The 2008 Utah Priorities Survey revealed that “taxes and government spending” ranked as one of Utah’s top three issues and concerns for this election year. Utah voters care not only about how much money they pay in taxes, but also about how government uses their money.

This report updates work previously done by Utah Foundation on state government growth. It focuses on Utah’s major budgetary categories, analyzing growth in Utah’s operating and capital budgets. This analysis covers almost two decades-worth of state government budgets, illustrating which program areas have been budget priorities for the state as the economy, legislation, and state funding have changed. This, in turn, should help readers make their own judgments about whether funds are being spent on the programs Utah taxpayers need and want. The report also updates the Utah Foundation’s recent work on state and local tax and fee burdens by calculating Utah’s tax burden for the most recent year available, differentiating between state and local tax burdens, and examining Utah’s business tax-to-benefit ratio.

A COMPARISON OF STATE GOVERNMENT EXPENDITURES IN THE U.S.

The U.S. Census Bureau compiles state revenue and expenditure figures for all 50 states annually, which allows a comparison of each state’s finances over a 14 year period (data is currently available from 1992 to 2006). In order to evaluate changes in growth rates, this section examines two separate periods, 1992 to 2001 (which coincides with the period examined in Utah Foundation’s 2003 report “Utah State Government Growth: 1991 to 2002”) and 2001 to 2006. This data is useful for comparing Utah to other states over this period, although it ends two years ago, before significant increases in revenues and spending occurred in the 2007 and 2008 fiscal years.

It should also be noted that the Census figures include state spending of federal funds, which cannot be separated from state funds in the Census reports. In other sections of this report, federal funds are excluded in order to give a better picture of actual state spending from Utah’s own tax and fee revenues. The inclusion of federal funds in the Census data causes Utah’s spending growth rate to appear larger than in the other data presented in this report.

Based on these Census data, from 1992 to 2001, Utah’s real (inflation-adjusted) state governmental expenditures grew at the fastest rate of any state, with a compound annual growth rate of 6.3%. This means Utah was spending money faster than any other state in the nation. After 2001, however, Utah’s state expenditures slowed. Between 2001 and 2006,
Utah’s compound annual growth rate fell to 3.4%, which ranked Utah 16th in terms of highest annual growth rate during those five years. Utah experienced the fourth largest slowing of real expenditure growth rates between these two periods, falling just ahead of Minnesota, Connecticut, and Colorado. Utah’s slower growth in this period could be attributed to many factors, one of which is a slowing economy. This report analyzes the factors which may have caused real expenditure growth to slow in the next section.

Although Utah experienced a relatively significant decline in its real state expenditure growth rate between the two periods mentioned above, the state’s extremely high growth rate during the first period (1992 to 2001) gives it the second-highest compound annual growth rate for the entire time period from 1992 to 2006. Utah’s real expenditure growth rate during this entire period was 5.25%, which fell just below Nevada’s growth rate of 5.33%. The growth rate for the entire nation was 3.2%.

The ten states that had the highest growth in state government expenditures were mainly western and southeastern states. Most of these states also experienced significant population growth between 1992 and 2006. A positive correlation exists between these two factors as states with growing populations require a greater level of government services. Utah’s population grew at an average annual rate of 2.6% between 1992 and 2006. This was one of the fastest population growth rates among the 50 states during this time period and fell just behind Nevada, which had a population growth rate of approximately 5%. Interestingly, Nevada’s governmental expenditure growth has kept pace with its population growth, with both rates increasing at an average annual rate of 5%, while Utah’s governmental expenditures increased much faster than its population (5.3% vs. 2.6%).

While comparing expenditure growth to population growth is a good indicator of how fast a state’s government expenditures are growing, population growth does not necessarily capture changes in the state’s economy and financial well-being. In order to understand how government spending compares to the general economic growth for each state, Utah Foundation calculated the ratio of government spending per $1,000 of personal income.

This is equivalent to stating government spending as a percent of personal income. It can also be thought of as the proportion of Utahns’ earnings that are dedicated to funding state government. The purpose of this comparison is to evaluate how fast state government is growing, and if state government is growing faster than the economy or the ability of Utah residents to pay for it. The spending per $1,000 of personal income ratio is used because it is easier to discern small changes in the amount of government spending by using dollars rather than percents.

Evaluating government spending in terms of personal income allows one to determine whether state government spending is growing faster or slower than the economy. The theory is that if a state’s government expenditures grew just enough to keep up with growth in the economy, then the ratio would be the same across the years examined and growth in the ratio would be zero. A positive growth rate indicates that the government is spending faster than what state residents are earning. This may have negative effect on the state’s budget or lead to increases in the tax burden. A negative growth rate, on the other hand, indicates that government spending is growing slower than the economy. This may suggest that the state is not providing enough public services for the growing economy.

Between 1992 and 2001, Utah’s ratio of government spending per $1,000 of personal income increased by an average annual growth rate of 1.5%. All but nine states saw growth in this ratio from 1992 to 2001, meaning the majority of states were spending faster than their economies were growing. Utah was in the top ten states with the highest-ratio growth during this period, ranking 9th in the nation. It should be noted that states which impose a personal income tax, often find that actual revenues persistently exceed budget estimates during economic upswings as corporations reward employees with salary increases, bonuses, and valuable stock options. In the same respect, state revenues fall during economic recessions as workers...
expenditures were growing at an average annual rate of 5.3%. Even though its real government expenditures did not continue for the majority of states. Twenty-four of the 50 states saw declines from the period’s previous growth, and 13 of these 24 states actually experienced negative growth rates. While Utah experienced a very slight positive growth rate from 1991 to 1996, the state’s compound annual growth rate decreased by 1.5 percentage points to 0.05%. The low average annual growth in this ratio between 2001 and 2006 implies that Utah’s government spending grew at about the same rate as the economy over these five years.

Combining the two periods gives Utah a compound annual growth rate of 1%. This ranks Utah 15th highest in terms of spending-to-personal income growth between 1992 and 2006. Again, these figures include the spending of federal funds, which were growing at a rapid pace (faster than the general fund or education fund) for Utah throughout the entire period. As shown later in this report, spending from state-only funds did not grow but generally declined in proportion to personal income over most of this period—implying the economy outpaced government expenditures at a rapid rate.

The difference in the two rankings can in part be explained by Nevada’s unique tax structure. Because Nevada does not impose personal or corporate income taxes, state revenues are likely to grow more slowly than other states’ revenues since sales taxes generally do not keep pace with economic growth. Utah, on the other hand, levies both a sales and an income tax. This allows state revenues, and therefore governmental expenditures, to grow at an average annual rate that mirrors, and often slightly outpaces, growth in the economy. While Census data is useful when comparing the growth of Utah’s governmental expenditures to other states, it is important to always consider the tax structure and individual government budgets of each state when making these comparisons.

