



GOVERNOR'S BUDGET OVERVIEW

Governor Herbert's Fiscal Year 2011 budget recommendations recognize that the State of Utah, like the rest of the nation, has faced significant economic challenges over the past couple of years. However, it also expresses confidence that economic recovery is beginning to take hold in the State, and most indicators of economic activity have begun to stabilize. Preliminary estimates suggest that seasonally adjusted Utah employment has been growing on a month-to-month basis since September, and the number of new weekly unemployment insurance claims is beginning to decline.

The *American Recovery and Reinvestment Act of 2009 (ARRA)* helped Utah supplement critical programs by contributing one-time money to the State's budget. When this funding and other one-time State funds are no longer available, however, the State will need to bring its budget back into structural balance, where ongoing revenues match ongoing expenditures.

Throughout these challenging times, Utah has remained fortunate. Careful past fiscal management has positioned Utah for early recovery, with a significant Rainy Day Fund and other reserves that were set aside during years of growth. Many other states drew significantly from their cash reserves at the beginning of the economic downturn and now find themselves facing very difficult situations. Utah is fortunate to not be in such a dire position.

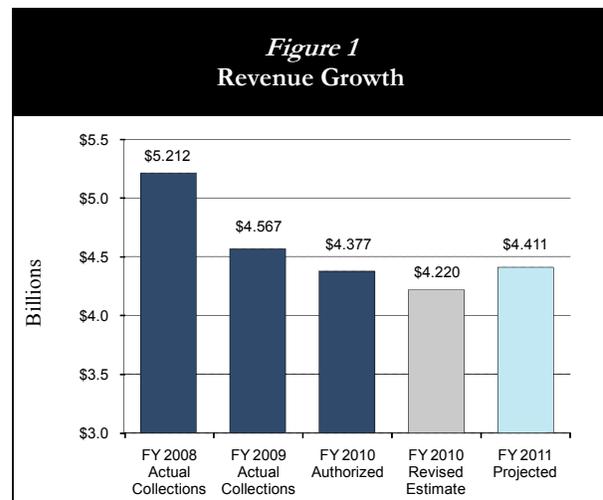
The Governor's FY 2011 budget recommendations are built upon a long-term economic plan, looking beyond the current budget cycle to determine what is best for Utah and its citizens right now and into the future.

Budget adjustments recommended for FY 2011, including FY 2010 supplemental funds, are located in the following sections: table 1 in summary form; tables 6 through 10 by department; and itemized tables in the department sections.

Revenue Forecast

The Governor's Office of Planning and Budget, the Utah Tax Commission and the Office of the Legislative Fiscal Analyst have reached consensus on revenue estimates for FY 2010 and new revenues for FY 2011. These revenue estimates are the basis upon which the Governor's budget recommendations are built.

The new FY 2010 revenue estimate is \$157 million lower than the February FY 2009 revenue estimate, while projections for FY 2011 indicate revenue growth of \$191 million. With a projected \$34 million in new money for this budget cycle, the revenue the State anticipates losing in FY 2010 will



be replenished in FY 2011. This is encouraging news for the State’s future, and indicates that the FY 2010 budget gap can be bridged with one-time sources rather than reducing the State’s ongoing base budget.

Budget Principles

Governor Herbert has relied on four key principles in making his budget recommendations:

- Protect public and higher education by fully restoring backfill for FY 2011 to maintain the systems’ budgets at FY 2010 levels
- Avoid exacerbating the budget’s structural imbalance
- Retain a healthy balance in the State’s Rainy Day funds
- Balance the budget without tax increases

Budget Recommendation Summary

Creating a budget consistent with these principles required using a balanced, focused approach in using resources available to the State. These include:

- Reducing agency expenditures
- Drawing on the State’s Rainy Day funds and the Growth in Student Population Account

- Employing the State’s AAA credit rating to finance road projects
- Altering the method by which the State collects some sales and income taxes
- Utilizing other one-time resources in various State accounts

Figures 2.1 and 2.2 show how these resources have been used to create balanced budget recommendations for the FY 2010 and FY 2011 budgets.

