THE SALT LAKE COUNTY MAYOR'S 2013 BUDGET MESSAGE

Mayor Peter Corroon

to the

Salt Lake County Council

and to the Citizens of Salt Lake County

December 11, 2012

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

After adjusting the overall budget for internal charges and other interfund charges, the total 2013 Recommended Budget for all funds is approximately $794 million. In 2012, the County's Adopted Budget was $856 million. Planned expenditures have declined $62 million for several reasons, including:

- Beginning in 2013, the budget for the Sanitation District will no longer be included in the County's budget. The Sanitation District will begin operating independently of the County next year.

- In 2012, there were non-recurring increases in the Calvin L. Rampton-Salt Palace and Zoo, Arts & Parks administration budgets for refunding bonds that were issued by the County. These bonds were issued to take advantage of lower interest rates and thus reduce total interest expense to the County and taxpayers. The proceeds of the refunding bonds were budgeted so that the original bonds held by investors could be paid off.

- "Smart" cuts were identified in preparing the 2013 Mayor's Proposed Budget. The Council concurred with these reductions and they are included in the Recommended 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 2013 Recommended Budget is no exception. Expenditures by function are summarized in Figure 1 below. In Figure 2, revenues by source are presented.

The 2013 Recommended Budget includes a tax increase for the General Fund and other key operating funds dependent on property tax revenue. This increase is necessary to fund delivery of essential services to citizens. Expenditures in these operating funds have continued to increase by 2.6% annually, primarily due to inflationary pressures. Notwithstanding the tax increase, there were significant budget declines in some of the funds not dependent on property tax revenues, resulting in the overall budget decrease referred to above.

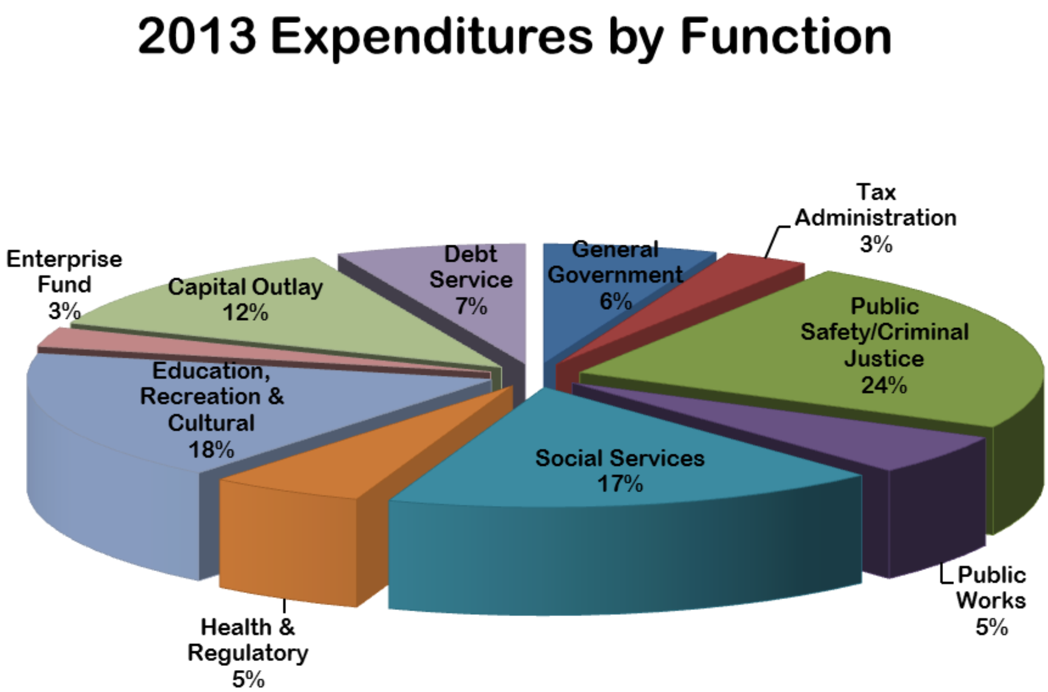

Figure 1.

