

# SPENDING YOUR TAX DOLLARS

## TWO DECADES OF UTAH TAX AND SPENDING TRENDS

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

This report updates the work previously done by Utah Foundation on state government growth. The analysis covers almost two decades-worth of Utah government budgets, illustrating which sectors have been budget priorities for the state as the economy, legislation, and state funding have changed. This, in turn, should help readers make their own judgments about whether funds are being spent on the programs Utah taxpayers need and want. The report also presents information on Utah’s state and local tax and fee burdens, and examines Utah’s business tax-to-benefit ratio.

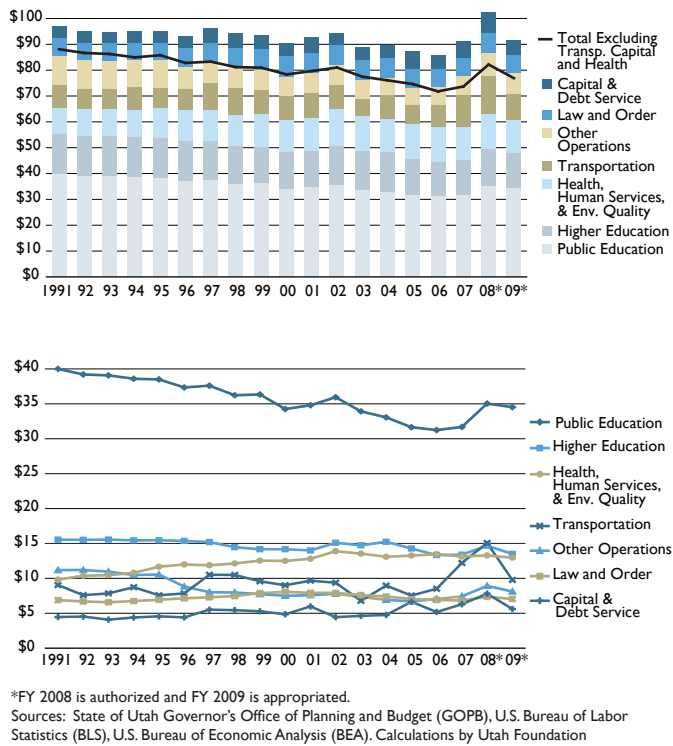
In order to understand how government expenditure growth compares to general economic growth, Utah Foundation calculated the ratio of government spending per \$1,000 of personal income. This is equivalent to stating government spending as a percent of personal income, and allows one to evaluate if state government is growing faster or slower than the ability of Utah residents to pay for it. If a state’s government expenditures grew just enough to keep up with growth in the economy, then growth in the ratio would be zero.

(excluding federal funds) relative to personal income generally fell from FY 1991 to FY 2006. However, this trend was reversed in FY 2007 and FY 2008 with a particularly strong surge of increased state spending. In FY 1991, \$97 of every \$1,000 of economic activity

in Utah paid for state government expenditures.<sup>1</sup> This number varied over the next 16 years, beginning a downward trend after FY 1997 and reaching a low of about \$86 in FY 2006. In FY 2008, the dollar amount per \$1,000 of personal income is expected to reach a high of about \$102, due to large increases in public education, capital spending and other non-operations spending.

In order to determine which factors have driven these changes in government expenditures, Utah Foundation divided total budgetary figures into seven major categories: Public Education; Health, Human Services, and Environmental Quality; Higher Education; Transportation; Other Operations; Law and Order; and Capital & Debt Service. In FY 2008, the dollar amount per \$1,000 of personal income is expected to reach a high of about \$102, due to large increases in public education, capital spending and other non-operations spending.

