
**THE SALT LAKE COUNTY AUDITOR'S
2008 BUDGET MESSAGE**

**Jeffrey Hatch
Salt Lake County Auditor**

to the

**Salt Lake County Council
Mayor Peter Corroon**

and

Citizens of Salt Lake County

December 4, 2007

Introduction

As Budget Officer of Salt Lake County, the Auditor is responsible for the beginning and end of Salt Lake County's budget process. Our Office also supports the Mayor and Council in their deliberative process between the Auditor's Tentative Budget and Council's Recommended Budget to be presented tonight. I am charged under the Utah Uniform Fiscal Procedures Act (Section 17-36 of the Utah Code) with preparing a Budget Message to explain this budget and in general, summarize significant changes in the County's financial position, revenues, expenditures and policy changes reflected in the budget. This Public Hearing and Council adoption will conclude the budget process—unless, of course, the Mayor vetoes any portion of it and we go back to the Council for an override vote.

Economic Outlook

The Auditor is responsible for projecting revenues for the upcoming year. As we reported in our October 23, 2007 Budget Overview, the US economy is experiencing a significant downturn in economic activity driven in large part by a major contraction in residential construction, home prices and availability of mortgage financing. Utah and Salt Lake County have seen decelerating home construction, but home prices have remained steady due to the continuing growth of new jobs and in migration attracted by these jobs. Salt Lake County experienced a 4.3% growth rate in October for nonagricultural jobs compared to October 2006, only slightly behind September's 4.4%. We are projecting this number to decline to 3.1% next year, which will reduce taxable sales growth from a projected 7.5% in 2007 to 4.0% in 2008. It is possible that Utah will continue to avoid the nation's downward economic spiral, but we followed a more conservative course in our 2008 revenue projections, assuming we will feel the impact of national problems, but at a lesser level.

2008 Recommended Budget: Revenues

The County Council's total Recommended Budget revenue reflects a 5.1 percent increase over the 2007 adjusted budget. The Salt Lake Fire Service Area will become independent of Salt Lake County's budget in 2008, so their revenues and expenses will not be included in the budget. The large increase in the "Other" revenue category is generated by the anticipated placement of \$96.7 million in bonds together with \$15.8 million in interest earnings on bond proceeds prior to completion of construction.

Revenue Source	2007 Adjusted Budget	2008 Recommended Budget	2008 % Change over Prior Year
General Property Tax (w/o Fire Svc)	\$179,756,600	\$185,583,796	3.2%
Salt Lake Fire Service Area	18,700,000	0	-100.0%
Sales and Other Tax	133,522,000	139,416,992	4.4%
Intergovernmental Grants & Contracts	92,677,973	98,016,597	5.8%
Fees for Services	64,814,286	65,079,682	0.4%
Rental Income	38,580,935	39,576,957	2.6%
Licenses & Permits	31,198,606	31,123,827	-0.2%
Other	92,879,209	126,616,620	36.3%
Total Major Revenue Sources	\$652,129,609	\$685,414,471	5.1%

Table 1. 2007 & 2008 Major Revenue Sources – 2008 Percentage Change from Prior Year. Revenue sources exclude interfund/interdepartmental revenue, overhead revenue, employee benefits pass-through revenue, and prior year fund balance. The "Other" category includes revenue sources that can vary significantly; e.g., fines, interest, sale of assets, and bond proceeds.

