



Food for Thought: Sutherland Institute's 2010 Budget Recommendations

*Sutherland presents ten suggestions to policy makers on moving forward
in the difficult budget situation*

As lawmakers prepare for the legislative session in January, they are being bombarded with advice about dealing with a world of (perhaps permanently) smaller budgets.¹ Sutherland Institute recognizes the difficulty of this task, and does not claim to be able to solve the state's budget woes. Sutherland would, however, like to add to the debate by offering ten ideas that it believes will, if adopted, help alleviate some of the current budget pain and place the state on a firmer policy foundation going into the future.

1) Do NOT raise taxes ... period

Before the recession set in, under Governor Huntsman spending from the state's two primary funds grew by more than 45 percent between 2005 and 2008.² The current fiscal crisis illustrates that such aggressive attempts to grow government are both unwise and unsustainable.

The state should not try to prolong the pipe dream of sustainable big government with tax increases, as states like California continue to attempt. Instead, Utah should make significant, but targeted, spending cuts to return the size of government to a more reasonable, sensible level. Such cuts, while certainly painful, will not throw state government into the dark ages.

For instance, if the legislature were to fully absorb the projected budget shortfall (as currently estimated) via spending cuts, state spending from the general and education funds would still be above the level seen only three years ago.³ In other words, avoiding tax increases simply represents a return to reasonable, prudent spending policy.

2) Tap into reasonable amounts of "rainy-day" funds and use all education set-aside funds

Though tax increases may be ill-advised, the state can tap the significant financial reserves it has wisely accumulated. This action should help ease what will be a painful transition back to more realistic levels of government spending. These funds include \$100 million in education set-aside funds and over \$400 million in "rainy-day" funds.⁴

By using the entire \$100 million of set-aside funds, and between 50 and 60 percent of available "rainy-day" funds, the state can soften the impact of the projected budget deficit by \$310-\$350 million. At the same time, the state would have \$170-\$210 million left in reserve in case the budget situation continues to deteriorate next year.

3) Place a moratorium on any new tax incentives to businesses

In fiscal year 2009, the state offered 15 companies more than \$27 million in tax incentives.⁵ But awarding tax incentives only to certain businesses in effect gives those companies a competitive

advantage over their competitors. Though this game may be appealing to political entrepreneurs who want to tilt the playing field in their direction, it is inherently unfair to free-market entrepreneurs that do not have political connections or that choose not to seek such government subsidies.

For these reasons and others, the state should reconsider its practice of picking winners and losers in the marketplace via appointed boards within the Governor's Office of Economic Development. This is particularly true in the current recession, where Utah needs to encourage a fair and free marketplace so that *all* entrepreneurs, not just the favored few, will seek to turn their good ideas into the businesses that will stimulate an economic recovery. To begin this process, the state should place a moratorium on all state tax-incentive programs administered by government boards until their wisdom and effectiveness can be studied.

4) Close the Office of Tourism

The state has significantly and consistently increased its spending on travel and tourism in Utah over the years. In 1999, for instance, the state spent \$4 million on tourism under the former Department of Community and Economic Development.⁶ In 2008, the amount spent on tourism through the Office of Tourism expanded to more than \$18 million.⁷ After adjusting these figures for inflation, state spending on tourism has increased by over 223%.

The return on that investment has been anemic. Between 1999 and 2008, the number of yearly visitors coming through Salt Lake International Airport has increased only four percent, and the number of visitors to Utah's national parks has grown less than three percent.⁸ Worse, the number of yearly visitors to Utah's state parks and national monuments has *decreased* significantly: 33 percent and 53 percent, respectively. Clearly, funds funneled through an ineffective Office of Tourism could be more wisely used to avoid further cuts in more vital state functions such as public safety and higher education.

5) Cut off contributions to 401(k) accounts of reemployed retirees

According to a recent legislative audit, the state spent over \$10 million in 2008 for contributions to the 401(k) retirement accounts of employees who have retired only to later take another government job.⁹ Amazingly, these retired/rehired employees also collect their pension even though they are still employed in the state system, a practice known as "double-dipping." Not surprisingly, few other states maintain such an expensive retirement system.

The state should end all 401(k) contributions for such employees, as recommended in the audit. The savings accrued should help prevent some of the layoffs of state employees that are likely to occur in the coming year. Ending the practice of "double-dipping" would also be a good first step toward shoring up the state retirement system for the future.

6) Prorate health premiums for part-time employees

The legislative audit also found that both part-time and full-time employees receive the same health benefits from the state.¹⁰ The audit recommended that the Legislature consider prorating these benefits like other employee benefits are prorated: based on time worked.

This is a common-sense policy that could save the state over \$2 million. Though this figure is a small portion of the budget, it would further help reduce potential employee layoffs.

