

Utah: Strategic Investments in the Wake of a Pandemic

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Abstract

Threatening economic impacts from the COVID-19 pandemic on Utah's economy proved to be short-lived, due in part to early budget cuts, federal economic relief, and an expanding economy that out-performed expectations. Subsequently, FY22 provided the Utah Legislature opportunities to invest in education, infrastructure, and social services. Legislators also used this opportunity to cut taxes for veterans, the elderly population, and families. As the state's population continues to grow at record rates, Utah decisionmakers must grapple with rising housing prices and record-high rental rates. This report highlights specific challenges and opportunities Utah faced through negotiating a record-high budget of \$25.6 billion and provides an overview of Utah's economy and changing demographic makeup.

Introduction

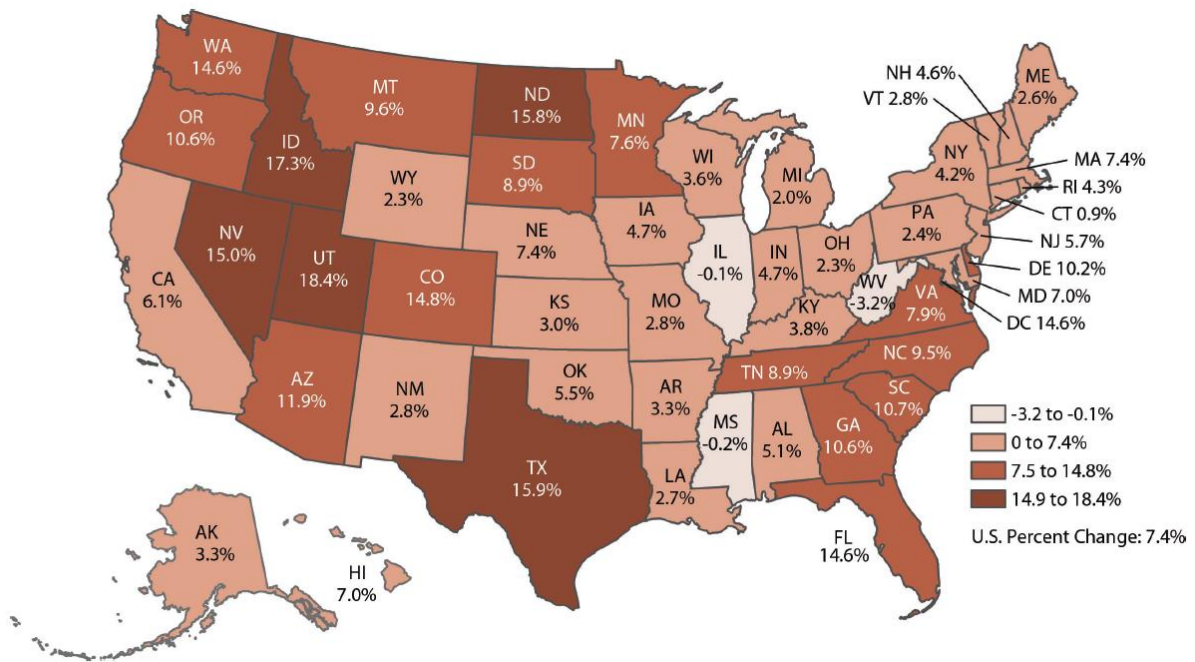
As with many states, Utah's fiscal year (FY) 2021-2022 budget is a rags-to-riches tale. Through two legislative general sessions and five special sessions, the state's finances went from three-quarters of a billion dollars in deficit to more than two billion dollars in surplus on an approximately \$8 billion base. While much of the unexpected turn-around related to federal economic intervention, as was the case in the Great Recession, Utah had balanced its budget before Washington, D.C. sent bail-out checks. This offered Utah a unique opportunity to invest strategically in long-term projects.

Overview of Utah's Demographics and Economy

A Growing Population

Utah is the fastest growing state in the nation, reaching a total population of 3,343,552 on July 1, 2021 (Harris, 2021). Between 2010 and 2020, the state grew at 18.4%, the highest growth rate in the nation, followed by another western state—Idaho. The U.S. average growth rate during the same period was 7.4%, making Utah's growth 2.5 times larger.

