THE SALT LAKE COUNTY MAYOR'S
2017 BUDGET MESSAGE

Mayor Ben McAdams

to the

Salt Lake County Council

and to the Citizens of Salt Lake County

December 6, 2016

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 2017 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 2017 are $1.33 billion. After adjusting the overall budget for internal charges and other interfund charges, the total 2017 Recommended Budget for all funds is approximately $1.16 billion, 0.8% higher than the net 2016 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 2017 Recommended Budget is no exception. Revenues by source are summarized in Figure 1, on page 3. In Figure 2, expenditures by function are presented.

2017 Budget Solution

The 2017 Tentative Budget, that is the initial requests input into the budgeting system by departments and elected officials, was out of balance by approximately $22.1 million. The solution to balancing the budget relied on cutting new requests, approximately $1 million in program efficiencies, and a one-time shift of funds from the Governmental Immunity Fund of $1 million and from the Flood Control Fund of $1 million. In terms of new full time equivalent positions, 60.65 net FTEs were requested, but the final Recommended Budget adds only 22.15 FTEs. The largest number of increases were to the Eccles Theater, followed by the District Attorney's Office and the Sheriff's Office. The FTE increase to the Eccles Theater was mostly offset by a decrease in FTEs at the Capitol Theater.

2017 RECOMMENDED BUDGET REVENUES BY SOURCE

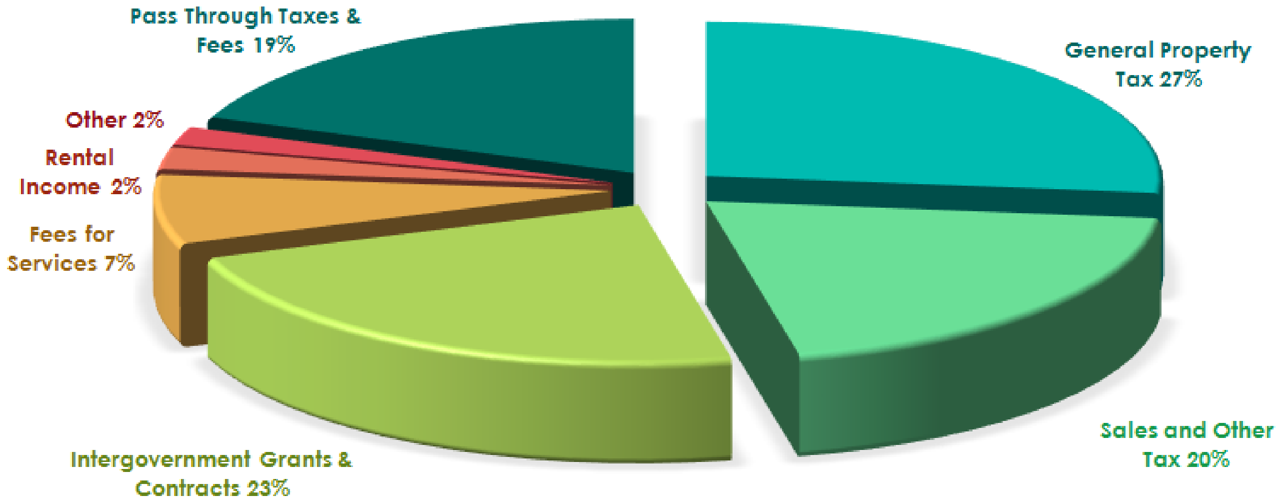


Figure 1. Tax revenues (General Property Tax and Sales and Other Taxes) account for a little less than half of the County's budgeted revenues in 2017, and are the major funding source for County operations. The County is required to recognize pass-through Taxes & Fees, which are levied by the County, 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.

