

Five-Year Budget Projections
FY 2002 – 2006
(Revised January 23, 2001)

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**A Report to the Executive Appropriations Committee
Of the Utah State Legislature**

**Office of the Legislative Fiscal Analyst
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Part I

Purpose

The five-year budget projection is a report created to help Legislators better understand the complete state budget. This report shows the projected effect of mandates and population growth expected over the next five years. The report focuses on growth in the General Fund/Uniform School Fund appropriations and revenue. It is impossible to totally predict all that will happen to the State budget. However, this report will help to identify many critical issues that the state will face over the next five years.

Definition of Projection

A projection is defined in Webster's Dictionary to be: "an estimate of future possibilities based on current trends." This report projects the revenues and expenditures for the State of Utah for FY 2002 through FY 2006.

Revenue and expenditure forecasts are integral components of a state's fiscal planning process. Both revenues and expenditures are driven by population growth, inflation and employment growth.

Historically what the state does in one budget period is similar to what it does in the next. Close evaluation of the budget enables the State to maximize scarce resources to meet the needs and desires of society and allows government officials to promote the sustained growth of the economy. However, in order to meet the diverse needs and desires of society, there must be sufficient funds.

Major funding sources in State government include the General Fund, Uniform School Fund, Transportation Fund and Federal Funds. This report will focus mainly on the forecast growth in the General Fund and Uniform School Fund.

Major factors affecting revenue and expenditure growth

The major factors influencing revenue and expenditures over the next five years are:

1. Continued growth in US and Mountain West economies (this is a critical assumption)
2. Anticipated population and household increases in Utah.
3. Inflation in Utah and US (forecasted at 3 percent)
4. Acceleration in construction and purchases in conjunction with Olympics preparation,
5. Post-Olympics slowing

Utah is in its 13th year of economic expansion. However, the expansion at the current rates are unlikely to continue indefinitely and the state should decide in advance what measures to implement in times of economic slowdown. The rapidly escalating costs of many state programs have strained the ability of revenue systems to produce sufficient funds for these programs.

It is important to point out that some economic activity that would normally have occurred after 2002 was accelerated to occur in the years prior to the Winter Olympics. To prepare for the Post Olympic slowdown, the State should continue to diversify the economy. This will help offset potential downturns. As construction tapers off additional pressure will be placed on the economy to enhance job growth in other areas.

Views of the Economy

Utah's growth as measured by employment and migration, peaked in 1994 and has consistently slowed since. This move to more sustainable levels of economic growth occurred with relatively little disruption to the state. This is due to the positive economic characteristics operating in Utah such as a diversified economy, strong labor force, and an attractive business climate. Growth of construction has been a major factor in the economy's stability, and should continue to be closely tracked.

Both the nation and the state are experiencing one of the longest expansions in history. **Inflation** should continue to remain low over the five-year period reflected in this report. **Employment** should continue to remain close to full employment. Utah's **population growth** continues to be double the national trends.

Economic Overview

- ☛ Because of a strong diversified economy, Utah's employment and population growth rates should continue to exceed national rates, which are growing at 1.3 and .8 percent per year respectively. Utah's employment growth averages 2.5 percent annually through the Olympics and then slows to between 1.5 to 2.0 percent.
 - ☛ Because of natural increases the annual population rate is projected to increase at twice the national level. In-migration over the period of the forecast should be relatively flat.
 - ☛ Utah's dependency ratio will continue to remain one of the highest in the nation.
 - ☛ Utah's median age will continue to be eight years younger than the nation.
 - ☛ For the period of the forecast, inflation growth is anticipated to be 3 percent annually.
- The industrial structure is assumed to continue to diversify.
- ☛ No major tax changes have been included in the forecast nor has the Analyst anticipated a recession.

Current Tax Structure

Growth in State revenues depends on a vibrant economy, an efficient tax collection system, and a tax structure that is diverse, equitable, and stable. Revenue growth is impacted by design of tax laws, such as how many services are reached by sales taxes or whether income taxes include large personal exemptions and graduated rates. For example, the sales tax portion of Utah's structure was built for a time when goods, not services, were the primary products. However, the service sector of our economy is increasing, wherein a number of services are not taxed. E-commerce will continue to impact our sales tax growth. Fortunately, the diversity of tax types has helped Utah sustain revenue growth despite periodic downturns. However, it is important to continually monitor our revenue stream from taxes

According to "State Statistical Trends", October 2000, the degree to which various industries make up Gross State Product (GSP) has fluctuated in the past two decades. The percent of GSP from construction and manufacturing has decreased, while the percent from services, finance, insurance, and real estate industries has moved higher.

Sales Tax

As previously indicated the economy is moving away from the production of tangible goods and towards the provision of services. Technological changes have caused a shift into an electronic commerce environment. In this setting, taxes on some goods are not being captured.

The mobility of markets is forcing states to become more competitive. State officials have always been under pressure to grant tax preferences that erode tax neutrality among competing firms. This will become more pervasive as states are forced to compete more for a mobile market. Utah currently offers 53 exemptions. Legislators will be under pressure to authorize additional exemptions to attract firms to the State. However, for the purposes of this forecast no major tax changes have been assumed.

No additional earmarking of General Fund was projected to occur over the period of the forecast. Currently a portion of the sales tax is earmarked to roads and water.

Sales tax will continue to grow slower than income tax because of the attachment to the slow growth sectors of the economy, and the diversions occurring. This trend appears to be national in scope.

Income Tax

Income tax has become the most important revenue source in Utah. Over the past three years Income tax has overtaken Sales tax as the largest revenue source. Income tax in Utah historically grows faster than the economy because it is not adjusted for inflation.

In recent years, bonuses and stock options have pumped up taxable salaries which have in turn led to increased income tax revenues. These have historically not been significant sources of revenue. However, capital gains realizations have been a major factor in the “April Surprise” numbers. There is still some backlog in capital gains that could be realized over the next few years. These gains, combine with wage and job growth, will help keep income tax growth reasonably strong between FY 2002 and FY 2006.

