.79	22.1%	615,139.00	140,994.00	22.9%	0.8%
0001.16	Assessor	718,280.00	151,866.34	21.1%	720,699.00	167,271.45	23.2%	2.1%
0001.19	Auditor	720,857.00	175,775.43	24.4%	722,828.00	167,250.84	23.1%	-1.2%
0001.22	Board of Equalization	17,103.00	4,800.73	28.1%	17,803.00	5,220.21	29.3%	1.3%
0001.25	Facilities	542,201.00	110,261.27	20.3%	528,722.00	106,641.32	20.2%	-0.2%
0001.28	Civil Service	15,653.00	1,819.06	11.6%	15,995.00	3,131.33	19.6%	8.0%
0001.31	Clerk	339,194.00	81,654.48	24.1%	332,474.00	82,916.31	24.9%	0.9%
0001.34	County Council	472,044.00	114,169.67	24.2%	471,468.00	118,501.11	25.1%	0.9%
0001.37	Dispatch	692,622.00	185,437.57	26.8%	703,647.00	180,926.00	25.7%	-1.1%
0001.40	Community Dev & Planning	1,307,441.00	276,009.51	21.1%	1,375,672.00	319,595.12	23.2%	2.1%
0001.43	County Agent	198,014.00	35,538.85	17.9%	187,233.00	40,141.95	21.4%	3.5%
0001.46	District Court/Probation	684,454.00	173,602.62	25.4%	650,979.00	166,163.55	25.5%	0.2%
0001.49	Election Reserve	210,593.00	67,049.32	31.8%	196,592.00	43,371.94	22.1%	-9.8%
0001.52	General Administration	815,927.00	122,630.29	15.0%	1,001,554.00	122,859.84	12.3%	-2.8%
0001.55	Health & Community Services	1,201,296.00	233,153.35	19.4%	1,181,116.00	234,803.02	19.9%	0.5%
0001.58	Jail	418,631.00	78,140.32	18.7%	369,593.00	63,926.45	17.3%	-1.4%
0001.61	Juvenile Court	369,050.00	88,307.06	23.9%	351,681.00	86,414.01	24.6%	0.6%
0001.64	Law Library	27,092.00	7,099.02	26.2%	22,732.00	8,260.31	36.3%	10.1%
0001.67	Operating Transfers	340,384.00	83,846.00	24.6%	364,457.00	106,100.00	29.1%	4.5%
0001.73	Prosecuting Attorney/Coroner	908,902.00	218,551.20	24.0%	927,301.00	221,937.52	23.9%	-0.1%
0001.76	Sheriff	2,446,950.00	621,187.67	25.4%	2,417,844.00	553,402.25	22.9%	-2.5%
0001.82	Superior Court	196,930.00	15,155.75	7.7%	172,754.00	45,687.89	26.4%	18.8%
0001.85	Treasurer	357,761.00	76,505.10	21.4%	341,448.00	90,220.19	26.4%	5.0%
General Fund Expenses		13,623,063.00	3,061,017.71	22.5%	13,689,731.00	3,145,913.11	23.0%	0.5%
		2010 Budget	2010 Actual	2010 Pct	2011 Budget	2011 Actual	2011 Pct	%Change
0002.00	Current Exp Grants Clearing	-	15,071.60	0.0%	-	-	0.0%	0.0%
0002.37	Dispatch Grants	-	-	0.0%	-	-	0.0%	0.0%
0002.55	Health & Comm Serv Grants	1,572,714.00	378,387.21	24.1%	1,478,295.00	351,410.20	23.8%	-0.3%
0002.61	Juvenile Court Grants	141,623.00	10,972.28	7.7%	132,624.00	35,324.12	26.6%	18.9%
0002.70	Planning Grants	347,100.00	79,361.15	22.9%	566,839.00	135,148.19	23.8%	1.0%
0002.71	Emergency Mngement Grants	-	-	0.0%	150,800.00	30,679.77	20.3%	20.3%
0002.73	Prosecutor Grants	222,800.00	51,278.96	23.0%	207,066.00	53,621.94	25.9%	2.9%
0002.76	Sheriff Grants	135,864.00	17,311.04	12.7%	140,500.00	5,781.94	4.1%	-8.6%
General Fund Grant Expenses		2,420,101.00	552,382.24	22.8%	2,676,124.00	611,966.16	22.9%	0.0%
TOTAL General Fund Expenses		16,043,164.00	3,613,399.95	22.5%	16,365,855.00	3,757,879.27	23.0%	0.6%

Special Revenue Funds

Special Revenue Funds are an eclectic mix of special purposes set out in state law, that provide revenue to accomplish a specific governmental purpose. Three departments (four funds) of the 21 listed funds are budgeted to make 73% of the expenditures in 2011 (Parks/Fair, Land Bank, Roads).