7) Require state employees to pay for a higher proportion of their health premiums as their salary increases

In fiscal year 2009, employee benefits cost the state nearly \$550 million, or nearly \$1 for every \$2 spent in wages.¹¹ A substantial amount of this cost was from state coverage of employee health premiums, of which the state currently pays either 73 percent or 95 percent, depending on the health plan the employee chooses.¹² The state could decrease personnel costs if they scaled down their contribution to employee health premiums as salaries increase. One possible scale is illustrated in the following table. The table includes added monthly premium costs for a hypothetical state employee with a family-coverage policy, as they move from one contribution level to the next.

Annual Salary	State Premium Contribution	Added Monthly Cost for Employee (Compared to Previous Contribution Level)
<\$65,000	73%/95%	-
>\$65,000	68%/90%	\$50-\$65
>\$80,000	63%/85%	\$50-\$65
>\$100,000	55%/75%	\$100-\$103

8) Decrease funding for the Utah Science Technology and Research Initiative (USTAR)

In fiscal year 2009, the state spent over \$10 million on research projects for USTAR.¹³ But with universities raising student tuition to cover costs, research funds should be reprioritized toward the needs of students, who are the primary customers of higher education. University research can be very beneficial to society, but not when it becomes a hurdle for universities in their primary role of educating students.

9) Temporarily decrease the state’s contribution toward local road maintenance

Currently, the state gives 30 percent of the Transportation Fund to cities and counties to maintain local roadways.¹⁴ In fiscal year 2010, that amount is likely to be around \$120 million.¹⁵

Since many cities and counties received significant funds from the federal government for local road and transportation maintenance, the state should be able to temporarily decrease funding for local-road maintenance without significantly damaging local transportation plans. State funds should be reduced to specific municipalities based on how much federal funding they have received. If the effective state contribution rate was decreased by 15-20 percent, it would generate an extra \$40-\$60 million to ease budget cuts elsewhere.

10) Require state agencies to prioritize their various programs and functions into a handful of broad categories to assist with further budget cuts

Given the size of the current budget shortfall, additional cuts will likely be needed. To assist legislators in making these decisions, the Legislature should require each state agency to create a prioritized list of four or five broad categories that encompass all of their programs or functions. This process should not only illuminate low-priority areas for targeted budget cuts, but it should also help articulate the mission and core functions of government.

Legislative approval – specifically, approval from appropriations subcommittees – should be required for the finalized lists. However, to maintain the separation of powers they should be created primarily by the agencies that are tasked with doing the work of government, based on their understanding of their statutory authority. These lists could then be placed in each agency’s mission statement or into statute to guide the work of government in the future.

Endnotes

¹ Governor Mitch Daniels, “The Coming Reset in State Government,” *Wall Street Journal*, September 3, 2009, at <http://online.wsj.com/article/SB10001424052970204731804574390603114939642.html>.

² Based on data from the governor’s office, state spending from the General and Education Funds increased by 45.4 percent between fiscal years (FY) 2005 and 2008. Governor’s Office of Planning and Budget, “Budget Summary – Fiscal Year 2010,” June 2009.

³ Comparing FY 2011 base-budget estimates for General and Education Funds to FY 2006 spending from General and Education Funds. Office of the Legislative Fiscal Analyst, *Budget Changes, FY2009 Original – FY 2011 Base Budget*, August 18, 2009. Governor’s Office of Planning and Budget, “Budget Summary – Fiscal Year 2010,” June 2009.

⁴ Office of the Legislative Fiscal Analyst, “2009-2010 Appropriations Report,” August 2009.

⁵ Data obtained from the Governor’s Office of Economic Development on incentives offered in 2009 from the Economic Development Tax Increment Funds and the Industrial Assistance Fund.

⁶ Governor’s Office of Planning and Budget, “State of Utah Budget Summary – Fiscal Year 2001,” no date.

⁷ Governor’s Office of Planning and Budget, “Budget Summary – Fiscal Year 2010,” June 2009.

⁸ Utah Office of Tourism, “Visitor Statistics,” *State of Utah*, at http://travel.utah.gov/research_and_planning/visitor_statistics/index.html.

⁹ Office of the Legislative Auditor General, *A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees*, November 2009.

¹⁰ *Ibid.*

¹¹ Based on payroll data for FY 2009, on www.transparent.utah.gov.

¹² Office of the Legislative Auditor General, *A Performance Audit of the Cost of Benefits for Reemployed Retirees and Part-Time Employees*, November 2009.

¹³ Data spent on “research projects” by USTAR according to www.transparent.utah.gov.

¹⁴ *Utah Code* 72-2-107(1).

¹⁵ Office of the Legislative Fiscal Analyst, “2009-2010 Appropriations Report,” August 2009.