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**THE SALT LAKE COUNTY AUDITOR'S  
2010 BUDGET MESSAGE**

**Jeffrey Hatch  
Salt Lake County Auditor**

to the

**Salt Lake County Council  
Mayor Peter Corroon**

and

**Citizens of Salt Lake County**

December 8, 2009

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## **Introduction**

Last year, County veterans referred to the 2009 Budget as, “the toughest in decades.” Well, the 2010 Budget surpassed the challenge of the prior year due to the recession hitting the County with full force this year and because County organizations and fund balances have been stretched tight in addressing below-budget revenues in 2009.

As Budget Officer of Salt Lake County, the Auditor is responsible for receiving budget requests from each County organization and combining them with revenue and beginning fund balance estimates to create the Auditor’s Tentative Budget. Our Office then supports the Mayor and Council in their deliberative process between the Auditor’s Tentative Budget and Council’s Recommended Budget to be presented tonight. I am charged under the Utah Uniform Fiscal Procedures Act (Section 17-36 of the Utah Code) with preparing a Budget Message to explain this budget and in general, summarize significant changes in the County’s financial position, revenues, expenditures and policy changes reflected in the budget. This Public Hearing and Council adoption will conclude the budget process—unless, of course, the Mayor vetoes any portion of it and we go back to the Council for an override vote.

## **Economic Outlook**

The Auditor is responsible for projecting revenues for the upcoming year. The U. S. recession has impacted Utah and Salt Lake County in 2009, driving our year-to-date general sales tax revenues down 13% over the same period in 2008, and putting increased pressure on our Human Services support of residents suffering from lost jobs, health insurance benefits, and even their housing due to mortgage foreclosures. Although the U. S. economy is seeing a little relief now, we expect U. S. unemployment to grow, perhaps peaking at 10.5% in 2010, and real Gross Domestic Product not reaching 2007 levels before the end of 2010. Utah and Salt Lake County are also expected to experience further job losses, reaching between 6 and 7% unemployment in 2010, before economic recovery will be sufficient to create new jobs. While economic forecasters are generally hopeful for a 2010 reversal of job losses, many worry that the non-residential real estate market is under severe stress and could create a second liquidity crisis in 2011 similar to the collapse in the residential mortgage market in 2007 that triggered the current recession. Our revenue projections reflect this possibility by leaning toward the lower end of economists’ projections for economic recovery in Utah next year.

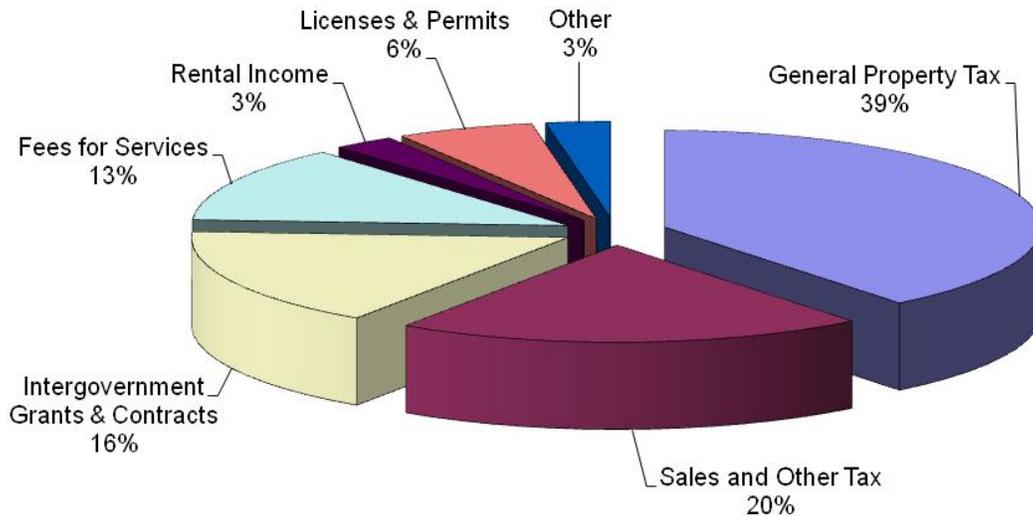
## **2010 Recommended Budget: Revenues**