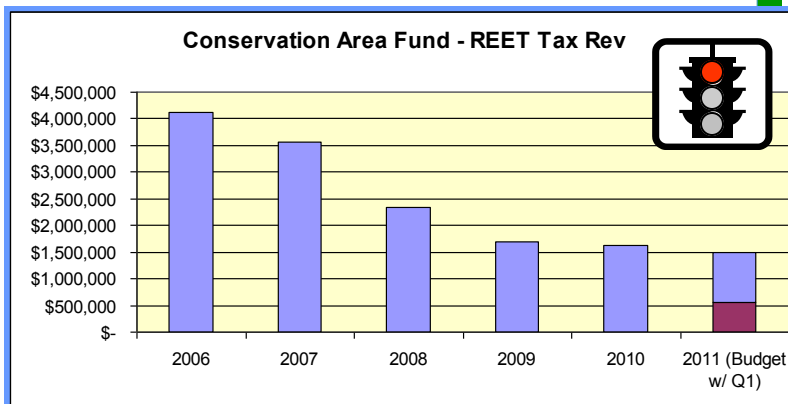
It is not uncommon to see cumulative special revenue funds expenditures that exceed a single year's revenue. These funds can carry both operating and capital expenditures. Funds accumulated in one year may be spent in another year. Some funds keep all money fungible even though it is not planned to spend it all in one year. Some funds (such as the Odlin Park project) carry the expenditures for a project in one or two years when it is planned to take out a loan for the project and pay back the debt over many years. All of this skews the expenditures.

The chart below shows the 2010 year over 2011 year budgets and the 2010 Q-1 expenditures over the 2011 Q-1 expenditures. It shows nearly all funds "cruising" right along in managing expenditures. 2010 was the first year new Mental Health programs in the schools, funded by the one tenth sales tax, were up and operating. Three additional programs began in December of 2010 so the increase expenditures reflects the level of services being provided. In addition there is the money passing through for a creative agreement with North Sound Mental Health Services to increase pass-through funding by user counties paying NSMHS a prescribed amount that raises NSMHS matching funding and the members get the increased funds. The Criminal Justice Receiving Fund amount over 25% is largely a choice of when to transfer the proceeds to its user departments in the General Fund.