Structural Deficit/ Financial Planning

Structural deficit is a condition in which the revenues produced by a state’s tax system are insufficient to maintain existing levels of services. They reflect a mismatch between growth in spending needed to maintain current services and growth in revenues from current taxes and other revenue sources. Structural deficits arise when states, over time, spend more for ongoing programs than they take in. This appears to be the case in the General Fund which consistently must be offset through the transfer of General Fund out of Higher Education and replaced with Income Tax revenues.

Ultimately, the General Funds within Higher Education will be insufficient for transfer. The State should continue to monitor this issue and be prepared for corrective actions as needed. Those actions may include:

1. Repealing the earmarking of Income Tax revenues with a constitutional amendment
2. Expansion of the Sales Tax base
3. Repeal of sale tax exemptions
4. Base budget reductions

Because cyclical surpluses can overwhelm the impact of structure deficits, there is some concern among economists that current good times in State finances are obscuring long-term fiscal problems.

In the opinion of the Analyst, we must be cautious to not over spend temporary income and should be putting aside sufficient funds for rainy days. Sensible decisions are made when there is fiscal planning involving some idea of what income and expense are going to be over a longer period of time.

In a report to the Executive Appropriations Committee dated June 15, 1999 the Analyst suggested several ways to implement contingency plans in the event of a shortfall, including both short and long-term measures. The Legislature may want to revisit some of these suggestions.

**Budget Reserve
(Rainy Day) Funds**

States often make the mistake by overspending temporary income and not putting aside funds for “rainy days.” When states over commit existing resources, the resulting fiscal crisis makes for painful choices. Utah has had the foresight to establish a rainy day fund to help offset an economic downturn. Currently the balance in the State’s Rainy Day Fund is \$110,063,000 which is approximately 3.1 percent of the General Fund/Uniform School Fund Budget for FY 2000. Twenty-five percent of any General Fund surplus is transferred to the rainy day fund with the total not to exceed 8 percent of the General Fund appropriation. However, there is no requirement for transfer of any Uniform School Fund surpluses. In the opinion of the Analyst, there should be a minimum of 5 percent of General Fund/Uniform School Fund in the Rainy Day Fund.

Part II – General Fund/Uniform School Fund

Forecast Assumptions The projected expenditure estimates for Public Education, Higher Education, and State agencies are based on budget history, and current trends that may impact future needs. In general, the inclusion of future expenditures was limited to **compensation, mandates, and growth impacted programs**. An exception was made for Public and Higher Education to also include additional funding based on historical levels.

These projections are exclusive of any unknown changes that may occur in the level of federal funds.

The projections include the following base assumptions:

1. Revenue increased at approximately 5.3 percent annually (average)
2. Growth and mandated programs inflated by 3 percent annually with the exception of Medicaid which has been increased by 8 percent.
3. Compensation and WPU increased at 4 percent annually.
4. No salary equity, market comparability, funding has been included.
5. The assumptions also include an anticipated decrease in retirement rates and debt service. However, it is important to note that debt service will increase beyond the five-year projection period if the Legislature authorizes new General Obligation debt.

**Spending/
Limitations**

The Analyst has not attempted to reconcile future revenue and expenditures with spending limitations. However, it should be noted that the Governor’s Office of Planning and Budget annually compares legislative appropriations with appropriation limitations to see if they are within statutory limits. The State Auditor then conducts an audit to verify that the calculations and adjustments meet the requirements of the law.

Although prior appropriations have been well within the spending limitation, House Bill 194 from the 2000 General Session will no longer allow unrestricted monies appropriated to the Centennial Highway fund to be excluded from the appropriations limitation calculation. This provision takes effect July 1, 2002.

**FY 2001
Supplemental
Recommendations**

The FY 2001 budget includes the following supplemental expenditures:

1. Debt service on the Centennial Highway Bonds - \$2.7 million
2. Compensation shortfalls for Courts, Corrections, Youth Corrections and the Board of Pardons. - \$1.6 million
3. Jury and witness fees - \$1.2 million
4. Industrial Assistance Fund - \$2.5 million
5. Elections pamphlet shortfall - \$50,000
6. Extradition shortfall - \$50,000
7. DCFS shortfall - \$1.2 million
8. Fire fighting costs - \$5 million

Public Education

Over the last few years the state has been experiencing less pressure from increasing enrollment in Public Education. In fact, enrollment has gone down for the past three years. However, in the next five years significant increases in Public Education enrollment are expected to occur. Enrollments are driven by school age population which is expected to show significant increases over the period of the forecast. Potential student levels are detailed below:

	Students	New Enrollments
FY 2002	476,343	1,394
FY 2003	478,388	1,651
FY 2004	483,775	5,387
FY 2005	491,916	8,141
FY 2006	500,177	8,261

Demographic Pressures

Utah population has the smallest percentage of working age people in the nation. However it has the highest school age dependency rate. In FY 2001, Utah will spend 42 percent of the state's GF/USF budget on Public Education. Because Utah's birth rate is much higher than the national average we have a very large school age population. The single largest funding category in the state is Public Education.

