

# 2019 Economic Outlook & Revenue Overview

Prepared for the Salt Lake County Council and Mayor

October 2, 2018

Rod Kitchens, Mayor's Financial Administration

Robert Reed, Mayor's Financial Administration

Doug Macdonald, Econowest Associates

# Agenda

- Economic Indicators
- Property Tax Projection
- Sales Tax Projection
- Other Revenues
- Summary

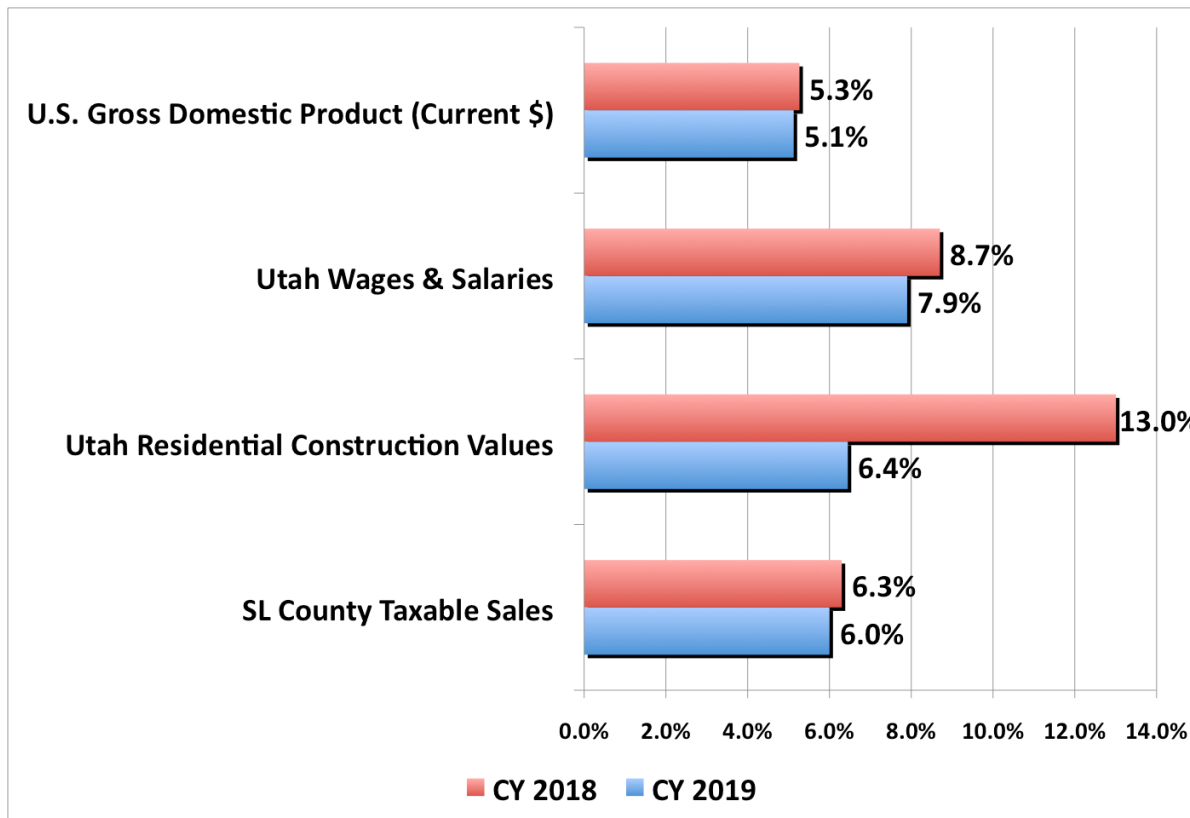
Doug Macdonald / Yoram Bauman / Bob Springmeyer

# **ECONOMIC OVERVIEW**



# 2018 Taxable Sales Likely to Grow at least 6%

## Currently Growing More Than 8%



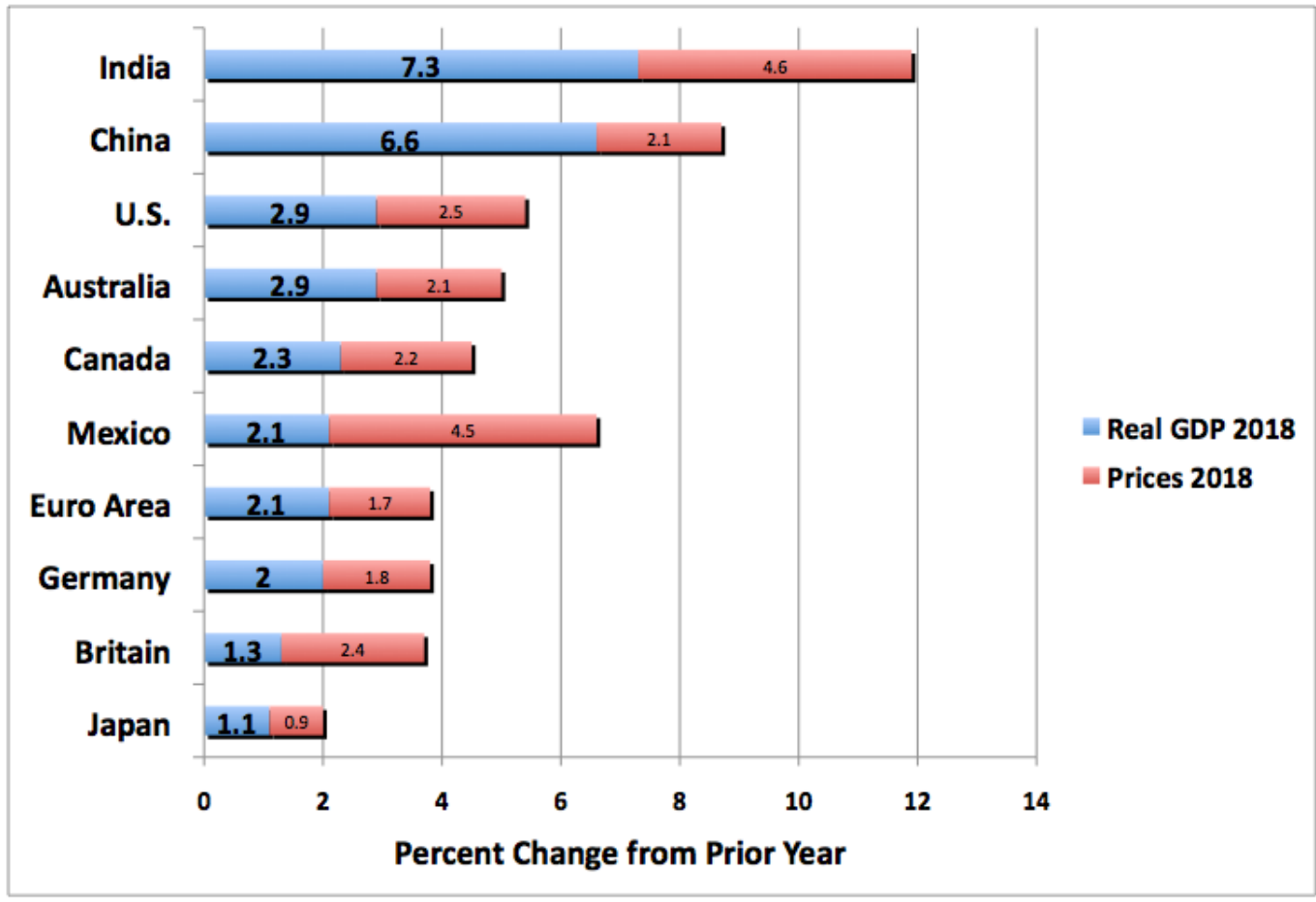


# The World





# World Real Growth Up 3.5% in 2018



Source: The Economist, Sept. 15, 2018

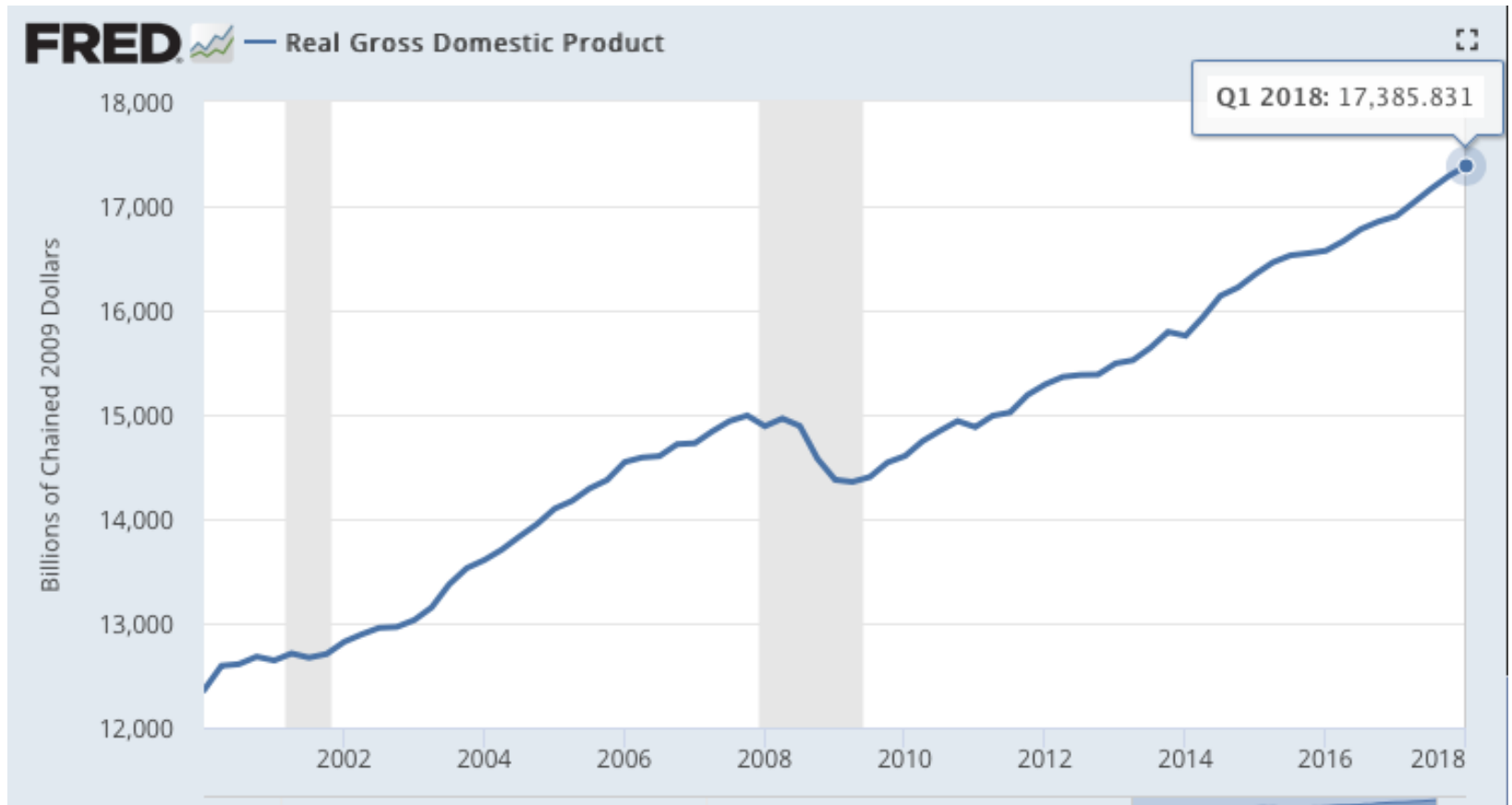


# The Nation





# U.S. GDP up 2.9% in 2018



Source: Federal Reserve Bank of St. Louis





# 2018 U.S. growth improves to 2.9%

- The U.S. leads the middle of the pack—principle drivers of growth are **domestic demand** and **business equipment**
- Prospects for consumer spending (70% of GDP, growing 2.5%) still look pretty good, thanks to **solid jobs** and income growth, relatively **low interest rates**, and **high home prices**
- Real capital spending on structures and equipment accelerates to **7% in 2018**, then **4% in 2019** (add 2% for inflation)

