



**THE SALT LAKE COUNTY MAYOR'S
2016 BUDGET MESSAGE**

Mayor Ben McAdams

to the

Salt Lake County Council

and to the Citizens of Salt Lake County

December 8, 2015

Introduction

In accordance with the Uniform Fiscal Procedures Act for Counties (UCA §17-36-10), the Budget Officer of the County is charged with preparing a Budget Message to explain the Council recommended budget, and in general, summarize significant changes in the County's financial position; revenues, expenditures, budgets, and additions or changes in financial policies.

I am pleased to have the opportunity as Mayor and Budget Officer of Salt Lake County, to present this Budget Message. Every budget is a reaction to perception of current public needs. In certain cases, a new budget must also respond to prior significant decisions made to meet such public needs. Always, the budget must balance needs that can be met and those that must be deferred.

Budget Overview

The 2016 Recommended Budget is structurally balanced for each fund with projected ending fund balances at or above the minimum reserve required by policy.

Total appropriations for 2016 are \$1.3 billion. After adjusting the overall budget for internal charges and other interfund charges, the total 2016 Recommended Budget for all funds is approximately \$1.14 billion, 3.2% higher than the net 2015 June Adjusted Budget.

The budget is one of the most important policy tools in Salt Lake County. Each year, the Council and I take great care to align the budget with the priorities that are of greatest importance to citizens. The 2016 Recommended Budget is no exception. Revenues by source are summarized in Figure 1, on page 3. In Figure 2, expenditures by function are presented.

2016 Budget Solution

The 2016 Tentative Budget, that is the initial requests input into the budgeting system by departments and elected officials, was out of balance by approximately \$26.4 million. The solution to balancing the budget relied on cutting new requests, approximately 750k in program eliminations and management restructuring, and 3.8M of the 9.4M public safety revenue redirected to alleviate the deficit in public safety ongoing operations. In terms of new full time equivalent positions, 129.7 were requested, but the final Recommended Budget adds only 63.5 FTEs, with the majority of the increases to address criminal justice caseload in the DA and Sheriff's office. This represents an increase of 1.7% on the overall budgeted FTE level.

2016 Recommended Budget Revenues by Source

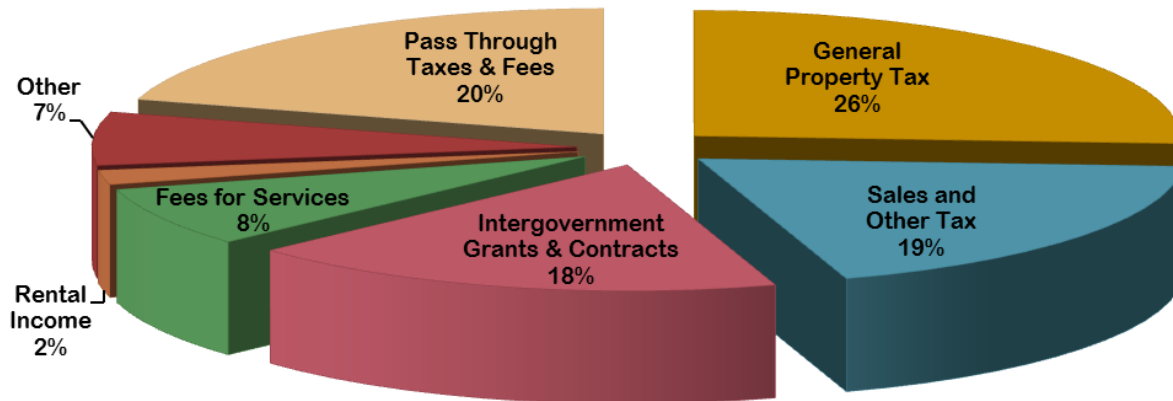


Figure 1. Tax revenues (General Property Tax and Sales and Other Taxes) account for a little less than half of the County’s budgeted revenues in 2016, and are the major funding source for County operations. The County is required to recognize Pass Through Taxes & Fees, which are levied by the County, but which are used to fund projects or programs of other government entities. The "Other" revenue category includes revenue sources that tend to fluctuate significantly, such as fines, interest, sale of assets, and bond proceeds.

