

UTAH STATE BUDGET PROCESS

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### Legislative Fiscal Analyst

- Mission: Affect good government through objective, accurate, and relevant budget advice
- Non-partisan, non-cameral
- We help legislators balance the budget
  - ▣ Help estimate revenues
  - ▣ Staff appropriations subcommittees
  - ▣ Draft appropriations bills
  - ▣ Write fiscal notes
  - ▣ Monitor programs

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### Good Staff Meetings...



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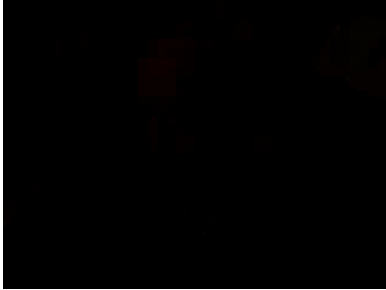
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## Lead to Good Budget Meetings



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## Budget Quotes

- "A budget is just a method of worrying before you spend money, as well as afterward."
- "The trouble with a budget is that it's hard to fill one hole without digging another."
- "After the government takes enough to balance the budget, the taxpayer has the job of budgeting the balance."

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## Budget = Policies

- "The budget is the most important policy statement of any government. The expenditure side of the budget shows who gets what from government, and the revenue side shows who pays the costs. The budget lies at the heart of the policy-making process."

-Dye, Schubert, and Zeigler, 2011

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## Recent Headlines

- Recession took big bite out of Utah tax revenue
- U.N. reports 7 billion humans
- Utah median income drops below 1997 level
- Utahns anxiously awaiting details on federal cuts
- Home ownership has biggest decline since Great Depression
- Most of the unemployed no longer receive benefits
- Utah's local governments saving big on interest
- Stock Market Up... Stock Market Down...

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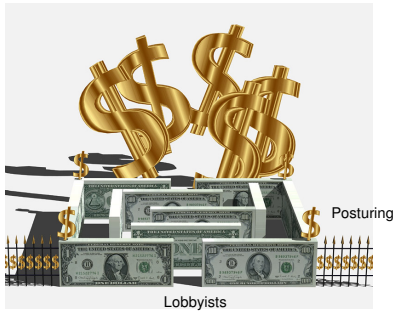
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## Budget Process to an Outsider




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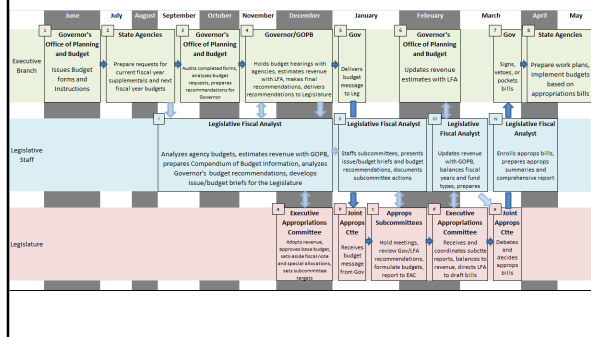
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## Utah's Budget Process




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## Governor

- At least 30 days prior to general session, delivers a confidential copy of proposed budget recommendations to LFA
- Includes a projection of revenues and expenditures, a plan of proposed changes based on current tax laws, and certain itemized estimates
- Calls special sessions
- Has line item veto authority

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## Line Item

DEPARTMENT OF COMMUNITY AND CULTURE

ITEM 3	To Department of Community and Culture - Administration		
	From General Fund		3,016,000
	Schedule of Programs:		
	Executive Director's Office	689,200	
	Information Technology	1,023,100	
	Administrative Services	1,303,700	
ITEM 4	To Department of Community and Culture - Historical Society		
	From Dedicated Credits Revenue		80,000
	Schedule of Programs:		
	State Historical Society	80,000	

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## Legislature

- Sets the budget during annual general session or special session
- Revises current fiscal year and creates next fiscal year budget
- General session starts 4<sup>th</sup> Monday of January (January 23, 2012)
- Budget is cumulative result of several bills
- Can call a veto override session and override a veto with 2/3 vote

