THE BUDGET PROCESS

THE COUNCIL OFFICE BUDGET REVIEW PROCESS

After receiving the Mayor's Recommended Budget, Council staff prepares reports according to the various City Departments and funds, with a focus on priorities which the Council set throughout the year. At the conclusion of each department or issue review, the Council Chair may conduct a nonbinding straw poll on funding alternatives and Council requests for information.

Based on the results of the Council straw polls and Council guidance, Council staff may prepare a list of potential budget reductions, additions and revenue enhancements. Almost anything from any department may appear on a proposed cut list: positions, previously rejected recommended cuts, employee benefits, or entire programs. It has been the Council's policy to avoid using one-time revenue to fund any ongoing needs.

A public hearing on the Mayor's Recommended Budget is held the third Tuesday in May and is generally continued to at least one other hearing night. The Council considers public opinion expressed at the hearing and open comment periods when making final budgetary decisions.

Council staff prepares a newly balanced budget to reflect changes requested by the Council. Council staff utilizes straw polls as a basis for any alternative budget scenarios. The Council adopts the budget, sets the tax rate for the City and a separate tax rate for the Salt Lake City Library.

By state statute, the City's budget must be adopted by the City Council no later than June 22 of each year. In the case of a property tax increase, the Council must hold and vote on a truth in taxation hearing, no later than August 17 of each year. State statute allows the Mayor to veto any appropriation or any tax levy. If the Mayor does veto the Council's adopted budget or any portion of the adopted budget, that action must occur within 15 calendar days after his/her receipt of the Council's adopted budget documents (ordinances and related items). If the Mayor does not either specifically approve or disapprove the Council's adopted budget, it then becomes law.[1]

[1] Refer to Appendix D: SLC Council Office Budget fiscal year 2015-2016; SLC Budget Sources of Income fiscal year 2015-16

TYPES OF FUNDS

There are several types of funds within the City for which the Council has appropriation authority and which the Council reviews in detail during the budget process.

General Fund

The General Fund accounts for resources traditionally associated with local governments, including the general operating functions of City departments. General Fund revenues are normally generated by property taxes; sales taxes; franchise taxes; licenses and permits; and fines and forfeitures. Those revenues fund services, such as fire, police, streets, and parks. The City's largest expenditure category is salaries and wages for the City's employees. Each year, the Council dedicates a portion of General Fund revenue to the City's Capital Improvement Program (CIP). Any funds not spent during a given year fall to fund balance (similar to a savings account) on June 30th of that fiscal year. Fund balance should be maintained at or above 10 percent of General Fund revenue in order to help preserve the City's favorable bond rating.

Capital Improvement Program Fund

The Capital Improvement Program (CIP) funds current debt service (payments on bonds), needed infrastructure, park development, trail development, road repair, building construction or rehabilitation, and other related items. Funding is received from a variety of sources. Each project in the CIP has its own dedicated budget. The Mayor and City Council have agreed that any time a project budget is projected to change; the change will be brought to the Council for review unless the project is under construction. If the project is under construction, the Council will be notified if the amount of an overrun is more than a certain percentage of the project budget. Any unspent funds in CIP project budgets do not fall to fund balance at the end of the fiscal year, as some projects require multiple years to complete.

Special Revenue Funds

Special Revenue Funds account for certain property taxes, grant funds, and other special revenues legally restricted for specific purposes. These funds include: 1) Central Business Economic District 2) Community Development Operating Fund; 3) Grants Operating Fund, ESG, HOME, HOPWA, Small Business Revolving Loan Fund, Housing Trust Fund, RDA Housing Trust Fund, and other grant monies most of which are added during the year by budget amendment; 4) Private Street Lighting accounts; 5) E-911 Dispatch Fund; 6) Housing Trust Funds, rehabilitation and first- time homebuyers; 7) Other Revenue Fund (weed abatement and demolition); and donation fund.

Enterprise Funds

Enterprise Funds account for operations financed and operated in a manner similar to private business; that is, the costs of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Enterprise funds are kept entirely separate from the general fund. Funds from these enterprise accounts cannot be used to pay for any general fund service. Current enterprise funds include: Water Utility Fund; Sewer Utility Fund; Airport Fund; Golf Fund; Refuse Fund, the Street Lighting Fund, and the Storm Water Utility Fund.

Internal Service Funds

Internal Service Funds finance services provided by one department or agency to other departments or agencies of the City. Internal Service funds include: 1) Fleet Management Fund; 2) Information Management Services Fund; 3) Insurance and Risk Management Fund; and 4) Governmental Immunity Fund.

Debt Service Funds

Debt Service Funds account for bond proceeds and expenses associated with servicing the debt repayments. The City’s debt policy goal is to maintain the City’s Aaa/AAA general obligation bond rating as rated by Moody’s and Fitch respectively. The City limits debt to projects that cannot be reasonably funded in a single year, and to terms that are consistent with the useful life of the project being undertaken.

