

SALT LAKE VALLEY LAW ENFORCEMENT SERVICE AREA



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REPORT ON THE PURPOSES FOR CONSIDERING AN INCREASE IN BUDGETED PROPERTY TAX REVENUES FROM THE PRIOR YEAR BUDGETED PROPERTY TAX REVENUES BY 3% FOR CALENDAR YEAR 2020.

Introduction.

On September 19, 2019, the SLVLESA Board of Trustees (the “Board”) passed a resolution stating an intent to increase its budgeted property tax revenues from the prior year property tax revenues by 3% for calendar year 2020. As a result, the Board would levy a tax rate for calendar year 2020 that exceeds the certified tax rate.

The Board recognizes that under State law, there are strict procedural requirements that must be followed if the Board decides to approve an ad valorem property tax increase. The statement of intent to increase the ad valorem property taxes for calendar year 2020 initiates the process.

Prior to the adoption of the SLVLESA final budget on December 19, 2019, the property tax increase must be reviewed in open meetings by the councils of all SLVLESA members and be approved by all municipal councils and the Salt Lake County Council or by a majority of the municipal councils and the Salt Lake County Council by two-thirds vote. The public has an opportunity to provide input at a duly noticed public hearing on December 19, 2019 before a final decision is made. In other words, the resolution approving a statement of intent to increase property taxes starts the process, but the property tax increase is not finally determined until the process is completed in December.

This report discusses the purposes for an increase in SLVLESA budgeted property tax revenues as reviewed and discussed by the Board.

The Proposed Increase of Budgeted Property Tax Revenues for Calendar Year 2020.

The resolution passed by the Board on September 19, 2019 stated an intent to increase SLVLESA budgeted property tax revenues from prior year budgeted property tax revenues by

3%. Effectively, the Board would levy a tax rate for calendar year 2020 that exceeds the certified tax rate. If the increase is approved, the dollar amount of the additional ad valorem property tax revenue for SLVLESA's calendar year 2020 budget would be \$502,500.

According to the Salt Lake County Assessor, the average taxable value of a home in SLVLESA is \$277,000. With the proposed property tax increase, the average homeowner would pay additional property taxes of \$20.66 per year (\$594.53 for 2020 compared to \$573.87 for 2019).

Purposes for the Additional Budgeted Property Tax Revenues.

SLVLESA should continue to follow its five-year strategic plan.

In 2016, the Board met in a planning workshop to develop a five-year financial strategic plan (the "Plan"). The Plan was adopted in March 2016. The Plan can be found on the SLVLESA website at <https://slco.org/slvlesa/>.

The Plan recommended a "right-sizing" of the SLVLESA budget due to the declining revenues generated by the tax rate set in 2012. Due to inflationary pressures, the target reserves were projected to be depleted and SLVLESA would become insolvent by 2018. Therefore, the Plan was adopted to stabilize the target reserves to a healthy level and provide an opportunity for additional resources and capital projects.

The Board approved the Plan to implement a 9.5 % increase in 2017, 5% increase in 2018 and 3% increases in 2019, 2020 and 2021. To date, the Board has followed the Plan.

The Board based the Plan on the premise that, for financial stability, SLVLESA should maintain target reserves of 25%.

The Board also determined, as an underlying policy, that it is preferable to have small and frequent property tax increases rather than having the taxpayers face larger and less frequent property tax increases.

Target reserves fluctuate throughout the year because of the cash flow. As a point of reference, however, target reserves were at about 22% at the end of calendar year 2018. Although new growth funds collected is \$199,048, those funds are used for expanded services based on brick and mortar and do not reflect increases in employee compensation and other similar costs of law enforcement services or inflationary pressures. Further, the Board determined, in approving the Plan, that SLVLESA should own purpose-built facilities rather than lease. This requires stable target reserves. This will be discussed below.

Since the Plan was adopted in 2016, SLVLESA has experienced a reduction of its member municipalities. The question is whether the general premises and recommendations of the Plan are still valid given the changes in SLVLESA including a reduction of members. In the meeting on September 19, 2019, the Board, with the assistance of an independent consultant, Econowest, analyzed different scenarios through a financial model. Assumptions were formulated based on trends from prior years and the Unified Police Department (UPD) fiscal

year 2019-2020 budget adopted in June. As will be discussed below, the costs of the UPD contract obligations would increase at a rate of 5% a year. This cost is driven by annual increases in compensation for UPD employees. Further, there would be an increase of two (2) FTEs each year for SLVLESA over the next five (5) years. The projections did not include possible capital expenditures or loss of property tax revenue or unexpected expenditures.

Under the financial model, if there was no property tax increase in 2020, SLVLESA would, at some time in the future, need to increase property taxes because SLVLESA would be well below its target reserves. (This would probably occur in calendar year 2023). The increase at that time is projected to be approximately 22%. Consistent with the policy underlying the five-year strategic plan, the Board stated that small incremental property tax increases were preferred over less frequent larger property tax increases. As such, in stating its intent to increase property taxes, the Board determined to follow its five-year strategic plan that recommends a 3% increase for calendar year 2020 to avoid a large increase in the future.

