

Utah State Fiscal Year 2025 Budget Review: A Growing State and Budget

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As a rapidly changing state, Utah faces major economic and demographic transitions. Legislative budget priorities for FY 2025, which begins July 1, 2024, address current and future transitions. Top legislative budget priorities included tax cuts, transportation, public and higher education, housing affordability, homelessness, and state employee compensation. The FY2025 budget of \$29.4 billion addressed these issues and more, as well as included an income tax cut for the third year in a row.

The New Utah

Six major economic and demographic transitions have created a “New Utah”. Utah is now:

1. A more populous, mid-sized state
2. Dominated by external growth, in part due to much lower fertility
3. Older
4. More racially and ethnically diverse
5. Featuring an elite economy
6. Facing the new challenge of unaffordable housing.

This New Utah brings new people to the state, creates new economic opportunities, draws new businesses, and attracts amenities – including the recently-announced National Hockey League franchise and the possibility of Major League Baseball in coming years. Population growth continues, driven by migration. Utah’s total population reached 3.46 million residents in 2023, reflecting a 1.6% growth rate from the previous year, with net migration accounting for 56% of the growth. Utah now ranks as the 30th largest state and will likely move into the 29th spot by the 2030 Census.¹ Utah’s population continues to grow older as fertility rates remain below replacement level.² As a result of this trend, Utah’s median age continues to rise. The growth also results in more diversity - with nearly one in four Utahns identifying as a racial/ethnic minority, which ranks 34th in the nation.³ Additionally, the state’s traditionally strong economy has become elite, with an early and strong post-pandemic economic recovery, consistent job growth, and low unemployment. The COVID-19 pandemic accelerated many of these transitions.

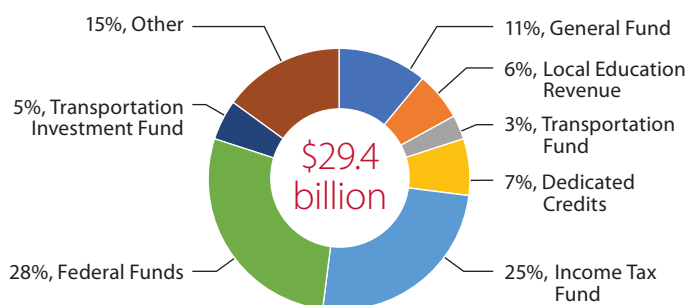
Utah also faces a variety of challenges. Housing prices and interest rates remain high, energy and natural resource challenges loom large throughout the state (including concerns about Great Salt Lake), economic disparities, rapid population growth and changing demographics, all of which provide significant back pressures on state leaders. As the 2024 General Session concluded, top legislative budget priorities included tax cuts, transportation, public education, higher education, housing affordability, homelessness, and state employee compensation.

Budget Summary

The Utah Legislature concluded the 2024 General Session on March 1, 2024, with a final FY 2025 budget from all sources of \$29.4 billion, a slight decrease of \$38 million (-0.1%) from the previous year’s original budget. However, appropriators also revised last year’s all sources budget downward significantly to \$28.7 billion, making the revised year-over-year change \$635 million (+2.2%).⁴

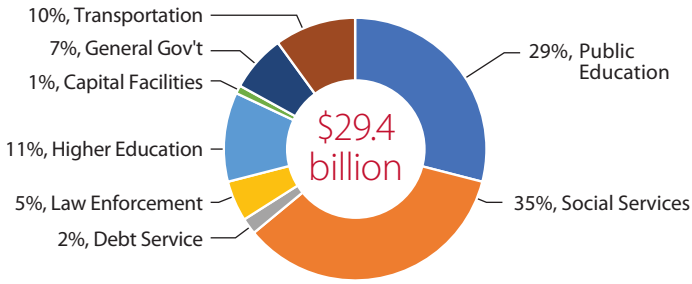
As shown in Figure 1, federal funds make up the largest share of Utah all-source revenue in FY 2025, eclipsing the Income Tax Fund again this year. However, federal funding as a share of Utah’s budget has begun to return to pre-COVID levels at 28% – down from the COVID height of 34%. Spending from the Income Tax Fund – formerly the largest share of revenue – followed closely behind at 25%.

