

Tough TIMES  
TOUGH Minds

TOUGH  
TIMES...  
TOUGH MINDS

Utah Municipal Clerk Association

July 30<sup>th</sup> 2009



**The January-March quarter (2009) was the worst on record for states. The worst decline in sales tax in 50 years represents historic weakness in one of the two major tax sources for states.**

■ Rockefeller Institute, July 2009

*The numbers that states are looking at in terms of their shortfalls is truly staggering. And all of this is happening in an environment where raising taxes is still pretty toxic, and it's pretty explosive.*

Although fiscal year 2009 was grim for states, observers predict that 2010 will be even worse.

# Creative solutions...

- In Wisconsin, Democratic Gov. Jim Doyle's fiscal year 2010 budget triples the price of an **elk hunting license**, even though his state has no elk hunting season. Doyle also proposed a fee on for each animal slaughtered, ranging from a penny per chicken to 14 cents per pig, but that provision was shot down.
- In his 2009 budget, New York Gov. David Paterson proposed a "**fat tax**" that would have tacked an 18-percent tax on sugary beverages. That tax -- along with proposed taxes on manicures, health clubs and bowling -- was nixed. Next door in New Jersey, however, residents are subject to a sales tax on health club memberships.
- In Virginia, the state House and Senate voted to **increase inmates' daily rent** by 500 percent, from \$1 to \$5. Democratic Gov. Tim Kaine vetoed the bill in May, requesting that the fee be capped at \$3.
- In Kentucky, new legislation puts a tax on **cell phone ring tones**.

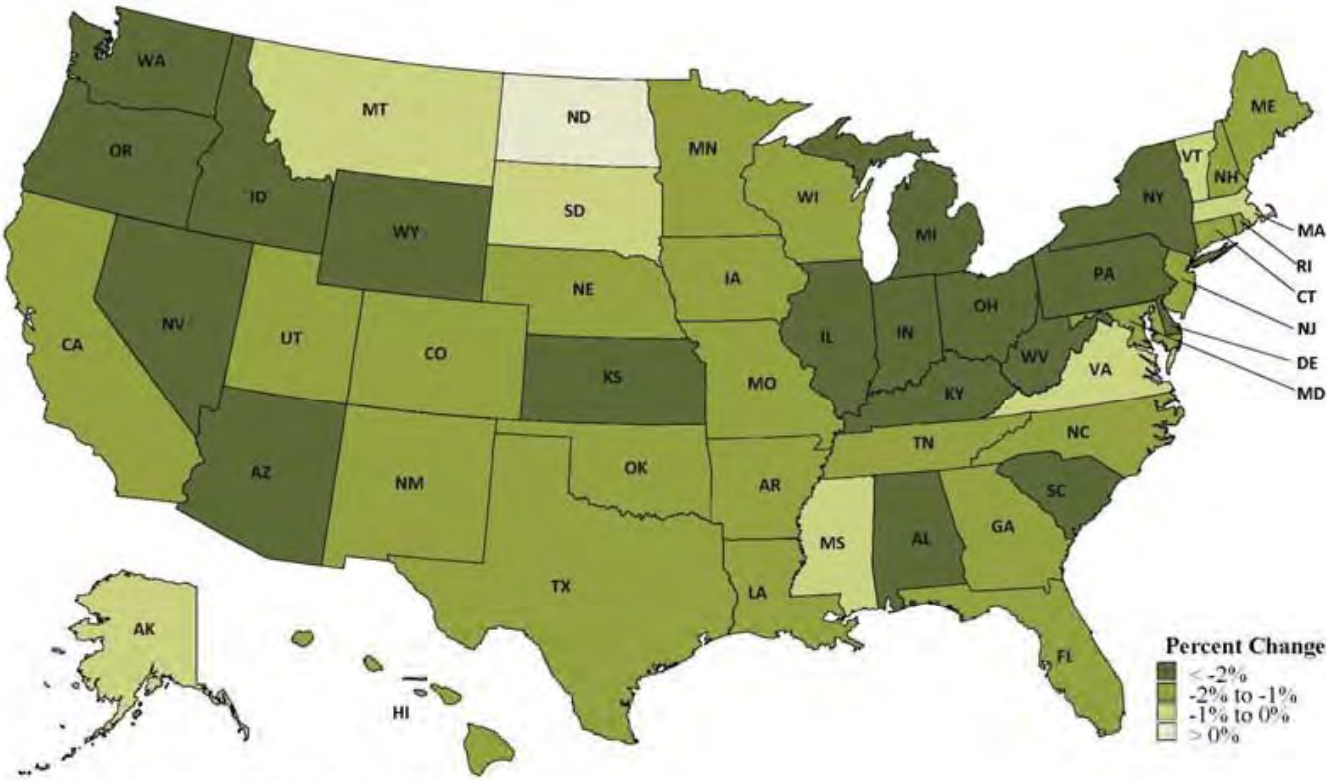
# More options?



- Alabama, lawmakers considered bringing **more bingo games** to the state and legalizing slot machines.
- Georgia lawmaker proposed "**pole tax**" would have charged patrons of strip clubs a \$5 entrance fee.
- Oakland became the first U.S. city to **tax proceeds on medical marijuana**. Other California cities have discussed a similar tax.

# Declining economies in the past 3 months

North Dakota?



Source: Federal Reserve Bank of Philadelphia.