To be able to recruit and retain employees, the Unified Police Department (the “UPD”) Board of Directors increased compensation for UPD employees in its 2019-2020 budget. This trend will likely continue.

Personnel costs constitutes 80% to 85% of the UPD budget. Accordingly, an increase in compensation for UPD employees results in a need for additional revenue from SLVLESA. Further, the market for sworn law enforcement officers is very competitive and, as a result, compensation for UPD sworn employees must be comparable to other law enforcement departments throughout the Salt Lake Valley to retain and recruit the best sworn officers.

At the direction of the UPD Board, UPD retained the firm of NFP to do an independent study of UPD employee compensation to include an evaluation of how competitive their wages, salaries and benefits are with other departments in the Salt Lake Valley. In April 2019, the study prepared by NFP was presented to the UPD Board. The study concluded, in part, that UPD sworn officer compensation was at or below the middle of the range compared to other departments in the Salt Lake Valley.

The UPD Board wants compensation for its sworn officers to be in the upper one third. In order to be in the upper one third, a market adjustment of 8% would have been required for fiscal year 2019-2020. The UPD Board decided, due to budget constraints, to do a market adjustment of 4%. The UPD Board of Directors increased sworn officers’ compensation by a 2% COLA, a 4% market adjustment and a 2.75% merit increase for those who are not at the top of the pay range. For non-sworn UPD employees, the compensation increase was 2% COLA and a merit increase of 2.75% for those who are not at the top of the pay range. A property tax increase is necessary to meet the costs of additional compensation to the UPD employees.

UPD sworn officer compensation is still outside the upper one third. In fact, despite the increase in this UPD fiscal year, compensation for UPD sworn officers is still at or below the middle in the Salt Lake Valley market because other law enforcement departments increased

their compensation for the 2019-2020 fiscal year. Employee compensation in the future will need to be increased to catch up to the top one third of the departments in the Salt Lake Valley.

There is a need to add officers due to expanding caseload (specifically in the Magna and Kearns precincts).

Due to the expanding caseloads in the Kearns and Magna precincts, one additional officer for each precinct will be added beginning January 2020. The plan discussed by the UPD Board of Directors is to add two (2) FTEs a year for the next five (5) years to catch up to the staffing needs in SLVLESA. In February of the 2019 calendar year, the Board approved a budget amendment of \$254,000 from fund balance to fund one additional officer for Kearns and one additional officer for Magna (to cover a period of 9 months). The costs for an additional officer is approximately \$121,450 for an existing officer and \$164,500 for a new officer. As result, there is a need for more revenue to cover the additional staffing.

As part of its strategic plan, the Board determined that it is best for SLVLESA to own the precinct buildings rather than leasing space.

Consistent with its strategic plan, SLVLESA purchased the Magna precinct building in 2018. SLVLESA is responsible for capital improvements to the building. As an example, in March of this calendar year 2019, the Board approved a budget amendment transferring \$30,000 from fund balance to do roof repairs and other capital improvements to the Magna precinct building. Further, SLVLESA is presently working with an architect to locate and evaluate the feasibility of buying, constructing or retrofitting a Kearns precinct building. As discussed with the Board, the current facilities used by the Kearns precinct are leased and inadequate. Once the costs are evaluated by the Board, the means to finance the project will be determined if the Board decides to proceed. This will require stable target reserves.

The costs of the UPD contract obligations increase due to inflationary pressures.

The UPD costs increase due to an annual inflation rate of 1.8% to 1.9%. Property tax revenues do not increase as a result of inflation unless the Board takes affirmative action to increase property taxes.

SLVLESA cannot rely on centrally assessed property tax revenue.

The primary contributor to the centrally assessed property taxes in SLVLESA is Kennecott. The problem is Kennecott generally appeals its property tax assessments. A ruling in favor of Kennecott could be significant. SLVLESA realizes that it may, however, pursue a judgment levy if there is a significant refund.

There is potential loss of revenue from Salt Lake County beginning on June 1, 2021.

Presently, under section 17B-2a-1109 of the Utah Code (S.B. 187), Salt Lake County may provide funds for law enforcement in the canyons, including newly incorporated Brighton, as part of the mountainous planning district. The authority, however, is set to expire on June 1, 2021.

Although funding is available for calendar year 2020, the potential loss of funds from the County would impact the target reserves in SLVLESA beginning in calendar year 2021.

Without healthy target reserves, SLVLESA would not be prepared for an unforeseen reduction of revenues or a significant increase in expenditures.

The reason for strong target reserves is to hedge against unforeseen events that may require a significant reduction of property tax revenues or a significant increase in expenditures.

Conclusion:

The Board must decide whether it will continue to follow the five-year strategic plan and its policy of preferring small incremental increases to larger infrequent increases. It is projected that SLVLESA's need for additional revenue will continue for the next five years to meet its contract obligations to the UPD for law enforcement services. The cost of law enforcement services has increased each year primarily driven by an increase in compensation for UPD employees. This is necessary to retain and recruit the best employees. Further, staffing must be increased to meet increased caseloads. It is, therefore, prudent to consider the impact on target reserves and SLVLESA's viability when looking at a property tax increase.

Dated September 19, 2019