**Figure 1: State Expenditures per \$1,000 of Personal Income by Major Budget Category, FY 1991-2009**

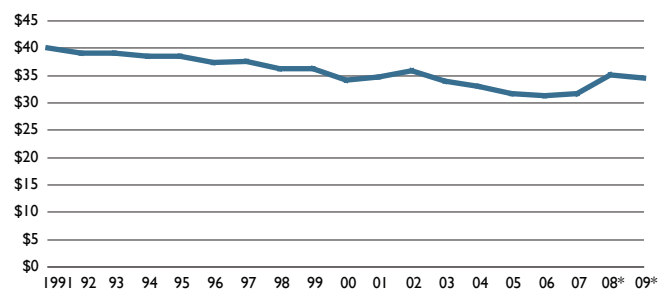


### UTAH’S GOVERNMENT EXPENDITURE GROWTH

Calculations based on budget data from the Governor’s Office of Planning and Budget (GOPB) show that state government spending

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**Figure 2: Utah State Government Public Education Expenditures per \$1,000 of Personal Income, FY 1991-2009**



\*FY 2008 is authorized and FY 2009 is appropriated.  
Sources: GOPB, BEA. Calculations by Utah Foundation.

adjusted categorization of divisions and departments so they reflect the organization in Utah's FY 2007 operating budgets. This ensures that departmental growth rates are an accurate reflection of actual growth instead of monies being transferred to another department as responsibilities and titles change under different administrations.

Examining each budgetary category over time shows how Utah's budgetary priorities change as demand for government services change. One can immediately see from Figure 1 that some budgetary categories received an increased portion of funding relative to economic activity over time. In order to determine what programs are influencing changes in total government expenditures, each of the seven budgetary categories are examined in detail. For instance, the analysis shows that the positive growth rates in Transportation and Health, Human Services, and Environmental Quality were primarily driven by Medicaid and Transportation Capital-related expenses.

### Public Education

Public Education is by far Utah's largest budgetary expense, accounting for \$35.04 per \$1,000 of personal income in FY 2008. This is lower than the level of spending per \$1,000 of personal income in FY 1991. While public education remained Utah's largest budgetary expense, there was a significant decline in public education spending per \$1,000 of personal income over most of the period. However, funding increases in the last two years have reversed this trend. Due to recent budgetary surpluses, public education expenditures are expected to increase from \$31.24 per \$1,000 of personal income in FY 2006 to \$35.04 in FY 2008. Between FY 2007 and FY 2008, public education programs received more than \$500 million in additional state funding.

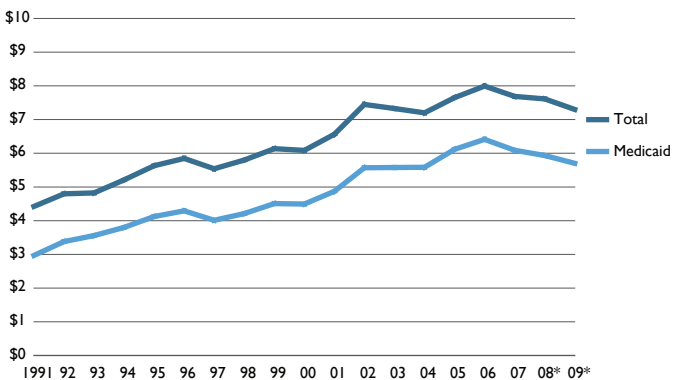
### Higher Education

Higher education is currently Utah's second-largest budgetary expense. While this category also experienced a downward trend in the amount of dollars spent relative to economic activity, the decline is not as dramatic as the reduction in public education spending. In FY 2008, Higher Education's expenditures per \$1,000 of personal income are expected to increase, mirroring the increase in public education.

### Health, Human Services, and Environmental Quality

The amount of dollars per \$1,000 of personal income spent in Health, Human Services, and Environmental Quality has increased over time. This increase is largely driven by increases in health-related spending, which grew much faster than the economy over the last two decades (see Figure 3). The vast majority of health-related expenses come from

**Figure 3: Utah State Health Expenditures per \$1,000 of Personal Income, FY 1991-2009**



\*FY 2008 is authorized and FY 2009 is appropriated.  
Sources: GOPB, BEA. Calculations by Utah Foundation.