Figure 1: U.S. Population Change, 2010-2020

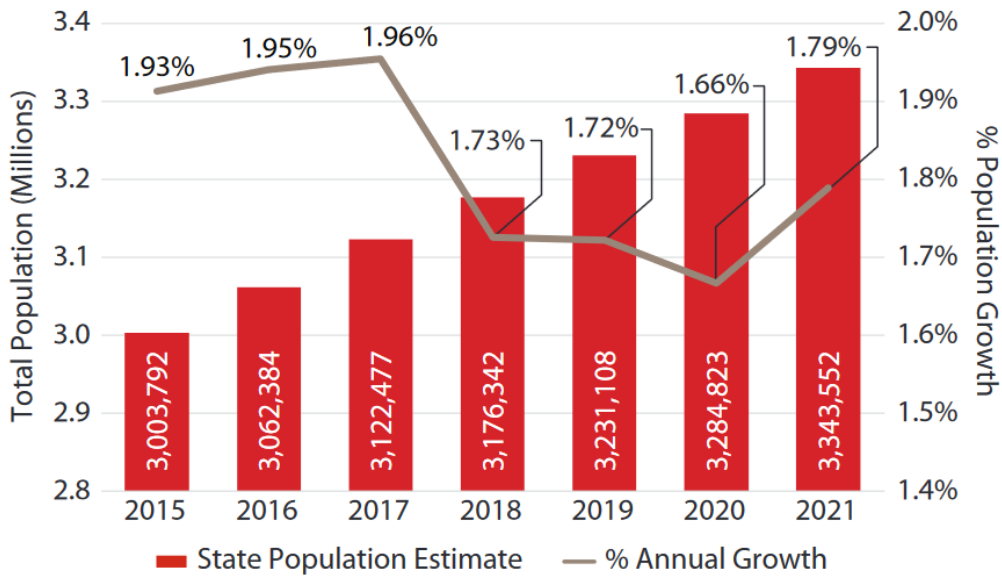


Source: 2020 Apportionment Data, US Census Bureau

Utah's population growth is attributed to both in-migration and natural increase. Indeed, natural increase has been the driver of population growth in the state for the prior decades. This shifted during the COVID-19 period. While Utah's population continued to experience growth during the COVID-19 pandemic, it was fostered by in-migration. Net migration was the main contributor to Utah's population growth (59%). "This is partially due to natural increase's sharp decline from the wave of COVID-19 related deaths" (Harris, 2021).

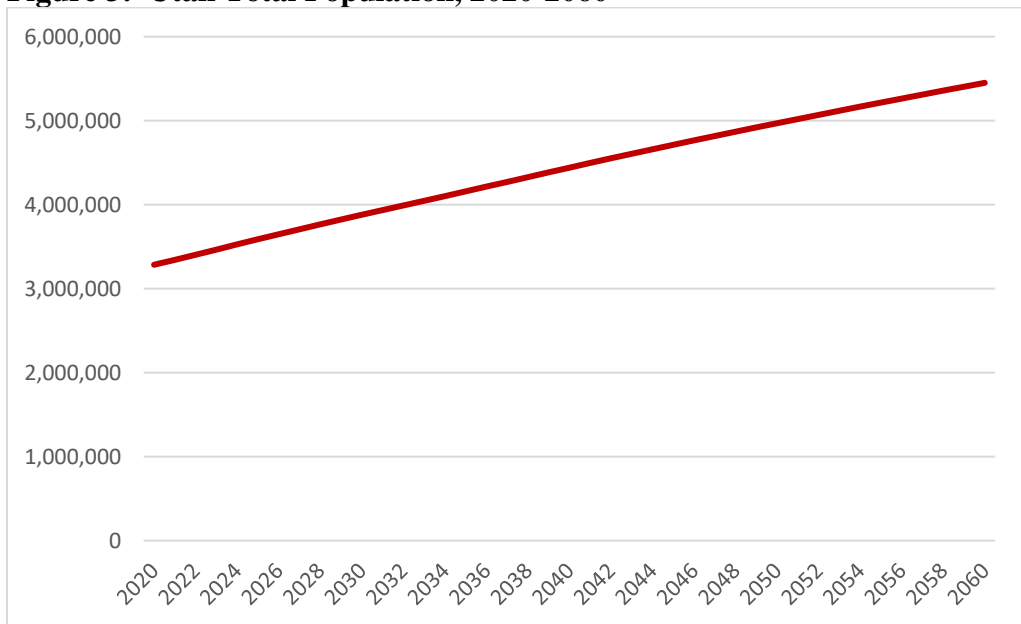
The state's population is projected to continue its fast growth for the coming decades. The latest projections indicate that the population will reach 5.45 million by 2060.

Figure 2: Utah’s Population and Annual Growth Rates, 2015–2021



Source: Utah Population Committee, Kem C. Gardner Policy Institute (2015-2021)

