THE SALT LAKE COUNTY MAYOR'S 2014 BUDGET MESSAGE

Mayor Ben McAdams

to the

Salt Lake County Council

and to the Citizens of Salt Lake County

December 10, 2013

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 2014 Recommended Budget is structurally balanced for each fund with projected ending fund balances at or above the minimum reserve required by policy.

Total appropriations decreased slightly in 2014 to $991 million, down from the June 2013 budget of $1 billion. After adjusting the overall budget for internal charges and other interfund charges, the total 2014 Recommended Budget for all funds is approximately $871 million. In 2013, the County's Adopted Budget was $844 million. Planned net expenditures have increased for several reasons, primarily relating to:

- The planned issuance of Excise Tax Road Revenue Bonds
- Funding for a consolidated parks and public works maintenance facility
- A 2.5% pay increase for County employees
- Restoration of the 401(k) plan reductions

The 2014 Recommended Budget does not include a tax increase.

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 2014 Recommended Budget is no exception. Revenues by source are summarized in Figure 1, on page 3. In Figure 2, expenditures by function are presented.

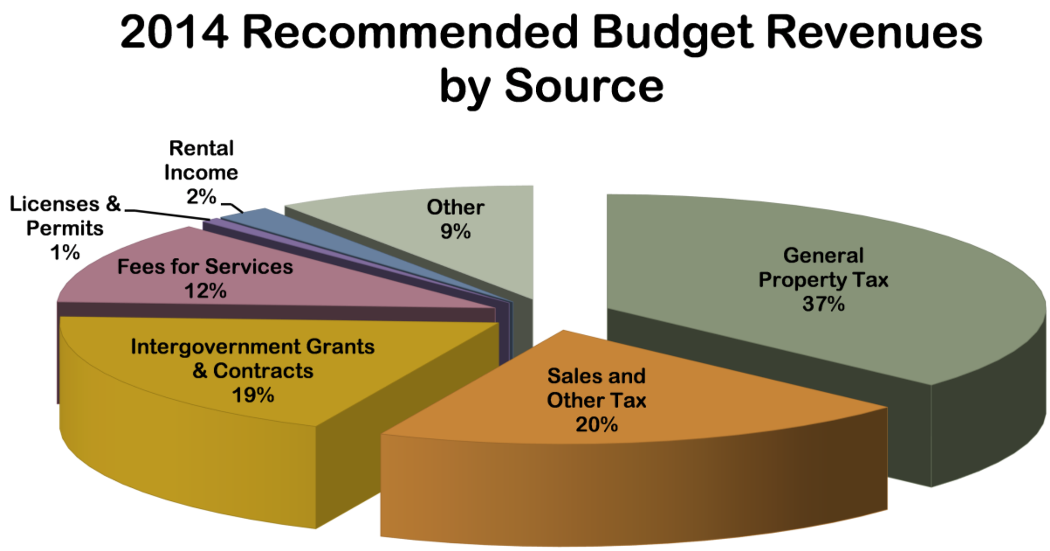

Figure 1. Tax revenues (General Property Tax and Sales and Other Taxes) account for more than half of the County's budgeted revenues in 2014. The "Other" revenue category includes revenue sources that tend to fluctuate significantly, such as fines, interest, sale of assets, and bond proceeds.

