



Municipal Fiscal Conditions 2007

Survey of Utah municipal budget officers
February 2007

Cities throughout Utah provide important services adding to the quality of life of Utahns. Yet, cities have a limited set of resources available to provide these services. To assess the statewide municipal budget process the Utah League of Cities and Towns (ULCT) recently conducted a survey of municipal finance officers statewide.

This report reviews responses of budget officers from over 80 Utah cities and towns.¹ Overall, the analysis concludes the health of Utah’s communities is largely well. This health has been bolstered by the significantly strong economy in Utah the last few years. However, a closer evaluation reveals areas of concern from some cities and towns. The survey addresses:

- Cities’ ability to meet financial needs in current year versus previous year
- Factors impacting the city budget
- Budget pressures or strategies resulting from these contributing factors

The impetus for this survey is to better understand the fiscal pressures that many Utah cities face. The survey focuses on questions related to the budget process and potential variables that either directly or indirectly impact city revenue and expenses. This inaugural survey was administered to 163 cities and towns, with 82 cities responding, providing a 50% response rate.

Budget Strength and Revenue

On the whole the municipal sentiment statewide is optimistic regarding individual city budgets. The incredibly strong statewide economy has lead to increased stability and lessened some budget concerns.

Overall is your city better or less able to meet Fiscal needs in 2006 than previous year?	
Better Able	72%
Less Able	28%

The majority of responding city and towns felt that they were better able to meet their financial needs in FY2006 than the previous year. Specifically, seventy-two percent of cities reported they were better able to meet

¹ See Appendix 2 for full list of participating cities.

Executive summary of ULCT Fiscal Conditions Survey.

- Survey conducted fall of 2006
- 82 cities responded— ranging in population size from 117 (Antimony) to 113,459 (Provo)
- Survey identified factors influencing municipal budgets

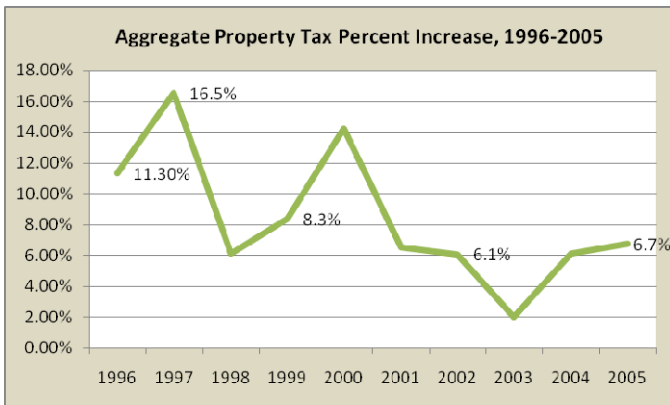
their financial needs in 2006 than the previous year. This number is slightly higher than the 65% of cities nationwide that believed they were better able to meet financial needs in 2006.² Overall six of ten cities stated that 2006 brought an increase to the value of the city tax base.

The survey also asks budget officers to predict their ability to meet financial needs in 2007. Here the numbers are slightly less optimistic. Three in five (63%) cities predicted their city finances will be better off overall in 2007. This less optimistic perspective could be caused by a number of reasons, ranging from decreased revenue to increased service costs. The complete picture is probably a little of both.

Cities did report some revenue shortfalls in 2006 from 2005. Specifically 42% of cities reported transportation revenue through the B & C road funds to be lower than the budgeted expected revenue. In addition, 29% of cities reported a property tax revenue shortfall from the expected amount. This seems counter-intuitive to the rising residential home values statewide. However, it illustrates that the two are not directly correlated. Property values may increase without cities generating more property tax revenue. In 2005 property tax revenue increased aggregately by

² Pagano, Michael, and Christopher Hoene. 2006. "City Fiscal Conditions." National League of Cities: Washington, D.C.

6.7% statewide.³ This aggregate property tax increase has consistently declined across Utah throughout the last decade. For example from 1996 to 1997 aggregate property tax for municipalities increased by 16.5%, nearly 10% more than the most recent numbers. The reliance on other tax revenue sources and the effect of truth and taxation legislation are likely causing this decline in average annual increase. 2006 budget number could possibly indicate a higher percent increase, since around a dozen communities raised property tax rates for the first time in years.



