



**THE SALT LAKE COUNTY MAYOR'S
2015 BUDGET MESSAGE**

Mayor Ben McAdams

to the

Salt Lake County Council

and to the Citizens of Salt Lake County

December 9, 2014

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 2015 Recommended Budget is structurally balanced for each fund with projected ending fund balances at or above the minimum reserve required by policy. Also, this budget does not include a tax increase.

Total appropriations for 2015 are \$1.2 billion. After adjusting the overall budget for internal charges and other interfund charges, the total 2015 Recommended Budget for all funds is approximately \$1.1 billion, up substantially from the net 2014 June Adjusted Budget of \$877 million. Planned net expenditures have increased for several reasons.

Most of the increase is the result of a new revenue recognition requirement that was recently issued by the State Auditor's office. Historically, the County has imposed transportation related sales taxes to fund transit operations and road projects on behalf of the Utah Transit Authority (UTA) and the Utah Department of Transportation (UDOT). However, the County has never received the revenues from these taxes and there has not been a corresponding appropriation included in the County's budget. With the implementation of the new requirements, the County is budgeting an additional \$182 million in 2015 for transit and roads. However, the Utah State Tax Commission will continue to collect and distribute these revenues directly to UTA and UDOT. Those agencies will then expend the revenues in accordance with their respective budgets.

A similar situation exists for property tax revenue distributed to redevelopment agencies (RDA). The County imposes a tax levy for several of its funds and part of the revenue attributable to each levy is diverted from the County to various RDAs. Historically, these revenue diversions were not budgeted by the County, but will now be included in future budgets. For 2015, \$20 million is budgeted for this purpose.

The 2015 net budget has increased to include a 2.75% pay increase for County employees. Some operating budgets were also increased to cover inflationary increases in costs, in order to maintain current service levels.

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 2015 Recommended Budget is no exception. Revenues by source are summarized in Figure 1, on page 3. In Figure 2, expenditures by function are presented.

2015 Recommended Budget Revenues by Source

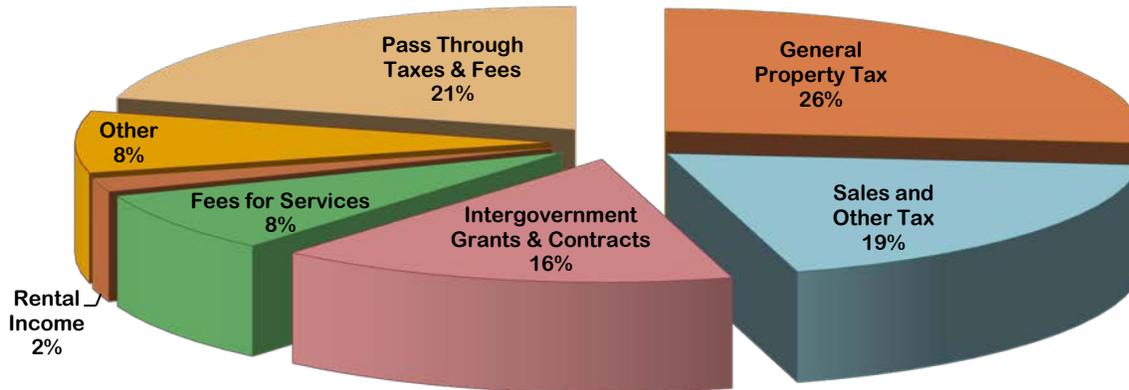


Figure 1. Tax revenues (General Property Tax and Sales and Other Taxes) account for a little less than half of the County’s budgeted revenues in 2015, and are the major funding source for County operations. The County is now required to recognize Pass Through Taxes & Fees, which are levied by the County, 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.