Continued increases in the WPU at the rate of 4.0 percent are included over the period of the forecast. Additional funding needs for education included in the forecast are included in the following charts:

Public Education					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$5,244,700	\$25,959,100	\$43,088,200	\$57,792,200	\$61,948,200
Compensation	65,520,100	67,437,300	70,417,900	74,309,700	79,410,600
Traditional Funding Levels	35,000,000	36,050,000	37,131,500	38,254,400	39,392,800
Total Public Education	\$105,764,800	\$129,446,400	\$150,637,600	\$170,356,100	\$180,751,600

Public Education Agency					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$200,000	\$206,000	\$212,200	\$364,200	\$390,100
Compensation	325,100	338,100	350,200	218,500	225,100
Total Public Education Agency	\$525,100	\$544,100	\$562,100	\$582,700	\$615,200

Issues not in Projection

The Public Education budget represented in this report reflects average expenditure patterns over time. Other issues continue to present budget demands in addition to typical average expenditures. Leading the list are continuing efforts to increase teacher compensation, class size reduction, textbooks, teacher development, capitol outlay, maintenance and enhancement of educational technology, pre-school growth, applied technology growth and equipment demands, corrections education, at risk students populations, testing and assessing, and a number of other related concerns. **The Utah State Board of Education has compiled a list of budget requests for FY 2002 that exceed \$283 million.**

If the Legislature was to increase Public Education by two percent over traditional funding levels it would take 20 years to reach the national average if the nation remained at current average increases. To reduce class size or increase teacher compensation to national levels would require almost a doubling of the current budget.

Current estimates to continue the new testing program are close to \$4,000,000. Pre-school costs are estimated to be \$2,200,000 in new dollars to cover current program costs. Teacher supplies and materials that continue to be funded with one-time money will require another \$4,400,000 plus to stay even. Costs for textbooks and supplies could range from anywhere between \$6,000,000 and \$60,000,000.

These and many more issues will continue to demand pressure for funding over the next few years. Public Education funding of \$100,000,000 or more will be standard annual increases just to maintain, meet inflation, and provide some limited program enhancements.

Higher Education

The demand for higher education is driven by several factors. The most important is the number of full-time students who follow the tradition of attending college shortly after completing high school. Another significant factor is the continued growth of non-traditional students who return for advanced training and skill development. New enrollments in 2002 are estimated at 4,100 (65 percent higher than FY 2001). As noted below, over the period of FY 2002-FY 2006 enrollments are expected to grow by 3 percent annually.

Fiscal Year	FTE Students	Growth
FY 2002	92,100	4,100
FY 2003	94,900	2,800
FY 2004	97,700	2,800
FY 2005	100,500	2,900
FY 2006	103,600	3,000

The Higher Education forecast includes enrollment growth, increased operation and maintenance costs based on new facilities and a traditional funding level appropriation

Higher Education Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$17,600,000	\$12,500,000	\$12,700,000	\$13,300,000	\$13,900,000
Compensation	16,000,000	16,640,000	17,236,900	17,926,400	19,197,000
Mandates	3,500,000	3,890,000	4,082,700	4,578,200	4,800,000
Traditional Funding Levels	14,900,000	15,347,000	15,807,400	16,281,600	16,770,000
Total Higher Education	\$52,000,000	\$48,377,000	\$49,827,000	\$52,086,200	\$54,667,000

UEN (Utah Ed. Network) Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$197,800	\$197,700	\$198,100	\$198,400	\$198,700
Total UEN	\$197,800	\$197,700	\$198,100	\$198,400	\$198,700

Issues not in Projection

The USHE operating budget reflected in this report represents average expenditures for compensation and other mandated costs over time. The exception is the unprecedented growth in new student enrollment. This report does not reflect the interest of the Board of Regents to modify the mechanism for funding higher education. The most notable distinction between this and past budget requests is the inclusion of a new funding formula that comprehensively addresses the cost of instruction for new students and increases base support for existing students at each institution. Their formula is also designed to fund increases for non-instructional functions of the institutions such as library needs, technology and student financial aid.

There are other issues that present budget demands on state revenue resources which are not included in this report. Over the last several years, the highest priority for all USHE institutions has been and continues to be salary equity for faculty and technical staff. Other funding issues include: the rapidly increasing cost for employee health insurance, the demand for applied technology education, supporting Governor Leavitt's challenge to increase the number of engineering and computer science graduates and other quality improvement needs in higher education.

Digital Television Conversion - Among the one-time expenses faced by state government for FY 2002 is the conversion of KULC Channel 9 from analog to digital broadcasting. This conversion, mandated by the Federal Communications Commission, is estimated to cost between \$1.8 and \$2.2 million from the Uniform School Fund.

Transportation

Highway needs are financed in a variety of ways including motor and special fuel taxes, federal funding, and state sales tax. The "Centennial Highway Fund" is a special revenue fund which provides for additional road construction above that funded by traditional motor fuel and federal revenues. Funding sources include General Fund appropriations, motor fuel taxes, registration fees, bonding, federal funds, local and private contributions and internal efficiencies. In FY 2001 the Legislature took \$20 million in ongoing revenue and allocated it to other state uses. In FY 2002 the Legislature may choose to replace the \$20 million. However, the forecast has not included replacement funding. The Centennial Highway plan of finance includes new money of \$12 million annually which the Analyst has included through 2006. The General Fund base going to the Centennial Highway program in FY 2002 is \$114,000,000. Funding requirements over the five-year period are listed below.

Transportation Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Centennial Highway Fund	\$12,000,000	\$11,000,000	\$11,000,000	\$16,000,000	\$16,000,000
Total Transportation	\$12,000,000	\$11,000,000	\$11,000,000	\$16,000,000	\$16,000,000

Issues not in Projection

Completing highways funded through the Centennial Highway Program will add additional lane miles throughout the state. The I-15 corridor alone will almost triple the surface areas previously requiring maintenance. Funding for maintenance of new lane miles has traditionally come from Transportation Funds. However, inflation for such things as increased prices for petroleum products is currently increasing faster than Transportation Fund increases. This phenomenon may require uses of other funding sources to finance a minimum maintenance program.

Environmental Quality

Funding for compensation increases has been included in each of the five years.

Environmental Quality Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$292,000	\$303,700	\$314,600	\$327,200	\$350,300
Total Environmental Quality	\$292,000	\$303,700	\$314,600	\$327,200	\$350,300

Issues not in Projection

New federal laws are requiring increased supervision from the Department of Environmental Quality in the Drinking Water and Water Quality Programs. To date funding from federal sources is available for this increased supervision. However, some indicators show the possibility that other funding sources might be required for local compliance to clean drinking water and water quality mandates. It is unknown at this time what state participation might be needed in the next five years.

