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Revenue Estimating and Budgeting in Utah: A Primer

by Kevin G. Walthers, Ph.D.

Utah's state constitution prohibits the Utah Legislature from appropriating or authorizing any expenditure that "exceeds the total tax provided for by statute and applicable to the particular appropriation or expenditure."[1] This balanced budget requirement places a high priority on revenue estimating as the governor and legislature propose and approve budgets months in advance of the fiscal year.[2] Utah's Legislative Fiscal Analyst's Office, Governor's Office of Planning and Budget, and State Tax Commission collaborate on a Consensus Revenue Forecast. This multi-faceted approach "cultivates a strong capacity in revenue forecasting through a consensus process with the legislature that results in high accuracy."[3]

Estimating Revenue in the State Of Utah

Utah's consensus revenue process begins with a meeting of the Revenue Assumptions Committee (RAC), to determine the key factors that will drive Utah's economy and tax revenue. The RAC includes economists from the Governor's Office of Planning and budget, the Legislative Fiscal Analyst's Office, the Utah State Tax Commission, state agencies, and experts from academia and the private sector. "The major goal of this exercise is to form a consensus view of the near term outlook for economic growth to form expectations and inputs to the revenue forecast."[4] The RAC focuses on changes in more than fifty different indices spread across seven categories of indicators[5] to build a model for projecting changes to state revenue. While all indices are considered, the indicators that most directly impact the econometric model are wages, total construction value, new auto purchases, natural resource price and production, profits, personal income, employment and average wage growth.

Economists in the Legislative Fiscal Analyst's Office, Governor's Office of Planning and Budget, and State Tax Commission use the RAC economic indicators, among other data, in their independent econometric models to derive preliminary forecasts. As such, the final consensus estimate is a collaborative effort of the Executive and Legislative Branches.[6] In June and September the consensus revenue estimate provides an estimated range of collection. This range allows policymakers to begin establishing spending priorities for the upcoming year. As the table below shows (and as would be expected), the range estimate becomes more precise the closer they are issued to the end of a fiscal year.

Revenue Estimates - RAC "Range" Estimates for FY 2009 and FY 2010			
	General Fund	Education Fund	Transportation Fund
June Estimate (FY 2009)	+/- $10m	+/- $30m	On Target
September Estimate (FY 2010)	+ $30m to - $50m	+ $20m to - $100m	On Target
Source: Office of the Legislative Fiscal Analyst			

Within three months of the end of FY 2009, the Office of the Legislative Fiscal Analyst reported that the final revenue collections for the General Fund and Education fund were $23.46 million short of estimates (a variance of -0.51%) and the Transportation Fund produced a $5.82 million surplus (a variance of 1.43%).[7]

Utah has been historically sound in making revenue forecasts – this is likely the result of the combination of conservative estimating and a less politicized process that reaches across branches of government and includes experts from the private sector and academia. Since 1970, Utah averages under forecasting revenue by 2.5%. This means that mid-year adjustments are most likely to add funds to agency budgets or allow funding for new construction projects. During that same time the state has over forecast only four times (1974, 1996, 2001 and 2008).[8] These years are memorable not only because two of them occurred in this decade, but because over forecasting requires policy makers to re-open discussions on budget priorities, leading to unanticipated and difficult cuts to state programs. Even in years where forecasts show a decline in revenue (e.g., FY 2010), an accurate forecast limits the angst generated by further rounds of budget cuts and additional estimates to ensure expenditures stay within constitutionally prescribed limits.

Revenue Estimating and the Budget

The governor's budget development process begins in earnest in October, with final production of a recommendation following the November revenue estimates. The November consensus estimate is set at a "point" for use by the governor as a target for budget recommendations – this estimate becomes the "cap" on appropriations allowed for submission by the governor. The governor's budget must be submitted to the Legislative Fiscal Analyst no later than 30 days prior to the general session and publicly to the legislature within the first three days of the general session.[9]

As the governor is finalizing the Executive Branch Budget recommendation, the Legislature's Executive Appropriation Committee traditionally adopts the November consensus revenue estimate. Similar to the Executive Branch process, this formal adoption serves as a target for budget development by the Legislative Fiscal Analyst in preparation for the upcoming general session. Legislative staff prepares budgets for each of eleven appropriation subcommittees.[10] In conjunction with the adoption of revenue estimates, the Executive Appropriation Committee also allocates spending caps to the subcommittees. In recent years the legislature has begun to pass a "base budget" bill early in the session that authorizes the base budget for each state agency (generally this is approval of ongoing funds at the prior year's appropriation level). The "State Agency and Higher Education Base Budget"[11] bill establishes a starting point for subcommittee work in developing the new year budget.