2017 RECOMMENDED BUDGET EXPENDITURES BY FUNCTION

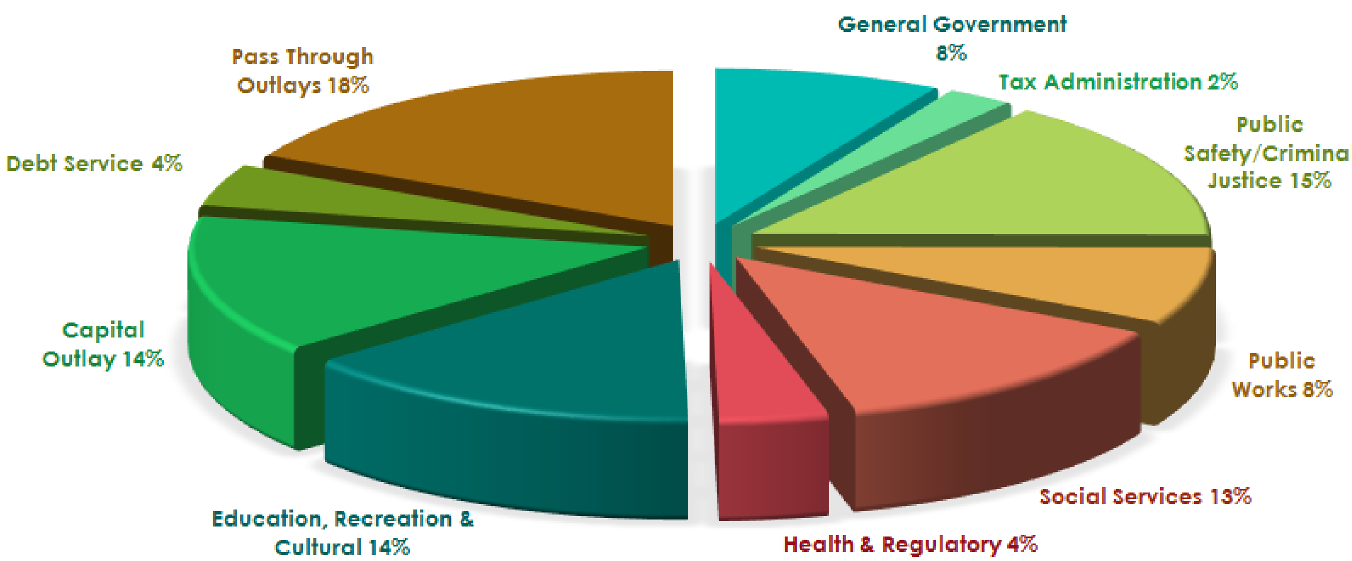


Figure 2. The County is required to recognize pass-through Outlays, which are taxes & fees levied by the County on behalf of other government entities, used to fund projects or programs of those entities. Pass-through Outlays is the single largest budgeted expenditure category. The operating functions 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 2017.

