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**THE SALT LAKE COUNTY AUDITOR'S  
2005 BUDGET MESSAGE**

**Sean Thomas  
Salt Lake County Auditor**

to the

**Salt Lake County Council**

**And To the Mayor and Citizens of Salt Lake  
County**

December 7, 2004

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## Introduction

In accordance with Section 17-36-10 of the Utah Code, the *Budget Officer* of the County is charged with preparing a Budget Message to be presented with the Recommended Budget, to explain the proposed budget, and in general, summarize significant changes in the County's financial position; revenues, expenditures, budgets, and additions or changes in policy.

I am pleased to have the opportunity as the Budget Officer of Salt Lake County, to present this Budget Message. My responsibility, acting in this capacity, and as an independently elected official, is to act as an advisor to the County Council and Mayor in financial and budget matters, and, as a guardian of the public trust as it relates to fiscal responsibility and accountability.

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.

## Economic Outlook

As the Budget Officer for the County, I am responsible for projecting revenues for the upcoming year. In contrast with recent years, our economy is in recovery from the "soft patch" experienced from late 2001 to 2003. Year-to-date sales tax revenues have increased substantially in comparison with the same period in 2003. Our 2005 revenue projections are included as a part of the Recommended Budget. These projections are based on our research, analysis of economic conditions, review of other governmental studies, consultation with others (in industry), and our revenue forecasting models.

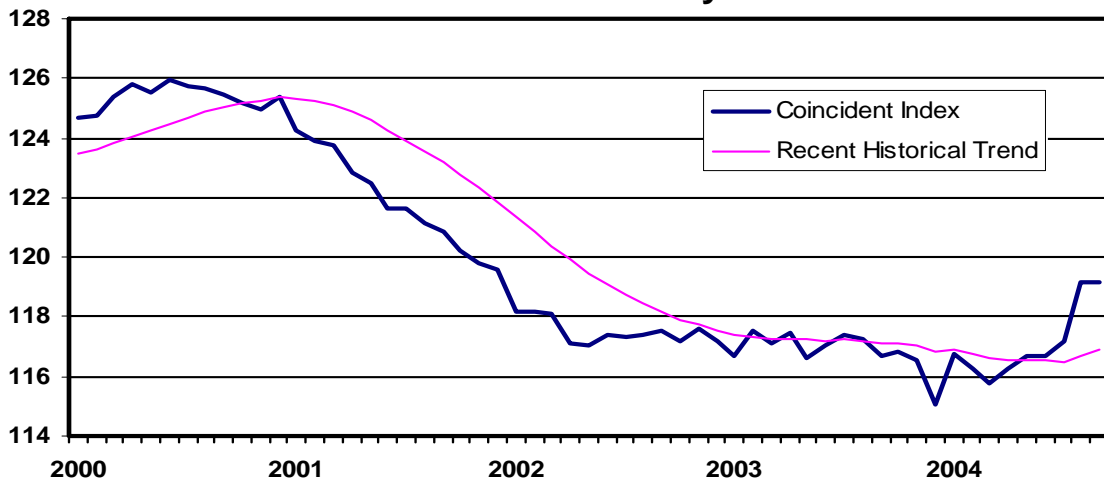
To further refine and improve the County's revenue projection process, our office undertook development of both a coincident composite and a leading composite economic index. The ***Coincident Composite Index*** is a construct of business cycle indicators that is used in describing current general economic conditions. The ***Leading Composite Index*** is a construct of leading business cycle indicators that is used in forecasting economic conditions eight to ten months in advance. The Coincident and Leading Composite Index indicators are listed in Table 1 below. These indexes are constructed specifically for Salt Lake County and are updated bi-monthly and published on the County Auditor's web site at [www.slcountyauditor.org](http://www.slcountyauditor.org).

<b>Coincident Index Components</b>	<b>Leading Index Components</b>
Taxable sales	New vehicle purchases
Manufacturing work hours per week per employee	Total residential construction permits issued
Total non-farm employment	Non-residential construction value
Wholesale & retail trade hours per week per employee	Construction employment
Unemployment rate	Initial claims for unemployment insurance
Aggregate purchasing power	Help-wanted Index
	Local area stock prices
	Local area ten-year yield curve rate

**Table 1.** *Business cycle indicators included in the Coincident and Leading Indexes.*

In Figure 1 below, the **Coincident Composite Index** for the County is summarized from January 2000 to September 2004. The recent positive growth in this index represents a clear indication of an upturn the Salt Lake County economy.