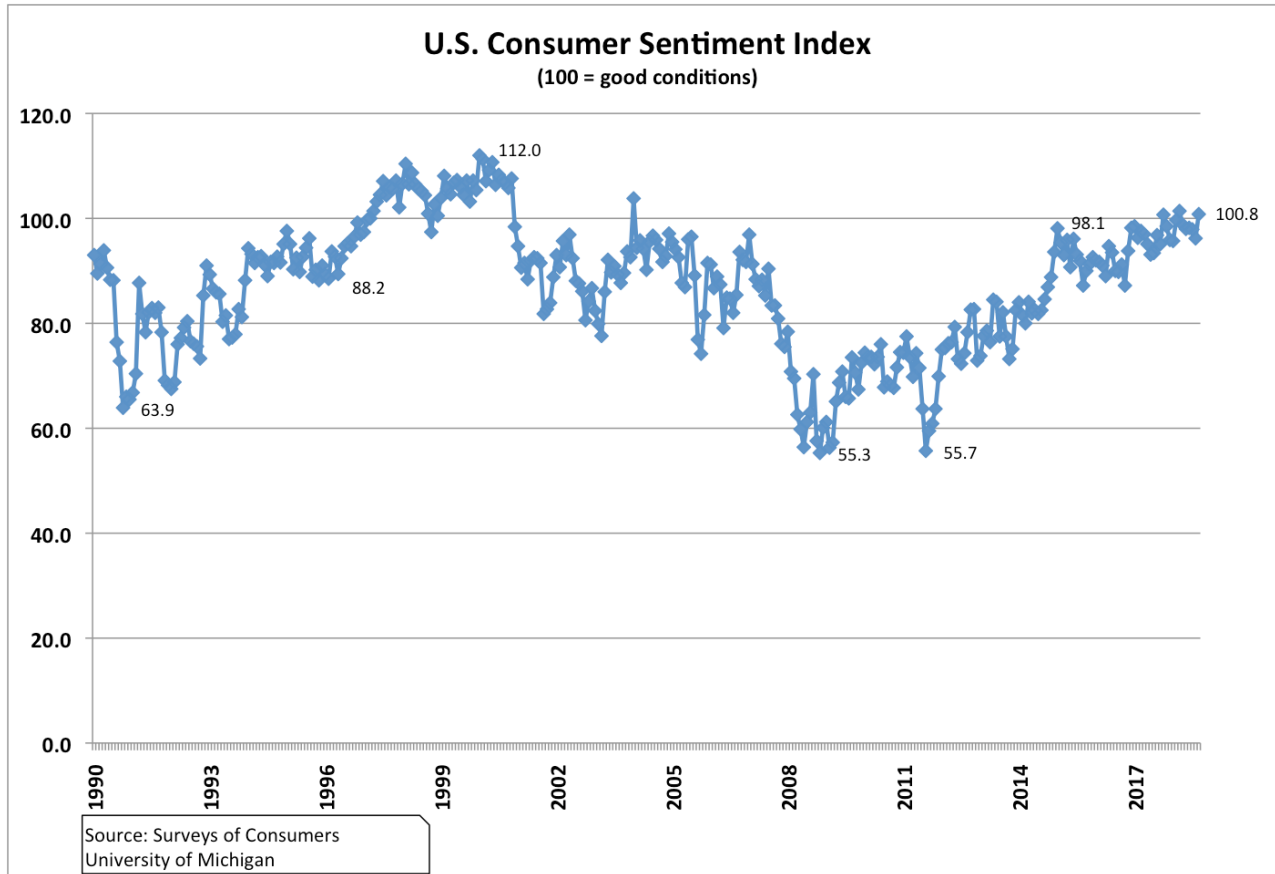


# U.S. Economy Good Through 2018



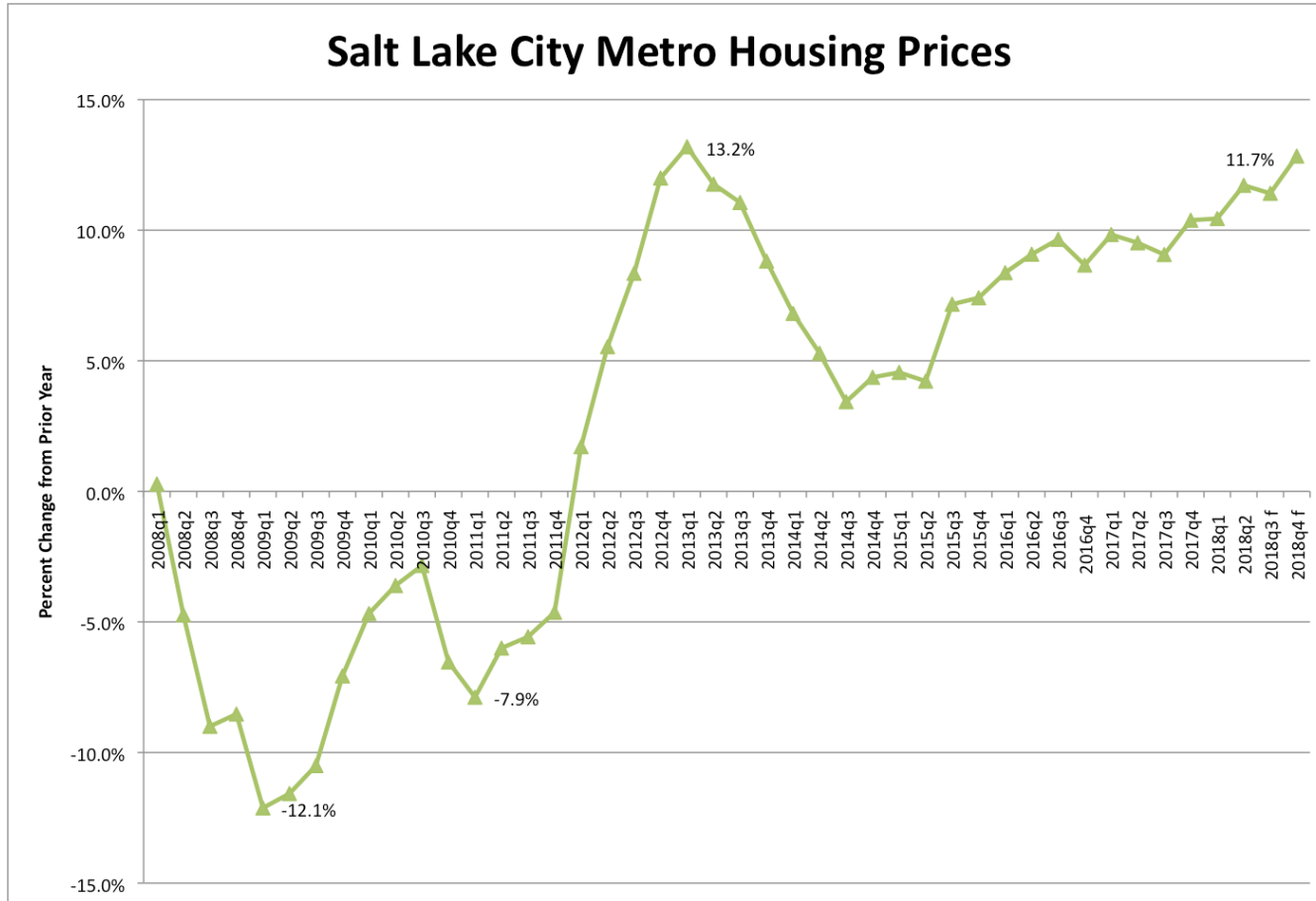


# Consumers Very Confident





# SLC Metro Home Prices Increase 11.7% Second Quarter 2018

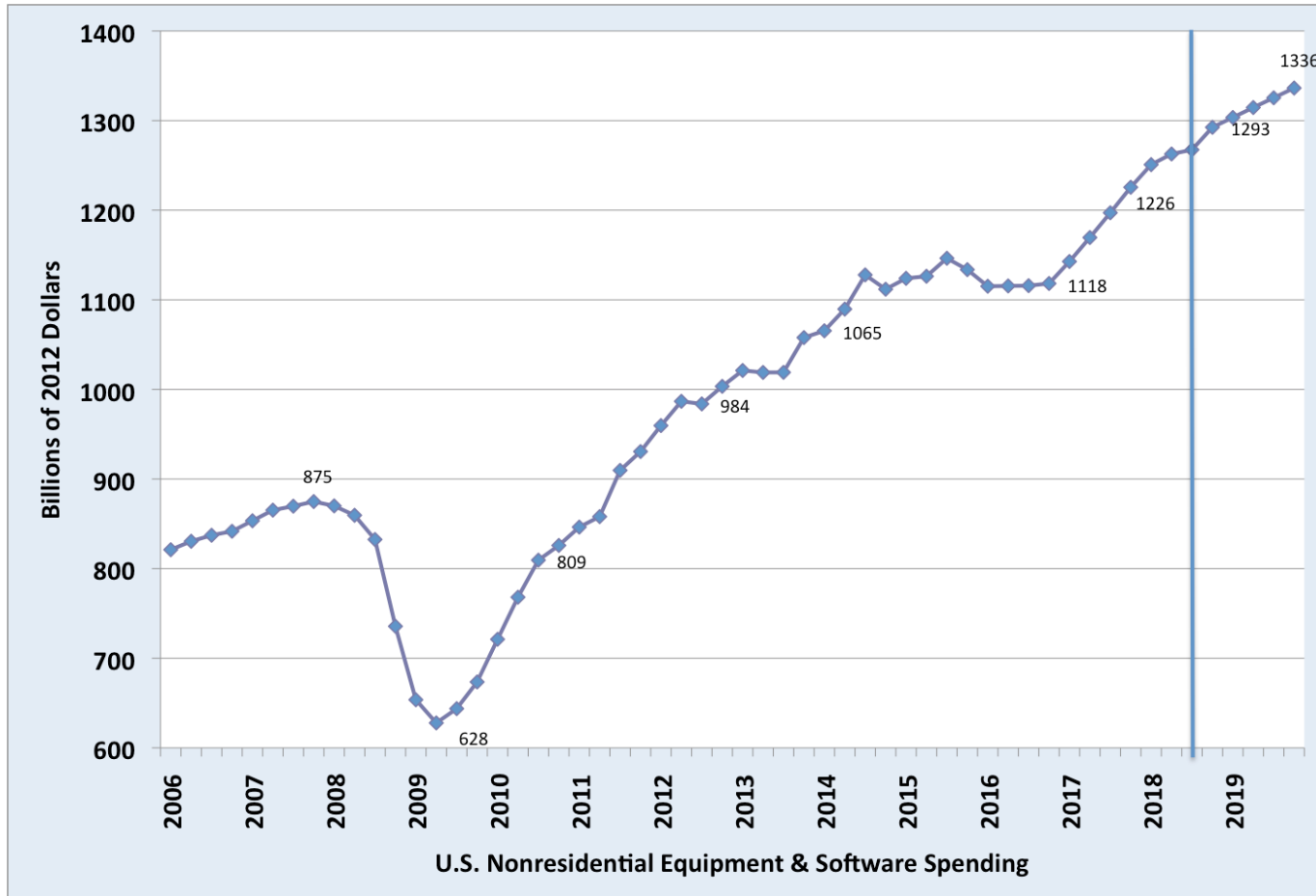


Source: FHFA



# U.S. Business Equipment & Software

## Likely to Grow 7% in 2018 and 4% in 2019





# What Could Go Wrong?



# What Could Go Wrong?

EDITORIAL

## Inviting the Next Financial Crisis

### Bull Market Hits 3,453 Days; Gusher Flows Past Most Americans

**By MATTHEW PHILLIPS**

The party has been going for more than a decade. But a lot of Americans haven't been celebrating.

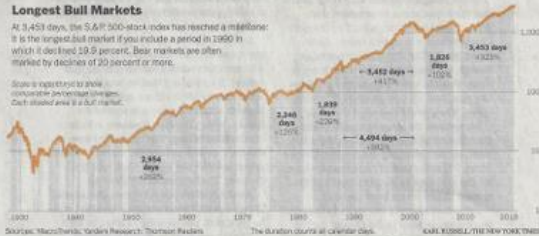
Stocks crossed a major threshold on Wednesday, when the 10-year-old bull market arguably became the longest on record.

It ranks among the great booms in American market history. The Standard & Poor's 500-stock index has soared more than 320 percent since emerging from the rubble of the financial crisis in March 2009, creating more than \$18 trillion in wealth.

#### Longest Bull Markets

At 3,453 days, the S&P 500-stock index has reached a milestone: It is the longest bull market if you include a period in 1990 in which it declined 19.9 percent. Bear markets are often marked by declines of 20 percent or more.

Scale is exaggerated to show consecutive percentage changes. Each shaded area is a bull market.



## The Next Financial Crisis Lurks Underground

*China's Consumption Downgrade: Skip Avocados, Cocktails and Kids*



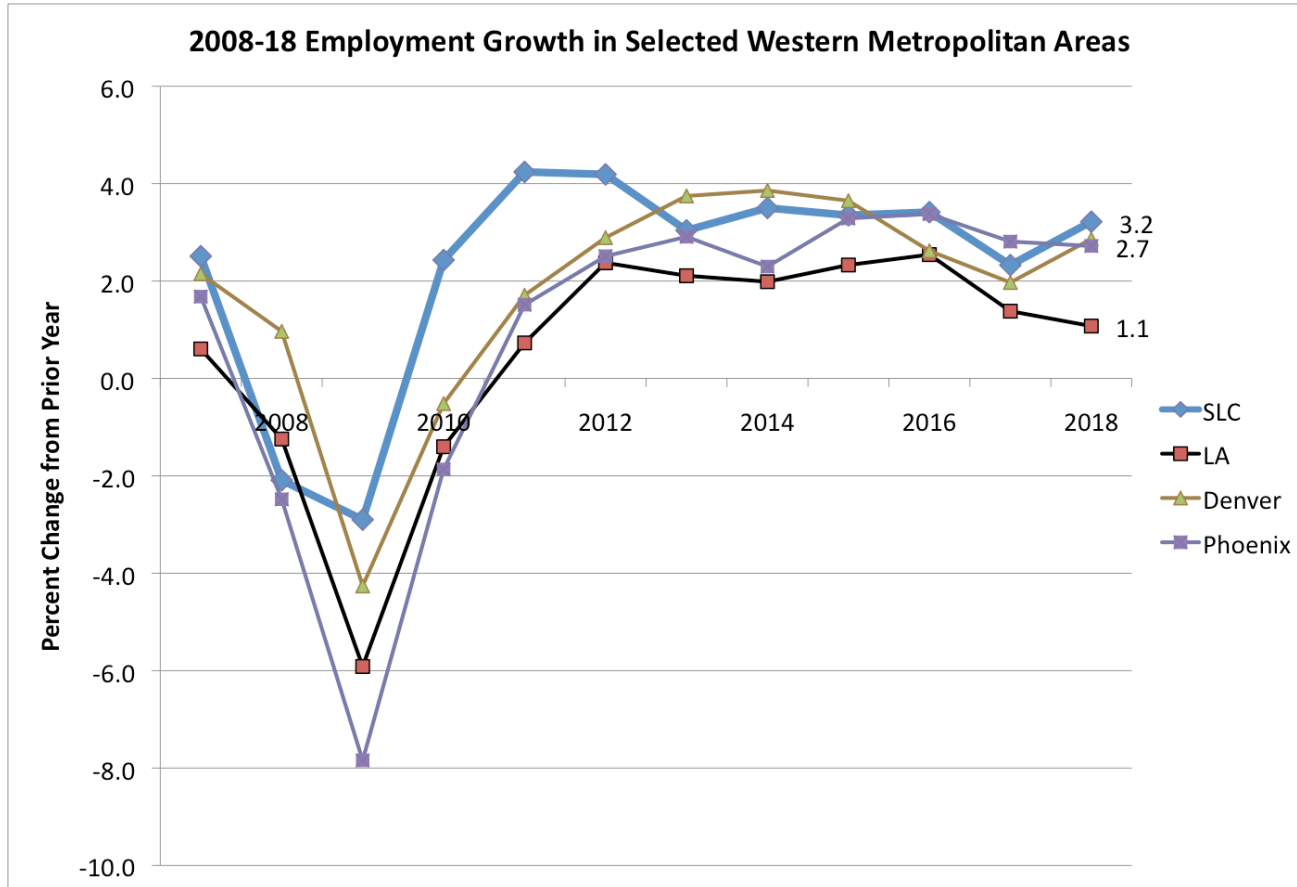
# What Could Go Wrong?