Quarterly Special Revenue Funds Expenditures

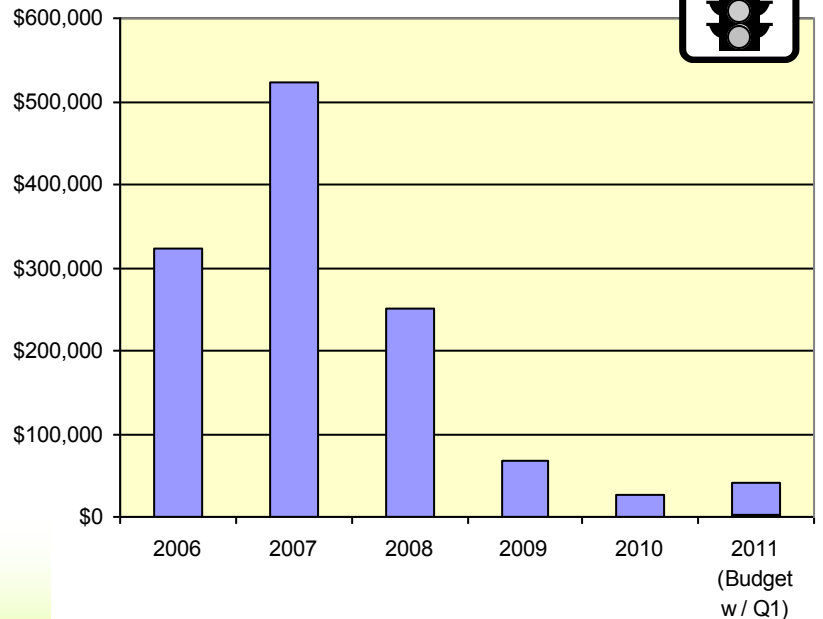
FundTitle	2010 Budget	2010 Q-1 Actual	2010 PCT	2011 Budget	2011 Q-1 Actual	2011 PCT	%Change
1021 SJC Conservation Area Fund	4,992,210.00	985,934.45	19.7%	3,898,205.00	127,535.63	3.3%	-16.5%
1031 Land Bank Stewardship & Mngmnt	450,557.00	79,734.50	17.7%	468,647.00	93,255.88	19.9%	2.2%
1041 SJC Noxious Weed Control	174,379.00	23,723.55	13.6%	196,000.00	25,436.03	13.0%	-0.6%
1051 Veterans' Assistance	92,062.00	11,479.09	12.5%	95,000.00	5,416.32	5.7%	-6.8%
1071 SJC Dept of Emergency Mngmnt	281,716.00	51,163.96	18.2%	177,867.00	39,642.19	22.3%	4.1%
1081 San Juan County Fair	-	-	0.0%	-	-	0.0%	0.0%
1091 San Juan County Parks	1,238,530.00	158,169.46	12.8%	1,443,178.00	185,002.89	12.8%	0.0%
1101 Tax Sale Expense	4,530.00	-	0.0%	5,300.00	54.05	1.0%	1.0%
1111 Dog License	27,057.00	3,281.48	12.1%	26,350.00	500.00	1.9%	-10.2%
1121 County Roads	7,627,236.00	1,234,230.30	16.2%	8,055,890.00	1,038,697.01	12.9%	-3.3%
1191 Enhanced 911	816,500.00	33,679.09	4.1%	784,158.00	41,781.70	5.3%	1.2%
1211 Multipurpose Facilities Fund	396,674.00	61,651.92	15.5%	430,000.00	51,250.00	11.9%	-3.6%
1221 Lodging Tax Fund	418,518.00	66,611.83	15.9%	480,000.00	68,689.80	14.3%	-1.6%
1251 Auditor Document Preservation	514,902.00	101,786.24	19.8%	237,800.00	20,757.41	8.7%	-11.0%
1261 Capital Improvement Fund	278,932.00	12,320.58	4.4%	383,500.00	450.00	0.1%	-4.3%
1271 Crime Victims 20%	43,564.00	-	0.0%	29,464.00	-	0.0%	0.0%
1281 Mental Health Tax Fund	527,850.00	20,296.39	3.8%	528,850.00	168,107.16	31.8%	27.9%
1921 Other Grants / Septic Loans	1,284,565.00	39,495.75	3.1%	285,300.00	64,828.00	22.7%	19.6%
1951 Public Facilities Imp Receiving	1,362,101.00	97,861.33	7.2%	759,216.00	109,730.53	14.5%	7.3%
1961 Affordable Housing Fund 60%	383,607.00	13,634.19	3.6%	442,575.00	35,348.16	8.0%	4.4%
1971 Criminal Justice Receiving Fund	265,623.00	136,790.00	51.5%	261,433.00	104,790.00	40.1%	-11.4%
Special Revenue Fund Exp Total	\$21,181,113.00	\$ 3,131,844.11	14.8%	\$18,988,733.00	\$ 2,181,272.76	11.5%	-3.3%

The **Land Bank Conservation Area Fund** was given a red light rating in the Q-4 2010 report due to the five year drop to 38% of the 2006 level of 1% Real Estate Excise Tax revenue from this primary source of Land Bank funding. That rating remains a red light because after one quarter, it is on a straight-line calculation track to meet budget, but that could be one of the lowest-ever Land Bank REET receipts. However, the first quarter is usually the lowest-producing quarter of the year, so this may actually be a good sign.



The **Land Bank Stewardship Fund** was given a yellow light rating in the Q-4 2010 report due to the drop in interest earnings. That is raised to a red light, due to the low earnings in Q-1 2011 and the budget being forecast to even lower earnings than fiscal year 2010. The Land Bank Budget Committee is well aware that the decline of this revenue source, which used to cover 50% of stewardship costs, will require a re-thinking of sustainable stewardship. It is preparing to share ideas with the Council Budget Subcommittee.

