
SALT LAKE CITY COUNCIL STAFF REPORT

DATE: February 7, 2003

SUBJECT: Fiscal Year 2002-2003 Revenue Shortfall

AFFECTED COUNCIL DISTRICTS: Citywide

STAFF REPORT BY: Michael Sears, Budget & Policy Analyst

**ADMINISTRATIVE DEPT.
AND CONTACT PERSON:** Management Services, Gordon Hoskins

KEY ELEMENTS:

During the November 21, 2002 Council work session the Council asked that the Administration to provide a list of recommended cuts in relation to revenue shortfalls and brief the Council in January after the Administration has the benefit of an additional quarter of revenue data. The Administration has compiled the 6 Month Interim Financial Statement and updated revenue data and has provided them for the Council's review.

As noted on the transmittal coversheet, if the City is successful in getting legislation passed relating to releasing of sales tax, the current revenue shortfall of approximately \$3.2 million would be reduced by \$2.4 million (\$1.8 million from previous years and \$600,000 from this fiscal year). To address the remaining deficit the Administration has enacted a capital expenditure freeze and provided for personal services savings. They have not provided a list of recommended cuts. If the City does not succeed in getting the legislation approved, the projected shortfall will remain at \$3.2 million.

The spreadsheet notes all of the revenue and expenditure adjustments that are affecting the current revenue shortfall and categorizes the amounts as one-time or on-going adjustments. The largest one-time revenue shortfall amount is sales tax that is being held in the UTA Light Rail Account. The largest on-going revenue shortfalls are general sales tax, sales tax in the UTA Light Rail Account and Motor Vehicle fees in lieu of tax.

The Council has not appropriated the one-time sales tax of \$1.8 million in the UTA Light Rail Account but has appropriated the \$600,000 in on-going UTA Light Rail Account sales tax. Because such a large amount of the current revenue shortfall is related to the UTA Light Rail Account, the outcome of the legislation is very significant factor relating to available options for offsetting the shortfall.

If the City is not successful in getting favorable legislation passed, the City will need to fund approximately \$1.4 million from general fund balance or reduce expenditures accordingly. The

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City may not know the outcome of the legislative efforts until the first week of March, which leaves about 4 months to reduce expenditures.

MATTERS AT ISSUE

➤ POLICY CONSIDERATIONS

The Council may wish to consider the timing of the revenue shortfall information and decide if using fund balance to cover the potential revenue shortfall is consistent with the Council's stated goal of having at least 10% of general fund revenue in the general fund balance. If the Council does not want to cover the potential shortfall that could result from unfavorable legislative action, the Council would need to identify programs and service expenditures that could be reduced. The informational spreadsheet from the Administration does not identify expenditure reductions in the event that the City is unsuccessful in receiving the sales tax in the UTA Light Rail Account.

If the Council did cover the revenue shortfall with general fund balance the resulting fund balance would be \$21,373,000 or 13% of general fund revenue. It is possible that during the remaining two budget openings there will be additional requests for funding from the general fund balance. Proposals such as funding quiet zones adjacent to rail tracks would be an example of potential expenditures from general fund balance, as would the hosting expenses for the National League of Cities Convention.

The Council has long had a practice of funding on-going expenses with on-going revenue, rather than with one-time revenue. Funding a projected deficit with one-time money (whether it is \$3.2 million or the lesser amount) would represent a significant policy shift.

So that the Council can make an informed decision about how to address the projected shortfall, the Council may wish to discuss with the Administration the anticipated specific budget amendment expenditures that will be proposed in the coming weeks. In addition, there are a number of long-term expenditures that would likely come from fund balance. Council staff does not yet have specific information, but based on experience these could include:

- Funding of retirements if necessary
- National League of Cities Convention final expenses
- Police overtime, given the kidnapping situation this fiscal year
- Fire overtime, given the policy change
- Expenses for watering City facilities if rate increase is implemented in June
- Quiet zone expenses

In addition, if the City moves ahead on the walkable communities ordinance and uses the design review approach, there would most likely be a start-up cost and consulting expenses.