Figure 1: Utah Revenue Sources (All Funds Budget), FY 2025



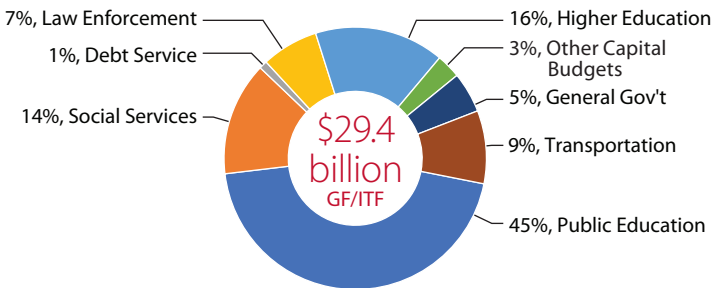
Source: Office of the Legislative Fiscal Analyst, <https://le.utah.gov/interim/2024/pdf/00001943.pdf>

Figure 2: Utah Spending Authorizations (All Funds Budget), FY 2025



Source: Office of the Legislative Fiscal Analyst, <https://le.utah.gov/interim/2024/pdf/00001943.pdf>

Figure 3: Utah Spending Authorizations (General Fund and Income Tax Fund), FY 2025



Source: Office of the Legislative Fiscal Analyst, <https://le.utah.gov/interim/2024/pdf/00001943.pdf>

This FY 2025 all sources budget reflects \$12.9 billion in spending from the sales-tax-backed General Fund and the Income Tax Fund (the combined total is comparable to most states' General Fund budget). Legislators decreased current year FY 2024 General and Income Tax Fund appropriations by \$925 million - largely from decreased Medicaid costs, elimination of a contingent appropriation for state buildings, and by shifting one-time transportation spending into FY 2025. Revised General and Income Tax Fund spending will further decrease from \$13.7 billion in FY 2024 to \$12.9 billion in FY 2025 (-5.3%), mostly due to elimination of one-time FY 2024 appropriations.

Figure 3 shows how the Legislature allocated these discretionary General and Income Tax Funds among issue areas. Public and Higher Education combined represent more than half of discretionary spending. However, prior to FY 2023 public education alone accounted for almost half. Again in FY 2025, legislators provided significant General Fund support for Transportation – on top of dedicated gas taxes and earmarked sales taxes. Prior to FY 2023, Transportation funding from the General and Income Tax Fund stood at zero.

As discussed later, top FY 2025 budget cycle priorities for both Governor Cox and the Legislature included housing affordability, homelessness, public and higher education, and employee compensation. Legislators also prioritized transportation and an

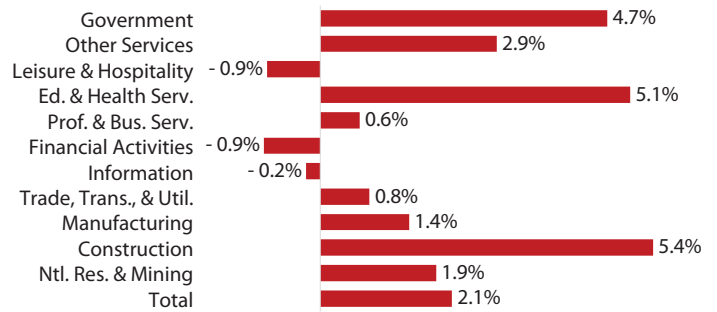
income tax rate cut. An upward February revenue estimate revision and legislative budget reallocations allowed the enacted budget to meet all of these priorities in the end.