**UTAH’S GOVERNMENT EXPENDITURE GROWTH**

To further understand what has driven the changes in Utah’s government expenditure growth rates, this section will analyze the state’s government budgets in greater detail. Because the Census Bureau does not provide the detailed state expenditure budgetary outlines necessary for a comprehensive look at Utah’s state government growth, and in order to obtain more recent data than what is available through Census, Utah Foundation uses the budgetary reports provided by the Governor’s Office of Planning and Budget (GOPB).

The data collected from GOPB spans from FY 1991 to FY 2009 (amounts appropriated for next year’s budget), allowing Utah Foundation to analyze almost two decades worth of data. Federal funds are excluded from the figures in this section so the analysis is indicative of state spending from its own revenue sources.

Data from GOPB show that total real state government expenditures have risen significantly over the last 16 years, with a particularly strong surge in FY 2007 and FY 2008. The budget for FY 2009 shows an increase in operations spending but a decrease in overall appropriations. In the early 1990s, operations and capital/debt service spending grew at about the same average annual rate. The operating budget is used to cover the day-to-day operations of state-provided services and programs, while the capital and debt service budgets are used for the improvement, construction, or purchase of major state infrastructure, such as buildings, parks, or roads. Figure 2 shows that from FY 1991 to FY 1996 operations expenditures grew at a compound annual rate of 4%, while non-operations (which include capital and debt service) grew 4.5% annually. This was...
In order to determine which factors have driven these changes in government expenditures, Utah Foundation divided total budgetary figures into seven major categories: Public Education; Health, Human Services, & Environmental Quality; Higher Education; Transportation, including operations and capital; Law and Order, which includes Corrections, Courts, Public Safety and the National Guard; Capital & Debt Service, meaning non-transportation-related capital expenditures and debt service; and Other Operations, which includes all other state departments not included in the above listed budgetary categories. These are the same seven categories used in the 2003 Utah Foundation report “Utah State Government Growth: 1991 to 2002.” However, because the numbers are adjusted to reflect the FY 2007 operating budgets, this report is not directly comparable to the numbers and results obtained in 2003.

Adjusting the numbers so they are reflective of the Governor’s FY 2007 budgets ensures that departmental growth rates are an accurate reflection of actual growth instead of a reflection of monies simply being transferred to another department as responsibilities and titles change under the different administrations. Using the adjustments made for the 2003 report as a starting point, Utah Foundation went back to 1991 and reallocated funding to the various departments within these seven categories so each category is reflective of FY 2007 operating and capital budgets. For example, in the previous report, it was necessary to reallocate money between departments to reflect the establishment of the Department of Workforce Services. The process also involved moving individual divisions and state offices into the departments in which they currently reside. For example, the department of Applied Technology Centers was transferred from Public Education to Higher Education; Human Resource Management and the Career Service Review Board were transferred from the old Economic Development and Human Resources section to Administrative Services; the Tax Commission was moved from the Commerce and Revenue division and placed under Economic Development and Revenue. Other minor changes and reallocations were made using this same methodology.
As mentioned in the previous report, the downside to this methodology is that this report cannot be compared to prior Utah Foundation analysis on this topic because the departments and the expenditures within the categories have changed considerably over time. The upside to this methodology is that it shows the trends in government expenditures from almost two decades of Utah’s state budgets. Although the FY 2008 and FY 2009 budgets reflect the numbers which have been authorized and appropriated, but not finalized, these years have been included in the analysis as an indication of what government expenditures will be in the near future, as well as to help account for the increased spending from Utah’s FY 2006 and FY 2007 budget surpluses.

Figure 4 breaks down state expenditures by the major budgetary categories listed above. The stacked bars list the categories from largest to smallest, according to the FY 2009 appropriated budget. The graph shows that public education is Utah’s largest budgetary expense. This is followed by higher education; health, human services; environmental quality; transportation; other operations; law and order; and capital & debt service.

Examining each budgetary category over time shows how Utah’s budgetary priorities change as demand for government services change. One can immediately see from Figure 4 that some budgetary categories received an increased portion of funding relative to economic activity over time. Excluding Capital and Debt Service, the only two categories that experienced a positive growth rate between FY 1991 and FY 2007 were Transportation and Health, Human Services, & Environmental Quality. Analysis in the next section shows that these growth rates are primarily driven by Health and Transportation Capital-related expenses. To illustrate the impact of these two categories on the entire budget, if Health and Transportation Capital are removed from the totals, the remaining spending fall from $88 per $1,000 of personal income in FY 1991 to $74 per $1,000 in FY 2007. However, in FY 2008, that ratio jumped to $82 per $1,000 of personal income. The following section examines each of the seven budgetary categories in greater detail to determine which programs are influencing changes in government expenditures.

Public Education

Public Education is by far Utah’s largest budgetary expense, accounting for $40.04 per $1,000 of personal income in FY 1991. However, while public education has remained Utah’s largest budgetary expense over the past 16 years, there has been a significant downward trend in the amount of dollars devoted to the public education system relative to economic activity. For example, $31.69 per $1,000 of personal income was spent on public education in FY 2007, which was an almost $8.50 decrease from the amount spent in FY 1991. Public education spending, relative to economic activity, fell at an average annual rate of 1.5% during this period. The current fiscal year (2008) brought a significant boost in education funding, bringing that ratio up to $35.04 per $1,000 of personal income.

While public education spending exhibits a considerable downward trend between FY 1991 and FY 2007, it is important to consider what factors are driving this trend. For instance, the decline in public education spending per $1,000 of personal income during the early 1990s was coupled with a declining school enrollment growth rate. This allowed policymakers to use the money for more pressing budget priorities. Interestingly, the public school spending increase which occurred in FY 1999 corresponds with the lowest growth rate in Utah’s public school enrollment since 1977. After this year, the growth rate in public school enrollment increased until it peaked at 2.9% in 2005. While public education spending increased at an average annual rate of 2.4% between FY 2000 and FY 2002, the amount of dollars spent per $1,000 of personal income rapidly declined until FY 2006. This means public school spending was decreasing in proportion to economic activity even though school enrollment was increasing over the same period.

Public Education Spending 50-State Comparison

As part of evaluating Utah’s public education spending, it is useful to compare the state’s expenditures to national trends in order to determine whether Utah’s trend in public education expenditures is an anomaly or consistent with other states. While other reports typically focus on ranking Utah in terms of per-pupil funding and teacher salary, this report ranks Utah in terms of government spending relative to economic activity. In order to compare Utah to the nation it is necessary to use data from the U.S. Census Bureau, which provides public school system finance information on state and local school expenditures. The Census

Figure 6: State Public Education Expenditure Growth: Compound Annual Growth Rates (CAGR) Per $1,000 of Personal Income, FY 1992-2006

<table>
<thead>
<tr>
<th>State</th>
<th>CAGR</th>
<th>Rank</th>
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<tr>
<td>U.S.-Average</td>
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</tr>
<tr>
<td>Massachusetts</td>
<td>1.43%</td>
<td>2</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>1.33%</td>
<td>3</td>
</tr>
<tr>
<td>Hawaii</td>
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<tr>
<td>Alabama</td>
<td>1.32%</td>
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<tr>
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</tr>
<tr>
<td>Mississippi</td>
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<td>8</td>
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<td>Vermont</td>
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<tr>
<td>Oregon</td>
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<tr>
<td>Utah</td>
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<tr>
<td>Montana</td>
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<td>50</td>
</tr>
<tr>
<td>Wyoming</td>
<td>-1.88%</td>
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</tr>
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Sources: Census, BEA. Calculations by Utah Foundation.
Bureau only has data available on public education spending for FY 1992 to FY 2006, reducing the years of analysis. Because the Census uses a survey process to collect its data, the numbers are slightly different from the data obtained from the Governor’s Office of Planning and Budget. However, when the expenditure-per-personal-income ratio is calculated using the Census data, the time-series’ trends and peaks mirror those from the GOPB data. However, the Census data include spending from federal funds, which are excluded from the GOPB totals.