Figure 3: Utah Total Population, 2020-2060

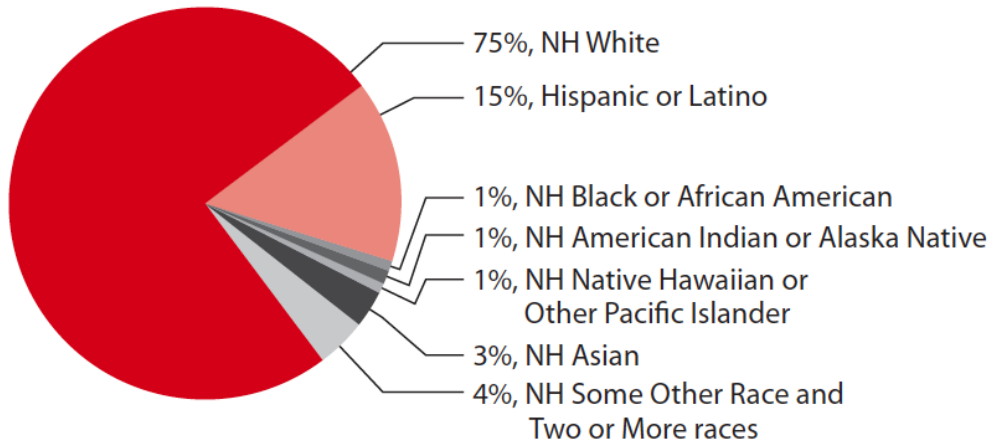


Source: Kem C. Gardner Policy Institute

Utah’s population is not only growing larger; it is also becoming more diverse. Utah ranks as the 34th most racially and ethnically diverse state in the country with 25% of Utah’s population

identifying as a racial or ethnic minority. The Hispanic or Latino population comprises the largest minority group (15%) followed by Not Hispanic, Some Other Race and Two or More Races, Asian, and Black or African American, American Indian or Alaskan Native, and Native Hawaiian or Other Pacific Islander. The state's minority population is projected to increase to 35% by 2060, following the U.S. trend for growth (Diversity in Utah Data Book, 2021).

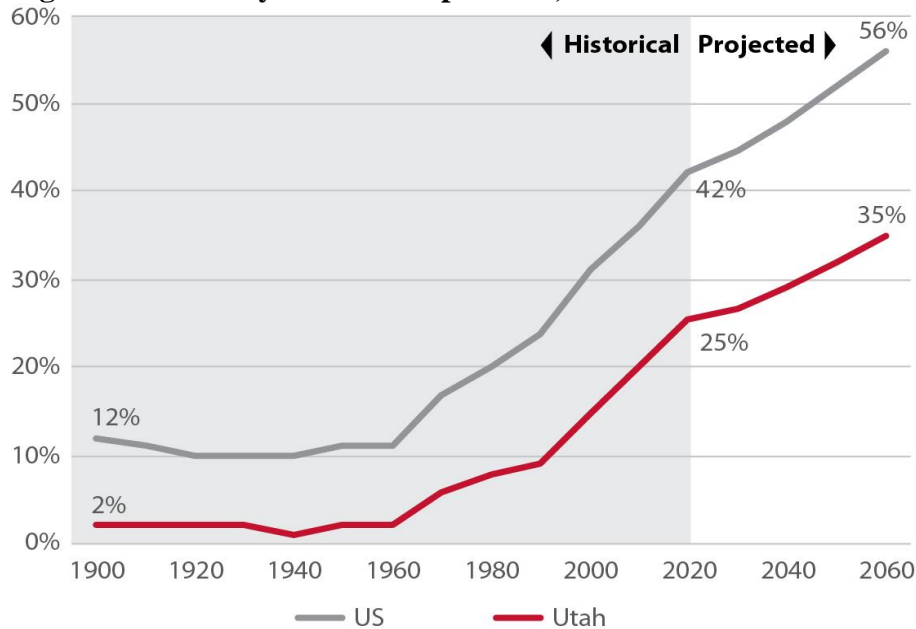
Figure 4: Share of Utah Population by Race or Hispanic/Latino Origin, 2020



Note: NH means Not Hispanic or Latino

Source: 2020 Census State Redistricting Data (Public Law 94-171) Summary Files, U.S. Census Bureau

Figure 5: Minority Share of Population, Utah and U.S.



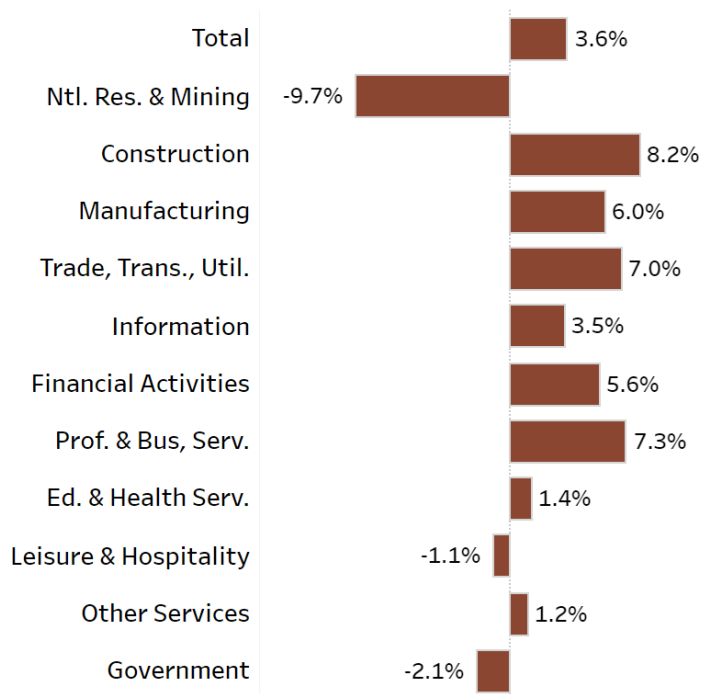
Source: U.S. Census Bureau and Kem C. Gardner Policy Institute

A Strong Economy

Despite the damaging economic impacts of the COVID-19 pandemic, Utah's economy flourished in 2021. Utah's unemployment rate was the second lowest in the nation, and its rate of economic diversity remains among the highest. However, not every population group experiences economic prosperity to the same extent. Disparities still exist between men and women and across racial and ethnic groups.