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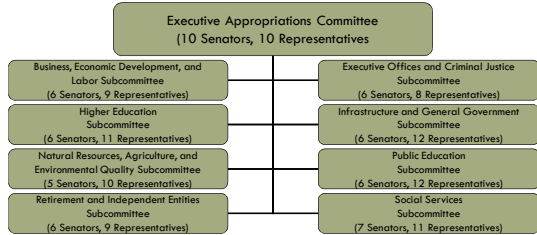
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## Joint Appropriations Committee




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## Revenue Types

- General Fund: Primarily sales tax, can be spent at discretion of the Legislature
- Education Fund: Primarily income tax, must be spent on education-related programs
- Federal Funds: Funds made available to the state from an act of Congress, may have conditions and matching requirements
- Restricted Funds: Funds restricted by law for specific purposes or programs
- Dedicated Credits: Primarily fees for service

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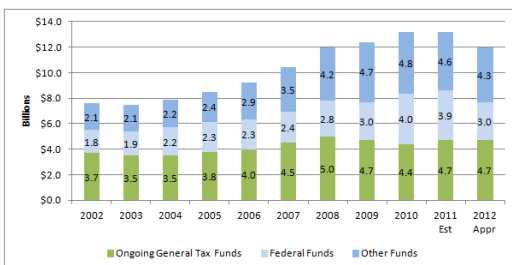
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## Annual State Budget




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## Fiscal Reality

“The brutal fiscal reality is that even if there were a significant reallocation of priorities within discretionary government budgets, our graying demographics, coupled with unreformed entitlement programs for the poor and the aging, will continue to place a severe budget constraint on public expenditures for education.”

-Deseret News, 10/16/2011

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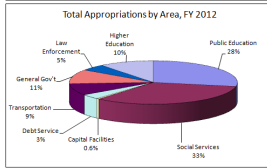
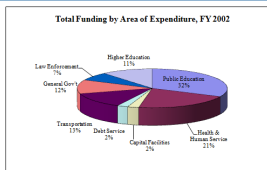
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## Total Funding by Area




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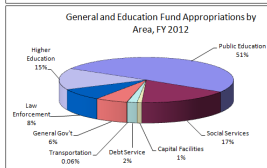
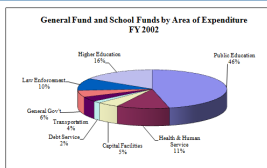
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## Total General/Education Fund by Area




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## The FY12 Gap – At First

	Millions
Structural Deficit	\$313
Medicaid/CHIP Cost Increases	\$91
FY12 Public Ed Enrollment Growth	\$80
FY11 Public Ed Enrollment Growth	\$70
Retirement	\$41
Health Insurance	\$38
Bond Coverage	\$15
Lawsuit Settlements	\$5
<b>Total</b>	<b>\$653</b>

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## The FY12 Gap - Redefined

Millions	Original	Redefined
Structural Deficit	\$313	\$313
Medicaid/CHIP Cost Increases	\$91	\$49
FY12 Public Ed Enrollment Growth	\$80	\$53
FY11 Public Ed Enrollment Growth	\$70	\$0
Retirement	\$41	\$4
Health Insurance	\$38	\$0
Bond Coverage	\$15	\$0
Lawsuit Settlements	\$5	\$5
<b>Total</b>	<b>\$653</b>	<b>\$424</b>

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## How We Bridged the FY12 Gap

	Millions
Ongoing Revenue Growth	\$263
Budget Cuts and Funding Shifts	\$92
Rainy Day Funds (Legal Settlements)	\$6
Revenue/Cost Reestimates	\$11
Other One-time Sources	\$52
<b>Total</b>	<b>\$424</b>

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## Consensus Estimates

- Revenues
- Public Education Enrollment Growth
- Medicaid Enrollment and Cost Growth

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## November 2011 Revenue Estimate

Millions	GF	EF	Total
One-time FY11 Surplus	\$1	\$60	\$60
One-time FY12 Re-estimate	<u>\$49</u>	<u>\$19</u>	<u>\$68</u>
Subtotal One-time	\$50	\$79	\$128
Ongoing FY13 New Estimate	\$87	\$188	\$275