2016 Recommended Budget Expenditures by Function

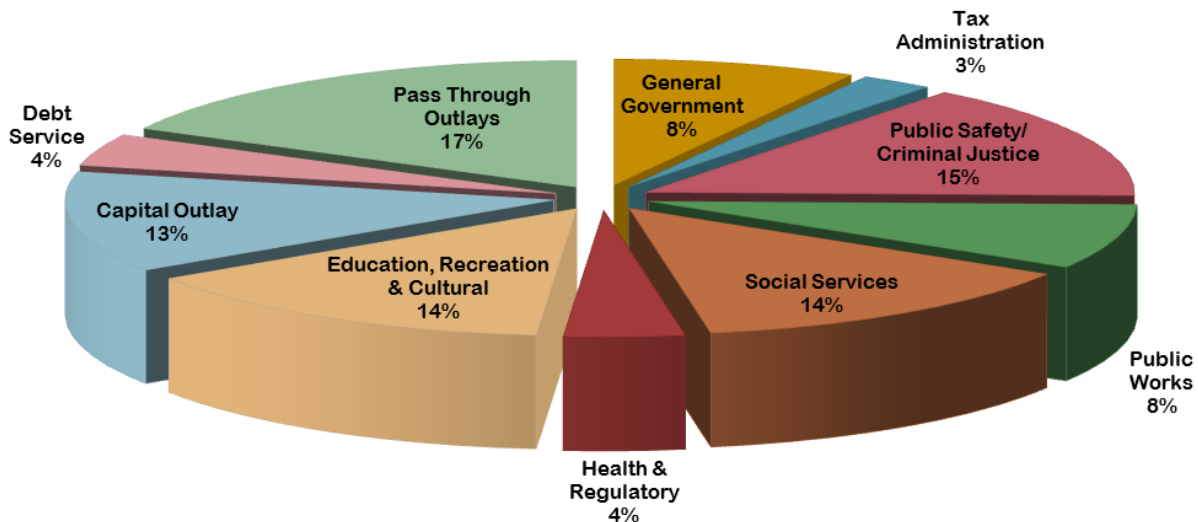


Figure 2. The County is required to recognize Pass Through Outlays, which are taxes & fees levied by the County on behalf of other government entities, used to fund projects or programs of those entities. Pass Through Outlays is the single largest budgeted expenditure category. The operating functions of the County (General Government, Tax Administration, Public Safety/Criminal Justice, Public Works, Social Services, Health & Regulatory, and Education, Recreation & Cultural) account for about 2/3 of all budgeted expenditures in 2016.