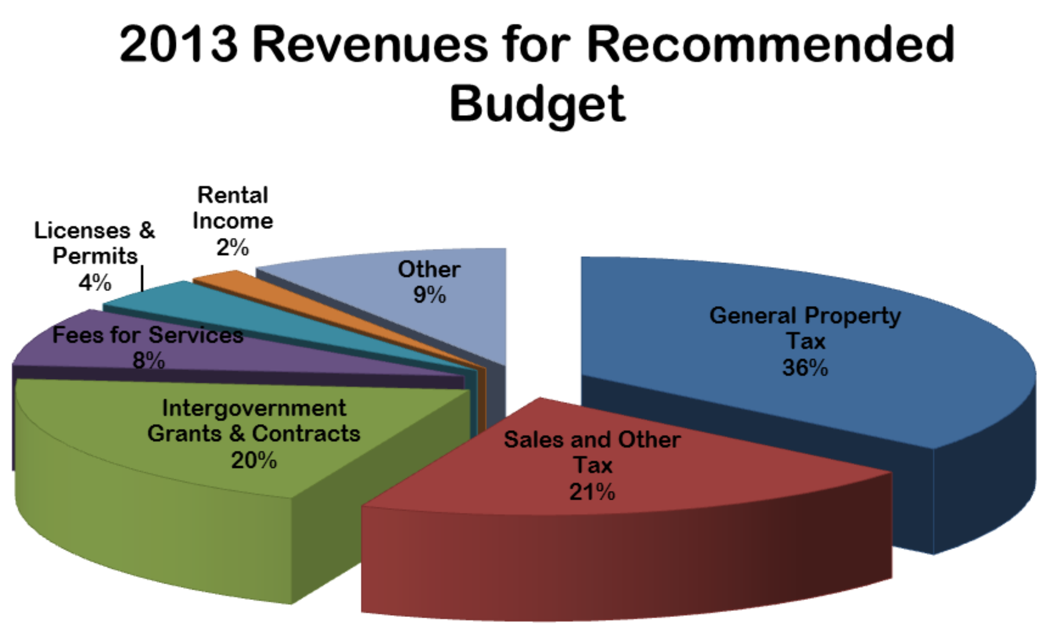

Figure 2.

Economic Outlook

As we approach the end of calendar year 2012 there is a mixture of good and bad economic data surfacing. Internationally, many of the largest economies in the world are growing slower than we expected. In particular, the Chinese economy is slowing down, partially because of the decline in exports to Europe and the U.S. The U.S. economy, which is finally showing signs of steady but relatively slow growth, appears to be headed down the “fiscal cliff”. This may turn out to be more like a “fiscal hill” than a “cliff”, because Congress may act on a few of the tax increases and automatic spending cuts over the next few weeks. It appears that even though payroll taxes may increase 2%, there is a chance that some of the Bush tax cuts may survive, at least for the middle class.

Given these uncertainties it is quite fortunate that Salt Lake County economic activity appears to be entering 2013 on the back of strong and steady employment and consumer spending growth. Salt Lake County employment is growing at a high enough rate to reduce unemployment, currently at 5.1%. Job growth in the county at 3.5% is higher than most of our surrounding, competitive states, like Arizona, Nevada, Idaho and California (see Figure 3 below). Average wages per job during the first half of the year were up 3.5%, meaning that total wages in the county should increase almost 7% in 2012. This growth will be offset in part by the 2% payroll tax hike.

