

## SALT LAKE CITY COUNCIL STAFF REPORT

### BUDGET ANALYSIS – FISCAL YEAR 2007-08

**DATE:** May 18, 2007

**SUBJECT:** **REVENUE ANALYSIS**

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The Mayor's Recommended Budget contains \$196,904,861 of on-going general fund revenue and \$4,786,000 of one-time sources. The proposed budget represents a 7.7% increase over the fiscal year 2006-07 adopted budget.

Council staff reviewed current-year actual revenue receipts for July 2006 through April 2007 and projected the remaining revenue that could be expected based on year-to-date actual receipts. The estimated revenue for each line item was compared to the Administration's forecasted revenue in the proposed budget. The Administration begins the revenue forecast process in January and February and adjusts this forecast for major items in March. Council staff has the advantage of looking at two more months of recent actual receipts in making an independent analysis of forecasted revenue.

Property tax: The Mayor's Recommended Budget does not contain a request for a property tax increase. The proposed budget for real and personal property taxes consists of the same dollar amount of revenue as the current fiscal year (2006-07). Without adopting a tax increase, Salt Lake City is limited to the certified tax rate plus new growth. However in some years, the City receives no additional property taxes for growth even though there was new development. Part of the reason the City doesn't always benefit from economic growth is that the formula nets growth with personal property depreciation (i.e. computers, copiers, fax machines, other business equipment). Since the City can't count on additional property taxes relating to growth, the Mayor's Recommended Budget doesn't include any forecasted revenue for growth. Last year, the County's property tax numbers for Salt Lake City included \$612,682 of additional property taxes relating to growth, but the year before the City received no new growth. The County should provide cities with the property tax revenue amount by the end of the second week in June. The Council may wish to identify some uses of additional property tax revenue in case the revenue numbers from the County reflect new growth.

Although, the certified rate is intended to provide the same amount of revenue as the previous year, actual revenue can vary depending on the delinquency rate, payments of prior delinquencies, uniform vehicle fees (which are not part of the certified rate calculations), and Tax Commission or court decisions that reduce certain tax payers' tax base. This year, the Mayor's Recommended Budget does not propose a judgment levy relating to possible Commission or court reductions.

Sales tax: Based on current sales tax receipts, Council staff is projecting about \$48.5 million in sales tax revenue. The Mayor's Recommended Budget forecasts \$52.8 million, which is about 9% increase over Council staff's projections for the current year. During the past year sales tax revenue increased more than 13%. Therefore, the Administration forecast may be justified.

Franchise tax: Based on current revenue from franchise taxes, Council staff projects \$24.3 million of revenue for the current year. The Mayor's Recommended Budget forecasts \$25.2 million, which is an increase of 3.7%. The Administration's forecast for franchise revenue from Questar is less than Council staff's projections for the current year probably primarily because of a rate reduction during the year. Revenue from Rocky Mountain Power is showing a positive trend of 4.3%. Cable TV franchise revenue is showing a positive trend. The Administration increased the cable TV franchise revenue forecast for fiscal year 2007-08 by \$100,000. However, Council staff's projection for the current year relating to cable TV revenue is another \$100,000 greater than the Administration's budgeted forecast. The Council may wish to increase the budget by \$100,000 relating to this trend.

Business licenses – The Administration's forecast for business license revenue is about the same as Council staff's projections for the current year. The proposed budget for innkeepers tax is 2.7% greater than Council staff's projection of current year revenue.

Building permits: The Mayor's Recommended Budget for building permits fees of \$11,910,000 is greater than Council staff's current-year forecast by \$3,160,000. The Administration is projecting that \$3,866,000 will relate to the City Creek project. Part of this (\$1,866,000) is being treated as one-time money.

Class C road funds: Consumers pay a state road tax of 24.5 cents per gallon of gasoline. Salt Lake City receives an allocation of this state-wide tax based on population and road miles. The allocation for the last ten months was \$4,813,000. At this rate, Council staff projects annual receipts of approximately \$5,800,000 for fiscal year 2006-07. The City splits the Class C road fund 50% to CIP for major street reconstruction/overlay, and 50% to the general fund or street repair/maintenance. The Engineering Division estimated \$2.9 million for the CIP portion of Class C road funds for fiscal year 2007-08. The Administration forecasted \$3,000,000 for the general fund portion, which represents some growth. Whether growth will occur is difficult to predict. If people drive less because of the increased price of gasoline, the growth in this tax may not occur.

Cemetery fees: The Administration's forecast for cemetery fees is \$75,000 less than Council staff's projection for the current year. According to the Department of Public Services, this is primarily due to the one-time sale of some additional plots that were developed in the cemetery.

Paramedic fees: The proposed budget for fiscal year 2007-08 separates part of this revenue into a separate category relating to reimbursement for ambulance dispatching. This is still under negotiations, but the Fire Department believes that the total revenue from the ambulance company should not decrease. The Administration's forecast for revenue from the ambulance company is \$180,000

less than Council staff's current-year revenue projection. The Council may wish to increase the budget by \$180,000.

Parking meter revenue: The Administration's forecast for parking meter revenue is about \$100,000 greater than Council staff's projections for the current year. However, the Administration's forecast for the bagging of parking meters is \$200,000 less than Council staff's current year revenue projection. This is probably due to recent bagging of parking meters due to downtown redevelopment and Trax extension. The decrease in coin collection is probably the result of additional bagging of meters. The Council may wish to recognize some additional revenue from bagging of parking meters but probably should consider it a one-time source relating to the downtown redevelopment.

Fines and forfeitures: The Administration's forecast for court fines and forfeitures is about the same as Council staff's projections for the current year.

Interest revenue: Council staff projects interest revenue for the current fiscal year to be about \$4,500,000. The Mayor's Recommended Budget includes \$5,300,000 of interest revenue, which is \$800,000 greater than the current year (an increase of 19%). Some growth in interest revenue is likely as older investments mature and are reinvested at higher rates. However, the interest revenue in the proposed budget is perhaps over stated.

Administrative fees and reimbursements from other City funds: The General Fund provides services to enterprise and internal service funds for services provided by the general fund such as accounting, payroll, purchasing, human resource management, legal, cash management, Mayor, and City Council. The Fire Department provides services to the Airport on a reimbursement basis. The Department of Public Services also provides some services to enterprise funds on a reimbursement basis. The Administration's forecast for these reimbursements for fiscal year 2007-08 is about \$1 million greater than Council staff's projections for the current year. Some of this relates to airport fire reimbursement, reimbursement from the airport for an additional attorney, and increases in projected administrative fees. The Administration probably has a better handle on forecasting this revenue than Council staff.

Transfers from other funds: This revenue category includes the transfer of E911 fees from a separate "special revenue fund." The E911 funds are restricted to reimburse the City for the cost of answering emergency calls and related equipment. The increase in forecasted revenue relates to increased salary and benefit costs of call-taker positions in the dispatch office. The proposed budget for transfers from other funds also includes \$254,000 for a partial year funding for the Unity Center, which is scheduled to open at the end of the calendar year 2007. This transfer is from New Market Tax Credits that were not utilized during construction. Excess New Market Tax Credits are likely sufficient to subsidize Unity Center operations for a couple of years.

**Conclusion** – The Council could adjust some proposed revenue budgets, but the increases approximately equal the decreases for zero net change. Therefore, the Council may wish to forego any adjustments to the proposed revenue budgets

unless the County's property tax numbers show additional revenue due to new growth. The property tax numbers won't be available until about three weeks.