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The Utah State Budget Report for FY16–17

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Introduction

Formulation of Utah’s \$15.1 billion FY 2017 budget as usual reflected the state’s characteristic fiscal conservatism; however, this year featured two notable changes—recognition of the state’s commitment to education, and a long-sought compromise on Medicaid expansion (see Figure 1). As usual, a big share of new funding—more than two thirds—supported public and higher education. The total amount—\$446 million—was 15 percent less than new money provided in the previous session. However, the governor and press praised legislative efforts this year, whereas last year’s appropriations were met by public protest. The debate about Medicaid Expansion, a hot topic in Utah, finally reached a compromise. The plan is not considered “full expansion” under the Affordable Care Act, but it does provide medical coverage to the neediest individuals experiencing poverty. Other notable budget changes include reversal and redirection of several transportation tax earmarks, and funding to challenge the federal government over control of public land.

Overview of Utah

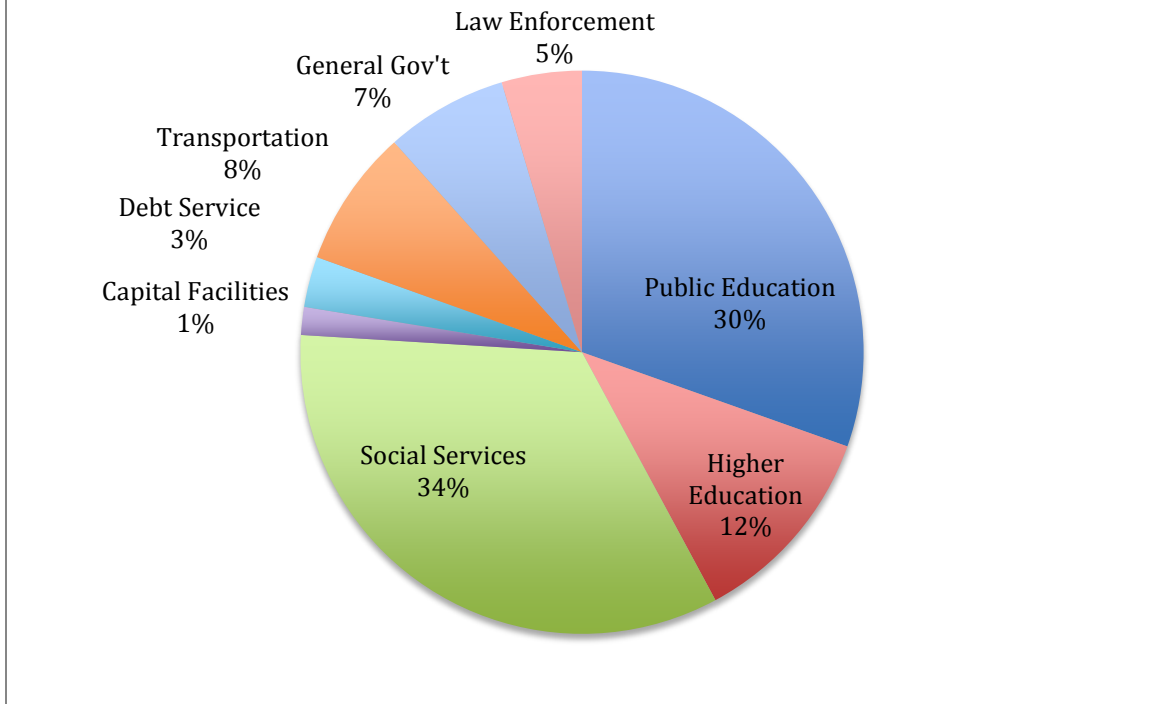
Demographics of the State

Utah’s population reached a major milestone in 2015. Demographers estimated that the population reached three million people, making it the 32nd most populous state in the nation. Approximately two-thirds of the population growth is due to natural increases while the other third can be attributed to in-migration.¹

The state has one of the fastest growing populations in the nation. Based on growth since the 2010 Census, it is the fifth fastest growing state behind North Dakota, DC, Texas, and Colorado.

