Mid- to Long-term Revenue Options

July 20, 2022

Presentation to the Legislative Finance Committee

The Legislature has prioritized stabilizing revenues, preserving existing programming, and balancing budgets within recurring revenues.
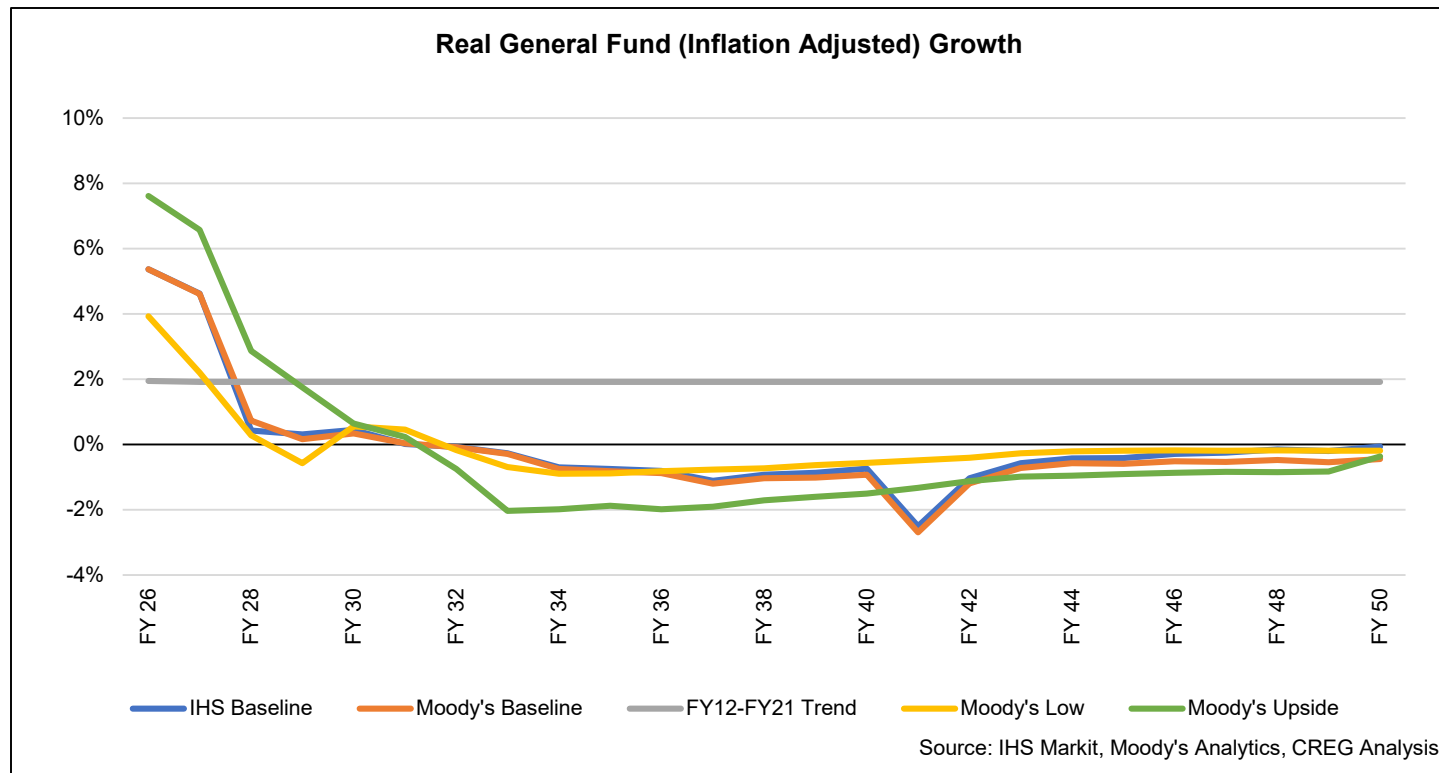