National Guard

Funding for compensation increases has been included in each of the five years.

National Guard Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$74,400	\$77,400	\$80,200	\$83,400	\$86,800
Total National Guard	\$74,400	\$77,400	\$80,200	\$83,400	\$86,800

Issues not in Projection

The federal government continues to downsize it's participation with the National Guard in the financing of facilities and maintenance of those facilities. No additional funds have been added to the five year projections at this point to show further funding requirements.

Criminal Justice

Overall growth in Criminal Justice will result from crime fighting and prevention initiatives adopted by the Legislature. Legislation which increases sentences will continue to cause increased cost for criminal justice facilities and treatment services. A major driving force in Utah crime statistics is the property crime rate which is higher than the national average. Property crime represents approximately 94 percent in the index of total crimes tracked. Utah with the youngest population in the nation, can be expected to have a higher than average number of property crimes.

Corrections

Funding requirements for bed growth are based on projected needs of 350 beds a year at an average cost of \$60 a day not including facilities inflated over five years. Funding items related to growth and compensation are included for the Board of Pardons and Corrections.

Board of Pardons					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth		\$75,000		\$79,600	
Compensation	\$54,300	56,500	\$58,500	60,800	\$65,200
Total Board of Pardons	\$54,300	\$131,500	\$58,500	\$140,400	\$65,200

Corrections					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$7,900,000	\$8,137,000	\$8,381,100	\$8,632,500	\$8,891,600
Compensation	5,712,700	5,941,200	6,154,300	6,400,500	6,854,200
Total Corrections	\$13,612,700	\$14,078,200	\$14,535,400	\$15,033,000	\$15,745,800

Issues not in Projection

In addition to the above growth and compensation figures the Analyst recognizes that the following items and issues will probably be addressed within the five year time period:

Additional phases of the Corrections Special Salary Adjustment	\$1,500,000
Sex Offender Treatment Services	500,000
Medical Services	1,500,000
Youth Corrections Federal Match Rate	250,000
Youth Corrections Additional Alternatives to Incarceration	1,500,000
Total	\$5,250,000

Youth Corrections

Youth Corrections is responsible for all delinquent offenders committed by the State's Juvenile Courts. Offenders are committed to a variety of alternatives. With a higher than average youth population in the State, the Division of Youth Corrections can expect to have continued growth in caseload and incarceration over the five-year forecast.

Youth Corrections					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$5,100,000	\$5,572,300	\$5,816,900	\$5,991,400	\$6,171,100
Compensation	879,400	914,600	947,400	985,300	1,001,000
Total Youth Corrections	\$5,979,400	\$6,486,900	\$6,764,300	\$6,976,700	\$7,172,100

Needs assumptions for increased Youth Corrections demands are listed below:

	Beds FY 2002	Cost Per Day	Growth Rate
Secure	23	\$150	10%
Detention	38	\$130	10%
Community Alternatives	78	\$70	10%

Public Safety

The Analyst has estimated that growth in miles traveled in Utah will create a need for two additional troopers a year. In addition, population growth will increase the demand throughout the state criminal justice system for forensic lab and criminal identification services.

Public Safety					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$112,000	\$115,400	\$158,800	\$165,500	\$127,200
Compensation	1,041,700	1,083,400	1,122,200	1,167,100	1,249,800
Total Public Safety	\$1,153,700	\$1,198,800	\$1,281,000	\$1,332,600	\$1,377,000

Issues not in Projection

In addition to the above noted growth and compensation figures the Analyst recognizes that Public Safety will have the following additional requests for funding:

Replacement Helicopter (As a lease at \$170,000/year)	\$850,000
Dispatch Equipment	120,000
Driver's License Examiners	400,000
Total	\$1,370,000

Courts

The major funding recommendations for the Courts budget over the five-year period is increased lease costs. Also, funding for a judge in three of the five years has been included.

Courts					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$1,000,000	\$1,280,000	\$1,060,900	\$1,357,900	\$1,398,700
Compensation	1,719,500	1,788,300	1,852,400	1,926,500	2,063,100
Total Courts	\$2,719,500	\$3,068,300	\$2,913,300	\$3,284,400	\$3,461,800

Issues not in Projection

Courts continue to have pressing issues outside of mandates and growth. For example, Guardian Ad Litem continues to be an urgent need in Courts budget. With caseload increases in the Human Service area there will be a corresponding increase in Guardian Ad Litem cases. Guardian Ad litem requests amount to approximately \$250,000 a year. Security also remains a problem in many of the Court buildings. Total funding would amount to approximately \$600,000. Increasing caseloads have caused additional work for existing staff. Additional court clerks are needed to keep up with existing caseloads. The traditional request is for \$381,400 annually to provide for five clerks. The total additional funding for the Courts budget averages about \$831,400 annually.

Executive Offices

Funding has been included for the elections in the odd years and for one attorney in two of the five years to keep up with state growth.

Executive Offices					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$75,000		\$100,000		
Compensation	1,009,000	\$1,049,400	1,087,000	\$1,130,500	\$1,210,600
Mandates		305,000		305,000	
Total Executive Offices	\$1,084,000	\$1,354,400	\$1,187,000	\$1,435,500	\$1,210,600

Issues not in Projection

The caseloads of the Attorney General increase as state budgets increase. Additional needs in the Attorney General’s office include attorneys for Child Protection, estimated to cost approximately \$250,000 annually, and \$150,000 for the Children’s Justice Centers across the state. The Attorney General will also be requesting additional funding for attorney market comparability adjustments.

The Governor’s office traditionally receives between \$200,000 and \$500,000 annually for items like local government planning, task forces, and other initiatives promoted by the Governor.

Legislature

The Analyst has assumed only compensation increases for the Legislature over the five-year period.