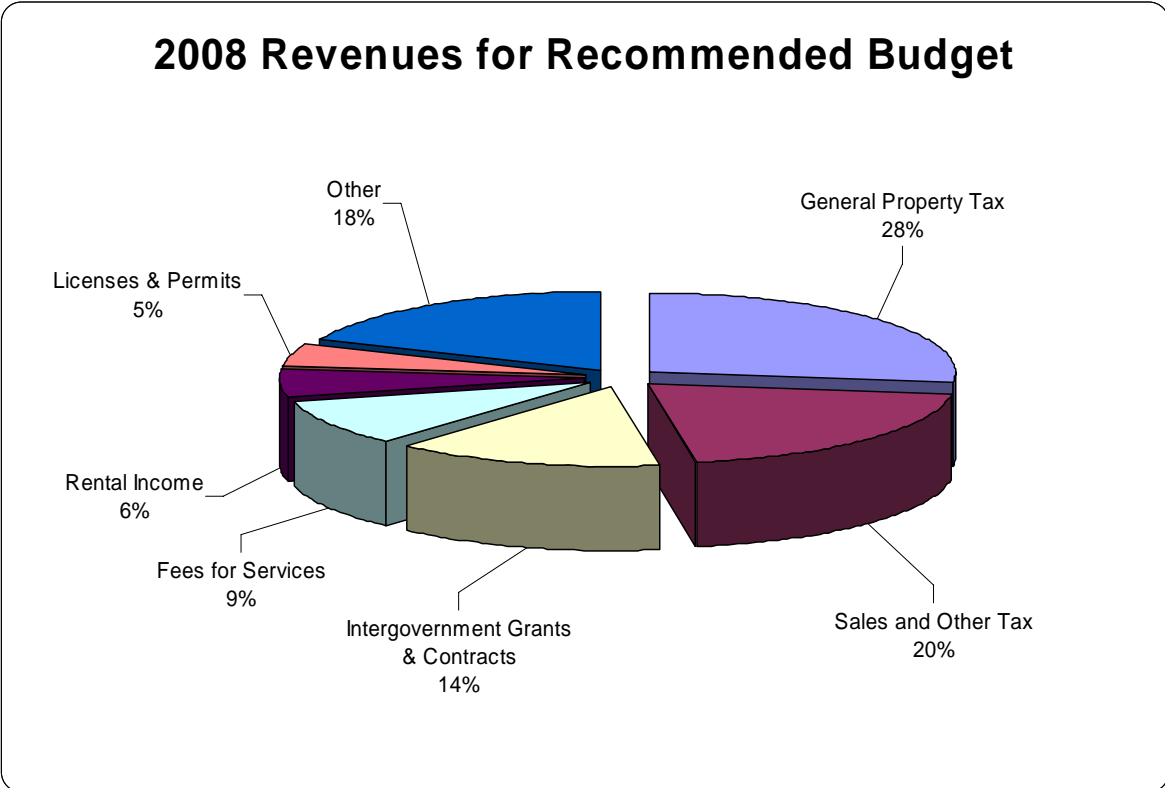


Figure 1. 2008 Recommended Budget - Revenues by Major Source.

2008 Recommended Budget: Expenditures

Salt Lake County 2008 expenditures are budgeted to increase 9.5% over the 2007 adjusted budget. The following table and graph provide the details.

Program	2006 Actual Expenditures	2007 Adjusted Budget	2008 Recommended Budget	2008 % Change over Prior Year
Public Safety/Criminal Justice	\$139,101,331	\$153,397,823	\$161,763,195	5.5%
Education, Recreation & Cultural	144,136,581	159,733,611	182,702,244	14.4%
Social Services	69,806,143	93,857,327	96,946,130	3.3%
General Government & Tax Admin	63,815,710	55,902,753	57,427,612	2.7%
Public Works	53,939,913	66,057,673	65,532,674	-0.8%
Health & Regulatory	34,331,645	40,307,115	41,861,528	3.9%
Capital Outlay	33,112,500	118,740,680	171,113,668	44.1%
Other	33,837,399	29,156,869	32,266,023	10.7%
Total Expenditures	\$572,081,222	\$717,153,851	\$809,613,074	9.5%

Table 2. Expenditure Summary by Program. This expenditure summary excludes Salt Lake Valley Fire Service Area, which was in the County Budgets for 2006-7 but not 2008.