Recurring General Fund Revenue & Appropriation Annual Growth

Yr/Yr Recurring GF Appropriations Growth
Yr/Yr Recurring GF Revenue Growth

Source: LFC Files
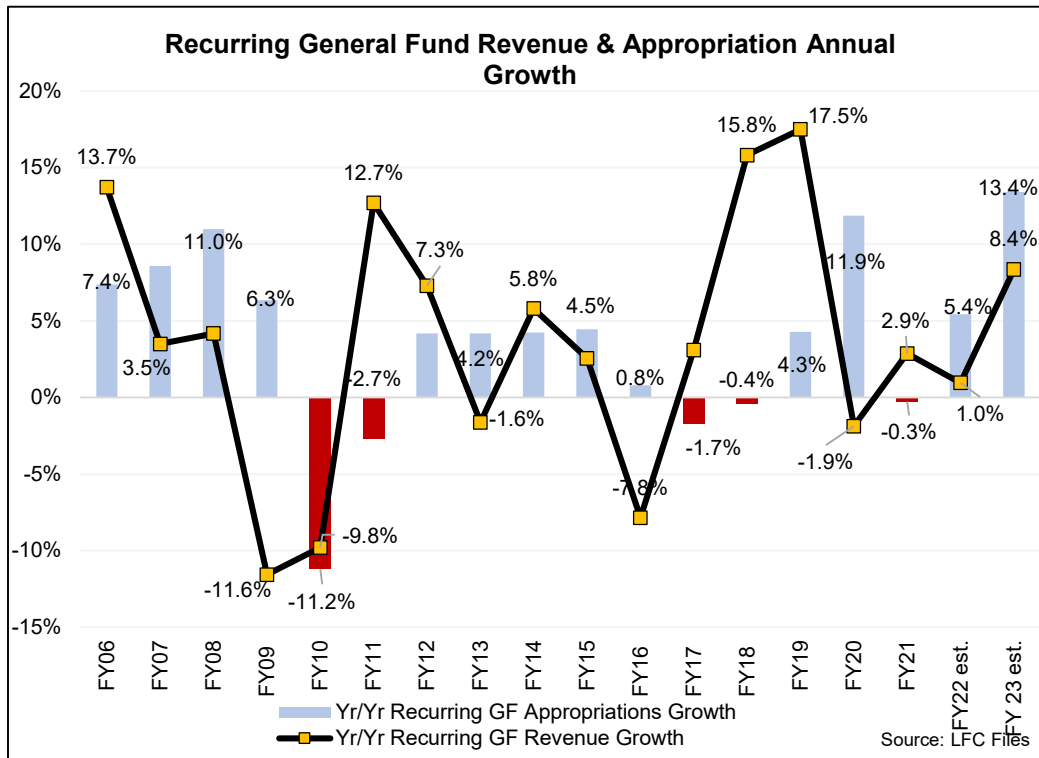
Progress along these priorities include:

- Creating a "Tax Stabilization Reserve" or true rainy day fund,
- Creating the excess distributions above a 5-year average for oil and gas revenues,
- Higher reserves to match increased volatility, and
- Prefunding and endowing programs across the budget.

Long-term revenue growth may be insufficient to maintain current levels of government services.

Real General Fund (Inflation Adjusted) Growth

Legend: IHS Baseline, Moody's Baseline, FY12-FY21 Trend, Moody's Low, Moody's Upside