Economic and Demographic Overview

Utah's economy performed remarkably well throughout 2023 in the face of rising interest rates, banking turmoil, and higher-than-normal levels of inflation throughout the country. Utah's economy continued to expand, held up by strong job growth, employment levels, and high consumer spending. Though some areas of Utah's economy felt pressure, such as real estate, tech, and banking, other industries like tourism, public construction, oil and gas extraction, and health care grew.⁵ 2024 began with what leading Utah economists call "unsettled normalcy;" questions remain about whether inflation and interest rates will trend downward, and if labor markets will remain strong.⁶

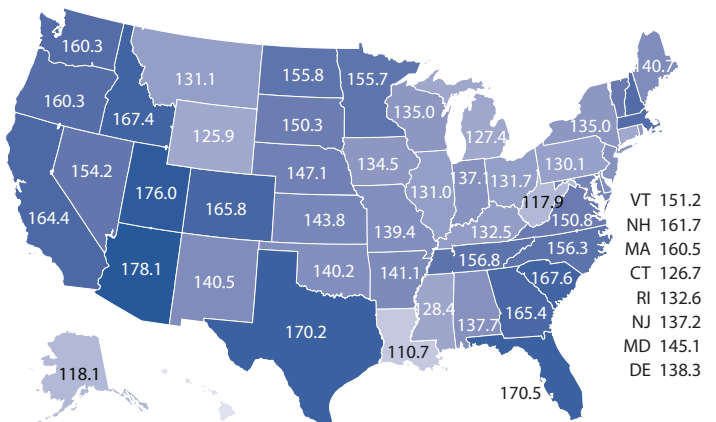
Several economic metrics highlight Utah's elite economy, which is expected to continue thriving. Utah ranks first in the nation with the highest labor force participation rate and the ninth lowest unemployment rate at 2.8% (compared to the national average of 3.9%). The state has the second lowest

Figure 4: Utah Job Change by Industry, January 2024



Source: U.S. Bureau of Labor Statistics, Kem C. Gardner Policy Institute

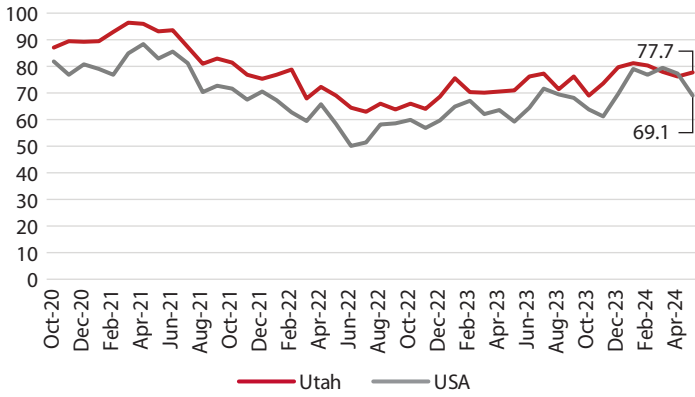
Figure 5: Monthly State Coincident Indexes, December 2023



Note: The coincident indexes combine four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing by production workers, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average).

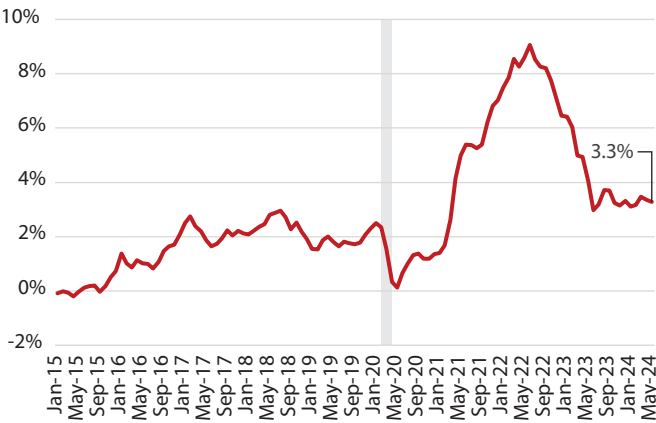
Source: The Federal Reserve Bank of Philadelphia, Kem C. Gardner Policy Institute