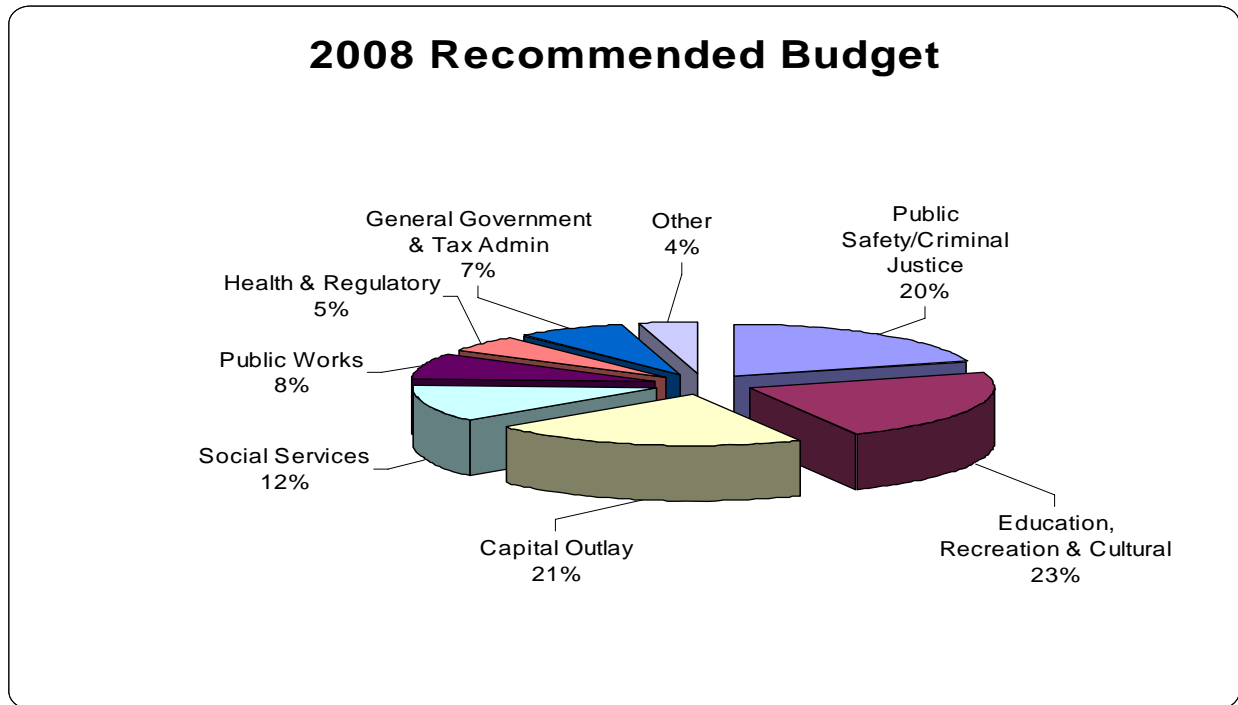


Figure 2. 2008 Recommended Budget allocated to major Salt Lake County program categories.

In terms management responsibility, these expenditures may be broken down among the Mayor, other Elected Officials and other categories, such as debt service. The following chart shows that the divisions reporting to Mayor Corroon will experience a 4.9% decrease in budget, while all other Elected Officials have a 7% increase overall.

Office / Other	2006 Actual Expenditures	2007 Adjusted Budget	2008 Recommended Budget	2008 % Change over Prior Year
Mayor	\$309,000,444	\$343,563,500	\$347,918,096	1.3%
Sheriff	108,014,364	118,369,514	125,530,203	6.0%
District Attorney	17,243,868	24,379,658	25,575,092	4.9%
Other Elected Offices	37,415,769	40,390,889	44,833,106	11.0%
Capital Outlay	33,112,500	118,740,680	171,113,668	44.1%
Debt Service	18,333,514	14,755,250	19,397,128	31.5%
Other	48,960,763	56,954,360	75,245,781	32.1%
Total Expenditures	\$572,081,222	\$717,153,851	\$809,613,074	9.5%

Table 3. Expenditure Summary by Office and other categories. This expenditure summary excludes Salt Lake Valley Fire Service Area, which was in the County Budgets for 2006-7 but not 2008.