Source: IHS Markit, Moody's Analytics, CREG Analysis

	Operating Budget FY22	2022 GAA FY23	Outlook FY24	Outlook FY25
December 2021 Consensus	$ 8,163.1	$ 9,049.1	$ 9,643.2	$ 10,178.8
2022: HB 163 Tax Package		$ (201.2)	$ (390.0)	$ (408.0)
2022: HB 68 Criminal Code Changes (LEPF)			$ (14.0)	$ (15.5)
2022: Other		$ (2.5)	$ (4.2)	$ (4.3)
Total Recurring Revenue	**$ 8,163.1**	**$ 8,845.4**	**$ 9,235.1**	**$ 9,751.0**
Year-to-Year Percent Change	*1.0%*	*8.4%*	*4.4%*	*5.6%*
Recurring Appropriations				
Legislative	$ 21.9	$ 24.1	$ 24.7	$ 25.3
Feed Bill	$ 17.5	$ 19.5	$ 20.0	$ 20.5
Legislative	$ 4.3	$ 4.6	$ 4.7	$ 4.8
Judicial	$ 327.8	$ 345.2	$ 355.6	$ 366.2
General Control	$ 158.8	$ 166.4	$ 170.6	$ 174.9
Commerce, Industry	$ 65.6	$ 77.1	$ 79.0	$ 81.0
Agriculture, Energy and Natural Resources	$ 79.0	$ 91.0	$ 93.3	$ 95.6
Medicaid	$ 1,031.7	$ 1,283.7	$ 1,386.4	$ 1,497.3
Other Health, Hospitals and Human Services	$ 946.8	$ 1,017.9	$ 1,053.5	$ 1,090.4
Public Safety	$ 476.6	$ 491.5	$ 506.3	$ 521.5
Other Education	$ 35.0	$ 56.7	$ 58.1	$ 59.6
Higher Education	$ 894.7	$ 939.1	$ 967.2	$ 996.2
Public School Support	$ 3,411.3	$ 3,812.9	$ 3,984.5	$ 4,163.8
Recurring Compensation (excl. public education)	$ 0.5	$ 178.6	$ 183.1	$ 187.7
Subtotal - Recurring Appropriations	**$ 7,449.7**	**$ 8,484.3**	**$ 8,862.3**	**$ 9,259.5**
Year-to-Year Percent Change, pre-adjustment	*3.3%*	*13.9%*	*4.5%*	*4.5%*
Adjustment Scenario				
- Replace TANF Fund Balance for Pre-K Programs			$ 17.6	$ 17.6
- DD/Eliminate Waitlist and replace enhance FMAP				$ 76.6
- Opportunity Scholarship			$ 115.1	$ 125.9
- Nursing Program Enhancement			$ 15.0	$ 15.0
- Hospital and Nursing Home Costs - ARPA Backfilling			$ 18.0	$ 18.0
- Public Family Income Index			$ 15.0	$ 15.0
- GSD Risk Management Health Insurance Deficit - GF 5% increase for state agencies			$ 4.3	$ 4.3
- Teacher Residency			$ 15.5	$ 15.5
- Backfill Irrigation Works Construction Fund			$ 5.0	$ 5.0
- Public Education Reform Fund Below-the-line Backfilling			$ 8.5	$ 8.5
- Addtitional Increase to ERB Contributions			$ 26.0	$ 26.0
- SB 48 Supplemental General Appropriations (Junior)		$ 25.2	$ 26.3	$ 27.5
Subtotal - Adjustment Scenario	**$ -**	**$ 25.2**	**$ 266.3**	**$ 354.9**
Total Recurring Appropriations + Adj Scenario	**$ 7,449.7**	**$ 8,509.5**	**$ 9,128.6**	**$ 9,614.4**
Year-to-Year Percent Change	*5.5%*	*14.2%*	*7.3%*	*5.3%*
Surplus/(Deficit)	**$ 713.4**	**$ 335.9**	**$ 106.5**	**$ 136.6**

Notes: 1) Annual appropriation growth FY23-FY25 (with FY22 as base) calculated 3) Some bills have assumed operating budget impacts beginning in FY23

Public School Support	4.5%	Health, Hosp. & Hum.	4.0%
Higher Education	3.0%	Medicaid	8.0%
Public Safety	3.0%	Other HHHS	3.5%
Judicial	3.0%	Other State Agencies	2.5%

2) Compensation assumed at 2.5 percent growth

* totals may not foot due to rounding ay not foot due to rounding

Recurring appropriation growth has averaged about 4.2 percent since FY16, nearly the same as the current long-term recurring revenue trend.

The current budget and revenue outlook – assuming appropriations are not grown faster and revenues are not reduced – may result in a recurring deficit in 12 to 18 years.