After spiking at 10.1%, Utah's unemployment rate has decreased to historic lows (2.1%). The national unemployment rate is 4.2%, more than twice the rate in Utah. Natural resources and mining, leisure and hospitality, and government are the main industries that have seen a net decrease in jobs in the last two years. Job growth in the construction industry continues to increase at the greatest rate compared to Utah's other major industries (Utah Economic Dashboard, 2020).

Figure 6: Utah Job Change by Industry, November 2021
Two-Year Change



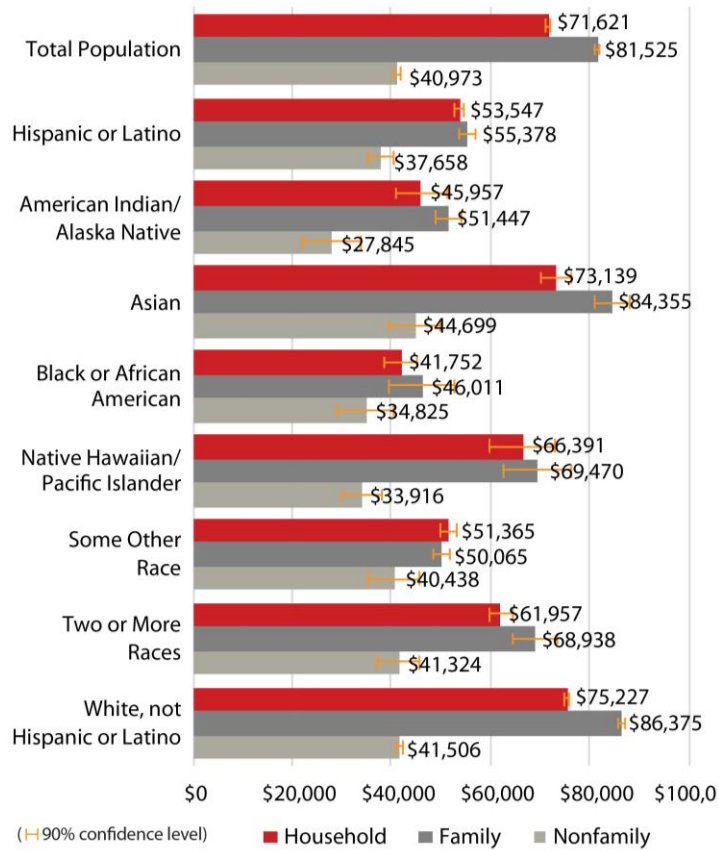
Source: U.S. Bureau of Labor Statistics (not seasonally adjusted)

Economic Disparities

Regardless of the strong economy Utah has experienced in recent years, disparities between men and women and across the racial and ethnic groups exist. The median household income for

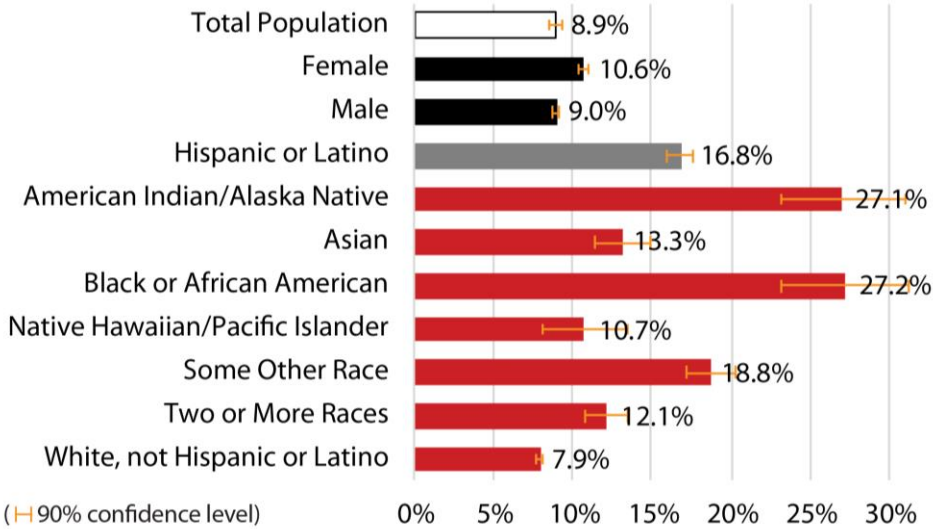
Utahns was \$71,621 in 2019. However, for several minority groups, the median household income was significantly lower (see Figure 7). Black or African American households had the lowest median household income (\$41,752), while White households had the highest (\$75,227), followed closely by Asian households (\$73,139) (Diversity in Utah Data Book, 2021). Poverty levels also differ across racial and ethnic groups. About 9% of Utahns lived in poverty in 2019, but that rate is much higher for Black and American Indian/Alaskan Natives (27%). Also, Utah women are more likely to be in poverty than men. Focusing on reducing poverty, particularly the disparities experienced by specific racial and ethnic groups, will be important in Utah's growth in the coming years.

