

UTAH FOUNDATION

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Fiscal Summary of the 2001 Legislative Session

A strong economy, fueled by I-15 reconstruction work, preparations for the 2002 Winter Olympics, and large capital gains tax receipts from the stock market provided the backdrop for budget decisions and legislation during the 2001 legislative session. State revenues were so strong that supplemental appropriations to the current fiscal year (FY 2001, ending June 30) received almost as much attention by legislators as did budget deliberations for the coming FY 2002 budget.

Education, both public and higher, received most of the attention during the session. This emphasis on education is a continuation from the 2000 legislative session and promoted vigorously by Governor Michael Leavitt.

Overview of Utah State Spending

Total state appropriations for FY 2002, which begins on July 1, 2001, are \$7.202 billion, or a 2.2 percent increase over the authorized spending of \$7.047 billion for the current fiscal year which ends on June 30. **Table 1** shows state appropriations by department for FY 2002 and the two previous years. While the projected increase (2.2 percent) in FY 2002 spending above the level of FY 2001 seems relatively small, it should be noted that this follows a large authorized increase of 10.2 percent for the current fiscal year above actual FY 2000 spending.

Slightly over a year ago, when the state budget for FY 2001 was appropriated by the 2000 Legislature, spending for the current year was projected to be \$6.724 billion, which would have been a 5.1 percent increase over the amount actually spent in FY 2000. Authorized spending for the

current year is now \$7.047 billion or \$323 million more than was originally appropriated. The additional spending in this fiscal year is the result of very strong revenue growth observed during the past year and expected in the coming year.

Almost half of this revenue growth is thought to be over and above that which would be produced normally by Utah state taxes and fees. Unusual, non-repeating events are generating these revenues. The economic events that are primarily responsible for the extra revenues are:

- I-15 reconstruction,
- the 2002 Winter Olympics, including preparations and the actual events, and
- capital gains taxes from high stock market values in 1999 and 2000.

These economic activities are considered to be “one-time” events that produce extra state revenues. If one-time revenues are used for on-going state programs, such as public services or employee compensation, the current tax base will not likely generate enough revenues to pay for state programs in the future. To prevent a future imbalance between revenues and expenditures, the Legislature dedicated these one-time revenues to one-time expenditures.

One way to accomplish this is to spend one-time revenues on capital projects (buildings, roads, and other infrastructure expenditures). In FY 2001, capital projects authorized by the Legislature are relatively large – \$840 million, making up 11.9 percent of the total budget. Capital expenditures, as a share of the total state budget, have not been this large since 1989. When the FY 2001 state budget

UTAH FOUNDATION is a private, nonprofit public service agency established to study and encourage the study of state and local government in Utah, and the relation of taxes and public expenditures to the Utah economy.

Table 1

SUMMARY OF APPROPRIATIONS BY DEPARTMENT
Appropriations from All Sources of Funding