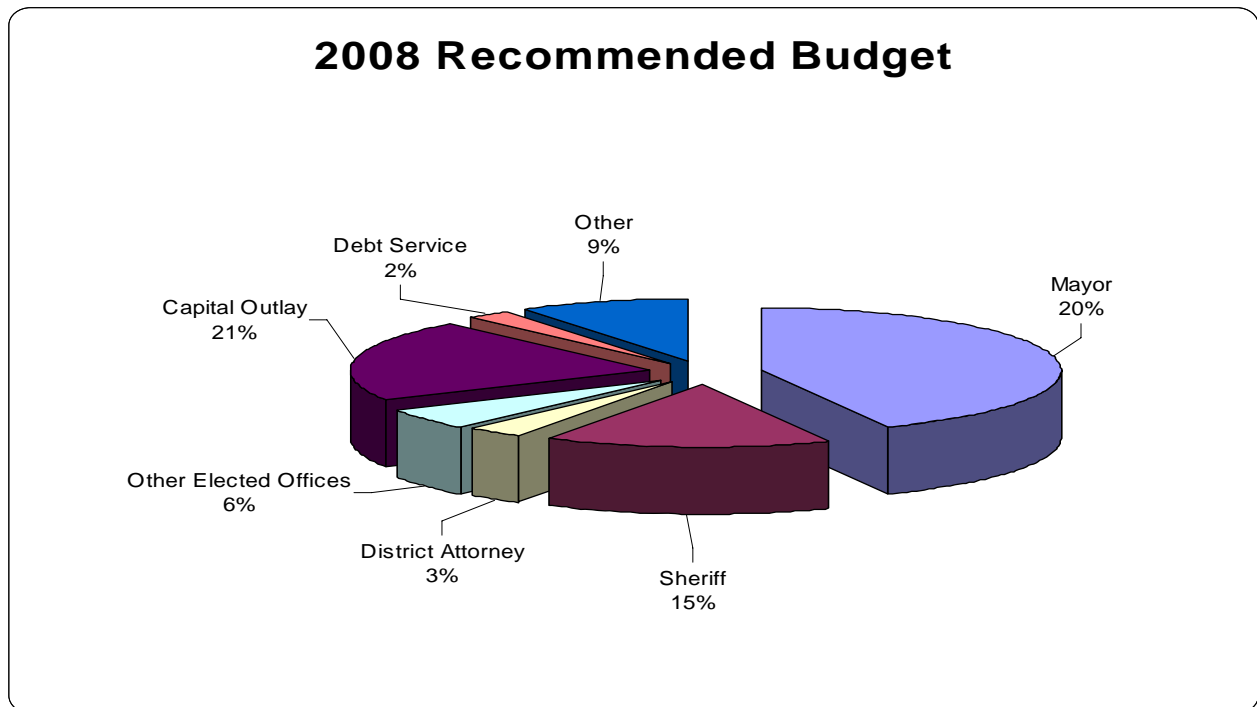


Figure 3. 2008 Recommended Budget allocated to County offices and other major categories.

Major increases reflected in the above numbers include the Clerk's Presidential Primary and General Election expense, staff increases in the District Attorney's Office, additional deputy allocations for Sheriff Patrol and opening an acute medical unit in the County Adult Detention Center.

Employee Compensation

County employees are our most important asset. To attract and retain the best employees, Salt Lake County must maintain competitive wages and benefits.

The 2008 Council Recommended Budget includes the following compensation package for employees:

- 3% COLA adjustment
- 2.75% merit increase for eligible employees
- A 1% longevity cash payment, or a 1.1% longevity contribution to a 401(k) account, for merit employees not eligible for a merit increase

The compensation package will cost an additional \$9.8 million in 2008; a 3.8% increase over 2007. This includes an increase of 103 new Full-Time Equivalent employees. The new employees are primarily added to District Attorney's Office (16.3) and Sheriff's Office (45). While these are large staff increases to address public safety needs, they are only half of the requests made by the two Offices this year.

The 2008 Mayor's Proposed Budget included a salary market adjustment of \$2.5 million, based on the results of a market salary survey conducted jointly by the County's Human Resources Division and 19 other public and private entities. This market adjustment would have adjusted the salaries for about half of the positions in the County. The 2008 Council Recommended Budget reduced this amount to \$617,000, with the intent to include a more comprehensive salary market adjustment in the 2009 budget, and in ensuing years. The Auditor's Office fully endorses this process to maintain competitive wages.

Medical cost increases continue to rise at near double-digit rates, and this year's budget reflects a 13.3% expense increase to provide existing benefits and maintain reserves for the County's self-funded health plan. Dental insurance experienced a 5% increase.

Property Taxes

Property tax revenues for all funds are projected at \$178.0 million for 2008, and are summarized by fund in Table 4 on page 6. Property tax revenue decreases totaling \$12.2 million in 2008 are a net of the loss of \$18.8 million from Salt Lake Valley Fire Service Area and an increase of \$6.7 million in additional revenue for "new growth" anticipated to occur in the County. It is important to note that the \$6.7 million increase due to anticipated "new growth" does not imply any Council-voted increase in the tax rate above the certified rate.