Between 1992 and 2006, the average annual growth rate in public education spending per $1,000 of personal income for the United States as a whole was 0.2%, indicating U.S. public education expenditures grew slightly faster than the nation’s economy. During this same period, Utah experienced a -1.6% average annual growth rate in its public education expenditures per $1,000 of personal income. Comparing Utah’s growth rate with the other 49 states shows that Utah has the third-lowest compound annual growth rate in the nation. Only Montana and Wyoming had lower average annual growth rates at -1.9%. Massachusetts’s average annual growth rate was the highest at 1.4%.

Interestingly, positive and negative growth rates were about equal between the 50 states. Public education expenditures grew faster than the economy in 23 of the 50 states, and public expenditures grew slower than the economy in 23 of the 50 states. Four states’ expenditures (Michigan, New Mexico, Nevada, and Kentucky) grew at a pace relatively equal to the growth in their economies. The ten states with the lowest compound annual growth rate were mostly western states, while the ten states with the highest compound annual growth were mostly eastern and southern states. Utah’s educational peer states (in terms of demographic factors) all rank in the bottom twenty states with the lowest average annual compound growth.5

Utah ranks 43rd-highest in terms of dollars spent per $1,000 of personal income in 2006. This is with respect to current public school expenditures (capital spending, payments to state and local governments, and interest payments on school indebtedness are excluded). Alaska ranks 1st, with $59.24 per $1,000 of personal income being spent on public education; Nevada ranks last, with only $31.37. Even though Nevada spends the lowest amount relative to economic activity, its public education expenditures have grown at about the same rate as its economy (its average annual growth in governmental expenditures-per-personal-income ratio is close to zero between FY 1992 and FY 2006). As mentioned above, Nevada does not impose personal or corporate income taxes, and only about a third of public education revenue comes from sales and use taxes. Another 28% comes from fees and taxes paid mainly by casinos, while the remaining balance comes from various insurance and business levies, real estate transfer taxes, secretary of state fees, and taxes on liquor and cigarettes.6 This contrasts with Utah, where the majority of public education funding comes from the individual income tax (withholdings and final payments), the corporate income tax, and property taxes. Data from the Utah Tax Commission shows that about 70% of the FY 2007 Education Fund came from individual income tax withholdings.

Recent Increases in State Public Education Funding

Since FY 2006, Utah’s Governor and Legislature have significantly increased the state’s public education budget, which has helped reverse the downward trend in spending per $1,000 of personal income. Due to budgetary surpluses in FY 2006 and FY 2007, the ratio of state public education expenditures to personal income increased slightly in FY 2007 and significantly in FY 2008, raising the dollar amount spent per $1,000 of personal income from $31.24 in FY 2006 to $35.04 in FY 2008. The increase in spending in FY 2007 was largely due to a $170 million dollar increase in the Minimum School Program (MSP), which is the primary funding source for Utah’s public school districts and charter schools. The MSP comprises five programs: the Basic School Program, the Related to Basic Programs, Special Populations, Board and Voted Leeway Programs, and Other Programs. MSP revenues support educational programs in the districts and charter schools, which include over 526,000 students.7 Other programs which received increased funding during FY 2007 were the Utah State Office of Education ($5.5 million), the Utah State Charter School Board ($1.3 million), the Fine Arts Outreach program ($4 million), and Nutrition Programs ($1.9 million). The only program that received a major funding cut in FY 2007 was Science Outreach ($3.5 million). All of these numbers are in real 2008 dollars with federal funds excluded.

Several programs within the public education budget have received even larger funding increases in FY 2008. The most significant increase is the $412 million dollar budgetary increase given to the Minimum School Program. Other programs receiving a budgetary increase are the Utah State Office of Education ($4 million), the Utah State Office of Rehabilitation ($1 million), Utah Schools for the Deaf and Blind ($2.2 million), and Fine Arts Outreach ($0.7 million). Interestingly, some of this increase is being offset by a $3.9 million reduction to the Utah State Charter School Board and a $2 million dollar reduction to Nutrition Programs. With most of the budgetary surpluses being distributed in FY 2007 and FY 2008, public education spending relative to economic activity is expected to fall slightly in FY 2009 to $34.52; however, this is still considerably greater than the amounts spent in FY 2006 and FY 2007.

Higher Education

Higher education is currently Utah’s second-largest budgetary expense. However, growth in the state’s Health, Human Services, & Environmental Quality spending is quickly outpacing the growth in Higher Education and, if current trends continue, Health and Human Services will soon take over as the second-largest expense.
category. While Higher Education also experienced a downward trend in the amount of dollars spent relative to economic activity from FY 1991 to FY 2009, the decline is not as dramatic as the reduction in the public education spending ratio. The average annual growth rate in Higher Education expenditures per $1,000 of personal income was -0.9%, which is slower than the -1.5% growth rate in Public Education expenditures per $1,000 of personal income. In FY 1991, Higher Education accounted for $15.54 per $1,000 of personal income. In FY 2007, this amount had decreased to $13.39, although this was a slight increase from FY 2006’s amount of $13.33. Increased funding was also devoted to higher education in FY 2002 and FY 2004, which helped to offset the downward trend. However, much of the increase during these two years was the result of decreases in tuition charged to students. 8

In FY 2008, Higher Education’s expenditures are expected to reach $14.67 per $1,000 of personal income, mirroring the expected increase in public education. All of the programs included in the Higher Education category received additional funding in the FY 2008 budget. The programs and institutions that received the majority of the funding increases were the University of Utah ($38 million), Utah State University ($36 million), Dixie College ($14 million), Utah Valley State University ($27 million), Salt Lake Community College ($12 million), and the State Board of Regents/Statewide Programs ($14 million). All other programs received increases of less than $10 million. 9 Higher education spending is expected to fall again in FY 2009, to $13.50 per $1,000 of personal income, since the state’s surpluses have been disbursed and the economy has slowed.