Sources of Funding	Actual	Authorized	Appropriated	As a Percent of Total			Change in Funding		Percent Change	
	FY 2000	FY 2001	FY 2002	FY 2000	FY 2001	FY 2002	(in thousands of dollars)		FY 00 to 01	FY 01 to 02
	(in thousands of dollars)									
Sources of Funding										
General Fund	\$1,587,115	\$1,719,586	\$1,816,948	24.8%	24.4%	25.2%	\$132,472	\$97,362	8.3%	5.7%
School Funds*	1,776,433	2,048,299	2,072,834	27.8%	29.1%	28.8%	271,866	24,535	15.3%	1.2%
Transportation Fund	360,651	388,931	403,724	5.6%	5.5%	5.6%	28,280	14,793	7.8%	3.8%
Federal Funds	1,536,037	1,621,840	1,616,215	24.0%	23.0%	22.4%	85,803	-5,625	5.6%	-0.3%
Dedicated Credits	401,201	403,378	425,229	6.3%	5.7%	5.9%	2,177	21,851	0.5%	5.4%
Mineral Lease	38,726	34,416	42,604	0.6%	0.5%	0.6%	-4,310	8,188	-11.1%	23.8%
Restricted & Trust Funds	227,222	257,812	325,949	3.6%	3.7%	4.5%	30,590	68,137	13.5%	26.4%
Local Property Tax	311,575	331,713	356,458	4.9%	4.7%	4.9%	20,138	24,746	6.5%	7.5%
Other Funds	156,538	241,205	142,182	2.4%	3.4%	2.0%	84,666	-99,023	54.1%	-41.1%
TOTAL	\$6,395,498	\$7,047,180	\$7,202,143	100.0%	100.0%	100.0%	\$651,681	\$154,963	10.2%	2.2%
Expenditures										
Operations Budget										
Administrative Services	\$25,949	\$23,448	\$24,867	0.4%	0.3%	0.3%	-2,501	1,420	-9.6%	6.1%
Applied Technology Ed.	34,087	37,719	46,186	0.5%	0.5%	0.6%	3,632	8,467	10.7%	22.4%
Commerce and Revenue	358,169	387,033	394,030	5.6%	5.5%	5.5%	28,865	6,997	8.1%	1.8%
Corrections (Adult & Youth)	263,260	278,614	285,271	4.1%	4.0%	4.0%	15,354	6,656	5.8%	2.4%
Courts	94,182	99,772	103,004	1.5%	1.4%	1.4%	5,591	3,232	5.9%	3.2%
Econ. Dev. and Human Res.	77,129	88,285	97,467	1.2%	1.3%	1.4%	11,156	9,182	14.5%	10.4%
Elected Officials	64,312	75,438	65,351	1.0%	1.1%	0.9%	11,126	-10,086	17.3%	-13.4%
Environmental Quality	33,972	39,024	38,484	0.5%	0.6%	0.5%	5,052	-540	14.9%	-1.4%
Health	986,494	1,071,813	1,114,462	15.4%	15.2%	15.5%	85,319	42,648	8.6%	4.0%
Higher Education	729,161	760,714	838,293	11.4%	10.8%	11.6%	31,553	77,579	4.3%	10.2%
Human Services	425,206	445,071	461,912	6.6%	6.3%	6.4%	19,865	16,841	4.7%	3.8%
Legislature	12,906	14,308	15,011	0.2%	0.2%	0.2%	1,403	703	10.9%	4.9%
National Guard	16,279	15,656	16,167	0.3%	0.2%	0.2%	-623	512	-3.8%	3.3%
Natural Resources	116,710	133,546	126,128	1.8%	1.9%	1.8%	16,836	-7,418	14.4%	-5.6%
Public Education	2,060,825	2,249,954	2,329,235	32.2%	31.9%	32.3%	189,129	79,281	9.2%	3.5%
Public Safety	92,155	106,653	115,888	1.4%	1.5%	1.6%	14,498	9,235	15.7%	8.7%
Transportation	205,615	197,887	220,608	3.2%	2.8%	3.1%	-7,728	22,722	-3.8%	11.5%
Subtotal Operations	\$5,596,410	\$6,024,935	\$6,292,364	87.5%	85.5%	87.4%	\$428,525	\$267,429	7.7%	4.4%
Capital Budget										
Administrative Services	44,478	53,269	104,712	0.7%	0.8%	1.5%	8,791	51,443	19.8%	96.6%
Applied Technology Ed.	3,934	2,322	2,775	0.1%	0.0%	0.0%	-1,612	453	-41.0%	19.5%
Econ. Dev. and Human Res.	2,270	1,837	1,609	0.0%	0.0%	0.0%	-433	-228	-19.1%	-12.4%
Environmental Quality	2,067	5,512	5,804	0.0%	0.1%	0.1%	3,446	292	166.7%	5.3%
Higher Education	23,391	144,770	22,685	0.4%	2.1%	0.3%	121,379	-122,085	518.9%	-84.3%
Natural Resources	8,884	29,186	9,630	0.1%	0.4%	0.1%	20,301	-19,556	228.5%	-67.0%
Public Education	29,358	29,460	38,358	0.5%	0.4%	0.5%	102	8,898	0.3%	30.2%
Transportation	508,106	573,382	528,442	7.9%	8.1%	7.3%	65,275	-44,940	12.8%	-7.8%
Subtotal Capital	\$622,488	\$839,737	\$714,015	9.7%	11.9%	9.9%	\$217,249	-\$125,723	34.9%	-15.0%
Debt Service	158,274	164,831	174,685	2.5%	2.3%	2.4%	6,558	9,854	4.1%	6.0%
Other	18,327	17,676	21,079	0.3%	0.3%	0.3%	-650	3,403	-3.5%	19.3%
TOTAL EXPENDITURES	\$6,395,498	\$7,047,180	\$7,202,143	100.0%	100.0%	100.0%	\$651,681	\$154,963	10.2%	2.2%
Education**	\$2,880,756	\$3,224,939	\$3,277,532	45.0%	45.8%	45.5%	\$344,183	\$52,592	11.9%	1.6%

Note: The Authorized FY 2001 column includes the original appropriations by the 2000 Legislature plus supplemental appropriations by the 2001 Legislature.

*Includes Uniform School Fund and Income Tax Revenue for Higher Education.

**Total of operations & capital expenditures for Public, Higher, and Applied Technology education.

Source: Governor's Office of Planning and Budget, State of Utah.

was drafted last year, capital expenditures were originally \$661 million or \$179 million less than the level now authorized.

Next year (FY 2002), capital expenditures will drop back somewhat from the FY 2001 levels to \$714 million or 9.9 percent of total state expenditures.

Table 2 shows expected federal funding for state programs of \$1.616 billion or about 22.4 percent of the total state budget for FY 2002. However, the bulk of these grants is focused in only a few areas. The Department of Health should receive \$736 million or 45.5 percent of all federal funds. This grant provides the federal share of the Medicaid program. The balance must be paid by the state.

Second to Health is Public Education, at \$237 million or 14.7 percent of the federal funds in FY 2002. Most of these federal dollars are for the school lunch program and for handicapped and disadvantaged programs. Commerce and Revenue will receive 12.3 percent of federal funds or \$199 million, used to fund Workforce Services including state employment, unemployment, and welfare assistance (Temporary Assistance to Needy Families or TANF) services. The state's capital budget, most of which goes to the Department of Transportation, should get \$171 million or 10.6 percent of all federal funds. Combined, these four entities received \$1.3 billion, or 83 percent of all federal funds.