Figure 6: Consumer Sentiment, Utah and U.S., Dec 2020 – Feb 2024



Source: Kem C. Gardner Policy Institute

Figure 7: U.S. Consumer Price Index Inflation, 2015 - Feb 2024

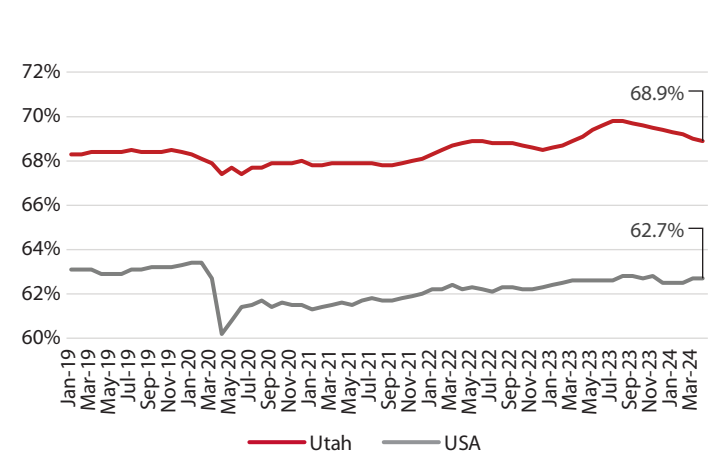


Note: Gray shaded area denotes period of recession.
Source: U.S. Bureau of Labor Statistics

poverty rate at 8.2% (compared to the national average of 12.6%), and the second highest median household income at \$95,800 (compared to the national average of \$74,580). Utah ranks as the thirteenth most favorable state based on annual employment growth at 1.9% compared to the national average of 1.8%. Consumer sentiment continues to trend above the national average, though Utahns continue to express concerns about the economy.⁷ Utah continues to rank as one of the most diverse economies in the country.⁸ The strength and diversity of Utah's economy allows for Utahns to thrive. The Salt Lake commuting zone, which covers most of northern Utah, ranks first in absolute economic mobility among the fifty largest commuting zones in the United States.⁹

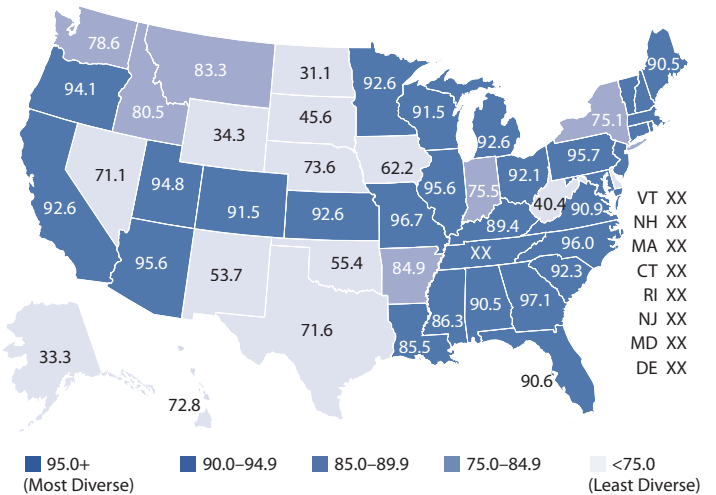
Population growth remains a constant for Utah. Long periods of growth caused Utah to transition from a small-sized state to a medium-sized state. This demographic change also brings

Figure 8: Labor Force Participation Rate, Utah and U.S., January 2020 – January 2024



