

SALT LAKE CITY COUNCIL STAFF REPORT

BUDGET ANALYSIS – FISCAL YEAR 2005-06

DATE: May 4, 2005

SUBJECT: **MAJOR POLICY ISSUES**
MAYOR’S RECOMMENDED BUDGET

STAFF REPORT: Gary Mumford

cc: Rocky Fluhart, Sam Guevara, Steve Fawcett, Gordon Hoskins, Laurie
Donnell, Kay Christensen, Susi Kontgis, DJ Baxter, Jan Aramaki,
Sylvia Jones, Lehua Weaver, Jennifer Bruno, Cindy Gust-Jenson

On May 3, 2005, Mayor Anderson presented his recommended budget for fiscal year 2005-06. Council staff has prepared this listing of some of the significant changes contained in the Mayor’s Recommended Budget. **An overview staff report will be prepared for your Friday packet.** Council staff will provide a more comprehensive analysis of proposed department budgets prior to each briefing. The Council may wish to inform the Mayor of key concerns so that the Mayor may have the opportunity of providing alternative budget recommendations if he desires.

MAJOR POLICY ISSUES

1. Salt Palace Convention Center Expansion – The Mayor proposes to fund the City’s \$8 million Salt Palace obligation by bonding. Bond issue costs will be about \$135,800 (this is the cost for the Salt Palace portion of the bonds that the City is currently refinancing). Interest over the 20-year repayment period will be \$4.5 million. Annual debt service will be about \$600,000. The proposed bonding for the City’s share of the Salt Palace expansion is included in budget amendment #6 of the current year (FY04-05), which will be advanced to the City Council in May. The Mayor’s Recommended Budget for fiscal year 2005-06 includes first-year debt service costs of \$205,024 for interest only. If the Council elects not to bond, the \$205,024 would be available to allocate for on-going purposes. In order for the bond funds to be available by July 1st, the Council would need to adopt a parameters resolution on May 10th. The City Treasurer will need to know by May 5th whether to request bond counsel to prepare the parameters resolution. The City’s financial advisor will be present at your work session to respond to questions relating to bonding. Council Members may wish to discuss other options such as funding a portion of the \$8 million from one-time sources.
2. \$6.4 million of freed-up reserve funds – The City is in the process of refinancing its remaining Municipal Building Authority debt, which will result in annual savings of over \$100,000 per year over the next 16 years and will free up \$6.4 million of reserve funds. The Mayor is proposing that the \$6.4 million be transferred to the CIP fund balance. This \$6.4 million is a potential source of one-time funding for the Salt Palace, although a number of steps would need to be taken in order to make the funding available. This is outlined in more detail in a memo from the City’s bond advisors.

3. Property tax increase (\$1,409,000) – The Mayor’s Recommended Budget proposes a property tax increase of \$1,409,000 to fund 15 police officers and 2 police support positions. This tax will increase the annual property taxes for a \$150,000 home by \$9.45 and will increase property taxes for a \$1,000,000 business by \$114.61. While the property tax increase will pay for the 15 new police officer positions, only 12 police officer positions will be added because the Mayor’s Recommended Budget also eliminates 3 police officer positions. Council staff will provide more detail in the staff report on the police budget, which will be in your Friday packet.

4. Additional positions: The Mayor has recommended 16.5 new FTE positions (in addition to the 15 police officers and 2 support staff to be funded by a property tax increase). Costs include employee benefits. Council staff will provide more information regarding these proposed new employee positions in separate staff reports prior to departmental budget briefings.
 - City Attorney’s Office – 1 FTE – **Senior attorney** (\$118,667) 85% RDA
 - City Prosecutor’s Office – 2 FTEs – **Prosecutors** (\$120,000)
 - City Prosecutor’s Office – 1 FTE – **Clerical support** (\$40,000)
 - City Prosecutor’s Office – 1 FTE – **File Clerk** (\$38,700)
 - Community Development – 1 FTE – **City Planner** (\$60,504)
 - Community Development – 1 FTE – **Structural Engineer** (\$78,000)
 - Fire – 2 FTEs - **Dispatchers** (\$99,192)
 - Management Services – 1 FTE – **Revenue Auditor** (\$70,000)
 - Management Services – 1 FTE – **Cashier** (\$45,000)
 - Mayor’s Office – 1 FTE – **Economic Development Assistant** (\$55,000)
 - Mayor’s Office – 1 FTE – **Staff Assistant** (\$50,665)
 - Police – 1 FTE – **Crime lab field position** (\$46,000)
 - Police – 0.5 FTE – **Hourly retired officer** (\$14,000)
 - Police – 2 FTEs – **Records Clerks** (\$78,000)
 - Police – 15 FTEs – **Police officers** (\$1,313,000) property tax increase
 - Police – 2 FTEs – **Support staff** (\$96,000) property tax increase

