



Attachment 4

Sheri Dearden
MILLARD COUNTY TREASURER
50 S Main St
Fillmore, UT 84631-5504
435-743-5322
www.millardcounty.org

Date: December 6, 2022

To: Millard County Commission

RE: 2023 Proposed Budget Analysis

I would like to begin by sharing my philosophy regarding government budgets: government budgets should be balanced, sustainable, and fiscally responsible. I know that there has been a significant amount of time spent working on this budget. I appreciate your hard work and diligence, and despite any differences of opinion, I know that each of you really does desire what is in the best interest of Millard County.

I want to begin by pointing out that my comments mostly refer to the County General Fund portion of the proposed budget. There are several departments that have a separate budget and some departments which operate as enterprise funds and although they are not directly funded from property tax revenues – they are funded from various other tax and/or fee collections paid by our citizens. Almost ALL county revenue is taxpayer funded revenue (in one way or another). We rely on the taxation of others for our revenue. That is why this budget hearing is so important. It provides an opportunity for those who fund the operations of the county to have a voice in how those funds are allocated and to provide input regarding how these operations occur.

Although as County Treasurer I do not have a specific role in the budget process- that is reserved for the County Auditor who is statutorily required to propose a tentative budget and for the three Commissioners to make any adjustments to that tentative budget after giving “due consideration” to all matters - one of the roles of the County Treasurer is to oversee the fiscal health of the county, and as each budget potentially impacts the fiscal health of the county, my office looks very closely at those budgetary impacts each year.

There are several factors that can and do affect an entities fiscal health including budget solvency, citizen demographics, crime, economics (inflation/interest rates), market conditions, housing, human health, tax rates, etc. Some of these factors are beyond our control and not easily analyzed. However, budget solvency is one that is relatively easy to analyze, and most certainly within control of the governing body, so I would like to spend some time to address this analysis.

Good fiscal health for a county occurs when:

- expenses are less than revenues,
- cash reserves are preserved,
- debt service is reasonable, and
- capital assets are maintained

Benchmarks for each of these areas have been established by GFOA (Governmental Finance Officers Association) and ICMA (International City/County Management Association) as well as with the consultation of government and finance professionals.
(It is not just my opinion but truly is industry best practice.)

I have no concerns with the areas of debt service or capital asset maintenance. Millard County has very little debt and we take good care of our assets.

However, if you will recall last year, I spoke concerning the importance of maintaining adequate cash reserves to protect Millard County's fiscal health.

As a quick review of this specific area, we typically look at General Fund Balance (fund balance is basically cash on hand aka-equity, surplus, rainy-day fund) as a percentage of General Fund Expenditures for the budget period. Maintaining an appropriate ratio ensures budget solvency and avoids fiscal distress. This analysis and corresponding ratio are also used by other regulatory entities including:

Utah State Auditor -

ratio of below 35% is considered an indicator of fiscal distress
for other governmental (or enterprise funds) the benchmark ration is 35%

Bond Rating Agencies –

used to determine the interest rate we are able to obtain for bond issuance
although we are not issuing bonds regularly – there are times when it is required to
qualify for a grant match (CDBG program)

Utah State Legislature -

As part of the Uniform Fiscal Procedures Act for Counties the state legislature in UCA 17-36-16(2) sets limits on the amount of accumulated fund balance that an entity may maintain. This is done to ensure that governments do not collect more taxes than necessary, while still allowing for the prudent accumulation of rainy-day funds. In 2021 after realizing the importance of entities rainy-day funds in times of emergency, the allowable limit was increased to allow up to 65% of your general fund revenues plus your estimated property tax revenue for one year to be accumulated (for 2023 that amount would be almost \$21M – we are currently at +/- \$7M)

Year End 2021 this ratio was 44% as of November 30, 2022, we are at 35% (December typically sees a lot of activity so this ratio will most definitely change for YE 2022).

For analysis purposes I have included with this letter the calculations of what the Fund Balance/Fund Expenditure ratio projections would be for the next 3 years IF fund balance was used to cover the \$2.3M budget shortfall as is presently included in the proposed 2023 budget.

The 2023 General Fund budget as proposed does not include the use on any fund balance appropriation which is positive for cash reserve preservation.