<i>Figure 2.1</i> FY 2010 Budget Gap And Solutions (in Millions)	
Budget Shortfall	\$163
Supplemental Needs	20
Total FY10 Budget Gap	\$183
Budget Gap Solutions:	
Agency Reductions (3% COLA)	\$39 *
Medicaid Settlement	20
OPEB/Term Pool	6
Reduce USTAR ARRA	5
Restricted Fund Balances	16
Student Population Account	72 **
Bonding for Roads	25
Total Solutions	\$183
*Includes Higher Education	
**Public Education covered by Student Population Account	

<i>Figure 2.2</i> FY 2011 One-time and Ongoing Revenue Sources with Recommended Expenditures (in Millions)	
Revenue Sources	
One-time:	
Rainy Day Fund	\$166
Student Population Account	31
Quarterly Filings	125
Enhanced FMAP - ARRA	56
Bonding for Roads	75
Total One-Time	\$453
Ongoing:	
FY 2011 Growth	\$34
Unallocated Ongoing	3
Sales Tax Vendor Discount	20
Total Ongoing	\$57
Total Revenue	\$510
Items to be Funded:	
Public Education	\$293
Higher Education	66
Other Agencies	151
Total Expenditures	\$510
Revenue Less Expenditures	\$0
Rainy Day Fund Balance	\$252

Budget and Policy Priorities

Governor Herbert's budget recommendations reflect his commitment to four key policy areas, while also meeting the needs within critical areas of state government.

Economic Development

Utah was recently ranked by the American Legislative Exchange Council as the state most likely to emerge first from the economic recession. The recognition is due, in large part, to Utah's business-friendly environment and past prudent fiscal management. With economic indicators stabilizing, the Governor remains confident the State is on the road to recovery and is committed to helping the State's economy continue to grow. With that in mind, the Governor has committed to balancing the budget without raising taxes, which would be detrimental to Utah families and businesses and would stymie future economic growth.

Public and Higher Education

Building a strong state workforce is an integral part of economic development, and that requires a commitment to public and higher education. Utah must focus on its public and higher education systems to retain its competitive advantage in the global business environment. For that reason, Governor Herbert recommends maintaining current education funding levels through FY 2011.

These two areas comprise more than 66 percent of the State's general revenue budget, which makes balancing the budget without additional cuts to the systems a challenge. However, given the importance of public and higher education to Utah's future economic success, it is imperative that the State do everything possible to protect these two systems.

Energy Security

The topic of energy security is vital to the discussion of state and national policy matters. Governor Herbert encourages adequate, reliable, affordable, sustainable and clean energy resources, including both nonrenewable and renewable resources, energy conservation, energy efficiency and environmental quality. Given Utah's vast natural resources, our State is positioned to lead the nation in the development of both traditional and renewable energy resources. Utah is, and will continue to be, a leader in the development of clean, affordable and sustainable solutions for utilizing fossil fuels and renewable energy sources. Utah must also continue to lead the nation in new commercial and residential building energy efficiencies, and in the use of compressed natural gas as a transportation fuel.

Infrastructure

The Governor is committed to Utah's infrastructure. These budget recommendations maintain ongoing funding for road and infrastructure projects. Investment in the State's transportation and water systems, among others, is key to Utah's long-term economic prosperity. Gridlock on the highways costs time and money and can be harmful to Utah's outstanding quality of life. Businesses already located in Utah, and those looking to relocate to Utah, appreciate the State's continued commitment to maintaining vital infrastructure and the effect those actions have on their future success.

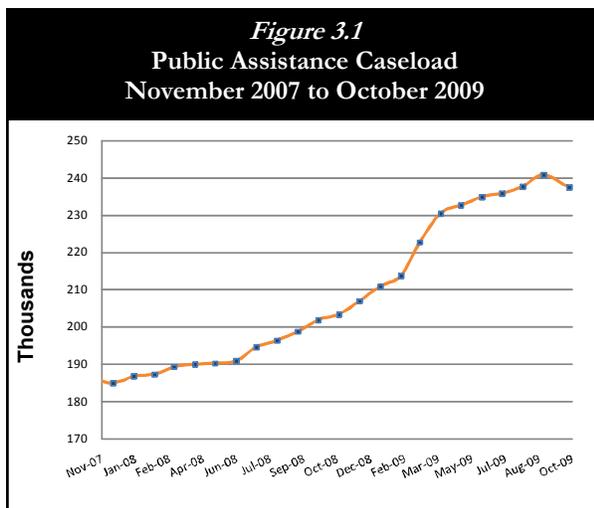
Critical Needs

Governor Herbert’s budget recommendations provide sufficient funding to meet the most pressing needs of the State and its citizens. It is no secret that when the economy suffers, the need for assistance increases. The Departments of Health, Human Services, and Workforce Services have experienced record caseload growth in assistance programs such as Medicaid and Food Stamp.