General Fund Recurring Revenue and Recurring Appropriation Outlook

Legend: IHS Baseline — Moody's Baseline — Moody's Low — Moody's Upside — Budget Outlook - Current Trend
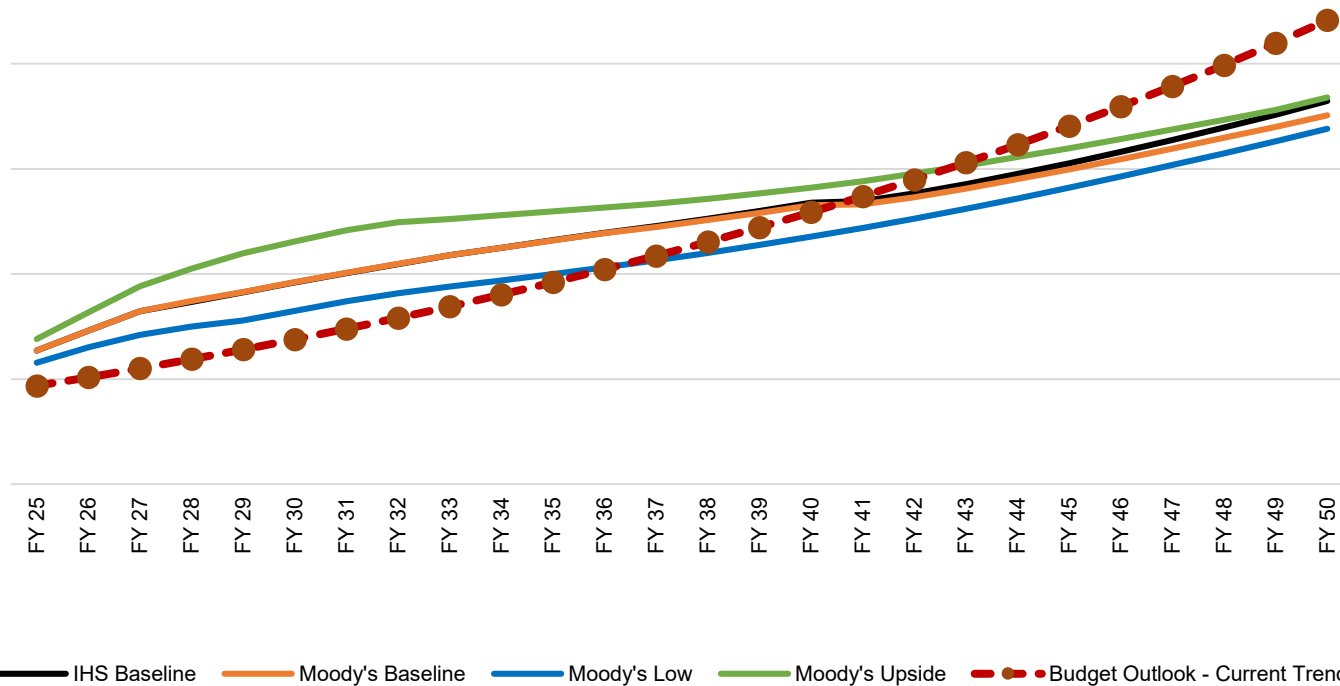
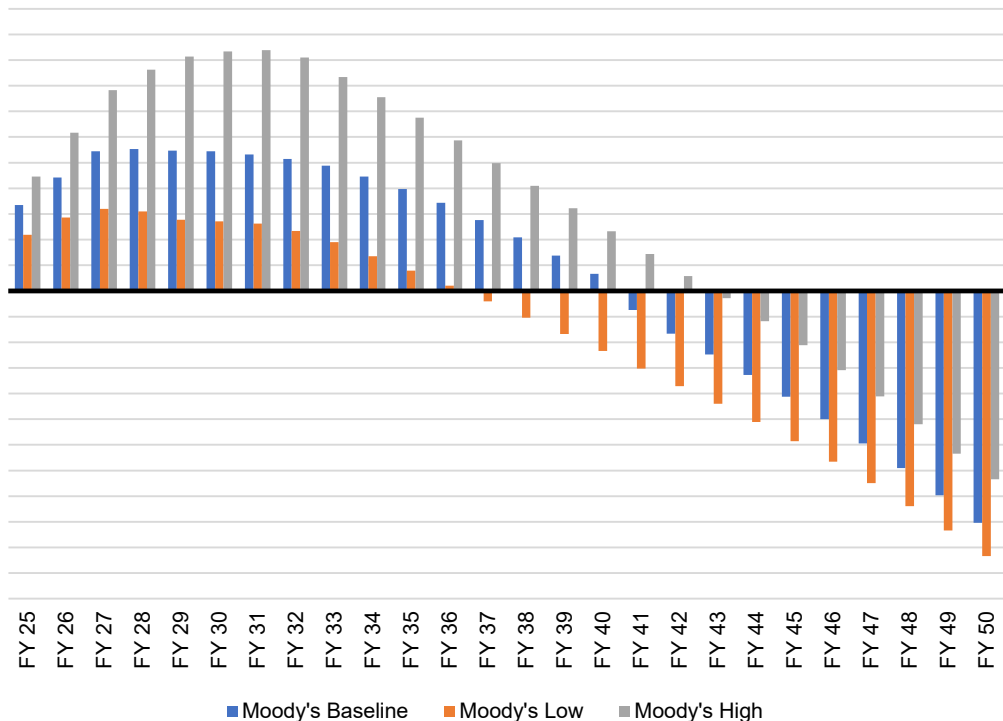Source: IHS Markit, Moody's Analytics, CREG Analysis

How can the state improve the long-term revenue outlook?

- Foster economic growth to beat current expectations.

- Resist spending all recurring revenues on recurring uses, now and in the future.

- Invest short-term, peak production revenues for future use. E.g. endowments and trust funds.

- Extend five-year average protections on oil and gas revenues to delay the decline in recurring revenues.

- Use short-term, peak production revenues for nonrecurring uses.

In the short- to medium-term, revenues are expected to exceed appropriations providing opportunities to change the long-term trajectory.