Compensation of State Workers

The Legislature approved salary increases for FY 2002 averaging 4 percent. Increased compensation will be provided in three ways:

- 1) a one-step Merit increase for eligible employees who are within their salary range;
- 2) one-time bonuses to employees at the end of their salary range;
- 3) remaining funds for discretionary salary increases based upon performance in keeping with state established rules.

Funds were also appropriated to cover the increased costs of employee health and dental insurance.

Utah's selected officials also received a 4 percent salary increase.

Office	FY2000	FY2001
Governor	\$96,700	\$100,600
Lt. Governor	\$75,200	\$78,200
Att. General	\$81,300	\$84,600
Auditor	\$77,600	\$80,700
Treasurer	\$75,200	\$78,200

Education

Education issues inevitably dominate legislative deliberations because 45 to 46 percent of total state expenditures is dedicated to education activities. In Table 1, education expenditures are detailed in three areas: Applied Technology Education, Higher Education, and Public Education. At the bottom of Table 1 is a subtotal for all education spending, both operations and capital. With large supplemental appropriations, total education spending in the current fiscal year will be \$3.225 billion, an increase of \$344 million or 11.9 percent more than was spent last year. Total education appropriations for FY 2002 are \$3.278 billion, 1.6 percent above the FY 2001 spending level. Next year's education increase seems relatively small because of the large one-time capital expenditures authorized for this year in the Higher Education budget.

Public Education

Public Education receives about one-third of all state expenditures and is the single largest major funding category in state government. In the current fiscal year, operations spending for Public Education was revised upward to \$2.249 billion, a 9.2 percent increase over actual FY 2000 expenditures. This amount includes supplemental appropriations of \$24.6 million. The largest single item in the supplemental funding was \$23.8 million for textbooks.

Last fall, a performance audit of state textbook funding determined that Utah's 40 school districts needed \$30.6 million to replace books that were either outdated or in poor condition. The supplemental funding of \$23.8 million will be added to about \$55 million school districts are expected to spend annually on text books and

Table 2

Expected* Federal Funding: Fiscal Year 2000 to Fiscal Year 2001

	Federal Funds			As a % of Total Fed Funds			Federal Funds as a percent of Total State Expenditures		
	FY 2000	FY 2001	FY 2002	FY 2000	FY 2001	FY 2002	FY 2000	FY 2001	FY 2002
	Actual	Authorized	Appropriated	Actual	Authorized	Appropriated			
Administrative Services	\$0	\$0	\$47,600	0.00%	0.00%	0.00%	0.00%	0.00%	0.19%
Applied Technology Ed	0	0	\$0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commerce And Revenue	186,218,400	197,833,600	199,028,000	12.12%	12.20%	12.31%	51.99%	51.12%	50.51%
Corrections (Adult & Youth)	4,885,800	4,492,800	4,138,900	0.32%	0.28%	0.26%	1.86%	1.61%	1.45%
Courts	27,000	122,000	122,000	0.00%	0.01%	0.01%	0.03%	0.12%	0.12%
Econ. Dev. and Human Res.	26,640,100	30,837,500	31,872,300	1.73%	1.90%	1.97%	34.54%	34.93%	32.70%
Elected Officials	20,585,100	17,656,600	15,883,700	1.34%	1.09%	0.98%	32.01%	23.41%	24.31%
Environmental Quality	11,471,700	14,468,300	13,139,800	0.75%	0.89%	0.81%	33.77%	37.08%	34.14%
Health	660,577,500	715,439,500	735,985,400	43.01%	44.11%	45.54%	66.96%	66.75%	66.04%
Higher Education	4,546,200	4,592,900	4,593,700	0.30%	0.28%	0.28%	0.62%	0.60%	0.55%
Human Services	103,940,400	108,944,400	109,451,200	6.77%	6.72%	6.77%	24.44%	24.48%	23.70%
Legislature	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
National Guard	12,164,200	11,524,700	11,676,900	0.79%	0.71%	0.72%	74.72%	73.61%	72.22%
Natural Resources	18,930,900	18,903,900	19,182,000	1.23%	1.17%	1.19%	16.22%	14.16%	15.21%
Public Education	225,805,500	235,880,300	237,427,400	14.70%	14.54%	14.69%	10.96%	10.48%	10.19%
Public Safety	16,684,900	22,375,700	32,310,700	1.09%	1.38%	2.00%	18.11%	20.98%	27.88%
Transportation	42,098,100	29,756,400	30,076,600	2.74%	1.83%	1.86%	20.47%	15.04%	13.63%
Capital Budget	201,461,400	209,011,200	171,279,000	13.12%	12.89%	10.60%	32.36%	24.89%	23.99%
Debt Service	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
GRAND TOTALS	\$1,536,037,200	\$1,621,839,800	\$1,616,215,200	100.00%	100.00%	100.00%	24.02%	23.01%	22.44%

*Actual federal funding for FY 2001 and FY 2002 may be somewhat different than the amounts authorized or appropriated.

Source: Utah Governor's Office of Planning and Budget.

supplies.¹ Together, these expenditures should address most, if not all, of the state textbook problems in the coming year.

