

SPENDING YOUR TAX DOLLARS: AN UPDATE ON STATE SPENDING TRENDS AND THE IMPACT OF THE ECONOMIC RECESSION

HIGHLIGHTS

- Utah state tax revenues experienced considerable declines from FY 2008 to FY 2011, leading to reductions, reallocations, and reprioritization of budgetary spending categories.
- Reductions in state public education expenditures in FY 2009 partially reversed the upward spending trends seen in this category starting in FY 2006.
- Over the past three years, higher education experienced shifts in funding as general funds grew to replace education funds (income tax) as the primary source of revenue.
- Since the beginning of the economic recession, the other operations category experienced the largest expansion primarily due to increases in Commerce and Workforce Services expenditures in response to the need for labor and unemployment services for Utahns.
- Although the Department of Health experienced considerable reorganization in which CHIP and Medicaid services were expanded with federal stimulus money, it is expected to undergo an additional reorganization in FY 2011.
- With increases from the federal stimulus package over the past three years, federal funds in total are now larger than the education fund (income taxes) or the general fund (mostly sales taxes).

The mission of Utah Foundation is to promote a thriving economy, a well-prepared workforce, and a high quality of life for Utahns by performing thorough, well-supported research that helps policymakers, business and community leaders, and citizens better understand complex issues and providing practical, well-reasoned recommendations for policy change.

Douglas Matsumori, Chairman
M. Bruce Snyder, Vice Chairman
Stephen J. Kroes, President

10 West Broadway, Suite 307
Salt Lake City, UT 84101
(801) 355-1400 • www.utahfoundation.org

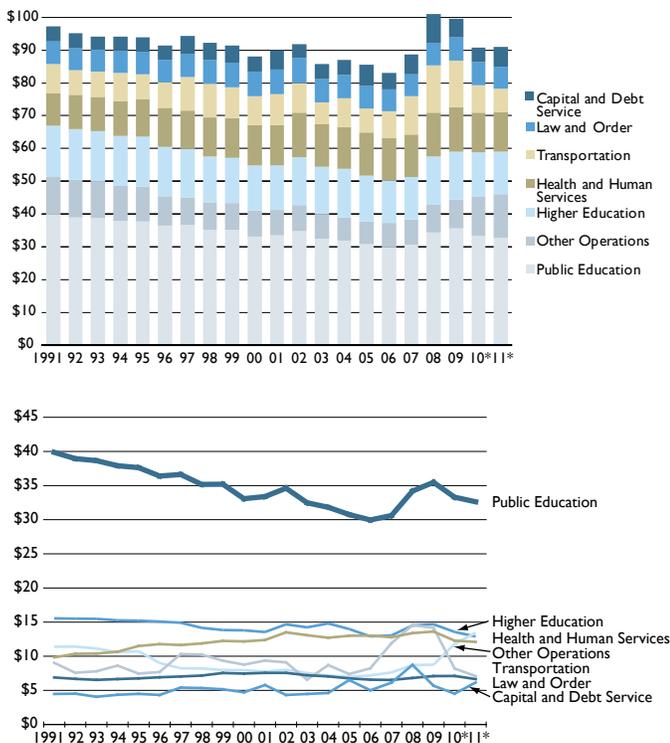
The April 2010 Utah Priorities Survey conducted by Utah Foundation indicated government spending ranked number two of the top ten issues and concerns among Utah voters.¹ While government spending has been a concern for Utahns in past surveys, it is likely that the recent economic recession contributed to the topic's continuing relevance and Utahns' continuing concern for how governments utilize tax money.

The following report is an update to a series of Utah Foundation reports on government spending in the state of Utah, taking into consideration how economic fluctuations on a national scale have impacted the state. The nationwide economic recession has not only contributed to a slowdown in private consumption and an increase in household savings, but also had a major impact on government spending in the state of Utah.² In reaction to the recession, Utah policymakers have metaphorically tightened their belts, cut spending, and allocated funds based on the perceived needs of the state. Such changes in government spending are indicative of the state's priorities, but also its budgetary shortfalls. The report offers an analysis of the changes in government spending that have occurred in the period following the recession. The report uses Fiscal Year (FY) 2010 and 2011 budget projections, based on budgetary reports published by the Governor's Office of Planning and Budget.