**Notes:**

- 1) FY 13 GF nets 30% of sales tax growth to transportation (\$B 229)
- 2) A reduction to EDTIF requirement effectively adds \$4.2M to GF

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## FY 2013 Possibilities

Millions	New Costs	New Revenue
Structural Deficit	<u>(\$52)</u>	
Medicaid	\$90 to \$100	
Public Ed Enrollment Growth	\$40 to \$45	
Public Ed State Guarantee	\$45 to \$50	
Building Maintenance (Current Law)	\$53	
Jury, Witness & Interpreter	\$2	
Subtotal Ongoing	\$282 to \$302	Ongoing \$275
1X Legal Settlements	\$14	
1X Medicaid	\$60 to \$65	
1X Debt Above 85% of Const Limit	\$80 to \$85	
Subtotal 1X	\$155 to \$165	One-time \$128

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## Not to Mention

- Employee Compensation: \$90M
- Corrections/Jail Growth: \$22M
- Other Initiatives?
  
- Total easily tops \$500M in costs

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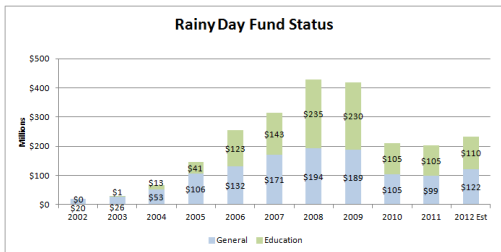
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## Rainy Day Funds




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## Revenue Enhancement Options

Description	Millions
Grocery Sales Tax (+2.95% ) (1.75% to 4.7%)	\$150
Fuel Tax (+\$0.05 per gallon)	\$70
Cigarette Tax (+\$0.25 per pack) (Curr. \$1.70)	\$10
General Sales Tax (+1%) – Non-Food	\$350
Income Tax (+1%)	\$450

Is there a proper time to raise taxes?

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## Is it Grocery Food?

Or Non-Food/Prepared Food?

Examples:

- Gum/Mints?
- Tums with calcium?
- Chicken meal deal?
- Salad bar by weight?
- Donuts made by store?
- Twinkies?
- Fruit and flower basket?

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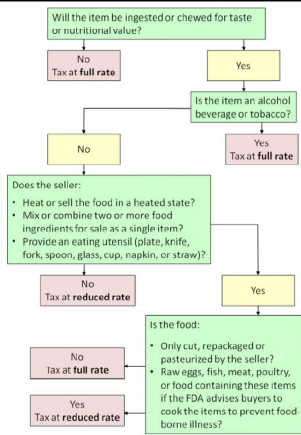
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## Let's see...

Or Non-Food/Prepared Food?

Examples:

- Gum/Mints?
- Tums with calcium?
- Chicken meal deal?
- Salad bar by weight?
- Donuts made by store?
- Twinkies?
- Fruit and flower basket?




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## Cigarette Tax Effects (\$1/Pack Incr)

Cigarette consumption declined by about 10 million packs, with about 23% of reduced demand coming from a shift to out of state companies.

Cigarette Purchases Shifted to Surrounding States

State	Point Estimate of Shift in Packs Sold	Tax Rate per Pack	Confidence Level that a Shift Took Place
Arizona	0	\$2.00	14%
Colorado	300,989	\$0.84	79%
Idaho	836,877	\$0.57	99%
Nevada	730,241	\$0.80	95%
New Mexico	N/A	\$1.66	N/A
Wyoming	376,745	\$0.60	99%
Utah		\$1.70	
<b>Total</b>	<b>2,244,852</b>		

Sources: Idaho Dept. of Revenue, Wyoming Legislative Service Office, Wyoming Dept. of Revenue, Colorado Dept. of Revenue, Nevada Dept. of Taxation, Arizona Dept. of Revenue  
Analysis: LFA

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## State Employee Compensation

2010 General Session

Pay

No changes

Benefits

Health Insurance: Adjusted benefits to avoid a 10% cost increase; funded 5% increase.