➤ LEGISLATIVE INTENTS AND ACTION ITEMS

The Council has a legislative intent that relates to funding Governmental Reserves. As noted on the informational spreadsheet the Administration is proposing an additional \$200,000 transfer to the Governmental Immunity Fund. This item will be coming before the Council in a future budget opening. It was noted by Council Members in a recent discussion that it is important to

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maintain a healthy fund balance because the amount set aside to address governmental immunity is so limited.

- **Funding of Governmental Immunity Reserves** - It is the intent of the City Council to support the Administration's proposal to accumulate a reserve in the Governmental Immunity Fund equal to three times the rolling average claim payout.

The Council has a legislative intent that relates to the hosting of the National League of Cities Conference. As noted on the informational spreadsheet there is a shortfall of \$227,000 relating to the conference. This item will be coming before the Council in a future budget opening.

- **National League of Cities Conference** - It is the intent of the City Council that the Administration develops a budget and staffing plan to address the impact of the National League of Cities conference to be held in Salt Lake City. The plan should be presented to the Council no later than October 2, 2001 and include the City's host duties, anticipated staffing, benefits associated with hosting the conference, estimated expenses to be incurred by Salt Lake City, a proposal to fund the expenses, and a comparison of anticipated expenses in respect to anticipated revenues.

The Council has a legislative intent that relates to Severance Pay. A proposal has not come to the Council to set aside money for severance pay. If the council were to fund the revenue shortfall with general fund balance less money would be available to address unfunded compensated liability.

- **Funding of Compensation Liability** - It is the intent of the City Council that the Administration work with the Council to begin to accumulate a reserve in a separate fund or account to fund the City's accrued compensation liability for vacation and other payments that employees may receive upon retirement. Further, it is the Council's intent that the Administration provide estimates on the potential annual financial impact for the next ten or more years.

➤ ANALYSIS

The Administration has provided an informational spreadsheet that identifies the potential revenue shortfall and the revenue and expenditure adjustment amounts. The Administration has also provided the 6-month Interim Financial Statements ending December 31, 2002. The Council typically reviews the 6-month financial statements to determine if expenditure reductions are necessary.

The Administration has summarized the results of the first six months of fiscal year 2002-2003 and notes the following:

- Property Tax revenue is down \$752,000 because of motor vehicle taxes. This could be considered an on-going reduction to at least some extent because it relates to a clarification of the formula used to calculate the revenue. This number can, though, be impacted by the economy.

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- Sales Tax is down \$2,654,000. \$600,000 of this amount is on-going revenue and \$1.8 million is one-time revenue that the Council has appropriated to general fund balance.
- Franchise Tax is up by \$645,000. The increase is due to small increases to telecommunication and utility rates.
- Permit revenue is down \$242,000 because of the slowdown in construction activity.
- Interest revenue is down by \$497,000 due to less than anticipated available investment capital and low interest rates.
- Charges and Services revenue is up by \$459,000 because of Olympic reimbursements to the Police Department. This is one-time revenue.

Additional information is presented in the 6-Month Interim Financial Statements.

➤ BUDGET RELATED FACTS

If the City is successful in getting legislation passed that return the sales tax that is being held in the UTA Light Rail Account, the revenue shortfall of approximately \$800,000 can be made up with the capital expenditure freeze and personal services savings, etc. If the City is unsuccessful, the Council must decide whether to fund the revenue shortfall with general fund balance or reduce expenditures. It should be noted that the use of \$1.8 million of the \$2.4 million being held by the State of Utah would constitute the use of one-time money to cover on-going expenses.

If the Council chooses to reduce expenditures, any reduction will have a positive effect on the fiscal year 2003-2004 budget. If the general fund balance is used to cover the revenue shortfall, expenditure reductions will have to be made during the budget process to address anticipated revenue shortfalls in fiscal year 2003-2004.

cc: Rocky Fluhart, Cindy Gust-Jenson, David Nimkin, Steve Fawcett and Gordon Hoskins

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