When measuring and comparing the budgetary priorities of the state, Utah Foundation calculates a ratio of government spending per \$1,000 of personal income. This method, which is akin to expressing government spending as a percent of personal income, gives perspective on the proportion of Utahns' earnings that are dedicated to funding state government. Small changes in government spending are more easily discernible using dollars per thousand 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. If state government expenditures grow at the same rate as the economy, the change in the ratio of government spending is zero. A positive growth rate indicates government is spending a greater proportion than what state residents are earning. A negative growth rate, on the other hand, would indicate government spending is growing slower than the economy.³ It is important to note that all sources of federal funding are excluded from the figures used to calculate the ratio so the analysis is strictly indicative of changes in state spending from its own revenue sources.

Figure 1: Utah State Government Expenditures per \$1,000 of Personal Income by Major Budget Category, FY 1991-2011



Sources: Governor's Office of Planning and Budget (GOPB), U.S. Bureau of Economic Analysis (BEA). Calculations by Utah Foundation. *FY 2010 is authorized and FY 2011 is appropriated.

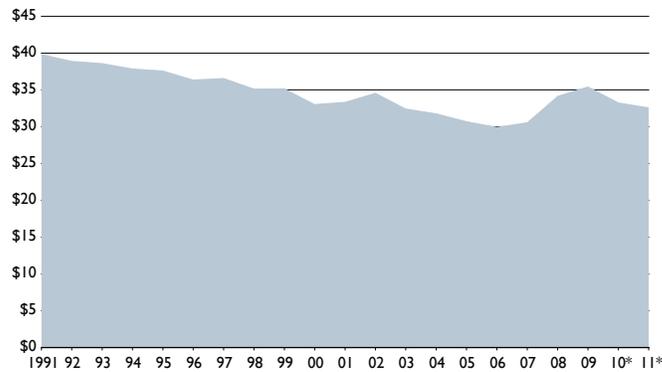
This report analyzes state expenditures using seven categories: public education, higher education, other operations, health and human services, transportation (including operations and capital), law and order, and capital and debt service (excluding transportation capital expenditures).⁴ The stacked bars in Figure 1 display the categories from largest to the smallest, according to the FY 2011 appropriated budget. Through an individual evaluation of these categories, one may better understand the recent spending trends, where cuts were made, and how funding was allocated.

PUBLIC EDUCATION

Despite the economic recession, public education continues to be Utah's largest budgetary expense. Starting in FY 1991, Utah state public education expenditures were steadily decreasing in proportion to personal income. This does not mean that actual spending was declining from year to year, but that spending was growing slower than the growth in Utah's economy as measured by personal income.

However, due to budgetary surpluses in FY 2006 and FY 2007, the ratio of state public education expenditures to personal income increased between FY 2007 and FY 2009, raising the dollar amount spent per \$1,000 of personal income from \$29.97 in FY 2006 to \$35.47 in FY 2009. Following the recession, from FY 2009-2010, the public education's ratio of state spending to personal income dropped by 6.2%. Since FY 2009, the amount per \$1,000 of personal income has fallen to \$33.29 in FY 2010 and is projected to drop to \$32.63 in FY 2011, reversing some of the increases seen in recent years.

Figure 2: Utah State Public Education Expenditures per \$1,000 of Personal Income, FY 1991-2011

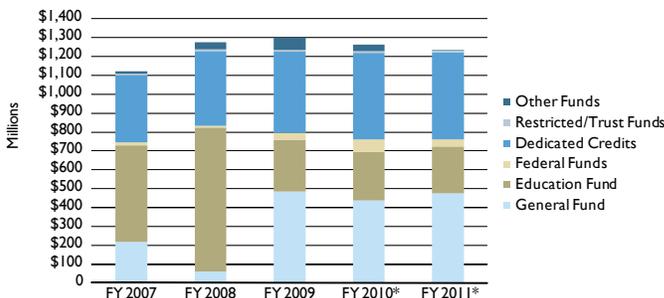


Sources: GOPB, BEA. Calculations by Utah Foundation. *FY 2010 is authorized and FY 2011 is appropriated.