For FY 2002, Public Education was appropriated \$2.329 billion in operations funding, a 3.5 percent increase over what was authorized for FY 2001. The value of a Weighted Pupil Unit (WPU), the basic funding formula for the state's Minimum School Program (MSP), increased from \$2,006 to \$2,116 or by 5.5 percent. This is the second year in a row that the value of a WPU has increased by 5.5 percent. School districts receive much of their state funding based this value. In FY 2001, statewide, there were about 141 WPU's for every 100 students. The fall enrollment count was 475,269 students and there were 625,549 WPUs. In addition to receiving a WPU for each student enrolled, school districts are allocated WPUs for administrative costs, disabled pupils, professional staff training, small schools, and other special program support.

There were important changes made to the Minimum School Program (MSP) in House Bill 3 - *Minimum School Program Act Amendments*. In an effort to provide school districts with greater flexibility when allocating state funds to meet their specific needs, the Legislature combined more than 20 categorical education programs into a few block grants. Block grants will be given to school districts in the areas of applied technology, at-risk students, accelerated learning, and local discretion. The Legislature appropriated \$3.9 million to "hold harmless" school districts that would see reduced funding as a result of these new block grants.

The Legislature made significant changes to teacher development programs. Each school and school district is directed to develop a comprehensive, long-term plan for staff professional development. These plans are to include input from community leaders, administrators, staff and parents. This new professional block grant program will include the

existing Career Ladder program that received \$48.7 million for FY 2001. The new professional development block grant program will receive a 41.5 percent increase to \$68.8 million, of which \$10 million is for two additional days of teacher training in the Utah Performance Assessment System for Students (U-PASS.).

A one-time appropriation of \$5 million will provide funds for direct reimbursement to teachers for out-of-pocket expenses made in the classroom. Teachers will be able to receive up to \$225 in the elementary grades and up to \$175 for the secondary grades for classroom supplies and materials.

Class size reduction continued to be a concern for public education. Funds were increased in FY 2002 by \$3.25 million or by 5.5 percent to \$62.6 million. While class size reduction money can be used from grades K through eight, if the average class sizes for the district in grades K through two are not less than 18 students, 50 percent of the class size reduction funds must be used in those grades.

Before the session, Governor Leavitt proposed that programs be developed to produce and retain teachers in technical areas such as science, mathematics, and information technology. As a result, Senate Bill 61 established an Engineering and Computer Science Initiative with provisions to provide job enhancement grants to secondary teachers in the sciences, mathematics, and information technology and to provide loans and grants to college students who are seeking degrees in these fields of study. Recipients of these funds are required to teach in Utah public schools for a period of four years in return for the assistance. Total funding for the Engineering and Computer Science Initiative was \$13.9 million.

Two years ago, the Legislature created the Task Force on Learning Standards and Accountability in Public Education consisting of legislators, members of school boards, and others. They were given the assignment to look at ways of improving the performance of Utah's public education system. The Task Force made its final report to the Legislature before the session. Senate Bill 28 contained amendments to Utah Performance Assessment System for Students (U-PASS) program enacted by the 2000 Legislature.

¹Under **Utah Administrative Code R277-408-3(A)**, a school district must spend an amount equal to 5.5 percent of the current year's weighted pupil unit value multiplied by the prior year's student count for textbook and supplies.

The U-PASS program, as now constituted, provides for an integrated reporting system by school and school district of the following items:

- norm-referenced achievement testing of all students in grades 3, 5, 8, and 11;
- criterion-referenced achievement testing of students in all grade levels in basic skills courses;
- a direct writing assessment in grades 6 and 9;
- a tenth grade basic skills competency test;
- the use of student behavior indicators, absenteeism, volunteerism, and fee waivers;
- college entrance examinations for the previous four years;
- advanced placement and concurrent enrollment data;
- the number and percentage of students reading at or above grade level;
- the number and percentage of student dropouts within the district;
- course-taking patterns and trends in secondary schools;
- student mobility;
- staff qualifications;
- the number and percentage of parents who participate in the schools' parent teacher conferences and plans;
- the number and percentage of students who participate in extracurricular activities; and
- average class size by grade level and subject.

As part of the program, teachers will be required to review their new students individual U-PASS performance records at the beginning of each school year.

U-PASS is designed to assist school districts, individual schools, parents and students in planning, evaluating, and enhancing efforts to improve student performance. All aspects of U-PASS should be in place for the school year beginning in the fall of 2003.

Originally, U-PASS was to have established acceptable levels of student performance and identify schools that were not meeting state standards, with various options for corrective actions. The Legislature decided not to pursue formal acceptable standards at this time, nor did they commit to any actions to be taken in relation

to low performing schools.

In recent years, the state has spent about \$29.5 million per year in capital outlays to support school district building programs. For FY 2002, state support of public education capital expenditures has been consolidated into one program – the Capital Outlay Foundation – with a \$10 million enhancement and total appropriation of \$38.4 million.

Higher Education

Utah's Higher Education system, consisting of nine colleges and universities, the Board of Regents, and the Utah Education Network (UEN)², received an increase in funding of 10.2 percent for operations. Total FY 2002 appropriations were \$838.7 million, \$24.2 million of which was identified as one-time spending. Of that total, \$819.7³ million is for the operation of the colleges, universities, and the Board of Regents and \$18.6 million for UEN.