The County Council’s total Recommended Budget revenue reflects an 18.3% decrease over the 2009 adjusted budget. The continued substantial drop in sales tax revenues in 2010 reflects the impact in Utah of the national (and global) recession which reduced consumer and business spending throughout 2009. The 61.5% decrease in rental income from 2009 to 2010 is due to a change in accounting for MBA bond debt service intended to eliminate overstatement of revenues and expenditures and also eliminate unnecessary interfund transactions. The 85.9% decrease in the “Other” category is principally due to a \$92 million decline in note and bond proceeds revenue in 2010, compared to 2009.

Revenue Source	2009 Adjusted Budget	2010 Recommended Budget	2010 % Change over Prior Year
General Property Tax	\$194,666,328	\$208,956,273	7.3%
Sales and Other Tax	116,066,992	107,316,992	-7.5%
Intergovernmental Grants & Contracts	101,369,957	87,736,860	-13.4%
Fees for Services	68,275,445	67,653,814	-0.9%
Rental Income	36,512,325	14,067,272	-61.5%
Licenses & Permits	29,742,049	31,441,591	5.7%
Other	104,264,602	14,705,471	-85.9%
<b>Total Major Revenue Sources</b>	<b>\$650,897,698</b>	<b>\$531,878,273</b>	<b>-18.3%</b>

**Table 1.** 2009 & 2010 Major Revenue Sources – 2010 Percentage Change from Prior Year. Revenue sources exclude interfund/interdepartmental revenue, overhead revenue, employee benefits pass-through revenue, and prior year fund balance. The "Other" category includes revenue sources that can vary significantly; e.g., fines, interest, sale of assets, and bond proceeds.

## 2010 Revenues for Recommended Budget



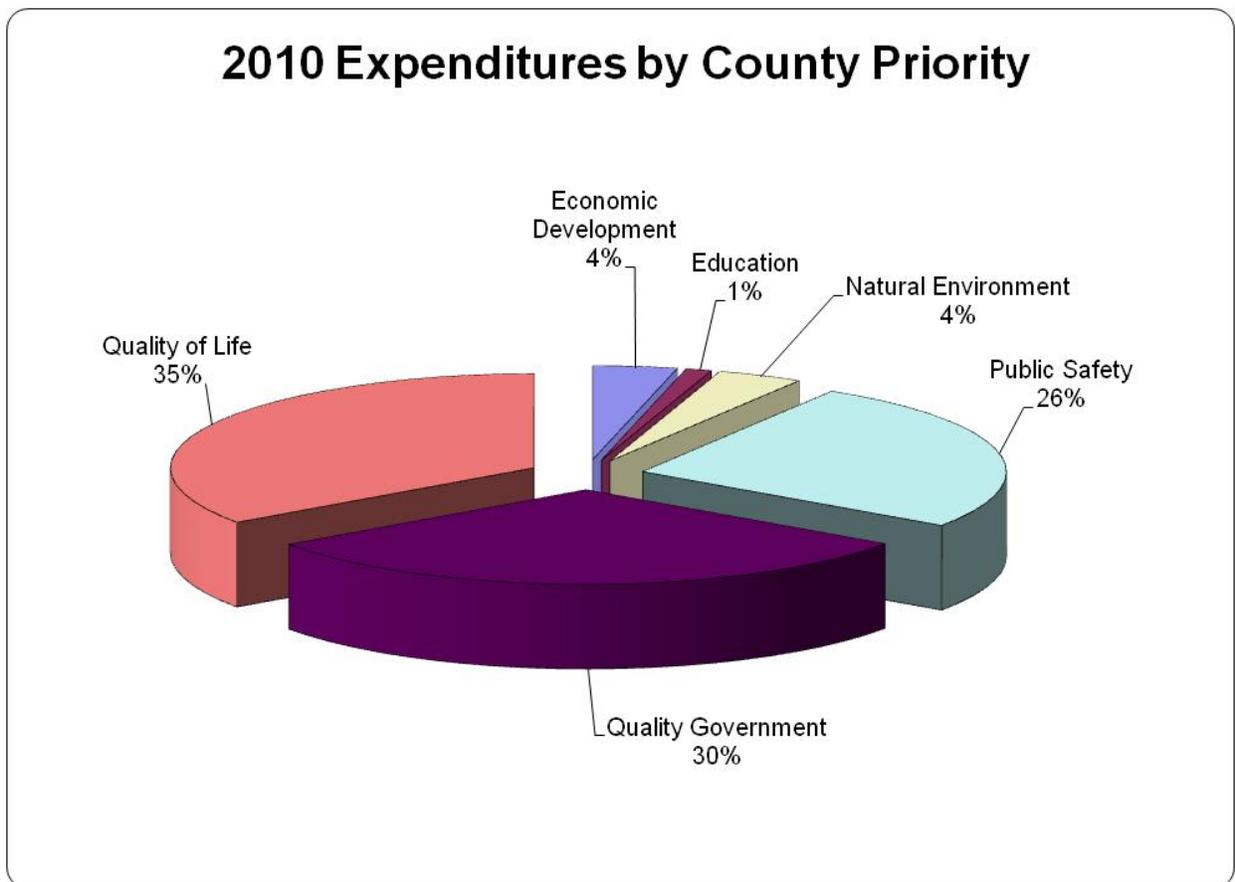
**Figure 1.** 2010 Recommended Budget - Revenues by Major Source.