- Booming Stock Market
- Surging New Construction
- Lowering Financial Regulations
- Doubling Federal Deficits will Require Higher Interest Rates
- Flattening of the Yield Curve





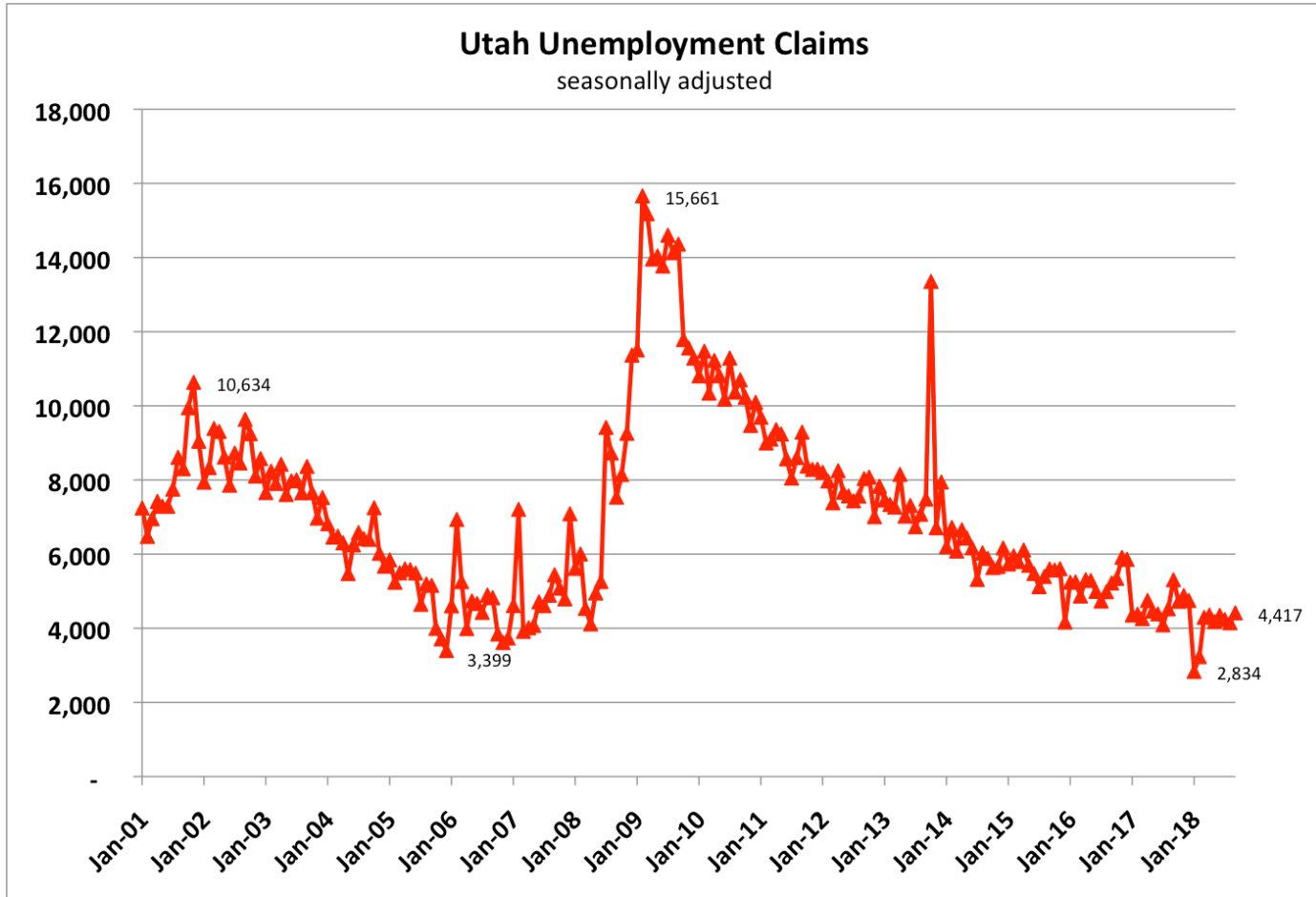
# Salt Lake Metro Job Growth Leads LA, Phoenix & Denver





# Unemployment Claims Down to 2006-08 Level

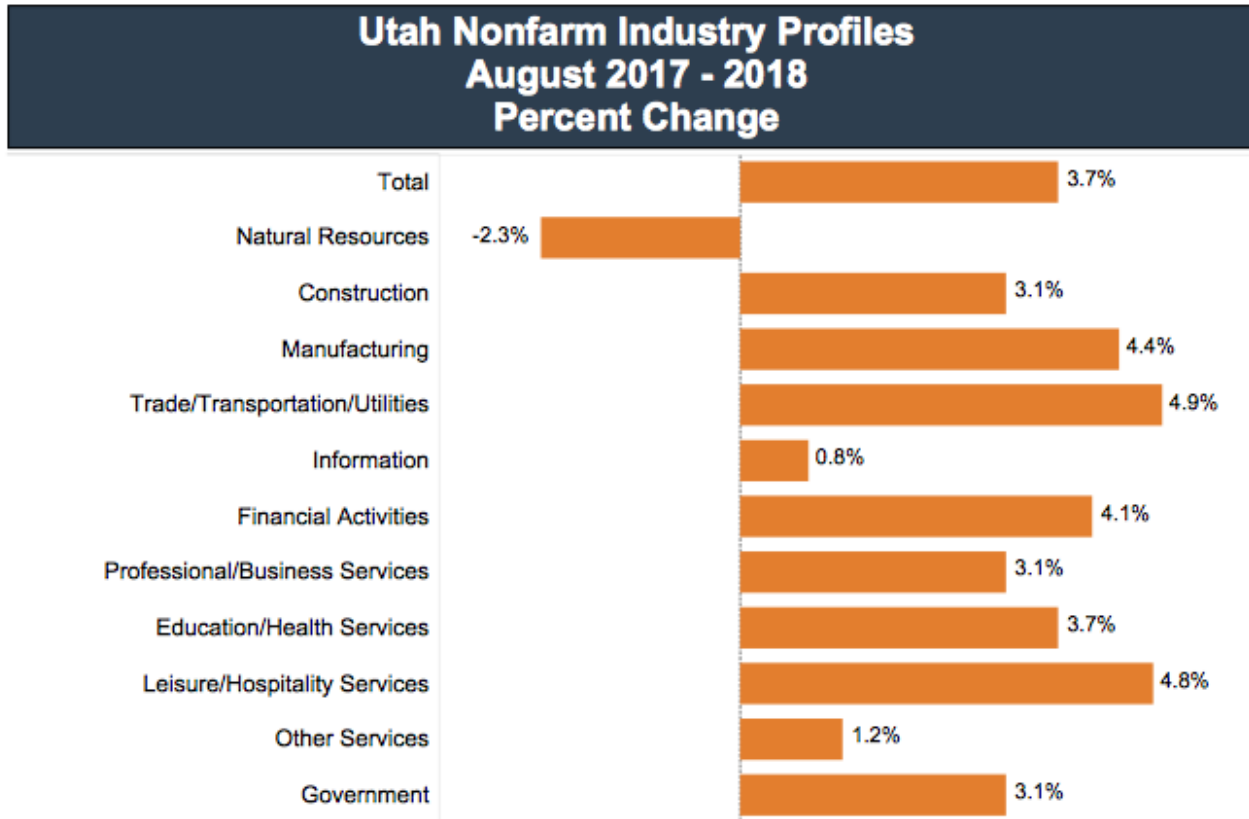
(6 Month Leading Indicator for Job Growth)





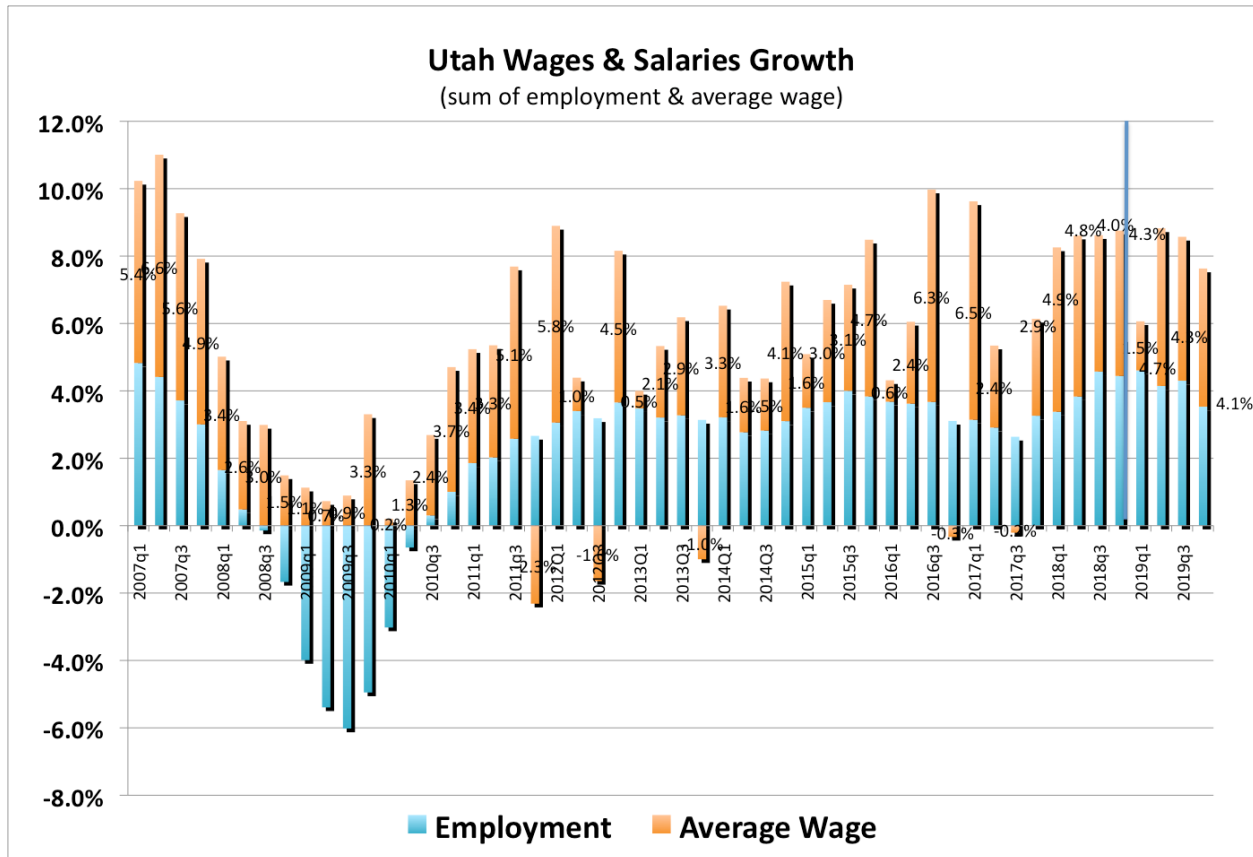
”The state’s labor force continues to grow and is quickly absorbed into the employment rolls by Utah businesses.”

Carrie Mayne, Chief Economist, Dept. of Workforce Services





# Seems High, But Utah Total Wages Might Grow 8.7% in 2018 and 7.9% in 2019





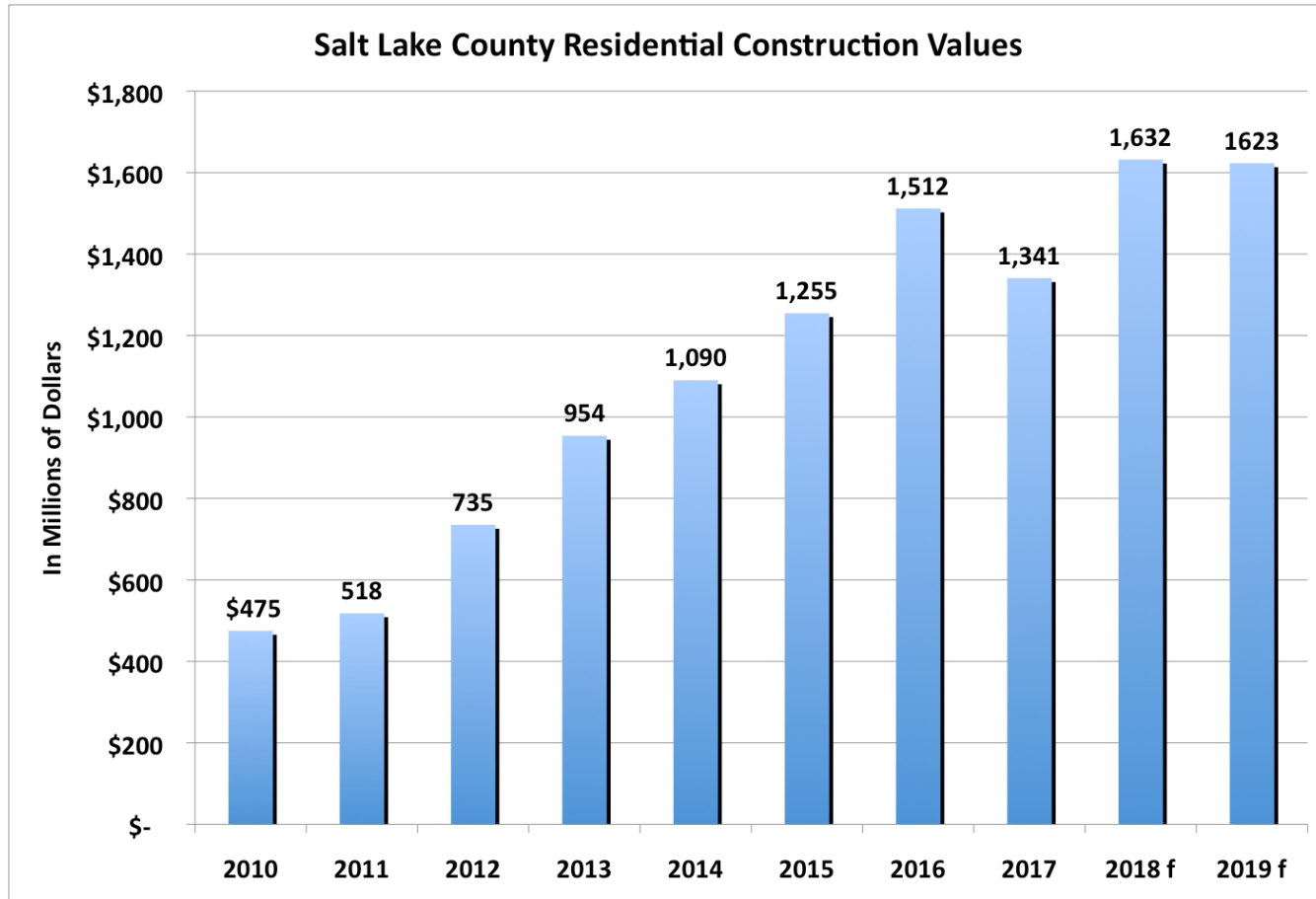
# The County Economy





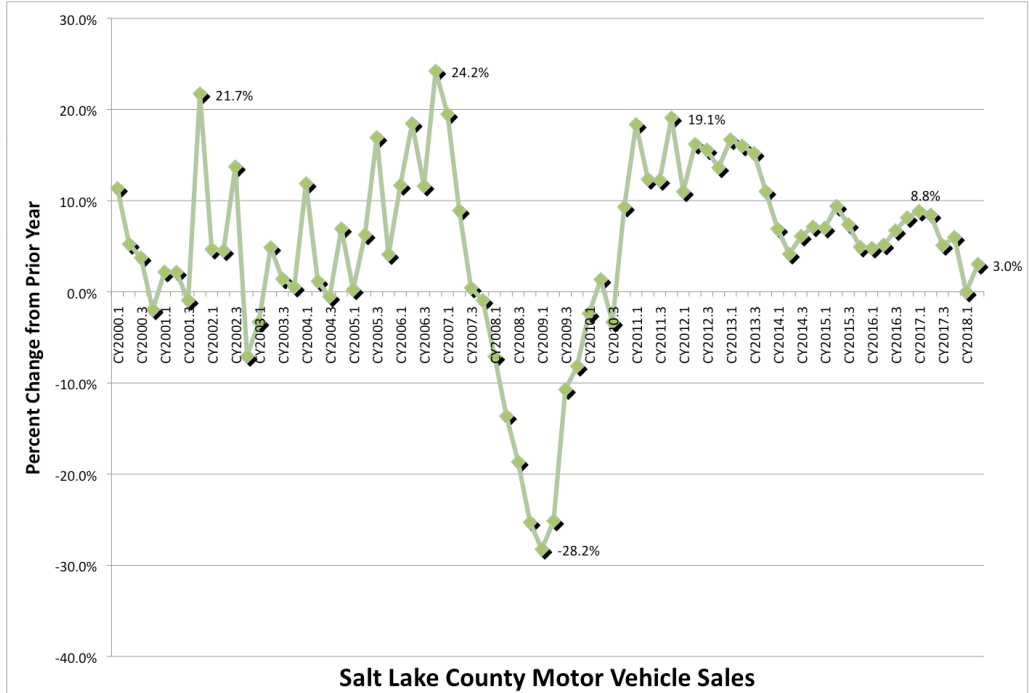
# The County Economy

After an 11% decline last year, Salt Lake County New Residential Construction could be up 15% to 22% in 2018