Fiscal pressures impacting Municipal budget

While overall the health of Utah’s municipal government is stable there are some looming fiscal challenges facing cities. The survey presented a list of potential issues that can affect an individual city budget (variables ranged from federal aid to infrastructure need to population increase). Finance officers were asked to identify for each variable whether their city had experienced an increase or decrease from 2005 to 2006 and if this change contributed to a major, moderate or no impact on their 2006 budget.

Factors Influencing City Budget	
Factor	Cities Responding
Infrastructure needs	91%
Cost of employee health benefits	86%
Employee wages and salaries	86%

Finance officers identified a number of factors that increased from the previous year, however three stand out with the highest responses. Infrastructure needs (91%), cost of employee health benefits (86%), and employee wages/salaries (86%) were cited as increasing factors by nearly 9 out of every 10 respondent. Infrastructure needs include anything from roads to storm drains. The infrastructure need statewide is a

mix of both new infrastructure needs to be built and older existing infrastructure in the need of upkeep.

Utah’s top three list is similar to the National League of Cities survey, where cities identified employee wages, employee health benefits, and price inflation as the top three variables to increase.

The second part of this survey aimed to identify the impact of these increasing or decreasing factors. To no surprise the leading factor creating a major impact on the budget process is the increasing cost of health care benefits. 41% percent of the responding cities stated cost of employee health benefits have had a major impact on the 2006 budget from the previous year. The nationwide health care crisis is creating an increasing budget concern for every level of government, Utah’s cities and towns are not immune from this pressure.

The second and third leading factors causing a major budget impact are both largely a result of growth. In 2006 infrastructure needs and new development service needs created a major impact on the budget of one in three responding cities. Of the cities noting these two concerns 60% are growing at a rate higher than the state average. Municipal government continues to face the challenge of keeping current infrastructure on pace with population growth. Cities and towns are often caught between a delicate balancing act providing for current service needs, while also funding projects for future need.

Factors Creating a Major Budget Impact	
Factor	Cities Responding
Cost of employee benefits	41%
Infrastructure needs	35%
New development service needs	32%

Budget response actions

In response to this fiscal landscape, finance officers were asked to indicate the actions their city used to address these noted factors. Nearly half (44%) of all cities and towns responded that for FY2007 their city authorized a significant increase in actual infrastructure spending. Cities are financing this increased infrastructure spending in a variety of ways. More than one in four cities (28%) indicated taking the action of slightly increasing property taxes within their city. A few more cities (27%) slightly increased fees or other municipal charges. Another one in four (23%) responded that for FY 2007 their city relied more on ending balances or reserve funds from 2006.

³ At the time of report 2006 final numbers still being reported to the Utah State Auditor and ULCT.

Conclusion

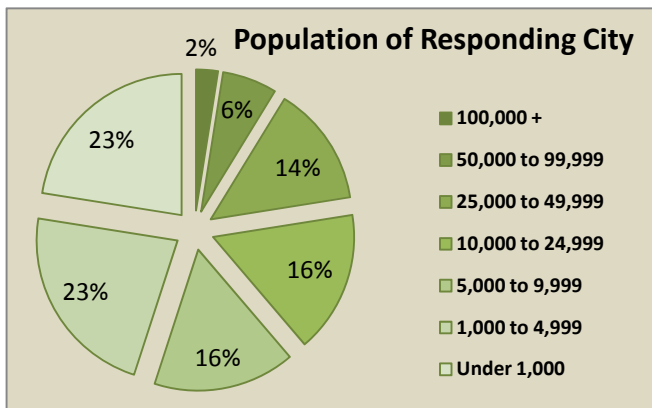
The cities in Utah are all unique and diverse. Each city plays a slightly different role administering services to their constituents. However, this survey illustrates that there are some general pressures that impact municipal budgets almost universally, both within the state of Utah and across the nation.

The growth projections for the state of Utah indicate a continued pattern of significant population increase statewide. Utah cities will certainly face the finance pressure in 2007 that accompanies this growth: infrastructure and new development need. In addition, the increasing health care benefit costs introduce a new fiscal challenge to government at all levels.

The services we rely on day-to-day (roads, parks, emergency services) still rely on sound local government fiscal policy. Fortunately the landscape, outlined by municipal budget officers, overall looks very healthy.