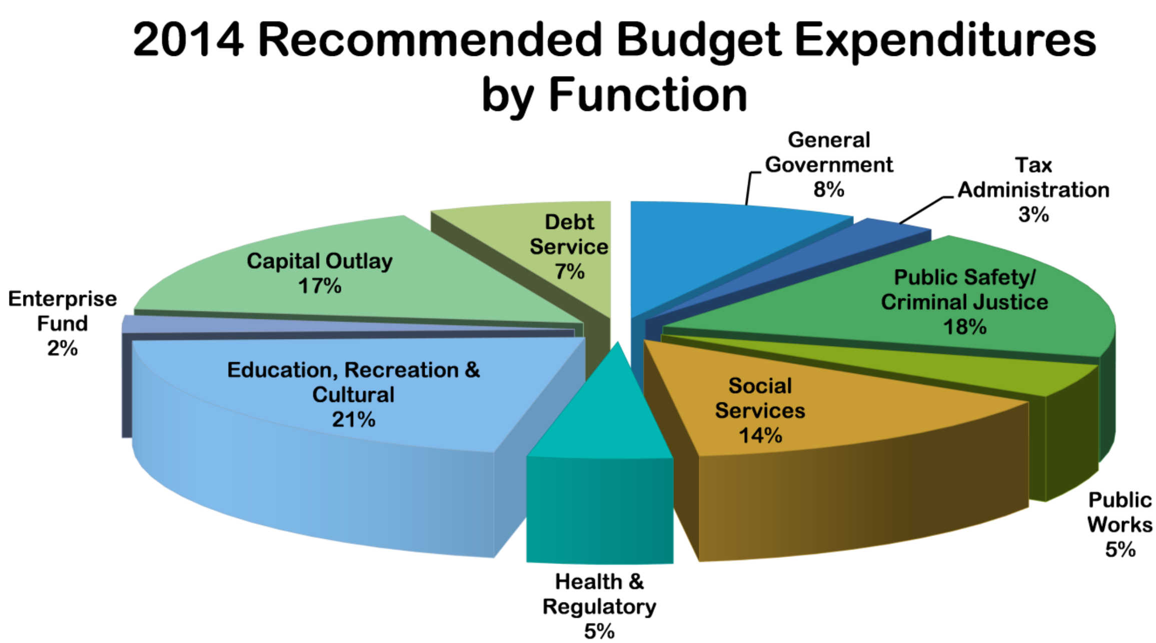

Figure 2. The operating functions of the County (General Government, Tax Administration, Public Safety/Criminal Justice, Public Works, Social Services, Health & Regulatory, Education, Recreation & Cultural, and the Enterprise Funds account for just over three-fourths of all budgeted expenditures in 2014.

Economic Outlook

As we approach the end of calendar year 2013, good news is beginning to outweigh the negative indicators for 2014. The U.S., China, Great Britain, Japan and Germany will be leading the economic expansion worldwide. In the U.S. and Great Britain, the economies are expected to grow about one percentage point faster in 2014, reaching 2.5%. We expect that 2014 will start out with cold headwinds from Washington DC, as Congress votes to continue federal government spending at the current, reduced levels, but without additional cuts. As employment continues to strengthen in the U.S., consumers will buy new cars and homes. In 2014, prospects will also improve for the northern European Union countries, Japan, and China. Both housing and stock prices are increasing in Europe, and Japan's latest approach to stimulate its economy appears to be gaining traction. The latest data from the second-largest economy in the world, China, has also been positive, suggesting that its current 7% to 8% real growth will continue into 2014. This is down from recent double-digit growth, but still triples the growth rate of the U.S.

The strength of the U.S. and major world economies is likely to fuel continued expansion in Salt Lake County economic activity in 2014. Salt Lake County employment is growing rapidly enough to reduce unemployment rates, currently at 4.1% (down from a peak of 8.4% in 2010). Job growth in the County, at 3.1%, is higher than in nearby, competing states, including Arizona, Colorado, Nevada, Idaho and California (see Figure 3 below). During the first half of 2013, average wages per job were up 2.4%, so total wages in Salt Lake County should increase more than 5% for the year. We expect payrolls to grow 5.6% in 2014, providing a good base for taxable sales.