However, the 2023 General Fund budget as proposed does include the use of a \$2.3M 'transfer from others' which is essentially a transfer from Special Projects. Historically the Special Projects fund has been used to account for special one-time type projects. Currently the majority of the account balance in this fund is from the LATCF distribution. My understanding is that this \$2.3M transfer is approximately \$1.2M to cover the shortfall in General Fund revenue and \$1.1M to cover the proposed COLA/hourly wage adjustments for everyone except Landfill and Road which are separate funds.

When we talk best/worst practices two items relative to this budgeted transfer stand out in the worst practice column:

over-reliance on nonrecurring revenue for recurring expenses
inter-fund borrowing with no capacity to repay in near future

The reliance of the \$2.3M transfer from special projects to cover the deficit spending in the general fund budget is not prudent financial planning.

A review of the Special Projects current balance plus the anticipated 2nd tranche of LATCF puts that fund around \$8.5M for 2023. Anticipating that \$2.3M is needed each year to cover recurring expenses, those funds will cover 3½ years. We are already seeing other requests for the use/allocation of the LATCF funds, which will likely reduce the availability of these funds in future years.

My concern is what is the plan after those three years when there is no more LATCF revenue? What capacity is there to then cover the deficit?

I have heard a couple of possibilities –

Raise Taxes – to be absolutely clear Millard County is at the statutorily allowed maximum property tax rate – raising property taxes to collect additional revenue is not an option. The Utah State Legislature sets a maximum property tax rate that can be imposed by a county. There has been extensive research done by the Office of the Legislative Fiscal Analyst to determine the appropriate level of taxation that would enable a county to financially provide the ESSENTIAL services that are mandated by Utah State Code. Millard County is currently at that maximum rate – we cannot raise the property tax rate to collect additional revenue. (There would have to be a significant increase in county-wide property valuations before this option is available – has been this way for at least ten years.) There are other additional taxes that could possibly be imposed, but any of those require voter approval - and honestly after the last six weeks of property tax collection (which has honestly been the hardest in my 19 years in the Treasurer's office – we have experienced more anger and more frustration than ever). I do not believe there is any sentiment for additional taxes – our citizens are truly at their max capacity.

Hope for new growth tax revenue – while there are several projects at varying stages of permitting throughout the county and I am very optimistic that we will see these and other proposed projects come to fruition and that Millard County will finally be in a position to receive additional new growth tax revenue, we DO NOT have that revenue yet. *You have to know that I grew up on the farm in Scipio and although it's been a minute or two since I've done any actual farm work - those life lessons remain – one being DON'T COUNT YOUR CHICKENS BEFORE THEY HATCH.* We should not make plans (or ongoing spending commitments) that depend on something (like new growth revenue) before we know it will actually happen. As Commissioners, you have had a front row seat to the games that are played by many Centrally Assessed properties...there really is no guarantee of new growth revenue, and it should not be a budget consideration until it actually happens.

Use of Tax Stability & Trust Fund Balances – The potential liability to Millard County that may result from the Centrally Assessed appeals definitely keeps me up at night. As Commissioners you also understand the significant impacts that these appeals could potentially have on the fiscal health of Millard County. It would be my recommendation that the Tax Stability & Trust Fund balances be preserved until there is a resolution of the current Centrally Assessed appeals and not used to cover any budget shortfall. It should also be noted that ANY use of the Tax Stability & Trust Fund balances would require voter approval before expenditure.

Throughout this budget process, I have been asked several times by each of you “how much additional money do we have to spend?” or “how much fund balance can we really afford to spend?” and my answer has been and will always be ZERO - **expenses should never exceed revenue and one-time money should not be relied upon to fund recurring expenses.**

As the elected County Treasurer and a fiscal conservative, it is my opinion that a budget that relies on one-time revenue or uses excess fund balance to cover deficit spending is NOT fiscally responsible and it is very concerning. I would encourage you to continue your work on this budget. We should not plan to spend money that we may not have. Considerations should be given to ensure that we are living within our means. Our citizens expect it, and the Utah State Code requires it.