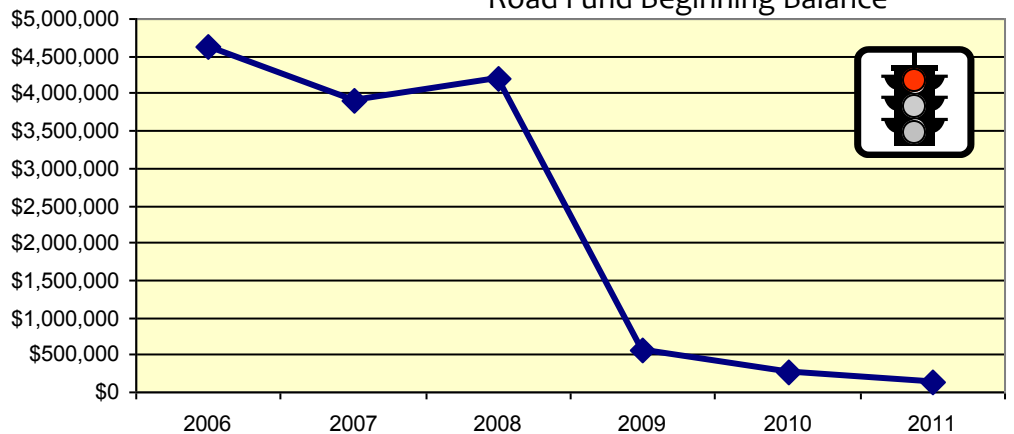
Stewardship Fund - Misc Income



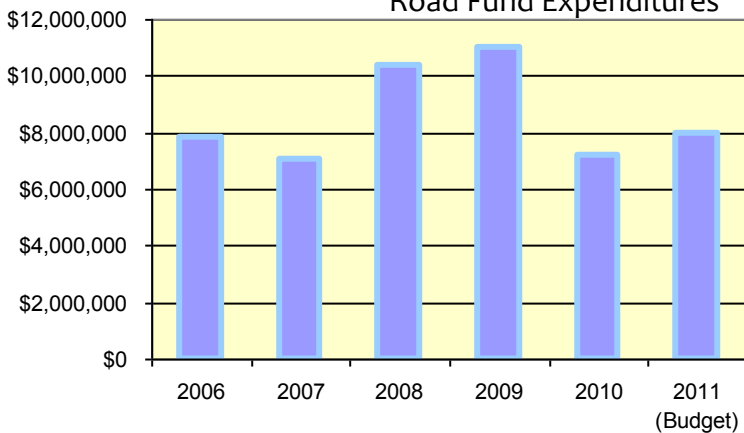
Special Revenue Funds (continued)

The **Road Fund** was given a red light in the Q-4 2010 report due to a precipitous drop in beginning cash over the past five years. Operating cash is important in this fund due to the large amounts of cash it uses in the warmer months to carry out its road functions, especially the annual chip seal program.

Road Fund Beginning Balance



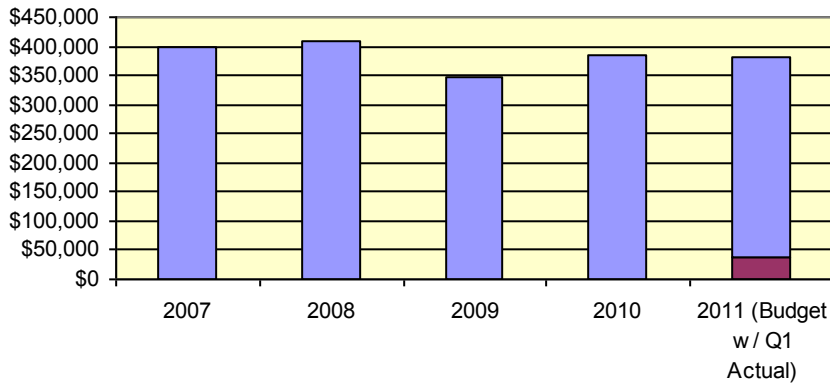
Road Fund Expenditures



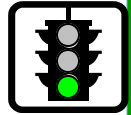
The Public Works Department has responded by a re-tooling of staff and service levels that will drop staffing by 25% over a four year period. An anticipated need for a \$500K Interfund loan was avoided going into 2011, but the beginning cash estimate of \$250K was downgraded by \$93,000. Still, efforts to be realistic in living within its revenues nets the Road Fund a yellow light.



Lodging Tax Receipts



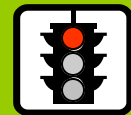
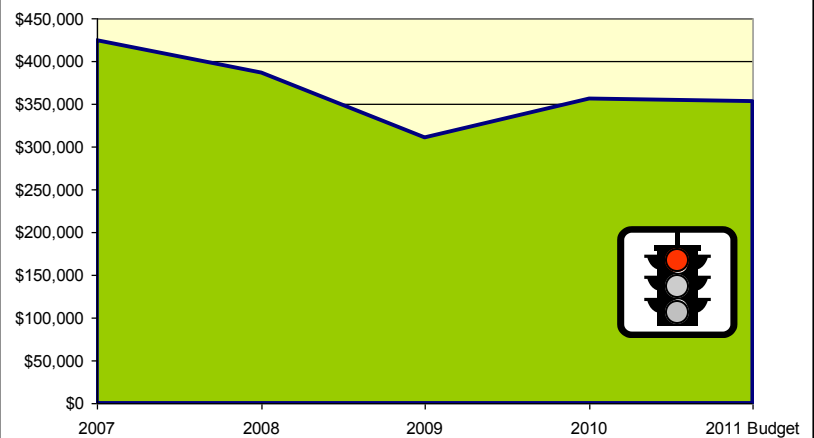
Lodging Tax/Multipurpose Facilities Fund receipts were given a green light forecast in the Q-4 2010 report. After a cool and rainy first four months of the year, that green has faded a bit. The Treasurer's forecast model estimated a 2.7% drop based on the first three months receipts. Looking ahead at the April receipts, that deficit is now projected at a drop of 1.6%, or about \$774,000 instead of \$780,000.