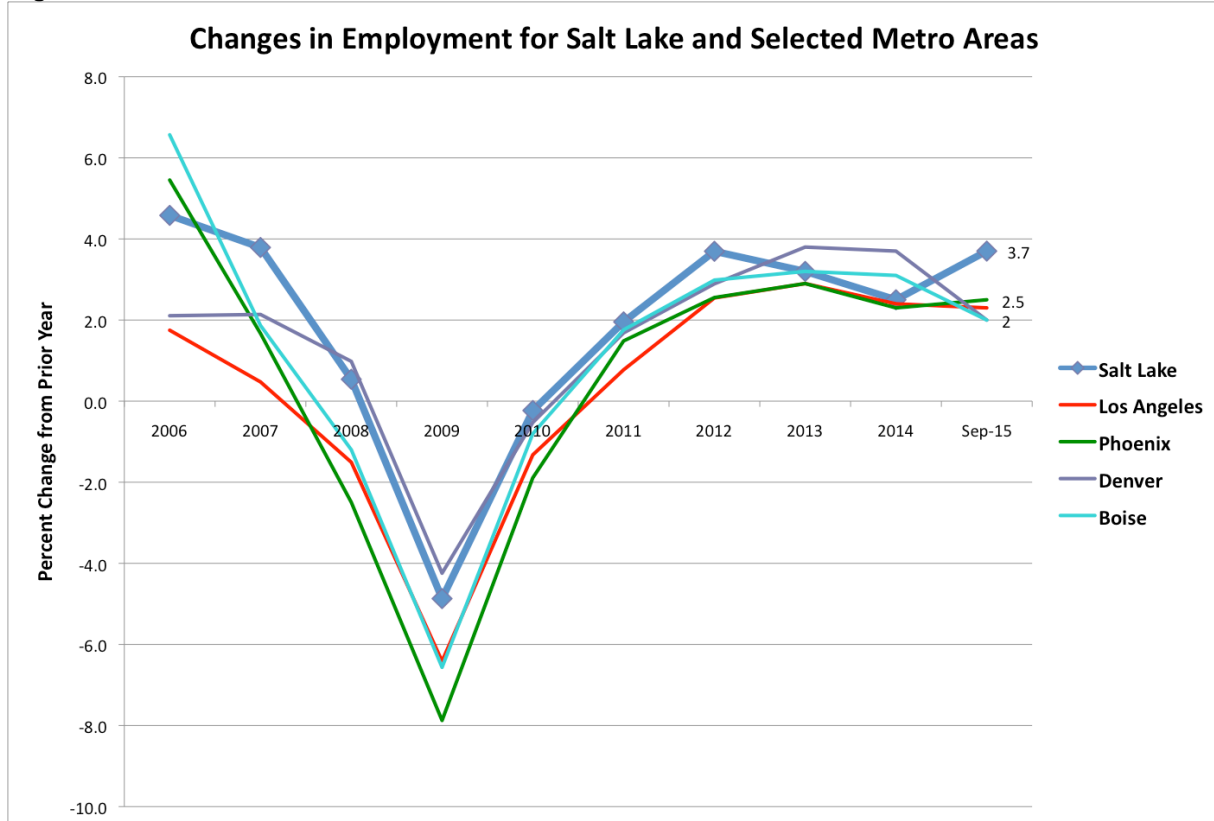
Economic Outlook

As 2015 comes to a close, Salt Lake County's economy continues to expand into its fifth consecutive year. Boosted by sustained growth in the U.S. economy, and in particular the high-tech sector, job growth in the County is increasing at a 3% to 4% growth rate. Barring extraordinary economic shocks, including fiscal drag from federal government cutbacks or political stalemate in Washington, D.C., Salt Lake County's economy and taxable sales will continue to expand at a pace equal to or faster than the U.S. in 2016.

The U.S. economy will grow 2.5% in 2015 and is expected to expand 2.7% in 2016. Low gasoline prices and the improving jobs outlook have sparked consumer spending for cars, trucks and new homes. Leading indicators in the County are all positive, including low interest rates, surging construction, and high consumer sentiment. Across the country, the only weakness continues to be modest wage growth. In contrast, the outlook in other large economies will be mixed for 2016: relatively strong growth in the U.S. (2.7%), China (6%), Great Britain and Mexico (2%) will contrast with smaller gains for Germany (1.6%), Canada (1%) and Japan (1%). Meanwhile, Russia and Brazil are in recession.

The strength of the U.S. and its large trading partners (China, Great Britain, Canada and Mexico) will fuel continued economic expansion in Salt Lake County in 2016. Salt Lake County employment is growing rapidly enough at 3% to reduce the unemployment rate, currently at 3.3% (down from a peak of 8.4% in 2010). Job growth in the Salt Lake Metro Area, at 3.7%, is higher than in nearby, competing metropolitan areas -- Los Angeles, Phoenix, Denver and Boise (Figure 1). During the first half of 2015, average wages per job in Salt Lake County were up 2.4%, which will lead to total wage growth of more than 5% for the year. We expect payrolls to grow 5% to 6% in 2016, driving taxable sales at close to the same rate of growth (Figure 2).