Survey Methodology

From August to October 2006 ULCT administered an on-line fiscal conditions survey.⁴ The survey is patterned after the fiscal conditions survey used by the National League of Cities (NLC).⁵ The NLC study has been conducted since 1993 and provides valuable longitudinal national data. However, the NLC survey focuses on communities of 50,000 residents or larger. In addition, the NLC fiscal survey does not survey communities under 10,000 in population. 82% of the cities and towns in Utah are below 10,000 in population, thus decreasing the relevance of this NLC survey in explaining the municipal setting in Utah. Municipal finance officers from eighty-two cities and towns across the state of Utah responded to the first annual ULCT *Fiscal Conditions Survey (FCS)*.



⁴ See Appendix 1 for ULCT survey instrument.

⁵ See Appendix 3 for NLC survey instrument.

About the League

The Utah League of Cities and Towns (ULCT) initially was organized in 1907. ULCT serves 243 incorporated municipalities in the state of Utah. ULCT represents municipal government's interests with a strong, unified voice at the state and federal levels and provides information, training, and technical assistance to local officials on municipal issues in order to create a greater public awareness and understanding of municipal responsibilities, governance, and administration.

ULCT is a non partisan, inter-local, government cooperative, working to strengthen the quality of municipal government and administration.

ULCT Officers

President
Lewis Billings
Mayor, Provo City

1st Vice-President
Joe Johnson
Mayor, Bountiful City

2nd Vice-President
Jill Remington Love
Councilmember, Salt Lake City

Treasurer
JoAnn Seghini
Mayor, Midvale City

ULCT Executive Director
Ken Bullock

For more information contact:
Neil Abercrombie, ULCT Policy Analyst
(801)328-1601 or
nabercrombie@ulct.org

Visit us online www.ulct.org

Appendix 1: ULCT Fiscal Conditions Survey

1. Overall, would you say that your city is better or less able to...

- | | |
|--|----------------------------------|
| a. Meet financial needs in fiscal year 2006 than last year? (<i>check one</i>) | 72% Better Able 28% Less Able |
| b. Address its financial needs in the next fiscal year (2007) compared to this fiscal year? (<i>check one</i>) | 63% Better Able 37% Less Able |

2. Please indicate whether **FY2006** revenue shortfalls in the following areas were less than 10% or greater than 10% as a percentage of funding expected from each revenue source:

Check one box for each item on the list below. Shortfall = actual receipts fell below predicted or budgeted receipts.

	No Shortfall	Shortfall <10% of Expected	Shortfall >10% of Expected	Not authorized in my city
a. Property Tax Revenues.....	70%	29%	0%	1%
b. Fees, charges, license revenues.....	73%	27%	0%	0%
c. Sales tax revenues (excluding "f" below).....	90%	10%	0%	0%
d. Transportation (B & C Roads)	58%	40%	2%	0%
e. Franchise fees and taxes	74%	12%	4%	9%
f. Lodging, restaurant, amusement, other tourist-related taxes.	39%	4%	0%	57%
g. State shared revenues.....	55%	7%	4%	34%
h. Federal shared revenues.....	48%	3%	5%	44%

3. Please indicate in Part A whether there has been an increase, a decrease, or no change in an item between FY2005 and FY2006 for your city. Please indicate in Part B whether a change had no impact, a moderate impact, or a major impact on your city's overall FY2006 budget.

Check one box in Part A and one box in Part B for each item on the list below.

	PART A: CHANGE			PART B: IMPACT		
	Increase	No Change	Decrease	No Impact	Moderate Impact	Major Impact
a. Value of city tax base	60%	39%	1%	53%	37%	10%
b. Service needs of new development	73%	26%	1%	23%	45%	32%
c. Amount of federal aid to city	12%	77%	21%	63%	26%	11%
d. Federal environmental mandates	30%	64%	3%	69%	20%	11%
e. Federal non-environ. mandates	11%	88%	1%	89%	6%	5%
f. State environmental mandates	34%	66%	0%	60%	31%	9%
g. Restrictiveness of state tax and expenditure limits on cities	15%	82%	3%	79%	18%	3%
i. Public safety needs	80%	20%	0%	21%	59%	18%
j. Infrastructure needs	91%	9%	0%	13%	52%	35%
m. Cost of employee pensions	68%	32%	0%	34%	58%	8%
n. Cost of employee health benefits	86%	14%	0%	12%	47%	41%
o. Employee wages and salaries	86%	13%	1%	12%	70%	18%
p. Prices, inflation, cost of living	80%	20%	0%	25%	70%	5%
q. Population (# of people in city)	82%	28%	0%	24%	50%	25%
r. Health of local economy	63%	37%	0%	37%	48%	15%

4. Please indicate which actions your city has taken in FY2006 for the 2007 fiscal year:

Check one box for each item on the list; if your city does not have authority to take action regarding an item, please check the “not authorized” box.