HIGHER EDUCATION

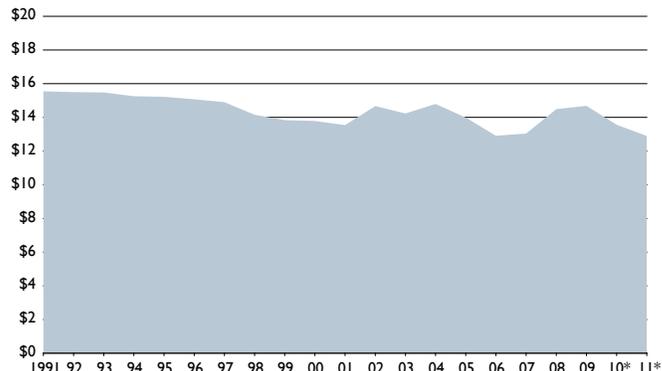
While higher education continues to be a high budgetary priority in terms of state expenditures, it also experienced major budgetary cuts following the recession. Despite an upward trend in higher education spending from FY 2006-2009, it peaked at \$14.69 per \$1,000 of personal income in FY 2009 and subsequently dropped to \$13.56 in FY 2010, a 7.7% decline. Following the economic recession, Higher Education also saw a noticeable shift in its sources of funding. From FY 2007-2008, the Education Fund, which is primarily made up of individual and corporate income taxes,

Figure 3: Higher Education Spending by Fund, FY 2007-2011



Source: GOPB. *FY 2010 is authorized and FY 2011 is appropriated.

Figure 4: Utah State Government Higher Education Expenditures per \$1,000 of Personal Income, FY 1991-2011



Sources: GOPB, BEA. Calculations by Utah Foundation. *FY 2010 is authorized and FY 2011 is appropriated.

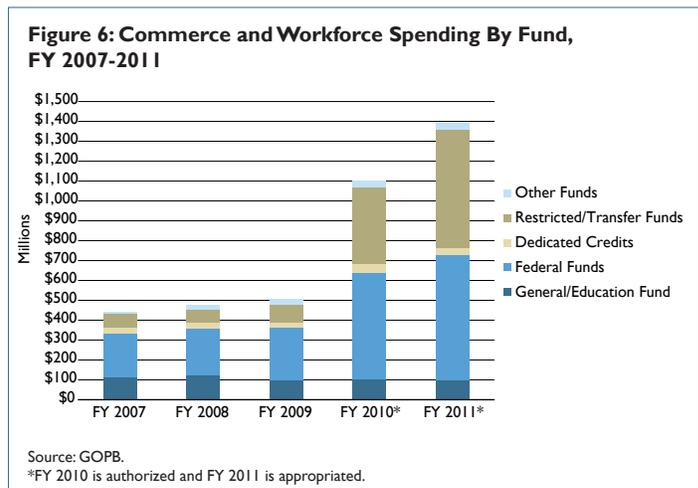
experienced a substantial expansion, providing close to 60% of Higher Education's total revenue in FY 2008. In FY 2009, however, the amount of revenue provided by the Education Fund fell by more than \$488 million. To help offset this loss, the amount of funding from the General Fund increased by \$425 million—essentially replacing the Education Fund as the agency's primary source of revenue. This was the result of a legislative decision to prioritize the use of the Education Fund for K-12 education and use other general fund monies for higher education. Spending is budgeted to continue to decline to \$12.89 per \$1,000 of personal income in FY 2011.

OTHER OPERATIONS

The other operations category includes the following agencies: Administrative Services, Commerce and Workforce Services, Economic Development and Revenue, Elected Officials, Legislature, and Natural Resources. In the past, the amount of spending directed to the other operations category was not enough to qualify it as one of the top three budgetary priorities of the state. However, in the aftermath of the economic crisis other operations expenditures experienced a dramatic upward shift, making it the second-largest spending priority in the state's FY 2011 budget. From FY 2007-2009, the ratio of other operations expenditures per \$1,000 of personal income moderately increased from \$7.62 to \$8.76. However, following FY 2009, the ratio jumped to \$11.79 in FY 2010 and is predicted to increase to \$13.44 in FY 2011. The expansion of other operations expenditures can be attributed to the response by government agencies to the ramifications of the economic recession. For example, in the case of Commerce and Workforce Services, which saw the largest expansion among all other agencies, the state budget allocated additional funds in order to appropriately handle the rapidly increasing unemployment rate.

