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# Utah Legislative Update: February 2019

## Insight — February 4, 2019

Utah's legislative session is now underway and will be in-session through March 14th. During that time, Utah's 104 lawmakers and Governor Herbert are hard at work crafting the 2019 state budget, and legislation that will impact items such as regulations on business, infrastructure construction, and education among many other topics.

Each session the legislature passes about 500 bills. That does not mean 500 new laws are passed, but rather most bills involve changes to existing laws. To pass 500 bills in 45 days means things happen at a lightning fast pace. It also means the cream rises to the top. The bills that pass in this short time are the bills most important to the state. Those that need more work, or are just bad ideas, usually fall off the priority list and receive more attention after the general session. Here is an update on some of the hot topics that will be considered in the 2019 session.

### Budget

Current revenue projects indicate that Utah will enjoy \$1.3 billion in new revenue for the new fiscal year. That means Utah's economy is doing so well that budget prognosticators expect the state to take in this significant new revenue, even after making tax cuts in the 2018 session. Despite the large revenue figure, much of the money is already claimed. The legislature has already committed \$628 million of the \$1.3 billion to items like the new state prison construction. The Governor has also called for a \$200 million tax cut which would cut into the \$1.3 billion figure.

Lawmakers are also signaling they will be conservative with the budget as they want to ensure the state is prepared for the various economic scenarios that may play out in upcoming years. This means some of the ongoing revenue will be budgeted as one-time money just in case state revenues decrease next year.

Education is one area that will seek additional funding from this new revenue. To fund the new kindergarten students that are expected in our school system next year it will require \$42 million. To continue to give modest pay increases to teachers, lawmakers may consider a 3 percent increase that would cost \$96 million. Other major dollar expenditures include the state portion of Medicaid, which will cost \$20 million; state employee salary increases of 2 percent, which cost \$36 million; and state employee healthcare, a \$12 million expense. The \$1.3 billion in new revenue will be spent quickly!

### Sales Tax Reform

Legislative leadership and the Governor have expressed an interest in reforming Utah's sales tax system through consideration of a sales tax on

services. In Utah, sales tax is the primary revenue source for the General Fund which funds the vast majority of government programs. As the economy and buying trends shift from goods to services, legislators must consider whether the tax system needs to evolve to tax services in addition to goods. While extending sales tax to services might fit the often-used mantra of, “broadening the base and lowering the rate,” it does present the interesting challenge of layering sales tax on business-to-business transactions that would then be built into the final cost any good or service. In addition, one wonders about the public policy of taxing medical services at a time when many struggle to afford healthcare. Legislators contend this is a good session to tackle tax reform given the budget surplus because it would strengthen and diversify sales tax collections. An overall rate reduction could be applied due to the expanded base in addition to a tax cut to return money to taxpayers. Sen. Lincoln Fillmore (R-South Jordan) and Rep. Tim Quinn (R-Heber) have been tasked with examining services and making policy recommendations. Rest assured, many entities in the service sector are closely watching the evolution of this issue and robust dialogue is expected.

### **Prop. 2 Medical Marijuana**

In November of 2018, Utah voters approved a proposition (Prop. 2) that allowed for medical marijuana to be distributed within the state. Quickly following the voter approval, the legislature acted to amend the proposition. The legislative changes shrunk the amount of medical marijuana dispensaries, added additional oversight for how medical marijuana is managed, and added age restrictions for who can use the drug. It was thought that there may be some technical clean up changes made to Prop. 2 in the general session this year, but signals are being sent now that no changes to the law in the upcoming session will be forthcoming.

### **Prop. 3 Medicaid Expansion**

Also in 2018, Utah voters approved a proposition to expand Medicaid to provide healthcare to individuals who are up to 138% of the federal poverty level. This proposition also included a sales tax increase to pay for the cost of expansion. State lawmakers now indicate the sales tax increase may not cover to cost of full expansion and are now concerned that Medicaid may take over the state budget in years to come if no action is taken. Lawmakers are considering a host of options to control the costs of Medicaid expansion. Those options include repealing the proposition and tax increase altogether, capping who can enroll in the expansion, or capping how much money can be spent.

### **3.2% Beer**

For many years, Utah was one of five states that imposed a 3.2 % ABW requirement for beer sold in grocery and convenience stores. However, Oklahoma, Colorado, and Kansas have all recently changed their state laws to allow for higher alcohol content beers to be sold in grocery and convenience stores. This leaves Utah and Minnesota as the only remaining 3.2% beer states and shrinks the 3.2 beer market to less

than .5% of the total national beer market. Reductions of certain beers and beer package sizes have already been documented in Utah as the market adjusts to the legal changes in other states. A bill is expected this session to increase the alcohol content from 3.2 % to 4.8% ABW for Utah grocery and convenience store sales. This would put Utah on par with Kansas as still being one of the lowest alcohol content for these retail outlets and restore many of the beers and beer package sizes that have been removed from retail shelves. Alcohol policy is always an interesting and somewhat fraught discussion in Utah due to religious, cultural, and historic factors, so this will be an interesting issue to watch.

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