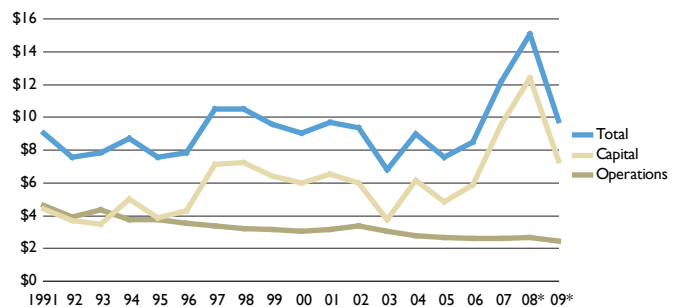
Utah's Medicaid program. In FY 1991, Medicaid made up slightly less than 70% of the state's total Health operating budget.<sup>2</sup> By FY 2005 this share had increased to 80%. While the amount of Medicaid spending per \$1,000 of personal income is expected to fall in FY 2008 and FY 2009, this reduction primarily reflects the decreasing growth in Utah Medicaid caseloads.<sup>3</sup>

All of the other health programs which compose the Health category experienced an upward trend in spending since FY 1991. Spending within the Children's Health Insurance Program is expected to grow the fastest—experiencing a 22% average annual growth rate between FY 2001 and FY 2009. Most of this growth has occurred in the last two years and is the result of Utah's effort to make health insurance available to uninsured children in Utah.<sup>4</sup>

### Transportation

Total transportation spending per \$1,000 of personal income has fluctuated more than any other category; however, these fluctuations are largely driven by changes in transportation capital spending. Between FY 1991 and FY 1996, operations and capital expenditures each made up about half of total Transportation expenditures. Starting in FY 1997, however, capital expenditures began to make up an increasing portion of the total. Transportation capital spending increased 63% between FY 2006 and FY 2007 and is expected to increase another 29% in FY 2008. The increased spending comes from significant one-time appropriations from the FY 2006 and FY 2007 budget surpluses.

**Figure 4: Utah State Government Transportation Expenditures per \$1,000 of Personal Income, FY 1991-2009**



\*FY 2008 is authorized and FY 2009 is appropriated.  
Sources: GOPB, BEA. Calculations by Utah Foundation.

## Law and Order

Law and Order spending per \$1,000 of personal income has remained relatively stable since FY 1991. Similar to other categories, there was a slight increase in spending between FY 2000 and FY 2002, which was most likely the result of increased security preparing for and during the 2002 Olympic Games. Over the last 16 years, the average annual growth rate in this ratio was -0.06%, meaning that Law and Order expenditures grew at close to the same rate as the economy.

## Other Operations

The Other Operations category includes the departments of Administrative Services, Commerce and Workforce Services, Economic Development and Revenue, Elected Officials, Legislature, and Natural Resources. Overall, this category has experienced a distinct downward trend in spending per \$1,000 of personal income from FY 1991 to FY 2007. This ratio is expected to increase 20% between FY 2007 and FY 2008, primarily due to increases in funding within the Department of Administrative Services and the Department of Economic Development and Revenue.

## Capital and Debt Service

The Capital and Debt Service category includes both non-transportation capital and debt service. The capital budget includes spending on the improvement of fixed assets, while the debt service budget includes spending which goes toward payments on all capital related general obligation and revenue bonds. The Capital and Debt Service category has experienced an upward trend in spending per \$1,000 of personal income between FY 1991 and FY 2007. The peaks in this category are primarily driven by changes in non-transportation capital expenditures. Non-Transportation Capital's ratio of spending to personal income is expected to grow almost 50% between FY 2007 and FY 2008.

## MAKING THE GRADE

Utah's stable financial management, especially in regard to capital spending and debt service, has helped the state government achieve one of the highest overall performance grades in the nation, according to the Pew Center's 2008 Government Performance Project. Part of Utah's stable financial situation comes from the fact that Utah's Legislative Fiscal Analyst tracks one-time revenues and expenditures against ongoing revenues and expenditures. Utah has also dedicated one-time revenues to capital investments during the past two years of budget surpluses, which will enable the state to maintain stable spending levels on operations if the economy should slow.<sup>5</sup>

## REVENUE

Historically, over 70% of Utah's funding comes from three funds: the General Fund, the Education Fund, and Federal Funds. The Education Fund is Utah's largest fund; this is because it comprises individual and corporate income taxes, which account for the largest share of state revenues. The second-largest revenue category in Utah is currently Federal Funds, and data from GOPB show Utah has relied on an increasing amount of federal funds to support state expenditures since FY 1991.