5. Elimination of positions – The Mayor’s Recommended Budget proposes the elimination of 3 police officer positions, 4 vacant full-time positions in Public Services, 1.1 FTE seasonal workers in Public Services, and 8.74 maintenance workers at Franklin Covey Field that will be reassigned to existing vacant positions. Costs include employee benefits. Council staff will provide more information regarding these positions in separate staff reports prior to departmental budget briefings.
 - Police – 1 FTE – **Police officer**, financial crimes taskforce (\$54,000)
 - Police – 2 FTEs – **Police officers**, truck enforcement (\$108,000)
 - Public Services – 1 FTE – **Engineering pavement position** (\$64,465)
 - Public Services – 1 FTE – **Streets construction manager** (\$80,130)
 - Public Services – 1 FTE – **Parks equipment mechanic** (\$48,000)
 - Public Services – 1 FTE – **Plaza program supervisor** (\$57,000)
 - Public Services – 1.1 FTEs – **Seasonal workers central business dist** (\$18,300)
 - Public Services – 8.74 FTEs – **Baseball field maintenance workers** (\$510,500)

6. Economic Development (eliminate \$107,992 EDCU membership) – The Mayor recommends not participating in the Utah Economic Development Corporation of Utah (EDCU) for a savings of \$107,992. The EDCU assessment is based 50% on

population and 50% on certain revenues (sales tax, franchise & utility tax, licenses & permits, and other fees). Salt Lake City's FY04-05 contribution based on this formula was \$132,992, but last year the Mayor proposed reducing this assessment by \$25,000, which the Council adopted. If the Council wishes to restore the membership, the full assessment would be approximately \$135,000.

In lieu of participating in EDCU, the Mayor proposes adding one addition position in his office for economic development to help retain businesses at a cost of \$55,000 and support costs for the position of \$25,000. The Mayor also proposes appropriating \$60,000 for additional assistance during mall reconstruction (approximately three years). This would include the costs of contracting with a construction ombudsperson, a downtown access marketing campaign, promotional materials and business relocation assistance.

7. Utah League of Cities & Towns (eliminate \$100,000 membership fee) – The Mayor recommends not participating in the Utah League of Cities & Towns and proposes eliminating the current membership fee of \$100,000. Dues for 2005-2006 are projected to increase by \$5,000; if the Council wishes to restore this the total dollar amount would be \$105,000.
8. On-going funding of CIP at 6.55% of general fund revenue (\$10,764,056) – The Council adopted a policy that at least 9% of on-going General Fund revenue is to be allocated to the Capital Improvement Program Fund. The 9% calculation excludes property tax revenue for library, zoo, and aviary bond and excludes one-time revenue. The Council has for the past several years emphasized the need to put funding toward deferred maintenance, yet the general fund transfer to CIP as a percentage of the general fund budget has been declining. Last year the Mayor proposed a 7% transfer to CIP. The Mayor's Recommended Budget for fiscal year 2005-06 proposed a transfer \$10,764,056 to CIP, which is 6.55% of on-going general fund revenue.