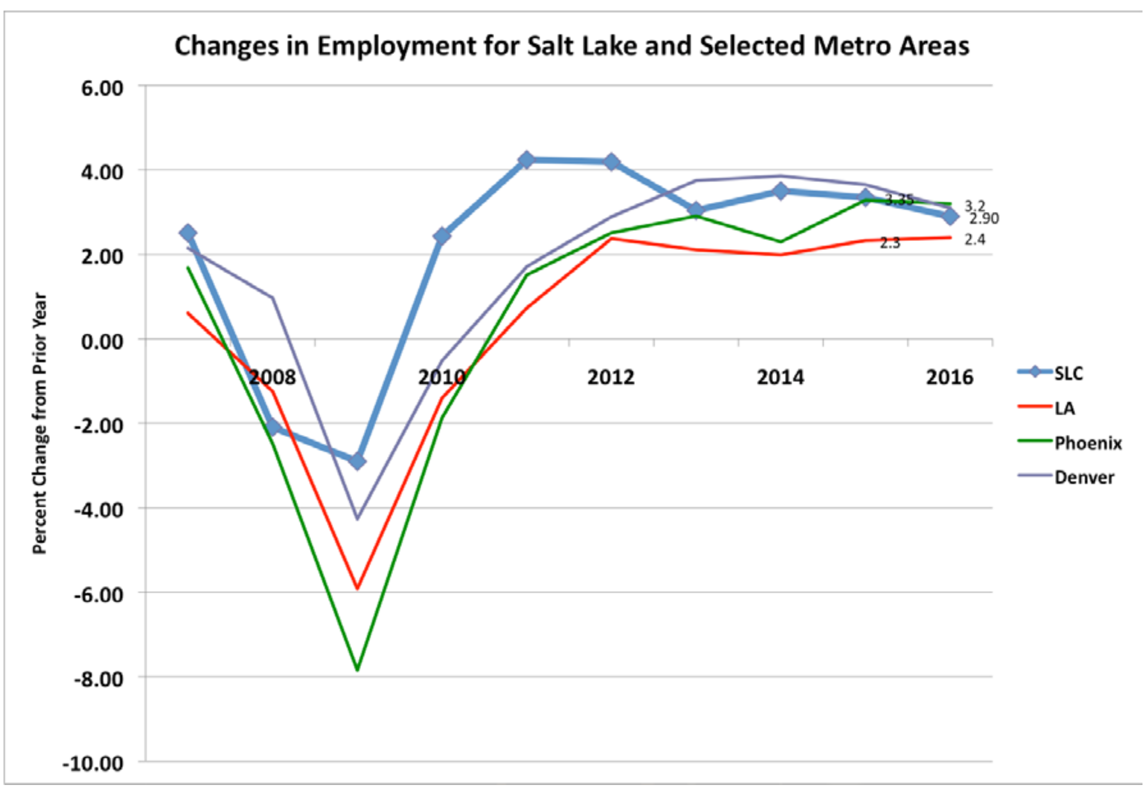
Economic Outlook

Salt Lake County's economy continued to expand into its sixth consecutive year in 2016. Boosted by local gains in its high tech, financial and health sectors, job growth in the County is increasing slightly more than 3% at the end of 2016. Barring extraordinary economic shocks, such as a trade war or a federal government shutdown, the Salt Lake County economy, proxied by its taxable sales, will continue to expand at a pace equal to or faster than the U.S. in 2017.

The U.S. economy, which slowed down to a 1.5% increase in 2016, should improve 2.2% in 2017. This year declines in both business equipment and structures caused the overall economy to slow down 1% below expectations. However, low gasoline prices and the improving jobs outlook continue to spark consumer spending for cars, trucks and new homes. Currently, in the first 10 months of 2016, new home construction values are up 24% and nonresidential construction values are also up 23%. Leading indicators in the County are all positive, including low interest rates, surging construction, and high consumer sentiment, but some, like low interest rates and low unemployment claims appear to be bottoming out.

And, while low gas prices are good for the consumer, low oil and other commodity prices like copper dampened demand for taxable business supply and equipment spending. Instead of a rebound in taxable business sales during early 2016, negative mining spending offset double-digit gains in construction and manufacturing spending, leading to only a 1% increase in business investment during the first half of 2016.

Figure 3.