Source: U.S. Bureau of Labor Statistics

Figure 9: Hachman Index Scores for the States, 2021

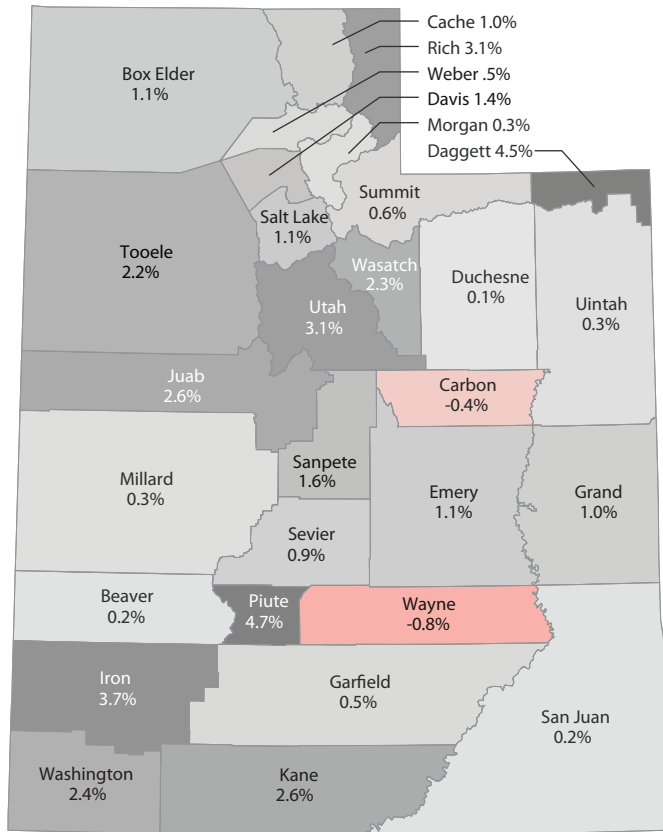


Source: Kem C. Gardner Policy Institute analysis of U.S. Bureau of Economic Analysis GDP data

other important transitions to Utah's population as it grows older and continues to diversify. These transitions create new opportunities, provide a larger workforce for a strong economy, but can also provide back pressure for Utah's leaders.

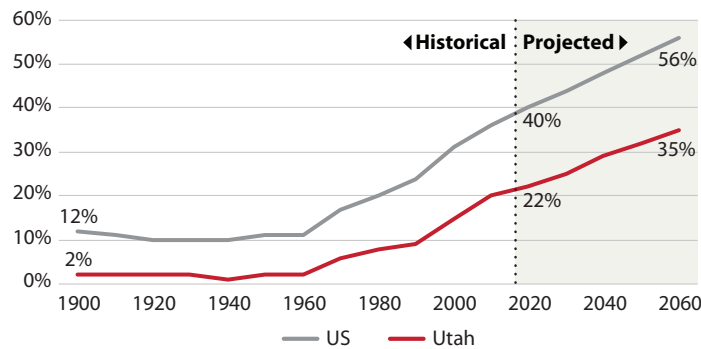
State demographic experts estimate Utah's population added 55,989 residents from July 2022-2023, bringing the state's total estimated population to 3,456,482 residents. This marks a 1.6% population increase, slightly lower than the 1.7% increase in the prior year. Net migration drove the majority of Utah's population growth, accounting for 56% of the state's population growth, or 31,558 new residents.¹⁰ While Utah's growth is not new, net migration consistently driving the majority of growth stands in contrast to Utah's historical growth trend of natural increase (internal population growth) primarily driving growth. A notable fertility rate decline is a part of a longer-term trend in Utah and across the U.S. and contributes to Utah's increasing