Health, Human Services, and Environmental Quality

The Health, Human Services, & Environmental Quality category includes three different operating budgets: Health, Human Services, and the Department of Environmental Quality. Adding Human Services to the Health budgetary category was a decision made by Utah Foundation for its 2003 report. This was done because the federal department charged with funding and overseeing these agencies is the U.S. Department of Health and Human Services, therefore it was important for analysis to couple these agencies at the state level. For instance, Medicaid funds are often passed through the state Department of Health to Human Services. This relationship makes unraveling the funding for these two departments difficult; since they have complementary roles, it is important to examine them together. The Department of Environmental Quality is included in this category because it is responsible for overseeing air and water quality, safe drinking water, and other health-related environmental programs.

Health

The amount of state dollars per $1,000 of personal income spent in Health, Human Services, & Environmental Quality has increased over time. In FY 1991, this category accounted for $9.83 per $1,000 of personal income. In FY 2007, this amount had risen to $13.13, representing a 1.8% average annual increase. This increase is largely driven by increases in health-related spending (see Figure 8). Spending growth in Human Services and the Department of Environmental Quality has remained relatively constant over these 16 years.

Health-related costs represent an increasing portion of Utah’s operating budget; since FY 1991 spending on health programs has increased at a compound annual growth rate of 3.5%, meaning the state’s health-related expenditures grew much faster than the economy. In FY 1991, health-related costs accounted for $4.42 per $1,000 of personal income. In 2007, this amount had risen to $7.69. However, the amount spent in FY 2007 was a slight decrease from the spending peak in 2006, when $7.99 per $1,000 of personal income was spent. Spending per $1,000 of personal income is expected to continue to fall in FY 2008 and FY 2009, with estimates of $7.62 and $7.30 per $1,000 of personal income. The Health category consists of several different programs: the Executive Director’s Operations, Health Systems Improvement, Workforce Financial Assistance, Epidemiology and Lab Services, Community and Family Health, Health Care Financing, Children’s Health Insurance Programs, Local Health Departments, and Medicaid.

Medicaid

The vast majority of health-related expenses come from Utah’s state contributions to the Medicaid program, which consists of the base program, mandatory services, and optional services (federal Medicaid matching funds are not included in this analysis). In FY 1991, Medicaid made up slightly less than 70% of the state’s total Health operating budget. 10 By FY 2005, this share had increased more than 10 percentage points to 80%.

In terms of economic activity, Medicaid accounted for $2.97 of the $4.42 per $1,000 of personal income spent on health-related programs in FY 1991. In FY 2007, Medicaid costs accounted for $6.09 of the $7.69 per $1,000 of personal income spent. Medicaid spending per $1,000 of personal income grew at a 4.6% average annual rate between FY 1991 and FY 2007, which is slightly faster than the average annual growth rate of all health-related expenditures and implies that Medicaid may be crowding out other expenditures in the Health budget.

Interestingly, while Medicaid spending relative to economic activity peaked in 2006 at $6.41, the amount of dollars spent per $1,000 of personal income fell in FY 2007 by 5%, and is expected to fall in FY 2008 and FY 2009 by 2.5%, and 4% respectively. It is important to note, however, that this decrease is not the result of a strict reduction in funding to Medicaid programs, but more likely reflects the decreasing growth in Utah Medicaid caseloads. For example, the number of persons enrolled in Medicaid decreased by about 12% (or 20,000 enrollees) between July of 2006 and January of 2008. 11 Even with this decrease, government spending on Medicaid

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8 FY 2008 is authorized and FY 2009 is appropriated. Sources: G0P, BEA Calculations by Utah Foundation.

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Figure 8: Utah State Government Health Expenditures per $1,000 of Personal Income, FY 1991-2009

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</tbody>
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10 FY 2008 is authorized and FY 2009 is appropriated. Sources: G0P, BEA Calculations by Utah Foundation.

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11 Even with this decrease, government spending on Medicaid
programs has been slow to fall over the last three years because Utah Medicaid has experienced underlying growth in the disabled and aged populations—populations which require more services.12

Other Health Services
The other health programs which compose the Health category are the Executive Director’s Operations, Health Systems Improvement, Workforce Financial Assistance, Epidemiology and Lab Services, Community and Family Health, Health Care Financing, Children’s Health Insurance Programs, and Local Health Departments. All of these departments experienced an upward trend in spending between FY 2001 and FY 2007 and expenditures are budgeted to continue to grow in FY 2008 and FY 2009. Spending within the Children’s Health Insurance Program will grow the fastest over the nine year period—in FY 2001 only $0.04 per $1,000 of personal income was spent on CHIP; in FY 2009 this amount will increase to $0.19, representing a 22% average annual growth rate. Most of this growth has occurred in the last two years and is the result of Utah’s effort to make health insurance available to uninsured children in Utah by appropriating $2 million to both the ongoing General Fund and one-time restricted funds in FY 2007, as well as adopting legislation, like House Bill 326 in FY 2008, which removes the state’s enrollment cap from the Children’s Health Insurance Program.13

One legislative effort which may impact the Health section is the establishment of the Health System Reform Legislative Task Force. An initial $382,000 was dedicated to this task force in FY 2008 to begin developing and implementing a comprehensive state healthcare policy.

Human Services
Growth in the Department of Human Services’ expenditures per $1,000 of personal income has remained relatively constant since 1991. The average annual growth rate of this ratio between FY 2001 and FY 2007 was only 0.01%, indicating that Human Services-related expenditures grew at the same rate as the economy. While there were slight spending increases in FY 2000 and FY 2002, overall Health Services expenditures have ranged from $5 to $6 per $1,000 of personal income over the past 16 years. Between FY 2004 and FY 2007, there was a significant decrease in Human Services spending per $1,000 ratio. This is partly due to several funding cuts which went into effect in FY 2004. These funding cuts reduced spending to local mental health programs, substance abuse programs, the Division of Services for People with Disabilities (largely due to estimated client attrition), the Office of Recovery Services (which collects child support), and across-the-board reductions to various divisions and offices within the department.14

Department of Environmental Quality
The amount of state money spent per $1,000 of personal income on Environmental Quality has also remained relatively stable, only growing at an average annual rate of 0.5%. The maximum amount of dollars relative to economic activity spent by the Department of Environmental Quality was $0.50 per $1,000 of personal income in FY 1995 and FY 1996. State department spending is evenly distributed between its programs, which include the Executive Director’s Office, Air Quality, Drinking Water, Environmental Response Remediation, Radiation, Solid and Hazardous Waste, and Water Quality programs (federal funds excluded). The air and water quality programs receive the largest share of total state program funding, averaging around 23% of total funding.

Healthcare Spending 50-State Comparison
Even though the state government expenditure data available from the Census Bureau is not directly comparable with the data from the Governor’s Office of Planning and Budget, it is worthwhile to examine the Census Bureau’s statistics on state and local government health-related finances. This is because Health is the only category within Utah’s operations budget which increases over time. The Census data allow one to compare growth in Utah’s health-related expenditures between FY 1992 and FY 2006 with growth in other states to determine whether Utah’s rising health expenditures are consistent with national trends. It is important to note, however, that the Census data include some spending from federal funds, which are excluded from the GOPB figures.