Retirement: (1) Reduced required contributions to a rehired retiree's 401(k).  
(2) Reduced retirement benefits for new employees hired after 7/1/11. New employees must "Choose Your Path":  
a) Straight 401(k) with 10% state contribution, or  
b) Hybrid Pension + 401(k) with 10% state cont.

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## State Employee Compensation

2011 General Session

Pay

No changes

Benefits

Health Insurance: Shifted employee share of premiums from 5% to 10%. Mandated an overall 2% premium reduction.

Retirement: Fully funded retirement contribution rates (almost 17% of salary for employees in largest plan).

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## Fiscal Notes

- Like putting a price tag on a bill
- Every bill, substitute bill, and significant amendments
- Report impact on state, local gov't's, and residents
- Note of \$10,000 or more causes bills to be held
- 3 day deadline
- Progress reported on Internet

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## Why do Fiscal Notes Matter?

- Arizona 2000 Example
  - ▣ State would help pay for new non-gas burning cars (50%), in-home fuel depot, commercial fuel depot
  - ▣ Fiscal note: \$5M
  - ▣ First revised estimate: \$500M
  - ▣ Revised estimate: \$800M

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## New! Performance Notes

- Any bill that creates a new program or significantly enlarges an existing program
- LFA determines if one is required
- Responsible agency writes the note
- Sponsor can approve or reject/provide alternate
- Show program purposes, outcomes, measures, benchmarks, timelines, resources
- 3 days / 3 days / 3 days

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## Example

FISCAL NOTE		H.B. 3003	
SHORT TITLE: Workers' Compensation and Unincorporated Entities Amendments			
SPONSOR: Morley, M.		2011 THIRD SPECIAL SESSION	
STATE GOVERNMENT (UCA 36-12-13(2)(b))			
The Bill will generate \$5,000 in Restricted Fund revenues to the Labor Commission annually beginning FY 2012 from the sale of Workers' Compensation Waivers to 100 unincorporated entities at \$50 each. The bill will cost the Labor Commission \$5,000 annually beginning FY 2012 to process the sale of Workers' Compensation Waivers.			
STATE BUDGET DETAIL TABLE			
	FY 2011	FY 2012	FY 2013
Revenue:			
Restricted Funds	\$0	\$5,000	\$5,000
Total Revenue	\$0	\$5,000	\$5,000
Expenditure:			
Restricted Funds	\$0	\$5,000	\$5,000
Total Expenditure	\$0	\$5,000	\$5,000
Net Impact, All Funds (Rev.-Exp.)	\$0	\$0	\$0
Net Impact, General/Education Funds	\$0	\$0	\$0
LOCAL GOVERNMENTS (UCA 36-12-13(2)(c))			
Enactment of this bill likely will not result in direct, measurable costs for local governments.			
DIRECT EXPENDITURES BY UTAH RESIDENTS AND BUSINESSES (UCA 36-12-13(2)(d))			
The bill will cost 100 unincorporated entities \$50 each for a total of \$5,000 beginning FY 2012. Unincorporated entities will save the difference between the \$50 fee and the cost of workers' compensation insurance.			

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## Fiscal Note Facts

- Expect 1,200 bills in 2012 session
- Plus substitutes
- Longest fiscal note: HB 116, 2011 GS (3 pages)
- Most substitutes: SB 3002 (Redistricting) = 19 subs
- Different states do them differently (executive branch, legislators, selected bills, longer deadlines, longer analyses)

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## Best Practices

- During good years, prepare for bad years
  - ▣ Build in structural surpluses – ongoing appropriations to highways and buildings
  - ▣ Build up rainy day funds
  - ▣ Pay down debt
- Practice good management policies
  - ▣ Pass budget on time each year
  - ▣ Avoid accounting gimmicks
  - ▣ Achieve structural balance

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## Top Ten Lessons Learned in LFA

10. Legislators are good people trying to do good things.
9. Special sessions aren't really that special.
8. The political process usually works.
7. Don't express political opinions. Do provide recommendations.
6. The tax and revenue paradox.
5. Waiting lists and good programs never end.
4. Beware of restricted fund creep.
3. General Funds are a two-edged sword.
2. Write and speak clearly.
1. Policy decisions are ultimately budget decisions.

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