Special Revenue Funds (continued)

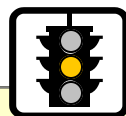
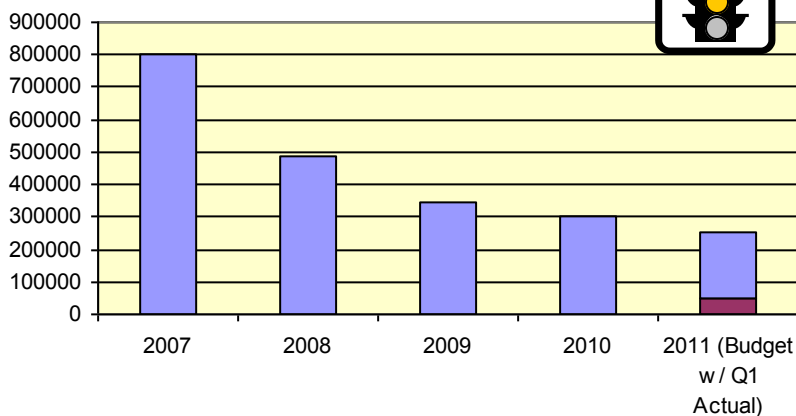
Parks & Fair Fund was assigned a red light in the Q-4 2010 report mainly because the Fair has had to avoid spending money to address unfunded maintenance and repair liabilities in favor of keeping the annual event plus rental of the fairgrounds during the year. The Fair revenue is pinched in 2011 due to a lower than usual award of Lodging Tax for operating and the state budget reducing support of county fairs. Toward the end of 2010, the Council redirected \$5,000 in a lodging tax grant that was abandoned by the recipient. It has asked the Lodging Tax Advisory Committee for advice on allocating an additional \$20K in its reduced 2011 Fair operating grant due to increased 2010 Lodging Tax receipts.

Fair Revenue



The **Capital Improvement Fund** has shrunk steadily over the past five years to the point that the 2011 budget could not even project enough REET revenue to cover its debt service of about \$287K. An Interfund loan is currently keeping this fund solvent. There are two improvements that have helped the financial picture. First, the first quarter percent REET 1 receipts would multiply out in a straight line fashion to produce \$290K in revenue. While that is a shaky assumption in a weak real estate market, the second improvement is the Council approving the second quarter percent of REET (REET 2). It takes about 90 days for the Department of Revenue to set up a new tax account. As of this writing, the Council has not allocated any of the REET 2, waiting for an update of the capital budget to determine priorities. At this point, the Capital Improvement Fund is upgraded to a yellow.

REET - 1/4 pct For Capital



It should be noted that when the capital budget process is completed, there will be far more needed improvements than the revenue can cover. Still, improvement is improvement.

Enterprise Funds



Quarterly Enterprise Funds Revenue								
		2010 Budget	2010 Q-1 Actual	2010 PCT	2011 Budget	2011 Q-1 Actual	2011 PCT	%Change
4011	Solid Waste Fund	2,655,667.00	462,369.20	0.17	2,281,191.00	492,196.40	22%	4.2%
4017	Solid Waste Projects Fund	2,038,620.00	40,004.03	0.02	565,741.00	698,153.60	123%	121.4%
4151	Stormwater Utility Fund	378,000.00	57,532.67	0.15	320,000.00	52,878.06	17%	1.3%
4157	Stormwater Utility Capital Projects	447,652.00	-	-	572,313.00	8,588.58	2%	1.5%
Enterprise Funds Revenue Total		\$ 5,519,939.00	\$ 559,905.90	10.1%	\$ 3,739,245.00	\$ 1,251,816.64	33.5%	23.3%
Quarterly Enterprise Funds Expenditures								
		2010 Budget	2010 Actual	2010 PCT	2011 Budget	2011 Actual	2011 PCT	%Change
4011	Solid Waste Fund	2,421,021.00	365,606.34	15.1%	2,141,191.00	345,737.24	16.1%	1.0%
4017	Solid Waste Projects Fund	1,447,517.00	9,367.97	0.6%	805,741.00	539,783.63	67.0%	66.3%
4151	Stormwater Utility Fund	752,618.00	34,451.98	4.6%	570,000.00	27,892.96	4.9%	0.3%
4157	Stormwater Utility Capital Projects	500,839.00	6,971.46	1.4%	622,313.00	14,967.43	2.4%	1.0%
Enterprise Funds Expenditures Total		\$ 5,121,995.00	\$ 416,397.75	8.1%	\$ 4,139,245.00	\$ 928,381.26	22.4%	14.3%

The **Enterprise Funds** consist of four funds to do the **Stormwater** and **Solid Waste** utility functions. Each function has an operational fund and a capital projects fund.