¹Utah Demographics Fact Sheet, January 2016; Kem C. Gardner Policy Institute at <http://gardner.utah.edu/wp-content/uploads/2016/02/Fact-Sheet.pdf>

**Figure 1. Uses of Utah's \$15.1 b FY 2017
All Sources Budget**



Source: <http://le.utah.gov/interim/2016/pdf/00001911.pdf>

This trend follows that of other western states with growing populations, such as Nevada, Arizona, and Washington.

Not surprisingly, Utah's population is young—the median age is 30.5, compared to the 2014 national median average of 37.7—giving Utah the distinction of having the youngest population in the country. The state also has the largest households in the nation with 3.16 persons per household in 2014, compared to 2.65 nationally. The state's minority population has been increasing, reflecting a trend that is occurring nationally. In 1980, approximately eight percent of the state's population was minority; by 2010 that number had climbed to 20 percent (Utah Demographics Fact Sheet, 2016). The Hispanic population is the largest and fastest growing minority group in the state; it has increased from 4.9 percent of the population in 1990 to 13.5 percent in 2014.

A common misconception of Utah is that Utah has a rural-based population, when in fact the state's population is primarily urban. Approximately 91 percent of the population lives in urban areas and this makes the state the 9th highest urban populated state. Most of the state's population is concentrated along the Wasatch Front in Salt Lake, Utah, Davis, and Weber Counties.

Table 1. Fastest Growing States Since 2010

State	Growth
North Dakota	12.5%
District of Columbia	11.7%
Texas	9.2%
Colorado	8.5%
Utah	8.4%
Florida	7.8%
Nevada	7.0%
Arizona	6.8%
Washington	6.6%
South Dakota	5.9%

Source: U.S. Census Bureau

Table 2. Race and Ethnicity in Utah and the U.S.

Race and Ethnicity	Utah	U.S.
White alone	91.4%	77.4%
Black or African American alone	1.3%	13.2%
American Indian or Alaska Native alone	1.5%	1.2%
Asian alone	2.4%	5.4%
Natalie Hawaiian and other Pacific Islander alone	1.0%	0.2%
Two or More Races	2.4%	2.5%
Hispanic or Latino	13.5%	17.4%
White alone, not Hispanic or Latino	79.3%	62.1%

Source: U.S. Census, Quick Facts, accessed at: <http://quickfacts.census.gov/qfd/states/49000.html>

Political Context

Politically, the state of Utah is dominated by the Republican Party. Republicans hold a super majority of seats in the Utah Legislature. In the 2016 session, Republicans held 63 of 75 seats in the House of Representatives; and 24 of 29 seats in the state Senate.

There are no Democrats that hold statewide office. However, there are pockets of Democratic strength in the state. For example, Salt Lake County has a Democratic mayor and several council members are democrats. Salt Lake City is considered the democratic-stronghold, and although the city elections are nonpartisan, the mayor and several councilmembers identify as democrats. Currently, only one legislator who is a Democrat, Rep. Brad King, lives outside of Salt Lake County. Rep. King lives in Price and represents District 69.

A poll commissioned by the Salt Lake Tribune and the Hinckley Institute of Politics at the University of Utah prior to the 2016 General Session captured the opinions of many Utahns on

issues like the economy, homeless and social services, and education. The survey asked 989 registered voters to rate the state of the economy: 15 percent said it was excellent, 54 percent said it was good, 27 percent said fair and 3 percent said the economy was poor. Of those who were working, 53 percent said they'd received a pay raise in the past year; an additional 23 percent saw a pay bump within the past two years. 12 percent of respondents say they've gone without a pay raise for more than 4 years.