Figure 13: Percentage Change in County Population, 2022-2023



Source: Utah Population Committee, Kem C. Gardner Policy Institute

Figure 14: Utah Racial/Ethnic Minority Share of Population, 1900-2060

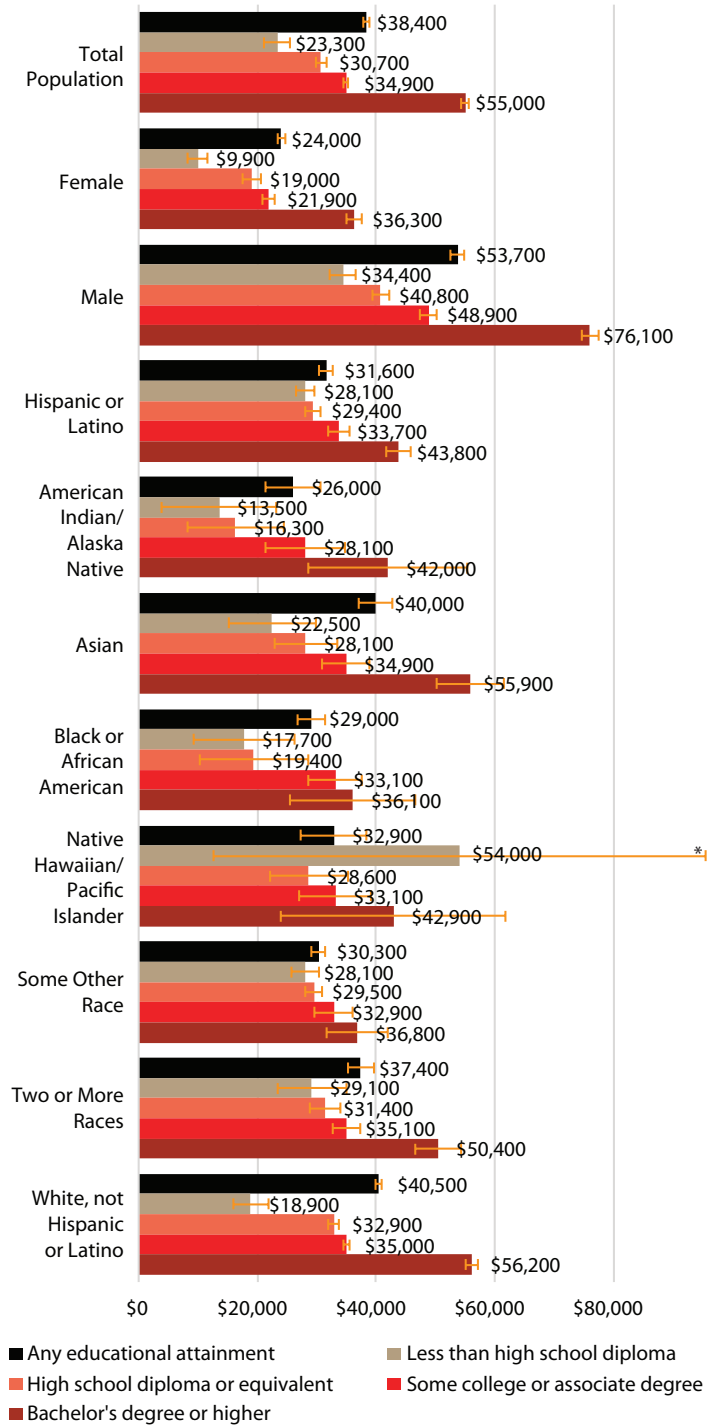


Note: Racial/ethnic minority includes those identifying as something other than Non-Hispanic White alone.

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

wide variety of factors such as education levels, hours worked, type of work, age / years of experience, geographic location, and discrimination among other factors. A growing mental health crisis is becoming more apparent throughout Utah, especially in younger populations. The number of people experiencing chronic homelessness in Utah has grown by as much as 27% from 2022 to 2023.¹³ Legislators continue to address these problems so that the state can remain prosperous and all Utahns can thrive.

Figure 14: Utah Racial/Ethnic Minority Share of Population, 1900-2060



Note: Estimates include individuals' pre-tax money income from all sources, excluding capital gains, rounded to the nearest \$100. With the exception of "White, not Hispanic or Latino," estimates include anyone who selected each race category, both Hispanic or Latino and not. Hispanic or Latino bars represent anyone who selected Hispanic or Latino ethnicity, regardless of race. Large confidence intervals indicate extremely small sample size. Source: U.S. Census Bureau, 2021 5-Year American Community Survey, Integrated Public Use Microdata Series

Governor Cox's Budget Recommendations

In December 2023, Governor Cox recommended a state FY 2025 budget totaling \$29.5 billion in all funds and \$12.6 billion in the combined General Fund and Income Tax Fund (basically the equivalent of other states' General Fund).¹⁴ The FY 2025 revenue projections totaled roughly \$500 million for new ongoing and about \$130 million for new one-time General Fund and Income Tax Fund revenues. While still representing growth, this revenue growth projection came in much lower than the \$1.8 billion in new ongoing and nearly \$2.9 billion in one-time General Fund and Income Tax Fund revenues projected in the prior year's governor's budget recommendation (FY 2024).