# States with declining economy, by month (1979-2009)

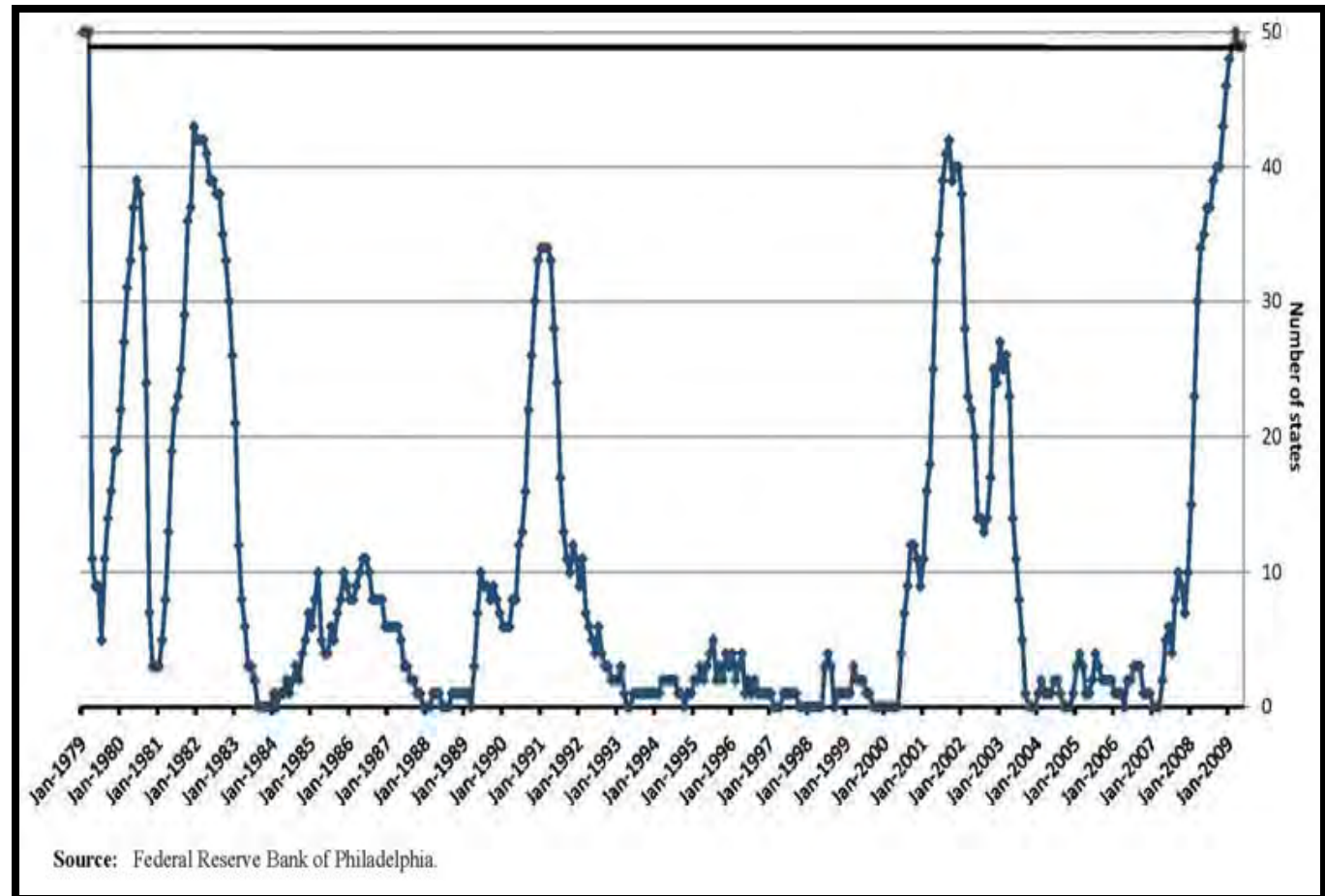
Source: Federal Reserve of Philadelphia

## Data used

Unemployment rate

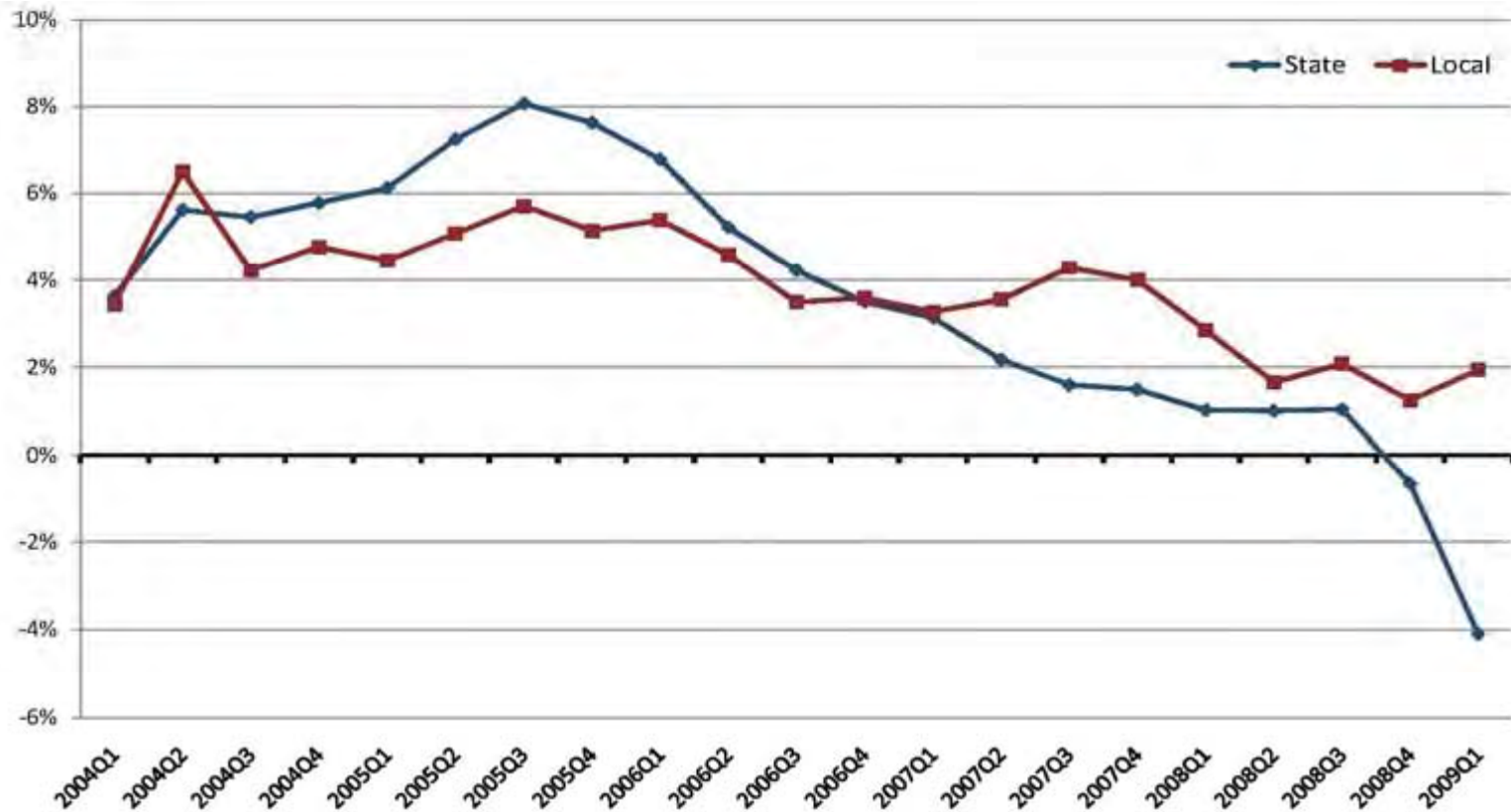
Manufacturing jobs

Real wage and salary