# Car & Truck Sales – Strong from 2014 to 2017 But Trending Down

Salt Lake County		% Chg.
\$Billion		
2014	\$ 2.63	5.6%
2015	\$ 2.83	7.1%
2016	\$ 3.01	6.3%
2017	\$ 3.22	7.2%
2018 1 <sup>st</sup> half	\$ 1.60	1.6%



Source: Tax Commission





# Salt Lake County Taxable Sales 2nd Quarter 2018

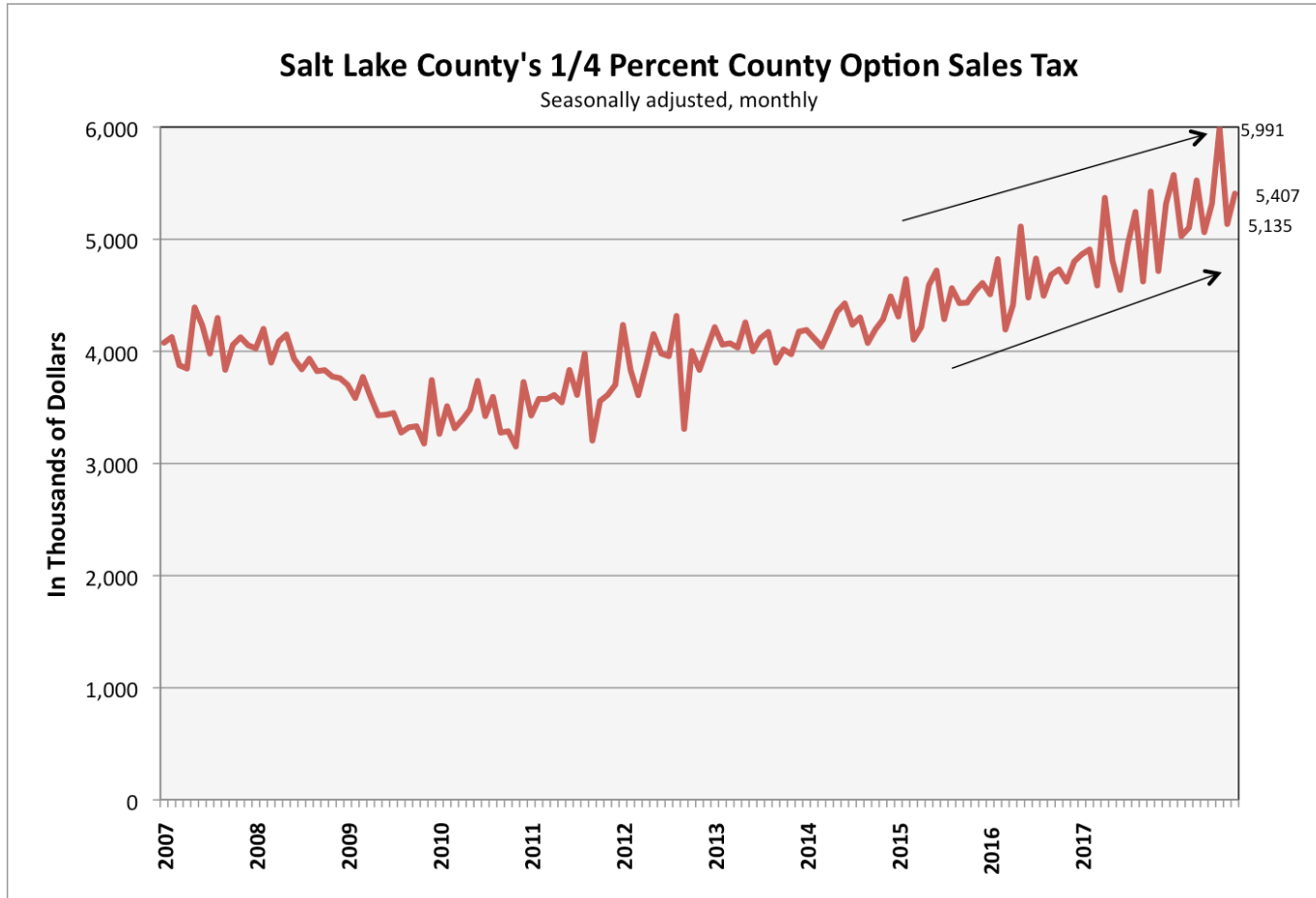
(These 9 sectors account for 60% of total taxable sales)	Sales in Million \$	% Change From Prior Year
Retail – Motor Vehicle	\$ 858	3.0%
Retail – General Merchandise	617	4.9
Retail – Food & Beverage	498	3.0
Retail – Building	448	13.7
Non-store Retailers (Internet sellers)	143	10.2
Services – Restaurants	604	7.4
Services – Hotel Accommodations	159	11.7
Bus. Inv. - Manufacturing	297	11.0
Bus. Inv. - Wholesale Durables	660	10.4
<b>Total</b>	<b>\$ 7,191</b>	<b>6.8%</b>

Source: Utah State Tax Commission





# Seasonally Adjusted Sales Tax Continues Upward Trend





# October 2018 Sales Tax Forecast

Econowest Taxable Sales Forecast for 2019	6.0%
Less Manufacturing & Mining Exemption SB 2001	- 5.0%
Plus New E-Commerce from South Dakota vs Wayfair and SB 2001	<u>+ 2.0%</u>
Net Sales Tax Forecast	3.0% ====



Rod Kitchens

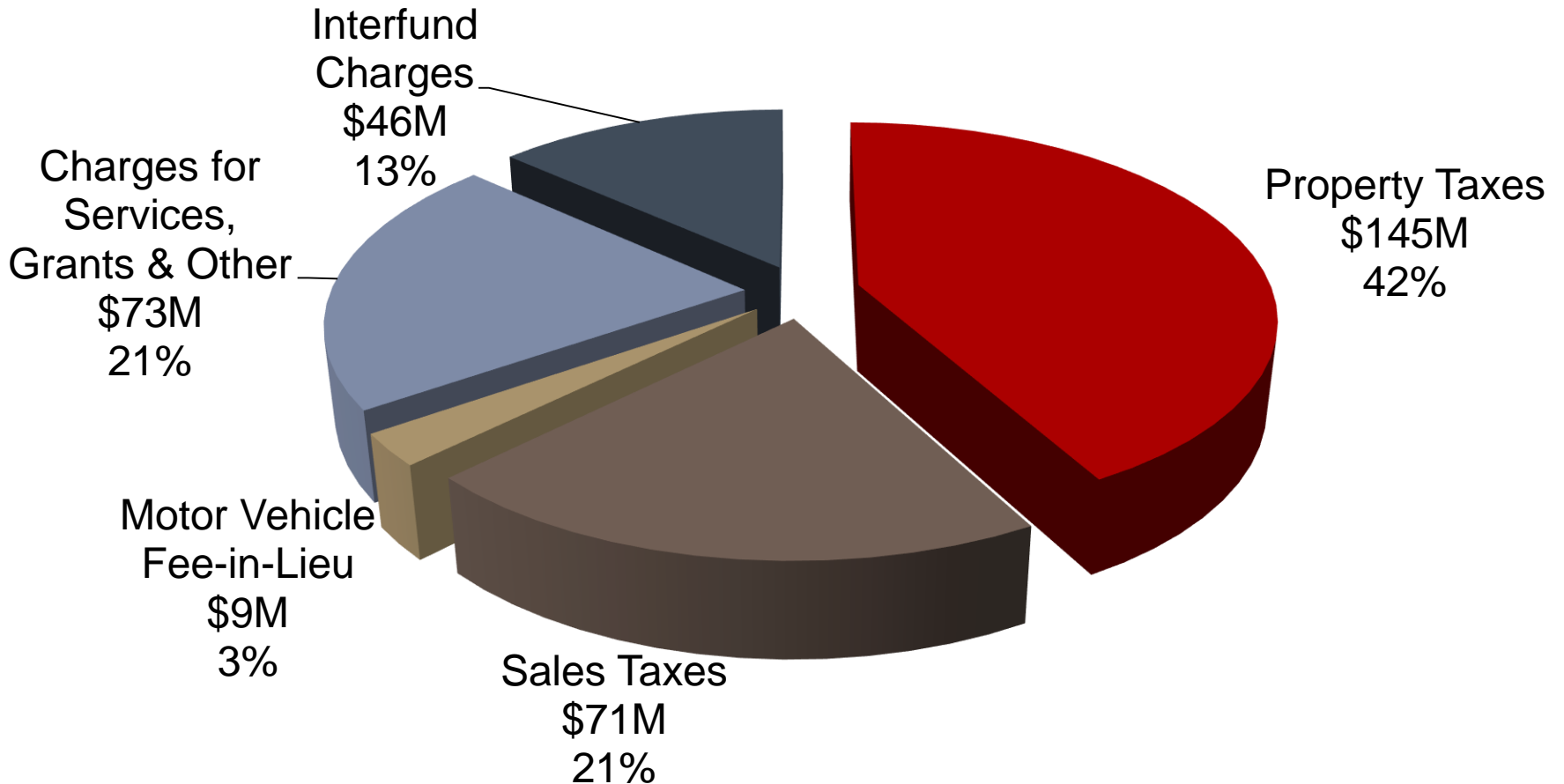
# REVENUE UPDATE



# 2018 Major Revenues

## General Fund

\$344M Total



# PROPERTY TAX REVENUES

# 2019 Property Tax Revenue

- Projected new growth for 2019
  - Reviewed permit authorized construction trends for residential and non-residential properties
  - Consulted with the District Attorney's Office about centrally-assessed property values
  - Projection vetted with Revenue Committee

# New Growth Projection

- Certified Tax Rate guarantees the same revenue as previous year, plus new growth
- New growth for rate setting based on change in value from:
  - New structures, additions, major remodels
  - Not reappraisal/market value appreciation
- Other Components of new growth:
  - CRA / RDA Offsets (Tax Increment Financing captures new growth in value and diverts it from taxing entities)
  - Centrally Assessed (assessed by the state—must exceed a benchmark to add new growth)
  - Project Area (areas no longer subject to CRA / RDA capture)



# New Growth In Taxable Value

2019 New Growth (\$M)	County-wide <sup>1</sup>	Library
<b>2018 Final BOE Adj Value + Inflation</b>	<b>\$107,841</b>	<b>\$75,714</b>
<b>Growth in Real Property Values</b> (net of reappraisal)	\$3,586	\$3,039
<b>- CRA / RDA Offsets</b>	<b>(900)</b>	<b>(600)</b>
<b>+ Centrally Assessed</b>	0	0
<b>+ Project Area</b>	260	260
<b>NET NEW GROWTH</b>	<b>\$2,946</b>	<b>\$2,699</b>
<b>% NEW GROWTH<sup>2</sup></b>	<b>2.75%</b>	<b>3.50%</b>

*CRA / RDA Offsets %*

*-25%*

*-20%*

<sup>1</sup> Countywide includes all countywide funds except for Bond Debt Service and Tax Administration funds.

<sup>2</sup> Growth %'s are rounded.





# Property Tax Revenue Projection

## Countywide Tax Funds

Fund (\$M)	2019 Budget	2018 Budget	<i>New Growth</i>	
General	148.7	144.8	4.0	2.75%
Flood Control	5.4	5.3	0.1	2.73%
Health	12.1	11.8	0.3	2.75%
Governmental Immunity	1.7	1.7	0.05	2.72%
Capital Improvements	6.0	5.9	0.2	2.74%
Planetarium	2.9	2.8	0.1	2.73%
<b>Total Countywide Tax Funds</b>	<b>176.9</b>	<b>172.2</b>	<b>4.7</b>	<b>2.75%</b>
Bond Debt Service	28.0	29.0	(1.0)	(3.45%)



# Property Tax Revenue Projections

## Other Funds

Fund (\$M)	2019 Budget	2018 Budget	<i>New Growth</i>	
Library	40.3	38.9	1.4	3.50%
State Tax Admin	24.1	23.4	0.8	3.25%
Gov Immunity Unincorp	0.3	0.3	-	-
<b>Total Other Funds</b>	<b>64.6</b>	<b>62.5</b>	<b>2.1</b>	<b>3.39%</b>



# 2019 Sales Tax Revenue

- Projected based on local and national economic indicators, including
  - Wage and employment growth
  - Consumer Confidence
  - Vehicle sales and other leading indicators
- Incorporated new legislation in the calculations
  - Internet/remote sales
  - Exemption for manufacturing and mining nondurable purchases, etc.
- Information available from the Tax Commission on a two-month lag
  - Currently have actuals through July 2018
  - August information available the week of October 22<sup>nd</sup>
- Local Option Sales Tax
  - Salt Lake County portion now based on one year of actual data without Millcreek City or Metro Townships
- Projections vetted with the Revenue Committee

Robert Reed

# **NEW LEGISLATION IMPACT ON SALES TAXES**



# Legislation Adds Uncertainty in “Good Times”

SB233/SB2001

- SB233
  - Passed before *South Dakota v. Wayfair*
  - Implemented exemption for manufacturing, mining, medical labs
    - What: Machinery, equipment, normal operating repair or replacement parts, or materials consumed in manufacturing. Several specific provisions that apply to mining.
  - **Was** contingent on either federal legislation or supreme court action on remote (internet) sales
  - Also **was** contingent on a specified amount of new revenue from remote sales accumulated in a special account
  - Previous exemption for 3yr or more life items
  
- SB2001
  - Passed after *South Dakota v. Wayfair*
  - Removed contingencies in SB233, implemented exemption as January 1, 2019



# Impact – Exemptions

- Sales reported by businesses in the sectors roughly 4.8% of all taxable sales
- Other impact will show up in other sectors that sell to the exempt sectors
- How much will be exempt?
  - Consulting economist calculates 5.5% for County Option
  - ZAP impact greater, local option significantly greater
- Contradictory analyses
  - STC source: Local losses 25-26 million – gains 25-26 million. Basically a wash

<b>Fiscal Note SB2001</b>	<b>State FY2019</b>	<b>State FY2020</b>	<b>State FY2021</b>
Gain From Remote Sales \$M	27.9	91.3	99.5
Loss From Exemption \$M	<u>(27.6)</u>	<u>(85.5)</u>	<u>(88.1)</u>
<b>Total Change</b>	<b>0.3</b>	<b>5.8</b>	<b>11.4</b>

- Consulting economist calculates losses greater than gains



# Impact – Remote Sales

- Potential Gains
  - Amazon marketplace and fulfilled by Amazon
  - Large currently absent remote sellers e.g. Wayfair, eBay
  - Other remote sellers that meet nexus requirements and comply
  - Expiration of the 18% discount for non-nexus sellers voluntarily collecting sales taxes
  - Benefit to local brick and mortar retailers
- Reasons to be Cautious
  - Enforcement outside of the state could be difficult
  - Threshold requirements for nexus - \$100K sale or 200 transactions
    - Quite low, but proportion of remote sellers is unknown
  - Significant remote sales are already captured



# Conclusion

- We don't know what to conclude
- Caution is warranted in the projection
- Will monitor, but first data point will be by late March, 2019