## **2010: Budgeting for Priorities**

The 2010 budget continued measuring performance based on goals and outcomes, and organization budgets were made at the more detailed program level. Each program was assigned to one of the Mayor's overall priorities:

- Economic Development
- Education
- Natural Environment
- Public Safety
- Quality Government
- Quality of Life

While the exigencies of the economic recession limited the use of this prioritization effort in establishing the overall Budget, the emphasis on Public Safety dominated Council discussion of program priorities in a year of budget cuts. As the Mayor and Council continue to respond to reduced revenues, the groundwork completed in this Budgeting for Priorities can provide a valuable tool in weighing the merits of each program for continued funding.



**Figure 2.** *2010 Expenditures by County Priority.*

## **2010 Recommended Budget: Expenditures**

Salt Lake County 2010 expenditures are budgeted to decline 20.1% compared to the 2009 adopted budget. Internal Service Funds expenditures will decrease almost 55% in 2010, primarily due to the MBA bond debt service accounting change and due to anticipated decreases in expenditures for the County's Lease Revenue Bond capital projects. Enterprise Funds expenditures will increase 26.7% largely as a result of balance sheet capital purchases by the Solid Waste Management Fund amounting to \$10.4 million. The following table provides a comparison of the 2009 and 2010 budgets by fund type.

<b>Expenditures by Fund Type</b>	<b>2009 Adopted Budget</b>	<b>2010 Recommended Budget</b>	<b>2010 % Change over Prior Year</b>
Governmental Funds	\$661,398,485	\$545,121,930	-17.6%
Enterprise Funds	39,054,870	49,479,127	26.7%
Internal Service Funds	100,214,939	45,162,607	-54.9%
<b>Total Expenditures</b>	<b>\$800,668,294</b>	<b>\$639,763,664</b>	<b>-20.1%</b>

*Table 2. 2009 and 2010 Budget Expenditures by Fund Type – Net Budget.*

### ***Employee Compensation***

County employees are our most important asset. To attract and retain the best employees over time, Salt Lake County must maintain competitive wages and benefits. Because of the recession, budget shortfalls had to be shared by employees to make ends meet.