Homelessness was a hot topic for the 2016 legislature. The Salt Lake Tribune-Hinckley Institute poll asked registered voters about their support for spending \$25 million state dollars on homeless services and housing (see Figure 2). A majority of those surveyed supported the idea; however, only 41 percent of the Republicans in the survey supported the expenditure. The survey also addressed the important topic of spending on classroom technology. Only 34 percent of those polled said the state should pay for every student to have a computer in the classroom (see Figure 3).

The Utah Economy

Leading up to the 2016 legislative session, Utah's economy continued to expand in 2015, gaining momentum and outperforming consensus expectations.² Utah's employment growth rate of 3.8 percent in 2015, up from 2.9 percent in 2014, was the strongest in the nation and an eight-year high for the state (Kem C. Gardner Policy Institute analysis of Current Employment Statistics from the Bureau of Labor Statistics).

Information and construction were Utah's fastest growing industries in 2015, posting 7.7 percent and 5.8 percent employment growth rates in 2015 (Bureau of Labor Statistics, Current Employment Statistics). Contributing to this growth are a number of rising information technology companies like Ancestry.com and Qualtrics, which are headquartered in the state, along with large, established companies like Adobe and Oracle, which have major presences in the state. Salt Lake City and Provo both had spots on the top 10 metro areas for high-tech employment growth in 2015 (Moody Analytics Regional Financial Review). While the number of residential permit-authorized units was down slightly in 2015, from 18,030 in 2014 to 17,400, the total value of residential construction grew from \$3.2 billion in 2014 to an eight-year high of \$3.8 billion as activity shifted from apartment and condominium units to higher value single-family homes. A number of large energy-related projects, including the expansion of the Holly Frontier oil refinery and solar farms in rural Utah, as well as significant office and industrial construction contributed to \$2.0 billion in nonresidential construction value in 2015, second only to \$2.1 billion in 2007 (Economic Report to the Governor 2016).

The Utah Budget Process

Budget Stress Testing

The legislature and governor's office continued efforts to understand and manage the impact of short-term business cycles on state budgets. These efforts culminated in December 2015, where the Executive Appropriations Committee heard its second annual report comparing long-term revenue trends to current revenue projections. The legislative committee moved to reserve

² <http://gardner.utah.edu/wp-content/uploads/2016/01/2016-ERG-4PageSummary.pdf>

Figure 2. Do you support or oppose a proposal to spend \$25 million to expand housing and services for the homeless?

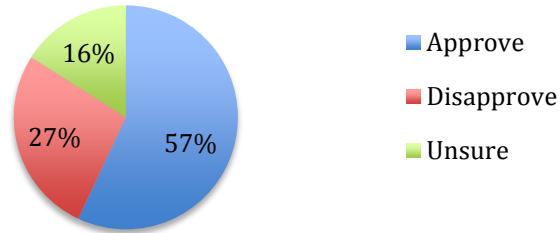
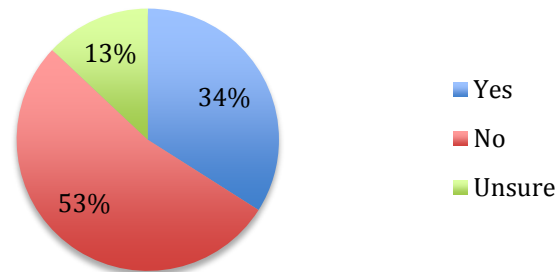


Figure 3. Should the state pay for every student to have a computer in the classroom?"



\$54 million in “above trend” estimated revenue for expenditure on capital projects. Ultimately, the legislature appropriated \$20 million in new, ongoing revenue for building construction, increasing what it calls its “working rainy day fund.”³

Budget policymakers expanded these efforts for the 2016 General Session by undertaking “budget stress tests.” Borrowing from the Dodd-Frank Act model for stress testing financial institutions, budget stress testing added to the revenue trend data, discussed earlier, specifically focusing on information concerning countercyclical budget demands. It then modeled how Utah’s revenue and spending might change under the same “moderate” and “severe” recession scenarios produced by the Federal Reserve for banks. Any gaps identified in the models were then compared to formal and informal budget reserves to judge the reserves’ adequacy. For the