BUDGET ADMINISTRATION

Budget Amendments

The budget process allows for amendments throughout the fiscal year. Budget amendments occur for specific types of changes to a Department’s budget – for example, if a requested amendment will increase the budget of a fund or department, shift budgeted amounts between funds or departments, add or eliminate Full-Time Equivalent (FTE) positions on the staffing documents, or create a Capital Improvement Project budget. Each Budget amendment transmittal may include up to 20 or more separate items.

For each proposed amendment, the Mayor’s Budget Director works with Department representatives to prepare a written report which explains all increases and/or decreases of revenue or expenditures. In addition, the Budget Director makes an oral presentation, if necessary, to the Council responding to issues raised in the Council's Budget Staff Report at a Work Session meeting. These briefings give the Council an opportunity to ask questions and gain further clarification before they vote.

The Council holds a public hearing on each budget amendment at least seven days after a published notice is printed. After hearing public comment on requested changes, the Council amends the budget or rejects the request by majority vote of Council Members present.

Budget Control

The expenditure of appropriated budgets is controlled at the appropriation, division, and major expenditure levels--personnel services, operating and maintenance, charges for services and capital outlay--in order to prevent over-expending. An expenditure request made on a category which does not have enough remaining budget will be rejected by the computer system and the department will be notified of the deficiency. The department may request a budget revision internally if funds are available within that department, and may shift funds to correct the deficiency, within City policy guidelines, with approval from the department director.

BONDED INDEBTEDNESS

Debt Administration

Utah municipalities are allowed to incur general obligation debt to a ceiling of eight percent of the value of taxable property. Like all municipalities in Utah, state law allows Salt Lake City four percent of the fair market value of property to be used for general purposes. In addition, municipalities can issue water, sewer, and lighting general obligation bonds for an additional four percent of the value of taxable property located within the City's boundaries.

Every year in July the City issues Tax and Revenue Anticipation Notes (TRANs) to assist with cash flow needs of the General Fund. Property taxes, one of the City's major sources of revenue, are primarily received in December. The City normally borrows funds for General Fund operations in anticipation of receiving the property taxes. The federal government restricts the amount of borrowing (at the lower tax- exempt rates) to actual needs as determined by a formula. The City generally borrows close to the maximum allowed because of the advantage of earning greater interest revenue than the interest expense and other costs associated with issuing the notes. The notes are issued and funds are borrowed for a one-year period. (A briefing on the Tax and Revenue Anticipation Notes is included in May and June along with the other annual budget briefings.)

The following is a reprint of an article published in the Utah League of Cities and Towns newsletter, an edited version of Public Debt Guide by Boettcher and Company, which summarizes basic financing options available for capital improvements. ("Close-up: A Look at the Municipal Bonding Process").

Local governments have two options for financing needed expenditures -- current revenues and borrowing. The method, or combination of methods, in your best interest can be determined by considering:

- *purpose, timing, and expected benefits;*
- *your financial condition;*
- *population trends and revenue expectations;*
- *your current political environment and its related legal constrains and options*

There are no quick and easy answers. A number of issues should be carefully examined and weighed before deciding whether or not to use debt financing.

Capital Improvements vs. Operating Expenditure

Expenditures fall into two categories: capital and operating. Capital expenditures are made to acquire or improve equipment and facilities which provide services to citizens over several years. In contrast, operating expenditures result from the purchase of goods and/or services needed in the current fiscal year.

Municipalities are prohibited from using long-term debt to finance current operating expenses. You do have, however, authority to issue long-term debt to finance capital improvements--particularly for projects which require a large, immediate investment and whose benefits are expected to be realized over several years.

Deciding whether capital improvements should be funded with current revenues or through long-term debt depends on your answers to such questions as, "Who should pay and when?" and, "Is a pay-as-you-go or pay-as-you-use a preferable approach?"

Some argue debt should be avoided, that projects should be funded from current revenues, and that a city or town should save for capital improvement projects requiring more money than can be provided in any one year.

Likewise, others argue that new facilities should be paid for by those who realize the benefit and that those payments should be made when benefits are realized. A look at the arguments is helpful.

Pay-As-You-Go

Since interest on long-term bonds can often total as much or more than the principal over the life of the bonds, interest costs can be saved by using a pay-as-you-go approach.

Discipline is encouraged. Projects will be more carefully screened and prioritized.

Set aside funds earn interest, thus helping to finance the project and to lower the final burden on the taxpayer.

Better long range planning is fostered, encouraging the development of a superior capital improvement plan, which is essential to the financial strength and credit worthiness of any government.

Pay-As-You-Use

Those who use, pay. Those who don't use, don't pay. Also, a service is not being paid for until it is rendered and the benefit is received.