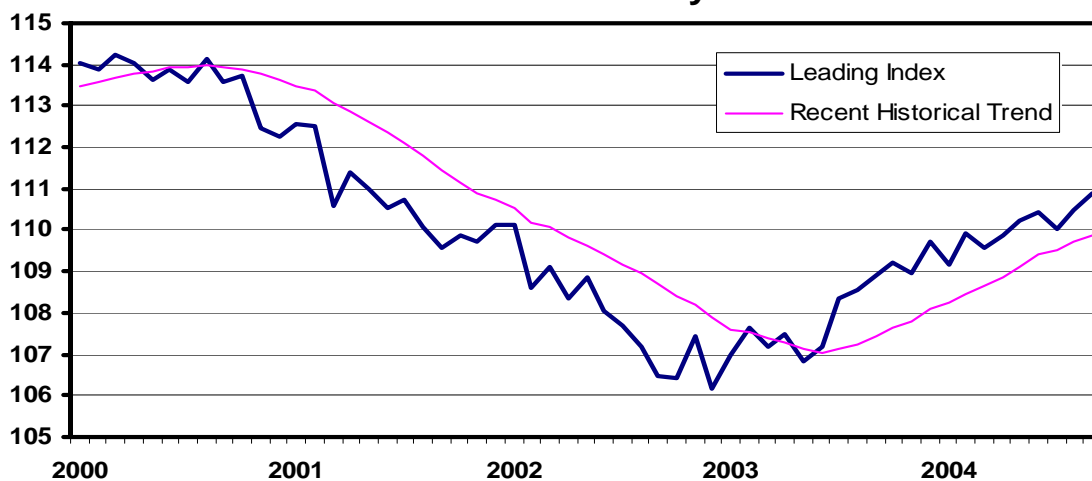
### Coincident Composite Index 1999-2003 Salt Lake County



**Figure 1.** The Salt Lake Coincident Index has been performing above its recent historical trend, and has shown consistent growth since May 2004. 1992 was selected as the base year, where average Index value of 1992 = 100. The “Recent Historical Trend” line is a 12- month moving average for this index.

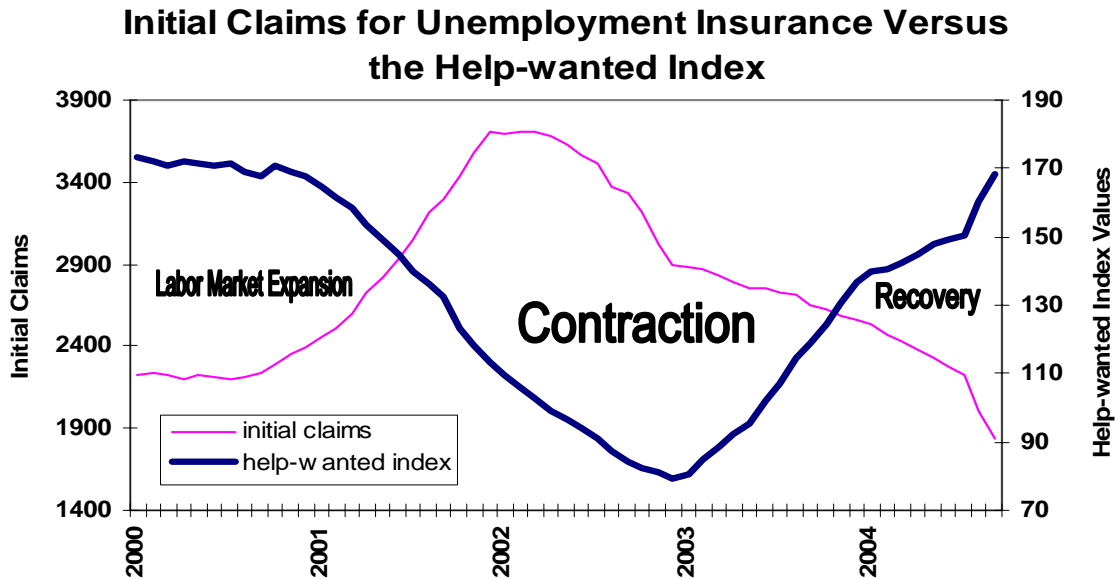
The **Leading Composite Index** is presented in Figure 2 below. This index has improved even more dramatically. Not only is there clear indication of a strong upturn, we also expect robust growth throughout 2004 and into the first half of 2005.