³ <http://le.utah.gov/interim/2015/pdf/00005957.pdf>

current cycle, state economists determined that Utah has sufficient formal reserves to weather a moderate recession in the short-run, but should continue to pay-down debt and increase pay-as-you-go capital construction to rebuild informal reserves.⁴

Long-Term Planning

Prior to the 2016 General Session, the legislature held its second Biennial Legislative Policy Summit. The summit was hosted by Adobe Systems in Lehi, Utah, and moderated by the University of Utah's Kem Gardner Policy Institute. This regular series of off-election-year meetings allows policymakers to contemplate how their policy choices will fit within the future's economic and demographic landscape, how societal factors will change in the medium and long term, and how public policy should anticipate and adapt. This year's event focused on the mechanics of prosperity, managing economic volatility, integrating demographic forecasts with policy choices, and financing future needs. The influence of this year's conference on legislation will likely not be known for approximately another year. However, similar discussions during the 2013 Policy Summit contributed to significant changes made during the 2015 General Session—including indexing of motor fuel tax rates, increased equalization of public education capital expenditures, and a long-term financing mechanism for water development infrastructure.⁵

Utah's FY16–17 Budget

An Overview

Utah's FY2017 budget from all sources is \$15.1 billion, an increase of five percent over FY2016. The discretionary General/Education Fund budget totals \$6.4 billion, a two percent increase over last year.⁶ Legislators had at their disposal \$668 million in new discretionary resources, two-thirds of which (\$446 million) went to public and higher education. The next biggest slice of new revenue (13 percent) went to social services—largely for growth in traditional Medicaid costs. Business expansion and economic development received nine percent of the new money.⁷

General Tax Revenue

About 41 percent of Utah's all-sources budget came from general taxes on income and sales. The General and Education Fund (GF/EF) dollars consume most of the appropriators' time and effort, as the remainder of resources are tied to specific purposes. In December 2015, state economists projected that General and Education Fund revenue would increase by \$352 million (six percent) from existing FY 2016 estimates to new FY 2017 amounts. A base budget that anticipated \$38 million less in ongoing spending allowed \$380 million in available ongoing resources for the 2016 General Session. Forty-four million dollars in one-time surpluses from FY 2015

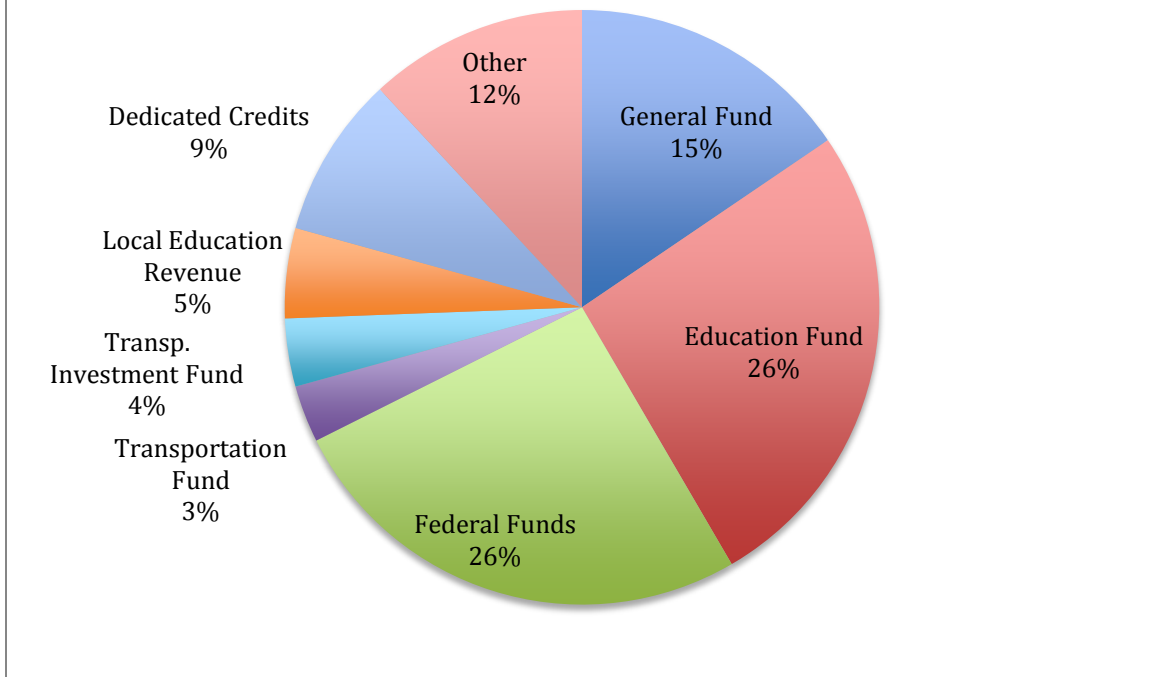
⁴ <http://le.utah.gov/interim/2015/pdf/00005555.pdf>