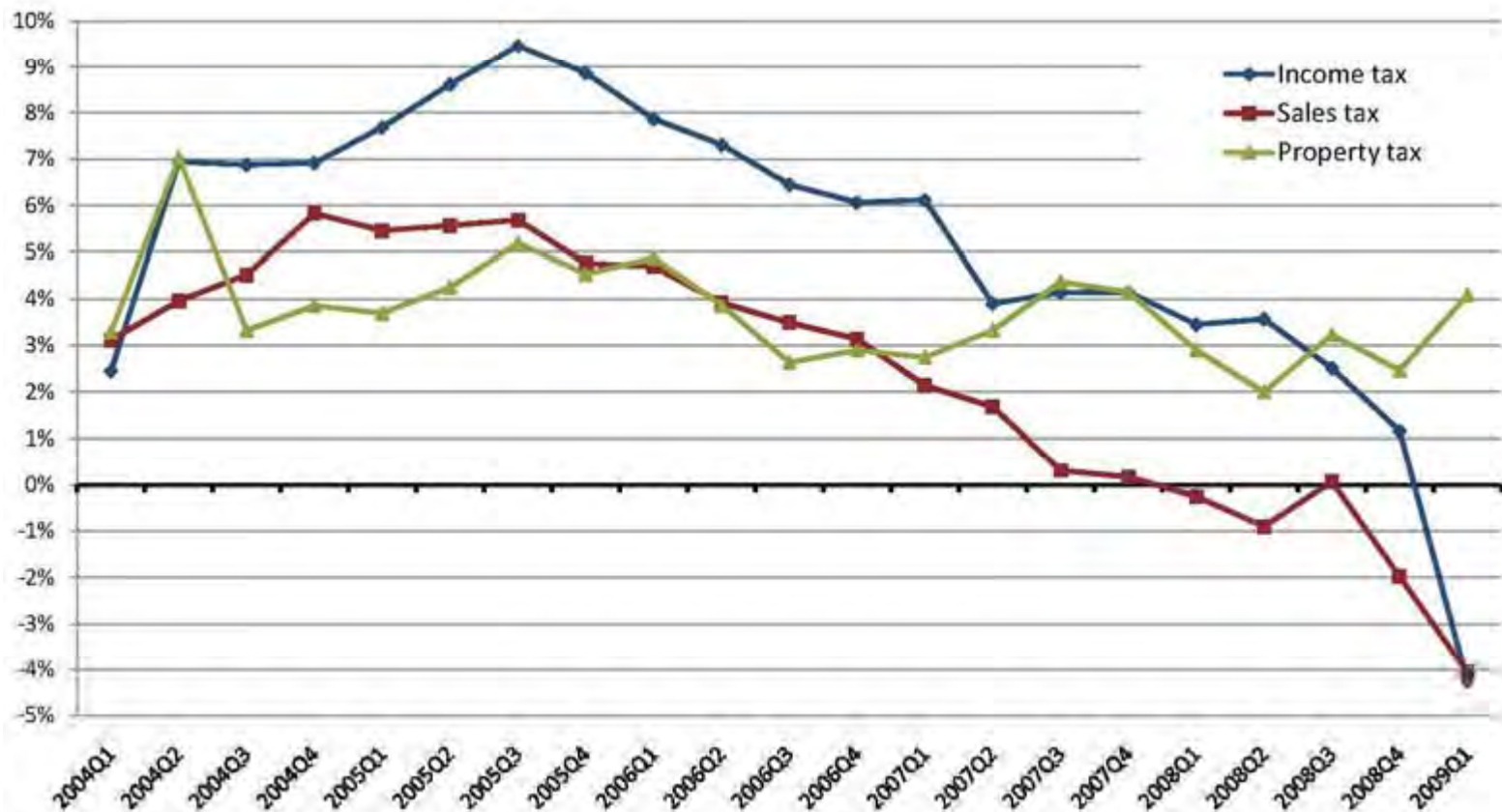
# Year-over-year percent change in State and Local Taxes (2004-09)



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

Notes: (1) 4-quarter average of percent change in real tax revenue; (2) No adjustments for legislative changes.