2015 Recommended Budget Expenditures by Function

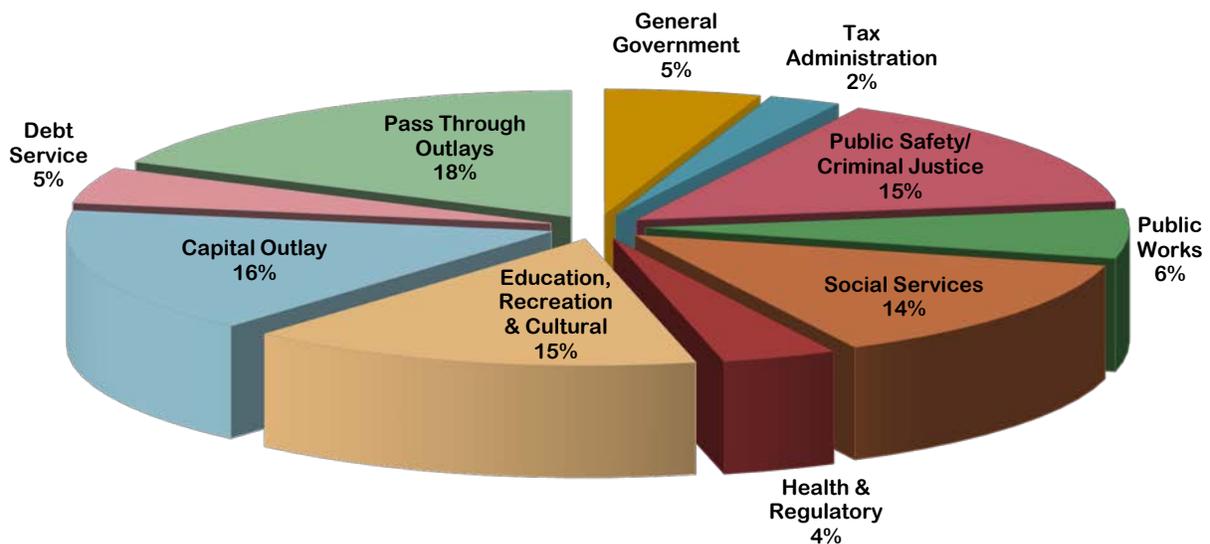


Figure 2. The County is now required to recognize Pass Through Outlays, which are taxes & fees levied by the County on behalf of other government entities, used to fund projects or programs of those entities. Pass Through Outlays is the single largest budgeted expenditure category. The operating functions of the County (General Government, Tax Administration, Public Safety/Criminal Justice, Public Works, Social Services, Health & Regulatory, and Education, Recreation & Cultural) account for about 60% of all budgeted expenditures in 2015.

Economic Outlook

As 2014 comes to a close, the economic outlook for Salt Lake County continues to improve, buoyed by sustained growth in the U.S. economy. 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 expand at a pace equal to or faster than the U.S. in 2015.

The U.S. economy grew 2.5% beyond 2013 levels in the second and third quarters of 2014. Lower prices for gasoline and the improving jobs outlook have sparked consumer spending in cars, trucks and new homes. Leading indicators across the U.S. were up nearly 7% and consumer sentiment is nearing heights not seen since 2007. The only weakness continues to be wage growth to help spur consumer demand to even more profitable levels. In contrast, the outlook for 2015 is mixed in other large economies: strong growth in the U.S. (2.4%), China (7%), and Great Britain (3%) and smaller gains for Japan (1%) and Germany (1%). Meanwhile, Italy, Russia, Argentina and Brazil will be flirting with 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 into 2015. Salt Lake County employment is growing rapidly enough to reduce unemployment rates, currently at 3.5%, and down from a peak of 8.4% in 2010. Job growth in the Salt Lake Metro Area, at 3.0%, is higher than in nearby, competing metropolitan areas such as Los Angeles, Phoenix, Denver and Boise (Figure 3). During the first half of 2014, average wages per job in Salt Lake County were up 2.5%. This, coupled with employment growth of 3%, should lead to total wage growth of more than 5% for the year. We also expect payrolls to grow 5-6% in 2015, providing a good base for taxable sales.