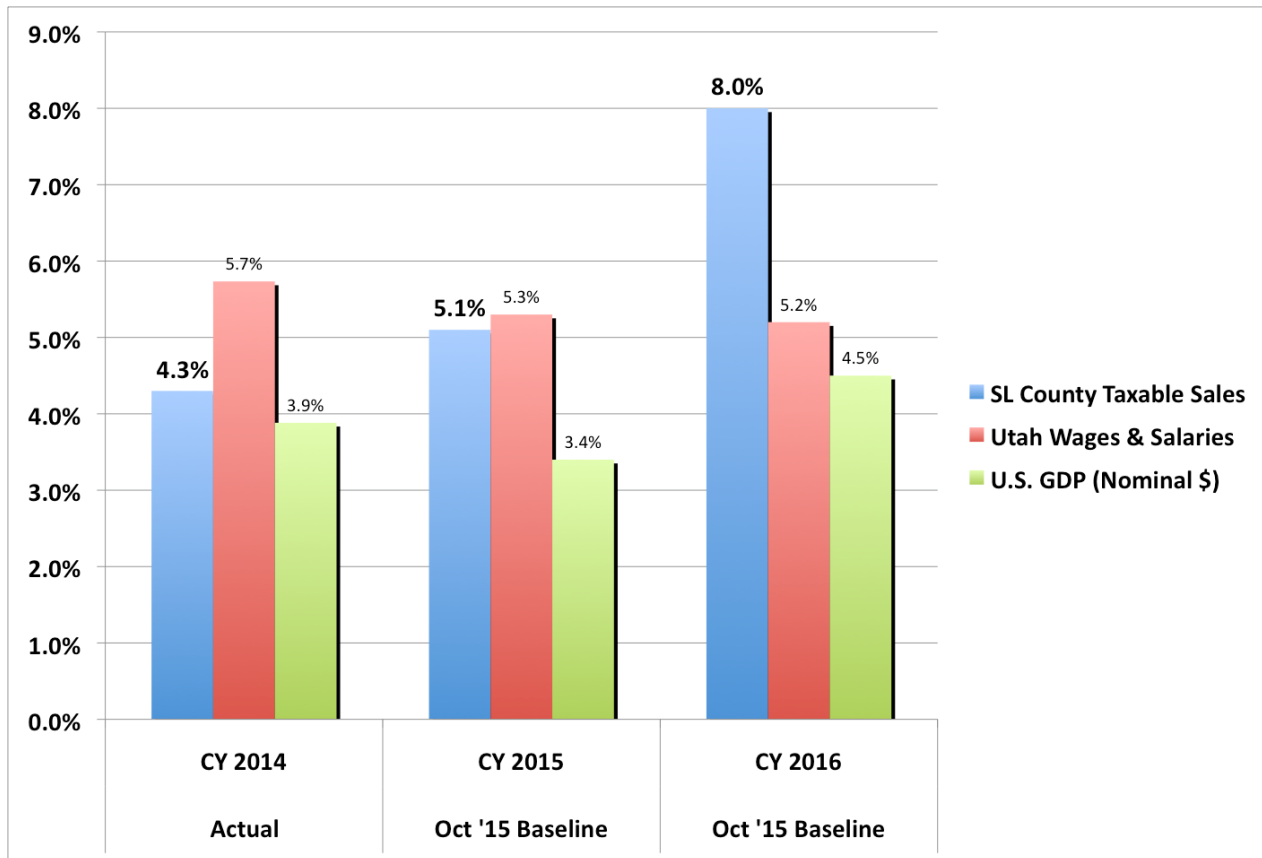
Figure 1.



Salt Lake County taxable sales during the first three quarters of 2015 were up 4.3% and should increase between 5% and 8% in 2016. This reflects wage and salary gains of 5% to 6% in 2016, and new residential construction growth of 15% in 2015 and 6% in 2016. Growth in new car and truck sales, up 8.3% in the first half of 2015 will continue, but at a bit slower rate in 2016. In summary, six percent wage growth, coupled with a 15% increase in residential construction from 2015 and a 5% gain in new car and truck sales will propel retail sales in Salt Lake County to increase 5% to 7% in 2016.

Meanwhile, U.S. business equipment and software, a driver of County business taxable sales growth, will improve from 3.2% in 2015 to 6.5% in 2016. The improvement in U.S. business equipment purchases, along with double-digit increases in the County's new residential and nonresidential construction this year, will propel County taxable business purchases to grow 7% in 2015 and accelerate between 8% to 12% in 2016.