Temporary Assistance for Needy Families/Food Stamp

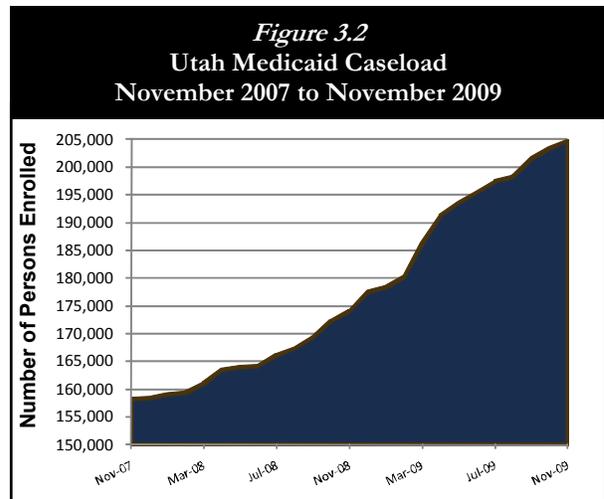
The Department of Workforce Services (DWS) has experienced a significant increase in public assistance caseloads over the past year, especially in the areas of Temporary Assistance for Needy Families (TANF) and Food Stamp. TANF and Food Stamp caseloads are up 25 percent and 47 percent respectively, while overall public assistance caseloads are up 14 percent. Figure 3.1 illustrates DWS caseload trends since November 2007.

Even as these caseloads have increased, DWS has been continuing to analyze processes internally to more effectively and efficiently provide services to those in need.



Medicaid

Utah’s Medicaid caseload also continues to grow. The economic recession has caused an increase in unemployment, therefore increasing the number of individuals eligible for public assistance programs such as Medicaid. The total number of Medicaid recipients has increased 29.4 percent or 46,490 individuals, placing an increased demand on the States General Fund during the last two years as shown in figure 3.2.



Statutory Tax Law Changes

Neither the Governor's FY 2010 nor the FY 2011 base budget recommendations include any tax law changes. The Governor is, however, recommending two changes to Utah's tax laws to fund critical items:

- Require quarterly income tax remittance for non-withheld individual income taxpayers
- Repeal vendor rebates to companies for monthly sales tax remittance

Quarterly Estimated Payments for Income Tax

Of the 43 states and federal government that have an annual individual income tax, Utah, Idaho and Tennessee are the only states that do not require quarterly estimated payments.

Rather than allowing continued annual remittance, Governor Herbert proposes requiring taxpayers to remit quarterly estimated income tax payments for taxes on non-withheld income beginning in tax year 2011. Quarterly payments are already mandated for the corporate income tax. This change would bring Utah's remittance schedule in line with the federal schedule and add stability to State revenue forecasts. It would also accelerate revenue collections two quarters in perpetuity, resulting in an anticipated one-time adjustment of at least \$125 million to the FY 2011 budget.

Repeal of the Sales Tax Vendor Discount

Utah law currently requires vendors with sales tax liabilities over \$50,000 in the previous year to remit sales taxes on a monthly basis, while allowing these filers, and other voluntary monthly filers, to retain a vendor discount equal to 1.31 percent of combined collected sales taxes. The Utah State Tax Commission allocates the discount to the State, counties, cities, and towns based on their proportion of the monthly sales tax distribution. Sellers of unprepared food may retain the vendor discount as if they had collected taxes at the full combined rate.

The Governor proposes repealing the sales tax vendor discount beginning in July 2010. The discount was originally instituted in 1992 as a means of mitigating the burden of mandated monthly filing. Over time, however, technology has diminished this burden for large filers, the beneficiaries of the bulk of the discount. The State's 20 largest filers, or less than 1 percent of all monthly filers, receive about 25 percent of the total discount. Repealing the discount would provide more equity between large and small retailers, and result in annual ongoing State savings of \$20 million beginning in FY 2011.

Economic Forecast

The State's Revenue Assumptions Committee determines the basic assumptions that lead to the Consensus Revenue Forecast used in the Governor's budget recommendations. Members of the committee represent the Governor's Office of Planning and Budget, the Utah Tax Commission, Office of the Legislative Fiscal Analyst, the University of Utah and various state agencies. Detailed information about the outlook for Utah's economy will be available in the 2010 Economic Report to the Governor, which will be released in January 2010.

National pressures related to housing and financial market turmoil led to significant deceleration in the Utah economy in 2008 and even more severe declines in 2009. While the recession Utah has experienced has been of historic proportions, the State's economy is well-positioned to reemerge in 2010.