Figure 7: Median Household Income in Utah by Race and Ethnicity, 2015-2019
(2019 Dollars)



Source: U.S. Census Bureau, 2015-2019 5-Year American Community Survey Estimates

Figure 8: Utah Population in Poverty by Race, Ethnicity, and Sex, 2015-2019



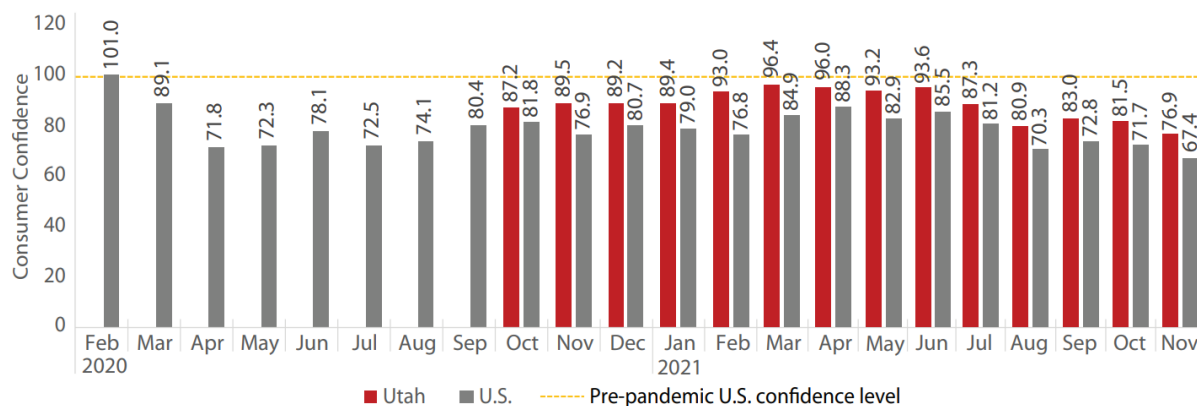
Source: U.S. Census Bureau, 2015-2019 5-Year American Community Survey Estimates

Consumer Confidence

Consumers’ economic decisions are generally determined by their confidence in the economy. When confidence in the economy is strong, consumer confidence generally increases with consumer spending. However, when confidence diminishes, consumers are less certain about their financial status and begin to spend less money. To assist Utah policy makers and business leaders, the Kem C. Gardner Policy Institute began a consumer confidence survey in fall 2020. The survey uses five key questions from the University of Michigan’s 80-year-old Surveys of Consumers including current family financial situation relative to one year ago, expected future change in family financial situation, business conditions expected during the following year, business conditions expected over the next five years, and current buying conditions for large household goods. This monthly index, based on a survey of 400 Utahns, provides a measure of the general optimism or pessimism of the state’s consumers and can indicate the economy’s strength.

The results show that Utahn’s confidence in the economy is stronger than Americans as a whole. However, confidence for both Utahns and Americans has been in decline in recent months. Utah’s consumer sentiment fell in November, according to the Kem C. Gardner Institute’s Utah Consumer Confidence Survey. The University of Michigan measured a similar decline among Americans as a whole. For the U.S. as a whole, sentiment was 62.3% in November 2021, compared to 68.5% in October. Additionally, in November, only 28% of Utahns thought it was a good time to buy durable goods, down from 31% in October and 44% in March of this year. *“Utah consumers continue to feel the impact of the long arm of COVID,”* says Juliette Tennert, former chief economist for the Gardner Institute. *“Supply chain disruptions, inflation worries, and uncertainty about the virus continue to mute consumer confidence, even as the Utah economy leads the nation in job creation”* (Utah Consumer Confidence Survey, 2021).

Figure 9: Consumer Confidence, Utah and U.S.



Source: Kem C. Gardner Policy Institute and University of Michigan

Utah's Budget Process and the Governor's Budget Recommendations

Utah's fiscal year runs from July 1 through June 30 of each year. A necessary part of the budget process is forecasting the revenue that will be available for the upcoming fiscal year. That forecasting is done jointly by the Governor's Office of Planning and Budget, the Legislative Fiscal Analyst's Office, and the Utah Tax Commission. In November of each year, these offices revise the state's revenue forecast and develop a new consensus revenue forecast for the upcoming fiscal year.