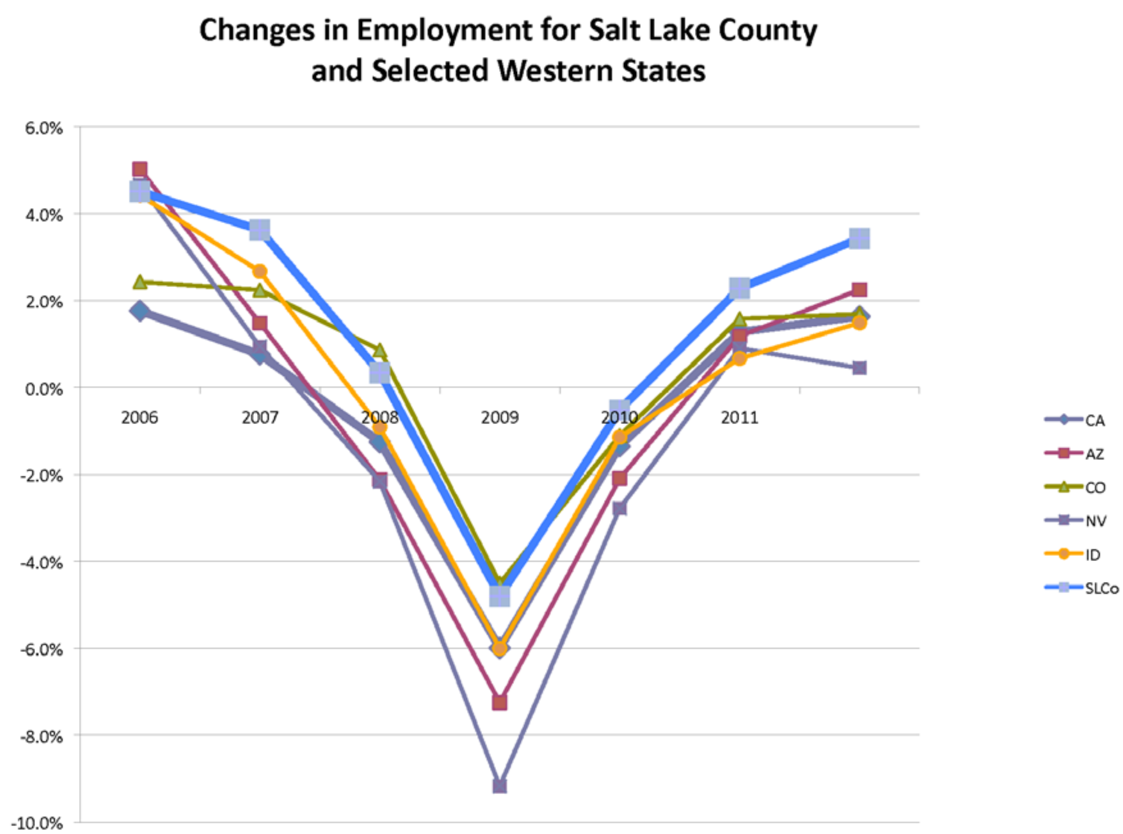

Figure 3.

Taxable sales during the first nine months of 2012 were up 7.5% and should run between 5% and 7% during 2013. Besides a wages and salary gain of 5% to 6% in 2013, new residential construction is expected to increase between 12% and 35%. New car and truck sales, after increasing in double-digits three years in a row from 2010 through 2012, will experience a 5% gain in 2013. Business equipment and software, another key indicator of taxable sales, may also slow from the 8% to 11% growth in 2010 through 2012 to somewhere between 5% and 7% in 2013. In sum, 2013 will probably be a fairly good year for Salt Lake County taxable sales, assuming Congress and the President work out a reasonable compromise on the federal government fiscal policy challenges, including the debt ceiling.

New Initiatives

The recommended budget includes some noteworthy initiatives. First, I continued my commitment to deferred capital maintenance for Salt Lake County's aging infrastructure. Total recommended appropriations for deferred maintenance more than doubled in 2013 from 2012. Importantly, the tax rate dedicated to capital projects nearly tripled from $2.0 million to $5.3 million. This revenue source will provide needed cash flow to finance non-TRCC Fund related capital projects, such as senior centers, the jails, and general government facilities. The $2.0 million rate adopted in 2012 was simply inadequate to fund maintenance for the eligible facilities. I have also proposed an amendment to County policy intended to discourage policy makers from shifting tax rates away from capital to operations. To the detriment of our capital investments, in prior years such shifting has been used to help defray the impacts of inflation on the budget.

A second major initiative is addressing other post-employment benefits for County employees. To date, Salt Lake County has maintained the policy of "pay as you go", which is paying directly for the cost of benefits in the year they are due. However, this policy results in an increasing, unfunded liability on the County's balance sheet. If left unchecked, this policy will exponentially increase payments that may cause future financial stress. Best practice is to begin smoothing the payment cycle for these benefits, and funding the liability. The 2013 budget sets aside $1.9 million as a starting point for this problem. Additionally, a Council led group will analyze existing benefits, and determine how best to fund the liability in the future. The Council also issued legislative intent ending the benefits for future hires in Salt Lake County.

Third, the 2013 budget includes funds to build a new senior center in Midvale City. Current population growth trends show baby boomers reaching the age to begin taking advantage of services offered by our Aging Services division. The new center will assist in meeting these demands.