### Leading Composite Index 1999-2003 Salt Lake County



**Figure 2.** The Salt Lake County Leading Index has outperformed its recent historical trend since June 2003. Moreover, consecutive month-over-month increases, in the index, between March and June 2004 suggest that the County’s economy will continue to show strong growth into at least the first half of 2005. 1992 was selected as the base year, where average Index value of 1992 = 100. The “Recent Historical Trend” line is a 12-month moving average for this index.

A prominent reason for the turn-around and continued economic growth is a significant labor market recovery, which is represented in Figure 3 below. Here the number of initial claims for unemployment insurance is compared against the Salt Lake Metro-area help-wanted index. This strong recovery is indicated by the sizable divergence between these two leading indicators, starting in October 2003.



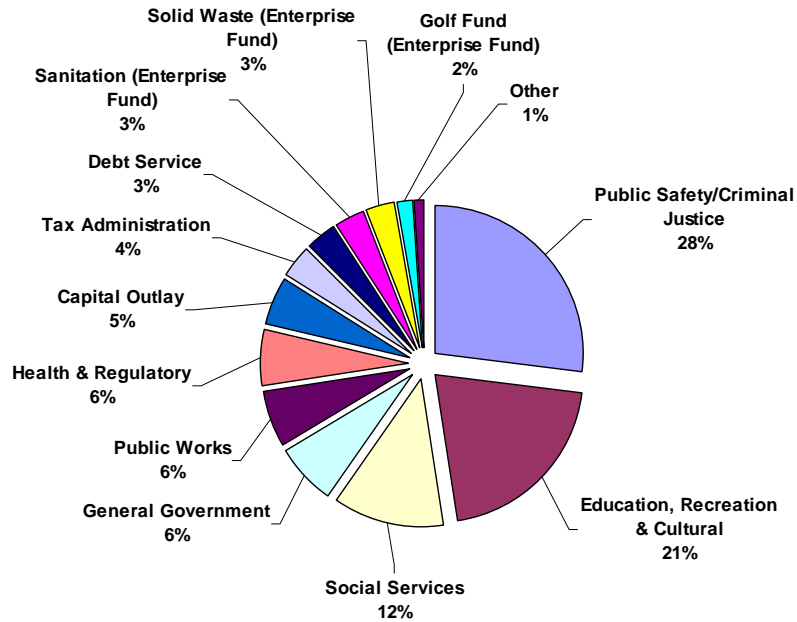
**Figure 3.** The widening gap between the rising help-wanted index and plummeting initial-claims indicates a strong labor-market recovery.

### Budget Overview

Salt Lake County’s total Recommended Budget for 2005 for all funds is approximately \$787 million. Included in this amount are the budgets for the County’s 12 internal service funds which are used primarily to account for the financing of services provided by one County agency to other County agencies (rather than to the general public). These services are provided on a cost reimbursement basis. After adjusting the overall budget for these internal charges, the total Recommended Budget for 2005 is approximately \$590 million (net budget).

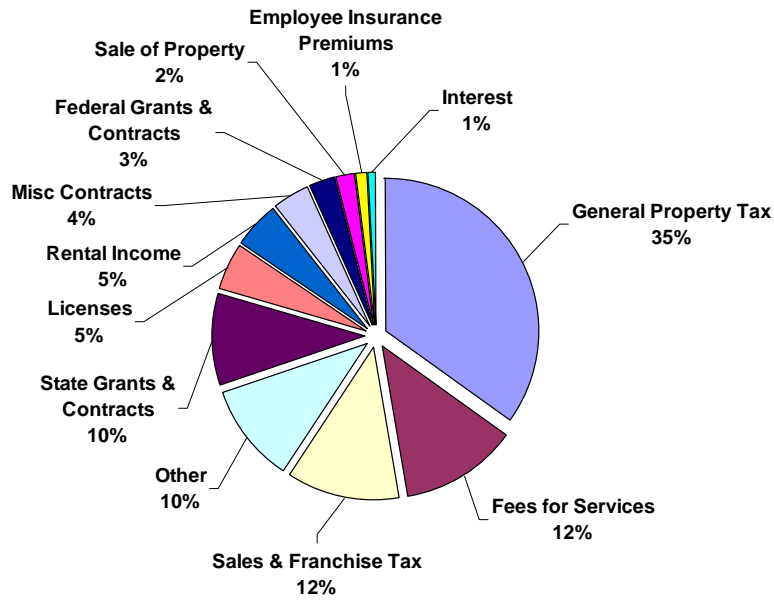
The 2005 Recommended Budget includes proposed expenditures for a number of County programs such as public safety, human services, public works, and various other programs. More specific information on the allocation of the County’s budget is presented in Figure 4 on page 4. Budgeted revenues are presented by source in Figure 5 on page 4.