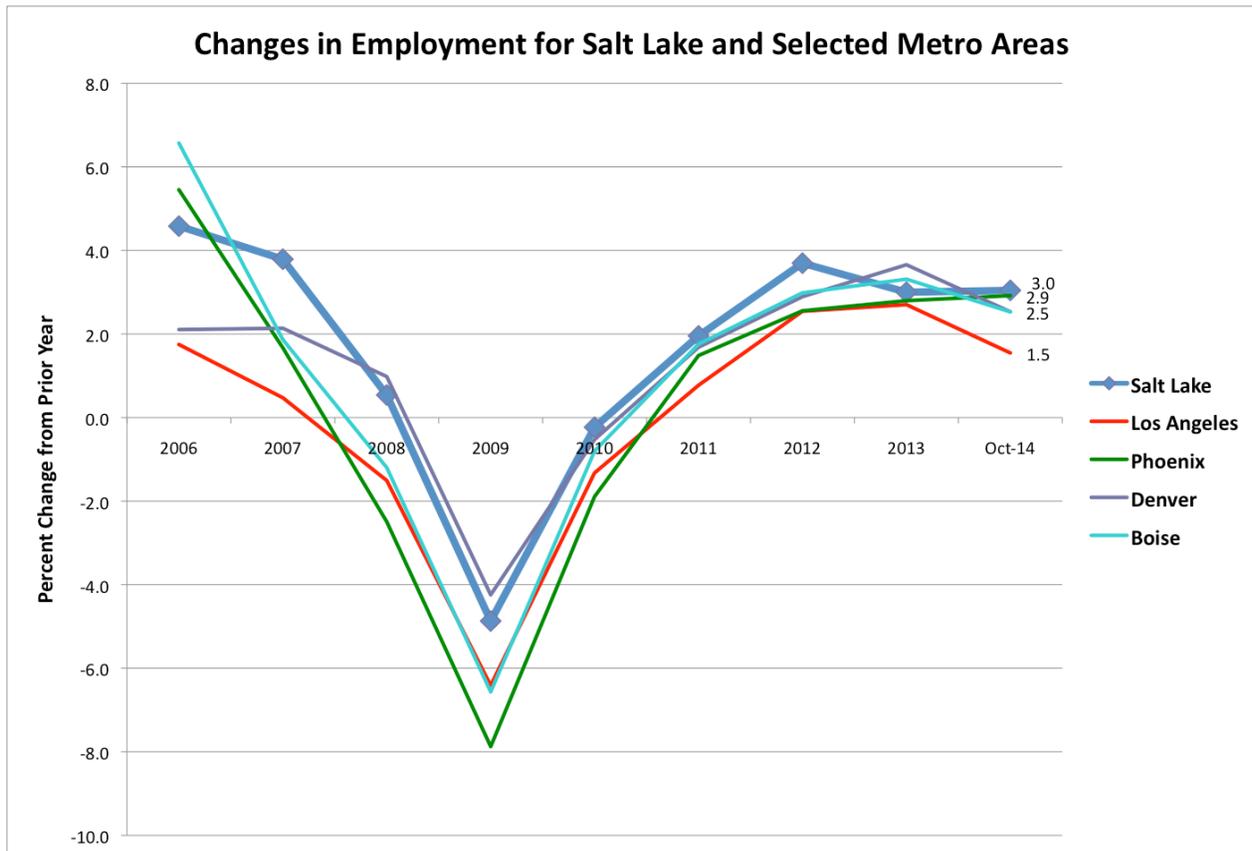


Figure 3. Employment growth in Salt Lake County has outperformed the employment growth in these selected neighboring metropolitan areas since 2010.

Salt Lake County taxable sales during the first eight months of 2014 were up 3.8% and will rise 4% to 5% during 2015. This reflects an expected gain in payrolls of 5% to 6% in 2014. Following a 6% fall in new residential construction values in 2014, it is expected to rebound 6% in 2015. Growth in new car and truck sales will continue, but at a slower rate than the double-digit increases from 2010 through 2013, finishing 2014 with a 6% gain and dropping to a 4% increase in 2015. Five to six percent wage growth, coupled with a 6% increase in residential construction and a 4% gain in new car and truck sales will propel retail sales in Salt County to increase 4.5 to 5.5% in 2015.

Meanwhile, U.S. business equipment and software, another driver of County taxable sales growth, will likely continue to accelerate from 4.6% in 2013 to 6.5% in 2014 and 7.7% in 2015. After a 5% drop in Salt Lake County's taxable business purchases in 2013, because of the mining landslide and reduced federal government defense purchases, taxable business purchases should rebound 4% in 2014 and accelerate 6% to 10% in 2015.