General Fund Transfer to CIP General Fund	
	2005-06
General Fund revenue/sources	\$ 172,809,942
Less Library Bond	(6,912,319)
Less Zoo and Aviary Bond	(881,638)
Less One-time sources (fund balance)	(767,400)
General Fund revenue for percent calculation	164,248,585
9% of General Fund revenue	14,782,373
Mayor's recommended allocation	10,764,056
Amount needed to restore 9% funding	\$ 4,018,317
Amount needed to restore 7% funding	\$ 733,345

10. Use of fund balance (\$767,400) – The Mayor’s Recommended Budget proposes the appropriation of \$225,000 from fund balance to offset the decrease in sales tax revenue from downtown mall reconstruction. Since the mall reconstruction may take several years, this approach would require the use of fund balance for more than one year. The Mayor also proposes the use of \$175,000 for municipal elections (every other year), \$60,000 for economic development assistance during mall reconstruction, \$41,400 for fire equipment, \$20,000 for set up of additional staff in Attorney’s Office, \$15,000 for a copy machine in the Prosecutor’s Office, \$10,000 for SLCTV equipment, \$20,000 to reprogram the parking meters, \$154,000 for a northwest quadrant master plan, \$47,000 for a historic preservation survey and plan for South Temple & West Capitol Hill.

Fund Balance General Fund	
Fund balance – June 30, 2004	\$19,969,000
Less use of last year’s lapsed appropriations for one-time costs in fiscal year 2004-05	(673,000)
Less appropriation of fund balance by budget amendment	(417,000)
Less proposed use of fund balance in budget amendment #6	(371,000)
Less proposed use of fund balance in Mayor’s Recommended Budget for FY05-06	(767,000)
Fund balance – May 1, 2005 (10.3% of proposed general fund revenue of \$172,042,542)	\$17,741,000
Amount required by law (5% of general fund revenue)	8,602,000
Amount in excess of 5%	\$ 9,139,000
Minimum amount per Council policy (10% of general fund revenue)	17,204,000
Amount in excess of 10%	\$ 537,000

11. Parking meter rate increase (\$300,000 increase in revenue) – Parking meter rates are proposed to increase from 75 cents per hour to \$1 per hour, which is projected to increase revenue by \$300,000. The budget includes a one-time expense of \$20,000 to reprogram the parking meters. The previous policy of free holiday parking will be carried forward in this budget.
12. Proposed cost-of-living and step increases (\$2,954,145) – The Mayor’s Recommended Budget includes a citywide cost-of-living increase. Merit or step increases are also proposed for laborers (100 series), office/clerical (200 series), fire fighters, and police officers (except for those employees already at top step). The proposed cost-of-living and step increases are still the subject of ongoing negotiations. The Administration is available to discuss labor bargaining in executive sessions. Council staff will provide more detail in a staff report later in the Council’s budget review process.

13. Pioneer Park project (\$800,000) – The Mayor’s recommended CIP budget includes funding \$800,000 for improvements to Pioneer Park including restrooms, irrigation, paving, trees, basketball courts, volleyball courts, bocce courts, playground, wet playground, dog park fence, café, stage, site furnishings, lighting, signage, and historic preservation of monuments. These funds are in addition to a federal grant of \$500,000 that has been secured for improvements at Pioneer Park. The Council may wish to discuss this proposal during its CIP discussions.

13. Planning fee increase (\$70,000) – The Mayor recommends increasing the current planning fees to recover more of the City’s costs of providing development review services. The transmittal from the Planning Division states that the proposed fees are equal to or less than other jurisdictions. A complete list of fees and comparisons with West Valley, Salt Lake County, West Jordan, Draper City and Park City is included with the proposed ordinance (attached agenda item G-2.) Examples of fee increases are:
Conditional use – increase from “\$300 plus \$100 per acre in excess of 1 acre” to “\$600 plus \$100 per acre in excess of 1 acre.”
Subdivision – increase from “\$150 plus \$25 per lot” to “\$600 plus \$100 per lot.”
Zoning variance – increase from \$200 to \$300
Appeal of decision – increase from \$100 to \$200

14. Cemetery fee increase (\$82,000) – Cemetery fees are proposed to increase generating \$82,000 of additional revenue to help offset the costs of maintenance of the cemetery and providing cemetery services (attached agenda item G-1). The cost for a gravesite is proposed to increase from \$600 to \$650 for Salt Lake City residents and from \$700 to \$950 for non-Salt Lake City residents. The continuing-care fee is proposed to be increased from \$100 to \$650 beginning July 1, 2005 and will be increased to \$700 beginning July 1, 2006. The charge for opening a grave is proposed to be increased from \$400 to \$450 beginning July 1, 2005 and to \$500 on July 1, 2006. The cost for opening a grave for non-Salt Lake City residents will be increased from \$450 to \$660 beginning July 1, 2005 and will be increased to \$875 beginning July 1, 2006. The proposed ordinance changes the existing “double fee” for burial on a Sunday or holiday to an extra fee of \$240 on a Sunday or holiday. The Council may wish to discuss whether a Sunday extra fee could have the appearance of discriminating against particular religious groups.