Fund	2007 Property Tax Budgeted	2008 Property Tax Projected
General	\$89,285,842	\$92,828,000
Municipal Services	7,300,582	7,600,000
SL Valley Fire Service Area	18,797,169	0
Flood Control	4,871,402	4,772,000
State Tax Administration Levy	14,614,207	15,200,000
Library	25,286,020	26,400,000
Health	10,021,170	10,400,000
Governmental Immunity	139,183	150,000
Bond Debt Service	16,145,218	16,700,000
Capital Improvements	904,689	950,000
Planetarium	2,783,658	2,900,000
County-wide Judgment Levy	0	55,796
Total Property Tax Revenue	\$190,149,140	\$177,955,796

Table 4. 2007 & 2008 Property Tax Revenue by Fund.

Salt Lake County's Financial Condition

One of the best ways of assessing the financial health of Salt Lake County is to look at the ratings for our debt. The three agencies that provide these ratings do a thorough analysis of the revenue generating capability and fiscal expense management of County officials, and the strength of our County economy in terms of job creation and income growth over time. On both counts, Salt Lake County gets the highest score, due in large part to our modest use of debt financing. In 2008, our Debt Service as a percentage of 2008 Budgeted Revenue equals 3.3%, where many governments around the country carry debt service ten times this amount!

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 22 counties in the nation that have a simultaneous triple 'A' credit rating with Moody's Investors Service, Standard & Poor's, and Fitch Ratings. The County's exemplary bond rating translates into significantly reduced interest costs for our taxpayers.

The following table summarizes current debt of Salt Lake County.

Type of Debt	2007 Unamortized Debt	2008 Debt Service	Bond Rating
General Obligation Bonds	\$236,205,000	\$18,584,532	AAA
Sales Tax Revenue Bonds	79,700,000	5,560,825	AAA
Lease Revenue Bonds	51,436,000	22,371,067	AA/Aa1/AA+ ¹
Special Assessment Bonds	6,380,000	812,596	AA/AAA ²
Total	\$373,721,000	\$47,329,020	

Table 5. *Current Debt Summary & 2008 Debt Service requirements, with the County's bond ratings for various types of municipal bond debt.*

¹ The three major bond rating agencies use different rating scales for lease revenue bonds. Fitch Ratings rates Salt Lake County lease revenue bonds AA, Moody's rates them Aa1, and Standard & Poor's rates them AA+.

² The underlying bond rating for Salt Lake County special assessment bonds is AA; however, when the County secured bond insurance for this type of bond, the rating is enhanced to an AAA rating.

Another significant measure of a government's management success is the level of Fund Balances, especially the General Fund, compared to minimum reserves established either by law or policy of the governing body. Again, Salt Lake County has maintained solid Fund Balance reserves:

2008 Projected Year-End Fund Balance Summary

Fund	Budgeted Ending Fund Balance	Projected Ending Fund Balance	Minimum Reserve
General Fund	\$24,307,842	\$32,209,056	\$22,467,317
Municipal Services Fund	10,396,318	13,160,506	4,033,762
Flood Control Fund	407,165	578,077	379,804
Tax Administration Fund	989,375	2,355,417	1,138,369
Library Fund	9,328,402	7,438,261	1,528,618
Health Fund	1,935,821	3,503,408	1,567,587
TRCC Fund	8,796,700	8,796,700	1,248,358
Planetarium Fund	1,620,898	1,836,250	358,920

Table 6. *2008 Budgeted and Projected Fund Balance Summary for selected funds, including minimum reserves.*

Multi-Year Revenue and Expense Projection

Each year, the Auditor’s Office prepares a multi-year projection of revenues, expenses and fund balance assuming no policy changes (such as property tax increases). Utah law does not allow property tax rates to increase for inflationary valuation increases of existing residential and commercial properties. As a result, our revenues grow more slowly than population-driven increases in demand and inflationary cost increases. This downward bias in our property tax collections causes diminishing, or even negative fund balances in later years. Obviously, the Mayor and Council will make the policy decisions to increase revenues and/or cut expenses to allow the County to maintain minimum fund balances and protect our top AAA bond rating.