Finally, employee pay has been fully restored for the first time since the County took action to reduce pay in 2010. This initiative continued to be a top priority for both my administration and the County Council. Fully restoring the employee 401k, in some form, remains a priority.

Structural Balance

The 2013 Salt Lake County Recommended Budget is structurally balanced, with each fund 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. A combination of revenue increases and budgetary reductions achieved this balance.

The initial requested budget, otherwise known as the Tentative Budget, showed the long term impacts of inflation on the operating organizations and long term impacts of lost purchasing power in property taxes. The primary operating funds of Salt Lake County, including the General Fund, Flood Control, Health, Capital Improvement, Planetarium, Grant, and Tax Administration, were collectively out of balance by $48.4 million. The primary causes of the imbalance are discussed briefly below.

Lost purchasing power of property taxes. Salt Lake County last advertised for property tax increases for the year 2001. Each year, and in accordance with 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. For the General Fund, this means $100 million of property taxes collected in 2001 has the same purchasing power as $74 million in 2012 (see Figure 4 below). So while the County may still collect the full $100 million, when you discount the revenue by the West Urban Consumer Price Index [1], the dollars are worth less today. Inflationary pressures are discussed in greater detail later in this document.

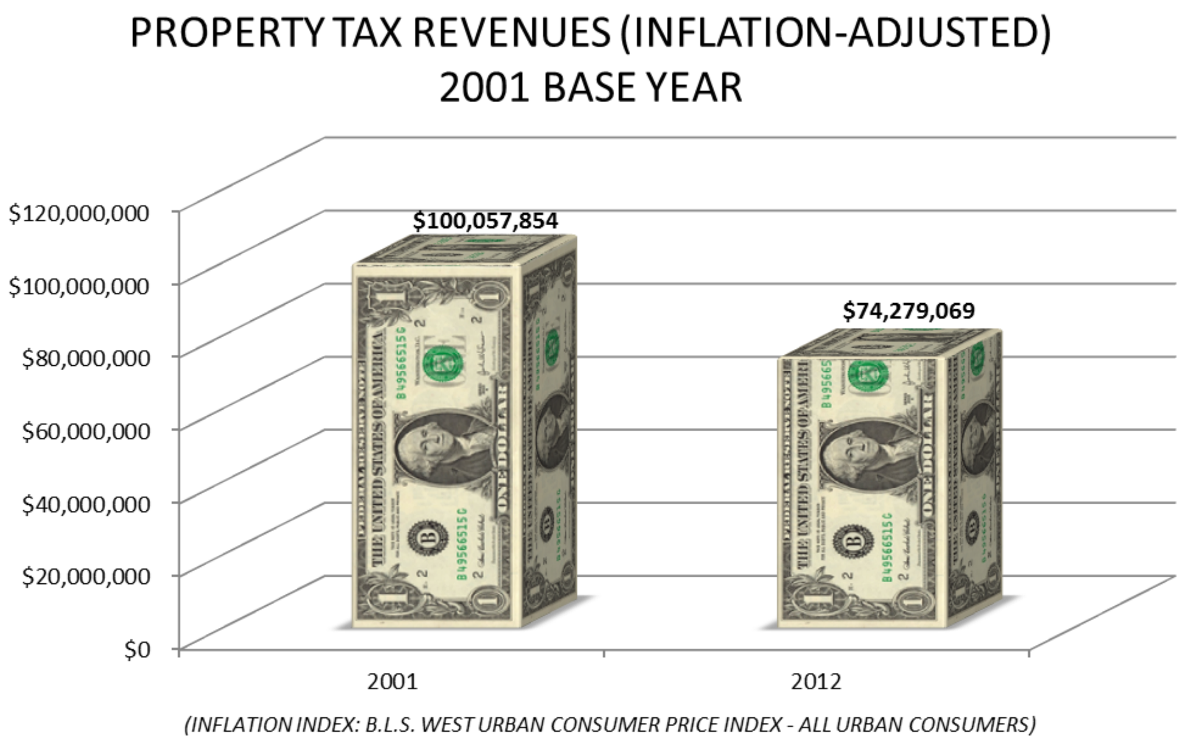

Figure 4.