In terms of dollars per $1,000 of personal income, the Census data show state and local health-related expenditures grew at an average annual rate of 1.5% from FY 1992 to FY 2006. This ranks Utah

![](Figure 9: Comparison of State Health and Public Welfare Expenditure Growth: Compound Annual Growth Rates Per $1,000 of Personal Income, FY 1992-2006)
23rd-highest in terms of state and local health-related expenditures in the nation. Nebraska had the highest average annual growth rate in the nation at 7.3%. Thirty-nine states, including the District of Columbia, had positive annual growth rates over these 14 years, while 12 states had negative growth rates, meaning the economy grew faster than state spending on healthcare. The states with negative growth rates were mostly southern and eastern states. Interestingly, Massachusetts had the lowest average annual growth rate of -4.9%, largely driven by significant decreases in state expenditures in FY 2004 to FY 2006. However, it is important to note that this dataset is only available for FY 1992 through FY 2006 and therefore would not include any new healthcare initiatives like the healthcare program implemented in Massachusetts in 2006. The average annual growth rate in health spending per $1,000 of personal income for the nation was 1.2%, which was slightly lower than Utah’s annual growth in health-related expenditures.

Because the Governor’s Office of Planning and Budget includes several welfare programs within its Health category, it is useful to look at national expenditure data on public welfare as well. In terms of Public Welfare, Utah’s state and local expenditures per $1,000 of personal income grew at a compound annual growth rate of 2.2% between FY 2002-2006. This is more than a full percentage point higher than the nation’s growth rate and ranks Utah 19th highest in terms public welfare state and local expenditure growth. It makes sense that Utah’s Public Welfare expenditure growth was higher than its Health-related expenditure growth, as the most of the growth within Utah’s Governor’s Office of Planning and Budget data came from public welfare-based programs.

From this comparison, it appears as though Utah’s rising health and public welfare expenditures relative to economic activity is not unique when compared to other states. While Utah ranked slightly higher in terms of public welfare, its health and public welfare expenditure growth rates are typical of the growth rates experienced by other states. While using the Census data is not a perfect substitute for the data provided by the Governor’s Office of Planning and Budget, it helps keep Utah’s health-related expenditure growth in perspective.

**Transportation**

Total state transportation spending has fluctuated more than any other category. In FY 1991, total transportation accounted for $9.04 per $1,000 of personal income. This is similar to the amount spent in FY 2006, which was $8.51. Between FY 1991 and FY 2006, the minimum spent was $6.80 in FY 2003, and the maximum spent was $10.51 in FY 1997. In FY 2007, however, the amount spent per $1,000 of personal income increased significantly to $12.21 (a 43% increase from FY 2006), and in FY 2008 it is projected to increase again to $15.07 (a 24% increase from FY 2007).

**Operations**

Between FY 1991 and 1996 state operations and capital expenditures each made up about half of total Transportation expenditures. Starting in FY 1997, however, capital expenditures began to make up an increasing portion of the total. By FY 2006, operation’s share of the total was only 30% and this share is expected to decrease to 20% in FY 2007 and FY 2008. The decreasing share of operations expenditures is largely due to the increasing share of capital expenditures resulting from the establishment of the Centennial Highway Trust Fund in FY 1997. The Centennial Highway Trust Fund is used to pay the costs of major construction, reconstruction, and renovation of critical transportation needs in the state.\(^{15}\)

As seen in Figure 10, operation expenditures per $1,000 of personal income have steadily decreased from FY 1991 to FY 2007 and are projected to continue to decrease in FY 2008 and FY 2009. In FY 1991, transportation operations spending accounted for $4.60 per $1,000 of personal income, compared to $2.61 in 2007. This represents a -3.5% average annual growth rate in this ratio. The graph also shows how the increases in total transportation spending, which occurred in FY 2007 and FY 2008, are completely due to an increase in capital spending. The different programs within the operations budget are Support Services, Engineering, Maintenance Management, Region District Management, Equipment Management, and Aeronautics. Maintenance Management receives the majority of funding (over 50%).

**Capital**

Figure 10 shows that the fluctuations in total state transportation spending come almost completely from increases in capital spending. In FY 1991, transportation capital spending accounted for $4.43 per $1,000 of personal income, compared to $9.59 in FY 2007. This represents an almost 5% average annual growth rate. However, a large part of this growth comes from the last three years. Transportation capital spending increased 63% between FY 2006 to FY 2007 and is projected to increase another 29% in FY 2008, reaching an all-time spending high of $12.38 per $1,000 of personal income.

The increased spending in FY 2008 comes from significant one-time appropriations of $249 million for the Centennial Highway Program, $30 million for corridor preservation, $30 million for bridge replacement, and $40 million for choke point and safety projects. The increased spending also comes from the establishment of a $90 million Critical Highway Needs Fund, which is used to fund additional projects aimed at resolving congestion on Utah roads.\(^{16}\) These increases are most likely the result the FY 2006 and FY 2007 surpluses. Utah often uses budget surpluses to finance one-time projects rather than on-going programs because this eliminates expectations for continued funding increases. This also allows the state to manage its budget more effectively if projected revenues do not materialize. This theory can be used to explain the fluctuations in transportation capital-related expenses seen in Figure 10—as government revenue increases, surplus money can be spent in one-time capital projects, but when government revenue is restricted, like after the 2001 national recession, less money

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\(^{15}\) Sources: GOPB, BEA. Calculations by Utah Foundation.

\(^{16}\)
is allocated for capital-funded projects, providing a form of flexible reserve funds that help the Legislature avoid cutting into ongoing program operating funds.

**Law and Order**

Law and Order state spending has remained relatively stable over the past 16 years. Similar to other categories, there was a slight increase in spending between FY 2000 and FY 2002 which was most likely the result of increased security preparing for and during the 2002 Winter Olympic games. Besides this increase, spending has remained between $6.50 and $8.00 per $1,000 of personal income. Over the last 16 years, the average annual growth rate for spending per $1,000 of personal income in this category was -0.06%, meaning that Law and Order expenditures grew at close to the same rate as the economy. While there is a slight increase in this ratio projected in FY 2008, the percent increase is small and the ratio is expected to return to previous levels in FY 2009. The Law and Order category contains four different operating budgets: Corrections, Courts, Public Safety, and the National Guard.

On average, the Corrections category accounts for more than 50% of total Law and Order spending, or around $4.00 per $1,000 of personal income. Corrections-related spending per $1,000 of personal income increased 0.9% from FY 1991 to FY 2007, and is expected to increase again in FY 2009 to pay for the annual operating costs of the newly completed 192-bed pod at the Central Utah Correctional Facility. Courts spend an average of $1.67 per $1,000 of personal income, while Public Safety spends $1.42 per $1,000 of personal income. Both Court and Public Safety expenditures experienced negative average annual growth rates in proportion to personal income between FY 1991 and FY 2007, declining at rates of -2% and -0.4%, respectively. Only an average of $0.08 per $1,000 of personal income was spent on funding the National Guard. While the total amount the National Guard spends relative to personal income has remained consistently small compared to other categories, expenditure growth has increased at an average annual growth rate of 1.5% since FY 1991.