The 2008 Budget year will present particular challenges to decision makers. While our local economy is performing well, and adapting to the slowdown in housing starts with new job creation in other sectors, we do not expect Utah to be immune to the impending national slowdown (or perhaps recession) in 2008. It is imperative that the County be quick to respond to changing economic conditions in 2008—requiring mid-year expense reductions and discipline in forming the 2009 Budget.

Due to troubles other Counties had in keeping appraised home values properly updated, many taxpayers were extremely upset with 2007 property tax increases. Members of the State Legislature are actively considering legislation to change current law regarding property tax assessment and rate increases. Many of the proposals could limit our ability to increase revenues to balance our budget in future years—another reason to respond quickly to unexpected economic downturns in 2008.

The following graph presents revenue and expense projections to 2010 for each of the County’s major funds. It illustrates that our **structural balance**, i.e., that revenues exceed expenditures, is negative in both the Municipal Services and Tax Administration Funds, and is only breaking even in the General Fund.

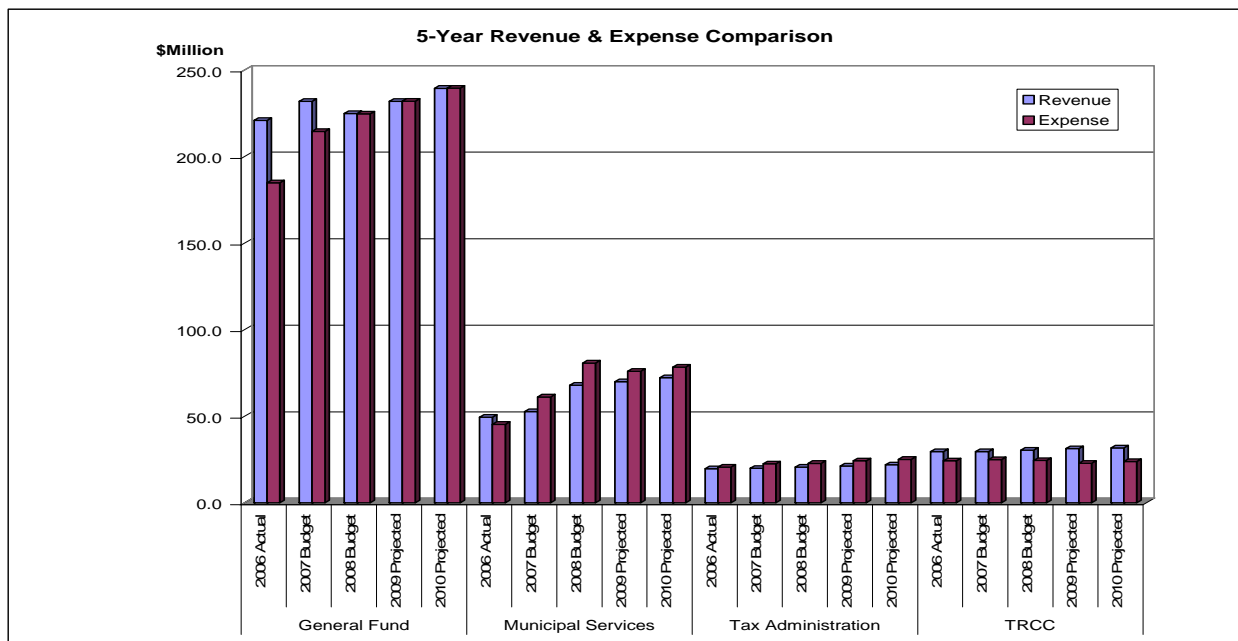


Figure 1. 2006-2010 Revenue and expenditure comparison for the General Fund, Municipal Services Fund, Tax Administration Fund, and Tourism, Recreation, Cultural & Convention (TRCC) Fund.

When anticipated fund balance transfers are included, we anticipate a declining General Fund balance due to the growing transfer to the Grant Programs Fund, which delivers many of our human services programs and requires County matching money to obtain the grant support. The next chart represents the relationship of the General Fund Balance to the legal minimum reserve requirement set by the State.