Figure 2.



Major Initiatives

The overall revenue picture remains relatively anemic, the strong economy notwithstanding. Property taxes, for example, are projected to grow at a rate of 1.3%, not inclusive of the plan to rededicate \$9.4 million for social and criminal justice programming. In addition, program revenues remain relatively flat and do not necessarily expand in correlation with a thriving economy. Accordingly, new initiatives were again curtailed for 2016. The baseline approach was to fund any new priorities with existing tax dollars while maintaining our structural balance. It was necessary to say “no” far more than “yes” during this budget season. Maintaining the structural balance in all funds was the priority. While some new money was made available by a strong sales tax revenue year as well as positive property tax growth projections, this was more than offset by inflation related expenditures and statutorily required expenses related to the 2016 presidential election. On top of these expenses, the county is faced with a significant increase in expenses related to criminal justice.

In 1995, County leadership made a public safety decision to replace an aging county jail and bonded for \$107 million to build our secure, modern Adult Detention Center. Taxes were levied and approximately \$9.4 million annually was dedicated to debt service repayment for 20 years. That jail bond will be retired at the end of 2015. The 2016 budget retains that money through a new tax levy and re-dedicating it to public safety to address the crime rate and criminal caseload increases. Some of the money will be used for a Community Corrections Center. This is a sentencing alternative to the jail that would include space and a design for intensive programming, employment counseling, and behavioral health services, within a secure environment. It will free up the “hard beds” for the criminals who need to be kept away from society. This sentencing alternative may include expanding secure treatment beds at the Oxbow facility as well. The Community Corrections Center could potentially serve as a new location for our Criminal Justice Services staff, helping to save on rent and improve access to clients. A portion of the money will be directed to address caseload increases experienced by the District Attorney. Also, we’ll direct \$100,000 per year—for three years—to support collection and analysis of data so that we can track and measure our work. The remaining funds (\$5.5M in 2016, 6.5M in 2017 and 2018) will be divided among criminal and social justice initiatives designed to lower recidivism, minimize homelessness and improve maternal and child health outcomes.

In terms of employee benefits and compensation, the Mayor proposed and the Council approved a 3% salary increase for employees, which was recommended by Human Resources and in line with both public and private sector planned increases for 2016. For employees in the Tier I retirement system, the pension contributions are relatively flat for 2016, but based on market data it was determined that total compensation could be maintained at competitive market rates with the 401(k) contribution reduced from the current 3% to 1.5% in 2016 and reviewed for elimination in 2017. Health insurance costs continue to be an issue. Through rate incentives and education, the goal is to increase the number of participants in the high deductible health plans. The 2015 goal of 55% was met – and a new goal of 65% has been set for the upcoming year. Consumerism is the key to holding down health care inflation pressures in the budget over the long run.

Bond projects have been approved for 2016 as well. Sales tax revenue bonds will be issued to complete the design and construction of two previously approved projects, the District Attorney and Health buildings. In addition, a sales tax bond collateralized by TRCC revenues is contemplated to fund construction of a new Parks Operations building and a Community Connection building at the Olympic Oval in Kearns. Finally, the Mayor has proposed issuing a lease revenue bond for certain criminal justice infrastructure projects currently scheduled for early 2017, with the planning to commence during 2016.

The Salt Lake County Clerk is required by statute to administer county-wide elections, and their budget fluctuates between even and odd-numbered years based on the type of elections the office conducts. Presidential election years are more expensive than non-presidential election years, and with 2016 being a presidential election year, the Clerk's required budget is \$3M higher than in 2015.

Another pressing reality that had to be addressed in the 2016 budget is aging information technology. Approximately \$2.2M was appropriated for critical priorities, including the migration of the data center currently at risk from overhead plumbing and ground water as well as continued migration of applications from the mainframe system to current technology.

To accommodate the continued growth in demand for park amenities the county has invested in three new regional parks—adding approximately 200 acres—and they will commence operations in 2016, requiring a net increase in expenditures of \$766k.