Each appropriation subcommittee establishes priorities within their scope of oversight, meeting up to three times a week during the general session to develop spending priorities. Even with the new base budget process, subcommittees have the most influence over base budgets. Changes within the base budget approved by the subcommittee are generally accepted without discussion at the Executive Appropriation Committee level. Adjustments to the base budget are made within the appropriations act, passed in the last week of the session.

The process of prioritizing requests and analyzing base budgets is done in anticipation of the second "point estimate" that is released in mid-February. The February estimate serves as the final estimate of revenue for the general session. As the final estimate, the February revenue adoption allows the legislature to adjust current year budgets (adding one-time funds in good years, making cuts in years with revenue shortfalls). From the time the February estimate is adopted, there is generally less than three weeks left for the legislature to finalize budgets. Over that time frame, the legislature passes five additional appropriation acts:

- Minimum School Program (MSP) Budget Amendments[12]
- Current Year Minimum School Program Amendments
- Current Fiscal Year Supplemental Appropriations
- New Fiscal Year Appropriation Act
- Appropriation Adjustments

The appropriation acts can be defined in three ways. The "current year" appropriations make changes in budgets that go into effect prior to the end of the fiscal year on June 30. The "new fiscal year" and MSP amendments set the budget beginning on July 1. "Appropriation Adjustments" are individual appropriations for projects. This legislation is referred to as the "Bill of Bills" - it is essentially a list of funding items that identifies recipients of expenditure and sources of funding for any passed bill that requires an appropriation upon enactment.

As the state begins to move forward with the FY 2011 appropriation process, more interest is being placed on the process of estimating revenue and making appropriations. The state saw combined General Fund and Education Fund revenues fall about $750 million between FY 2007 and FY 2009. February estimates forecast an additional reduction in revenue of $195 million for FY 2010, the current fiscal year (the forecast will be updated for the Governor's FY 2011 Budget).

CONSENSUS FEBRUARY 2009 REVENUE ESTIMATES

(Thousands of Dollars)

								CONSENSUS		
	FY07 Year-End	FY08 Year-End	Change	Percent Change	FY09 Year-End	Change	Percent Change	FY10 Estimate	Change	Percent Change
General Fund (GF)	2,291,022	2,165,082	(125,939)	(5.5)	1,934,619	(230,463)	(10.6)	1,833,648	(100,971)	(5.2)
Education Fund (EF)	3,016,771	3,047,818	31,047	1.0	2,626,801	(421,017)	(13.8)	2,532,513	(94,289)	(3.6)
Subtotal GF/EF	5,307,793	5,212,900	(94,893)	(1.8)	4,561,420	(651,480)	(12.5)	4,366,161	(195,259)	(4.3)
Transportation Fund (TF)	444,594	443,970	(624)	-0.1	408,147	(35,823)	(8.1)	411,474	3,327	0.8
Subtotal GF/EF/TF	5,752,387	5,656,870	(95,517)	(1.7)	4,969,567	(687,304)	(12.1)	4,777,635	(191,932)	(3.9)
Mineral Lease (ML)	160,854	150,324	(10,530)	-6.5	185,800	35,476	23.6	122,810	(62,990)	(33.9)
Total GF/EF/TF/ML	5,913,241	5,807,194	(106,047)	(1.8)	5,155,367	(651,828)	(11.2)	4,900,445	(254,922)	(4.9)

Source: Governor's Office of Planning and Budget

“Like most other states, Utah used flexible funds provided in the American Recovery and Reinvestment Act of 2009 (ARRA) [13] in balancing its FY 2009 and FY 2010 budgets.”[14] State agencies, public education, the Judicial Branch and higher education face additional cuts with further reductions to revenue estimates expected in November.[15] State entities are bracing for cuts ranging from 10 to 15% of FY 2010 levels – the combination of the loss of one-time federal funds with the slow recovery create a sense of pessimism that the state will see increasing revenue of any significance until FY 2012 at the earliest.