Recurring Revenues less Recurring Appropriation Outlook
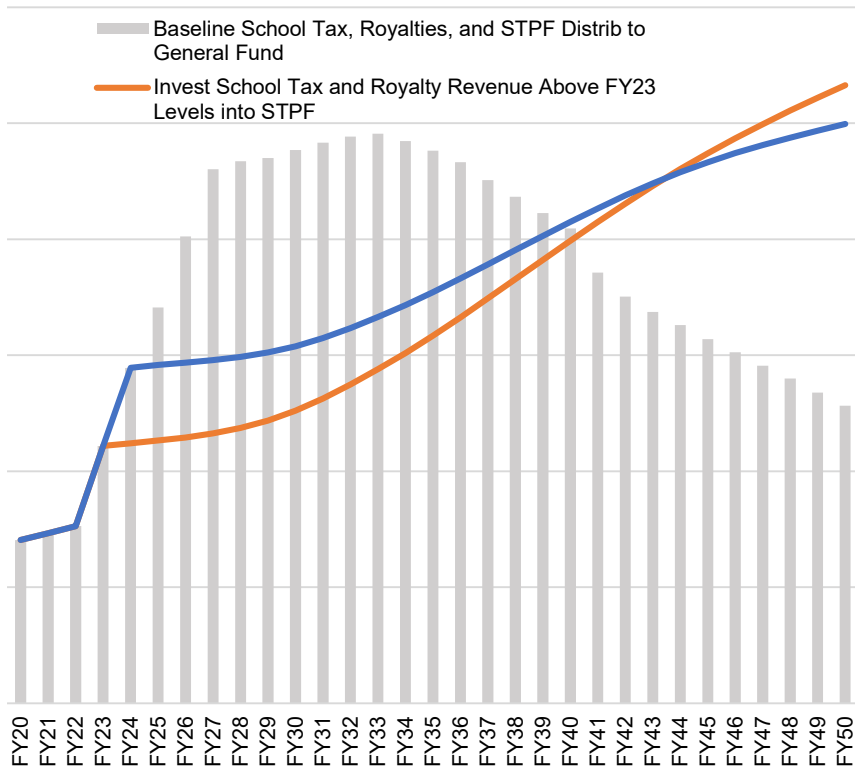

Source: Moody's Analytics, CREG Analysis

- ▪ Investments in education and workforce development can grow wages and may take significant time to materialize.

- ▪ Competitive business and tax climate may encourage business recruitment and growth.

- ▪ Long-term planning and performance-based economic development programs could keep the state on track.
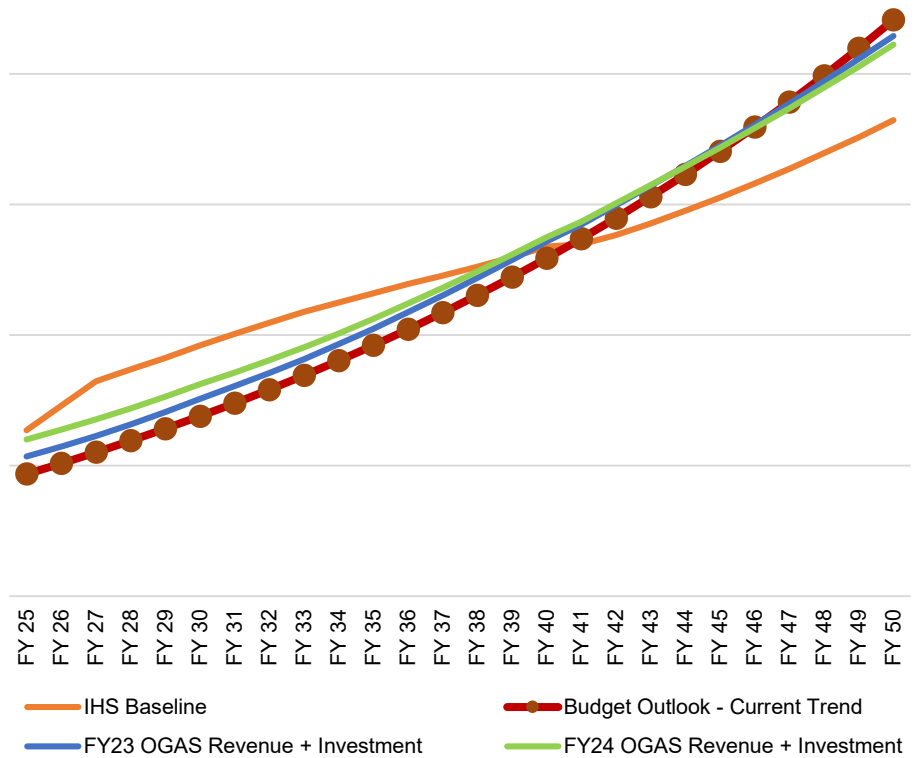
Investing short-term, peak production revenues for future use nearly eliminates the out-year deficit.