The Engineering, Computer Science, and Technology initiative proposed by Governor Leavitt received considerable attention during the session. The goal of this initiative is to double the number of engineering and computer science graduates at Utah's colleges and universities over the next five years and to triple them in eight years. The expressed purpose is to prepare a larger proportion of Utah's students for careers in areas of study that will be most needed in a high technology economy of the future. This initiative received a \$4 million appropriation for FY 2002 (\$3 million of which is one-time funding). In addition, there is a one-time appropriation of \$5.6 million for technology.

The compensation package for Higher Education is essentially equivalent to that of other state employees. It includes a 4.0 percent increase for salaries, a 16.1 percent increase for health insurance, and a 3.0 percent increase for dental

²Utah Education Network (UEN) operates two public television stations (KUED-7 and KULC-9) and a statewide education technology network.

³Dedicated credits, (which are primarily tuition and fees paid by students - \$201.3 million), comprise 24.6 percent of the \$819.7 million appropriation.

insurance.

Applied Technology Education

Applied Technology Education (ATE) is the third education area found in Table 1. Prior to and during the 2001 session, the Legislature, the governor, the state school board, and the Board of Regents have tried to decide how the ATE programs should be governed. At issue is whether ATE should continue to be governed by Public Education, transferred to Higher Education, or administered by a new independent board. This issue was not resolved during the session. The governor will call a special session of the Legislature later this year when it appears that the governance issue can be resolved.

Applied Technology Education has an authorized operations spending level of \$37.7 million for FY 2001, which is 10.7 percent above actual expenditures last year. FY 2002 appropriations are \$46.2 million, or an increase of 22.4 percent. The purpose of ATC is to provide workers with specific skills that are marketable in the economy and needed by employers. The increased funding levels demonstrate the importance these education programs have to the Legislature.

Health

Health expenditures are the second largest of any department in state government. FY 2002 appropriations are \$1.114 billion. The Medicaid program receives 80.2 percent of this funding or \$893.7 million, of which \$613.9 million are federal funds. This federal/state cooperative program provides health care services to low-income Utahns.

The Children's Health Insurance Program (CHIP) was appropriated \$24.6 million, with \$19.1 million in federal funds. CHIP provides health insurance coverage for children under the age of 19 living in working families with income too high to qualify for Medicaid but at or below 200 percent of the federal poverty level. There are 21,000 children currently enrolled in CHIP, with about 100 to 200 joining each week.

Human Services

Human Services was appropriated \$461.9

million for operations in FY 2002, an increase of \$18.8 million or 3.8 percent. The authorized spending for the current fiscal year, \$445.1 million, is a 4.7 percent increase over actual expenditures for FY 2000. Human Services receives almost one-fourth of its revenues each year from federal funds.

The three largest Human Service programs in state government will spend about 74 percent of its budget in FY 2002: Services for People with disabilities – \$139.2 million, Child and Family Services – \$127.4 million, and Mental Health – \$76.3 million.

Commerce and Revenue

Total FY 2002 appropriations for Commerce and Revenue programs was \$394 million. The largest state agency within this category is the department of Workforce Services which was appropriated \$258.8 million or 65.7 percent of the total Commerce and Revenue budget. Workforce Services administers Utah state employment, employment training, unemployment programs and benefits, and public assistance - primarily Temporary Assistance for Needy Families (TANF). Workforce Services receives about 76 percent of its funding from the Federal Government.

The second largest department under Commerce and Revenue is the Tax Commission, which was appropriated \$63.1 million for FY 2002. The Tax Commission accounts for 16 percent of Commerce and Revenue funding and gets about 1 percent of its budget in federal funds.

Other state activities under the heading of Commerce and Revenue are associated with business regulation and development. The Public Service Commission, Labor Commission, Insurance, and Financial Institutions collectively were appropriated \$72.1 million for FY 2002.

Law and Order Agencies

There are four state agencies that can be classified under law and order: 1) Corrections, 2) Public Safety, 3) Courts, and 4) National Guard. Together these four agencies account for 7.2 percent of operations appropriations for FY 2002 at \$520.3 million.

Corrections received a total appropriation

\$285.3 million, an increase of only 2.4 percent. Corrections has grown faster than any other state agency for the past twenty years, averaging 14.4 percent growth per year since 1980.

Appropriations for Public Safety are \$115.9 million – about one-third of which are for the Highway Patrol. Authorized Public Safety funding increased from FY 2000 by 15.7 percent for FY 2001 and increased by 8.7 percent for FY 2002. Over these two years, spending for Public Safety is expected to increase by \$23.7 million, and much of this is federal funds – increasing by \$15.1 million. The federal funding is primarily related to security preparations and training for the 2002 Olympic Winter Games.

Operations appropriations for Courts and the National Guard for FY 2002 were \$103.0 million and \$16.2 million, respectively. The increase in funding over FY 2001 was 3.2 percent for Courts and 3.3 percent for the National Guard.

Transportation

The Utah Department of Transportation FY 2002 operations budget is \$220.6 million, an increase of 11.5 percent. Increased funding was appropriated for expanded maintenance activities for the reconstructed part of I-15, rural airport maintenance, and preservation of a commuter rail corridor along the Wasatch Front.