Population

According to the Utah Population Estimates Committee, Utah's population reached 2.8 million in 2009, and is forecasted to increase by 1.7 percent in 2010. Comparatively, the national population is expected grow at a rate of 1.0 percent in 2010. Utah experienced net in-migration of approximately 1,500 people in 2009, and net in-migration of 8,000 individuals is anticipated in 2010.

Employment

Utah nonagricultural employment declined an estimated 4.9 percent in 2009, and is projected to drop an additional 1.8 percent in 2010. Nationally, employment declined an estimated 4.3 percent and is projected to drop one percent further in 2010.

The 2009 annual average unemployment rate in Utah is an estimated 6.5 percent, while the national average is an estimated 9.2 percent. The average 2010 Utah and national average unemployment rates are forecast to rise to 6.8 percent and 10 percent, respectively.

Personal Income

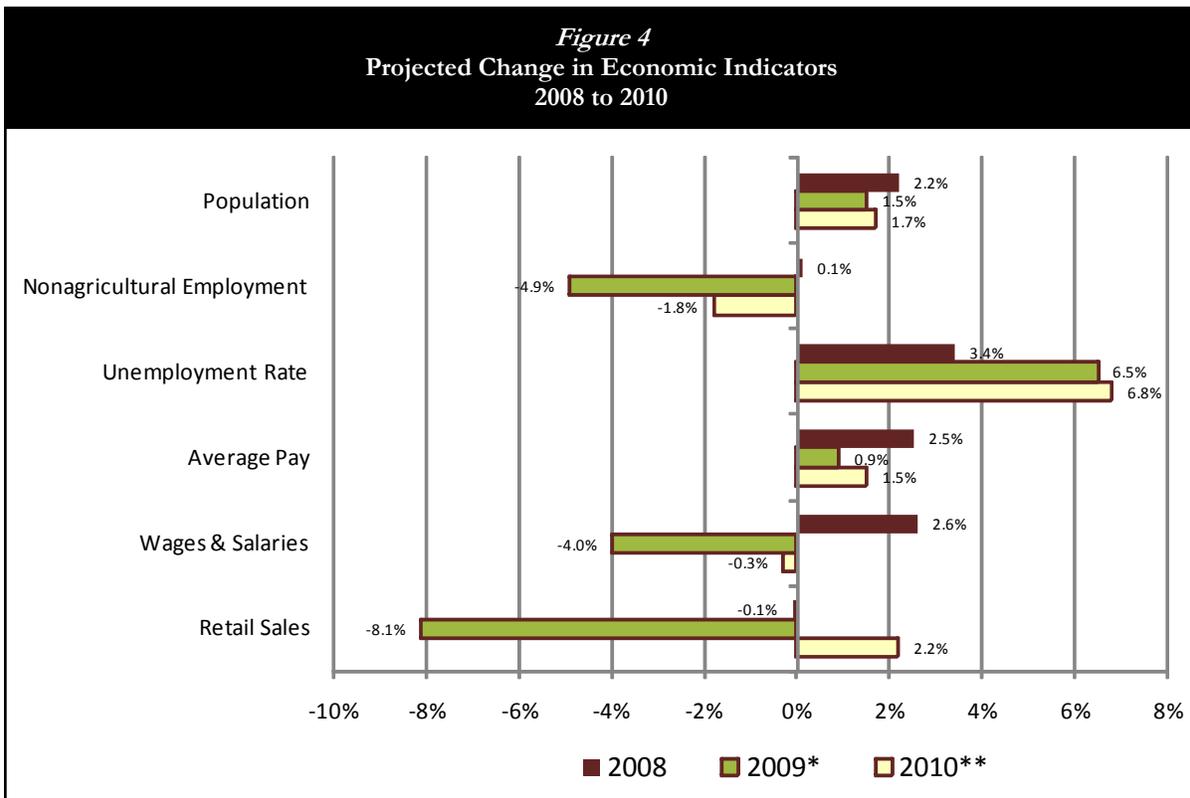
The annual personal income of Utah citizens in 2009 declined an estimated 1.3 percent to \$81.8 billion. By comparison, national annual personal income declined an estimated 2.2 percent to

\$12 trillion. Utah’s estimated aggregate annual personal income for 2007 was \$82.7 million, up from \$75.9 million in 2006. Personal income is forecast to grow 2 percent in Utah and 2.7 percent nationally in 2010.