# Income and Sales sharper decline



Sources: U.S. Census Bureau (tax revenue) and Bureau of Economic Analysis (GDP price index).

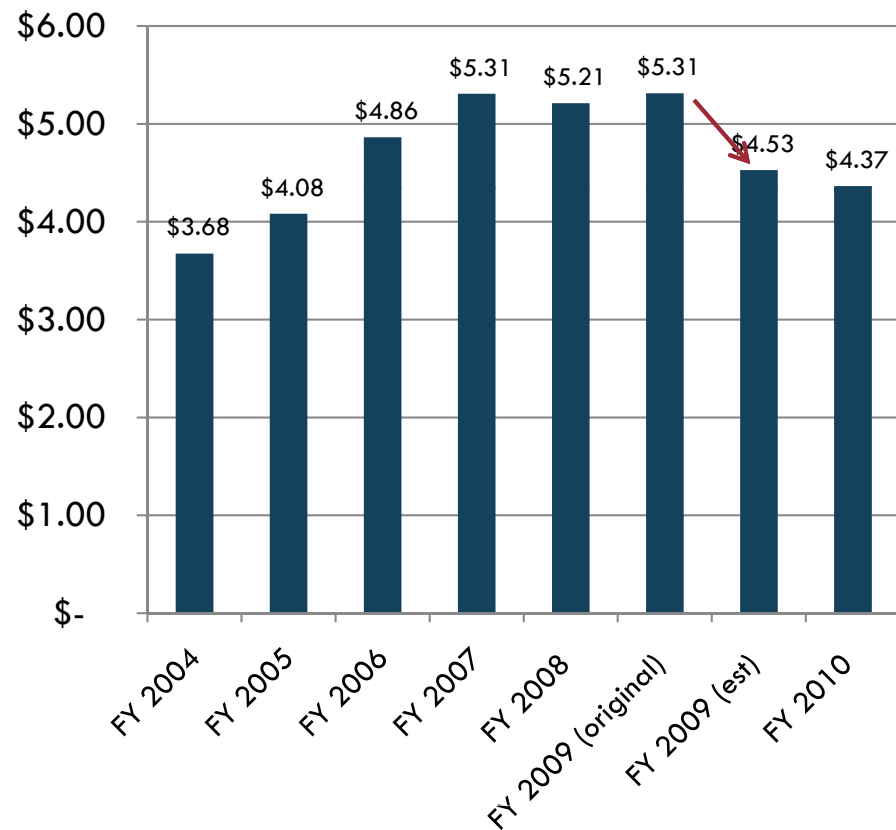
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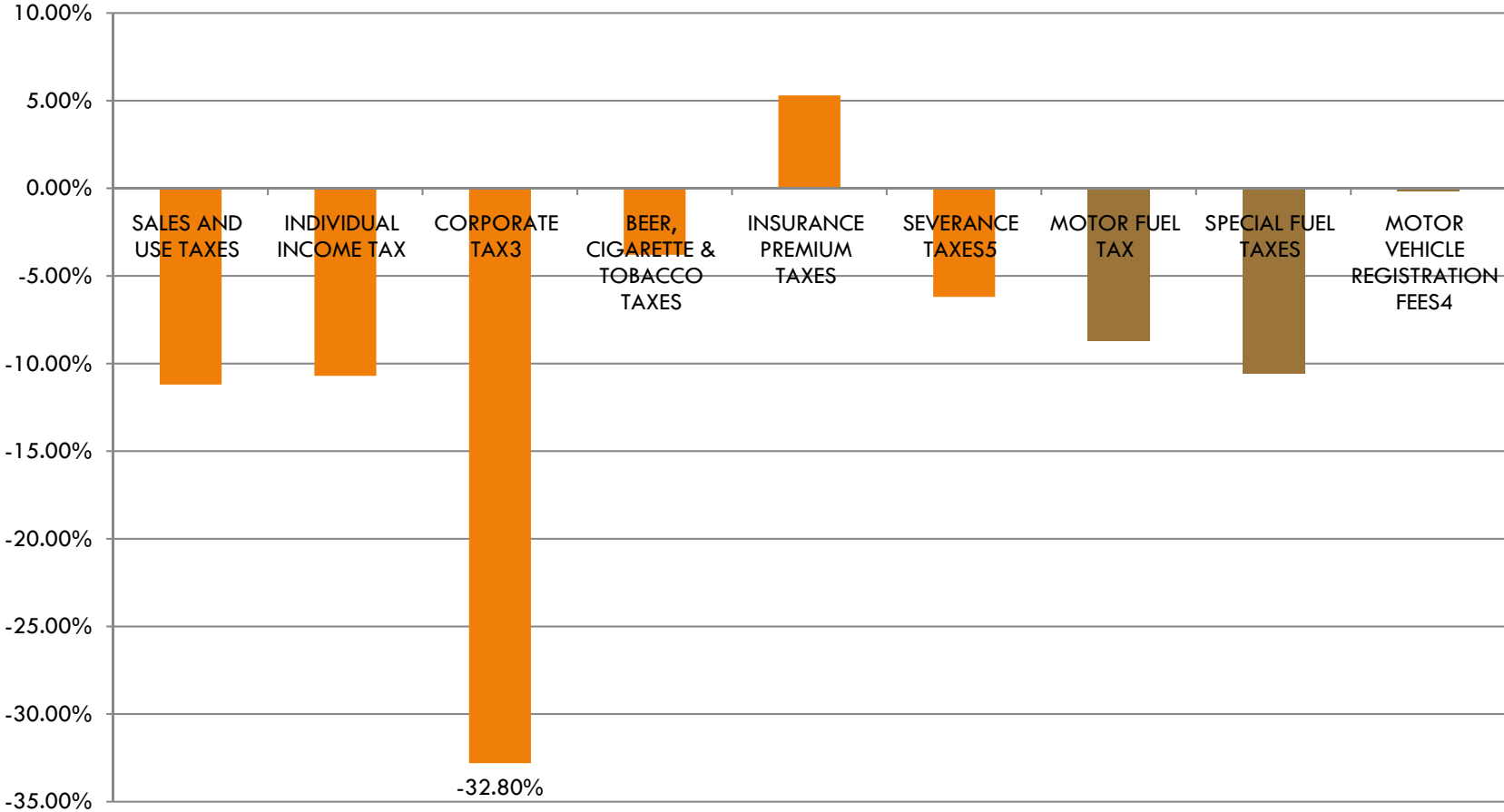
# What about Utah?