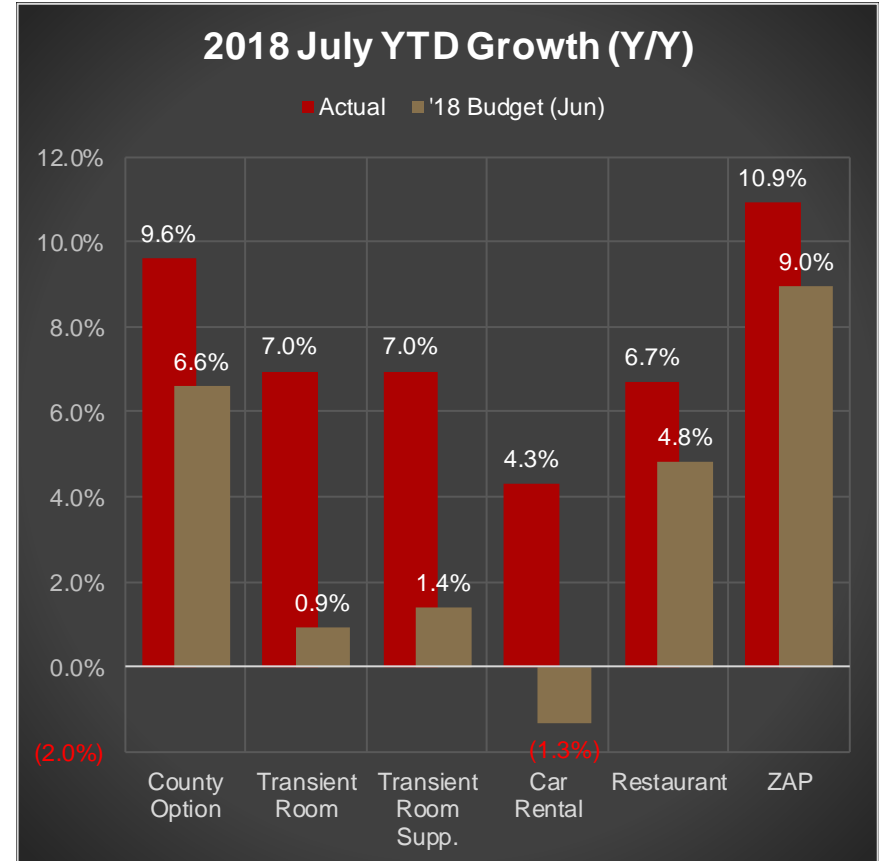
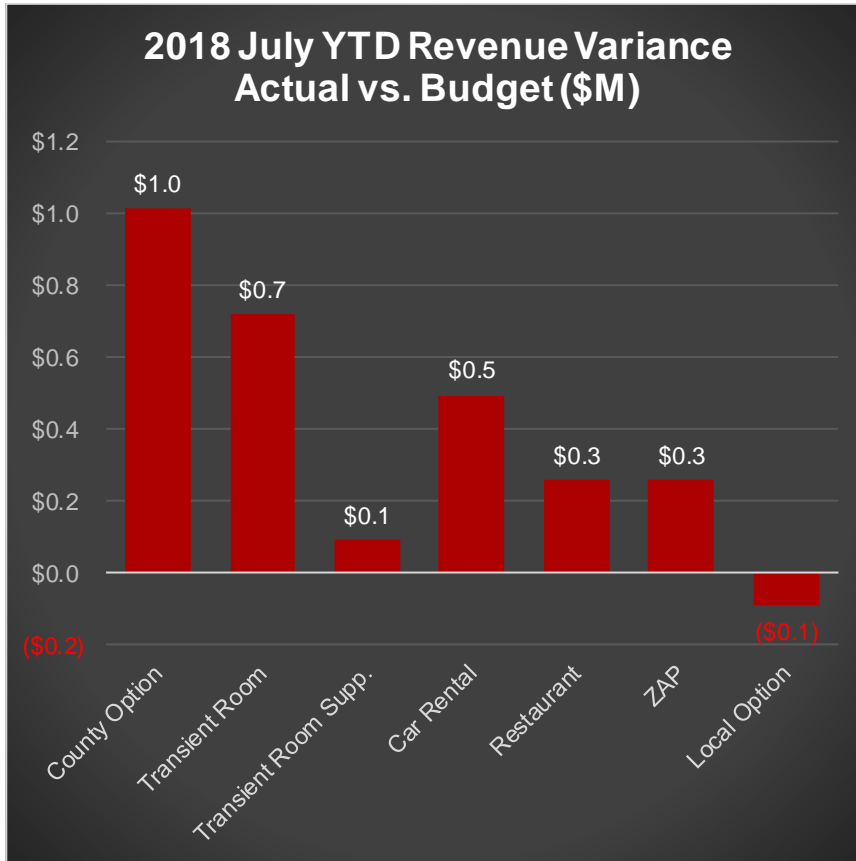


Rod Kitchens

# **SALES TAX PROJECTIONS**

# 2018 Sales Taxes

## July YTD Results



\* Taxes attributable to July 2018 sales were distributed September 24, 2018, on the customary two month lag.



# 2018 Sales Taxes – New Projection

Sales Tax by Fund (\$M)		2018 Sept. Forecast	2018 June Adj Budget	Change	
<b>General Fund</b>	County Option	65.0	63.7	1.3	2.0%
	ZAP	7.6	7.4	0.1	2.0%
	<b>TOTAL</b>	<b>72.6</b>	<b>71.1</b>	<b>1.4</b>	<b>2.0%</b>
<b>Visitor Promo Fund</b>	Transient Room	<b>20.5</b>	<b>20.1</b>	<b>0.4</b>	<b>2.0%</b>
<b>TRCC Fund</b>	Transient Room Supp.	2.8	2.8	-	-
	Car Rental	15.2	14.7	0.5	3.4%
	Restaurant	25.1	25.0	0.1	0.4%
	<b>TOTAL</b>	<b>43.1</b>	<b>42.5</b>	<b>0.6</b>	<b>1.4%</b>
<b>ZAP Fund</b>	ZAP	<b>18.0</b>	<b>17.7</b>	<b>0.4</b>	<b>2.0%</b>
<b>Unincorp SLCo</b>	Local Option	<b>6.6</b>	<b>6.8</b>	<b>(0.2)</b>	<b>(2.8%)</b>
<b>TOTAL</b>		<b>160.8</b>	<b>158.2</b>	<b>2.6</b>	<b>1.6%</b>



# 2019 Sales Tax Projection

Compared to 2018 Budget

Sales Tax by Fund (\$M)		2019 Forecast	2018 June Adj Budget	Change	
<b>General Fund</b>	County Option	67.0	63.7	3.3	5.2%
	ZAP	7.7	7.4	0.3	4.4%
	<b>TOTAL</b>	<b>74.7</b>	<b>71.1</b>	<b>3.6</b>	<b>5.1%</b>
<b>Visitor Promo Fund</b>	Transient Room	<b>21.3</b>	<b>20.1</b>	<b>1.2</b>	<b>6.0%</b>
<b>TRCC Fund</b>	Transient Room Supp.	3.0	2.8	0.2	5.4%
	Car Rental	15.9	14.7	1.2	8.2%
	Restaurant	26.4	25.0	1.4	5.6%
	<b>TOTAL</b>	<b>45.3</b>	<b>42.5</b>	<b>2.8</b>	<b>6.5%</b>
<b>ZAP Fund</b>	ZAP	<b>18.5</b>	<b>17.7</b>	<b>0.8</b>	<b>4.4%</b>
<b>Unincorp SLCo</b>	Local Option	<b>5.9</b>	<b>6.8</b>	<b>(0.9)</b>	<b>(13%)</b>
<b>TOTAL</b>		<b>165.7</b>	<b>158.2</b>	<b>7.5</b>	<b>4.7%</b>



# 2019 Sales Tax Projection

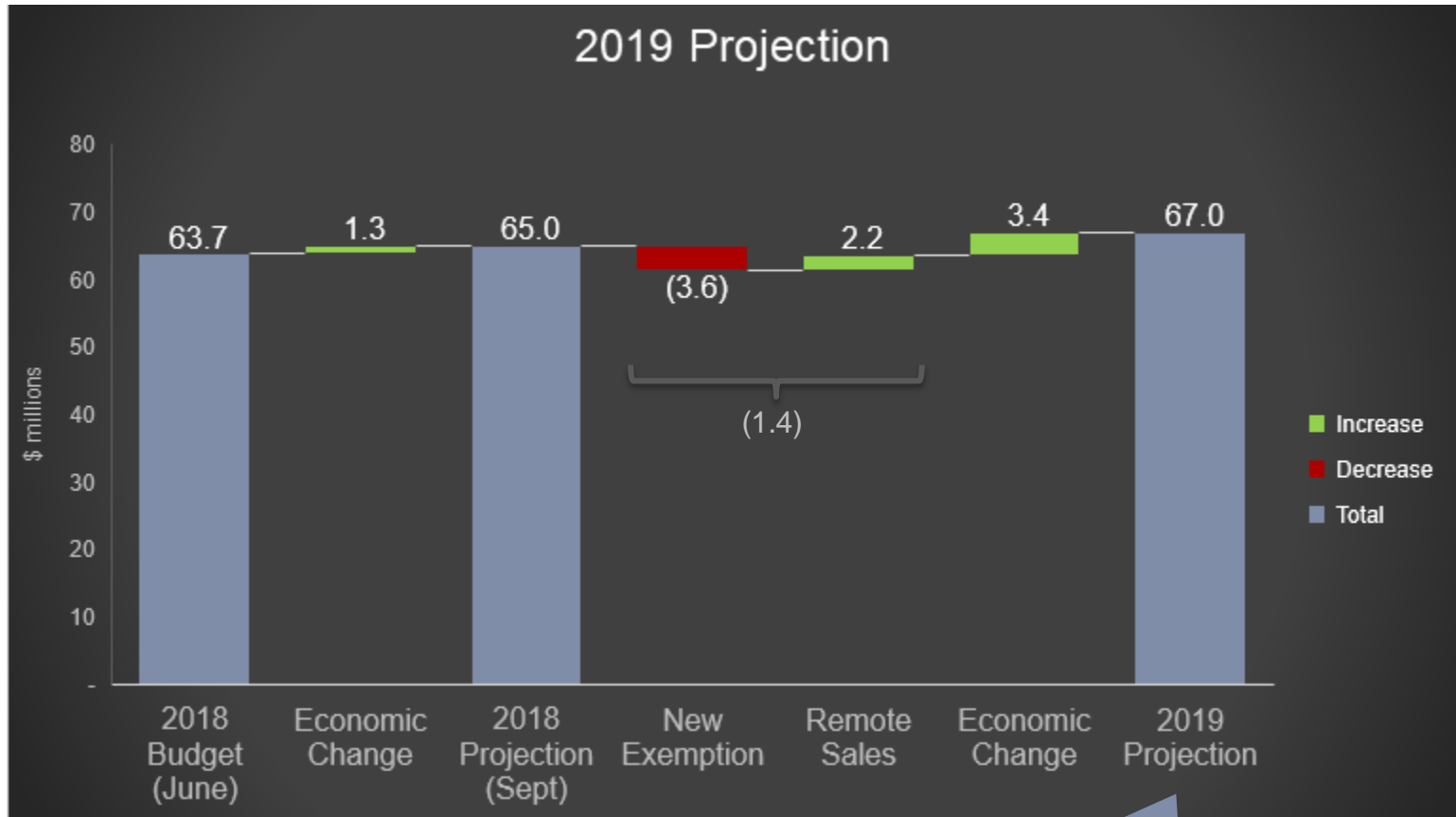
Compared to New 2018 Projection

Sales Tax by Fund (\$M)		2019 Forecast	2018 Sept. Forecast	Change	
<b>General Fund</b>	County Option	67.0	65.0	2.0	3.1%
	ZAP	7.7	7.6	0.2	2.3%
	<b>TOTAL</b>	<b>74.7</b>	<b>72.6</b>	<b>2.2</b>	<b>3.0%</b>
<b>Visitor Promo Fund</b>	Transient Room	<b>21.3</b>	<b>20.5</b>	<b>0.8</b>	<b>3.9%</b>
<b>TRCC Fund</b>	Transient Room Supp.	3.0	2.8	0.2	5.4%
	Car Rental	15.9	15.2	0.7	4.6%
	Restaurant	26.4	25.1	1.3	5.2%
	<b>TOTAL</b>	<b>45.3</b>	<b>43.1</b>	<b>2.2</b>	<b>5.0%</b>
<b>ZAP Fund</b>	ZAP	<b>18.5</b>	<b>18.0</b>	<b>0.4</b>	<b>2.3%</b>
<b>Unincorp SLCo</b>	Local Option	<b>5.9</b>	<b>6.6</b>	<b>(0.7)</b>	<b>(11%)</b>
<b>TOTAL</b>		<b>165.7</b>	<b>160.8</b>	<b>4.9</b>	<b>3.0%</b>