Retail Sales

Taxable retail sales in Utah were an estimated \$24.3 billion in 2009, down 8.1 percent from sales in 2008. Nationally, total retail sales decreased 6.1 percent in 2009. Economists project a 2.2 percent increase in Utah taxable retail sales in 2010, and a 3.3 percent increase in total retail sales nationally.

Figure 4 shows the projected change in economic indicators for Utah.



* Estimate ** Forecast

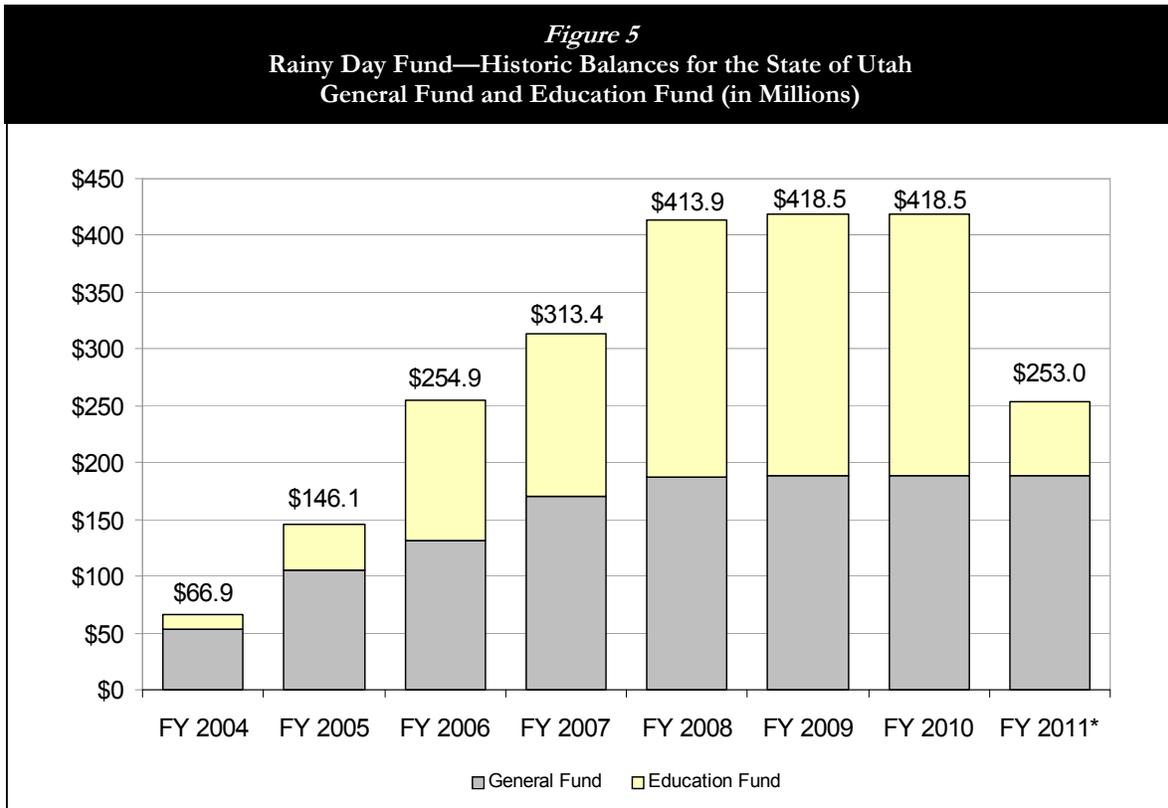
Budget Reserve Fund and Education Budget Reserve Fund

For additional budget stabilization, the State maintains the Budget Reserve Fund (Rainy Day Fund) and Education Budget Reserve Fund (Education Rainy Day Fund) with a combined total balance of \$418.5 million. These funds can be used only for operating deficits, retroactive tax refunds, or settlement agreements approved by the Utah Legislature.

Governor Herbert recommends using \$165.5 million from the Education Budget Reserve Fund to replace funding one-time for Public Education. The combined balance of \$253 million would then be retained for future years as shown in Figure 5.

Appropriations Limit

UCA 63-38c-201 through 205 limits how much the State can spend from unrestricted General Fund sources and non-Uniform School Fund income tax revenues. The limit allows spending to increase relative to population and inflation increases. The budget recommendations for both FY 2010 and FY 2011 are within the limit.