Natural Resources

The operations appropriations for Natural Resources for FY 2002 are \$126.1 million, a decrease of \$7.4 million or 5.6 percent compared to the authorized spending of \$133.5 million for FY 2001. The FY 2001 spending includes one-time supplemental funds of \$5.5 million to cover the fire fighting costs of last summer that exceeded the budget.

Included in the Natural Resources funding of \$126.1 million for FY 2002 are \$16.0 million for Agriculture and Food and \$6.9 million for Trust Lands Administration.

Economic Development and Human Resources

The total operations appropriation for Economic Development and Human Resources of \$97.5 million for FY 2002 is an increase of \$9.2

million or 10.4 percent. This increase includes one-time expenditures of \$9.1 million for 24 Community and Economic Development projects.

Elected Officials

The Elected Officials category includes state government operations funding for various state agencies that operate under the direction of state elective offices. Appropriations for Elected Officials totaled \$75.4 million in FY2001 (including one-time supplemental funding of \$8.3 million) and \$65.4 million for FY 2002.

Funding by elective office breaks down as follows:

	(in millions)	
	FY 2001	FY 2002
Attorney General	\$30.8	\$32.0
Auditor	\$ 3.6	\$ 3.4
Governor	\$38.7	\$27.7
Treasurer	\$ 2.3	\$ 2.2

FY 2001 authorized spending under the governor includes \$8.3 million in one-time supplemental funding; \$7.6 million is for 2002 Winter Olympics related expenditures.

Environmental Quality

FY 2002 appropriations for Environmental Quality are \$38.5 million, including \$1.2 million in one-time funds for efforts to keep high-level nuclear waste out of the state. In addition to this funding, the Legislature passed Senate Bill 81, which prohibits the placement of high-level nuclear waste within the state and prohibits state and local government entities from providing services for a high-level nuclear waste repository in Utah.

Legislature

The Legislature received appropriations of \$15.0 million for FY 2002, an increase of 4.9 percent.

Capital Budget

During the 2000 legislative session, capital expenditures of \$694.0 million were approved for FY 2001. The 2001 Legislature added \$144.5 million in one-time supplemental revenues,

bringing the authorized capital expenditures for FY 2001 to \$839.7 million. Higher Education received most of the newly authorized spending – \$131.2 million was added to its original appropriation of \$11.3 million.

Appropriated capital expenditures for FY 2002 declined by 15 percent, to \$714.0 million, compared to the unusually high level for the current fiscal year.

In FY 2002, the capital budget for Administrative Services increases by \$51.4 million or 96.6 percent, to \$104.7 million. Most of these funds (\$41.0 million) will go to the Capital Preservation Board (CPB) to fund the construction of two extension buildings to the State Capital. The CPB has the responsibility to make seismic upgrades and renovations to the State Capital. The extension buildings will be needed to provide space for the operations of state government while the State Capital building is being renovated.

House Bill 62, *Operations and Maintenance of State Buildings*, made two important changes to the capital improvement budget. First, the bill requires that funding that must be set aside for capital improvements increase from 0.9 percent of the replacement value of state capital facilities to 1.1 percent. Second, the bill raises the limit of what qualifies as a capital improvement project from projects costing less than \$1.0 million to projects costing less than \$1.5 million. The statewide Capital Improvement appropriation for FY 2002 is \$44.0 million, a 19.7 percent increase over the authorized level of \$36.8 million for FY 2001.

Tax Legislation

Legislators passed several bills with tax implications that are estimated to result in a \$25 million reduction in revenues, while one bill raises taxes on one industry.

Senate Bill 36, *Individual Income Tax - Bracket Adjustments*, has the largest impact with an estimated \$18 million tax cut. This bill adjusts brackets for the individual income tax. The top bracket was increased from \$7,500 to \$8,626. The bottom bracket was increased from \$1,500 to \$1,726.

Senate Bill 34, *Individual Income Tax Relief*

for Low-income Individuals and Related State Tax Commission Amendments, provides that low-income individuals with an adjusted gross income less than the sum of their personal exemptions plus the standard deduction are exempt from paying state income taxes. It is estimated that this will reduce income taxes by \$800,000, removing 30,000 people from the state income tax rolls.

Senate Bill 58, *Repeal of Nursing Facilities Assessment*, repeals a \$1.50 assessment for each patient day in a long-term care nursing facility. The proceeds were used to fund state matching Medicaid expenditures. This will reduce state revenues by \$4.4 million.

Senate Bill 71, *Tax Credits for Special Needs Adoptions*, provides a non-refundable tax credit of \$1,000 per year to a taxpayer who adopts a child with special needs. The estimated tax reduction from this bill is \$256,000.

Finally, House Bill 370, *Hazardous Waste Amendment*, imposes fees of 10 cents per cubic foot and \$1 per curie on facilities that accept for disposal Class B and Class C low-level radioactive waste. The bill also creates a perpetual \$400,000 fund per year to cover cleanup costs once a firm closes.

Possible Budget Shortfall

In the time since the adjournment of the 2001 Legislative Session, revenue collections have not kept pace for the current fiscal year with what was anticipated during the session.