Due to a very good 2013-14 ski season, taxable services rose almost 5% in the first half of 2014, while two other sectors (business investment and retail nondurables) rose less than 2%. Steady sales at the largest subsector, restaurants, made a 6% gain. Hotel and motel services rose 7% in the first half. Another large subsector, information services, rose almost 5%, while professional and technical services increased almost 9% in the first half. Recreation, management and education services fell more than 5%. Overall, taxable services rose 4.9% in the first half of 2014 and are expected to grow at least 4% for the year and 3% to 4% in 2015.

Key economic indicators are summarized in in Figure 4 below.

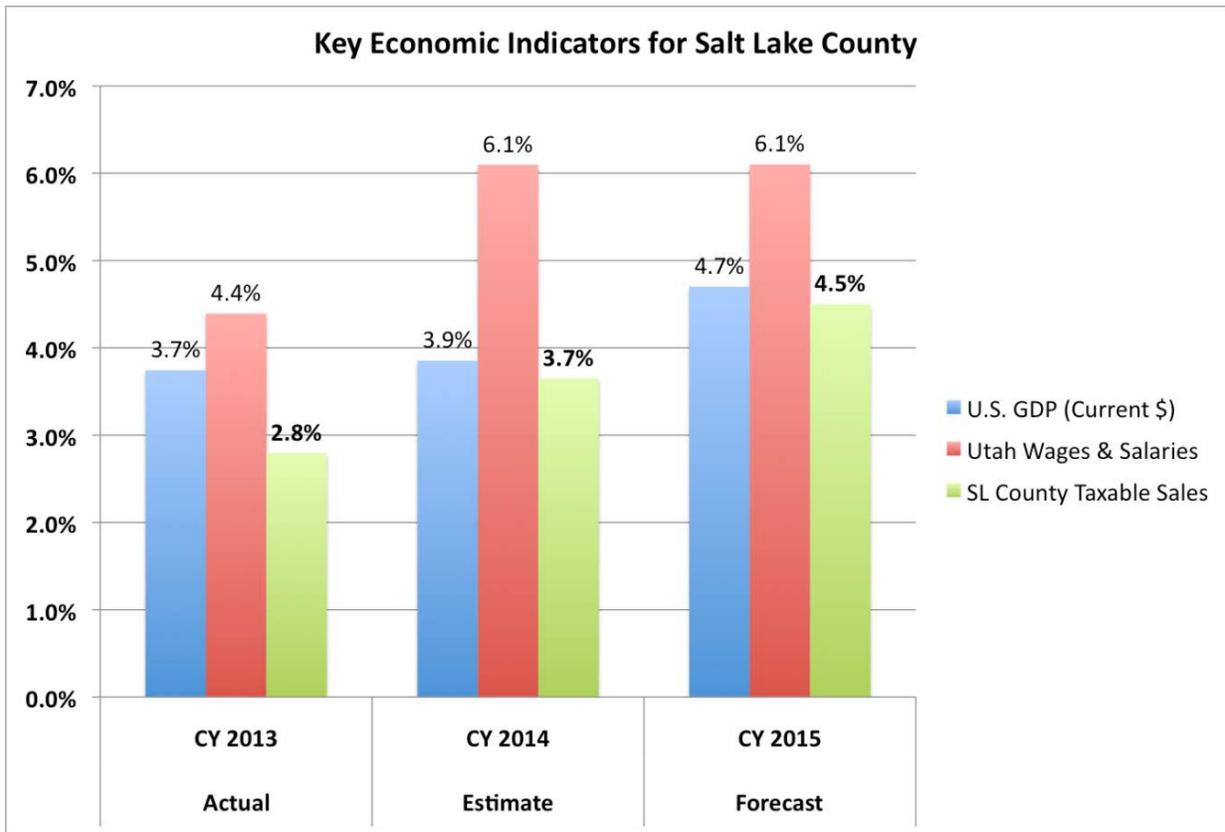


Figure 4. Increasing U.S. GDP growth and Utah wages and salaries growth, and stable Salt Lake County taxable sales growth, are all promising indicators for continued economic expansion in Salt Lake County.