# County Option Sales Tax

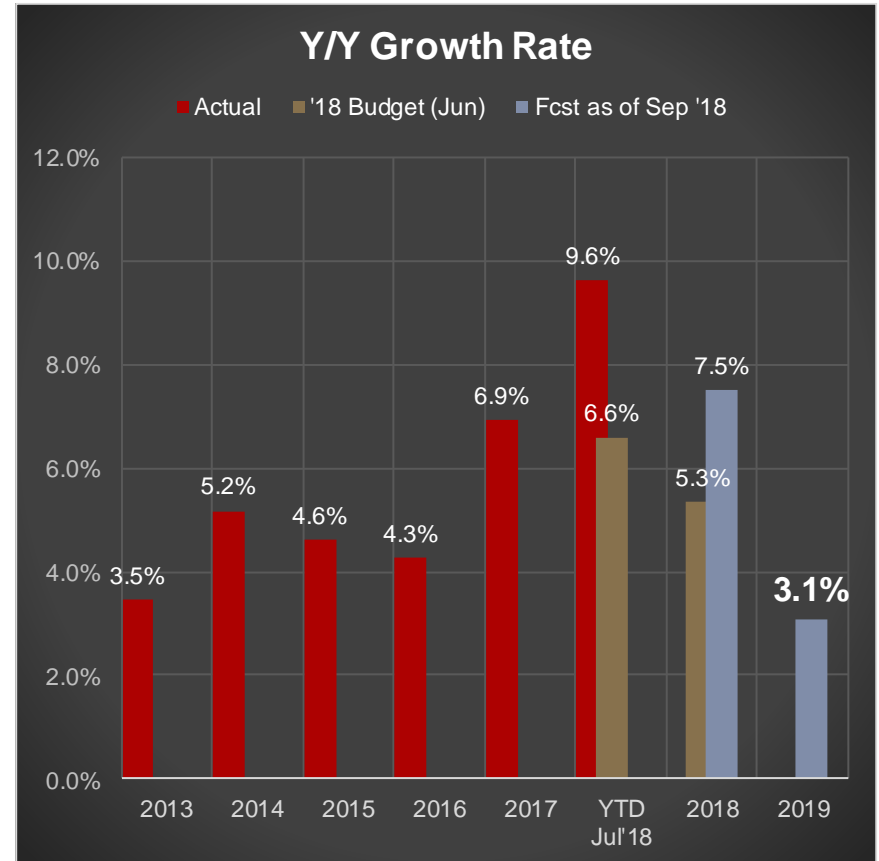
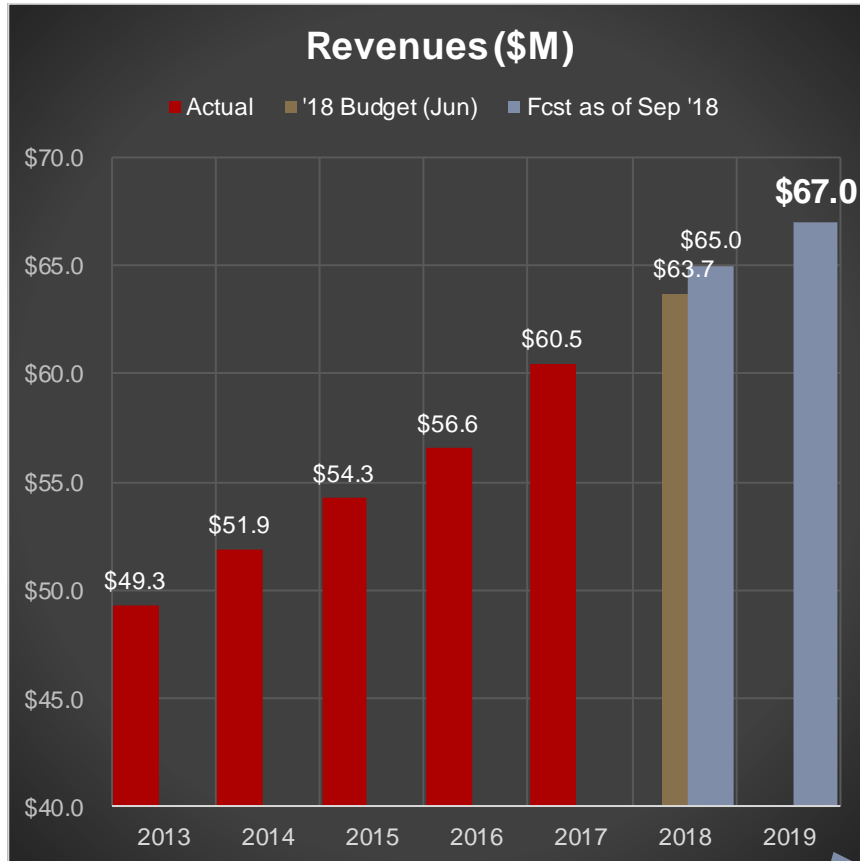
(0.25% tax — to General Fund)



+2.0M vs. '18 Projection  
+3.3M vs. '18 Budget

# County Option Sales Tax

(0.25% tax — to General Fund)



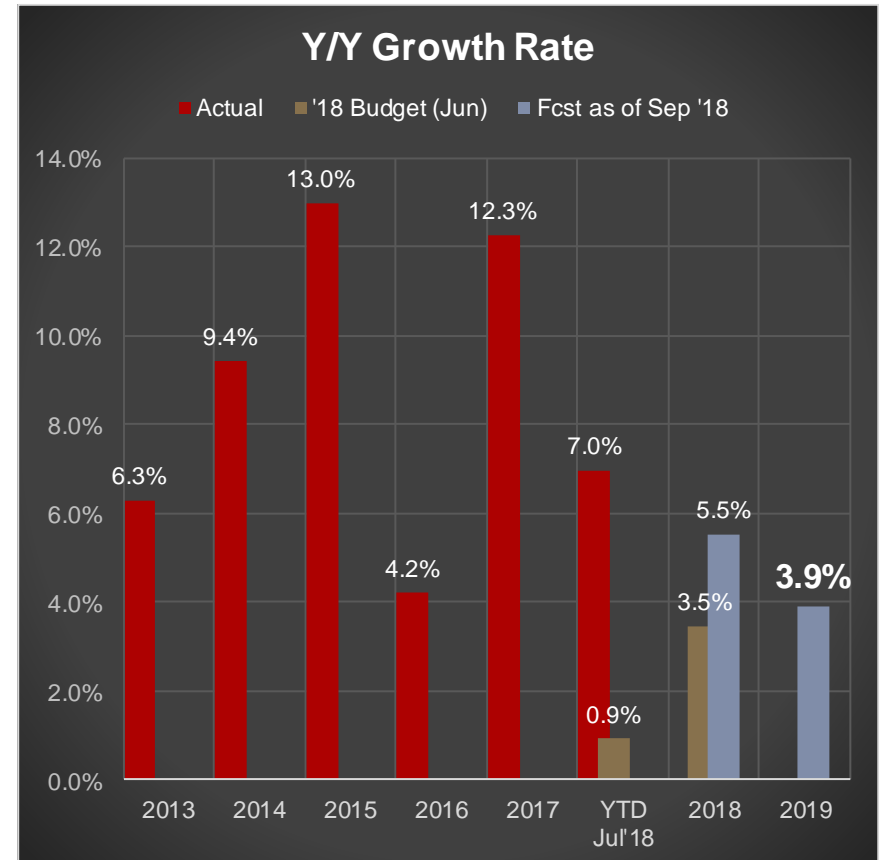
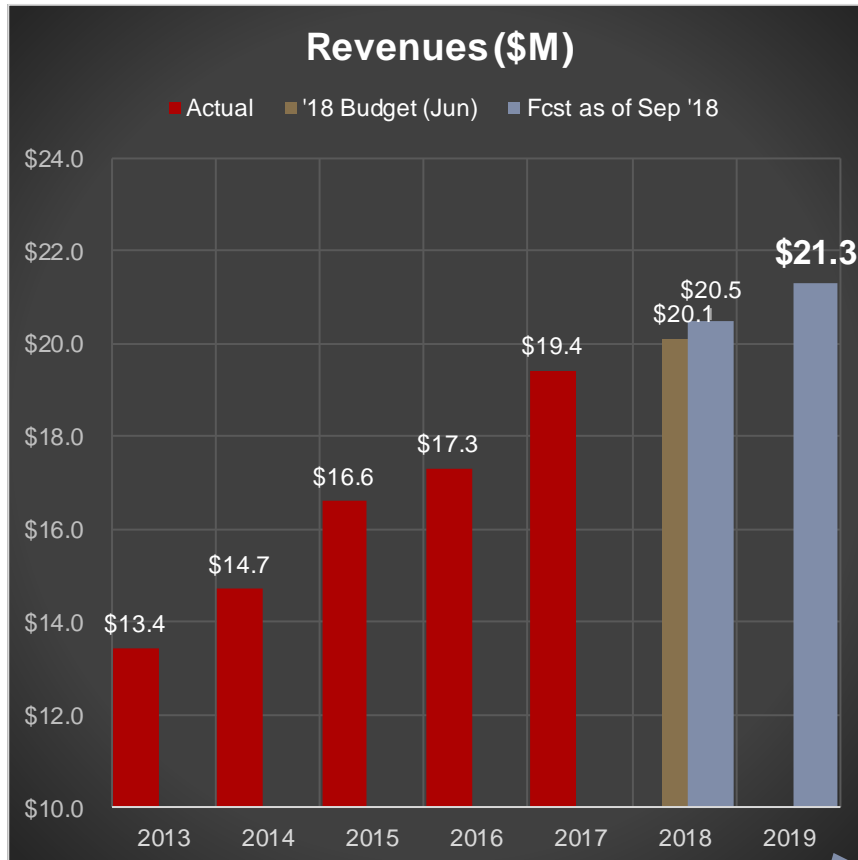
+2.0M vs. '18 Projection  
+3.3M vs. '18 Budget

\* The YTD 2018 Y/Y growth rate is 8.7% if adjusted for a large refund in 2017.



# Transient Room Tax

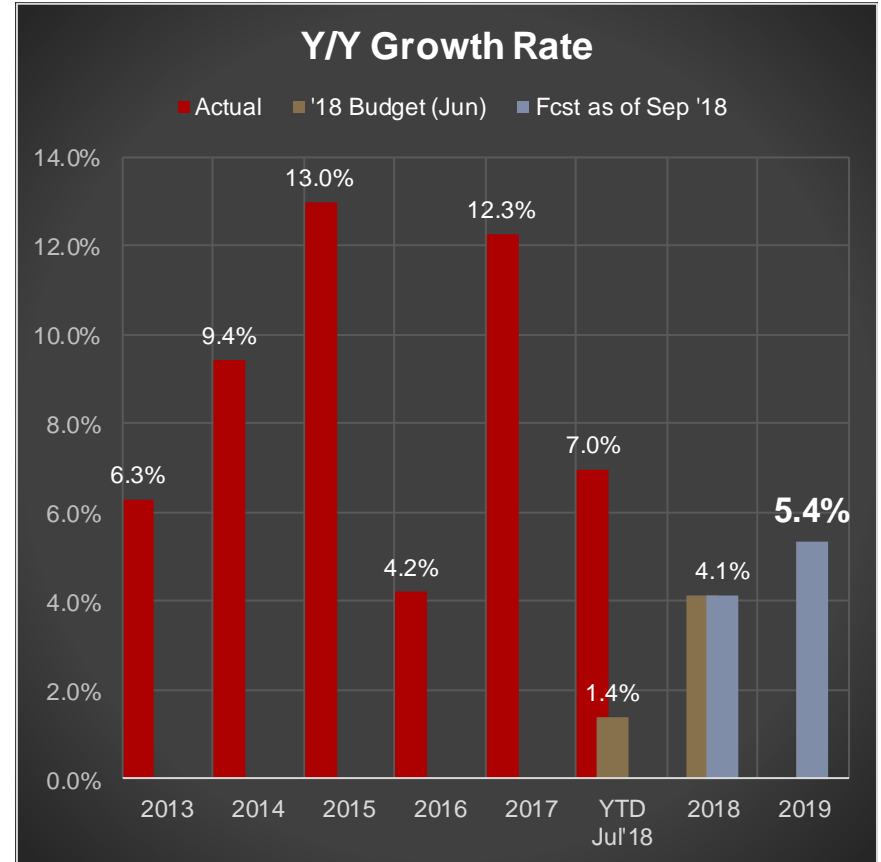
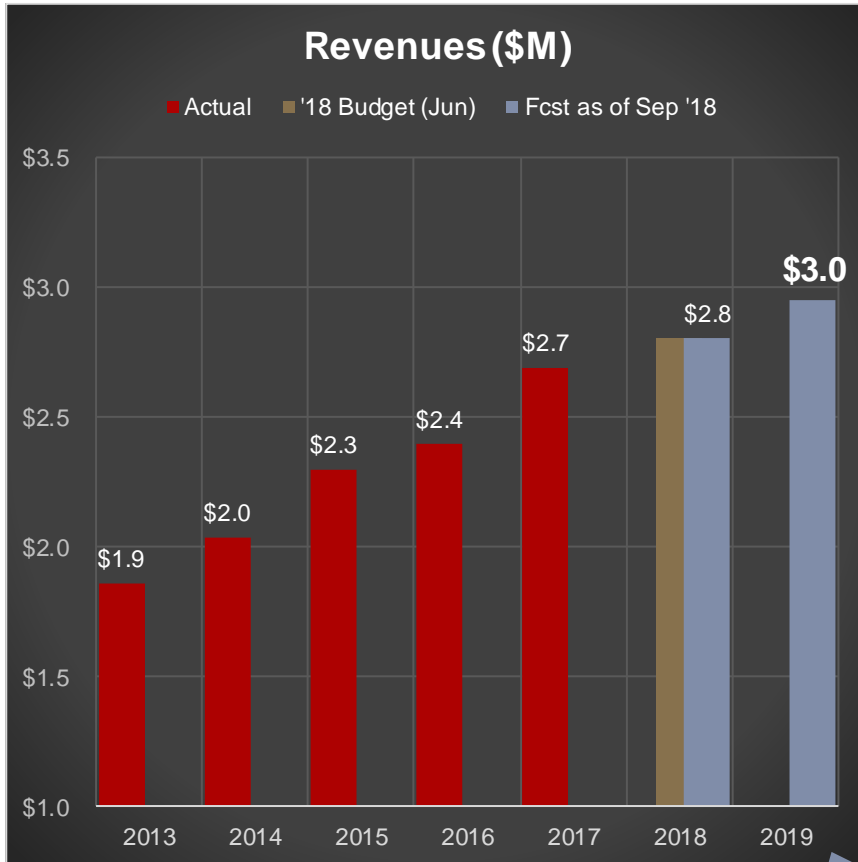
(4.25% tax to Visitor Promotion Fund)



+0.8M vs. '18 Projection  
+1.2M vs. '18 Budget



# Transient Room Tax - Supplemental (0.5% tax to TRCC Fund)

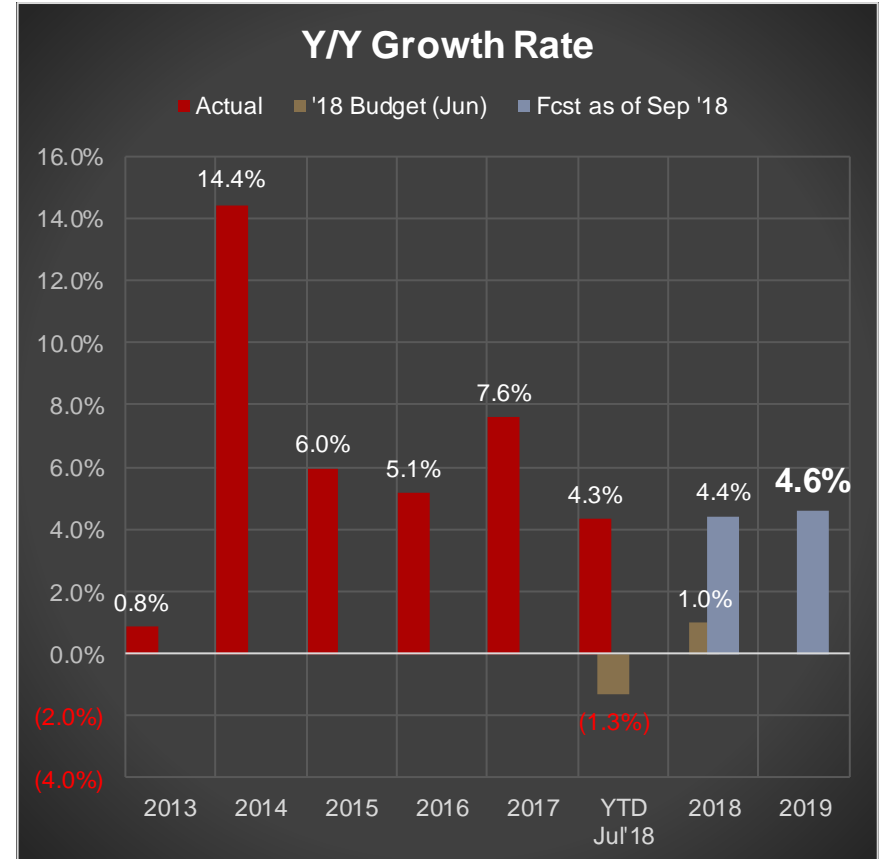
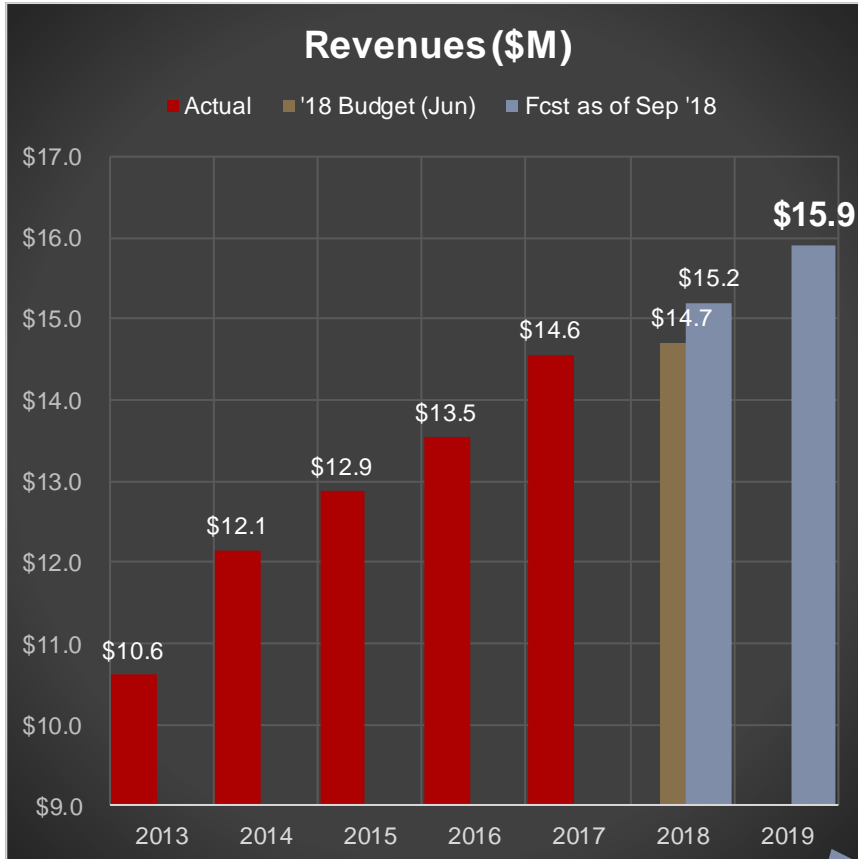