As incomes rise, a corresponding increase in spending occurs that translates to new growth associated with the existing population. This revenue source, although more volatile than property taxes, offsets the inflationary increases on government spending. Sales taxes unfortunately only represent 12.7% of operating expenditures. Therefore, growth in this area does not sufficiently account for natural growth in expenditures. By way of example, sales taxes during the period 2001 to 2012 grew from $35.3 million to $44.5 million, or a total of $9.2 million. Health insurance costs during that same period grew by $14 million, outstripping the additional sales tax revenues.

[1] The U.S. Bureau of Labor Statistics calculates the Consumer Price Index (CPI), a measure of annual inflation, on a nationwide basis (All U.S. Cities) and for regional divisions of the U.S. Salt Lake County uses the West Urban CPI based on the belief that it more accurately represents the inflation that the County experiences.

Increased demand for services. Salt Lake County also has had some new growth in total taxable value, contributing to property tax revenue growth. These gains are mostly due to a growing economic base and increased county-wide population. Collectively these additional revenues failed to keep pace with the inflationary costs associated with the most basic functions of government. In addition, RDAs, CDAs, and EDAs have consumed much of the new property tax revenue growth. At the same time, the new growth in population has demanded service levels similar to established areas of the County. Salt Lake County has partially met the demand by providing, among other facilities and services, new libraries, senior centers, recreation centers, attorneys for the criminal justice system and more jail beds. These services are in large part funded by the new growth components of both sales and property taxes. The population of Salt Lake County has grown by over 145,000 people from 2001 to 2012, roughly adding the equivalent of the second largest city in the state during that time frame.

Salt Lake County has continuously revised fee structures to remain competitive in the market place. Fees for park pavilion rentals, as one example, are reviewed annually to ensure they are competitive with other municipal rates, as well as reasonable for the citizens. Fee adjustments have resulted in an overall increase to revenues since the time of the last property tax increase.

In short, some Salt Lake County revenues are adjusted and can increase with general inflation. Property taxes, on the other hand, do not grow with inflation. Property taxes are the largest single source of revenue for Salt Lake County. Since this revenue source does not grow with inflation, the County's long range plans show expenditure growth rates slightly higher than total revenue growth rates. This is known as the downward bias of property taxes.

Inflationary Pressures

Inflationary pressures on prices occur naturally and over time have a profound impact on county budgets. The all items CPI growth rate between 2001 and 2012 is 29%. The "all items" CPI attempts to define the cost of a basket of goods between the two periods, that reflect overall price growth. Salt Lake County purchases goods and services and is subject to price inflation, just like any business or citizen.

Consider Figure 5 shown below for specific price increases. The cost of fuel, for example, has risen nearly 150% over the last 12 years. Many county operations are dependent on fuel. Fleet dependent organizations such as the Sheriff's Office, Assessor's Office, the Health Department and many others have large budgetary line items for fuel. To a certain extent, these organizations become price takers on fuel prices. Although significant efforts are made to reduce consumption, the fact remains that fuel is a necessary component of the budget.

Inflation for Selected Goods *(Average Prices)* 2001-2012			
	2001	2012	% Change
Gallon of Gasoline	$1.52	$3.79	149.3%
KWh of Electricity	9.9¢	13.3¢	34.3%
First Class Stamp	$0.34	$0.45	32.4%
Dozen Eggs	$0.86	$1.68	95.3%
Loaf of Bread	$0.99	$1.43	44.4%
Big Mac	$2.79	$3.69	32.3%

Figure 5.

Food prices have also risen. This is illustrated by the increased cost of a Big Mac sandwich of, on average, 32% over the past 12 years. The CPI for food and beverages, according to the Bureau of Labor Statistics, has also risen by 32% over the same time period. Many Salt Lake County organizations serve food as a part of core services such as the Meals on Wheels program, and the Adult Detention Center, which serves food for the equivalent of a city of 4000 residents. Rising food costs have significant impacts on some budgets.

Inflation for certain personnel costs has material impacts on some budget line items for nearly all county budgets. Examples include the rising cost of county provided health insurance, the increased cost of participation in the State of Utah's public employee retirement program, and pay increases that have occurred since 2001. Many of these costs are determined by outside forces, including the cost to hire, train and retain employees. Still other costs are passed on to Salt Lake County from the State, such as the cost to participate in the Utah Retirement System. All these costs also add to organization budgets.