- 2009 budget gap
  - ▣ \$875 million or 15% of the budget
- Forecast for FY10
  - ▣ Down over 17% from original 09 budget
  - ▣ Below FY2006 budget

## GF and Education Fund















# Utah State Budget Growth FY 08 -09













# April 2008

## Salient Economic Indicators for Utah Cities

	Year-to-date % change	Last 3 Months % change	Latest Month % change	Assessment
Utah Wages and Salaries (coincident)	9.8%	8.1%		 slipping
Utah Employment (coincident)	4.0%	3.0%	2.6%	
Utah Average Wage (coincident)	5.6%	4.9%	n/a	
Utah Unemployment Claims (leading)	10.9%	4.6%	15.8%	 worsening
Construction employment (leading)	8.8%	2.1%	0.6%	
Residential construction values (leading)	-63.2%	-64.3%	-66.1%	 worsening
Nonresidential construction values (leading)	-2.7%	0.0%	-9.0%	 worsening
Long/short term yield spread (leading)	0.15%	1.25%	1.55%	 improving
Misery Index (leading)	5.5%	6.9%	6.8%	 worsening
U.S. CPI (inflation) (coincident)	2.8%	3.9%	3.8%	
Utah unemployment rate (coincident)	2.6%	3.0%	3.0%	
<b>Local 1% sales tax</b>	5.2%	2.0%	2.7% (January sales)	 worsening

# July 2009

## Salient Economic Indicators for Utah Cities

	Last year % change (CY 2009)	Last 3 Months % change Mar - May	Latest Month % change (May*)	Assessment
Utah Wages and Salaries (coincident indicator)	-1.2%	-1.7%		
Utah Employment (coincident indicator)	-2.6%	-3.1%	-3.3%	
Utah Average Wage (coincident indicator)	1.4% 1st quarter 2009	1.4%	n/a	
Utah Unemployment Claims (leading indicator)	171.2%	218.2%	183.6%	 leveling off
Utah Construction Employment (leading indicator)	-21.8%	-22.8%	-23.0%	
Utah Residential Construction values (leading indicator)	-32.6%	-32.5%	-26.2%	
Utah Nonresidential Construction values - new and remodels (lagging indicator)	-28.4%	-21.6%	40.7%	
U.S. Long - Short Term Interest Spread (leading indicator)	2.69%	2.83%	3.11%	
U.S. Consumer Sentiment Index (coincident/leading indicator)	63.2	68.2	70.8	 improving
<b>Statewide 1% local sales tax</b>	-12.9%	-15.1%	-13.5% (April sales) (June distribution)	

Note: Coincident indicators run with the economy, leading indicators lead the economy by several months.

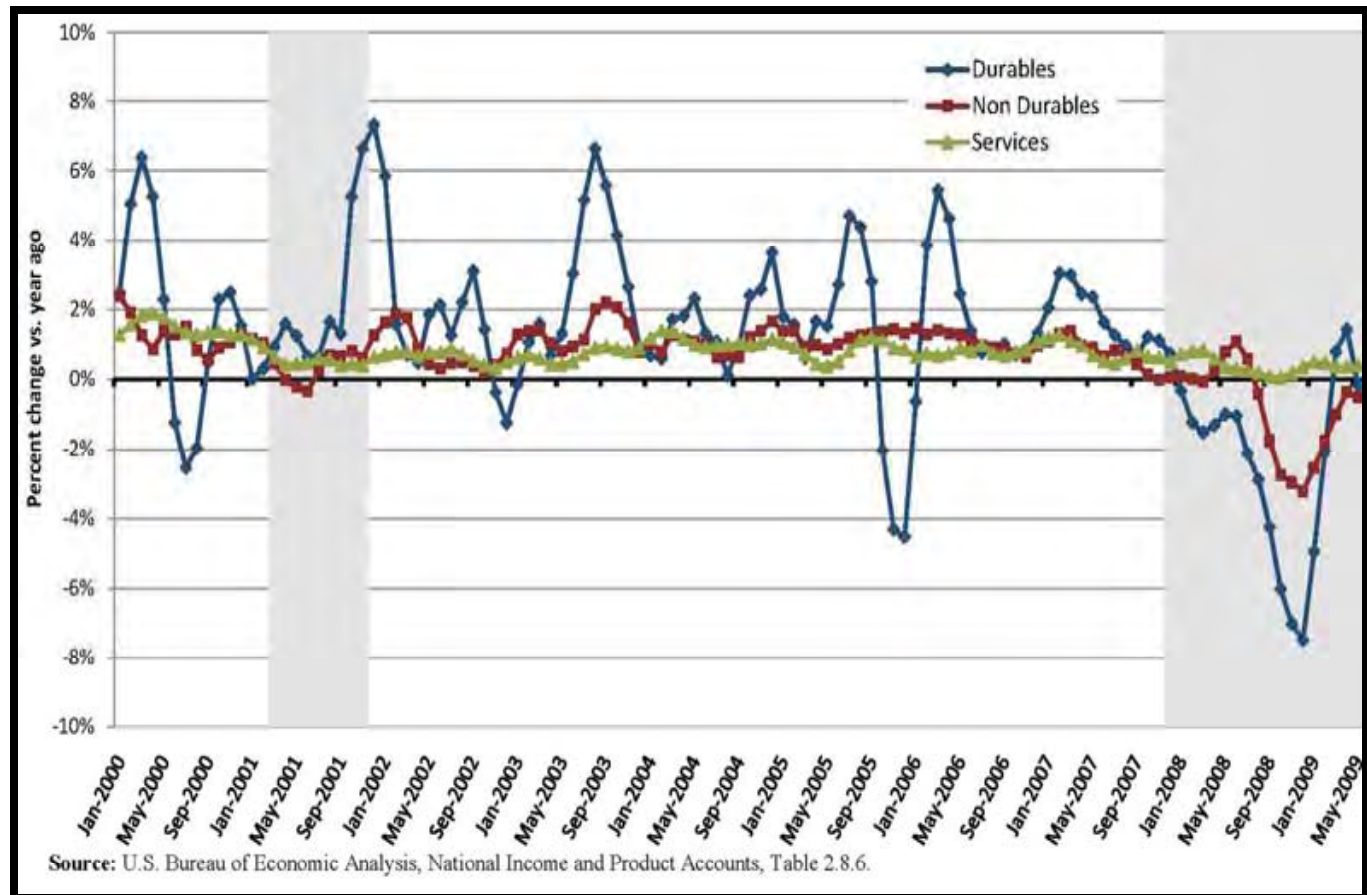
\* Latest monthly data is for May (except construction data which is for April). 6/29/09, 8:57 PM