	Significant Increase in 2007	Slight Increase in 2007	Maintain	Slight Decrease in 2007	Significant Decrease in 2007	Not Auth. in my city
a. Property Taxes.....	6%	22%	58%	6%	3%	1%
b. Franchise Fees.....	6%	8%	77%	1%	0%	8%
c. Other fees/charges/licenses increases....	1%	27%	69%	1%	0%	1%
d. Reliance on ending balance or res.....	9%	23%	58%	6%	3%	0%
e. Growth rate of operating spending.....	12%	66%	17%	5%	0%	0%
f. Actual infrastructure spending.....	44%	33%	22%	1%	0%	0%
g. Actual public safety spending.....	22%	52%	20%	0%	0%	3%
h. Other spending.....	6%	65%	20%	3%	1%	0%
i. Service cutbacks/elimination.....	2%	5%	83%	6%	2%	0%
j. Privatizing or contracting out.....	0%	16%	67%	6%	0%	11%
k. Productivity levels.....	3%	34%	61%	0%	1%	1%
l. Number and/or scope of interlocal agreements or other cost-sharing plans...	0%	16%	75%	0%	0%	9%
m. Size of city government workforce.....	4%	48%	42%	3%	2%	1%

Appendix 2: Participating Utah Cities

Alpine City
Alta
Antimony Town
Big Water Municipal Corp.
Blanding
Bountiful
Brigham City
Cedar City
Cedar Hills
Centerville City
Central Valley Town
Clawson
Clearfield City
Clinton City
Delta City
Draper City
Duchesne City
Eagle Mountain
Enoch City
Ephraim City
Farmington City
Farr West City
Fillmore City
Fountain Green
Francis Town
Garden City
Grantsville City
Gunnison City
Highland City
Hinckley Town
Holladay
Howell Town
Hyrum City
Kanab City
Kaysville City
Layton
Lehi City
Lewiston City
Lyman
Manila Town
Manti City
Midvale City
Midway City
Monroe City
Mt. Pleasant City
Murray City
Naples
North Ogden City
North Salt Lake City
Oak City Town
Orangeville City
Orderville Town
Panguitch city
Park City
Payson City
Pleasant Grove City
Price City
Provo City
Richfield City
Riverdale
Riverton City
Rockville
Roosevelt
Roy City
Sandy City
Sigurd Town
Smithfield City
Snowville Town
South Jordan City
Spanish Fork City
Springdale
Springville City
St. George
Taylorsville
Vernal City
Vineyard Town
Washington City
West Jordan
West Point City
West Valley City
Woods Cross City

Appendix 3: National League of Cities Survey



**NATIONAL LEAGUE OF CITIES
2006 Fiscal Conditions Survey**

The Fiscal Conditions Survey is a central element in our efforts to effectively and accurately represent the cities of this country. Without your help, we cannot present a complete picture. **Please return this questionnaire by April 21, 2006.** If you have any questions about the questionnaire, contact the survey director, Dr. Michael Pagano, University of Illinois at Chicago at mapagano@uic.edu, or 312-355-4681, or Dr. Chris Hoene at the National League of Cities at hoene@nlc.org, or 202-626-3172.

If you prefer, you can complete the survey online at <http://www.surveysolutions.com/prs/nlc/index06.htm> using the username and passcode printed on the label at the top of the page. The online survey permits you to enter and leave the survey as you need so that you do not have to complete the survey at one sitting and also allows you to print at your responses upon completion.

**Please circle one code number for each question unless otherwise specified.
Note that all references to years are for fiscal years ending in the calendar year shown.**

1. Name of your city or town _____
2. Please provide the contact information for the individual who completed or who can answer questions about this questionnaire (*Please keep a copy of the completed survey for your files and for your reference should we need to call.*)
 - a. Name: _____ b. Title: _____
 - c. Address: _____
 - d. City: _____ e. State: _____ f. Zip: _____
 - g. Phone number: (_____) _____ h. E-Mail: _____

3. Overall, would you say that your city is better or less able to...

	Better	Less
	<u>Able</u>	<u>Able</u>
a. meet financial needs in FY 2006 than last year?	1	2
b. address its financial needs in the next fiscal year (FY 2007) compared to this fiscal year?	1	2