## 2005 Recommended Budget



**Figure 4.** 2005 Recommended Budget allocated to major Salt Lake County program categories.

## 2005 Recommended Budget Revenues



**Figure 5.** 2005 Recommended Budget - Revenues by major source.

## **Major Initiatives**

The 2005 Recommended Budget is the culmination of several on-going initiatives and includes the following:

- 1. Program-Based-Budgeting.** Prior to 2002, County budgets were adopted at the organization level with no comprehensive look at the various programs for which each organization is typically responsible. In February 2001, the Council adopted a resolution directing the Auditor, in cooperation with the Mayor and other elected officials, to prepare future budgets on a program basis. By “dropping below the organization level”, program-based-budgeting provides the Mayor and Council with the means to prioritize programs within available revenues. The Council also has the option of including specific legislative intent language at the program level as part of the appropriation process. The 2005 recommended budget has been prepared on a program basis, and after the Council considers this evening’s public input, the budget will be adopted at an organization level.
- 2. Performance Measurement.** A comprehensive performance measurement system is intended to improve the accountability of government to citizens and provide meaningful information to elected officials on program results and effectiveness. Performance measurement systems are used to identify and track output, outcome, and other measures that are relevant to the goals and objectives of each program. In a performance measurement environment, agencies will have the opportunity to demonstrate the results they are achieving towards meeting the needs of this community with the financial resources they have been allocated in their respective budgets.

At the direction of the County Council, the County began a “pilot” implementation of performance measurement in Aging Services and the Surveyor’s Office earlier this year. The Auditor’s Office and Council have also begun implementing performance measurement. I am pleased to report the progress achieved to this point is very encouraging.

I believe implementation of performance measurement represents a strategic step forward for the County. However, for this initiative to be successful on a long-term basis, sustained political support from the Council, Mayor, and other independent elected officials is critical. Expectations must be realistic. Also, the Council must commit to utilizing the performance data in the appropriation process.

Our office has surveyed local governments in other states that have attempted to implement performance measurement. We discovered that many of these efforts have failed and others have met with only limited success. Based on our research, it is clear that implementation of performance measurement on a county-wide basis will not be easy and in fact, will be a multi-year undertaking.

- 3. Salt Palace Convention Center Expansion.** The 2005 Recommended Budget includes continued funding for the initial phase of a Council approved Salt Palace Convention Center expansion. Earlier in 2004, the County issued \$14.7 million in sales tax revenue bonds to finance the costs associated with the first phase of the project. The total cost of the project is anticipated to be \$58 million which will require that the County issue additional bonds. This expansion is necessary to meet the exhibit and meeting space requirements of large conventions.

- 4. Salt Lake Valley Fire Service Area Fund.** The Salt Lake Valley Fire Service Area includes the unincorporated County and the City of Cottonwood Heights and exists for the purpose of financing the cost of fire and paramedic services. The 2005 Recommended Budget for this fund is \$19 million and is funded primarily from property tax revenues. The Board of Trustees of the Salt Lake Valley Fire Service Area is proposing to impose a property tax for the first time which will be offset in the unincorporated County by a corresponding tax revenue decrease in the Municipal Services Fund.