Commerce and Workforce Services

Following the economic recession, Commerce and Workforce Services saw considerable expansion. This agency is comprised of Alcoholic Beverage Control, Commerce, Financial Institutions, Insurance (including CHIP), the Labor Commission, the Public Service Commission, the State Office of Rehabilitation, and the Department of Workforce Services (DWS). In order to assist Utahns with unemployment benefits, there was an increase of more than

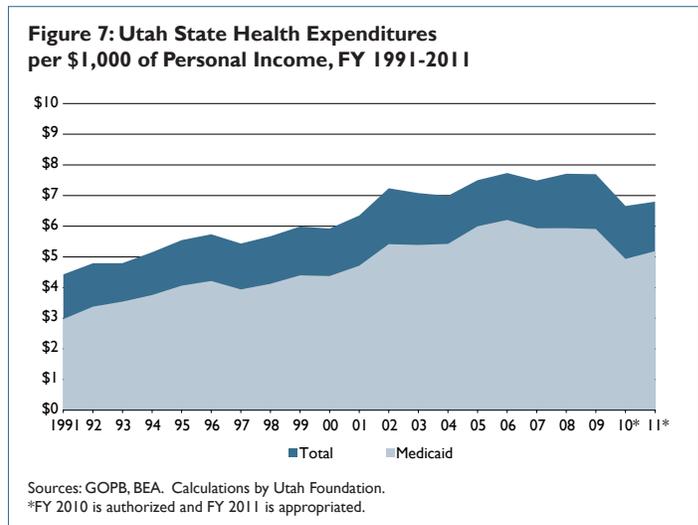
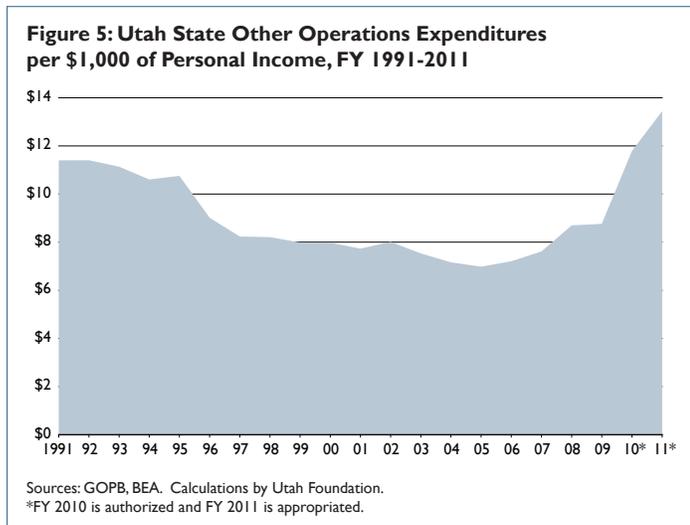


\$300 million in the allocation of Restricted and Transfer Funds to DWS between FY 2009 and FY 2010, and another \$200 million in FY 2011. This boost resulted in Commerce and Workforce Services' spending per \$1,000 of personal income ratio to increase from \$2.84 in FY 2009 to \$8.27 in FY 2011.

While the remaining Other Operations agencies, such as Elected Officials, Legislature, and Natural Resources have experienced minimal changes in government spending, Economic Development and Revenue, which includes the Department of Community and Culture, the Governor's Office of Economic Development, the Tax Commission, and USTAR, has also been negatively impacted by the recession. After an upward trend from FY 2005-2009, economic development spending per \$1,000 of personal income fell from \$2.12 in FY 2009 to \$1.69 in FY 2010. However, this ratio is projected to slightly increase in 2011.