Legislature Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$138,100	\$142,200	\$148,800	\$154,700	\$165,700
Total Legislature	\$138,100	\$142,200	\$148,800	\$154,700	\$165,700

Issues not in Projection

Discussions have been taking place between legislative management and staff directors relative to salary equity of legislative staff personnel. No increases have been included in these projections. If the legislature determines increases are merited, additional general funds will be required.

Health/Medicaid

Medicaid funding requirements increase as the population ages. The portion of the population over age 50 is anticipated to increase over the projected budget years, thus increasing costs of services. Medicaid is also being affected by the exploding costs of prescription drugs.

Since the Federal match rate is tied to the growth of personal income, increases in the personal income base are causing significant reductions in the federal match rate for Medicaid. The Federal Medical Assistance Match rate for Utah is changing from 71.47 percent to 69.92 percent, a drop of 1.55 percent. To maintain current service levels the State needs to replace federal funds with state funds. This will result in a General Fund increase requirement of approximately \$8.6 million in FY 2002 – FY 2006.

Funding for inflationary increase will be required annually. The estimated amount over the period of FY 2002 - FY 2006 is \$10.8 million. Utilization increases will require an additional \$5.2 million annually. Beginning in FY 2002 Medicaid picks up the cost for 18-year-olds, requiring funding of approximately \$700,000. A portion of the Medicaid program is funded through restricted revenue. These funds will dry up in FY 2003 and FY 2004 requiring a General Fund appropriation of \$2,850,000 in each of those years.

Health Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$16,700,000	\$19,870,000	\$20,963,800	\$19,287,100	\$20,546,000
Compensation	849,300	888,300	915,000	951,600	1,019,000
Mandates	8,600,000	9,288,000	10,031,000	10,833,500	11,700,000
Total Health	\$26,149,300	\$30,046,300	\$31,909,800	\$31,072,200	\$33,265,000

Issues not in Projection

While the mandated costs always comprise the bulk of any budget increases for the Department of Health, the Legislature usually tries to address some additional needs or enhancements for public health. One recurring example would be funding for additional early intervention services. For three of the past six years, the Legislature has provided funding to handle the growing number of children who qualify for these services. For FY 2002, there is a request for early intervention for \$600,000 (General Fund only).

In addition, pressure is building in the Medicaid program to increase the reimbursement rates to providers. Specifically, physicians, dentists, and ambulance providers are all looking to the State to provide more funding for Medicaid, so that their rates can be increased. The FY 2002 request for these three groups is \$1.1 million (General Fund only).

The Legislature also usually provides some one-time funding for the Department's laboratory for needed equipment. Each year, the Department includes between \$250,000 and \$350,000 in detailed requests for equipment. The equipment is for testing done at the laboratory. Much of the equipment is either old and experiencing failures or is obsolete due to the significant advances of technology. This funding helps maintain the accreditation of the laboratory.

Human Services

Included in these projections are funds to restore some of the subsidies to adoptive parents that were reduced or eliminated by the Division of Child and Family Services (DCFS) and funding for assistance for approximately 400 new adoptions expected annually. This will cost approximately \$3.1 million (General Fund) in FY 2002 and will require annual increases of about \$1.2 million in each year thereafter. In addition, the Analyst has included increases for DCFS for additional caseworkers to handle case growth (between \$400,000 and \$800,000 in General Funds annually) and for growth in “out of home” services for children in custody (between \$200,000 and \$400,000 General Funds annually). The projections include an increase of approximately \$700,000 General Funds for operation of the recently completed child welfare management information system (SAFE).

The Analyst has included an annual increase in funding for services for people with disabilities ranging from \$2.7 million in FY 2002 to \$3.1 million in FY 2006. However, these amounts will only meet estimated population growth and increased service demands. It probably will not reduce the size of the current waiting list, but will maintain it at the current level.

Reductions in federal funding are hitting the Department in several areas. This report includes state funding to adjust for reductions in the federal Medicaid match rate. The Department will need about \$2.5 million (General Fund) in FY 2002 and between \$800,000 and \$1 million in each subsequent year. During the previous two legislative sessions, the Legislature has authorized transfers of \$4.7 million of TANF (temporary assistance to needy families) funds to the Social Services Block Grant for on-going services in the Department. These funds need to be replaced during the next two years, as the current TANF authorization will then expire. The Department has also seen significant reductions in the federal Social Services Block Grant (SSBG) over the past several years. Since 1998, the State's share has gone from \$16.8 million to \$13.2 million, a drop of over 20 percent, or \$3.6 million. The Analyst has included state funds to replace \$1.1 million in reduced SSBG funding for DCFS.

The projections include increases in funding for local mental health centers (approximately \$800,000 in each of the next five years) for both adult and children's services, increases for local area agencies on aging for alternatives to nursing home services and meals on wheels (about \$500,000 annually), and increases to expand services directed by drug courts and drug boards (a total of \$2.9 million over the next five years).

Human Services					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$8,151,200	\$6,771,000	\$6,974,000	\$7,319,700	\$7,389,800
Compensation	3,087,100	3,210,600	3,325,800	3,458,800	3,703,900
Mandates	5,823,300	4,219,900	912,400	739,700	967,900
Total Human Services	\$17,061,600	\$14,201,500	\$11,212,200	\$11,518,200	\$12,061,600

Issues not in Projection

The Department of Human Services five-year budget projections include only the most critical identified budget needs. There are numerous identified Human Services budgetary issues not included in these projections. Current annual cost estimates are between \$13.5 million (General Fund) in FY 2002 and \$18 million in FY 2006.

To fully fund and eliminate the waiting list for services for people with disabilities would take an additional \$2.7 million (General Fund) budget increase in each of the next five years. Several states are being sued over failure to move people expeditiously off this waiting list for home and community alternative services.

Additional funding is usually requested in the areas of the local public mental health, substance abuse, and aging services systems. To fund all potential needs in these areas, another \$8.3 million (General Fund) would be needed in FY 2002, and this would grow each year to \$13.5 million in FY 2006. Additionally, the Drug Court and Drug Board programs may need increases totaling \$5.8 million (General Fund) over the next five years.

