Balancing Utah’s Budget in Tough Financial Times

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A principle reason for Utah’s best-of-class triple-A bond rating, its nation-leading “A” grade from Governing Magazine, and its two consecutive years as “#1 economically competitive state” is our Legislature’s prudent approach to budgeting. Elected officials again applied this philosophy during the 2009 Legislative General Session. Working with the Governor, Utah lawmakers balanced the state’s budget, prepared for short-term economic challenges, and planned for future long-term growth.

Legislators resolved unprecedented revenue shortfalls over the course of extended legislative sessions that began in September. They ultimately closed a nearly $1 billion budget gap with a combination of General/Education Fund budget reductions ($470 million), revenue enhancement ($70 million), federal assistance ($390 million), and one-time fund balances. For FY 2010, lawmakers reduced state spending by about 9 percent on average. They held cuts in public education to 5.2 percent and higher education to just under 9 percent. Other areas of state government averaged 14% declines.

Half way through the 2009 General Session, the United States Congress passed House Resolution 1 "American Recovery and Reinvestment Act of 2009" (ARRA). In addition to some individual and business tax relief, the act allocated two types of funding assistance to states including Utah: 1) flexible fiscal stabilization and medical assistance funds; and 2) structured increases in existing federal programs. As noted above, Utah legislators used flexible one-time ARRA funds to minimize cuts for FY 2010 that, at one point, were targeted at 15 percent overall. An additional $1 billion in structured federal assistance will flow to Utah, benefitting highway and transit projects, low income school children, special education programs, and unemployed workers, among others.

While appropriators used one-time federal ARRA funds to soften the impact of state revenue declines, they also kept the state budget structurally balanced. At the beginning of FY 2011, ongoing spending authorization will match current ongoing revenue projections. State agencies, including public and higher education, will, therefore, have one-year to adjust to resource levels that will be, on average, 17% below what they thought they would have in FY 2010.

Not expecting that federal assistance will again be available in FY 2011, the Legislature preserved balances in the state’s two rainy day funds. Combined, the General and Education Budget Reserve Accounts now total nearly $414 million or 8.5% of FY 2010 ongoing appropriations. Similarly, appropriators did not touch $100 million that was set aside in the 2008 General Session for future education growth. These two sources are, therefore, available to bridge any future short-term gap.
create jobs. Over the next few years, Utah will bond for nearly $5.2 billion in roads and highways – $2.2 billion of that having been authorized in the 2009 General Session. The state will also borrow to build $115 million in new facilities, almost all of which will be on higher education campuses. Given Utah’s triple-A bond rating, short repayment periods, and historically low interest rates, policy makers believe that financing these projects will not only improve the state’s capital stock, but will also preserve much needed construction employment in the near term.

Looking forward, the Legislature and Governor Huntsman agreed to use more than $85 million in ARRA funding for economic development projects. Such projects include new home buyer incentives worth nearly $10 million in total; motion picture production incentives approaching $15 million; alternative energy production incentives of about $5 million; and $33 million for basic research done at our colleges and universities through the Utah Science, Technology, and Research (USTAR) program.

Given the fiscal challenges facing our state, our elected officials made the best of a difficult situation. By using all the tools available to them – spending reductions, modest revenue increases, and one-time stop-gap funding – legislators once again balanced our state budget. By matching ongoing revenue projections with future budget expectations and by preserving more than $500 million in reserves, they prepared for short-term economic challenges. Finally, through low-cost borrowing for infrastructure, economic incentives for individuals and businesses, and investment in basic research, policy makers planned for our future growth and prosperity.