



GOVERNOR'S BUDGET OVERVIEW

After several years of economic downturn in Utah and across the country, the State is entering 2011 with an economy that is showing signs of recovery. This emerging return to growth, coupled with a history of careful fiscal management, allows Governor Gary R. Herbert to present a Fiscal Year 2012 budget that includes additional funding for education, provides funding for critical needs, retains a responsible Rainy Day Fund balance and significantly reduces the structural deficit – all without increasing taxes.

Governor Herbert's FY 2012 budget recommendations include \$50 million in additional funding for public education enrollment growth, as well as funding for extended-day kindergarten and the recommendations of his Education Excellence Commission. This funding is a testament to the Governor's dedication to education, as well as his recognition that economic recovery is inextricably linked to a solid education system.

Governor Herbert also understands that growing the economy is crucial to the State's long-term viability, and, as such, has recommended funding several key economic development initiatives.

Other funding recommendations include funding Medicaid caseload growth and monies for the jail contracting and reimbursement programs, which are critical for public safety in the State of Utah.

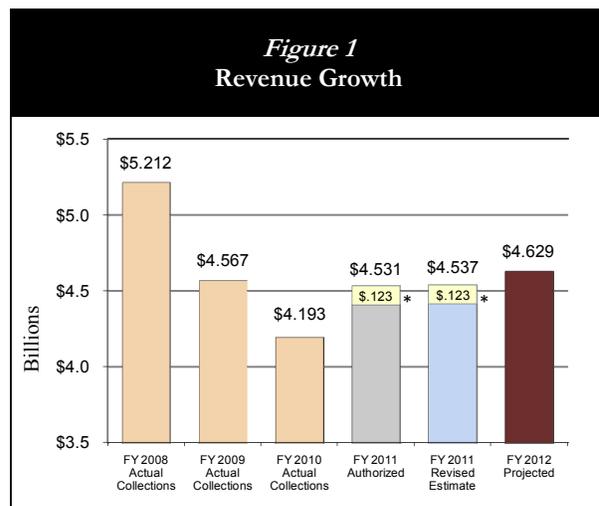
Finally, the Governor's recommendations leave \$110 million in rainy day funds and reduce the structural deficit by \$100 million. Again, all without raising taxes.

Budget adjustments recommended for FY 2012, including FY 2011 supplemental funds, are found in the following sections: Tables 1 through 5 in summary form; Tables 6 through 10 by department; and itemized tables in the department sections, which include a listing of all detailed budget items.

Revenue Forecast

In November 2010, the Governor's Office of Planning and Budget, the Office of the Legislative Fiscal Analyst, and the Utah State Tax Commission revised the State's FY 2011 revenue forecast and developed a new consensus revenue forecast for FY 2012. The Governor's budget recommendations are based on this forecast.

Figure 1 and Table 4 provide details for historical and anticipated revenue collections.



* One-time money includes transfers from the Centennial Highway Fund and Tobacco Trust Fund

After four years of declining revenue and numerous downward forecast revisions, the latest economic indicators give reason for cautious optimism. The revised FY 2011 combined General Fund/Education Fund revenue forecast calls for \$221 million of growth over FY 2010 collections (excluding one-time transfers from the Centennial Highway Fund and Tobacco Trust Fund restricted account that were approved during the last General Session). The new forecast for FY 2012 anticipates additional growth of \$215.6 million, bringing total collections to approximately \$4.6 billion.

Budget Principles

Governor Herbert relies on five key principles in making his budget recommendations:

- Funding public education enrollment growth
- Holding higher education and state agency budgets at last year’s levels
- Reducing the structural deficit
- Maintaining \$110 million in the Rainy Day Fund
- Refusing to raise taxes

Critical Needs

Public Education

Utah must focus on its public education system in order to retain its competitive advantage in the global business environment. Funding growth in public education and maintaining higher education at current levels is Governor Hebert’s top priority. Funding components of public education enrollment growth with \$50,000,000 ongoing Education Fund will help cover the growth of 14,700 students.

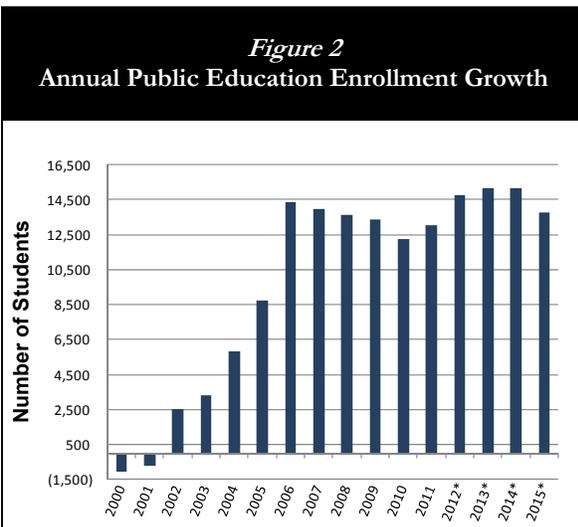
The Governor’s budget also begins to implement the recommendations of his Education Excellence Commission by:

- Continuing extended-day kindergarten with \$7,500,000 one-time Education Fund;
- Implementing the Common Core Standards recommendation to focus on “learning outcomes” to improve our competitive position with other countries with \$2,000,000 one-time Education Fund;
- Improving proficiency in 3rd grade reading and 6th grade mathematics by Enhanced Assessments and Reporting with \$2,500,000 one-time Education Fund; and
- Expanding the Pilot Assessment Project to provide more students with the opportunity to assess college and career readiness so that they may be better prepared to enter the Utah workforce with \$1,000,000 one-time Education Fund.