Respectfully,

Sheri Dearden
Millard County Treasurer

Gov Fund Balance Coverage Analysis

Formula - Governmental Fund Balance/Governmental Fund Expenditures

YE2021/BOY2022	2022 SOY Fund Balance	8,757,755.00
	2022 General Fund Expenditures	19,688,485.00
	% of GF Expenditures	44%
	11/30/22 Fund Balance	\$6,859,450
	2022 YE Estimate	9,500,000
	\$2.3M FUND BALANCE USEAGE (proposed 2023 budget)	
YE2022	2022 YE Fund Balance (estimate)	9,500,000
	2022 General Fund Expenditures	19,688,485
	% of GF Expenditures	48%
YE2023	2023 YE Fund Balance	7,200,000
	2023 General Fund Expenditures	22,560,930
	% of GF Expenditures	32%
YE2024	2024 YE Fund Balance	4,900,000
	2024 General Fund Expenditures	22,560,930
	% of GF Expenditures	22%
YE2025	2025 YE Fund Balance	2,600,000
	2025 General Fund Expenditures	22,560,930
	% of GF Expenditures	12%

regulatory benchmarks / best practice guidelines:

Utah State Auditor (testing for Fiscal Distress)

Satisfactory > 35%

S&P Global's rating criteria

> 15% very strong

8% to 15% strong

4% to 8% good

Utah State Legislature

§17-36-16 increased accumulation limit from 50% to 65% of total revenues (Co Gen Fund) + 1 yr prop tax collection statutorily allowed \$21M

Best practice FUND BALANCE

Best practice sufficient to cover 3 months of activity

Budget	22,560,930
12 months	12
monthly activity	1,880,077.50
x 3 months	5,640,232.50

Fw:

East Maintenance <EMaintenance@co.millard.ut.us>

Mon 12/12/2022 10:58 AM

To: Marki Rowley <MRowley@co.millard.ut.us>

From: East Maintenance**Sent:** Monday, December 5, 2022 5:02 PM**To:** Bill Wright <BWright@co.millard.ut.us>; Dean Draper <DDraper@co.millard.ut.us>; Evelyn Warnick <EWarnick@co.millard.ut.us>**Subject:**

To: Millard County Commission

Just wanted to write and voice some of my concerns and feelings regarding the paypoint study. This is not the first time this sort of thing has happened in regards to comparing wages to other counties. It seems like the same thing happened when we did this the last time, it benefited certain people that spoke out the loudest. So when we all participated with paypoint I thought to myself here we go again. So we followed the paypoint study and instructions to the letter, writing down our skills, experience, workload, and responsibilities. I felt good about it when we turned them into H.R. I was glad when it was over, one less thing to worry about. When the results came back I was also happy to see the results in our favor. In September when paypoint explained the results of the study via video conference in the commission room there were some departments that were not happy with the results. So there was two weeks or a month I can't remember, but those departments had time to work out those discrepancies. I know that the sheriff and the captain started calling other agencies and found that they were lower than other agencies. I didn't hear much about what was going on until recent commission meeting. Not sure why the rest of us were left out of the loop. Every year the commission asks to tighten your budget do more with less Etc. I have heard things like not fair, second jobs, and the trash needs to be hauled. You're right this is not fair and all the jobs in the county have to be done. And for the county road department for the \$5 per hour across the board, and the landfill for the \$4 per hour across the board is just wrong, where did you come up with those figures? Compared to what? It is also a benefit to work four 10 hour days and be able to have a second job, I know because that's what I used to be able to do. I am always on call if I am away I have to make sure somebody is close to cover. I have been called out at 2:00 in the morning to fix generators, I have been called out for backed up sewers on Christmas Eve because an inmate decided to flush his jumpsuit down the toilet, I have fixed rooftop units for the jail in a blizzard. These are examples of things we get called out on all the time, it's not fair but it is my job. I have to deal with jail inspectors, boiler inspectors, elevator inspectors, underground storage for the diesel fuel, all these things have to be in compliance with the state in order to run our buildings. We also plow parking lots and shovel walks. So when I hear the road department has to plow roads for snow storms, that we might get a half dozen times a year if we're lucky, kind of hard to justify the \$5 per hour. And as for the landfill, haul the trash, bury the trash, and keep the machinery running, sounds pretty simple to me. I do agree with the Sheriff having his own step in grade, that is the way it used to be. I think he did the right thing in calling other agencies. We are losing good deputies to higher paying jobs. They put their life on the line daily. I do think our current step in grade is broken, that's why I thought we did the paypoint study. I do think the County employees need an explanation as to why it won't work or why it's not being implemented?

Thanks! Klint Penney East Maintenance Supervisor.