* Reflects the Governor's recommendation to use \$165.5 million in FY 2011 to backfill cuts to public education

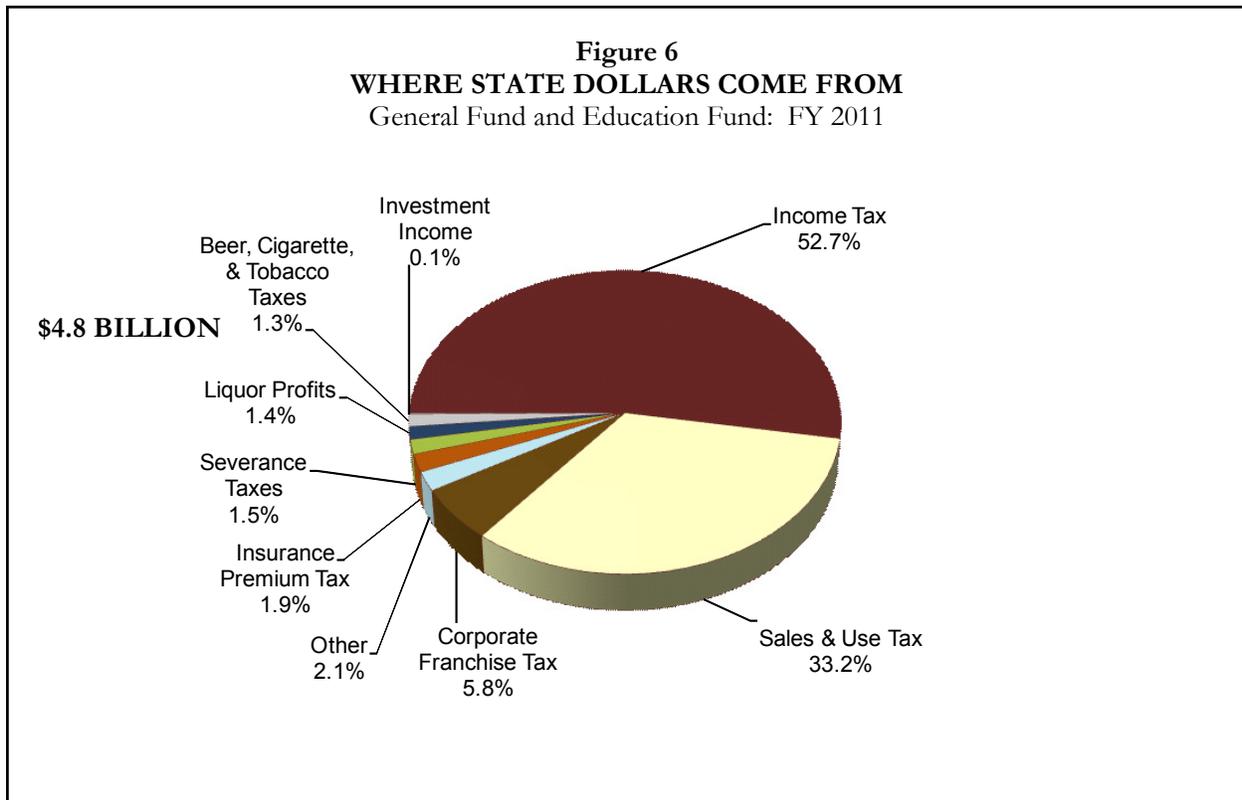


Figure 6 shows the estimated sources of state revenue (General Fund and Education Fund) for FY 2011.