# Economic activity

Durable goods  
= long life (cars,  
home furnishings)

Nondurable  
goods = short  
span (food, fuel,  
clothing)

Services =  
intangible  
(consulting,  
hairdressing)



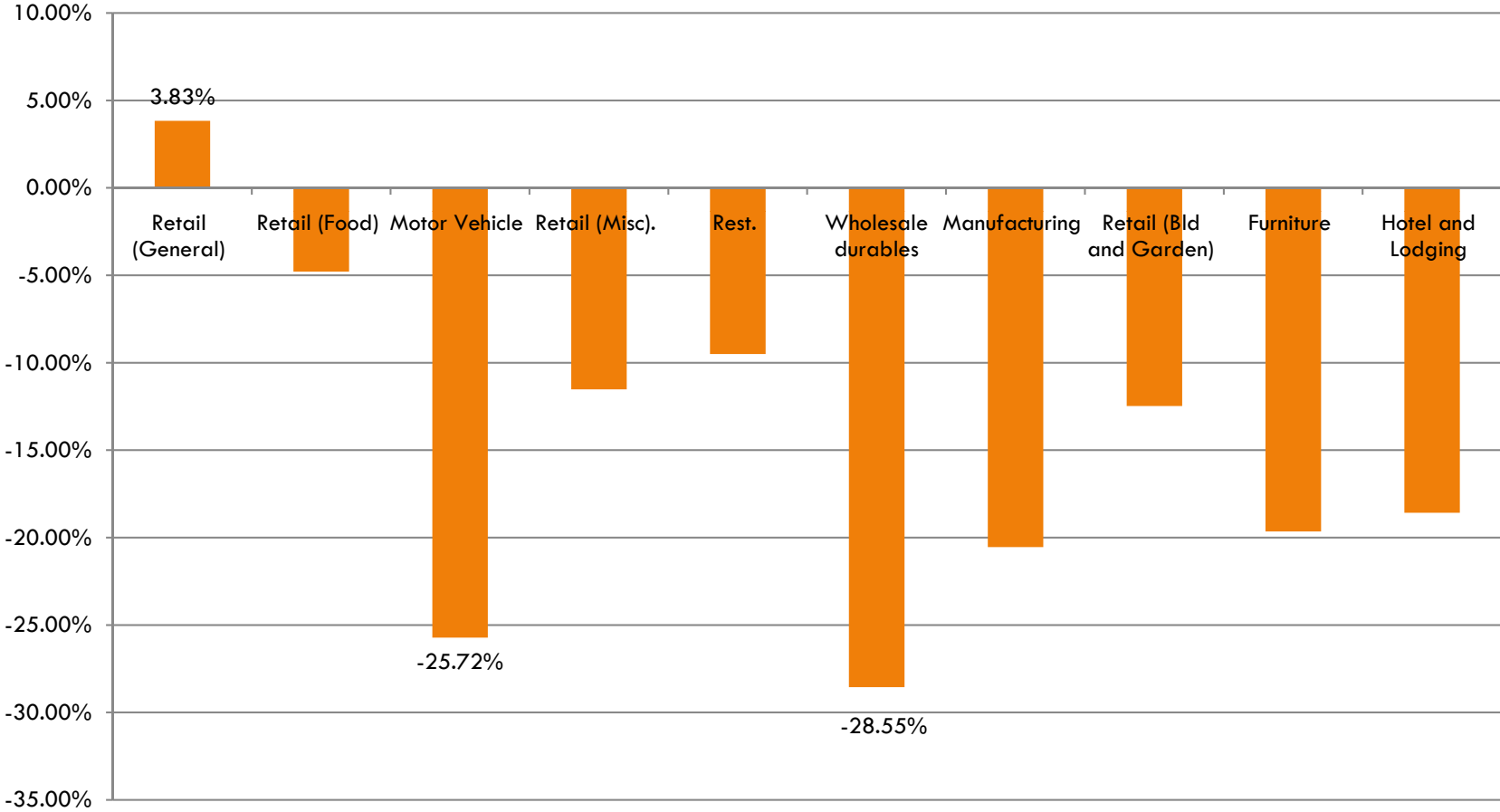
# Utah Sales Tax

Percent change from same month to previous year

1 % local  
option sales  
tax



# Statewide Sales -- 1<sup>st</sup> Quarter 2008 to 2009



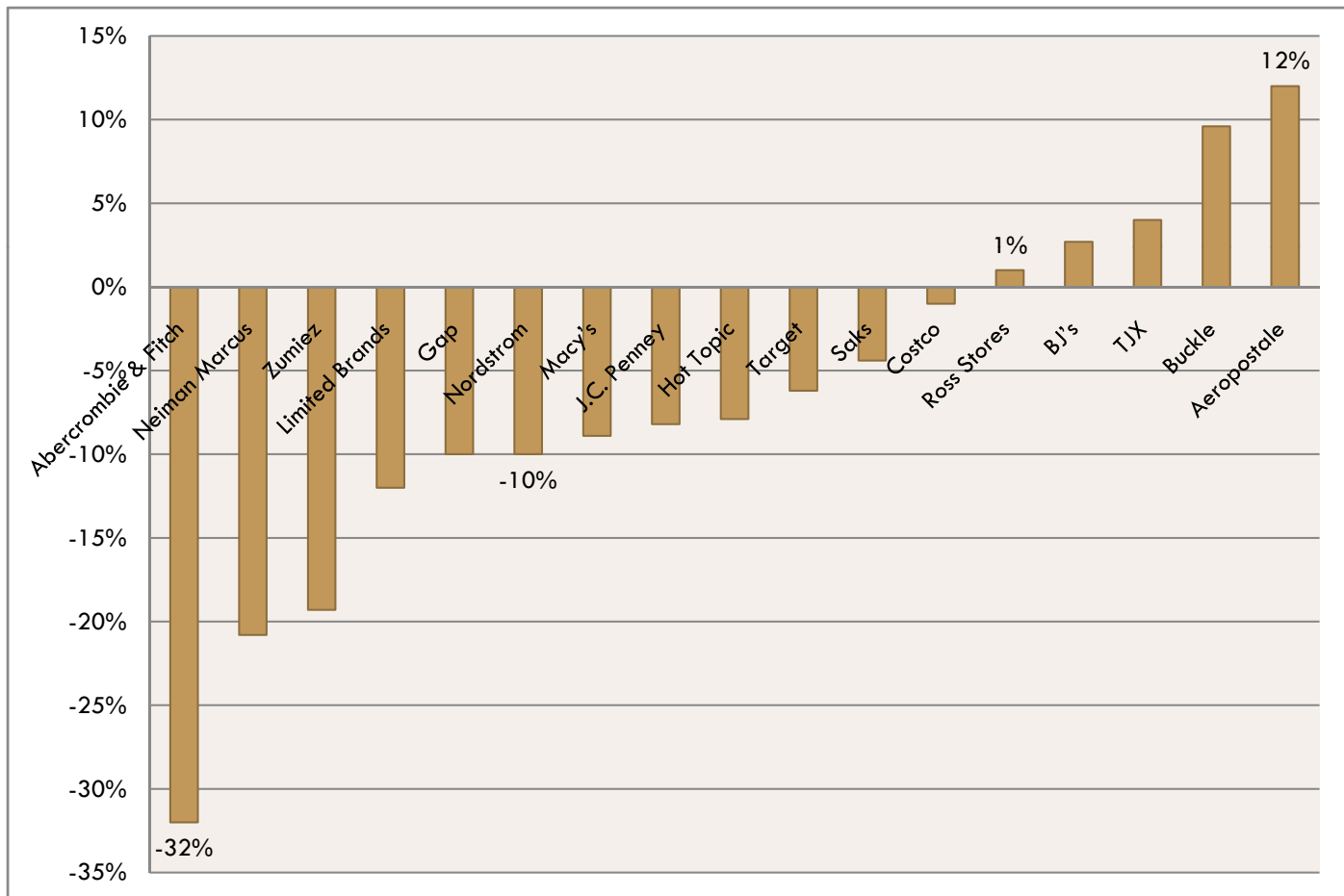


# Same Store Sales Changes June 2009

## National Data

Source: Wall Street Journal

Shift from high end apparel stores to bargain stores





## Property Tax

# Tax Components

- Tax Base – What is being taxed
- Fair Market Value of Home (\$200,000)
- Tax Rate – The levy imposed against the base to determine the actual tax
- .00001
- Tax: \$20



# THE PROPERTY TAX BASE

- Fair Market Value –
  - Determined as of January 1<sup>st</sup>
  - County Assessor/Tax Commission
- Mass Appraisal System
  - Actual Appraisals/Statistical Methods
- There will always be inaccuracies
  - That is why there are appeals



# Truth-in-Taxation

- The “truth-in-taxation” system governs the use of property tax in the budgeting process.
- It determines the specific property amount that a city will receive without taking any additional action.
- Creates a “brake” on revenue windfalls associated with increases in value



# Truth-in-Taxation Principles

- Revenue Driven System: A city is limited to the prior year's property tax revenue plus new growth UNLESS it goes through a notification process and a public hearing.
- Objective: Increases in value do not increase property tax revenue.