⁵ <http://le.utah.gov/asp/interim/Commit.asp?Year=2015&Com=SPELPS>

⁶ <http://cobi.utah.gov>

⁷ <http://le.utah.gov/interim/2016/pdf/00001911.pdf>

All Sources of Utah's \$15.1 B FY 2017 Budget



Source: <http://le.utah.gov/interim/2016/pdf/00001911.pdf>

combined with \$135 million in adjustments to the current FY 2016 estimates, afford legislators another \$180 million in one-time revenue.⁸ In February 2016, total estimated available revenue declined for the first time since 2010, by \$10 million.⁹ However, the mix between ongoing and one-time sources improved to \$400 million ongoing and \$150 million one-time.¹⁰ Legislators added to these amounts \$11 million ongoing—drawing primarily from elimination of a sales tax earmark; \$46 million from restricted fund balances and Temporary Assistance for Needy Family (TANF) reserves; and more than \$60 million from budget reductions and unspent program balances (<http://le.utah.gov/interim/2016/pdf/00001784.pdf>).

Current Year FY 2016 Adjustments

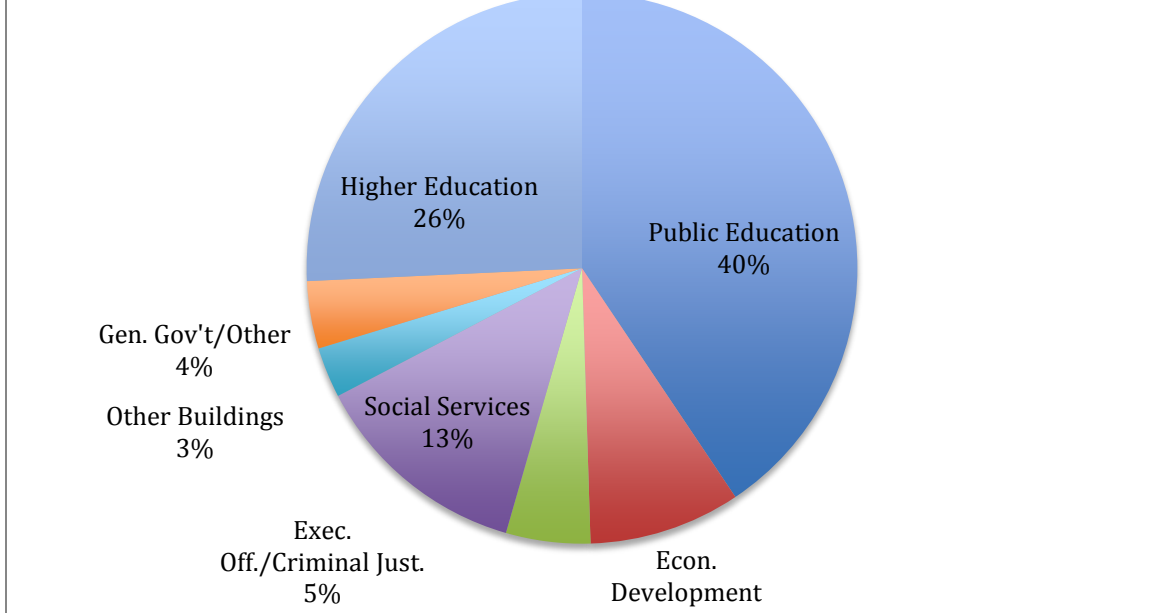
Legislators appropriated \$141 million more (one percent) from all sources, making the revised FY 2016 budget \$14.4 billion, a seven percent increase over the prior year. Of the increase,