**Other Operations**

The Other Operations category includes the departments of Administrative Services (which includes Technology Services), Commerce and Workforce Services, Economic Development and Revenue, Elected Officials, Legislature, and Natural Resources. Overall, this category has experienced a distinct downward trend in spending per $1,000 of personal income over the past 16 years.

In FY 1991, Other Operations accounted for $11.19 per $1,000 of personal income, compared to $7.43 in FY 2007. This represents an average annual change of -2.5%. While total spending per $1,000 of personal income is expected to increase 20% between FY 2007 and FY 2008, this is primarily due to increases in funding within the Department of Economic Development and Revenue and the Department of Administrative Services.

**Administrative Services**

The Administrative Services section includes the Executive Directors Office, the Office of Administrative Rules, Archives, the Division of Facilities Construction and Management, the Division of Finance, Purchasing, the Capitol Preservation Board, Human Resource Management, the Career Service Review Board, and Technology Services. Of these sections, the Division of Finance has the largest expenses (on average more than 50% of total expenditures in the department come from that division).

From FY 1991 to FY 2007, state expenditures per $1,000 of personal income within the Administrative Services section experienced a -6.4% average annual growth rate. However, expenditures are expected to increase more than 100% between FY 2007 to FY 2008, most of which results from changes in the Division of Finance. This increase was largely the result of the establishment of the Land Exchange Distribution Account; H.B. 410 mandates that the Division of Finance deposit interest or other earnings derived from investment of account monies from the General Fund into this account. These monies are then used to mitigate the impacts caused by mineral development, improve the quality of education, and encourage natural resource and water development in the state.\(^7\)

The increase was also the result of payments made by the Division of Finance for development zone partial rebates. Partial rebates of state revenues generated by new commercial projects are given to companies locating within Utah’s designated development zones as an incentive for new development projects and creation of new jobs.

**Commerce and Workforce Services**

The Commerce and Workforce Services section includes the Alcoholic Beverage Control, Commerce, Financial Institutions, Insurance (including CHIP), the Labor Commission, the Public Service Commission (which includes the Speech and Hearing Impaired Fund and the Universal Telecommunication Service Support Fund), and Workforce Services. Workforce Services accounts for the majority of state spending within the Commerce and Workforce Services section. From FY 1991 to FY 2007, Commerce and Workforce Services
expenditures per $1,000 of personal income experienced a -3.2% average annual growth rate. While expenditures relative to $1,000 of personal income increased in FY 2007, the ratio is expected to decrease in FY 2009.

Economic Development and Revenue
The Economic Development and Revenue section includes the Department of Community and Culture (Administration, Housing and Community Development, Indian Affairs, Arts and Museums, the Historical Society, the State Library, and Zoos), the Governor’s Office of Economic Development (Administration, Tourism, Business Development, and Incentive Funds), the Tax Commission, the Utah Science Technology and Research Initiative (USTAR), and the Utah Sports Authority. From FY 1991 to FY 2007, Economic Development and Revenue state expenditures per $1,000 of personal income experienced a -1.6% average annual growth rate, but this is offset by major spending increases in FY 2008. The expected expenditure increase in FY 2008 seems to be the result of one-time increases in the Department of Community and Culture’s Housing and Community Development, the Tax Commission, and USTAR. Expenditures within Housing and Community Development are expected to increase more than $39.9 million between FY 2007 and FY 2008. Some of this money is expected to go toward improving the availability and quality of affordable housing through the Olene Walker Housing Loan Fund, as well as toward mitigating Utah’s homelessness through the Pamela Atkinson Homeless Trust Fund. The Tax Commission also received a $16 million dollar budgetary increase in FY 2008 and USTAR received a $17.5 million increase.

Elected Offices and Legislature
The Department of Elected Offices consists of the offices of the Attorney General, Auditor, Governor, and Treasurer. From FY 1991 to 2007, state expenditures per $1,000 of personal income from these offices experienced a -0.6% average annual growth rate. The Legislature consists of the Senate, the House of Representatives, Legislative Printing, the Office of Legislative Research and General Counsel, the Tax Review Commission, the Office of the Legislative Fiscal Analyst, the Legislative Auditor General, and the Constitutional Revision Commission. Total state Legislature spending per $1,000 of personal income declined by an average annual rate of -1.8% between FY 1991 and FY 2007.

Natural Resources
The Natural Resources section includes the Department of Natural Resources (including Administration; Endangered Species; Building Operating; Range Creek; Forestry, Fire, and State Lands; Oil, Gas, and Mining; Wildlife Resources; the Wildlife Resources Restricted Account; Parks and Recreation; Geological Survey; Water Resources; and Water Rights), the Department of Agriculture and Food, the Utah State Fair Corporation, the Trust Lands Administration, and the Public Lands Policy Coordinating Office. The majority of this section’s expenses come from the Department of Natural Resources. Expenditures per $1,000 of personal income within the Natural Resource section declined by an average annual rate of -1.6% between FY 1991 and FY 2007.

Capital and Debt Service
The Capital and Debt Service category includes both non-transportation capital and debt service. The capital budget includes state spending on acquisition, development, construction, and improvement of fixed assets. The debt service budget includes state spending which goes toward debt service payments on all capital-facility general obligation bonds, highway general obligation bonds, and State Building Ownership Authority revenue bonds.

The Capital and Debt Service category experienced an upward trend over the past 16 years. In FY 1991, this category accounted for $4.47 per $1,000 of personal income, compared to $6.30 in FY 2007. This category peaked in FY 1997, FY 2001, and FY 2005, when it required $5.52, $5.97, and $6.64 of every $1,000 personal income to meet its obligations. These peaks are primarily driven by changes in non-transportation capital expenditures. As seen in Figure 13, the two lines show the same expenditure peaks and trends. Debt Service, on the other hand, has experienced stable expenditure growth compared to non-transportation capital. Between FY 1991 and FY 2007, Non-transportation Capital expenditures per $1,000 of personal income grew at an average annual rate of 3%, while Debt Service grew at an average annual rate of 1.3%. Debt Service reached its expenditure peak in 2005 when $3.90 per $1,000 of personal income was going toward meeting Utah’s capital-facility debt service payments. Non-transportation Capital’s ratio of spending to personal income is expected to grow almost 50% between FY 2007 and FY 2008.

Making the Grade
Utah’s strict financial management, especially in regard to capital spending and debt service, has helped the state government achieve one of the highest overall performance grades in the nation, according to the 2008 Government Performance Project conducted by the Pew Center on the States. Utah’s stable financial situation received an “A” with respect to the Pew Center’s “Money” category. Part of this stable financial situation comes from the fact that Utah’s Legislative Fiscal Analyst tracks one-time revenues and expenditures against ongoing revenues and expenditures. Utah has also dedicated one-time revenues to capital investments during the past two years of budget surpluses, which will enable the state to maintain stable spending levels on operations if the economy should slow.