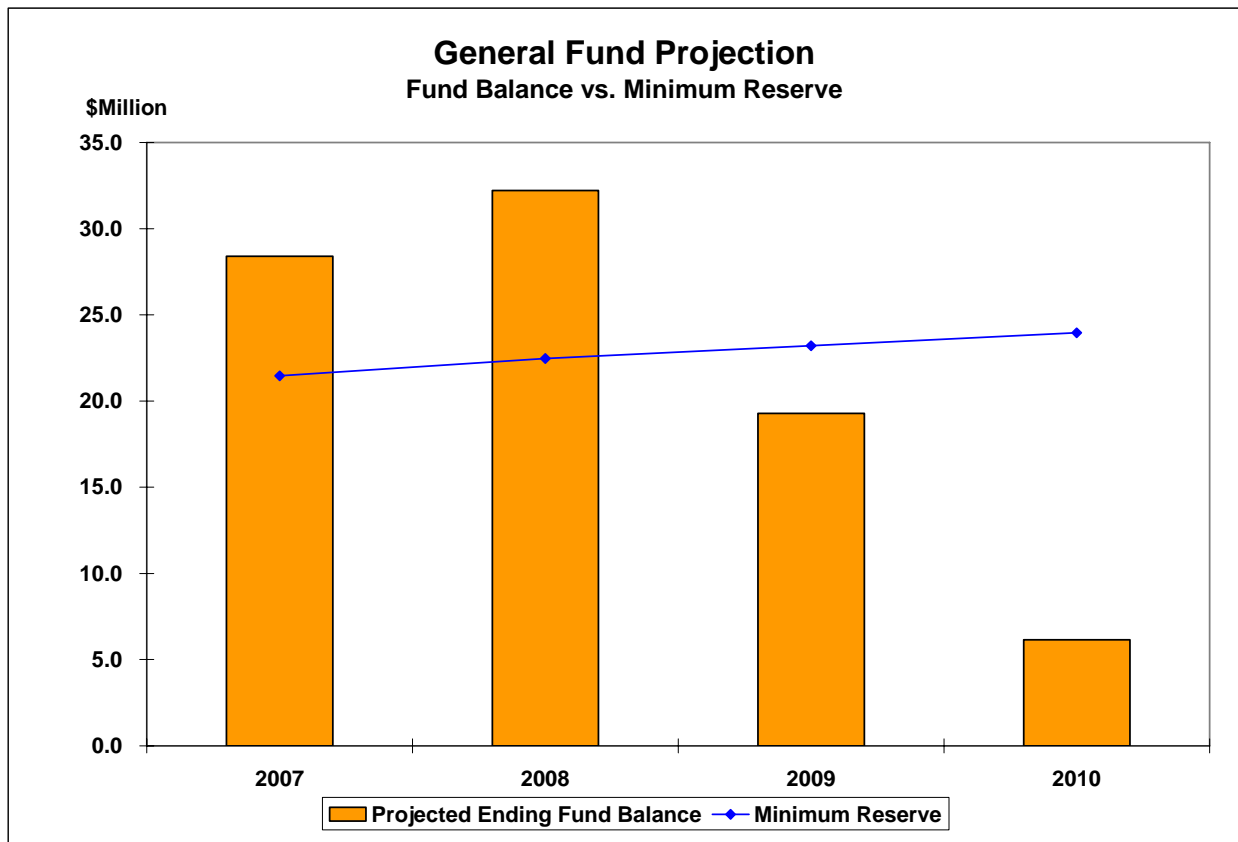


Figure 1. Multi-year projection of General Fund year-end fund balance compared to the required minimum fund balance to maintain the County’s AAA bond rating. Fund balances are projected to dip below the minimum reserve beginning in 2009 (before policy decisions are made by the Mayor and Council in finalizing the 2009 and subsequent budgets).

Summary

I know the emphasis of this budget message is that Salt Lake County needs to be watchful and cautious as we navigate the slowdown in our national and local economy. I don’t want to let this approach cloud your vision of Salt Lake County government, for it is becoming more effective in meeting citizen wants and needs and more efficient in using its resources, under the excellent leadership of Mayor Peter Corroon, the members of our Council, and the thousands of hard-working and innovative employees who serve our citizens. I am proud to be a part of this team, and am confident that the excellent financial position and fiscal management of Salt Lake County will meet the challenges of the next year or two. Please use the Auditor’s office as a resource for any questions you might have on the 2008 Budget or any other financial matter that concerns you. Thanks for your attention this evening.