15. Fleet Facility bonding (\$209,692 first-year debt service) – The Mayor’s Recommended Budget includes \$209,692 of debt service for fleet facility bonds. No other discussion is included in the budget book. The Council may wish to ask about the timing of the fleet facility project and discuss the proposed debt funding during the Council’s briefing on the Fleet Management Budget or the briefing on Public Services budget.

16. Citywide newsletter (\$60,000) – The proposed budget includes funding for distributing information to residents. Council staff understands that the funding is to place articles in existing periodicals that are distributed free to residents. Both the Administration and Council Members would have the opportunity to write articles or provide information. The Council may wish to ask the Mayor or chief of staff about the proposal. A concern could be that Council Members may not necessarily agree with or endorse all the information published by the Administration, nor would the Administration necessarily agree with or endorse materials published by Council Members.
17. Buses for YouthCity Program – The budget includes purchasing four mid-size buses for the YouthCity program. The Council may wish to discuss this request in connection with the budget briefing of the Fleet Management Fund or Public Services budget and consider this request in relation to the age and condition of the City's entire fleet and the impact of this proposal on the fleet replacement schedule. Further, some Council Members have previously expressed a preference that grants be obtained for youth programs.
18. No longer accept credit card payments for building permit fees – The budget adds \$20,000 to cover the cost of bank charge for accepting the increased volume of credit card payments. In order to keep banking costs low, the Administration proposes no longer accepting credit card payments for large payments. The Council may wish to discuss this at its briefing of the budget for the Department of Management Services.
19. Justice Court – The proposed budget doesn't include any additional employee positions for the Justice Court. A Council audit of the Justice Court should be completed prior to adoption of the budget. The Council may wish to take the audit recommendations into consideration in the fiscal year 2005-06 budget. If the audit recommends additional court staff or other costs, the Council may wish to reserve some ongoing revenues until the audit recommendations can be thoroughly considered. Reserving ongoing revenue will require identifying offsetting reductions to the general fund budget.

DANIEL A. MULE'
CITY TREASURER

SALT LAKE CITY CORPORATION
DEPARTMENT OF MANAGEMENT SERVICES
TREASURER

ROSS C. "ROCKY" ANDERSON
MAYOR

TO: Rocky J. Fluhart, Chief Administrative Officer *RF*

FROM: Daniel A. Mulé, City Treasurer *DAM*

DATE: May 3, 2005

SUBJECT: MBA Reserve Fund Proceeds

Attached is a memo from Richard Scott, bond counsel for the Municipal Building Authority (MBA) and Sales Tax debt issues. This memo outlines the options for spending approximately \$6.4 million of Municipal Building Authority reserve funds that will become available as a result of refunding all remaining MBA debt as sales tax debt.

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MEMORANDUM

May 3, 2005

To: Salt Lake City Corporation

FROM: Chapman and Cutler LLP

RE: Summary of Provisions Relating to the Use of
Municipal Building Authority Reserve Fund Moneys

Salt Lake City, Utah (the "City"), is currently in the process of issuing a series of its Sales Tax Revenue Bonds (the "Sales Tax Revenue Bonds"). Proceeds from the Sales Tax Revenue Bonds will be used to retire or defease¹, in their entirety, all of the outstanding lease revenue bonds² (collectively, the "Lease Revenue Bonds") issued by the Municipal Building Authority of Salt Lake City, Salt Lake County, Utah (the "Authority").