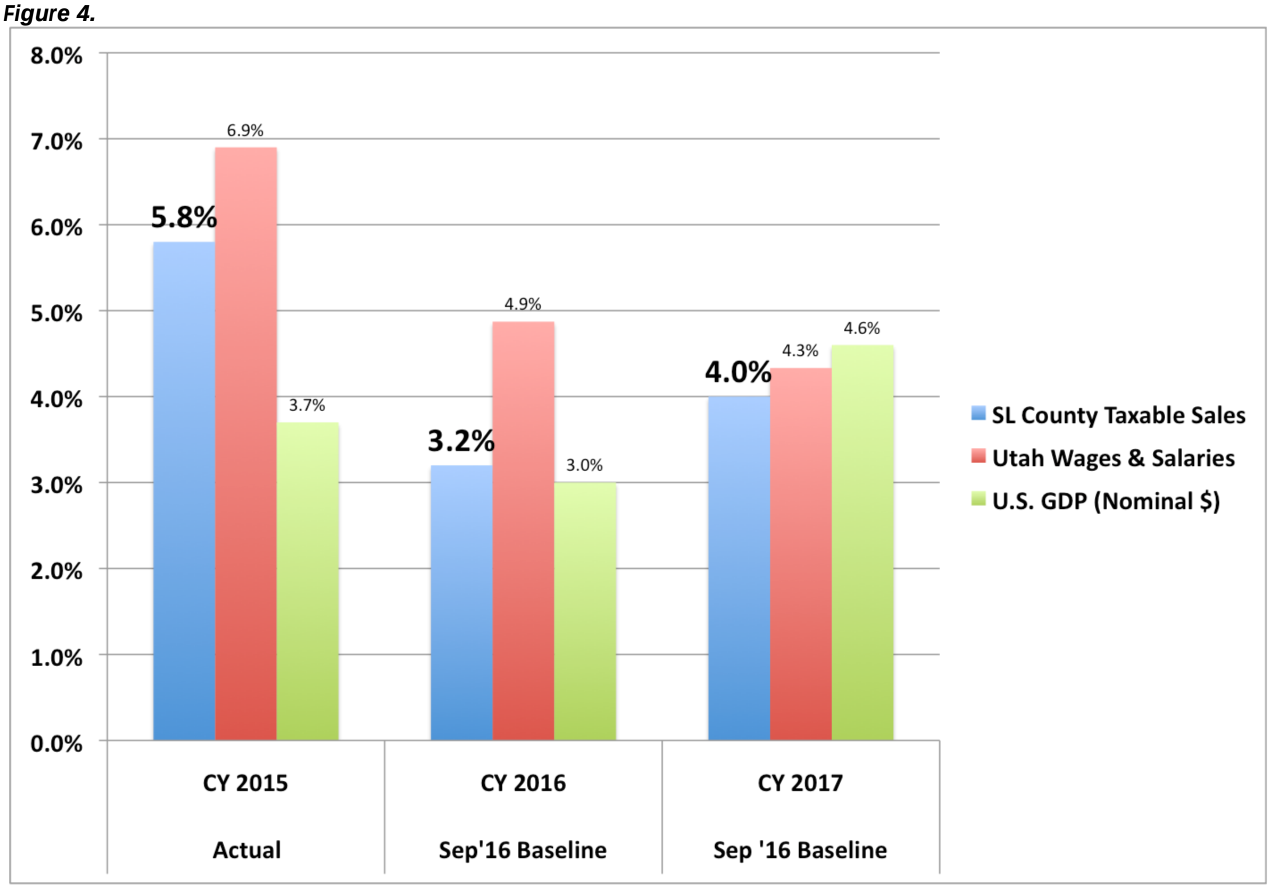


In 2017, an improving U.S. economy in 2017 and the growing economies of its largest trading partners like China (6%), Great Britain (2%), Canada (1.2%) and Mexico (2.1%) will fuel export growth in Salt Lake County. Because these same conditions existed in 2016, Salt Lake County employment grew rapidly enough at 3%-4% to reduce its unemployment rate to 3.2% (well below the peak of 8.4% in 2010). Job growth in the Salt Lake Metro Area, at 2.9%, is slightly lower than in the nearby, competing metropolitan areas like Phoenix and Denver, but higher than the Los Angeles Metro's 2.4% job gain (Figure 3; *preceding page*).

During the first half of 2016, average wages per job in Salt Lake County were up 1.7%, which, coupled with 3% employment growth, will lead to total wage growth of nearly 5% for the year. If payrolls grow 4% to 5% in 2016, taxable sales should increase 3% to 4% (Figure 4). It appears that taxable sales are growing about 1% slower than normal due to double-digit gains by nontaxable Internet sellers.

Salt Lake County taxable sales during the first three quarters of 2016 were up 4.3% and should increase 4% in 2017. This reflects wage and salary gains of nearly 5% in 2016, and a slower 4.3% increase in 2017. This 4.3% wage growth coupled with high, but slowing residential construction, continued strong car and truck sales, discounted by higher nontaxable Internet sales will produce a 4% growth rate in taxable sales in Salt Lake County during 2017.

Figure 4.



Major Initiatives

Revenue projections for 2017 are up slightly. We project new growth from property and sales taxes for our county-wide fund of approximately $6.9 million, an increase of roughly 2 percent. Inflationary increases to expenses such as health care and wages outpace the new revenue. Once again we must find efficiencies and streamline our budget in order to live within our means. We reduced total requests by $11 million. We asked every department head to fund priorities and back up their choices with data.

The 2017 Budget continues to place emphasis on criminal justice. The approved budget includes five new attorneys to focus on criminal prosecution, including new additions to the homicide and sexual assault teams. Also added was a paralegal and an investigator to assist with increases in workload.

The Sheriff requested and the Mayor and Council approved a substantial boost to the compensation and benefits of the jail staff. The goal is to reduce a high turnover rate and bring total compensation to market.