The Governor's budget recommendations are based on this forecast and the input and requests from state agencies. Budget requests from agencies take into consideration costs associated with population growth, inflationary increases, and federal mandates. The Governor's budget recommendations are summarized in the *Governor's Budget Recommendation Book* and provided to the Legislature 30 days prior to the general session (Utah's Budget Process, 2021).

Governor Cox's FY22 budget included major investments in education, infrastructure, and a tax decrease. The \$21.7 billion budget also included \$250 million to assist the state's public health partners, households, businesses and schools affected by the coronavirus. Education investments included \$125 million for an upskilling initiative focused on helping those out of work or needing a better job and \$112 million for educator bonuses. Transportation investments included \$350 million to double-track FrontRunner (a high-speed rail line), \$50 million to improve transportation in the Wasatch canyons, \$125 million for open space and trails, and \$125 million for rural infrastructure including expanding broadband access. The recommended budget also included an \$80 million tax cut that included a social security tax credit for low- and middle-income seniors and an increase in the state's existing tax credit for dependents to mitigate impacts from federal tax law changes in recent years (Budget Recommendations, 2022).

The 2021 Legislative Session

Utah has a unique 45-day general legislative session, typically extending from the middle of January to the beginning of March. As one of the shortest sessions in the nation, the part-time legislature must act quickly to pass important bills and budgets. Utah's Legislature is also bicameral, meaning it has a two-chamber legislative body with a House of Representatives and a Senate. Both chambers are dominated by Republicans, with only 6 of the 29 members of the Senate being Democrats and only 17 of the 75 members of the House of Representatives serving as Democrats (Legislators by Year, 2022). Furthermore, all statewide elected officials, including the governor, treasurer, attorney general, and auditor, are Republicans. Religion also plays a major role in Utah's legislature—about 86% of legislators during the 2021 legislative session are members of the Church of Jesus Christ of Latter-Day Saints. This has major political ramifications in Utah's policymaking process as these legislators predominantly have conservative political philosophies.

A New Governor and New Legislators

Elected in November of 2020, Governor Spencer Cox experienced his first legislative session as governor in 2021. Previously, he served as Lt. Governor under Utah's previous governor, Gary

Herbert. He set out with ambitious goals—his roadmap for the first 500 days focused on advancing Utah’s growing economy, innovating and investing in education, addressing needs in rural Utah, improving health and health security, ensuring equality and opportunity, and streamlining and modernizing state government (One Utah Roadmap, 2021). Utah’s legislature also welcomed several new members of the House and Senate in the 2021 session, an 18% turnover (Legislators by Year, 2022). New legislators and a new governor brought fresh eyes to a unique session.

A COVID-19 Session

The 2021 General Legislative Session posed unique challenges to everyone involved due to the continued effects of COVID-19. While legislators and staffers still met in person, the public was limited in certain settings and at certain times during the session. This challenge also created unique avenues for more people to get involved. Due to limited capacity available in committee meeting rooms, the public was invited to attend and comment virtually. Many Utah residents who live hours away from the Capitol were heard for the first time regarding key issues. Originally, plexiglass barriers were set up to ensure the safety of legislators throughout the session. Masks were also the norm, as well as daily testing for everyone in regular attendance on Utah’s Capitol Hill. Outbreaks were fortunately held to a minimum, and the session was able to continue without many COVID-19 related disruptions (Winslow, 2021).

A Session of Compromise and Lots of Cash

As relayed above, Governor Cox headed into the 2021 General Legislative Session with ambitious goals. The Legislature had goals of their own, and both branches set out to allocate Utah’s funds with a heavy focus on education, infrastructure, economic development, homelessness, and the creation and maintenance of several state parks (Rodgers, 2021). Legislators also proposed and passed two bills that cut taxes for both the elderly and veterans.

Legislators slashed almost \$1 billion from the 2020 budget during special sessions, but Utah fared much better during the pandemic than state leaders had anticipated. Additional funds from the federal government also increased the revenue the state was able to allocate for various needs, particularly education. This freed up large amounts of revenue for use during the 2021 General Legislative Session. Speaker of the House Brad Wilson, referring to the budgeting process in 2021, informed reporters, *“This is probably the smoothest budgeting process I’ve seen in my nearly decade of doing budget negotiations with the Senate”* (Schott, 2021).

The governor and Legislature were both eager to add more funding to education. As a unanimous decision across party lines, additional education funding was provided to cover the expenses of increasing enrollment and to account for inflation. Teachers were also provided generous bonuses for their dedication and resilience throughout the COVID-19 pandemic. Lawmakers also dedicated significant funding to the construction of new buildings at Utah’s institutions of higher learning. One of the largest ticket items from the general session was a transportation bill that strategically invested in the future and addressed current infrastructure problems across the state. This bill passed unanimously. The income tax cut for social security recipients also passed unanimously in both chambers. The income tax cut for veterans passed

with minor pushback as 2 of the 17 Democrats in the House voted against it. It passed in the Senate unanimously (McKellar, 2021).