4. COMBINED GOVERNMENT FUNDS FINANCIAL DATA – Please provide your city’s COMBINED GOVERNMENT FUNDS financial data for each of the following: (*Include all Governmental Fund Types [General, Special Revenue, Debt Service, Capital Projects] and all Proprietary Fund Types [Enterprise, Internal Service], but do not include K-12 and other public education, and fiduciary funds*)

Fiscal Year Ending in →	<u>2004</u>	<u>2005</u>	<u>2006 (estimate)</u>
a) Total Combined Fund Revenues	\$ _____,000	\$ _____,000	\$ _____,000
1) Revenues – Federal Funds	\$ _____,000	\$ _____,000	\$ _____,000
2) Revenues – State Funds	\$ _____,000	\$ _____,000	\$ _____,000
3) Fees / User Charges	\$ _____,000	\$ _____,000	\$ _____,000

5. GENERAL FUND REVENUE – The figures requested in this section are for your city's *GENERAL FUND ONLY*. Please provide information on the revenue composition of your city's General Fund (*please use the budgeted or estimated amount for '05*).

Fiscal Year Ending in →	2004	2005	2006 (estimate)
a) Property Tax Revenue	\$ _____,000	\$ _____,000	\$ _____,000
b) City Sales Tax Revenue <i>(if levied by city)</i>	\$ _____,000	\$ _____,000	\$ _____,000
c) City Income Tax Revenue <i>(personal and corporate—if levied by city)</i>	\$ _____,000	\$ _____,000	\$ _____,000
d) Other City Taxes	\$ _____,000	\$ _____,000	\$ _____,000
e) Fees and Charges	\$ _____,000	\$ _____,000	\$ _____,000
f) State Funds <i>(including state shared revenues)</i>	\$ _____,000	\$ _____,000	\$ _____,000
g) Federal Funds	\$ _____,000	\$ _____,000	\$ _____,000
h) All Other Revenue <i>(including transfers in)</i>	\$ _____,000	\$ _____,000	\$ _____,000
i) TOTAL GENERAL FUND REVENUES	\$ _____,000	\$ _____,000	\$ _____,000

(Please transfer the "Total" figures to part (b) of question 6 below.)

6. GENERAL FUND DATA – The figures requested in this section are for your city's GENERAL FUND ONLY. If the math in the equations below doesn't work or the beginning balance in one year does not equal the ending balance of the preceding year, please attach an explanation sheet.

Fiscal Year Ending in →	2004	2005	2006 <i>(7. Budget or Estimate)</i> <i>(CIRCLE ONE)</i>
a) Beginning Balance	\$ _____,000	\$ _____,000	\$ _____,000
b) Revenues (& transfers in) <i>(These figures should be equivalent to the "TOTAL" provided under part (i) of Question 5; if they are not, please attach a note.)</i>	\$ _____,000	\$ _____,000	\$ _____,000
c) Expenditures (& transfers out)	\$ _____,000	\$ _____,000	\$ _____,000
d) Ending Balance	\$ _____,000	\$ _____,000	\$ _____,000
e) Amount of ending balance which is reserved or designated for a specific purpose (e.g., major infrastructure facility) and not available for general use.	\$ _____,000	\$ _____,000	\$ _____,000

8. LONG-TERM DEBT AND CAPITAL SPENDING – Please identify the long-term general obligation (G.O.) debt outstanding and the long-term enterprise revenue debt outstanding for your city's general government purposes.

Fiscal Year Ending in →	2004	2005	2006 (estimate)
a) G.O. debt outstanding	\$_____,000	\$_____,000	\$_____,000
b) Revenue debt outstanding	\$_____,000	\$_____,000	\$_____,000
c) G.O. principal and interest payments	\$_____,000	\$_____,000	\$_____,000
d) How much did your city spend on capital projects?	\$_____,000	\$_____,000	\$_____,000

9. CHANGE AND THE IMPACT OF CHANGE ON BUDGETS ABILITY TO MEET CITY NEEDS – Please consider the ways the listed items have changed and the impact those changes have had on your budget. In **part (a)**, circle whether there has been an INCREASE, a DECREASE, or NO CHANGE from FY2005 to FY2006. In **part (b)**, circle the impact that change has had on your budget. Has the change had a POSITIVE impact (*increased revenues, decreased expenditures, etc.*), a NEGATIVE impact (*decreased revenues, increased expenditures, etc.*), or NO IMPACT?