The 2010 Council Recommended Budget includes the following compensation package for employees:

- No COLA adjustment
- 2.75% across-the-board pay cut for all employees
- No longevity cash payment, or 401(k) account deposit, for merit employees
- Individual grade advancement increases may be granted by organization managers

The 2.75% across-the-board pay cut, combined with the associated reductions in most benefit costs, are projected to result in a \$7.7 million expenditure savings to the County.

Medical cost increases are budgeted to increase at 10% to fund existing benefits and to maintain reserves for the County's self-funded health plan.

### ***Property Taxes***

Current year property tax revenues for all funds are projected at \$207.3 million in 2010, and are summarized by fund in Table 3.

<b>Fund</b>	<b>2009 Property Tax Budgeted</b>	<b>2010 Property Tax Projected</b>
General	\$94,613,921	\$101,413,000
Municipal Services	7,770,940	7,570,000
Flood Control	4,142,700	3,546,000
State Tax Administration Levy	15,368,080	16,100,000
Library	26,560,642	27,735,000
Health	10,022,661	8,966,000
Governmental Immunity	1,403,173	1,420,000
Bond Debt Service	22,718,032	36,896,273
Capital Improvements	935,448	950,000
Planetarium	2,539,074	2,660,000
Judgment Levies (various funds)	1,264,657	0
<b>Total Property Tax Revenue</b>	<b>\$187,339,328</b>	<b>\$207,256,273</b>

**Table 3.** 2009 & 2010 Property Tax Revenue by Fund.

## Salt Lake County's Financial Condition

In times of financial uncertainty, it is reassuring that the financial health of Salt Lake County is sound. While current revenue projections show the County is suffering from a current **structural imbalance**, i.e., that revenues exceed expenditures, we have adequate fund balances to ride through this storm without major layoffs and program cuts.

Our most recent ratings for our debt by the three agencies that provide these ratings gave Salt Lake County the highest score, due in large part to our modest use of debt financing. From a total of 3,140 counties and county-equivalent administrative units, Salt Lake County is one of 23 counties in the nation that have a simultaneous triple 'A' credit rating with Moody's Investors Service, Standard & Poor's, and Fitch Ratings. The County's exemplary bond rating translates into significantly reduced interest costs for our taxpayers.

The following table summarizes proposed new debt planned for 2010:

<b>Type of Debt</b>	<b>Amount</b>	<b>Purpose</b>
General Obligation Bonds	\$22,000,000	To fund capital improvements to Hogle Zoo.

**Table 4.** 2010 New Authorized Debt by Type.

Another significant measure of a government's management success is the level of Fund Balances, especially the General Fund, compared to minimum reserves established either by law or policy of the governing body. Again, Salt Lake County expects to maintain solid Fund Balance reserves.

### 2010 Projected Year-End Fund Balance Summary

Fund	Budgeted Ending Fund Balance	Projected Ending Fund Balance	Minimum Reserve
General Fund	\$31,940,348	\$37,492,075	\$22,206,910
Municipal Services Fund	2,940,540	3,828,166	2,219,066
Flood Control Fund	341,194	484,755	319,023
Tax Administration Fund	1,131,222	1,569,638	1,096,039
Library Fund	9,414,609	10,036,077	1,553,670
Health Fund	1,628,572	2,273,978	1,613,516
TRCC Fund	2,622,824	2,622,824	51,715
Planetarium Fund	1,470,794	1,610,362	348,920