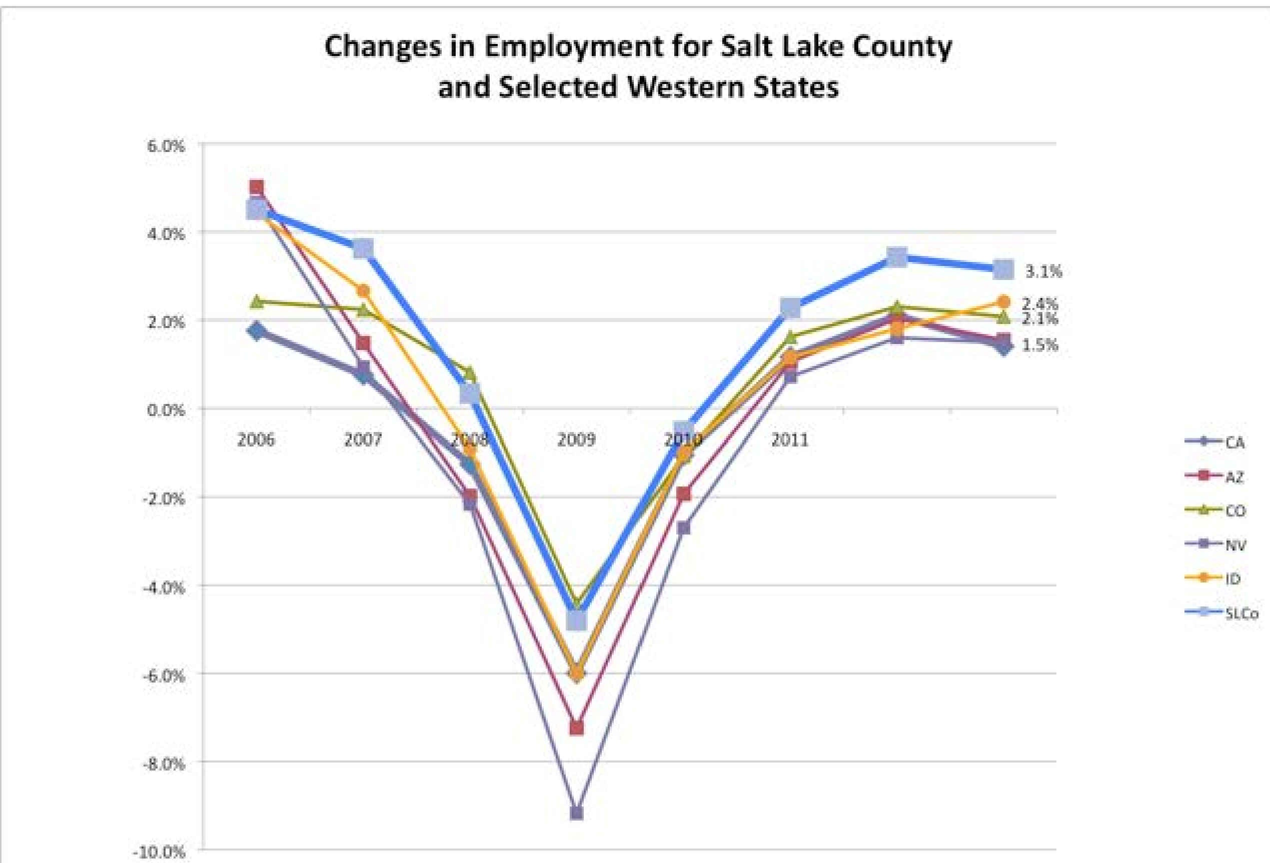

Figure 3. Employment growth in Salt Lake County has outperformed the employment growth in these selected neighboring states since 2010.

Salt Lake County taxable sales during the first nine months of 2013 were up 4.8% and should rise between 4.4% and 6.2% during 2014. In addition to wage and salary gains of 5.6% in 2014, new residential construction is expected to increase by 5% to 8% in 2014. New car and truck sales, after double-digit increases four years in a row from 2010 through 2013, will slow to a 3% to 5% gain in 2014. U.S. business equipment and software, another driver of taxable sales growth, slowed to only 3% in the U.S. in 2013, after increasing 44% in the four years since the Great Recession. In Salt Lake County, this sector may have decreased in 2013 due to one-time events, but in 2014, we expect business purchases will rebound by nearly 8%. In summary, continued economic expansion in Salt Lake County bodes well for taxable sales.

Major Initiatives

Due to revenue constraints, new initiatives were severely curtailed for 2014. Still, a handful of new requests did receive a positive recommendation and were generally allowed in the case of a new or restricted revenue source.

One such area includes appropriations for transportation projects. During the 2013 legislative session, the state diverted 50% of local highway construction and transportation corridor preservation fee to Salt Lake County. This fee is expected to generate approximately $4.1 million annually. The County is in the process of issuing excise tax bonds yielding approximately $42 million of project money. Accordingly, both the debt service payments and construction projects were appropriated during 2014.