### ***Employee Compensation***

Employee compensation and benefit costs represent 56% of the total 2005 recommended operating budgets (includes only those budgets with operating programs). The Mayor's Office employee compensation proposal included a \$600 non-cumulative health care offset payment for each employee, a 2.75% merit increase (for eligible employees not at the maximum of their pay scale), a 1% non-cumulative longevity payment, and increased medical and prescription drug co-pays for employees. The compensation package approved by the Council includes a 1% structure/COLA adjustment, a 2.75% merit increase, a 1% non-cumulative longevity payment, and no increased medical and prescription drug co-pays for employees. This compensation package will cost approximately \$4.7 million in 2005.

A 17.2% increase for employee health insurance is included in the 2005 budget which will cost an additional \$3.5 million. The increase in employee health care costs is substantially greater than in prior years and is primarily attributable to an unusually large number of high dollar claims incurred during 2004. Also, part of this increase represents a "catch-up" adjustment from the 2004 budget when employee health care insurance was increased only 5% from the prior year when the budget should have been increased by 7%.

I am concerned that the 1% structure adjustment approved by the Council is substantially below the projected market increase of 2.25% reported in the **2004 Salt Lake Area Compensation Survey**<sup>1</sup>. County employees are our most important asset. We currently have a hard-working, competent career employee group. We need to retain these employees to continue providing citizens with the quality service they deserve. To attract and retain qualified employees, our compensation structure should be competitive.

The Bureau of Labor Statistics West Urban Consumer Price Index (CPI) increased 2.02% for the most recent 12 month period data is available. After adjusting the CPI for "substitution bias"<sup>2</sup> the actual cost-of-living increased by 1.52% during this period. The difference between the Council's approved structure adjustment and the calculated increase in cost-of-living represents lost purchasing power for employees.

### ***Property Taxes***

The 2005 Recommended Budget includes a property tax revenue increase for the Salt Lake Valley Fire Service Fund. However, this tax increase will be completely offset in the unincorporated County by a corresponding property tax revenue decrease in the Municipal

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<sup>1</sup> The 2004 Salt Lake Area Compensation Survey is a detailed study of the compensation practices (including benefits) of 47 mid-size and large employers in both the private and public sectors in Utah.

<sup>2</sup> The CPI measures only the change in fixed prices over time but does not account for the impact of price changes on the willingness of consumers to substitute among goods and services. In order for the CPI to reflect the true cost of living, an adjustment must be made to offset the substitution bias. Empirical research has found that subtracting 0.50 percent from the percent change in the CPI appropriately adjusts for the substitution bias.

Services Fund. Property tax revenues for all funds are projected at \$177.6 million for 2005 and are summarized by fund in Table 2 below. With the exception of the Salt Lake Valley Fire Service Fund, property tax revenue increases in other funds in Table 2 represent additional revenue for “new growth” anticipated to occur in the County and does not imply an increase in the tax rate above the certified rate.

Fund	2004 Property Tax Budgeted	2005 Property Tax Projected
General	\$ 83,426,162	\$86,000,000
Municipal Services	24,383,791	5,250,000
SL Valley Fire Service	0	17,100,000
Flood Control	4,465,191	4,600,000
State Tax Administration Levy	13,805,640	14,200,000
Library	22,448,666	23,150,000
Health	9,750,518	10,050,000
Governmental Immunity	91,126	94,000
Bond Debt Service	14,853,593	15,300,000
Capital Improvements	0	0
Planetarium	1,822,527	1,880,000
<b>Total Property Tax Revenue</b>	<b>\$175,047,214</b>	<b>\$177,624,000</b>

**Table 2.** 2004 & 2005 Property Tax Revenue by Fund

## The Financial “State of the County”

As the chief accounting and budget officer of Salt Lake County, I am also including in this budget message my comments and observations on the financial “state of the County”.

**Bond Ratings.** Bond ratings are one of the most important indicators of government financial performance. Salt Lake County has the highest possible bond rating (for general obligation debt issues) and the lowest cost of borrowing in the nation. From a total of 3,033 counties, Salt Lake County is one of 21 counties in the nation that have a simultaneous triple ‘A’ credit rating with Moody’s Investors Service, Standard & Poors, and Fitch Ratings. The County’s exemplary bond rating translates into significantly reduced interest costs for our taxpayers.

**Minimum Financial Reserves.** Maintaining a minimum reserve in County funds is a financial management “best practice” and is critical to retaining the County’s AAA bond rating. The 2005 Recommended Budget includes sufficient reserves for the General Fund, Municipal Services Fund, and several of the County’s other governmental funds. I appreciate the Mayor and Council acknowledging the importance of these reserves during this budget process.