+0.2M vs. '18 Projection and '18 Budget



# Car Rental Tax

(3% & 4% tax to TRCC Fund)

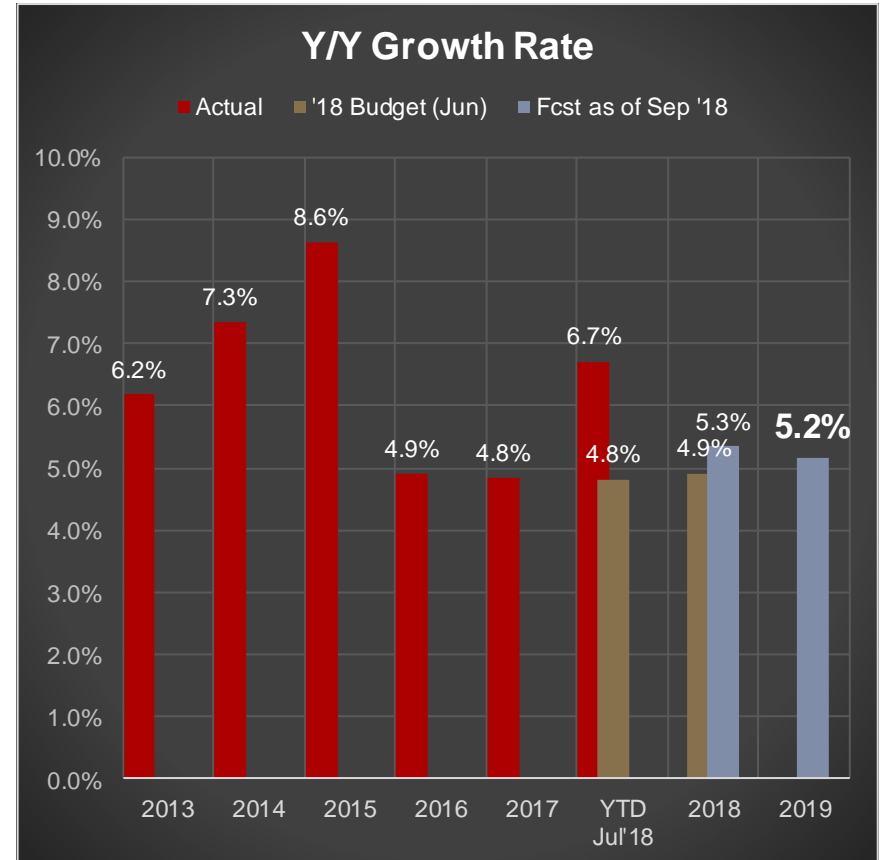
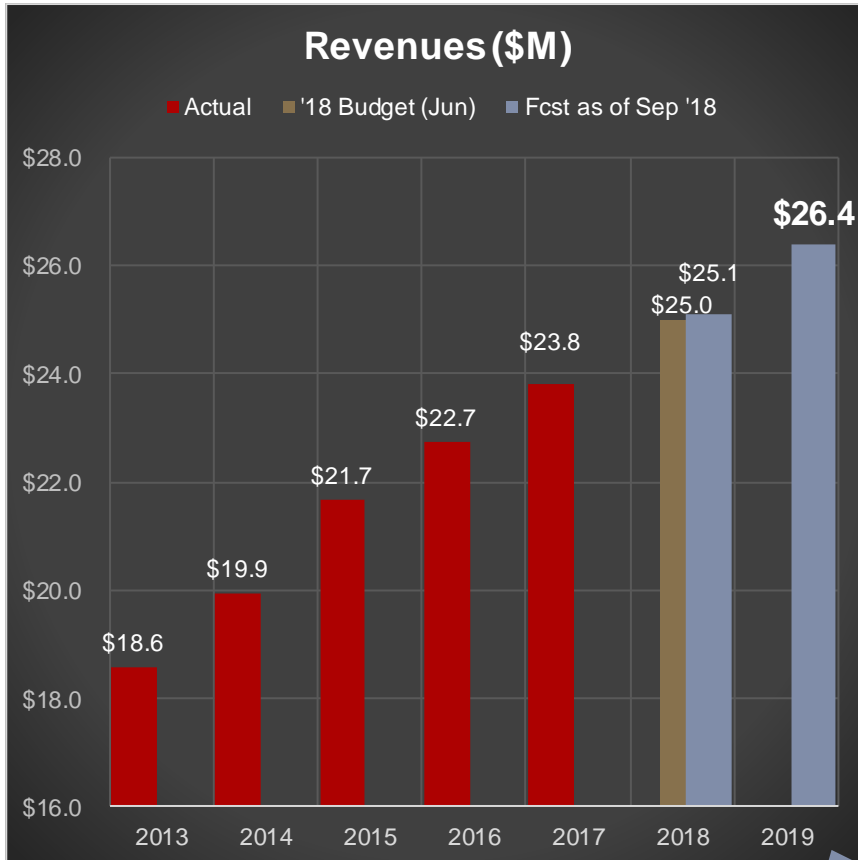


+0.7M vs. '18 Projection  
+1.2M vs. '18 Budget



# Restaurant Tax

(1% tax to TRCC Fund)

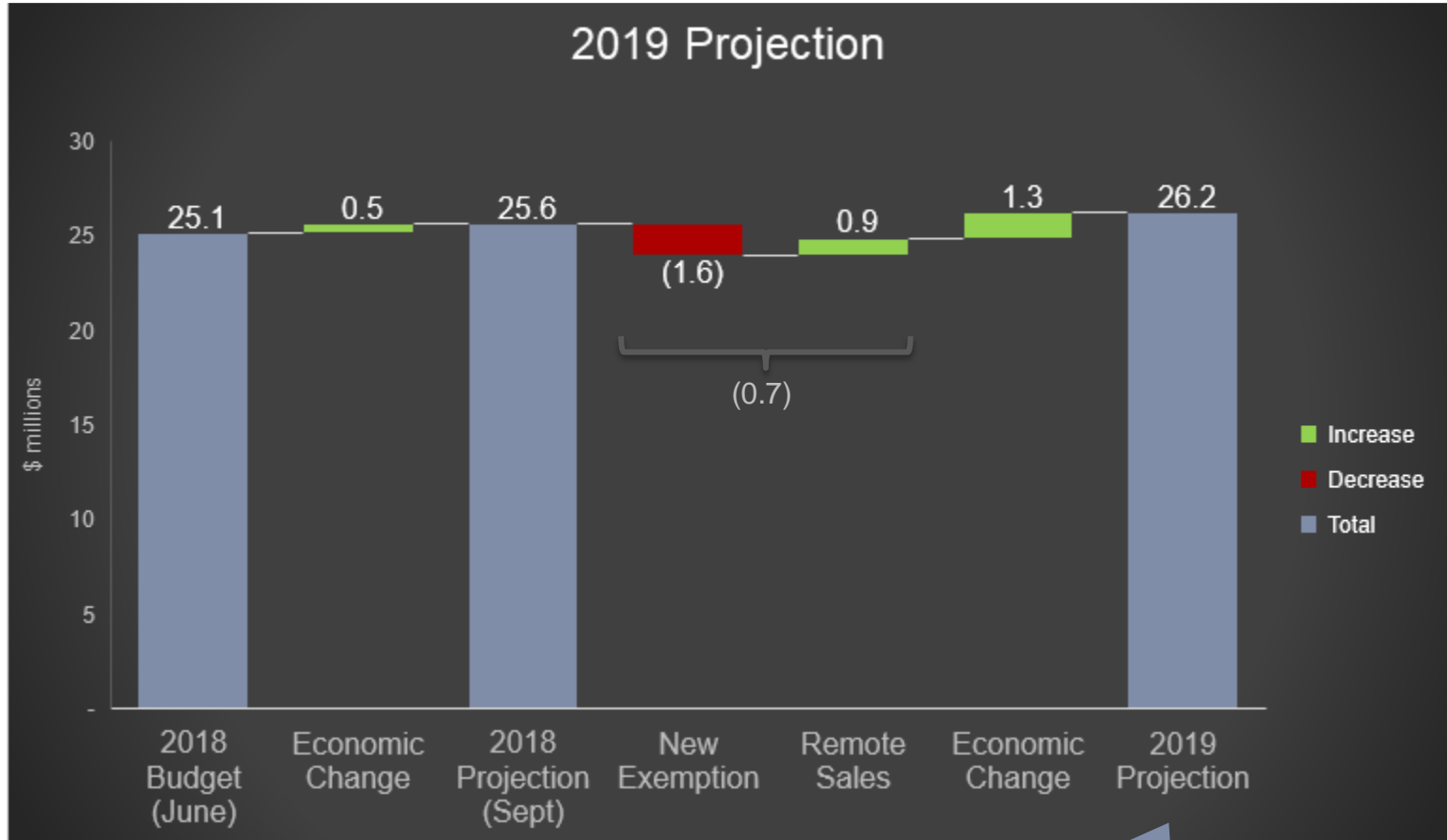


+1.3M vs. '18 Projection  
+1.4M vs. '18 Budget



# Zoo, Arts, & Parks Tax

(0.1% tax to ZAP Fund and General Fund\*)

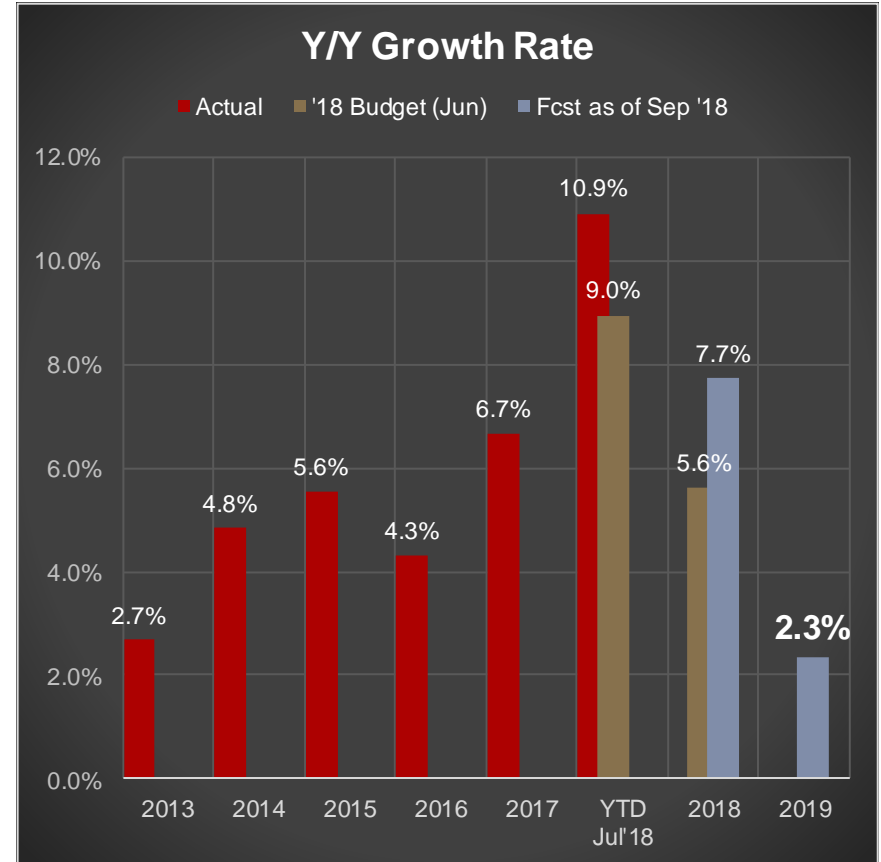
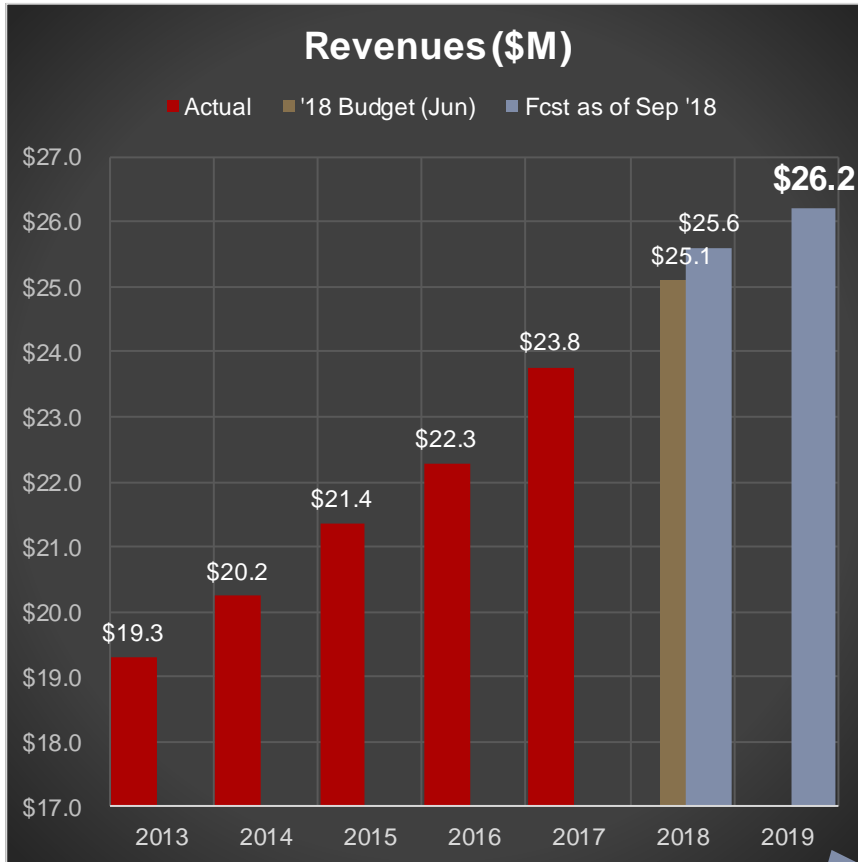