Effect of Investing Additional Oil and Gas Revenue

Legend:
- Baseline School Tax, Royalties, and STPF Distrib to General Fund
- Invest School Tax and Royalty Revenue Above FY23 Levels into STPF

Note: Scenarios reflect the sum of funds distributed to the general fund from oil and

General Fund Recurring Revenue and Recurring Appropriation Outlook

Legend:
- IHS Baseline
- Budget Outlook - Current Trend
- FY23 OGAS Revenue + Investment
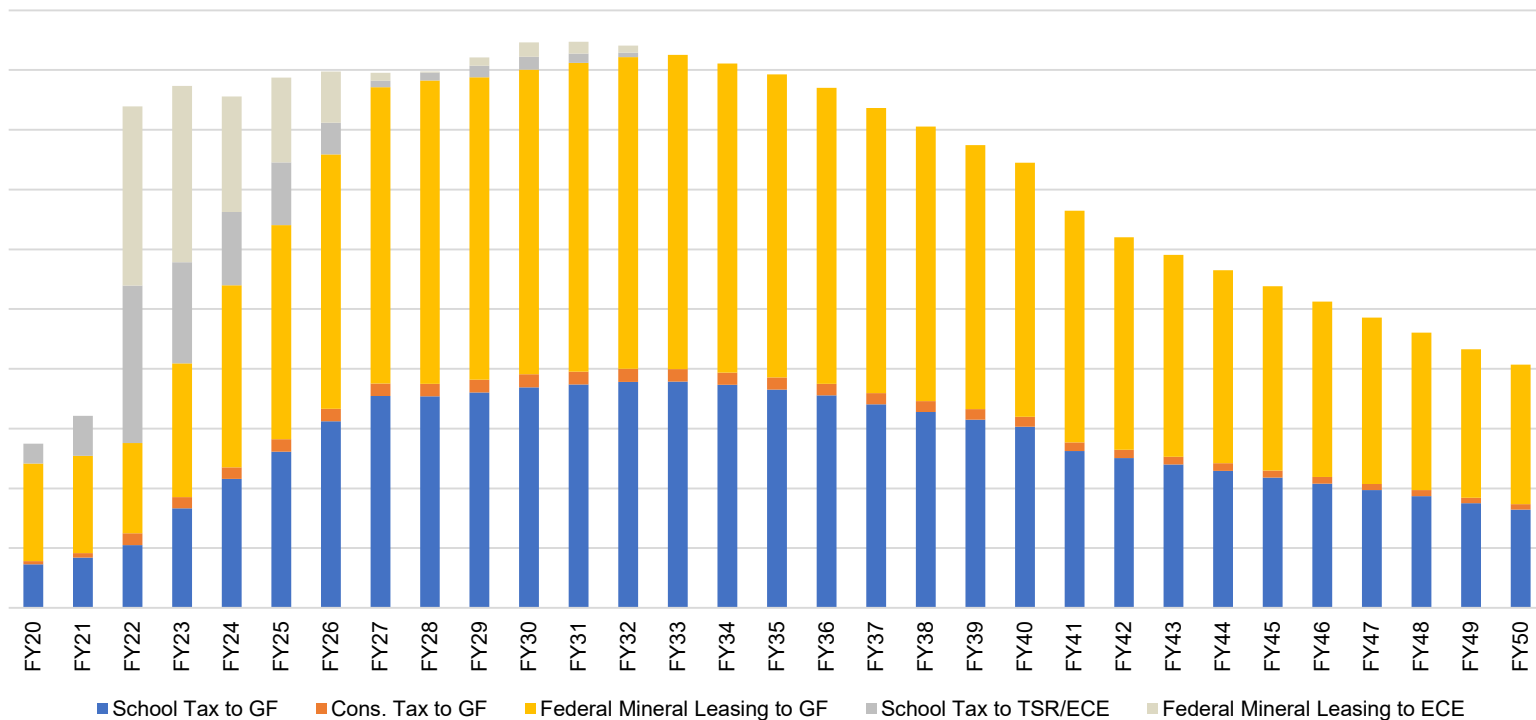- FY24 OGAS Revenue + Investment

Source: IHS Markit, Moody's Analytics, CREG Analysis

Short-term production spikes are bumping up the 5-year average and weakening the smoothing effect of stabilization measures.