# Truth-in-Taxation Example

- **Property Tax Base Value - \$10 million**
- **Property Tax Base Value increases 10% - \$11 million**
- **Tax Rate - .0001**
- **Truth-in-Taxation requires a decrease in the rate of 10% - .0000909**
- **Property Tax Revenue - \$100,000**
- **Property Tax Revenue still \$100,000**



# Why Significant Tax Increases?

- Property Values do not change uniformly – Especially true in a mass appraisal system.
- Example
  - A \$200,000 home (2006) increases in value 25%. The average increase in 10%. Its new value is \$250,000.
  - Truth-in-Taxation requires a rate drop of 10% (the average increase). However, the example property would still see an increase in tax of 15%.
  - Properties with a value increase below 10% would actually see a decrease.

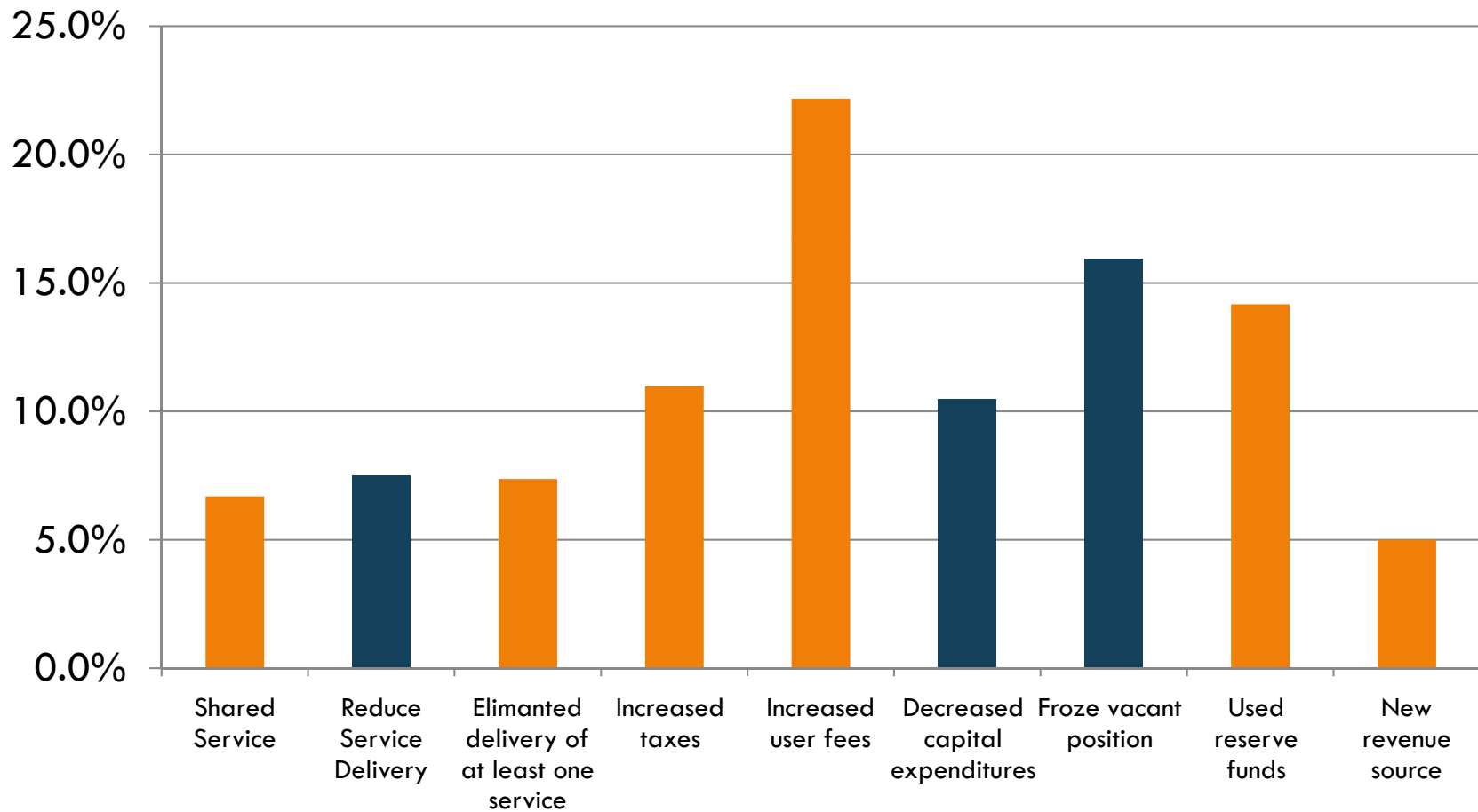


LIMITED OPTIONS



# Strategies to balance the budget

national survey during 2001 recession



# Other options



- Cut back or eliminate staff support
  - ▣ Cut down or eliminate travel
  - ▣ Cut down or eliminate training
- Pension benefits
  - ▣ Eliminate city match to 401k
- Postpone fleet or other capital replacements

# Utah expected 2010 budget decrease

Cluster Name	Cluster	Average expected percentage change in FY 2009 revenues	Average expected percentage change in FY 2010 revenues
Major Population Centers	A	-5.0%	-2.4%
Commercial Centers	B	-6.5%	-4.9%
High Growth	C	-6.8%	-7.3%
Residential Transitioning	D	-6.4%	-6.3%
High Income	E	-7.3%	-9.0%
Urban Edge Cities	F	-2.5%	-6.0%
Resort Communities	G	-6.0%	-4.0%
NR/Mining Based	H		
Old Established	I		
Traditional Ag.	J		
Small Town	K		
Capital City	L	-3.6%	-4.5%
All	All	-6.0%	-5.6%



# Does every cloud have a silver lining?

Positive  
opportunities  
during an  
economic  
downturn

- Communicate budget and services
  - ▣ *Making Life Better*
- Catch your breath
  - ▣ Catch up from boom periods
- Review city services
  - ▣ What are your core services?
  - ▣ Are there ways to improve efficiency?
- Evaluate trends
  - ▣ 5 to 10 year trend
- Review master plan
- Infrastructure assessment



Thank you.

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