**Long Range Revenue and Expenditure Projection.** In Salt Lake County for a number of years our budget decisions have included not only the current year impact, but a **five-year view** of the consequences of our decisions. A multi-year financial forecast alerts elected officials and executive management of potential budget stress which may result from projected revenue and expenditure imbalances. Multi-year budget and revenue planning is another financial “best

practice” tool the County should continue to utilize and in fact, is a significant factor cited by both Standard & Poors and Fitch Ratings in evaluating state and local government credit worthiness.

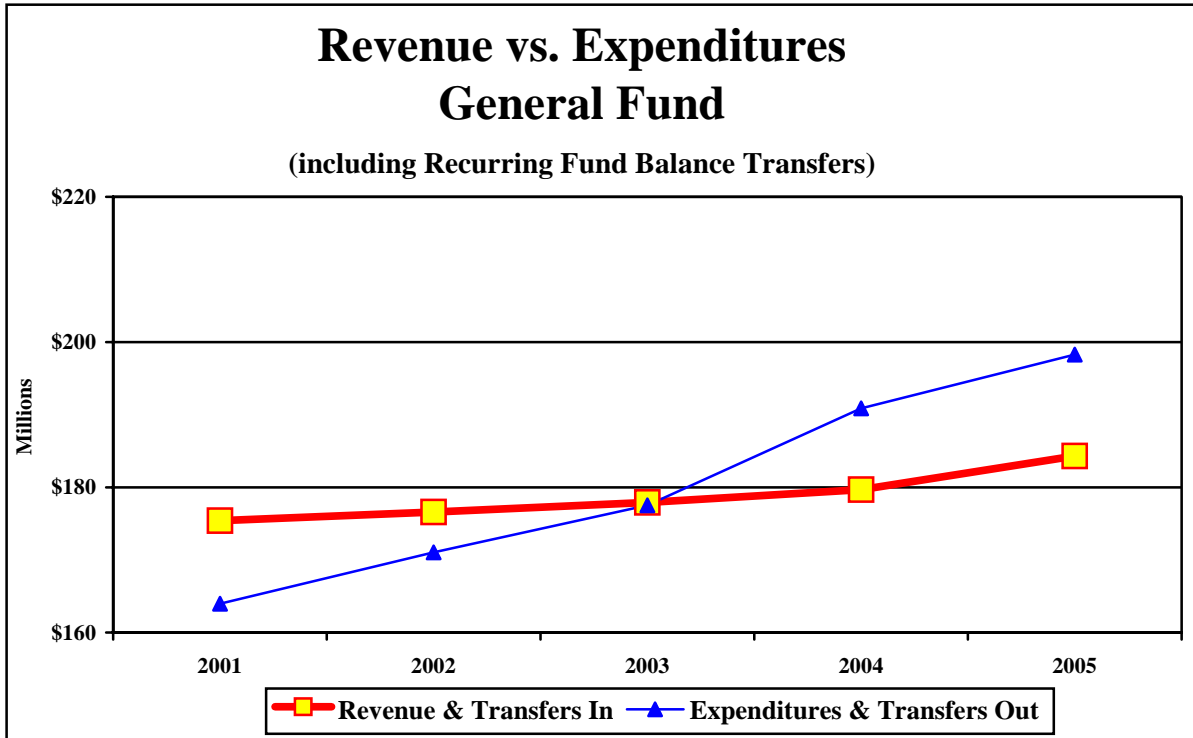
**Certified Property Tax Rate.** The certified tax rate is intended to allow local governments to collect the same amount of revenue as was received in the prior year plus additional revenue for “new growth” which occurs as new homes are built or new businesses move into the area. Property tax revenue collected from new growth is intended to assist in paying for the cost of services provided in the areas where the growth occurred. However, under current law governing property taxes in Utah, the certified tax rate is not adjusted for the effects of general inflation. Over time, the purchasing power of property tax revenues collected is diminished and it may become necessary to eliminate selected programs and reduce service levels in others or “raise” taxes to keep up with inflation. I am concerned about this downward bias in the certified property tax rate.