The medical unit in the jail will be the recipient of a $1M shot in the arm designed to increase behavioral health services. This is anticipated to be phase I of a two pronged commitment by Salt Lake County.

During 2016 Operation Diversion was carefully planned to arrest and jail the criminals who need to be prosecuted and to divert those with drug and alcohol or mental health issues--to treatment. We were able to take this unprecedented step because of our committed police and prosecutors and because our Behavioral Health team dedicated $1.2 million in one-time funds to offer treatment beds as an alternative to jail. Funding for this operation continues through the first quarter of 2017.

Finally, the county made the second of four installments on the Pay for Success initiatives for recidivism and chronic homelessness.

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 2017. For employees in the Tier I retirement system, the pension contributions are relatively flat for 2017, but based on market data it was determined that total compensation could be maintained at competitive market rates with the 401(k) contribution eliminated. 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 to 67%. The County continues to offer zero premium costs to those participants. Consumerism is the key to holding down health care inflation pressures in the budget over the long run. The 2017 Budget draws down fund balance in the Employee Services Reserve fund by an estimated $2M. This may necessitate a sharper increase in rates for this fund in 2018.

Residents supported and approved a $90M general obligation bond to build new parks, trails and recreation centers, as well as to renovate existing facilities. Highlights include major improvements to Welby Regional Park, Magna Regional Park and the new

Draper City Recreation Center. Roughly one third of the funds will be dedicated to capital maintenance of existing facilities. It is anticipated that the first tranche of the voter authorized debt will be issued in 2017. Additional financings will include a Tourism, Recreation, Cultural and Convention taxes-backed bond to complete the previously approved Parks Operations Center, as well as the newest jewel for our Salt Lake County cultural arts—the Mid-Valley Performing Arts Center in Taylorsville. Finally, the last tranche of sales tax debt will be issued to complete the District Attorney building.

Two new enterprise funds take center stage for the 2017 Budget, including the first full year's operation of the Eccles Theater and a newly created enterprise fund for the delivery of public works and metro services. The new public works and metro services enterprise fund is designed to drive toward efficiencies for the benefit of its customers, including long time customers such as Salt Lake City for Animal Services and Taylorsville for road work, as well as new customers including the Greater Salt Lake Municipal Services District, which will be ordering services on behalf of the newly incorporated metro townships and remaining unincorporated residents. The proprietary fund structure creates an environment where the government operates like a business, depending on satisfied customers for the necessary revenue to operate.

Another pressing reality that had to be addressed in the 2017 budget is aging information technology. Approximately $2.1M was appropriated for critical priorities, including transitional staff necessary for the continued operation of the county's mainframe while facilitating the migration to state of the art technology. Funding was also made available for a metro services work order system, as well as substantial commitment to deferred software and hardware maintenance.

Structural Balance

The 2017 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.

The 2017 Budget does include a spike in one-time uses of fund balances. The Governmental Immunity Fund reflects a $1M transfer to the General Fund for the commitment made to the behavioral health services in the jail and the Employee Services Reserve Fund balance was drawn down by approximately $2M. Both initiatives will necessitate a structural remedy in the 2018 Budget, which may include either a first priority of 2018 new revenues or expenditure efficiencies across county funds. One-time uses of fund balances is a leading indicator of budgetary structural stress.

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, with the objective of being brought to the Council for adoption in 2017. The Council has also adopted an ordinance intended to protect the capital improvements tax levy from reallocation to operating funds of the County.

In the 2015 budget, the Council approved creation of an irrevocable trust for use in funding the County's other post-employment benefit (OPEB) obligation. The trust was initially funded at $3.8 million, with a County OPEB reserve requirement of $250,000. An additional $240,000 of unexpended OPEB funds was transferred to the irrevocable trust in 2016.

Summary and Closing Remarks

The 2017 Recommended Salt Lake County budget is fiscally responsible. It continues our commitment of funding public safety and community preservation initiatives, and the budget employs prioritization and efficiencies to ensure that revenues offset adopted expenditures, reflecting the long-standing Salt Lake County practice of adopting a fiscally conservative budget. In particular, this budget continues to preserve vital services for County citizens.

The fiscal health of Salt Lake County remains exceptionally strong. The County's fund balances are healthy, and its bond rating continues to be 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.