HEALTH, HUMAN SERVICES, AND ENVIRONMENTAL QUALITY

Previously constituting the third-largest budgetary priority in Utah, the amount of state dollars for health and human services per \$1,000 of personal income dropped slightly following the economic recession. Despite following a steady upward trend until FY 2007, with an average annual growth rate of 1.7%, the spending per \$1,000 of personal income ratio peaked in FY 2009 at \$13.62, and then dropped to \$12.28 in FY 2010 and \$12.10 in FY 2011. These



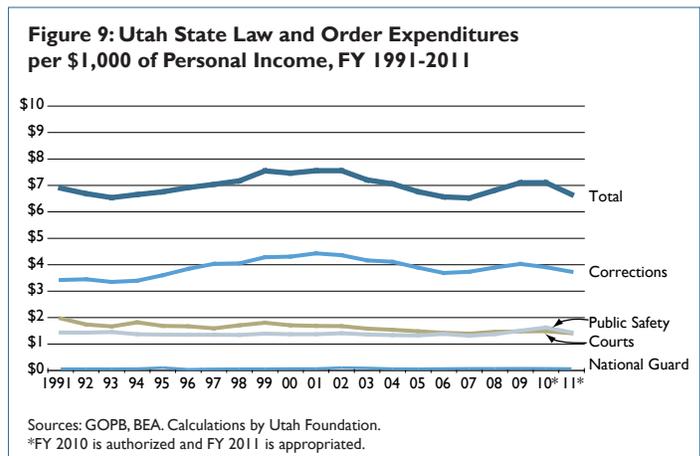
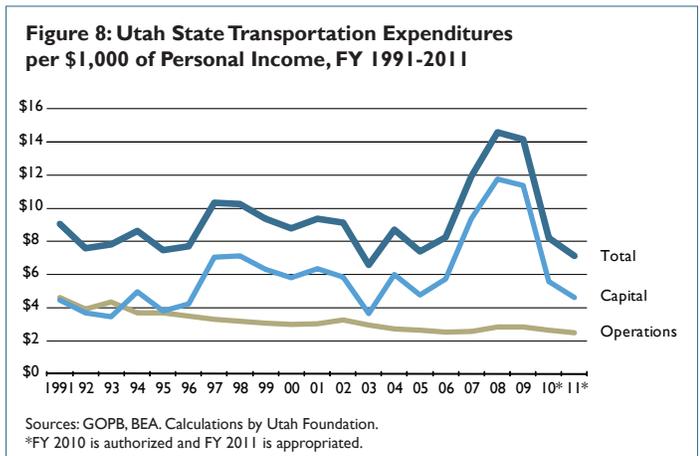
numbers primarily reflect changes in health and human services funding; Environmental Quality expenditures only make up about 3% of the total spending ratio.

When specifically examining the funding for the Department of Health, it is difficult to discern a trend in government spending due to an expected reorganization of the Department in FY 2011. However, it is clear that the decrease in the state's spending ratio was largely influenced by cuts to the Medicaid program (this program makes up around 76% of total Health Department expenditures). In terms of Human Services, almost all of the divisions lost funding between FY 2009 and FY 2010, with the exception of Child and Family Services.⁵ These divisions are expected to lose funding again in FY 2011.

Recently, some of the most important sources of funding for the category of health and human services are federal funds from the stimulus package, put into effect to counteract the shortfalls of the economic recession. Federal funds are the primary source for programs such as the Children's Health Insurance Program (CHIP) and Medicaid. Although federal funds are not considered in this analysis of state expenditures per \$1,000 of personal income, it is important to note that, since FY 2007, there has been a steady expansion of the federal funding going to health and human services. This expansion peaked in FY 2010 and decreases slightly in FY 2011. It is also important to note that the state funding declines shown in recent years reflect changes in the economy and not policy decisions to reduce funding for these programs.

TRANSPORTATION

While total transportation funding per \$1,000 of personal income has experienced frequent fluctuations over the last 20 years, it dropped rapidly from \$14.16 in FY 2009 to \$8.21 in FY 2010 and is projected to drop to \$7.09 in FY 2011, representing a 50% decline overall. Total transportation spending is a combination of operations and capital. As shown in Figure 5, transportation capital, the more influential of the two factors, peaked FY 2008, while operations continued on a slow decline. The economic situation is partly responsible for the drop in spending, but it is also important to note that the peak in transportation spending coincides with major state highway construction that occurred in FY 2008 and FY 2009. This construction was largely funded by significant one-time appropriations from the Centennial Highway Program, corridor preservation, bridge replacement, and choke point and safety projects.⁶



LAW AND ORDER

State spending on law and order has remained relatively stable over the past 20 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. The spending ratio increased in FY 2009 and FY 2010, but the percent increase was small and the ratio is budgeted to return to lower levels in FY 2011. The Law and Order category contains four different operating budgets: Corrections, Courts, Public Safety, and the National Guard.