**Structural balance in the General Fund.** For the past three years, actual revenues and recurring incoming fund balance transfers have exceeded expenditures and recurring fund balance transfers out in the General Fund. This structural balance is important to the long-term fiscal health of the County and is a direct result of conservative budgetary and other financial policy decisions made by the Mayor and Council. However, for both 2004 and 2005, current year budgeted expenditures and recurring fund balance transfers out exceed current year revenues and recurring fund balance transfers into this fund (see Figure 6 on page 9). This trend is not readily apparent because of the creation of the Grant Fund in 2001 and the associated fund balance transfer each year from the General Fund. For the 2005 Recommended Budget, the budgeted transfer from the General Fund is \$20.8 million which is the planned level of county funding to be included with specific grant revenues received by the County (for delivery of human services programs). This budgetary imbalance should be substantially mitigated by increased revenues as our economy continues to improve and budgetary underexpend.

Matching current year expenditures with current year revenues on a budgetary basis is difficult. The downward bias in the certified property tax rate will invariably reduce the weighted average revenue growth rate to an amount that is often less than historical expenditure growth. This effect is particularly exacerbated during an economic downturn as sales tax revenues level off. Based on our most recent **Long Range Revenue and Expenditure Projection** for the General Fund, the current revenue and expenditure trend may not be sustainable beyond 2006 without invading minimum reserves and jeopardizing the County’s bond rating.

**Municipal Services Fund.** I am particularly concerned about the Municipal Services Fund. The unincorporated county has experienced significant erosion of its tax base from incorporations and annexations since 1996. The Cottonwood Heights incorporation in 2005 will result in a further property and local option sales tax revenue loss. As we enter into interlocal agreements with Cottonwood Heights and other cities to provide municipal-type services, we should take great care to insure that the County recoups the full cost of providing those services. Otherwise, taxpayers in the unincorporated County will financially subsidize service delivery to cities.

With the Cottonwood Heights incorporation and pending West Holladay annexation, the budgets of organizations in the Municipal Services Fund should be reviewed in response to the potential reduction in service area. I fully support the Council’s stated legislative intent that a comprehensive review of organization budgets in this fund be conducted in early 2005.



	2001	2002	2003	2004	2005
Revenue & Recurring Transfers In	175,412,751	176,626,263	177,924,670	179,702,156	184,335,702
Expenditures & Recurring Transfers Out	163,981,130	171,049,055	177,549,467	190,865,663	198,297,294

**Figure 6.** Actual revenues and recurring fund balance transfers in have exceeded actual expenditures and recurring fund balance transfers out from 2001 to 2003. Budgeted expenditures and recurring fund balance transfers out exceed revenues and recurring fund balance transfers in 2004 and 2005.

**911 Revenues.** All 911 revenues collected from the unincorporated County are currently remitted to the Valley Emergency Communications Center (VECC) to pay for the cost of 911 call taking services. VECC provides Emergency 911 call taking and dispatch services to member cities in Salt Lake County and the Unified Fire Authority. Total 911 revenues from the unincorporated County are projected to be \$1.5 million in 2004. During a review of VECC's financial records, we discovered that 911 revenues are being used to subsidize police and fire dispatch services for VECC members. I am concerned that unincorporated County residents may be financially subsidizing dispatch services to VECC members. I support the Council's stated legislative intent to reallocate 911 revenues on a more equitable basis to protect the interests of citizens in the unincorporated County.

### Summary and Closing Remarks

The financial state of Salt Lake County is sound. Our fund balances are healthy and we have the highest possible bond rating for our general obligation debt. Implementation of the Council's performance measurement will improve the quality of information available to policy

makers and will ultimately improve the accountability of this government to citizens. We continue to move towards a robust and open dialogue between the Auditor, Mayor, and Council on fiscal matters. This public airing of budget issues is one of the benefits citizens can expect to receive from this form of government.

I am concerned about recent speculation concerning the consolidation of elected official offices. By having an elected official, such as the Auditor, with a sole focus on the financial and accounting matters of the County, I believe the Citizenry are better served. If attention were diverted to other functions, I believe it would substantially curtail our ability to enhance our expertise in these specialized areas and provide the same level of objective knowledge and capability we currently provide.

I commit the resources of my office to continue working closely with the Mayor, Council, and other Elected Officials. I will be happy to provide further documentation, information, or to answer any questions from the citizens here this evening.