Governor Leavitt has administratively held back supplemental FY 2001 funding for several building projects and asked state agencies to spend less than the levels authorized for the current fiscal year ending June 30th. These steps are needed in order to ensure a balanced budget for the year.

State Government Expenditure Trends

From actual FY 1991 to appropriated FY 2002, state government expenditures have more than doubled (see **Table 3**). The average annual growth rate over this eleven year period for total expenditures is 7.1 percent per year.

The size of the economy grew at about the same rate, averaging 7.2 percent per year, as measured by Utah Total Personal Income.

Table 3
State Government Expenditure Trends: FY 1991 to FY 2002

Fiscal Year	State Government Expenditures (in thousands of dollars)				
	Operations	Capital	Debt Service	Other	Total
1991	\$3,048,324	\$259,718	\$61,213	\$6,729	\$3,375,984
1992	3,291,216	283,957	66,116	7,246	3,648,535
1993	3,567,991	310,043	65,186	3,511	3,946,731
1994	3,847,293	349,614	89,907	1,170	4,287,984
1995	4,177,431	332,935	108,856	159	4,619,381
1996	4,449,964	352,434	128,781	1,250	4,932,429
1997	4,755,884	586,718	100,651	0	5,443,253
1998	4,989,272	543,031	131,075	0	5,663,378
1999	5,319,370	643,912	153,540	0	6,116,822
2000	5,596,410	622,488	158,274	18,326	6,395,498
2001*	6,024,936	839,737	164,831	17,676	7,047,180
2002*	\$6,292,364	\$714,015	\$174,685	\$21,079	\$7,202,143
AAGR**	6.81%	9.63%	10.00%		7.13%

Fiscal Year	State Government Expenditures - Percent Change Each Year				
	Operations	Capital	Debt Service	Other	Total
1992	7.97%	9.33%	8.01%		8.07%
1993	8.41%	9.19%	-1.41%		8.17%
1994	7.83%	12.76%	37.92%		8.65%
1995	8.58%	-4.77%	21.08%		7.73%
1996	6.52%	5.86%	18.30%		6.78%
1997	6.87%	66.48%	-21.84%		10.36%
1998	4.91%	-7.45%	30.23%		4.04%
1999	6.62%	18.58%	17.14%		8.01%
2000	5.21%	-3.33%	3.08%		4.56%
2001*	7.66%	34.90%	4.14%		10.19%
2002*	4.44%	-14.97%	5.98%		2.20%

Fiscal Year	State Government Expenditures as a Percent of the Total				
	Operations	Capital	Debt Service	Other	Total
1991	90.29%	7.69%	1.81%	0.20%	100.00%
1992	90.21%	7.78%	1.81%	0.20%	100.00%
1993	90.40%	7.86%	1.65%	0.09%	100.00%
1994	89.72%	8.15%	2.10%	0.03%	100.00%
1995	90.43%	7.21%	2.36%	0.00%	100.00%
1996	90.22%	7.15%	2.61%	0.03%	100.00%
1997	87.37%	10.78%	1.85%	0.00%	100.00%
1998	88.10%	9.59%	2.31%	0.00%	100.00%
1999	86.96%	10.53%	2.51%	0.00%	100.00%
2000	87.51%	9.73%	2.47%	0.29%	100.00%
2001*	85.49%	11.92%	2.34%	0.25%	100.00%
2002*	87.37%	9.91%	2.43%	0.29%	100.00%

Fiscal Year	State Gov't Expenditures per \$1,000 of Personal Income***				
	Operations	Capital	Debt Service	Other	Total
1991	\$113.56	\$9.68	\$2.28	\$0.25	\$125.76
1992	114.40	9.87	2.30	0.25	126.82
1993	115.58	10.04	2.11	0.11	127.85
1994	115.66	10.51	2.70	0.04	128.91
1995	116.27	9.27	3.03	0.00	128.57
1996	114.64	9.08	3.32	0.03	127.07
1997	113.17	13.96	2.40	0.00	129.52
1998	110.24	12.00	2.90	0.00	125.13
1999	110.36	13.36	3.19	0.00	126.91
2000	108.71	12.09	3.07	0.36	124.23
2001*	109.90	15.32	3.01	0.32	128.54
2002*	\$108.69	\$12.33	\$3.02	\$0.36	\$124.40

* FY 2001 are authorized expenditures and FY 2002 are appropriated expenditures. All other years are actual state expenditures.