The Division of Child and Family Services has identified additional funding needs for its child welfare management information system (SAFE), compliance with the court-overseen “Milestone Plan,” and increased needs in several child service programs due to population growth. For DCFS, these needs are estimated at \$1.3 million in FY 2002 and about \$500,000 in each year thereafter.

Commerce and Revenue

The State provides assistance to low and moderate income families for child care. Caseload increases have been offset with appropriations from TANF. As this program continues to grow and if TANF funds are reduced, appropriations from the General Fund will be required. Funding of \$500,000 has been included in each of the years forecast.

Commerce and Revenue					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Growth	\$500,000	\$515,000	\$530,500	\$546,400	\$562,800
Compensation	1,798,600	1,870,500	1,937,600	2,015,100	2,158,000
Total Commerce and Revenue	\$2,298,600	\$2,385,500	\$2,468,100	\$2,561,500	\$2,720,800

Issues not in Projection

The Commerce and Revenue Appropriations Subcommittee includes funding for the Department of Workforce Services and seven other State agencies. Most of these are regulatory agencies. There will probably be few major increases in these agencies, but demographics and workload can affect the number of personnel required to operate effectively. Revenue is also generated by most of these organizations, though it is usually deposited into the General Fund or a restricted account that contributes to the General Fund. (There are exceptions to this.) Two major areas of anticipated growth are Alcoholic Beverage Control and the Department of Commerce

The sale of liquor by the Department of Alcoholic Beverage Control is estimated to grow at a rate of between 4 and 10 percent per year for the next five years. This could have an impact on the number of personnel and the capital equipment required to efficiently operate the business activities of the agency.

The Department of Commerce will be directly affected by the demographics of the State. Additionally, the Division of Occupational and Professional Licensing within the Department currently licenses over 45 professions. More professions request State licensing every year. Revenue is generated by the sale of licenses but more personnel and resources are required to regulate the occupations. The rate of growth will depend on Utah demographics, the number of new professions approved for licensing and the number of potential licensees. This could range from 3 to 9 percent per year.

Federal funding levels for the TANF Program have been authorized through 2002. Utah's welfare caseload has dropped over 40 percent since the beginning of the TANF Program. The funding allocation for TANF could decrease significantly after 2002 if federal funding is reduced to account for caseload reductions.

**Capital Facilities/
Administrative
Services**

The FY 2001 capital budget did not include any new debt for facilities. However, based on historical trends, the Analyst has included facility bonding of \$50 million annually, which is reflected in new debt service. Also, the Analyst has included the mandated funding increases for capital improvements.

Capital Facilities					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Mandates	\$2,841,000	\$2,375,600	\$2,518,200	\$2,669,300	\$2,829,400
Total Capital Facilities	\$2,841,000	\$2,375,600	\$2,518,200	\$2,669,300	\$2,829,400

Debt Service					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Mandates	\$0	2,500,000	5,000,000	7,500,000	10,000,000
Total Debt Service	\$0	\$2,500,000	\$5,000,000	\$7,500,000	\$10,000,000

Administrative Services					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$363,900	\$378,500	\$392,000	\$407,700	\$436,600
Total Administrative Services	\$363,900	\$378,500	\$392,000	\$407,700	\$436,600

**Issues not in
Projection**

The Department of Administrative Services is not likely to experience significant growth over the next five years. Technology programs allow the Department to process more work without adding more people. One area that could use additional funding is the Division of Fleet Operations (DFO). In 1999 the Legislature provided \$4 million to offset the cost of replacing vehicles in the fleet – and began requiring state agencies to pay the full cost of owning a vehicle. This money is used in place of money that traditionally was borrowed from the General Fund. As the cost of vehicles continues to increase, it will become more difficult for the State Treasurer to “loan” money to Fleet Operations to cover initial capital costs. An additional \$4 to \$6 million would allow DFO to fully capitalize the fleet and discontinue the practice of borrowing money from the General Fund.

Facility Funding

Bond policy for capital facilities is likely to be a focus of the Legislature over the next five years. Bonding policy can take on an infinite variety of plans, but the most likely scenarios involve maintaining the status quo (annual approvals of six year bonds at approximately \$50 million per year), periodic issuance of large bonds (more than \$100 million approved on a regular schedule) or adoption of a pay as you go plan. Each plan offers positive and negative policy outcomes.

Status Quo

Positive

☞☞ The base budget is already amenable to annual approvals of smaller bond amounts.

☞☞ No debt passed on to future generations.

Negative

☞☞ Interest costs of \$10 million over five years (per issue) does not allow for inflation to offset current costs.

☞☞ Funding for long term facilities are borne entirely by current taxpayers.

Large Bond Plan

Positive

☞☞ A large bond would likely be amortized over 20 years, allowing for future users to help pay for costs.

☞☞ Inflation increases net present value as current costs are paid with future dollars.

☞☞ More general revenue may be available if bonds are not issued annually.

Negative

☞☞ Debt service amounts will increase, requiring additional funds from both the Uniform School Fund and the General Fund.

☞☞ Potential for over spending – debt service in some states drives budget policy.

☞☞ Debt passed on to future generations.

Pay as you go

Positive

☞☞ Allows for more accurate planning of facility construction.

☞☞ Spending levels are managed annually.

⚠️⚠️ No costs passed on to future generations.

Negative

⚠️⚠️ Needs large influx of cash to take care of pressing needs.

⚠️⚠️ Costs of long term assets borne entirely by current taxpayers.

No plan listed here is superior to another plan – each plan accommodates policy preferences that are evident in Utah and in other states. In continuing the Status Quo, the Legislature can expect to issue approximately \$50 million in new debt each year, and pay approximately \$60 million per year in debt service which includes prior issues. Assuming a Large Bond Plan only issued debt every four to ten years, the added cost would be approximately \$8 million per \$100 million borrowed for 20 years. If a \$200 million bond were issued every four years, the Legislature would need to approve \$16 million in debt service – an average of \$4 million per year per issue.