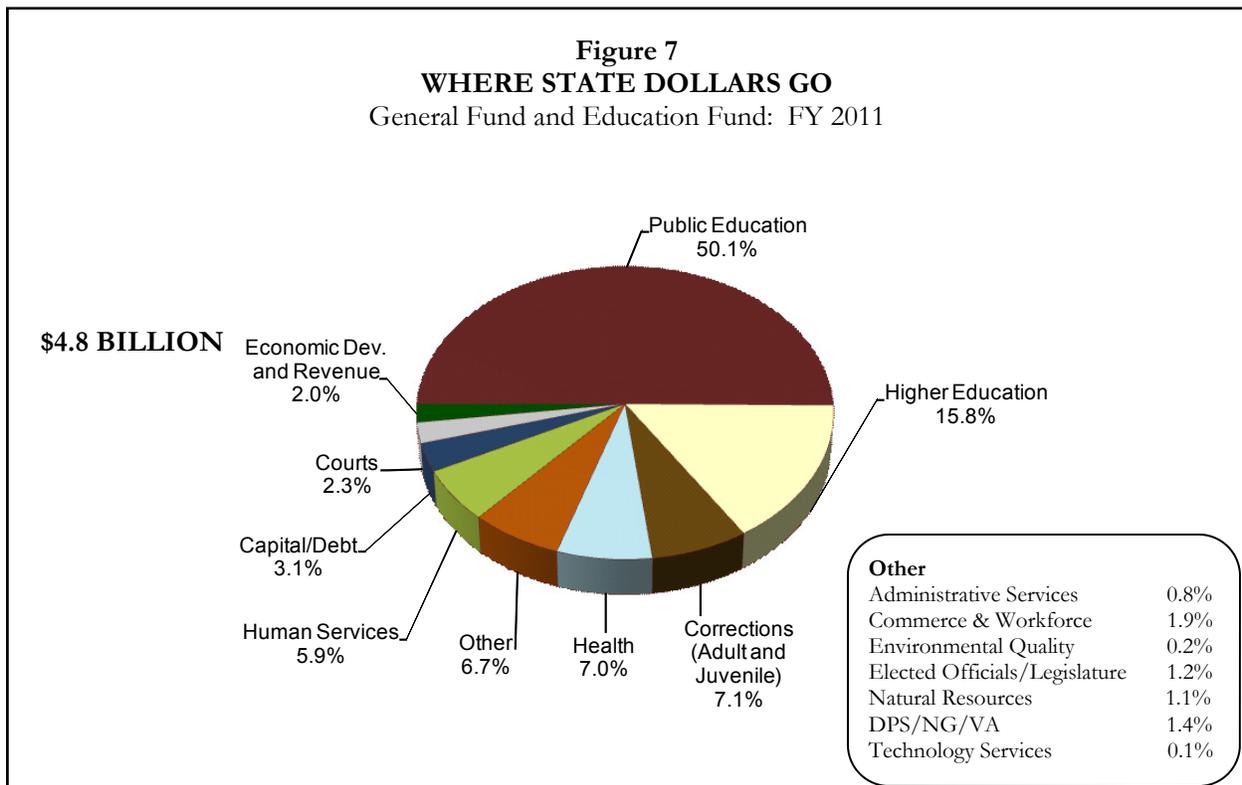


Figure 7 shows how state funds (General Fund and Education Fund) will be expended in FY 2011. The largest portion, amounting to 66 percent, goes to Public and Higher Education.