Our graphic signal for caution comes in the same size for all entries, but the **Solid Waste** program remains the brightest red light. The precipitous drop in tonnage has changed the problem faster than the County can react to it and the current three-station business model has failed. The Council has effectively bought a year by increasing fees for service (recycling) and by an inter-fund sale of utility assets and dedicating part of the proceeds to balancing the 2011 budget. Efforts are underway to prepare a three-station model for a public vote in November.

Fees for services have increased even in this slower part of the year. Tonnage has dropped. The result for the **Solid Waste Operations** is that it remained in **balance for the first quarter of 2011 with revenues of \$492,196 (23.0%) and expenditures of \$345,737 (16.1%)**. Data for the same quarter in 2010 was revenues of \$462,369 (19.1%) and expenditures of \$365,606 (15.1%).

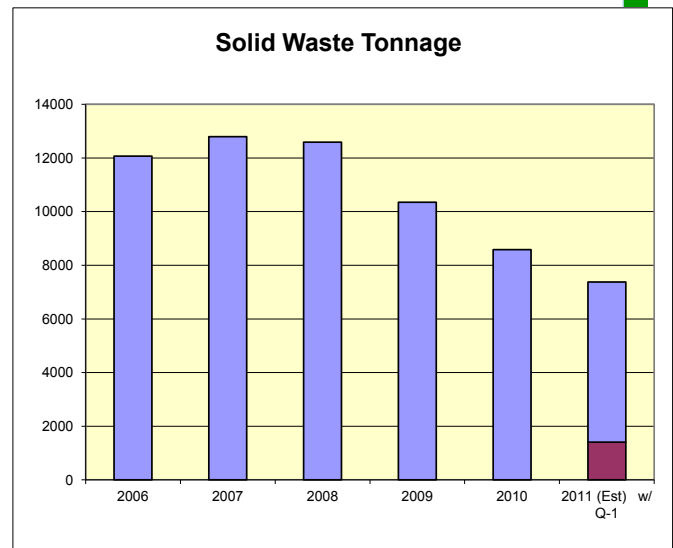
The **Solid Waste Projects Fund** is currently murkier. The deficit that is covered by interfund loans is not reflected in the budget. Revenue to the fund currently reflects the entire sale of assets. Therefore, Q-1 2011 finished with \$698,153 in revenues, or 86.6% of budget. There is a corresponding \$167,433 of unplanned expenditures currently shown as an unallocated repayment of loans and there is an unallocated land purchase of \$141,000 also expressed in the expenditures.

As a result, Q-1 2011 finished the quarter at \$539,784 in expenditures, or 67% of budget. The Solid Waste Subcommittee is currently discussing the use of land purchase unplanned proceeds.

The **Stormwater** fee structure failed in a referendum in 2007 and was rebuilt in a much smaller fashion in 2008. An advisory committee has been working with staff. A basin study is underway, some monitoring is in place and the first projects have been done. A major project is planned for Eastsound during this construction season. A major report to the Council to determine the next phase of parcel fee funding is planned for the summer.

The **Stormwater Utility Operating Fund** has received \$52,878 of its planned \$570,000 budget, or 9.3% of revenue. Since the parcel fee is collected with the property tax, that amount will rise significantly in the second quarter. **The fund has spent \$27,893 of its \$570,000 allocation, or 4.89% of expenses.**

The **Stormwater Utility Capital Projects Fund** has received \$8,589 of a planned \$622,313 in revenue (1.4%) and has spent \$14,967 (2.41). Keep in mind that over half of the revenue and expenditures will be the grant-funded constructed wetland project in Eastsound.