Utah’s fiscal management has also helped the state manage its long-term liabilities and therefore maintain a low level of indebtedness.
compared to other states. The state’s ability to repay its debts has given Utah a triple A rating on general obligation bonds from Moody’s Investors Service, Standard and Poor’s Corporation, and Fitch Ratings. As of December 2007, Utah was only one of seven states to receive a triple A rating on general obligation bonds from all three credit rating agencies. In terms of revenue bonds, the state currently has a double A rating Moody’s Investors Service and Standard and Poor’s Corporation.

Having a high ranking in terms of government finances and management is not a new phenomenon for Utah. For instance, Utah ranked #1 in USA Today’s 2003 list of best fiscally managed states, and was the only one of the 50 states to capture the newspaper’s four-star ranking in each of the categories (spending restraint, bond rating, and tax system). Utah received this ranking because it has been cautious about spending increases and tax cuts and acted swiftly to balance its budget when tax collections fell in during the national recession.

REVENUE

In order to complete the budgetary picture, it is necessary to examine state revenue sources. Historically, over 70% of Utah’s funding comes from three funds: the General Fund, the Education Fund, and Federal Funds. Unlike most states, the General Fund is not Utah’s largest fund. This is because individual and corporate income taxes, which account for the largest share of state revenues, are dedicated to the Education Fund. The General Fund receives most of its revenue from the state sales and use tax.

Utah’s second-largest revenue category is Federal Funds (according to FY 2008). Figure 14 shows that Utah has relied on an increasing amount of federal funds to support state expenditures. In FY 2001, Federal Funds made up about 21% of total state revenue, by FY 2006 this share had increased to 27%, quickly surpassing the General Fund as the second-largest fund in the budget. Figure 14 also shows how the Education Fund has been increasing since FY 1991. Between FY 2001 and FY 2003, real revenues within the Education Fund decreased. This reflects the decrease in personal and corporate income tax that resulted from the 2001 recession. The fact that Education Fund revenues have been growing so quickly since FY 2006 is reflective of the strong economic surge of recent years, resulting in the FY 2006 and FY 2007 budget surpluses.

Figure 15 shows the changes in the state’s major tax revenue sources from FY 1991 to FY 2009. The chart shows that real state collections of these taxes have been generally growing since FY 1991, due to rapid growth in Utah’s population and economy over these same years. Real corporate income tax collections grew the fastest over these 16 years, with an annual average growth rate of 7.5% but most of that growth has occurred in the past four years. This was followed by individual income tax collections, which grew by 5.5%, the sales tax, which grew by 3.2%, and the motor fuel tax, which grew by 1.5%.

It is interesting to look at the growth rate of these categories in the years since FY 2006 because of recent changes in the income tax system, changes in the economy, and changes in gas prices. The average annual growth rate of real state sales tax collections will actually decline by 1.4% between FY 2006 and FY 2009, which reflects the reduction of the state sales tax on food and food ingredients. Individual income tax collections are expected to grow at an average annual rate of 4.8%, while the corporate income tax is expected to fall by 6.1% per year (this is after a significant increase between FY 2005 and FY 2006). Motor fuel tax collections are expected to increase by an average annual rate of 2.7%. This increase is due to the increase in population and economic activity, and not an increase in the tax amount itself. The motor fuel tax has actually not increased since 1997. Utah’s motor tax was increased four times between 1978 and 1987, from 7 cents to 19 cents per gallon. It was increased in 1997, from 19 cents to the current 24.5 cents per gallon. Because motor fuel taxes are based on the number of gallons sold, not the price of fuel, this revenue does not increase when gasoline prices rise. In fact, if price increases cause decreases in consumption (as is now happening nationally) this revenue estimate will likely be reduced for FY 2009.

UTAH’S TAX BURDEN

In September 2006, Utah Foundation developed a method of calculating Utah’s tax burden which excludes government fees that are not mandatory impositions on taxpayers. Utah Foundation defines a non-mandatory government fee as a fee for services that taxpayers can choose to purchase from the private sector, from government, or which they can choose not to purchase at all. The primary example of such a fee is college tuition, but other examples include school lunches, parking in public garages, parks, recreation
programs, golfing, rent in public housing, sales of agricultural products, and medical services at public hospitals.

When calculating Utah’s overall tax burden, Utah Foundation includes the mandatory fees for those services in which government holds a virtual monopoly. These include fees for airport services, sewers, solid waste disposal, courts, police, libraries, recording fees, and exactions on property owners for things such as road improvements. This section adds to the Utah Foundation report published in 2007, “Utah’s State and Local Tax and Fee Burdens,” and uses the most current data from the U.S. Census Bureau to calculate Utah’s 2005-2006 state and local tax burdens.

Between FY 2005 and FY 2006, Utah’s overall burden of state and local taxes and mandatory fees increased by $4.93 per $1,000 of personal income to $134.42. However, Utah’s ranking in terms of state and local taxes and mandatory fees fell from 11th highest in the nation in FY 2005 to 12th highest in FY 2006. If only taxes are considered, then Utah’s tax burden ranks 15th highest in the nation, which is a significant increase from the state’s ranking of 20th in FY 2005. Most tax and fee burdens increased from FY 2005. The burdens and fees which decreased over that year were the motor fuel, the property tax, and mandatory fees. The corporate income tax burden increased $2 per $1,000 of personal income and the individual income tax burden increased $2.64 between FY 2005 and FY 2006.

According to the FY 2006 Census data, the general sales tax is Utah’s heaviest tax burden, at $34 per $1,000 of personal income. Individual income tax is the second-heaviest burden, followed by the property tax, mandatory fees and the motor fuel tax. It appears from the data in the section above that the individual income tax should be the heaviest burden; this is because the data used in the analysis only include state sales tax, whereas the Census data include both the state and local sales tax. Utah has a very high burden of mandatory fees, a fairly high burden for fuel taxes, sales taxes, and individual income taxes, and a low burden for property taxes, relative to other states. However, Utah’s corporate income tax burden increased 69% and the individual income tax burden increased 9% between FY 2005 and FY 2006, causing the national rankings to also increase. This is a phenomenon often seen during economic booms—even though tax increases were not adopted, the revenue from those taxes grew in response to rapid economic growth, and that revenue growth was even faster than the growth in the economy.

State and Local Taxes

Figures 17, 18 and 19 show that overall state and local taxes and mandatory fees per $1,000 of personal income have increased since FY 1993; however, local collections have increased at a slightly faster rate. Separating out state and local taxes shows how changes in specific taxes and fee burdens have influenced these growth rates. In terms of local tax burdens, the local property tax burden experienced a downward trend from FY 1995 until FY 2002, before increasing $2.60 to $27.30 per $1,000 of personal income in FY 2004. In terms of state tax burdens, the individual income tax burden has remained relatively constant, growing at an average annual rate of 1.2% between FY 1993 and FY 2006. Utah’s motor fuel tax burden decreased at an average annual rate of -1.4%; however, the burden increased in FY 1998 as a result of the corresponding rate increase.