Utah is in a unique situation when it comes to facility financing. The State will continue to grow, but a significant number of facilities are reaching the end of their life cycle. Therefore the state must repair older facilities while accommodating growth. The Legislature made a significant commitment to addressing aging facilities when it created a statutory minimum formula for funding facility improvements – in six years the amount of funds going to repair existing buildings has more than tripled. Even with this commitment, the Legislature should plan to augment facility funding by \$40 to \$60 million to allow for higher debt service or to adequately fund a pay as you go plan.

Issues not in Projection

800 MHz - A crosscutting expense faced by state agencies is that associated with conversion to 800 MHz public safety radio communications. The conversion, motivated by the Federal Telecommunications Act of 1996, could cost state agencies from \$2 to \$3 million in the next two fiscal years, depending upon the number of radios converted. Associated with these one-time costs for new radios is a new circuit fee of \$30 per month, or about \$500,000 per-year in ongoing expenses, state-wide.

Natural Resources

Funding for additional compensation has been included for Natural Resources over the five-year period forecast.

Natural Resources					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$961,400	\$999,900	\$1,035,700	\$1,077,200	\$1,094,300
Total Natural Resources	\$961,400	\$999,900	\$1,035,700	\$1,077,200	\$1,094,300

Issues not in Projection

This report does not attempt to estimate the severity of upcoming fire seasons (or other potential natural disasters). In the past, the Legislature has funded excess fire fighting costs on a supplemental basis. For example, the Division of Forestry, Fire and State Lands has requested a \$5.5 million supplemental appropriation in FY 2001 as a result of the fires in the summer of 2000. No supplemental appropriation was needed in FY 1999 or FY 2000. Over the past six years, the average yearly supplemental for fire suppression has been \$2.2 million.

Economic Development and Human Resources

Although only compensation increases are included, it is noted that \$2.5 million supplemental was included in the FY 2001 estimates.

Economic Development/ Human Resource Management					
Item	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Compensation	\$480,800	\$500,000	\$518,000	\$538,700	\$576,900
Total Economic Development	\$480,800	\$500,000	\$518,000	\$538,700	\$576,900

Olympic Funding

The cost estimates for direct services provided during the Olympics are estimated at \$2,000,000 and is included in the FY 2002 projection. The largest draw on these funds will be public safety. Required state services during the Olympics beyond what can be absorbed within base include the following:

- Public Safety
- Courts
- Public Health and Environment
- Transportation
- Economic Development
- State Park Winter Operations

Issues not in Projection/DCED

The Department of Economic Development is requesting \$2,000,000 for travel development and \$2,000,000 for economic development in on-going funds. When Salt Lake City won the 2002 Olympics, Utah won a unique opportunity to promote State tourism and economic development efforts. The two most recent summer Olympic hosts report significant economic gains because of their Olympic exposure. Georgia's Olympic economic development effort cost about \$9,000,000 and resulted in more than 400 CEOs visiting Georgia and 22 foreign firms establishing headquarters in Atlanta in 1997. Georgia's tourism effort cost \$8,000,000 and five years after the Olympics Georgia's tourism reportedly doubled. Sydney's State of New South Wales and the Australian government hosted business and government leaders on a luxury liner whose daily mooring fee was \$220,000. The lobby of the main state office building was devoted to hosting visitors.

The Industrial Assistance Fund has been spent down and may request a supplemental appropriation that will be near \$9,000,000 this year. This is a revolving loan fund that provides loans or grants to establish, relocate, or develop industry in Utah. Also, as noted, a \$2.5 million supplemental was included in the FY 2001 estimate. Centers of Excellence have requested \$500,000 and Custom Fit is requesting another \$1,000,000 in on-going funds.

Most Community Development programs have not had a programmatic increase for many years. Libraries need to be brought into the digital information age, community museums are looking to the state for help, and there is always a push to increase funding to the Olene Walker Housing Trust Fund and food banks. None of these requests are part of the five-year projections but merit legislative consideration.

**Issues not in
Projection/DHRM**

IT Employee Salary Equity - According to recent data from the state's Chief Information Officer, state information technology (IT) positions reflect a 20 percent turn-over rate, with 11 percent of IT positions being vacant at any point in time. To stem this exodus of highly-demanded IT professionals from state government, the CIO is proposing a targeted salary increase for IT job classifications. The proposal would cost about \$1.5 million in on-going General Funds beginning with FY 2002. There will also be a DHRM request of \$4 million for MCA's.

Budget History

General Fund/Uniform School Fund

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	
Legislature	\$8,797,800	\$9,449,400	\$9,806,000	\$12,427,000	\$12,620,000	
Executive Offices	23,509,300	24,345,400	24,261,200	26,711,600	28,788,500	
Courts	65,469,200	69,484,500	77,189,800	82,736,000	85,760,200	
Corrections	119,438,100	127,251,000	137,166,800	150,056,900	157,874,700	
Board of Pardons	2,105,800	2,104,600	2,208,900	2,323,300	2,461,600	
Youth Corrections	33,349,700	41,418,700	52,789,400	57,549,200	61,832,500	
Public Safety	30,601,800	33,696,200	36,067,700	39,909,900	42,137,800	
Administrative Services	16,639,000	18,827,700	20,238,900	30,205,500	23,851,900	
Capital Facilities	12,518,200	50,474,800	45,168,900	67,561,900	59,126,400	
Debt Service	76,992,500	83,221,900	85,328,100	88,377,700	91,359,200	
Health	150,656,800	162,068,800	169,524,700	174,081,500	183,647,800	
Human Services	142,223,800	159,092,400	177,025,900	180,571,100	193,430,900	
Public Education Agencies	61,863,900	72,110,000	69,919,100	78,683,300	80,636,500	
MSP	1,189,746,100	1,345,896,400	1,350,327,000	1,413,182,200	1,454,674,700	1
School Building	14,447,200	26,358,000	26,358,000	28,358,000	29,358,000	
Higher Education	424,897,200	457,514,800	468,201,800	491,329,500	514,810,300	
UEN			1,735,000	12,383,100	13,323,000	
Natural Resources	43,707,600	51,962,700	44,292,000	44,030,700	46,266,400	
Commerce and Revenue	103,953,100	97,199,500	98,949,800	103,168,700	105,670,600	
Economic Development	33,418,500	36,454,000	36,769,200	41,226,800	38,314,200	
National Guard	1,333,500	2,731,100	2,904,600	3,298,600	3,475,300	
Environmental Quality	8,532,700	11,450,100	8,868,900	9,084,100	10,728,100	
Transportation	1,079,000	112,234,700	81,163,900	111,209,300	123,697,600	
Total	\$2,565,280,800	\$2,995,346,700	\$3,026,265,600	\$3,248,465,900	\$3,363,846,200	\$3
		16.8%	1.0%	7.3%	3.6%	