+2.0M vs. '18 Projection  
+3.3M vs. '18 Budget



# Zoo, Arts, & Parks Tax

(0.1% tax to ZAP Fund and General Fund\*)



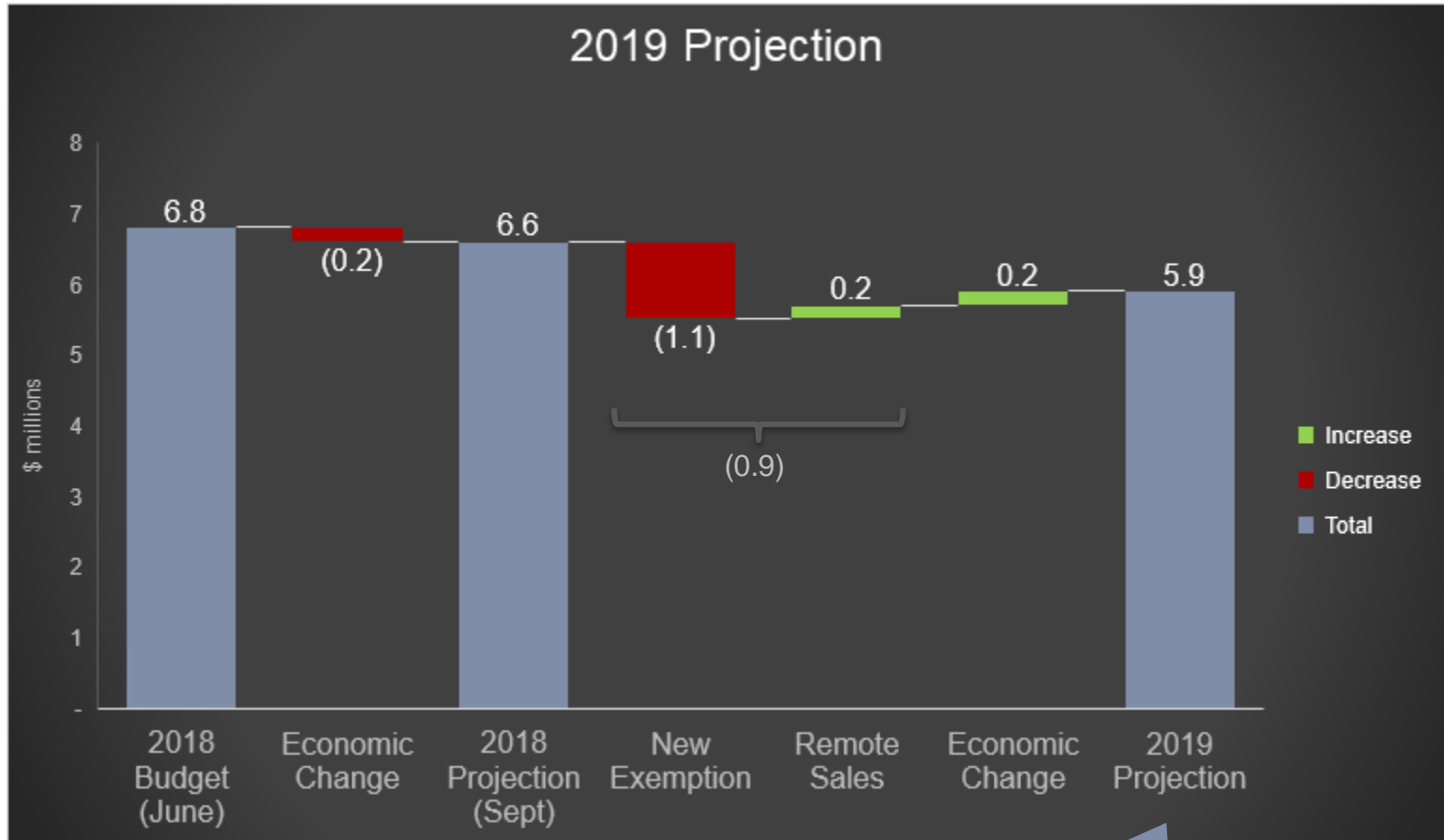
+0.6M vs. '18 Projection  
+1.1M vs. '18 Budget

\* Approximately 70.45% to ZAP Fund and 29.55% to General Fund for Recreation



# Local Option Sales Tax

(1% tax to Unincorporated Municipal Services Fund)

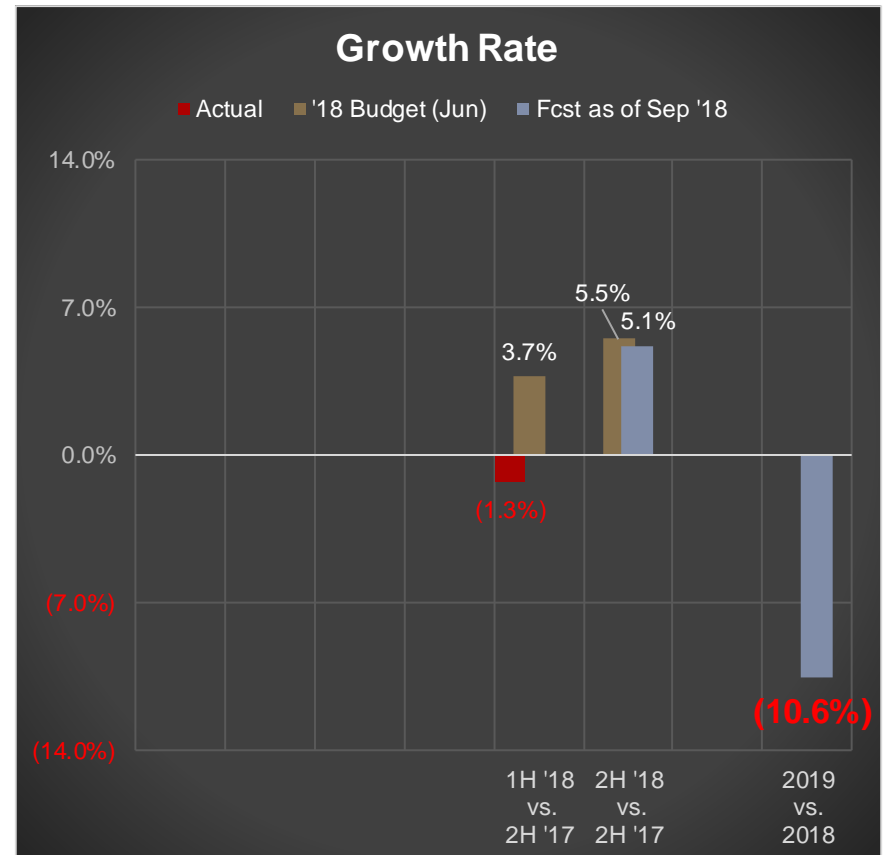
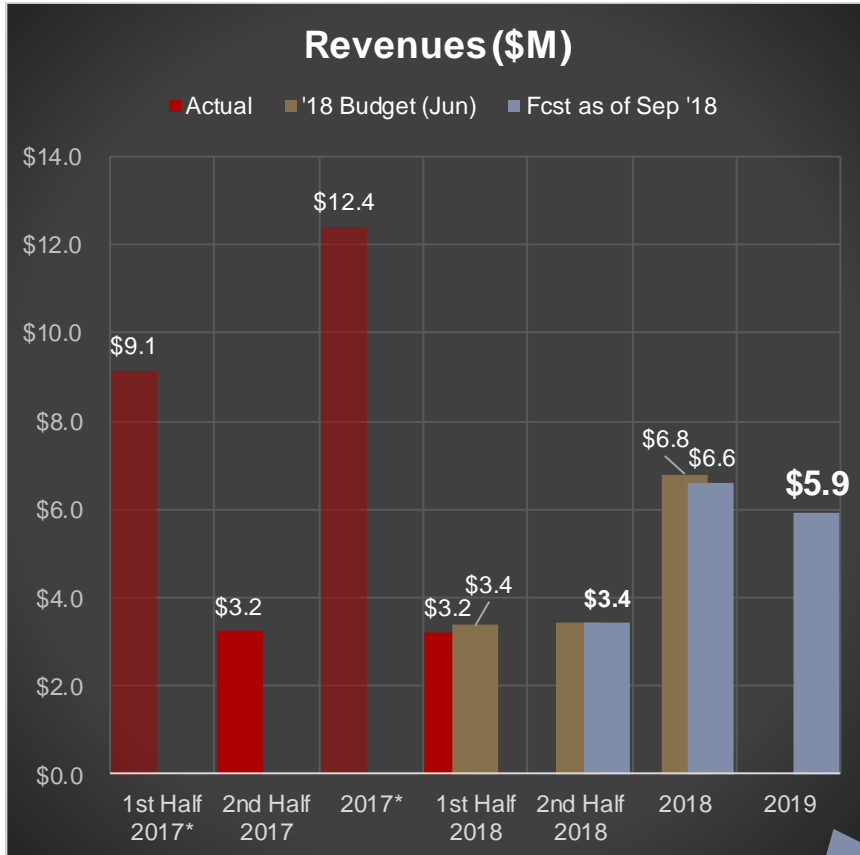


-0.7M vs. '18 Projection  
 -0.9M vs. '18 Budget



# Local Option Sales Tax

(1% tax to Unincorporated Municipal Services Fund)



-0.7M vs. '18 Projection  
-0.9M vs. '18 Budget

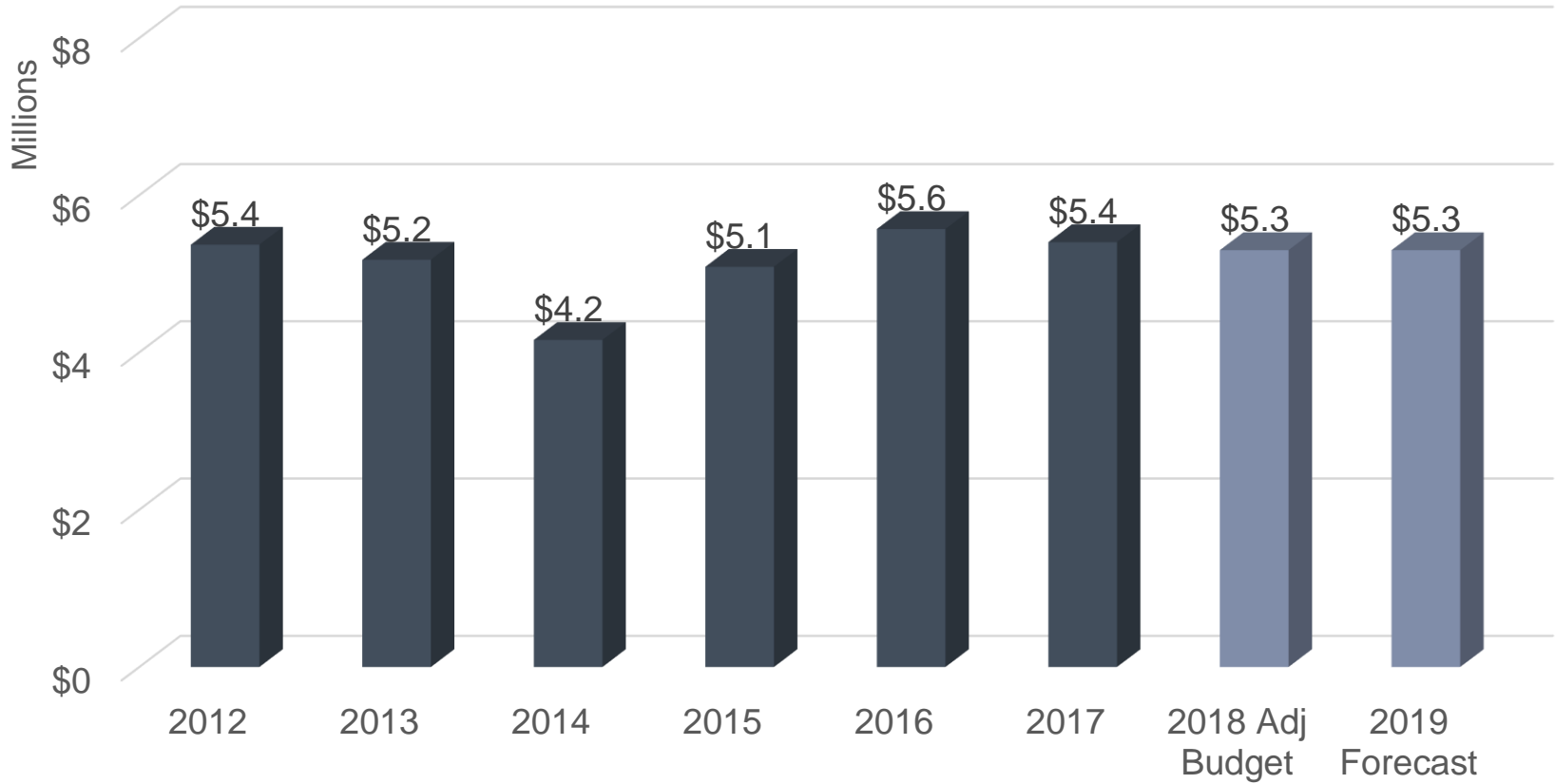
\* Millcreek and Metro Townships were no longer included in the SLCo Local Option sales tax beginning April 2017 and July 2017, respectively.

# RECORDER FEE REVENUES





# Recorder Revenue



Forecast flat



# 2019 New Growth Summary

## All Funds (Except Debt Service)

Fund (\$M)	Property Tax	Sales Tax	Total
General	3.98	3.63	7.61
Flood Control	0.14		0.14
Health	0.33		0.33
Planetarium	0.08		0.08
Capital Improvements	0.16		0.16
TRCC		2.75	2.75
ZAP		0.77	0.77
<b>Subtotal</b>	<b>4.69</b>	<b>7.15</b>	<b>11.84</b>
State Tax Admin	0.76		0.76
Governmental Immunity	0.05		0.05
Library	1.36		1.36
Unincorp Municipal Svcs		(0.89)	(0.89)
Visitor Promotion		1.20	1.20
<b>Total</b>	<b>6.85</b>	<b>7.46</b>	<b>14.31</b>

# Revenue Summary

- Some revenue forecasts still in progress—Revenue Committee meeting Oct 10<sup>th</sup>
  - Motor Vehicle Fee In Lieu of Taxes
  - Some Fee Revenues
- New construction driving property tax new growth rate
- YTD sales taxes stronger than projected
- Impact of new legislation on 2019 sales taxes is uncertain
- Economy is strong but some uncertainties could be a risk to revenues