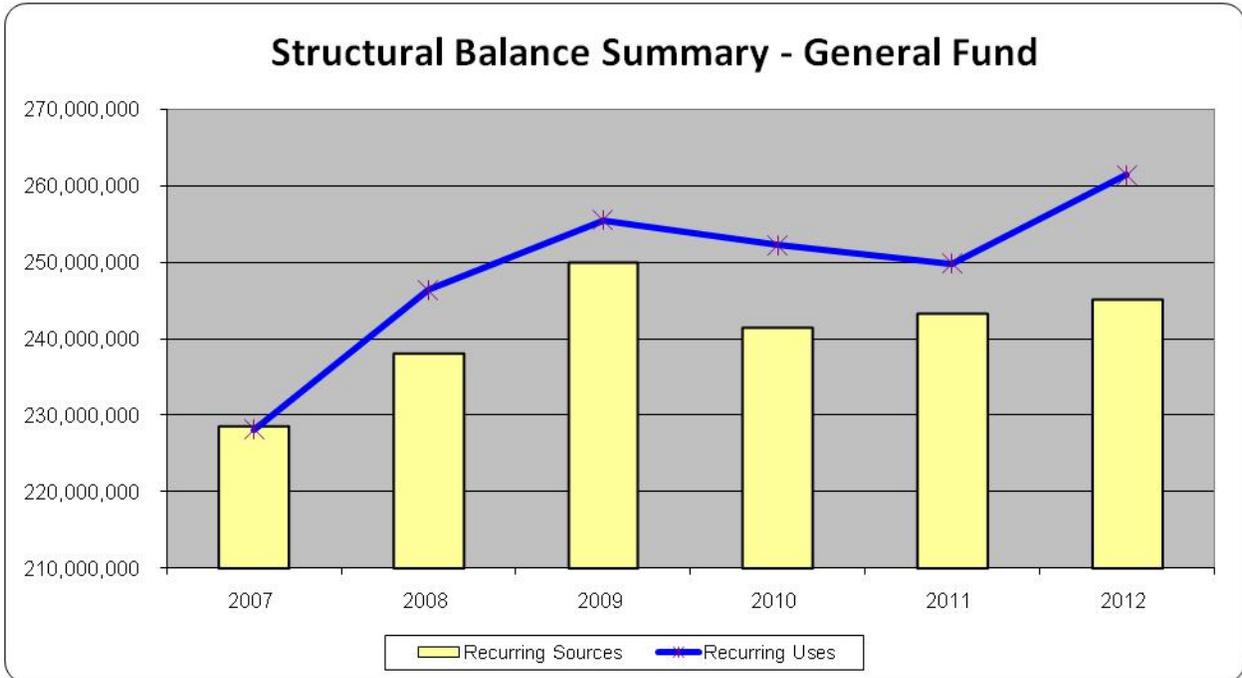
**Table 5.** 2010 Budgeted and Projected Fund Balance Summary for selected funds. The projected ending fund balance anticipates expected underexpend. Minimum reserves are calculated on the Budgeted Ending Fund Balances.

