GOMB

KEY BUDGET DRIVER FRAMEWORK

Maintaining Utah's competitive edge and quality of life requires that we proactively manage and address the multiple demands being placed on limited resources—the taxpayer dollar. Utah's growing and changing population along with new dynamics in our revenue streams places an increased demand on everything from infrastructure to education and the state's natural resources to our correctional system. Reacting to new demands and changes within the economy without a proactive approach to budget design and strategy could potentially leave Utah vulnerable to a diminished future prosperity.

For Utah, there are six key elements that drive approximately 80 percent of expenditures: Corrections, Employee Compensation and Liabilities, Higher Education, Infrastructure (transportation, buildings, and debt), Medicaid, and Public Education. The ability to develop sound planning strategies and to resolve the challenges within these key areas is fundamental to a thriving economy. These planning strategies, or what we in GOMB refer to as ***key budget drivers****, have been developed in consultation with subject-matter experts and key stakeholders.*

INFRASTRUCTURE: CAPITAL IMPROVEMENTS AND DEBT

Background

Sometimes taken for granted, reliable infrastructure is essential to a well-functioning economy. Transportation systems and state buildings account for a major portion of the infrastructure portion of the state budget and typically take a long time to plan and require a significant funding investment. Based on these factors, the State of Utah may incur debt to finance new infrastructure projects. An appropriate mix of debt and cash financing for new infrastructure along with adequate funding for the maintenance of existing buildings and roads fulfills critical state infrastructure needs and adds significant value to the economy.

The Governor's budget provides funds for six major building projects: new science buildings at Snow College ($19.9 million) and the University of Utah ($34 million), a permanent campus for Dixie Applied Technology College ($31.9 million), the construction of a Unified State Laboratory ($39.7 million), a new building for the Utah School for the Deaf and Blind ($14.5 million), and a sizable contribution toward expansion of the University of Utah's Huntsman Cancer Institute ($9.5 million). The budget also includes an additional $4.5 million toward the operation and maintenance of the six buildings.

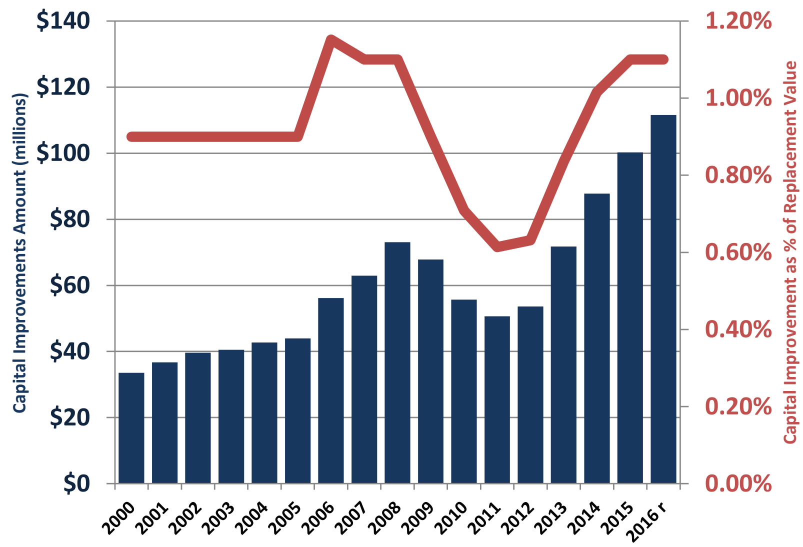
The budget includes $46 million toward prison relocation. The Governor intends to work with the legislature to bond for prison relocation in a way that ensures that any increase in bond payments for a new prison are offset by reductions in payments on existing debt.

Capital Improvements for State Buildings

The Governor's budget includes nearly $65 million in additional funding for capital improvements—defined in statute as remodeling, alteration, replacement, or repairs of less than $2.5 million or the construction of a new facility of less than $500,000. Capital improvement funds are used to replace worn equipment and facilities such as repairs to electrical and plumbing systems, roofs, and parking lots. Together with the base budget amount of $46.8 million, the total capital improvement budget is at the statutory level of 1.10% of the replacement value of state buildings.

Figure 1 depicts the recent history of capital improvement funding. The state has approved significant capital development over the past decade, however, funding for infrastructure maintenance has not always kept pace. It is important to fund infrastructure maintenance that costs substantially less over the long-term than having to fund costly repairs or reconstruction when buildings are not properly maintained. Through the SUCCESS Framework initiative, the Governor's Office of Management and Budget will work closely with the Division of Facilities Construction and Management to ensure the maximum use of capital improvement dollars while ensuring that projects are completed on time and within budget.

Figure 1 – Capital Improvements Funding



Debt

Utah's FY 2015 general obligation debt for roads and buildings is approximately $2.9 billion and total debt service payments are expected to total about $415 million. The Utah Constitution limits the state's general obligation debt for buildings and roads to an amount equal to 1.5% of the value of the state's taxable property. Total general obligation debt for FY 2015 is approximately 72% of the constitutional debt limit and is expected to drop to approximately 58% in FY 2016. This decrease is expected based on increased property values and retired debt. While the projected 58% figure is down from the FY 2012 high of 87%, the figure is still high as compared to pre-recession levels.

In FY 2008, debt per capita in Utah was historically low at $445. By FY 2012, debt per capita nearly tripled to $1,283. For FY 2016, the figure is forecast to decline to $837 assuming no new debt.

Utah's longstanding "triple-triple" status—an AAA rating from all three bond rating agencies—is the result of conservative and responsible debt management. The State Treasurer recommends an average debt target of 60% of the constitutional debt limit and $600 general obligation debt per capita to ensure the state's continued AAA rating.

Figure 2 – Outstanding GO Debt

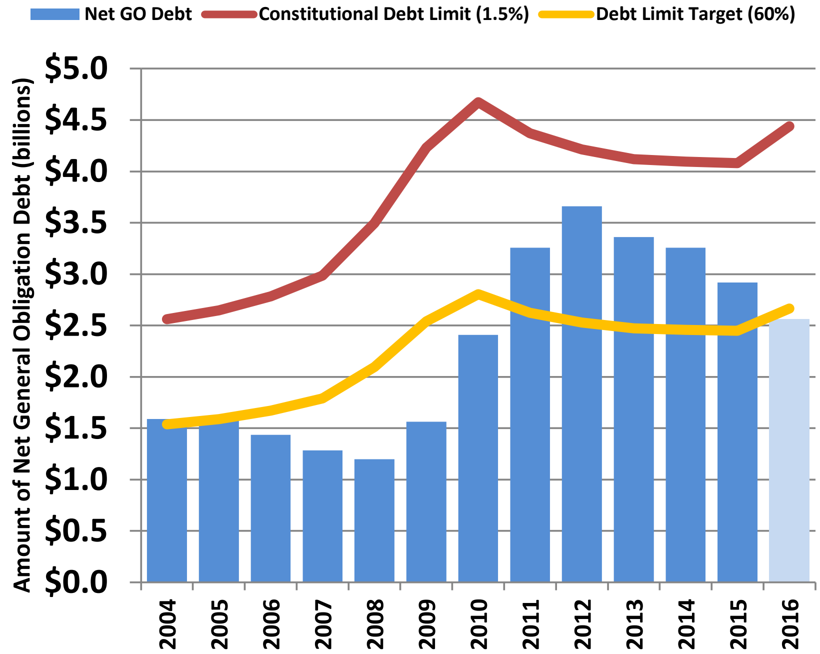


Figure 3 – Outstanding GO Debt per Capita