In other words, while forecasters still projected FY 2025 revenue growth, this projection remained much more moderate than in previous years and required focused attention to allocate limited resources. This moderating growth stems from the combined effects of tax cuts and an economy returning to more normal functioning after fiscal and monetary economic stimulus amped up economic growth, contributing to high inflation.

Highlights of Governor Cox's budget recommendation changes from all one-time and ongoing funding sources included:

- \$1 billion for education and workforce development
- \$195 million to address housing and housing affordability challenges and another \$190 million to address homelessness.
- Nearly \$240 million in state and higher education employee compensation
- Over \$200 million in different risk mitigation strategies.

Although not part of his budget proposal, prior to the legislative session, Governor Cox also mentioned exploring alternatives for eliminating the state's income tax, which is currently by far the largest state revenue source.

The FY 2025 Budget and Modifications to the FY 2024 Budget

In its December 2023 meeting, staff for Utah's Executive Appropriations Committee described Utah's \$29.4 billion all-sources budget as "boom to balance," with COVID-related federal spending finally winding down. Consequently, year-over growth in the state's \$12.9 billion combined General and Income Tax Fund budget returned to healthy yet sustainable levels.

Federal Funding: As with all states, Utah was flush with direct federal assistance from FY 2022 to FY 2024. Federal Funds as a percentage of the state budget ballooned to more than a third (34%), up from around a quarter (27%) prior to COVID. For FY 2025, direct federal support will make up around 28% of Utah's budget - even after accounting for the Infrastructure Investment and Jobs Act. Almost all of federal funding from the American Recovery Plan Act and enhanced federal Medicaid matching rates are absent in FY 2025.

Available New State Revenue: Federal pandemic spending not only impacted state budgets directly, but intervention in state economies created a boom in own-source revenue for FY 2023 and FY 2024. That bubble had burst by FY 2025. After two years of apparent sales and income tax revenue growth in the multiple billions of dollars, available state revenue returned to historical trends in FY 2025. For the 2024 General Session, legislators saw revenue growth in the three to five percent range (\$620 million ongoing and \$348 million one-time), compared to the prior year when available revenue was more than five times that amount (\$2.5 billion ongoing and \$3.5 billion one-time).

Tax Cuts: While Governor Cox did not propose a tax reduction in his budget recommendations, legislative leaders were intent on cutting taxes for a third year in a row. Within days of the Governor's public budget release, the Legislature's Executive Appropriations Committee set aside \$160 million for tax cuts. While this presented an apparent conflict at the beginning of the Session, upward revisions to consensus revenue estimates in February facilitated a reconciliation. In the end, legislators passed and the Governor signed an income tax rate reduction from 4.65% to 4.55% (\$167.7 million ongoing and \$37.1 million one-time), expanded eligibility for Utah's child tax credit from age 3 and under to age 4 and under (\$2.3 million ongoing beginning in 2026), and extension of rural film incentive credits at nearly \$12 million per year for two years (\$1 million ongoing and \$22 million one-time).

Transportation: To manage uncertainty about the sustainability of prior-year revenue estimates, last year's Legislature budgeted \$335 million ongoing and \$440 million one-time in FY 2024 to pre-pay debt. Those revenues did materialize in collections at the end of FY 2023 and in updated projections for FY 2024. Assuming a one-year spending lag, this made \$335 million ongoing beginning in FY 2025 and \$775 million one-time (\$440 million one-time from last year plus \$335 million in FY 2024) available for debt reduction or for allocation to other priorities. The Governor proposed using about half of this for housing and homelessness in his budget. Legislators chose instead to use \$330 million ongoing and \$775 million one-time for transportation infrastructure projects and only \$5 million ongoing for other priorities. This one-year lag also allowed legislators to swap income tax revenue for General Fund in higher education, avoiding the state's constitutional restriction on income tax spending.