Utah's state collections of its major tax sources have been growing, in real (inflation-adjusted) terms, since FY 1991. Due to recent changes in the income tax system and the economy, it is interesting to examine

Figure 5: Utah's Tax and Fee Burdens

|                        | FY 2005  | National Rank | FY 2006  | National Rank |
|------------------------|----------|---------------|----------|---------------|
| Taxes & Fees           | \$160.08 | 5             | \$165.14 | 8             |
| Taxes & Mandatory Fees | 129.49   | 11            | 134.42   | 12            |
| All Taxes              | 111.33   | 20            | 116.42   | 15            |
| Individual Income Tax  | 29.37    | 17            | 32.01    | 15            |
| General Sales Tax      | 33.26    | 13            | 34.02    | 13            |
| Property Tax           | 27.32    | 38            | 26.38    | 40            |
| Corporate Income Tax   | 2.88     | 38            | 4.89     | 19            |
| Motor Fuel Tax         | 5.35     | 10            | 5.05     | 12            |
| All Fees               | 48.75    | 4             | 48.72    | 4             |
| Mandatory Fees         | 18.16    | 3             | 18.01    | 5             |
| Tuition & College      | 15.83    | 2             | 15.91    | 3             |
| Other Optional Fees    | 14.75    | 10            | 14.80    | 11            |

Sources: U.S. Census Bureau and Bureau of Economic Analysis. Calculations by Utah Foundation.

growth rates since FY 2006. The average annual real growth rate of state sales tax collections is projected to decline by 1.4% between FY 2006 and FY 2009, reflecting the reduction of the state sales tax on food and food ingredients. Individual income tax collections are expected to increase, while the corporate income tax is expected to fall. Motor fuel tax collections are budgeted to increase; however, with high gasoline prices affecting consumption in recent months, this revenue estimate will probably be reduced.

## UTAH'S TAX BURDEN

Current data from the Census Bureau show that between FY 2005 and FY 2006, Utah's overall burden of state and local taxes and mandatory fees increased by \$4.93 per \$1,000 of personal income to \$134.42. However, Utah's ranking in terms of state and local taxes and mandatory fees fell from 11th highest in the nation in FY 2005 to 12th highest in FY 2006.

The only tax burden that significantly increased between FY 2005 and FY 2006 was the corporate income tax. Utah's corporate income tax burden increased 70% between these two years. Interestingly, a 2007 study by Ernst & Young LLP and the Council on State Taxation (COST) shows Utah ranked first in the nation in terms of the lowest state and local business tax-to-benefit ratio in FY 2005, meaning that Utah's business tax burden was low compared to the benefits businesses realize from operating in the state.

## CONCLUSION

The recent history of Utah's government expenditures is most easily understood when broken into three different periods. In the early 1990s, operations and non-operations spending grew at a rate which was slightly slower than growth in the economy. Between FY 1996 and FY 2002, Utah's state expenditures grew faster than the economy. This increase in state expenditures was largely due to an increase in capital spending and debt service and reflects the rapid growth in the economy leading up to the national recession. States, like Utah, which impose a personal income tax often find that actual state revenues exceed budget estimates during economic upswings.

From FY 2002 to FY 2008, state government expenditure growth slowed relative to personal income at first, but surged in FY 2007 and FY 2008. The slowed growth occurred from the end of FY 2002 until FY 2006 and reflects Utah's recovery from national recession. The surge of government spending in FY 2007 and 2008 is partially due to Utah's recent economic boom and reflects a preference by Utah policymakers not to spend budget surpluses on ongoing operations in order to avoid over-committing the state budget when

the economy slows. Having a government which focuses on stable financial management smoothes Utah's transitions from economic booms to economic recessions.

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

**ENDNOTES**

- 1 This is equivalent to stating that state government spending was 97% of personal income.
- 2 Federal Funds excluded.
- 3 Governor's Office of Planning and Budget, State of Utah "Budget Summary: Fiscal Year 2009, Fiscal Year 2008 Supplementals," April 2008, <<http://governor.utah.gov/budget/Budget/Budget%20Summaries/Budget%20Summary%20Book%20FY%202009.pdf>> (18 May 2008).
- 4 Ibid.
- 5 The Pew Center on the States, Government Performance Project, "Grading the States 2008, Utah," February 2008, <[http://www.pewcenteronthestates.org/uploadedFiles/PEW\\_WebGuides\\_UT.pdf](http://www.pewcenteronthestates.org/uploadedFiles/PEW_WebGuides_UT.pdf)> (12 June 2008).

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