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, while the debt service budget is made up of state spending for debt service payments on capital-facility general obligation bonds, highway general obligation bonds, and State Building Ownership Authority revenue bonds.

From FY 2007-2011, the Capital and Debt Service category experienced considerable fluctuations, interrupting its positive growth trend since FY 1991. Although government spending in this category peaked in FY 2008, with \$8.74 per \$1,000 of personal income, it fell to \$5.69 in FY 2009 and \$4.52 in FY 2010. It is projected that in FY

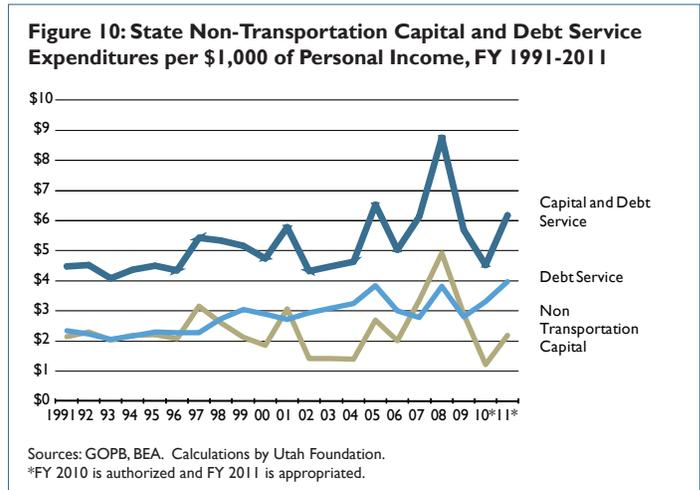
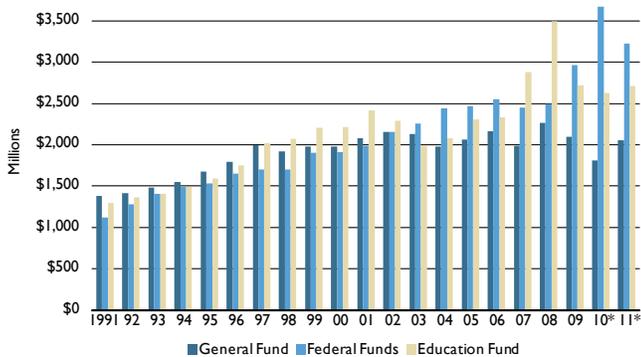


Figure 11: Comparison of Revenue by Fund Type, FY 1991-2011 (Real 2009 Dollars)



Sources: GOPB, U.S. Bureau of Labor Statistics (inflation data). Calculations by Utah Foundation.
*FY 2010 is authorized and FY 2011 is appropriated.

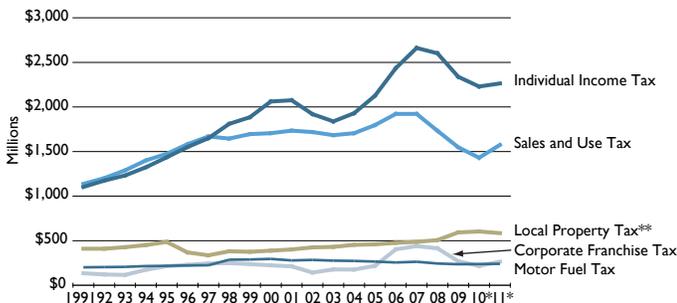
2011 the amount per \$1,000 of personal income spent on Capital and Debt Service will increase again to \$6.16.

REVENUE

Revenue sources for the state of Utah are made up of state taxes, fees, and federal funding, organized into three funds: the General Fund, 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.⁷

Although federal funds are not factored into this report’s calculation of state-level expenditures per \$1,000 of personal income, they are, nevertheless, critical to the state’s budget. Since FY 2009, federal funds have become larger than the other two main funds in Utah’s budget, replacing the Education Fund as the number one source of revenue. The influx of federal funding seen since the recession is a temporary phenomenon, made possible by the federal stimulus packages. Federal funds have been critical to categories such as other operations and health and human services, supplementing declines in state funding.