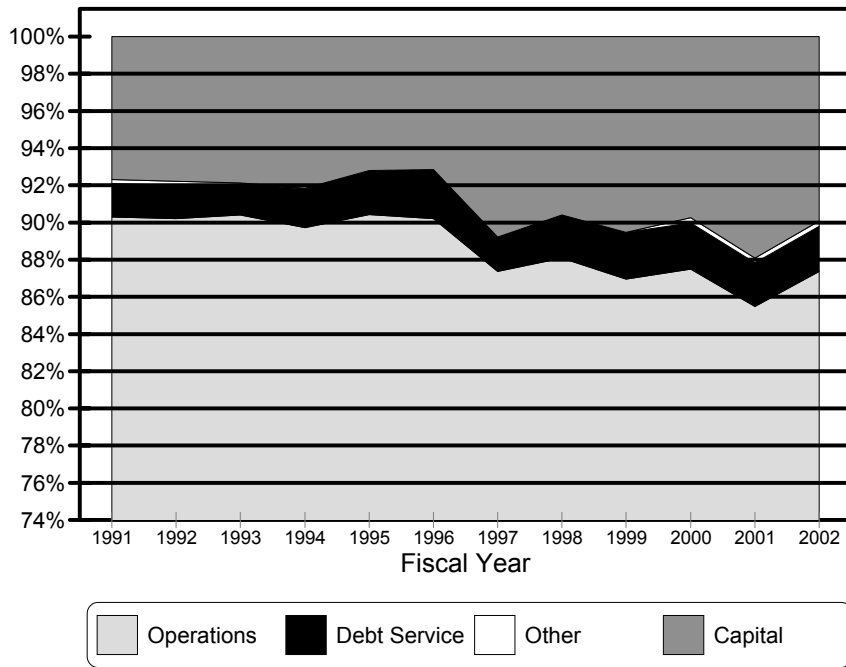
** AAGR - Average Annual Growth Rate for 11 years: FY1991 to FY2002.

*** Utah State Total Personal Income is a measure of the size of the Utah economy.

Source: Governor's Office of Planning & Budget and U.S. Bureau of Economic Analysis.

Figure 1

**Utah State Government Expenditures by Category
as a Percent of Total: FY 1991 to FY 2002**

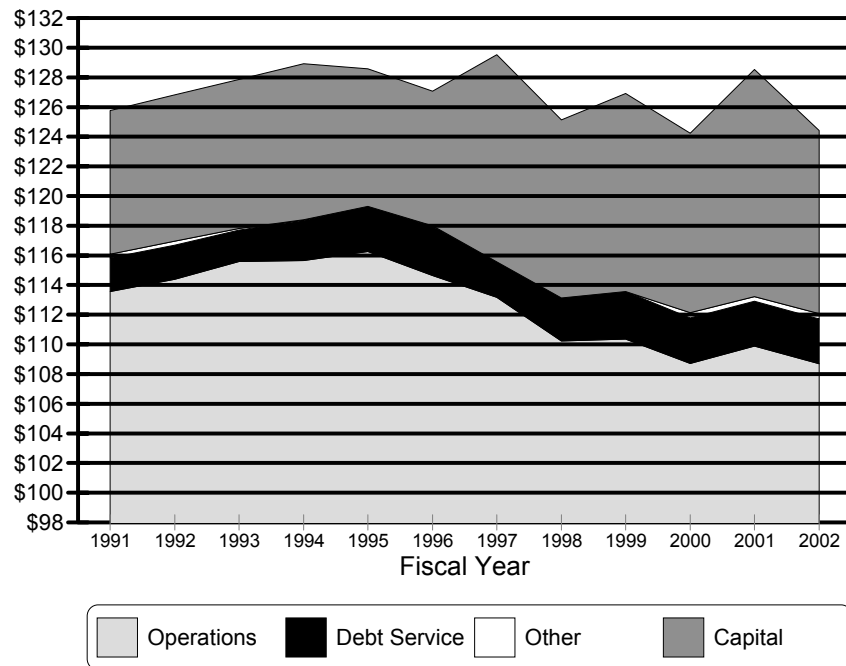


Note: FY 2001 are authorized expenditures & FY 2002 are appropriated expenditures.

Source: Governor's Office of Planning & Budget.

Figure 2

**Utah State Government Expenditures by Category per
\$1,000 of Utah Total Personal Income: FY 1991 to FY 2002**



Note: FY 2001 are authorized expenditures & FY 2002 are appropriated expenditures.

Source: Governor's Office of Planning & Budget and Bureau of Economic Analysis.

At the bottom of **Table 3** and in **Figure 2** are depicted state government expenditure relative to the size of the economy – as the amount of expenditures per \$1,000 of Total Personal Income (TPI). In recent years, there has been more emphasis on capital expenditures with the rebuild of I-15. Also, one-time revenues generated by the strong economy have been allocated to new buildings, particularly in the current fiscal year. Capital spending was \$9 to \$10 per \$1,000 of TPI in the early 1990's, now it is usually around \$12 to \$13.

Operations and Debt Service combined were as much as \$118 or \$119 per \$1,000 of TPI for FY 1994 and FY 1995. Now, Operations and Debt Service together are generally \$112 to \$113. Operations and Debt service give us the level of funding needed to maintain on-going expenditures. Even with the strong economy, strong revenue collections, and greater spending on education programs, the on-going requirements of the state budget have not increased relative to the size of the Utah economy.

Conclusion

The 2001 legislative session was dominated by education spending for both Public and Higher Education, and the problem of spending a large amount of one-time revenues. The Legislature struggles to identify and to spend one-time revenues because on the one hand they do not want on-going programs funded at unsustainable levels, and on the other hand if they cut tax rates based on strong revenues that are the result of non-repeating economic events, then future tax collections may not meet the revenue needs of state programs. Determining the appropriate state government fiscal policies can be as difficult (or even more so) in surplus years as it is in lean years.

Now that it appears that state tax collections may not reach the levels expected during the session, some anticipated expenditures will need to be reduced, deferred, or even canceled. Prudent steps to do this have been put in place under the direction of Governor Leavitt.