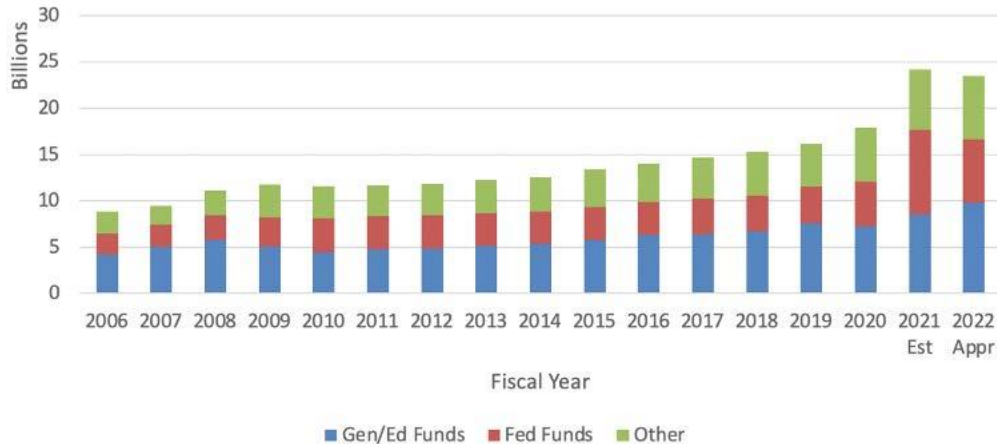
Hot Button Issues

Although there was much compromise between the House and Senate with the governor, during the 2021 Session, the 45-days was not without conflict. Not surprisingly, some of this conflict surrounded the continuing pandemic and the state's response. The Legislature passed SB195 that limits the powers of both the executive branch and local health departments to address public health emergencies, such as COVID-19 (Utah Legislature, 2021). The bill limits the time periods for public health orders, allows both the Legislature and local legislative bodies (i.e. county councils and commissions) to terminate health orders enacted by local health departments, and limits the governor's emergency powers during long-term emergencies in the state. The bill was signed by the governor. Much debate also surrounded HB302, which would have prohibited transgender girls from participating in K-12 sports (Utah Legislature, 2021). The bill drew enormous amounts of attention, and committee rooms were overflowing with both supporting and opposing voices. Some in the business community were concerned that the bill would further damage Utah's reputation, noting that, *"It makes it really hard to protect Utah's reputation on a national and international stage when we propose divisive legislation like this"* (Franchi, 2021). The bill died in committee, a decision praised by Equality Utah. *"I am happy for our kids. It's tough for kids to be excluded. It's hard for transgender youth already because they have to go through hate and separation,"* said Sue Robbins of Equality Utah. *"For us to put more of that on them is unthinkable to me. Tonight, we are more inclusive. We are a state that supports transgender youth"* (Franchi, 2021).

Utah's FY22 Budget

Utah's budget for FY 2022 topped \$25 billion (+5.6%) from all sources. Nearly \$10 billion (+14.9%) of that is from the tax-backed General and Education funds. Of the total amount, \$434 million in appropriations came from federal government stimulus grants. That was in addition to \$1.9 billion in stimulus funds included in the prior year's state budget. Federal funds will account for 38% of Utah's budget in FY 2022, up from 28% only two years earlier (Office of the Legislative Fiscal Analyst, 2021, 1-3).

Figure 10: Utah’s Budget History, 2006-2022



Source: Office of the Legislative Fiscal Analyst

Federal Stimulus

Utah received more than \$2.2 billion in flexible grants from the federal government’s two largest stimulus bills—the Coronavirus Aid, Relief, and Economic Security Act (CARES) and the American Rescue Plan Act (ARPA). CARES included \$687.5 million in Coronavirus Relief funds—much of which was spent in fiscal year 2021. The much larger ARPA sent \$1.5 billion in State Fiscal Stabilization and capital investment funds to Utah for allocation over four fiscal years. Utah’s legislature authorized expenditure of \$571 million from ARPA during its 2021 First Special Session. These grants are in addition to extensive public health, unemployment, and disaster relief funds administered by Utah on behalf of the federal government over the past two fiscal years (Office of the Legislative Fiscal Analyst, 2021, 3).

FY22 Budget Highlights

Tax Reductions

After a failed attempt at sales and income tax reform in 2019, legislators still had set-aside in the 2021 General Session \$100 million for tax reductions. They allocated this set-aside for three broad tax reductions. The first included an income tax break for military pensions and reduced retired veterans’ tax liability by \$24.6 million statewide. The second included a tax credit on social security income, which saves individuals receiving social security benefits \$18.3 million in state taxes. The largest of these income tax breaks increased the amount of what’s called the “Utah Dependent Exemption,” reducing tax liability for families by \$54.9 million per year (Office of the Legislative Fiscal Analyst, 2021, 1-6).