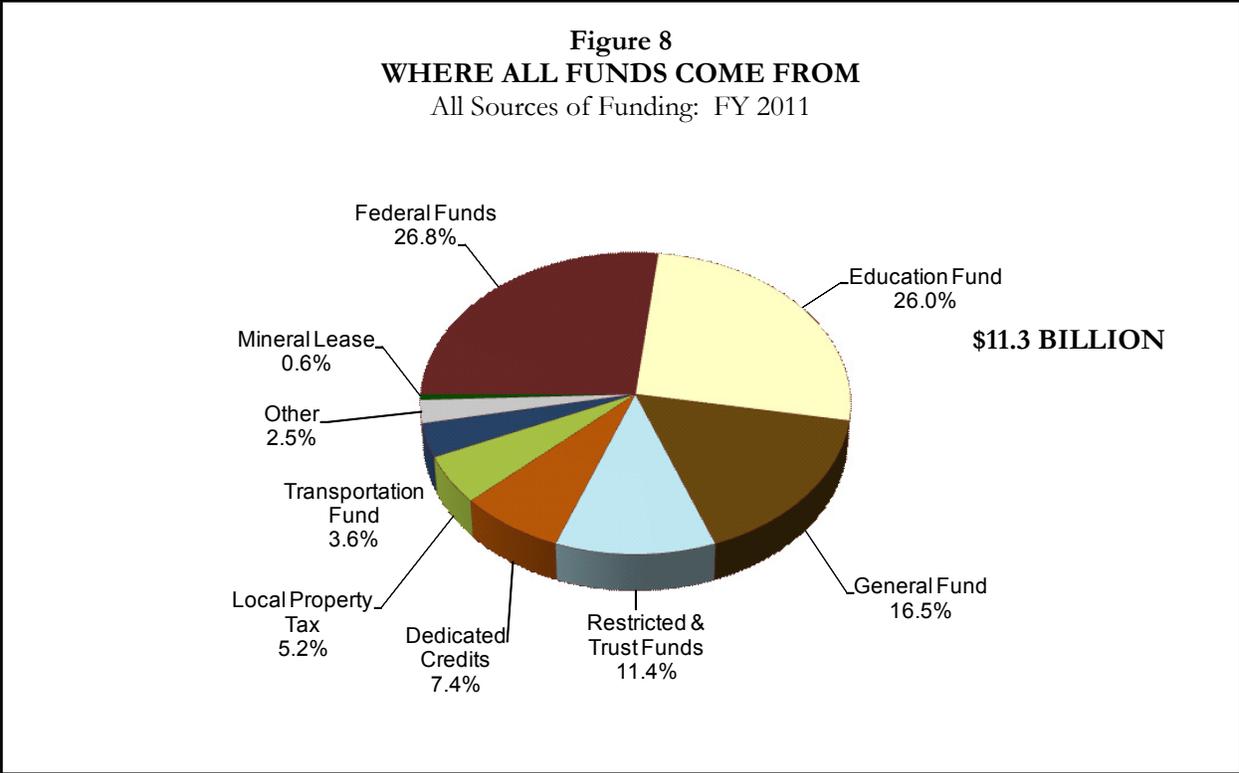


Figure 8 shows the total estimated sources of revenue for the FY 2011 budget. The General Fund and Education Fund, consisting primarily of sales and income taxes, generate just less than one-half (42.5 percent) of the total state budget.

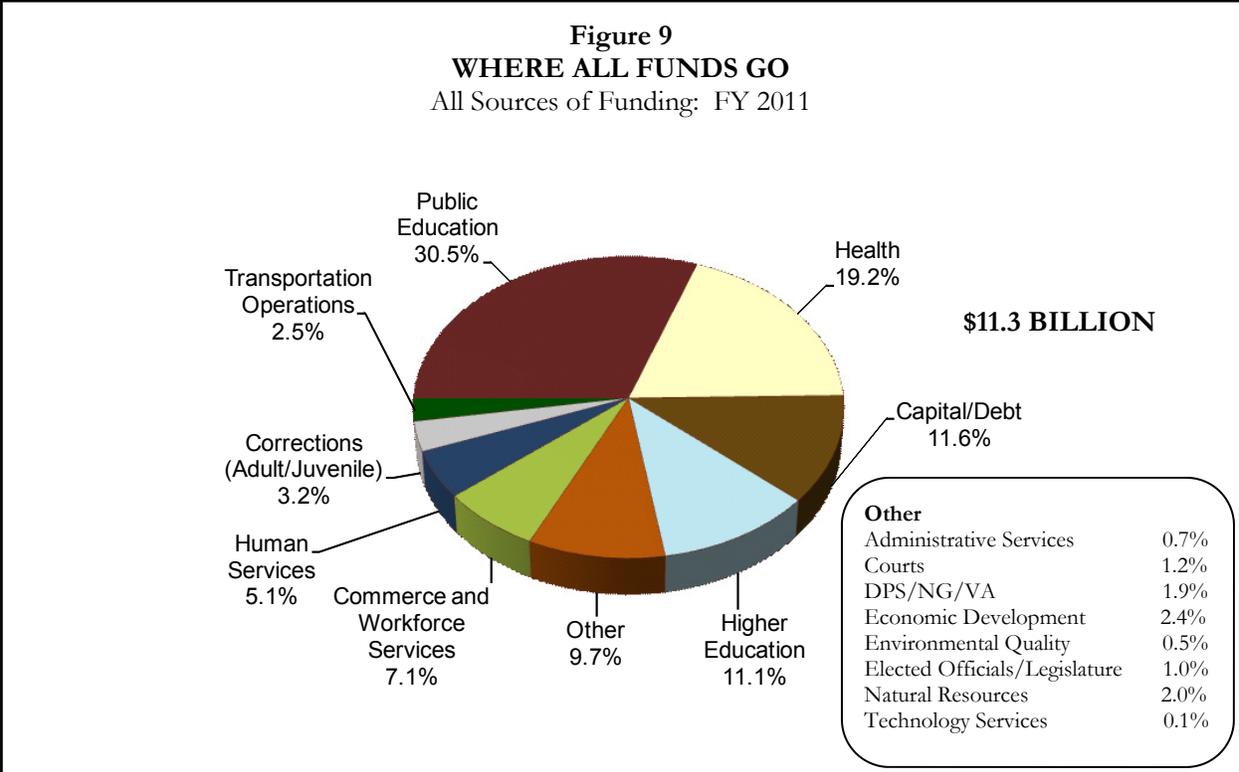


Figure 9 shows the total budget expenditures for FY 2011 from all sources of funding.