The state sales tax burden fell at an average annual rate of -0.7%, while the local sales tax burden increased at an average annual rate of 1%. While both of these tax burdens fell in the past years (before increasing again in FY 2005 and FY 2006), the state sales tax burden began to decrease in FY 1998, while the local sales tax burden didn’t begin falling until FY 2004.
It is important to recognize that these tax burden numbers do not include recent changes in Utah’s tax system, because they are two years old. For example, the Legislature passed the largest tax cut in the history of Utah during the 2007 session. The tax cuts include a $110 million reduction to the personal and corporate income taxes, a $40.8 million reduction to the state general sales tax, and a $40.4 million reduction to state sales tax on groceries. Major changes were also made to Utah’s individual income tax structure during the 2006 and 2007 General Sessions. In 2006, the Legislature enacted the initial version of the single-rate income tax system, which was later established in 2007 as the single-rate one track system. The single-rate one track system applies a 5% rate to federal adjusted gross income (AGI). It also replaces the deduction-based system with a credit-based tax system.

Corporate Income Tax

The other tax burden that significantly increased between FY 2005 and FY 2006 was the corporate income tax. Utah’s corporate income tax burden increased 70% between these two years, rising from $2.88 to $4.89 per $1,000 of personal income. Data from the Tax Commission shows the corporate income tax burden increased in FY 2007, although not as dramatically. As mentioned earlier, this increase is the result of increased economic activity, not from tax policy changes.

A 2007 study by Ernst & Young LLP and the Council on State Taxation (COST) shows Utah ranked first in the nation in terms of the lowest state and local business tax-to-benefit ratio in FY 2005. Having a low tax-to-benefit ratio increases the likelihood of businesses locating within the state. For example, if state and local business taxes are equal to the value of the benefits businesses receive from state and local public services, then the taxes businesses pay can be considered payment for receiving such services. However, if state and local business taxes exceed the value of the benefits received from government services, then the difference represents the excess cost to businesses for choosing to locate within a certain state. This excess cost reduces business’ profitability or is shifted onto consumers through higher prices or lower wages. The ratios used in this analysis were developed by economists at the Federal Reserve Bank of Chicago.

Considering these ratios alone, businesses have the greatest incentive to locate within Utah, compared to other states, because of its low tax-to-benefit ratio. Utah’s ratio in FY 2005 was 1.38, which tied with Oregon for the lowest tax-to-benefit ratio. Wyoming had the highest ratio of 3.73; this ratio was significantly higher than Washington D.C., which had the second highest ratio of 2.41. The average ratio for the United States was 1.78. Interestingly, Wyoming does not impose a corporate income tax, making its total amount of state and local business taxes lower than Utah’s. However, because Wyoming provides a low value of public benefits to its business, the overall tax-to-benefit ratio is much higher.

When calculating total businesses taxes, the study includes any property taxes, sales taxes, excise and gross receipts taxes, the corporate income tax, the unemployment insurance tax, and other license and businesses fees. It also includes the individual income tax paid on income earned by small businesses (partnerships, sole proprietorships and Subchapter S corporations). The report shows that in FY 2007, property taxes made up the largest share of total businesses taxes paid in Utah (32.6%). The sales tax made up 23.8%, and gross receipts made up 13.3%, the corporate income tax 10.9%, insurance tax 6.5%, income tax 5.9%, and license and other fees 7%.

CONCLUSION

The recent history of Utah’s government expenditures is most easily understood when broken into three different periods. In the early 1990s, operations and non-operations spending grew at about the same average annual rate. Operations-related spending is used to cover the day-to-day operations of state-provided services and programs, while the non-operations spending (capital and debt service) is used for the improvement, construction, or purchase of major state infrastructure. Between FY 1991 and FY 1996, both of these categories grew at a rate which was slightly slower than growth in the economy, as measured by personal income.

Between FY 1996 and FY 2002, Utah’s state expenditures grew faster than the economy. The increase in state expenditures was largely due to an increase in capital and debt service spending. This spending reflected the rapid growth in the economy leading up to the 2001 national recession (the revenue effects of this recession did not reach Utah until late 2002 and early 2003). States, like Utah, which impose a personal income tax, often find that actual state revenues exceed budget estimates during economic upswings. This volatility occurs because of the strong relationship between income tax revenues and the state of the economy.

From FY 2002 to FY 2008, state government expenditure growth slowed relative to personal income at first, but surged in FY 2007 and FY 2008. The slowed growth occurred from the end of FY 2002 until FY 2006 and reflects Utah’s recovery from national recession. The surge of government spending in FY 2007 and 2008 is partially due to Utah’s recent economic boom, and the increase during these years was primarily spent on public education, transportation, and other capital projects.

Looking at spending trends over this entire period, a few budget categories have grown faster than economic growth, while other categories have shrunk in proportion to personal income. Spending on law and order programs, mostly driven by corrections, was growing rapidly until FY 2000 and has slowed since then. Health spending, mostly in the Medicaid program, has been a consistent driver of growth until FY 2006, when it began to moderate. Transportation
capital spending has been a large factor in increased spending, especially after FY 2003. Non-transportation capital spending has also increased during most of this period.

These increases in capital spending reflect a preference by Utah policymakers not to spend budget surpluses on ongoing operations in order to avoid over-committing the state budget when the economy slows. Utah dedicated much of its increased revenues to one-time capital investments during the past two years of budget surpluses, rather than spending all of the surplus money on ongoing operations commitments, which helps account for the dramatic increase in spending during FY 2007 and FY 2008 while minimizing future operating deficits when the economy slows down.

Having a government which focuses on stable financial management smooths Utah’s transitions from economic booms to economic recessions. Utah’s preference for using budget surpluses to fund one-time capital investment projects reduces major volatility in operations spending, even though Utah’s largest revenue source is the individual income tax. This, in turn, helps the state maintain a stable level of taxation and spending over time.

ENDNOTES

2 Numbers are in real 2008 dollars.
3 This is equivalent to stating that state government spending was 97% of personal income.
4 Data used from the Governor’s Office of Planning and Budget excludes federal funds, and is indicative of state-related funding only.
9 Numbers are in real 2008 dollars, federal funds excluded.
10 Federal Funds excluded.
19 Real 2008 dollars, federal funds excluded.
21 To gauge how well a state is functioning in the Money category, the Pew Center on the States’ evaluated the degree to which a state takes a long-term perspective on fiscal matters, the timeliness and transparency of the budget process, the balance between revenues and expenditures, and the effectiveness of a state’s contracting, purchasing, financial controls and reporting mechanisms.
24 FY 2008 is current appropriations, not initial appropriations.
25 FY 2008 numbers are authorized and FY 2009 numbers are adopted.
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