Conclusion

Those interested in the adjustment to the current base budget and the development of the FY 2011 budget should pay attention to key events and decisions as policymakers set their priorities. Among things to watch for:

- How drastically will November 2009 point estimate be revised from the February 2009 point estimate?
- How drastically will February 2010 point estimate be revised from the November 2009 point estimate?
- Will new factors be included in the estimates?[16]
- To what extent will revenue be available to replace federal ARRA funds?
- How much of the state’s “Rainy Day” fund will policy makers be willing to use to fill budget holes?
- Will the recovery bottom out and show signs of improvement in time to impact the February “point estimate”?

Note: Kevin Walthers is the Vice Chancellor for Administration for the West Virginia Higher Education Policy Commission and West Virginia Community and Technical College System. He spent 14 years in Utah, serving as a member of the Legislative Fiscal Analyst’s Office, an Associate Commissioner for the State Board of Regents and as a Vice President at the College of Eastern Utah. Special thanks to Juliette Tennert and David Stringfellow of the Governor’s Office of Planning and Budget and Andrea Wilko of the Legislative Fiscal Analyst’s Office for their efforts to review and improve this document.

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[1] Utah Constitution, Article XIII, Section 5.

[2] Utah’s fiscal year spans July 1 to June 30 of the following year (UCA 51-7-3.5)

[3] Hou, Yinlin (2007). Putting Money Where the Need Is: Managing the finances of state and local governments. In Ingrahm, Patricia W. (ed.): *In pursuit of performance: management systems in state and local government.* Baltimore: The Johns Hopkins University Press, p.43.

[4] Stringfellow, David S. (April 2009). How a Revenue Forecast Impacts a State Government Budget: A case study of the State of Utah, p. 11 Unpublished Master’s Project, in press for publication through the Governor’s Office of Planning and Budget.

[5] The full list if indices and indicators can be accessed here: http://www.governor.utah.gov/dea/forecasts/econind.pdf

[6] Nixon, John. (May 20, 2008). Balancing Resources and Results. Presentation to the Pew Center on the States. Accessed October 22, 2009 from http://www.pewcenteronthestates.org/uploadedFiles/Balancing-Resources-and-results.pdf.

[7] Office of the Legislative Fiscal Analyst (September 15, 2009). Revenue Update, p. 8. Accessed October 22, 2009 from http://le.utah.gov/interim/2009/pdf/00001156.pdf.

[8] Stringfellow, David S. (April 2009). How a Revenue Forecast Impacts a State Government Budget: A case study of the State of Utah, p. 17. Unpublished Master’s Project, in press for publication through the Governor’s Office of Planning and Budget.

[9] UCA 63J-201-1. Although the Budgetary Procedures Act allows the governor to deliver a “confidential” copy to the Legislative Fiscal Analyst, recent practice of Utah Governors has been to release the full budget publicly within the 30 day window.

[10] For a list of appropriation subcommittees, see this link: http://www.le.utah.gov/asp/interim/Main.asp?ComType=App&List=2#Results.

[11] See: http://le.utah.gov/~2009/htmdoc/hbillhtm/hb0001.htm

[12] The Minimum School Program is the appropriation act that funds the state system of public education. Other appropriation acts fund state agencies, the judicial branch and higher education.

[13] For more information on how funds from the American Recovery and Reinvestment Act is being applied in Utah, see http://www.recovery.utah.gov/.

[14] Office of the Legislative Fiscal Analyst (August 18, 2009). Executive Summary of 2009-2010 Appropriations Report, p. 6. Accessed October 22, 2009 from http://le.utah.gov/interim/2009/pdf/00001015.pdf.

[15] Office of the Legislative Fiscal Analyst (September 15, 2009). Revenue Update. Accessed October 22, 2009 from http://le.utah.gov/interim/2009/pdf/00001156.pdf.

[16] The report cited above notes that the generally positive fact that savings rates are increasing has the ironic impact of reducing sales tax collection.

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