Fee increases are minimized by spreading the charge out over an anticipated interval.

In a time of inflation, both principal and interest costs are paid from inflated dollars coming from a larger stream of revenues in future years.

The cost of many capital improvements is really an investment in the municipality's future well-being. The financing costs should be paid from the future stream of benefits.

In many cases, municipalities can choose a combination of debt financing and the use of current revenues. For larger capital projects and improvements, however, the benefits of debt financing usually outweigh the disadvantages and the majority of local governments currently finance larger capital improvement projects through long-term bonds.

Steps in Issuing Municipal Debt

Because of its complexity and specialization, participation in the municipal bond market requires a great deal of knowledge and experience. Both large frequent borrowers and small infrequent issuers of bonds require the assistance of public finance professionals.

Four key professional services are required by the issuers of municipal bonds:

1. ***Bond Underwriter and Financial Advisor**. The most important professional with whom a prospective issuer should consult is a bond underwriter and, in some cases, a financial advisor. Their functions are to provide the technical competence and financial expertise to bring an issue to market and to deliver proceeds of the bonds to the issuer.*

A wide range of services are available, depending on the needs of the bonds being issued. The most critical are insisting on the development of a bond issue design strategy, securing other essential professional services and successfully selling the bonds.

Entities may contract with an underwriter to provide all necessary technical services and then negotiate a private sale. Underwriters offer advisory services without charge for the exclusive right to underwrite the bonds on a negotiated basis. Remuneration comes from buying the bonds for a set purchase price and selling them at a different rate to investors.

In the case where only an underwriter is used, the underwriter acts as a "project leader," ensuring that all necessary steps are taken in the bonding process. There is no additional fee for this service.

The competitive nature of the bonding market generally assures that rates obtained by the underwriter are the best possible. If an issue is controversial, if a "second opinion" is desired, or if an agency is not yet sure of the financing which would be best, a financial advisor is brought in.

Some communities contract with a financial advisor and opt to offer the bonds at public sale. The advisor charges a fee for such services. When a financial advisor is used in addition to an underwriter, the financial advisor becomes the project leader and the underwriter simply underwrites the bonds.

Bond underwriting and financial advisory services are available from both regional and national investment banking firms and from some local commercial banks.

***2. Bond Counsel.** The bond counsel protects bond buyers by ensuring the legality of the issue. He/she makes sure that all steps are followed properly and that all legal concerns are addressed. In the event the issue is challenged, he/she also provides a defense.*

The bond counsel must have the confidence of the investment community in order for the bonds to sell well. If an issue is large enough that the bonds are to be marketed nationally, it is important to obtain recognized counsel.

Bond counsel performs two major functions in the preparation of an issue. First, he/she certifies that the interest earned on the bonds by the investors is exempt from federal income taxation. Second, he/she assures the bonds have been issued in conformance with applicable federal, state, and local laws.

Bond counsel is compensated according to the complexity of the issue. General obligation bonds usually do not require as many legal services as revenue bonds or lease purchase agreements. The bond counsel's responsibilities and fees increase with the size of the issue. Some attorneys set their fees as a percentage of bond proceeds, while others charge either a flat fee or for time expended.

3. Consulting Engineer. *The participation of a consulting engineer is required for the issuance of most revenue bonds for construction projects. Communities are only able to sell their bonds if investors are convinced the proposed economic stability is the primary function of the consulting engineer.*

The consulting engineer first makes a feasibility study (often in conjunction with an accounting firm) which contains estimates of construction costs, future operating costs and revenues. The results are used by public officials to decide whether or not to proceed. The engineering consultant is also responsible for engineering design, coordinating construction and providing advice when special problems arise.

Selection of the consulting engineer should be based on the engineer's performance record and professional qualification. Unlike the bond counsel and financial advisor, the engineer is compensated according to the scope and complexity of the project.

Note: Salt Lake City uses a competitive bid process to award the contract for consulting engineers on a project-by-project basis.

4. The Trustee and/or Paying Agent. *The paying agent role is vital to the administration of the bonds after sale. All new municipal issues are required to be registered. Accordingly, paying agents have the responsibility of maintaining detailed records of bond ownership and making necessary changes when bonds are transferred. The paying agent pays interest on bonds and redeems bonds at maturity, keeps records of paid coupons and bonds, safeguards duplicated bonds, and replaces lost or destroyed original bonds.*

The trustee reviews all related documents to make sure the flow of funds is proper and that certain default provisions are in place to protect the lien position of the bond holders. He/she establishes and maintains funds necessary for disbursement in accordance with the indenture, maintains security interests, and monitors the investments. He/she also annually reviews the issuer's financial statement and provides for an annual review of each account.

For the convenience of investors, the best choice for a trustee and/ or paying agent is usually a bank located in a recognized financial center. Fees are based upon the type, size, and maturity of the issue and the number of interest payments required.