Internal Services Funds

Quarterly Internal Services Funds Expenditures

	2010 Budget	2010 Q-1 Actual	2010 PCT	2011 Budget	2011 Q-1 Actual	2011 PCT
5011 Equipment Rental & Revol	3,690,957.00	206,819.34	5.6%	3,491,788.00	911,404.49	26.1%
5021 Information Services	552,826.00	98,021.06	17.7%	529,207.00	86,868.79	16.4%
5051 Insurance Cumulative Res	71,538.00	69.99	0.1%	130,100.00	10,843.50	8.3%
Internal Srvc Funds Expenditu	4,315,321.00	304,910.39	7.1%	4,151,095.00	1,009,116.78	24.3%

The **Equipment Repair and Revolving Fund (ER&R)** had an eventful quarter due to its participation in the land reconciliation with Solid Waste. This reduces the value of a comparison with Q-1 2010. ER&R revenues were \$541,969, or 15.5% of budget. That includes a currently unallocated but credited loan payment of \$167,433 and receipt of former Solid Waste property valued at \$141,000. **ER&R expenditures were \$941,404, or 26.1% of budget.** This included \$649,161 in expense to Solid Waste for land reconciliation.

Information Services received \$132,413 (25.02%) of its projected \$529,207 budget. Nearly all of this income was transfers from user departments. **Q-1 2011 Information Services expenses were \$86,868 (20.2% of budget).**

The **Insurance Cumulative Reserve** has received \$7.29 (.01%) of its planned \$130,100 income. Nearly all of that will eventually be transferred from user departments. It has spent \$10,843 (8.3%) of its budget.



Prepared by County Auditor Milene Henley

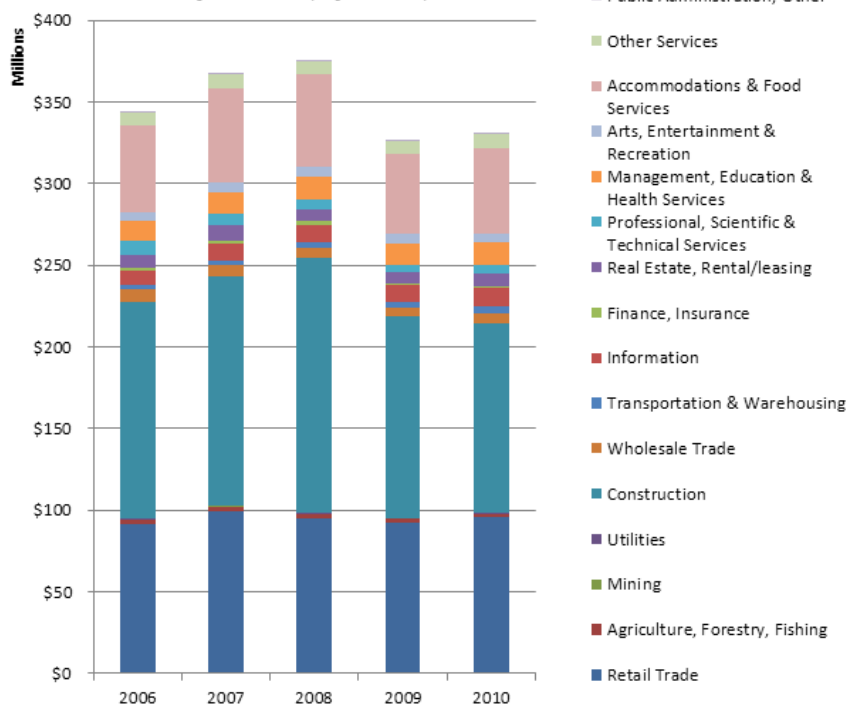
Financial Issues

The Larger Context or, "If the recession is over, why don't I feel better?"

A "recession" is an economic contraction, typically measured by a reduction in Gross Domestic Product (GDP). The recent nationwide economic recession started in December of 2007 and ended, according to the measurements, in June of 2009. At least, June of 2009 is when GDP started going up. Yet the closed storefronts and slow home sales of San Juan County beg the question: If the recession is over, why aren't things better?

Two lingering economic issues have characterized this recession: Slow job growth, and a lagging home market. We have seen both, in spades, in San Juan County. The sharp reduction in construction, as evidenced by the permit data presented above, reduced jobs in that industry directly. But it then went on to indirectly reduce jobs in all retail trades, as people had less money to spend on goods. Since construction produces almost 40% of all sales tax revenue in the County (compared to about 18% for all Washington counties), and retail trades contribute another 26%, the double whammy of less construction and less money to spend hit San Juan County hard.