In November 2015, unincorporated Salt Lake County residents voted in a Community Preservation election to create a Municipal Services District and several "Metro Townships" comprised of certain communities in the unincorporated county. The 2016 budget includes the newly created Municipal Services District Fund, and the Unincorporated Municipal Services Fund. These new funds provide all of the services formerly provided by the county's Municipal Services Fund.

Finally, showing progress on handling capital renewal and replacement remains a top priority. Capital maintenance appropriations for 2016 are \$42 million, slightly higher than last year and in excess of 300% of what was appropriated in 2010. Importantly, we now have accurate data that shows the true picture of capital replacement and maintenance in the county.

Structural Balance

The 2016 Salt Lake County Recommended Budget is structurally balanced, and each fund is projected to end the year at or above the minimum reserves required by policy. This means that operating revenue is equal to or greater than operating expenditures. Nevertheless, inflationary pressures on the County's largest revenue source, property taxes, continues to be a concern. Each year, as a result of truth-in-taxation statutes, Salt Lake County loses purchasing power equivalent to the overall rate of inflation. In simple terms, not including new growth, Salt Lake County is allowed to budget and collect the same amount of revenue year over year. This is known as the downward bias of property taxes.

Salt Lake County has revised some fee schedules to remain competitive in the market place. Fees for park pavilion rentals, as one example, are reviewed periodically to ensure they are competitive with other municipal rates, as well as reasonable for the citizens.

In summary, since property taxes do not grow with inflation the County's long range plans show expenditure growth rates slightly higher than total revenue growth rates. This downward bias requires constant monitoring of all material budget items, including taxes, fees, personnel expenditures, and other spending areas in order to protect and maintain the structural balance of the budget.

Inflationary Pressures

Inflation is a persistent increase in the general price level of goods and services in the economy over a period of time. When the general price level rises, each dollar buys fewer goods and services; consequently, inflation reflects a reduction in the purchasing power per unit of money – a loss of real value in a fixed amount of money over time. Salt Lake County uses the West Urban region Consumer Price Index for All Urban Consumers, All Items (West Urban CPI-U, All Items), published by the U.S. Department of Labor, Bureau of Labor Statistics, as a representative measure of general inflation experienced by Salt Lake County.

Over time, inflation can act as a drag on County service levels, by eroding purchasing power to provide those services. Inflation in certain personnel costs has a significant impact on nearly all County operating budgets. Many of these costs are determined by outside forces, including the cost to hire, train, and retain employees. Inflation in the costs of utilities, fuel and transportation, food, and services received by County organizations all have ongoing and increasing impacts on County budgets. County capital budgets are also affected by increases in construction materials and labor costs, as well as increases in heavy equipment and other durable goods costs. In several past years, these persistent and uncontrollable inflation costs have exceeded the increases in revenues.

Financial Policies

The Council adopted comprehensive financial policies in 2009 that addressed budgeting practices, debt issuance, revenues, minimum reserves, investments, and accounting & financial reporting. These policies were prepared to formalize the County's commitment to financial best practices. These financial policies are being reviewed and updated, and are slated to be brought to the Council in 2016. The Council has also adopted an ordinance intended to protect the capital improvements tax levy from reallocation to operating funds of the County.

Recently, the Council also approved creation of an irrevocable trust for use in funding the County's other post-employment benefit (OPEB) obligation. The trust has been initially funded with \$3.8M, previously assigned within existing county funds for OPEB purposes.

Summary and Closing Remarks

The 2016 Recommended Salt Lake County budget is fiscally responsible. It continues our initiative to restore and maintain assets, and the budget ensures that revenues match adopted expenditures, reflecting the long-standing Salt Lake County practice of adopting a fiscally conservative budget. Most importantly, this budget preserves essential services for citizens. No priority programs were eliminated or drastically harmed.

The fiscal health of Salt Lake County remains as strong as ever. Our fund balances are healthy. The County's bond rating remains one of the strongest in the world, with all three major rating agencies giving Salt Lake County the highest possible rating of AAA on its underlying General Obligation debt.