### Multi-Year Revenue and Expense Projection

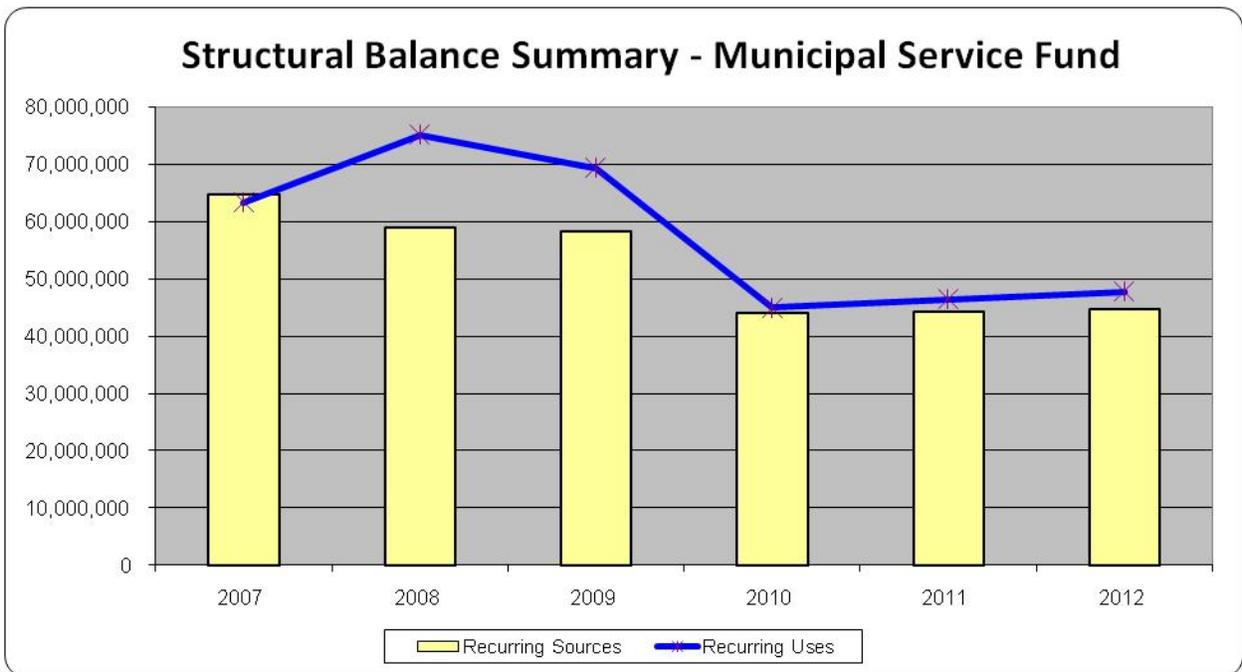
Each year, the Auditor's Office prepares a multi-year projection of revenues, expenses and fund balance assuming no policy changes (such as property tax increases). Utah law does not allow property tax rates to increase for inflationary valuation increases of existing residential and commercial properties. As a result, our revenues grow more slowly than both population-driven increases in service demand and inflationary cost increases. This downward bias in our property tax collections causes diminishing, or even negative fund balance projections in later years. Obviously, the Mayor and Council will make necessary policy decisions to increase revenues and/or cut expenses to allow the County to maintain minimum fund balances and protect our top AAA bond rating.

Throughout 2009, as anticipated revenues came up short, the Mayor and Council instituted budget cuts to alleviate the shortfall. Salt Lake County also used accumulated fund balances to balance the budget in 2008 and 2009, and will be required to do so in 2010 as well. Policy decisions adopted in the 2010 budget shifting \$14.7 million of General Obligation bond debt service from sales tax to \$ 13.4 million in property tax and \$1.3 million in fee-in-lieu revenue, and adopting property tax increases to provide for tort claim judgments and property tax settlements will assist in bringing better structural balance to the County budget in 2010 and beyond.

# Structural Balance Analysis



**Figure 3.** Multi-year projection of General Fund recurring revenues compared to recurring expenses. Projected fund balances taking into account both recurring and nonrecurring items will dip below the minimum reserve beginning in 2012 (before policy decisions are made by the Mayor and Council in finalizing the 2010 and subsequent budgets).



**Figure 4.** Multi-year projection of Municipal Services Fund recurring revenues compared to recurring expenses. Projected fund balances taking into account both recurring and nonrecurring items will dip below the minimum reserve beginning in 2011 (before policy decisions are made by the Mayor and Council in finalizing the 2010 and subsequent budgets).

## **Summary**

For those of us working on the 2010 Budget, this has been a stressful exercise. Each week, the national and international news changed the economic playing field, throwing into question our revenue assumptions, and the news is hardly settled down as we speak. I want to personally congratulate the Council, Mayor and their dedicated staff for staying focused on the task in the face of our ever-changing targets. While we all recognize that more change is ahead of us, the spirit of working together to meet the challenges ahead is well established.

Please use the Auditor's office as a resource for any questions you might have on the 2010 Budget or any other financial matter that concerns you. And thanks for your attention this evening.