At the time the Lease Revenue Bonds were issued, a portion of the proceeds from the sale of the Lease Revenue Bonds was deposited into a reserve fund in order to provide security for the payment of the Lease Revenue Bonds. It is our understanding that there is currently approximately \$6.4 million on deposit in the reserve fund for the Lease Revenue Bonds (the "Reserve Fund Moneys"). In connection with the refunding of all of the outstanding Lease Revenue Bonds, the Reserve Fund Moneys are no longer required in the reserve fund and the City Council may authorize the Reserve Fund Moneys to be used (1) to pay the cost of capital projects that would qualify for tax-exempt financing under federal tax law, or (2) as a part of the refunding by depositing the Reserve Fund Moneys into the escrow refunding.³

STATE LAW LIMITATION

If the Reserve Fund Moneys are returned to the Authority, the Authority can make a contribution of the Reserve Fund Moneys to the City.⁴ Pursuant to Section 11-27-3(3) of the Utah Code Annotated 1953, as amended (the "Utah Code"), the City may apply the Reserve Fund Moneys "to the redemption of the [Lease Revenue Bonds], or otherwise, as the governing

¹ A "defeasance" is accomplished when sufficient moneys have been deposited with the trustee for the Lease Revenue Bonds to provide for their payment in full on and prior to their redemption.

² The Authority's currently outstanding lease revenue bonds consist of (i) \$10,795,000 aggregate principal amount of the Lease Revenue Bonds (Municipal Improvements and Refunding Project), Series 1999A, (ii) \$24,935,000 aggregate principal amount of the Lease Revenue Bonds, Series 1999B, and (iii) \$11,395,000 aggregate principal amount of the Lease Revenue Bonds (Municipal Improvements Project), Series 2001.

³ Certain other uses, such as payment of interest on the Sales Tax Revenue Bonds, may be permitted under certain circumstances that are beyond the scope of this memorandum.

⁴ See Section 16-6a-302 of the Utah Code.

body [of the City] may determine.” As long as such uses are lawful purposes under state law and certain federal tax law limitations are complied with, the Reserve Fund Moneys could be used to fund the City’s portion of the Salt Palace Expansion, to fund various capital improvements of the City, or as a part of the refunding of the Lease Revenue Bonds.

FEDERAL LAW LIMITATIONS

Since the Reserve Fund Moneys originated from tax-exempt bonds, they are subject to certain federal tax law limitations. In general, federal tax law allows the Reserve Fund Moneys to be used (i) to pay debt service on the Lease Revenue Bonds or (ii) to pay the costs of any capital project that qualifies for tax-exempt financing (a “*Qualified Capital Project*”). Additionally, until the Reserve Fund Moneys are deemed spent under federal tax law, the yield on the investment of the Reserve Fund Moneys will be restricted (*i.e.*, those amounts may not be invested at a yield higher than the yield on the related bond issue) and certain other limitations may apply.

If the City wants to use the Reserve Fund Moneys to finance any capital projects (including the purchase of land for a new soccer stadium), it will be necessary to do an analysis of the proposed capital project to determine whether it would qualify for tax-exempt financing. In particular, it would be necessary to determine whether there would be any problems under the “private activity bond” rules. Specifically, if land were purchased for a new soccer stadium, we assume that there would be “private use” of the facilities by the soccer team. If the City also received “private payments” with respect to the stadium of any significant amounts in violation of the applicable federal tax law, Reserve Fund Moneys could not be used to pay the costs of the land for the stadium.

ELIMINATING LIMITATIONS BY FREEING CITY MONEYS

As is indicated above, the Reserve Fund Moneys can be used to pay the costs of any lawful Qualified Capital Project. To the extent that the City has budgeted funds to pay, on a pay-as-you-go basis, any Qualified Capital Projects (the “*Budgeted Moneys*”), the City could pay for such Qualified Capital Projects with the Reserve Fund Moneys. The Budgeted Moneys would then be available to the City for use in accordance with state law. Since the Budgeted Moneys are not considered bond proceeds, the Budgeted Moneys would not be subject to the federal tax limitations discussed above.

CONCLUSION

The Reserve Fund Moneys are considered bond proceeds under federal tax law and should be used either (i) to pay debt service on the Lease Revenue Bonds or (ii) to pay the costs of one or more lawful Qualified Capital Projects. To the extent that the use of the Reserve Fund Moneys can be used to “free-up” Budgeted Moneys, the use of such Budgeted Moneys would not be subject to the federal tax limitations applicable to the Reserve Fund Moneys.