Public Education: Keeping a commitment made to educators who acquiesced to expanding the uses of income tax in past years, one of the first things policymakers did for FY 2025 was fund 3.8% inflation in the state's basic school funding formula. While public school headcount is expected to decline next year,

appropriators still provided funding for growth due to a higher prevalence of students with a greater formula weighting - like those in special education. In the end, appropriators provided \$211.7 million to increase the Weighted Pupil Unit value by 5% (from \$4,280 to \$4,443), \$57 million for at-risk students and digital teaching tools, \$40 million for private school scholarships, and \$440 million for one-time projects from the Public Education Economic Stabilization Account.

Higher Education: A policy debate about college and university Diversity, Ethnicity, and Inclusion (DEI) initiatives made its way into the budget process this year. As part of a larger effort to bring all of higher ed's spending "on budget", legislators passed intent language directing the use of DEI budgets for the benefit of all students, not just those in protected classes. Appropriators initially reduced ongoing funding for higher education by 1.5% at degree granting institutions and 0.5% at technical colleges. However, the Legislature backfilled those cuts one-time by the end of session. All told, legislators added funding to higher education budgets for university performance funding (\$20 million ongoing), technical college growth and equipment (\$7 million ongoing and \$5 million one-time), and new building construction on higher education campuses (\$160 million one-time).

Homelessness and Housing Affordability: A hallmark of the Governor's budget proposal, legislators found creative ways to address housing and homelessness in the 2024 General Session. They created a program to leverage \$300 million in existing state treasury investments to subsidized housing loans under the Utah Homes Investments. The program cost policymakers \$17 million due to reduced or forgone interest earnings. Legislators also funded \$3 million for a Shared Equity Revolving Loan Program, and \$3 million for the Law Enforcement First Time Home Buyer Program. Largely at the Governor's urging, appropriators also provided \$10 million ongoing and \$11.8 million one-time for Statewide Homeless System Support, \$25 million one-time for Low-barrier Shelter, \$0.5 million ongoing and \$2 million one-time for Home Courts, and \$2.6 million for shelter city mitigation.

State Employee Compensation: To compete in a tight labor market, the Governor and legislators provided significant resources for state and higher education employee salary and benefits again this year. They agreed upon \$135 million ongoing for a 3% salary increase for executive branch and higher education employees, 2% pay for performance increases in the executive branch, and 5% discretionary salary increases for other branches of government. For the first time in FY 2025, the retirement cost for newer employees will exceed a 10% cap set by policymakers when they reformed Utah's retirement system fifteen years ago. Legislators left the cap in place but appropriated a 0.7% salary enhancement for Tier II retirement (newer) employees.¹⁵

Salt Lake City Investment: In recent years, Utah business leaders began seeking Major League Baseball and National Hockey League franchises. If these opportunities materialize (as the NHL opportunity has), the Legislature authorized potential bonding authority and revenue increases, with the intent to support revitalization in parts of west-side Salt Lake City. This part of the city, which includes the large state-owned Utah State Fairpark, traditionally experienced fewer economic opportunities and houses a larger share of lower-income households. Under newly-enacted legislation, specified districts could issue bonds that would support infrastructure, stadiums and related facilities, and, subject to certain conditions, the special districts or the city could increase specified taxes such as the transient room tax, sales tax, or certain excise taxes.

Conclusion

In sum, the State of Utah's FY 2025 budget differed from recent years, as it shifted from "boom to balance." As a growing and changing state, Utah enjoys many benefits and also faces many challenges and growing pains. The FY 2025 budget addressed a wide array of issues, including through funding for transportation, public and higher education, housing, homelessness, state employee compensation, as well as providing a tax cut.

Endnotes

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