Major Initiatives

Due to revenue constraints, new initiatives were again curtailed for 2015. It was necessary to say “no” far more than “yes” during this budget season. Maintaining the structural balance in all funds was the priority. As indicated in the budget direction memorandum, the philosophy was to adopt a budget within the confines of existing tax revenues. Still, some new money was made available by a strong sales tax revenue year as well as positive property tax growth projections. The vast majority of new requests approved for the 2015 budget year were in the area of public safety, with focus on the Sheriff’s operations, the District Attorney’s Office as well as the Public Legal Defender. In each of these areas the new money was primarily to keep pace with growing workload as well as to cover mandatory inflationary costs.

In terms of employee benefits and compensation, the Mayor proposed and the Council approved a 2.75% merit increase for employees, which was recommended by Human Resources and in line with both public and private sector planned increases for 2015. A 1%, non-cumulative longevity payment has also been adopted for those employees at or above the top of their respective pay grades. Health insurance continues to be an issue as well. Through rate incentives and education, the goal is to increase the number of participants in the high deductible health plans. The 2014 goal of 40% was met – and a new goal of 55% 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.

New bond projects for 2015 have been approved as well. Bond proceeds will be used to exercise the option on the Calvin L. Rampton Salt Palace Convention Center land currently owned by the Church of Jesus Christ of Latter Day Saints. Funding for the design and construction of the District Attorney building, health buildings, as well as the Midvale senior center has been carried forward in the 2015 budget.

Collaboration is foundational for Salt Lake County, and several budget measures were proposed and adopted reinforcing it. First, the regional 9-1-1 response remains a top priority. Funds previously appropriated for this project have been assigned in fund balance – meaning those funds are reserved and set aside for that specific purpose. Other collaborative projects that received funding this year include Tourism, Recreation, Cultural and Conventions funds appropriated for key partners. These include the University of Utah for both tennis and basketball capital projects, Midvale City for a splash pad, and as in 2014, funds have been appropriated for a black box theater in Mount Jordan Middle School.

Thanks to the Council’s support, the pay for success program is picking up steam. In 2014, Salt Lake County initiated a first in nation high quality preschool program where the County will pay for outcomes, not programs. In 2015, this effort is bolstered by Regional Development where new possibilities will be explored. This continues the trend of Salt Lake County moving away from “fund what once worked” or “fund what we hope will work” to “pay only if it works”.

In conjunction with that goal, Salt Lake County has also funded a new position in the Mayor’s office to implement a dashboard, which is part of an outcome measure driven initiative called “Moneyball for Government”. Salt Lake County was chosen as one of a handful of local governments across the nation to begin participating in data and evidence-based best practices that drive government decisions. Dashboards will be created to display real time information on our work. This tool will enable the County to make informed decisions while enhancing openness and accountability to our residents. The goal is to invest the always limited taxpayer dollars in programs, policies and practices that use data and evidence to show what works.

Finally, deferred maintenance continues to be a major initiative. Total appropriations for 2015 exceed \$40 million, with new maintenance projects funded in excess of 400% of what was appropriated in 2010.

Structural Balance

The 2015 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. 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.

Salt Lake County has regularly revised fee structures 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, some Salt Lake County revenues are adjusted and may 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. 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, as purchasing power losses from inflation increasingly erode the resources needed for the services the County provides. 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.

2015 Budget Solution

The 2015 Tentative Budget, that is the initial requests input into the budgeting system by departments and elected officials, was out of balance by approximately \$18.5 million. The

solution to balancing the budget relied on cutting new requests. Specifically, 56.5 new full time equivalent positions were requested for 2015. The final Recommended Budget adds only 11.75 FTEs, with grants and operating revenues funding a significant portion of these new FTEs. This represents an increase of one-third of 1% on the overall budgeted FTE level.

Total cuts to new requests were approximately \$19.8 million, meaning the entire Tentative Budget problem was solved by cuts to new requests, rather than cutting existing programs.

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 2015. 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.

Summary and Closing Remarks

The 2015 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.