⁸ <http://le.utah.gov/interim/2015/pdf/00005553.pdf>

⁹ <http://www.deseretnews.com/article/865648344/State-revenue-growth-estimates-down-10-million.html?pg=all>

¹⁰ <http://le.utah.gov/interim/2016/pdf/00001782.pdf>

Allocation of \$668 m in New Discretionary Revenue



Source: <http://le.utah.gov/interim/2016/pdf/00001911.pdf>

\$25 million (0.4 percent) came from General and Education funds.¹¹ Most of the current year GF/EF increase was for construction of a Hill Air Force Base facility (\$21 million). Additional amounts were provided to repay the federal government for prior year over charges (\$5.5 million) and to bolster salary supplements for new teachers (\$3.7 million). These amounts were partially offset by sweeping unspent reserves at the Tax Commission (\$5 million). While the current year cost of Medicaid increased by \$18 million, it was more than offset by savings in CHIP, keeping Social Service GF/EF budgets about even in current year.¹²

FY 2017 Budget Highlights

Before spending any new money, Utah deposited \$60 million into its Education Rainy Day Fund under automatic deposit thresholds that were increased during the 2015 General Session.¹³ Subsequently, appropriators prioritized projected enrollment growth and inflation in public education, higher education, and Medicaid. They also increased compensation for state and higher

¹¹ <http://cobi.utah.gov>

¹² http://public.tableau.com/views/2015GeneralSessionAppropriationsSummary/AppropriationsSummary?:showVizHome=no;embed=y&:display_count=no#1

¹³ <http://le.utah.gov/~2015/bills/static/HB0333.html>

education employees. Finally, legislators appropriated to transportation and public education new revenue generated by tax increases passed last General Session.

Education

The education budget increased significantly with higher and public education receiving a combined 67 percent of available new revenue. Public education's share included:

- Student enrollment growth (\$91 million)
- A two percent increase in the value of the weighted pupil unit—per student spending formula (\$83 million)
- Equalization of local property taxes among public district and chart schools through S.B. 38, School Funding Amendments (\$14 million)
- Preschool education for low-income students through S.B. 101, High Quality School Readiness Program Expansion (\$12 million)
- A statewide classroom technology initiative through H.B. 277, Personalized Learning and Teaching Amendments (\$15 million)
- Receiving a total of \$215 million

Higher Education funding changes featured:

- Three percent compensation increases (\$25 million)
- Enhancement of offerings in majors with high market demand (\$5 million)
- Performance-based funding (\$5 million); student scholarship increases (\$8.8 million)
- New buildings on higher education campuses (\$113 million)
- Receiving a total of \$156.8 million

In total, education received \$446 million in new resources, about six percent more than the \$422 million proposed by the governor

http://public.tableau.com/views/2015GeneralSessionAppropriationsSummary/AppropriationsSummary?:showVizHome=no;embed=y&:display_count=no#1).