The Tourism, Recreation, Cultural and Convention fund, commonly referred to as TRCC, is projected to have a structural surplus for 2014, and therefore afforded some new projects. The County continued its focus on deferred maintenance projects by appropriating $6.5 million of TRCC funds for this purpose. TRCC will also be funding a few new projects in line with a recommendation from the Cultural Facilities Advisory Board, one of which is a new black box theatre within the Cultural Celebration Center. Finally, the Mayor and Council committed $2.5 million over two years from TRCC to the Clark Planetarium to refresh exhibits.

The 2014 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 & Adult Services division. The new center will assist in meeting these demands. Carryover projects also include a building for the Health Department and for the District Attorney. There is also funding for a new joint operations center for both Public Works and Parks and Recreation. This shared facility is a result of collaboration between the departments of Public Works and Community Services. It is anticipated the departments will ultimately save money by sharing a fueling station/truck wash, equipment, the cost of land, and by better coordination in the event of an emergency. The existing facilities are both considered deferred maintenance projects, so the new construction will be considered deferred maintenance by replacement.

Finally, the Mayor proposed and the Council subsequently approved a 2.5% merit based pay increase for eligible employees. In addition, the cut to 401(k) contributions has been fully restored for the first time since the County took action to reduce this benefit in 2009. The Council has also approved funding for a study of employee compensation during 2014.

Although expenditure neutral, the 2014 budget includes a re-alignment of certain organizations that focus specifically on county-wide regional projects and outcomes. The budget carries forward the newly created organization of Regional Development. The budgets for Economic Development, Community Resources and Development, Emergency Services and the

Criminal Justice Advisory Board are funded within this organization. This re-alignment will sharpen the focus on the uniquely different roles of Salt Lake County Government – namely, distinguishing between county-wide regional efforts versus those efforts and programs managed for the benefit of unincorporated areas of Salt Lake County. The money funding certain new programs within this area is derived from recent RDA legislation, clarifying the amount and obligation of counties to pass increment on to local jurisdictions. On-going funding from this source has been forecasted at about $1.7 million per year. This revenue continues to be used for projects such as the 911 call taking function and computer aided dispatch, Utah Communications Agency Network radio equipment, high speed ballot counters, and other projects deemed one-time in nature, of county-wide significance, and with a purpose for streamlining government or increasing efficiencies.

Structural Balance

The 2014 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, 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.

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.

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. 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[1], 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 years, these persistent and uncontrollable inflation costs have exceeded the increases in revenues.

2014 Budget Solution

The 2014 Tentative Budget, meaning the initial requests input into the budgeting system by departments and elected officials, was out of balance by approximately $20 million. The solution heavily relied on cutting new requests. Specifically, 59 new full time equivalent positions were requested for 2014. The final Recommended Budget adds only 12.25 FTEs, with grants and operating revenues funding a significant portion of these new FTEs. This represents an increase of 1/3 of 1% on the overall budgeted FTE level. A total of 7.25 new FTEs will be funded by property taxes, 4.25 of which are funded by Countywide taxes.

Total cuts to new requests were approximately $20 million, meaning the entire Tentative Budget problem was solved by cuts to new requests, rather than cutting existing programs.

For isolated funds, some ongoing appropriations were reduced. In the municipal services fund, capital projects were scaled back by nearly $1.0 million. Also cut was approximately $900,000 in large equipment in Public Works Operations, $200,000 in Street Lighting, and other cuts to requests were made to match what is expected to be a short term decline in sales tax revenues for that fund. Privatization of the Equestrian Park is also expected to save $80,000 per year, beginning in 2014.

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. In January 2013, the Council adopted an ordinance intended to protect the capital improvements tax levy from reallocation to operating funds of the County.

Summary and Closing Remarks

The 2014 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 programs were forced to close or discontinue service.

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.

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[1] Of the $4.8 million that the County budgeted for food costs in 2014, $4.5 million (93.8%) is for County Jail inmate meals, the Meals-on-Wheels program, County senior center food, Recreation before/afterschool program food, and Youth Services program food.