Total Sales Subject to Tax, by Sector, 2006-2010



Financial Issues

(continued)

The drop in construction was one aspect of the second defining characteristic of this recession: a lagging home market. Following the fallout of the financial markets in 2007, home loans became virtually unavailable. Buying stopped, which led to a decrease in building. Almost four years later, the housing market remains depressed. According to State Economist Arun Raha, Washington is entering a second dip in home prices. Further, he says, home prices will not recover until home formation begins. Home formation is the creation

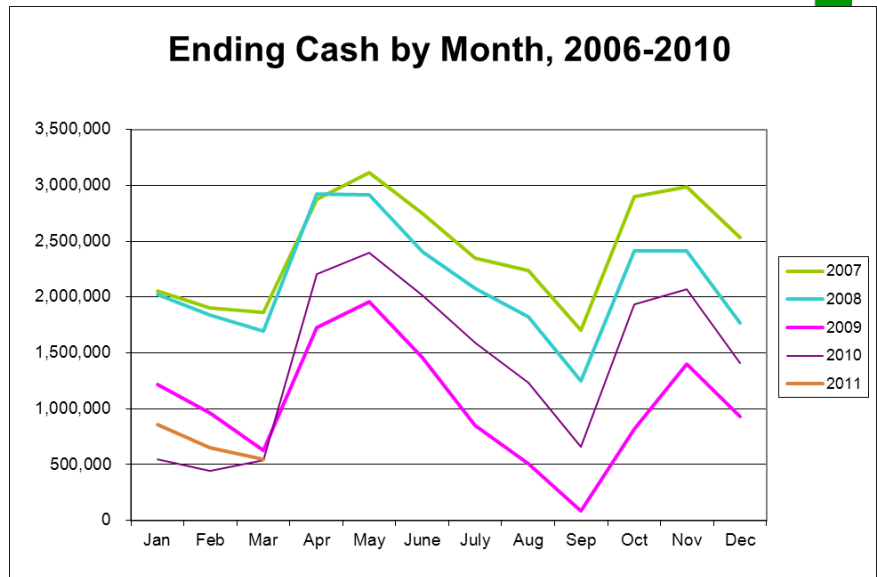
of new households, which leads to the need for more homes, typically from children moving out of the house, or new families seeking their first home of their own. The current, contrary trend is that young adults—and some not-so-young adults—are moving back in with their parents because of lack of work. Aggravating that trend in San Juan County is the number of families and workers moving off-island because they can't find work on the island. There is also a surfeit of homes available, as foreclosures continue to rise. So it may be some time before we see any real recovery in the local housing market.

It is within this larger context that San Juan County must manage its financial needs and obligations.

Cash

Our recent success in increasing cash reserves appears threatened by likely shortfalls in budgeted revenue for 2011. Ending cash by month for 2011 started well ahead of 2010, but had dropped to 2010 levels by the end of the first quarter.

We must watch our cash management carefully for the rest of the year in order not to slide back into the very low cash positions we had in 2009.



Update on Interfund Loans

Similarly, we need to maintain our obligations to re-pay interfund loans. As of the end of 2010, the Solid Waste Funds had received \$1,125,000 of loans from other funds, in order to maintain a positive balance. In January of 2011, a long-planned transfer of properties between ER&R and Solid Waste was finalized. The transaction generated \$465,000 cash for Solid Waste. Out of those proceeds, \$325,000 was used to pay off loans from ER&R, the Mental Health Tax Fund, and the Public Facilities Improvement Fund. In addition, an older interfund loan from ER&R, of \$42,433, was paid off.

The first quarter of 2011 saw further erosion in the amount of waste brought to the County's Solid Waste facilities. That reduction portends a negative cash flow for the year, which could threaten the re-payment of the remaining loans to Solid Waste. The Council's Solid Waste Subcommittee is actively seeking a solution to this problem.

The table shows existing interfund loans as of the first quarter 2011. The highlighted loans were paid off during the first quarter.

Lending Fund	Borrowing Fund	Amount	Term	Scheduled 2011 Pmts	Scheduled 2012 Pmts	Scheduled 2013 Pmts
Public Facilities	Capital Improvement	\$100,000	3 years	\$0	\$50,000	\$50,000
Public Facilities	Emergency Mgt	\$100,000	1 year	\$17,000		
Mental Health Tax	Solid Waste	\$100,000	1 year	\$100,000		
Public Facilities	Solid Waste	\$200,000	2 years	\$100,000	\$100,000	
Grant/Septic Loans	Solid Waste	\$100,000	2 years	\$0	\$100,000	
Auditor's Doc Pres	Solid Waste	\$200,000	3 years	\$0	\$0	\$200,000
ER&R	Solid Waste	\$400,000	3 years	\$0	\$200,000	\$200,000
ER&R	Solid Waste	\$125,000	1 month	\$125,000	\$0	\$0
Total SW loans		\$1,125,000		\$325,000	\$400,000	\$400,000