Figure 12: State Revenue Collections by Major Tax Revenue Sources, FY 1991-2011 (Real 2009 Dollars)



Sources: GOPB, U.S. Bureau of Labor Statistics (inflation data). Calculations by Utah Foundation.
*FY 2010 is authorized and FY 2011 is appropriated.
**Local Property Tax is the state-mandated basic levy, which is controlled and budgeted by the Legislature for schools.

CONCLUSION

As verified by the Utah Priorities Survey, government spending continues to be a main concern for Utahns. It is through the careful examination and interpretation of budgetary reports and statistics produced by the Governor’s Office of Planning and Budget in the past four years that one can better understand how recent developments within the Utah economy have affected the state budget.

From FY 2008’s through FY 2011’s budget, state expenditures declined, reflecting Utah’s shrinking economy. However, state budgets did not see across-the-board cuts in funding. In fact, based on the most recent statistics, it is clear that following the economic crisis, certain categories received increases in funding, while others saw decreases. The categories that benefited from increases were those primarily concerned with labor and unemployment, such as other operations, which includes Workforce Services and the Labor Commission. These increases are largely due to the use of Restricted and Transfer funds that were built up during the years prior to the economic recession.

ENDNOTES

1. “The 2010 Utah Priorities Survey: The Top Issues and Concerns of Utah Voters for the 2010 Election,” Utah Foundation 691 (2010), <http://utahfoundation.org/img/pdfs/rr691.pdf> (accessed 9 July 2010).
2. “Has America’s Consumer Spending Bubble Popped?” Utah Foundation Research Brief (2010), http://www.utahfoundation.org/reports/?page_id=636 (accessed 12 July 2010).
3. “Spending Your Tax Dollars: Two Decades of Utah Tax and Spending Trends,” Utah Foundation 687 (2008), <http://www.utahfoundation.org/img/pdfs/rr687.pdf> (accessed 6 July 2010).
4. These are the same seven categories used in previous Utah Foundation government-spending reports. However, the categories have been adjusted to reflect current state organization, making this report not directly comparable to earlier reports. Utah Foundation went back to 1991 and reallocated funding to the various departments within these seven categories so each category is reflective of the FY 2011 organization of agencies and their budgets.
5. Other divisions include Executive Director Operations, Substance Abuse and Mental Health, Services for People with Disabilities, Recovery Services, and Aging and Adult Services
6. “Spending Your Tax Dollars: Two Decades of Utah Tax and Spending Trends.”
7. Ibid.

This research report was written by Utah Foundation Research Intern Alev Bilginsoy, with assistance from Research Analyst Laura Summers. Ms. Summers or Foundation President Stephen Kroes may be reached for comment at (801) 355-1400 or by email at laura@utahfoundation.org or steve@utahfoundation.org.

MAJOR SUPPORTERS OF UTAH FOUNDATION

PLATINUM

Questar Gas
Rio Tinto
Rocky Mountain Power

GOLD

George S. and Dolores Doré Eccles
Foundation
Intermountain Power Agency
Merit Medical Systems
Regence BlueCross BlueShield
Union Pacific

SILVER

American Express
Bank of American Fork
Energy Solutions
Intermountain Healthcare
MountainStar Healthcare
Parsons
Parsons Brinkerhoff
Utah Transit Authority
Wells Fargo
Wheeler Machinery
Workers Compensation Fund

BRONZE

Deloitte
Central Utah Clinic
Garbett Homes
Granite Construction

HDR Engineering
Holme Roberts & Owen
Key Bank
Parsons Behle & Latimer

Ray Quinney & Nebeker
Sandy City
Staker & Parson Companies
Utah Valley University

Zions Bancorporation

The mission of Utah Foundation is to promote a thriving economy, a well-prepared workforce, and a high quality of life for Utahns by performing thorough, well-supported research that helps policymakers, business and community leaders, and citizens better understand complex issues and providing practical, well-reasoned recommendations for policy change.

Douglas Matsumori, Chairman • M. Bruce Snyder, Vice Chairman • Stephen J. Kroes, President

(801) 355-1400 • www.utahfoundation.org