	a. CHANGE in item from FY2005			b. IMPACT of change in FY2006 budget		
	Increase	No change	Decrease	Positive	No impact	Negative
1. Value of city tax base	1	2	3	1	2	3
2. Amount of federal aid to city	1	2	3	1	2	3
3. Amount of state aid to city	1	2	3	1	2	3
4. Federal environmental mandates	1	2	3	1	2	3
5. Federal non-environ. mandates	1	2	3	1	2	3
6. State environmental mandates	1	2	3	1	2	3
7. State non-environ. mandates	1	2	3	1	2	3
8. Restrictiveness of state tax and expenditure limitations on cities.....	1	2	3	1	2	3
9. Public safety needs	1	2	3	1	2	3
10. Infrastructure needs	1	2	3	1	2	3
11. Human service needs.....	1	2	3	1	2	3
12. Education needs.....	1	2	3	1	2	3
13. Cost of employee pensions.....	1	2	3	1	2	3
14. Cost of current employee health benefits	1	2	3	1	2	3
15. Cost of retired employee health benefits .	1	2	3	1	2	3
16. Employee wages and salaries.....	1	2	3	1	2	3
17. Prices, inflation, cost of living	1	2	3	1	2	3
18. Population (<i>number of people in city</i>).....	1	2	3	1	2	3
19. Health of local economy	1	2	3	1	2	3

10. IMPACTS OF ITEMS – Referring to the list above, indicate the item numbers (1-18) of the **THREE** items that have had:

- a. The **MOST NEGATIVE IMPACT** on your FY 2006 budget (*ie. what three items – NOT the changes in the items, but the items themselves – make it most difficult to balance your budget and meet city needs*) [Fill in the boxes with the item numbers]
- b. The **MOST POSITIVE IMPACT** on your FY 2006 budget (*ie. what items– not the changes in the items, but the items themselves– contribute most to your ability to balance the budget and meet city needs*) [Fill in the boxes with the item numbers]

11. FISCAL ACTIONS

Increased **Maintained** **Decreased** **Not Authorized**
 ↓ ↓ ↓ ↓

11a. Indicate whether your city has taken the listed actions during the 2006 fiscal year:

a. Property tax rates (<i>net effect</i>).....	1	2	3	
b. Sales tax rates	1	2	3	4
c. Income tax rates.....	1	2	3	4
d. Rates of other taxes (<i>net effect</i>)	1	2	3	
e. Number of other taxes (<i>net effect</i>).....	1	2	3	
f. Tax base unrelated to growth (e.g., reduced tax credits, taxed previously untaxed items).....	1	2	3	

11b. Estimate the net effect these actions (a-f) will have on revenue in FY 2006 (*please indicate using + or -*)

1. \$ _____,000 for the Combined Funds

2. \$ _____,000 for the General Fund

11c. Indicate whether your city has taken the listed actions during the 2006 fiscal year:

g. Number/level of impact or development fees (<i>net effect</i>).....	1	2	3	
h. Level of other fees or charges (<i>net effect</i>)	1	2	3	
i. Number of other fees or charges (<i>net effect</i>).....	1	2	3	

11d. Estimate the net effect these actions (g-i) will have on revenue in FY 2006 (*please indicate using + or -*)

1. \$ _____,000 for the Combined Funds

2. \$ _____,000 for the General Fund

11e. Indicate whether your city has taken the listed actions during the 2006 fiscal year:

j. Growth rate of operating spending.....	1	2	3	
k. Actual infrastructure spending	1	2	3	
l. Actual human services spending	1	2	3	
m. Actual public safety spending.....	1	2	3	
n. Actual education spending.....	1	2	3	
o. Size of municipal gov't workforce	1	2	3	
p. Contracting out of services	1	2	3	
q. Productivity levels.....	1	2	3	
r. Number/scope of inter-local agreements or other cost-sharing plans with other governments.....	1	2	3	
s. City service levels	1	2	3	
t. Employee wage	1	2	3	
u. Employee benefit/pension levels	1	2	3	

12. Are we authorized to provide copies of your completed questionnaire upon request? (*The report produced from this information will only summarize the data on a regional and population size basis. When this report is released, the League receives requests from the media and others for individual city data.*)

Yes..... 1
 No..... 2

THANK YOU VERY MUCH FOR YOUR COOPERATION!!!