Budget Forecast					
General Fund/Uniform School Fund	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Legislature	\$13,143,600	\$13,280,400	\$13,434,600	\$13,589,300	\$13,729,900
Executive Offices	31,096,700	32,411,300	33,336,100	34,790,100	35,593,100
Courts	93,296,600	96,297,100	99,278,200	102,562,700	105,710,800
Corrections	190,750,800	204,603,700	219,364,400	234,397,500	249,101,200
Board of Pardons	2,574,700	2,704,000	2,764,700	2,905,100	2,960,300
Youth Corrections	74,994,600	81,446,800	88,245,700	95,222,400	101,393,600
Public Safety	44,949,300	46,106,900	47,429,100	48,751,700	49,971,700
Administrative Services	24,499,900	24,864,000	25,256,000	25,663,700	26,033,900
Capital Facilities	50,162,400	52,538,000	55,056,200	57,725,500	60,554,900
Debt Service	93,376,400	95,876,400	100,876,400	108,376,400	118,376,400
Health	220,010,900	250,018,700	281,961,900	313,034,100	346,144,400
Human Services	219,545,300	233,625,000	244,958,900	256,677,100	268,184,700
Public Education Agencies	88,511,300	89,042,600	89,617,800	90,200,700	90,756,400
MSP	1,640,884,100	1,770,330,500	1,920,968,200	2,091,315,500	2,272,067,100
School Building	28,358,000	28,358,000	28,358,000	28,358,000	28,358,000
Higher Education	593,195,200	640,941,200	690,768,200	742,854,400	796,322,900
UEN	13,588,600	13,778,800	13,984,400	14,182,800	14,384,200
Natural Resources	46,932,600	47,894,500	48,968,200	50,045,300	50,973,300
Commerce and Revenue	111,752,100	114,066,700	114,735,200	117,296,700	119,689,400
Economic Development	35,602,600	36,083,700	36,620,600	37,159,300	37,648,500
National Guard	3,696,700	3,771,100	3,854,200	3,937,600	4,012,000
Environmental Quality	10,001,000	10,293,200	10,619,300	10,946,400	11,243,500
Transportation	129,946,600	140,946,600	151,946,600	167,946,600	183,946,600
State Miscellaneous	(73,731,200)	(75,960,400)	(77,360,400)	(105,091,400)	(143,171,400)
Total	\$3,687,138,800	\$3,953,318,800	\$4,245,042,500	\$4,542,847,500	\$4,843,985,400
		7.2%	7.4%	7.0%	6.6%

* Includes Olympic funding increase, retirement rate and debt service decreases.

Revenue and Expenditures Estimates (Revised 5 Year)

Revenues	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
General Fund	1,687,600,000	1,751,100,000	1,822,895,100	1,897,633,800	1,965,948,600	2,036,722,000
General Fund One-Time	78,988,600					
Subtotal GF	1,766,588,600	1,751,100,000	1,822,895,100	1,897,633,800	1,965,948,600	2,036,722,000
Uniform School Fund	1,985,200,000	2,114,200,000	2,251,623,000	2,395,726,900	2,544,261,900	2,702,006,000
USF One-Time	99,525,800					
Subtotal USF	2,084,725,800	2,114,200,000	2,251,623,000	2,395,726,900	2,544,261,900	2,702,006,000
Total GF/USF	\$3,851,314,400	\$3,865,300,000	\$4,074,518,100	\$4,293,360,700	\$4,510,210,500	\$4,738,729,000
Expenditures						
General Fund	1,686,502,100	1,735,031,700	1,871,559,200	2,012,433,000	2,139,672,000	2,278,267,000
Uniform School Fund	1,886,211,700	1,952,107,300	2,081,759,700	2,232,609,500	2,403,175,400	2,565,719,000
Total GF/USF	\$3,572,713,800	\$3,687,139,000	\$3,953,318,900	\$4,245,042,500	\$4,542,847,400	\$4,843,986,000
Revenues in Excess of Expenditures						
General Fund	80,086,500	16,068,300	(48,664,100)	(114,799,200)	(173,723,400)	(241,544,000)
Uniform School Fund	198,514,100	162,092,700	169,863,300	163,117,400	141,086,500	136,287,000
Total GF/USF	\$278,600,600	\$178,161,000	\$121,199,200	\$48,318,200	(\$32,636,900)	(\$105,257,000)
Percent Change Revenue						
		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
General Fund		5.8%	4.1%	4.1%	3.6%	3.0%
Uniform School Fund		8.5%	6.5%	5.4%	5.1%	5.0%
Percent Change Expenditures						
		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
General Fund		2.9%	7.9%	7.5%	6.3%	6.0%
Uniform School Fund		3.5%	6.6%	7.2%	7.6%	6.0%

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