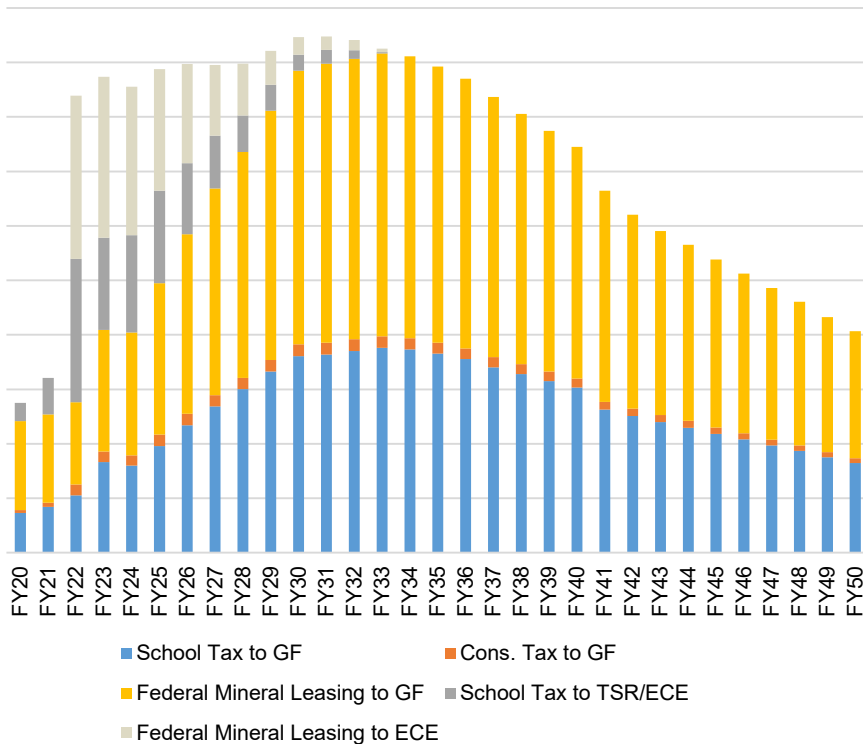**New Mexico General Fund Oil and Gas Revenue Outlook**

Legend: School Tax to GF · Cons. Tax to GF · Federal Mineral Leasing to GF · School Tax to TSR/ECE · Federal Mineral Leasing to ECE

Note: Scenarios assume oil and gas price and production estimates as of July 2022.
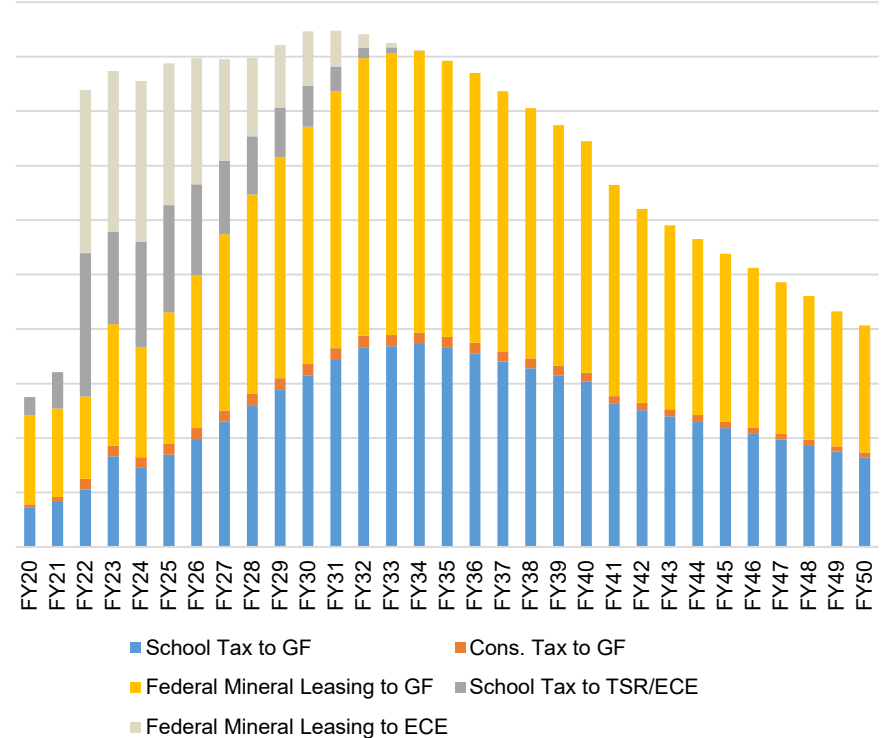
Extending the 5-year average better insulates the general fund and delays revenue declines for 3-5 years.