Social Services and Medicaid

Legislators appropriated \$35 million ongoing in FY 2017, plus another \$2 million automatically included in base budgets, for projected increases in per member per month costs and increased participation rates for Medicaid. These costs are for traditional Medicaid clientele, not including expansion populations. However, after two years of deliberation, Utah did finally pass a version of expansion—H.B. 437, Health Care Revisions. The new plan likely will not qualify as full expansion under the Affordable Care Act, and thus will not qualify for enhanced match rates. However, it does purport to offer health care to 16,000 of the neediest Utahns who suffer from mental illness, substance abuse, or are rehabilitating through the criminal justice system. The state cost of the expanded program is \$4.5 million in FY 2017, growing to \$15 million per year at full implementation in FY 2021.

In addition to Medicaid, other social service program increases included almost \$10 million for homeless issues under H.B. 436, Housing and Homeless Reform Initiative. The bill established a process through which local entities could apply for grants or loans for housing infrastructure and operating costs to meet the needs of homeless individuals and families. The program hopes to leverage \$7 million in state funds to gain another \$2.5 million from TANF for homeless families.

Federal Land Issues

Legislators passed many initiatives to address federal ownership of public land in Utah. The biggest of these was H.B. 287, Commission for the Stewardship of Public Lands. The bill establishes two restricted accounts dedicated to litigation on federal ownership of public lands in Utah. The first account contains \$4.5 million in appropriations from mineral lease bonus money. The second is for private donations. Both accounts are dedicated to “asserting, defending, or litigating state and local government rights to the disposition and use of federal lands” in Utah.¹⁴

Transportation and Water Infrastructure

As mentioned earlier, most of Utah’s sales taxes are available for discretionary spending. However, a portion exceeding \$500 million are statutorily earmarked for transportation and water infrastructure development.¹⁵ S.B. 80, Infrastructure Funding Amendments, begins to redirect and unwind some of those earmarks. Beginning immediately, in FY 2017, \$9 million in sales tax earmarks previously dedicated to transportation will be returned to the General Fund. Over time, that shift will grow to almost \$19 million as two earmarks gradually accrue back to discretionary funds. Beginning the following year, in FY 2018, a portion of sales taxes previously dedicated to transportation will go to a new restricted account for water development. By FY 2022, that account will receive an estimated \$42 million per year in sales tax proceeds. The account can be used for projects such as a proposed pipeline to divert Colorado River water rights to growing communities in southern Utah.¹⁶ Loss of the sales taxes in transportation will be ameliorated by a gas tax increase passed in the 2015 General Session and by debt service savings achieved by paying off general obligation bonds for prior year transportation infrastructure projects.

Compensation Increases

Legislators provided funding for a two percent general salary increase to state and higher education employees. A general salary increase raises the ongoing pay of employees who have not reached the top of their salary range. Those who have capped-out will receive an equivalent one-time bonus. On top of this bonus, a dollar amount equivalent to one percent of salary was appropriated for health insurance cost increases. Legislators do not control salary decisions for public education employees; however, the legislature appropriated a three percent increase in the state’s basic education funding formula—an amount sufficient to provide funding capacity for a three percent compensation increase to schoolteachers.¹⁷

Conclusion

Utah’s citizens continued to benefit from a growing economy as witnessed by Utah’s \$15.1 billion FY 2017 budget. Appropriators again prioritized spending on public and higher education this year, though spending increases were not as large as those in FY 2016. Ironically, last year’s greater education spending increases were met with criticism in the press, while this year’s slightly smaller increases were praised. Utah also passed its own version of Medicaid expansion.

¹⁴ <http://le.utah.gov/~2016/bills/static/HB0287.html>

¹⁵ <http://le.utah.gov/interim/2015/pdf/00002450.pdf>

¹⁶ <http://le.utah.gov/~2016/bills/static/SB0080.html>

¹⁷ <http://le.utah.gov/~2016/bills/static/SB0008.html>

Concerns about long-term fiscal sustainability led policymakers to stop short of full expansion under the Affordable Care Act. Budgeteers found additional resources to continue the state's focus on federalism and public lands management. Finally, an innovative approach to business cycle management—budget stress testing—strengthened Utah's tradition of prudent fiscal stewardship.

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