Infrastructure and Recreation

Utah legislators invested much of their unexpected state tax windfall in infrastructure. For the first time in nearly two decades, they appropriated state general funds directly to roads, transit,

and non-motorized trails. They approved nearly \$1.1 billion in new spending, including \$870 million in cash, and \$232 million in bonding. Among their priorities were \$733 million for roads, \$334 million for transit, and \$35 million for trails. In addition to transportation, legislators spent \$343 million for new buildings including those on higher education campuses and a new facility at the state capitol. Finally, appropriators provided \$36.5 million for two new state parks (Office of the Legislative Fiscal Analyst, 2021, 1-4).

Public Education

A constitutional amendment passed by Utah voters in 2020 allowed the state legislature to spend income tax revenue—previously reserved for higher and public education—on programs for children and those with a disability. In exchange for this flexibility, policymakers passed legislation guaranteeing budget increases for inflation and enrollment growth even in a recession. They implemented a “working rainy-day fund” setting aside ongoing revenue growth for future increases (Office of the Legislative Fiscal Analyst, 2021).

Appropriators also made significant investments in Public Education the first year after the amendment’s passage. They allocated \$200 million for a nearly 6% increase in the weighted pupil unit—Utah’s basic school increment. Budget writers also provided \$121 million for bonuses of \$1,500 per teacher and \$1,000 for non-instructors. They put \$127 million ongoing into the Public Education Economic Stabilization Fund for use in future down-turns. Finally, they approved \$27.3 million ongoing and \$48.3 million one-time for school enrollment growth (Office of the Legislative Fiscal Analyst, 2021, 1-4).

Higher Education

With most of the attention on federal spending, infrastructure, and public education, many budget watchers may have missed an historic year for higher education spending in Utah. The state’s eight degree granting institutions and eight technology colleges collectively received a 9.3% increase in operating budgets compared to their ongoing base. That additional \$113.5 million included \$20.5 million for performance-based funding, \$6 million for tech college capacity, and \$2.5 million for advising and counseling. On top of these operating funds, legislators restored \$188.2 million in one-time funding for five new buildings on college campuses (Office of the Legislative Fiscal Analyst, 2021, 1-4).

Social Services

Utah legislators continued their habit of recognizing and funding long-term commitments by providing \$36.5 million in ongoing appropriations for growth in Medicaid roles and costs. This amount was more than offset by temporary decreases in the state’s share of Medicaid costs, which saved the state nearly \$120 million over two years. Policymakers also provided \$17.8 million ongoing offset by \$7.1 million one-time for new mental health services for individuals in crisis. They appropriated another \$52 million one-time for affordable housing and homeless services (Office of the Legislative Fiscal Analyst, 2021, 1-4).

Employee Compensation

Lawmakers gave state and higher education employees a 3% salary increase with \$87.4 million in new funding, \$58 million of which is from the General and Education funds. In addition to this broadly implemented increase, appropriators paid more than \$20 million for a 4.3% increase in the cost of state and higher education health benefits. These changes are in addition to \$18.5 million more for several targeted increases in areas like law enforcement, human services, and alcoholic beverage control. The legislature does not set teacher salaries, but as noted in the Public Education section, it provided local education agencies capacity to provide significant pay increases to teachers (Office of the Legislative Fiscal Analyst, 2021, 1-7).

Reorganizations

A new administration in the Governor's office brought with it several changes to state organizational structure. Governor Spencer Cox suggested combining the Departments of Administrative Services and the Department of Technology Services into the Department of Government Operations. He recommended consolidating two smaller public lands and energy offices into the Department of Natural Resources. Finally, the new governor proposed a massive combination of the Departments of Health and Human Services. This latter consolidation won't take effect until fiscal year 2023; however, much of the strategic planning for this merger occurred following the Legislative Session. The legislature passed all these recommendations along with some smaller changes to agency structure (Office of the Legislative Fiscal Analyst, 2021, 1-7).

Conclusion

Despite facing several economic setbacks from the COVID-19 pandemic, Utah experienced the best economic growth in the nation. This impressive growth contributed to Utah's dramatic population increase, the highest increase in the nation. Economic growth allowed Utah to make strategic investments during FY22. Although the state continued to struggle with the health impacts of the COVID-19 pandemic, it maintained a strong and growing economy, allowed students to return to school in-person, and promoted the return to a somewhat normal life. Headwinds still threaten this growth, including continuously increasing housing and rental markets and a looming pandemic. Of note is the rapid rise in housing prices of 23.5% from 2020 to 2021 in Utah, and apartment rental rate increases at a 17.2% rate in the same period. As policymakers leverage growth to prepare for the current and upcoming headwinds, Utah can continue to expect a healthy economy and strong population growth in the coming years.

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