Oil and Gas Related Revenue with _8-Year Average_

Oil and Gas Related Revenue with _10-Year Average_

Legend:
- School Tax to GF
- Cons. Tax to GF
- Federal Mineral Leasing to GF
- School Tax to TSR/ECE
- Federal Mineral Leasing to ECE

Note: Scenarios assume oil and gas price and production estimates as of July 2022.
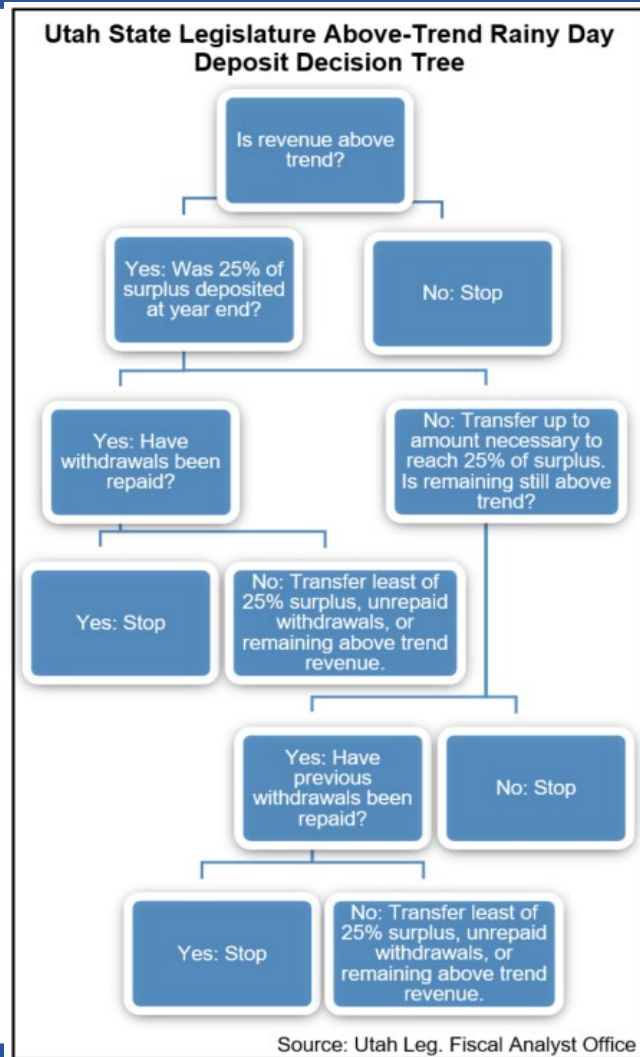
Mechanisms that sort above-trend revenues for nonrecurring purposes have proved useful in other states and could prevent acceleration of out-year deficits.

- Virginia – when general fund revenue growth exceeds the 6-year average, half is deposited into the rainy day fund.
- Louisiana – requires nonrecurring revenues to be spent on retiring bonds, payments against unfunded pension liability, capital outlay projects, making deposits into the budget stabilization fund, or funding highway construction.

Example of Bill Mechanisms using FY19 General Fund Revenue

Total General Fund Revenue	General Fund Revenue Growth	Previous 10-Year Average Revenue Growth	5% Above Previous 10-Year Trend
$ 7,910.3	15.0%	1.5%	$ 581.0

Distribution of Excess Revenue	Percent	Amount
College Affordability Fund	30%	$ 174.3
Teacher Affordability Scholarship Fund	20%	$ 116.2
Early Childhood Education and Care Fund	20%	$ 116.2
State Road Fund	10%	$ 58.1
Severance Tax Permanent Fund	10%	$ 58.1
Rural Libraries Endowment Fund	10%	$ 58.1

Note: dollars in millions

SB 392 (2021 Regular Session)

Utah State Legislature Above-Trend Rainy Day Deposit Decision Tree

Is revenue above trend?

Yes: Was 25% of surplus deposited at year end?

No: Stop

Yes: Have withdrawals been repaid?

No: Transfer up to amount necessary to reach 25% of surplus. Is remaining still above trend?

Yes: Stop

No: Transfer least of 25% surplus, unpaid withdrawals, or remaining above trend revenue.

Yes: Have previous withdrawals been repaid?

No: Stop

Yes: Stop

No: Transfer least of 25% surplus, unpaid withdrawals, or remaining above trend revenue.

Source: Utah Leg. Fiscal Analyst Office

QUESTIONS?