The overall base operating budgets for Salt Lake County, not including internal service funds or capital construction funds, total approximately $443 million. It should be expected, therefore, that the overall inflation impacting these budgets over the past 12 years is approximately $100 million. This inflationary pressure has been solved, in part, by increased efficiencies, revenue growth from fees and sales taxes, and a property tax increase of $28.6 million for the Countywide tax funds. The property tax increase was the option of last resort. Many budget cuts and other initiatives were first deployed to help solve the Tentative Budget problem.

History of Cutting Budgets

The downward bias of property taxes and inflation has collectively stressed county budgets over the past 12 years. Salt Lake County has met this challenge via a variety of budget initiatives. Included are multiple hiring freezes, early retirement incentives, budget resolutions reduced appropriations, increased efficiencies, and investments in technology and infrastructure designed to reduce operating costs.

The “great recession” first impacted revenues, and in turn, the county budget in late 2008. Some county sales taxes declined more than 30%. The only reasonable solution was a reduction in structural expenditures on par with a reduction in revenues. Quick action was taken.

In 2009 Salt Lake County implemented a hiring freeze, early retirement incentives and cut the 401k program for county employees. In 2010, an additional hiring freeze was put in place, and employee pay was cut 2.75% across the board. Further early retirement incentives were offered

In total, the County budget was trimmed by $37 million worth of on-going expenditures and the workforce was reduced by 232 full time employees. In 2013 such deep program cuts sufficient to balance the budget, without a property tax increase, were not possible without causing great harm to the county and its services.

To balance the 2013 budget using additional budget cuts would have required closing Oxbow Jail, shuttering four senior centers, two libraries, five recreation centers, and laying off 319 employees. This budget solution was deemed inappropriate by the policy makers. If such a cut scenario had been adopted, the County would have faced a similar decision for 2014 – namely, raise taxes or continue to reduce service levels.

2013 Budget Solution

The solution to the $48 million structural deficit in the Tentative Budget was multifaceted and included base budget cuts, cuts to new requests and a tax increase for both county-wide funds as well as the Library fund. Cuts to base budgets for 2013 totaled $5.6 million and included the reduction of 9.5 FTEs. These cuts have been labeled “smart” cuts, as they were deemed to not impact services. The largest cut was to the elections budget, which typically adjusts downward after a county-wide election. Other cuts were of necessity, such as the Planetarium Fund. initiating budget cuts necessary to balance its budget. Still others were the result of efficiencies like the consolidation of financial functions in the Mayor’s Office.

New requests were also scaled back during this budget year. Many new requests were made to cope with past years inflationary pressures and budget cuts enforced during the recession. Information Systems, for example, reduced staff over the past several years while at the same time this organization faced increased workload through signed service level agreements with customers. The division requested 18 new FTEs, but was only afforded five. In like manner, the Sheriff’s operational budgets also requested increases mostly designed to offset inflationary pressures on budgets. Like most organizations, cuts were made in this area as well. All told, cuts to new requests totaled $9.6 million.

Tax Increase

The 2013 budget includes a tax increase for County-wide funds and for the Library fund. The percentage increase on the rates has been advertised at 16.2% and 22.4%, respectively. The impact on the average home valued at $238,000 is $59 per year and $18 per year. Raising taxes was a measure of last resort; and, by and large, was proposed to avoid cuts deemed not in the best interest of the citizens. In prior years, policy makers chose to utilize excess fund balances to make up the difference between revenues and expenditures. For example, the 2009 Adopted Budget drew down fund balances by $21.6 million. The ability to utilize this short term solution diminished to less than $1.0 million in 2013. Using excess fund balances is generally considered a short-term solution.

With the tax increase, the budget is projected to be structurally balanced for two years. After that time, the downward bias of property taxes will begin to erode purchasing power at a clip that slightly exceeds the rate of inflation.

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. Also, the County is considering an ordinance intended to protect the capital improvements tax levy from reallocation to operating funds.

Summary and Closing Remarks

The 2013 Recommended Salt Lake County budget is fiscally responsible. It is designed to restore and maintain assets, and ensure 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 programs were forced to close or discontinue service. The 2013 budget bolsters some operating areas that have been particularly vulnerable to inflation, or to budget cuts during the recession, such as information technology, and parks and recreation.

The 2013 budget lays the foundation for a successful transition to Mayor-elect Ben McAdams. 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.