Higher Education

Mission-based funding for Utah’s colleges and universities will better align resources with outcomes. Governor Herbert recommends \$1,000,000 to complete initiatives that will provide mentors to first-generation students, assist students who are struggling academically, and offer more night and weekend courses to students who struggle to attend school during the traditional class schedule.

The Utah Cluster Acceleration Program focuses resources and energy into identified economic clusters such as alternative energy, aerospace and



* Forecast

Figure 2 shows annual public education enrollment growth that Utah expects to continue through 2015.

defense industries. The Governor recommends \$500,000 to plan for and identify additional projects within the economic clusters to grow Utah's economy.

Public Assistance

Since December 2007, the average monthly Medicaid caseload in Utah has grown by 43.4 percent or 68,731 individuals. Caseload growth is projected at 12.4 percent for FY 2011. The Governor recommends an increase of \$37,874,700 ongoing General Fund for Medicaid caseload.

The Children's Health Insurance Program (CHIP) has seen similar caseload growth. Governor Herbert recommends increased funding of \$2,438,800 ongoing General Fund.

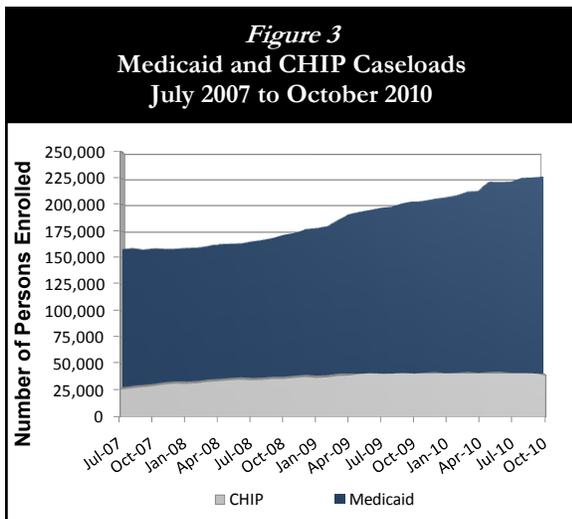


Figure 3 shows Medicaid and CHIP Caseloads.

In 2010, the Division of Services for People with Disabilities served 4,694 individuals. A portion of this at-risk population experienced an increase in their needs, requiring further support from the State. The Governor's budget includes an increase of \$1,200,000 ongoing General Fund to support the needs of this population.

For some years, Utah has benefited from a time-limited Medicaid waiver that provides additional federal funds to support the needs of young people in the State. This is a population in need of suitable housing and treatment services to assist them in coping with tragedies experienced early in life. With the loss of this funding, it is essential that the State continue its commitment to ensure the safety and treatment of these children. This budget includes \$5,006,300 ongoing General Fund.

Local mental health associations experienced a caseload growth of 34 percent in FY 2010. Despite our dedicated service personnel managing the burden of significant caseload growth with fewer resources, it is essential that they receive support so they may continue to serve Utahns. For this purpose, the Governor recommends \$3,336,000 one-time General Fund.

Public Safety/Corrections

This budget includes \$156,000 ongoing and \$200,000 one-time General Funds for the state multi-agency strike force combating major felony crimes associated with illegal immigration and human trafficking.

The State prison system has been at or near maximum capacity for the male offender population since October 2010. To address a growing inmate population, Governor Herbert recommends increasing resources for jail contracting by \$4,970,400 ongoing General Fund. This will increase prison capacity by 230 beds and bring the total number of jail contract beds funded to 1,455 or approximately 20 percent of the State inmate population.

This budget also includes \$10,000,000 one-time General Fund to reimburse counties for housing felony offenders that are sentenced to jail as a condition of probation.

The Governor also recommends \$6,000,000 one-time General Fund to provide mental health services for delinquent youth in state custody. This will allow the State to preserve 117

residential treatment slots for these youth. In the past, the State has been allowed to use federal Medicaid dollars to pay for these mental health services, but effective July 1, 2010 this cost is disallowed for federal reimbursement.

Economic Development

Utah continues to be recognized nationally for a young educated workforce, competitive tax structure, and a low unemployment rate. Earlier this year Utah was recognized as “*The Best State for Business and Careers*” by Forbes magazine. To support Utah’s economic development gains, Governor Herbert recommends continuing the post-performance economic development incentive programs, the Tourism Marketing Performance Program, the Motion Picture Incentive and the West Coast Business Marketing Initiative. Additional support to small businesses through recommended appropriations to the Business Resource Centers and Small Business Development Centers will support Utah’s entrepreneurs.

Statutory Change

Governor Herbert proposes strengthening Utah’s tax policy by requiring taxpayers to remit quarterly estimated income tax payments for taxes on non-withheld income, beginning in tax year 2012. Of the 42 states with an individual income tax, Utah and Idaho are the only states that do not require quarterly remittance. Quarterly payments for non-withheld income are already mandated for the federal income tax and Utah’s corporate income tax.

Instituting quarterly estimated payments 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 into perpetuity, resulting in a one-time increase of \$130,000,000 to the Education Fund.

Utah Advisory Commission to Optimize State Government

In September 2009, the Governor assembled the Utah Advisory Commission to Optimize State Government. He charged the members of this diverse and non-partisan group to conduct a broad-based, independent review of State spending and operations to ensure that taxpayer dollars are being spent effectively and efficiently, while also identifying opportunities for increased efficiencies in state government.

The Commission submitted its final report to the Governor in August 2010. Overall, the Commission found that government operations in the State are already being run efficiently and individual agencies had implemented best practices to further the state’s history of prudent fiscal management. The Commission did, however, make 56 recommendations to enhance efficiencies and improve delivery of service. Many of these recommendations have or are in the process of being implemented, as noted in the “Recommendations: Governor’s Goals and Initiatives” section for each department.

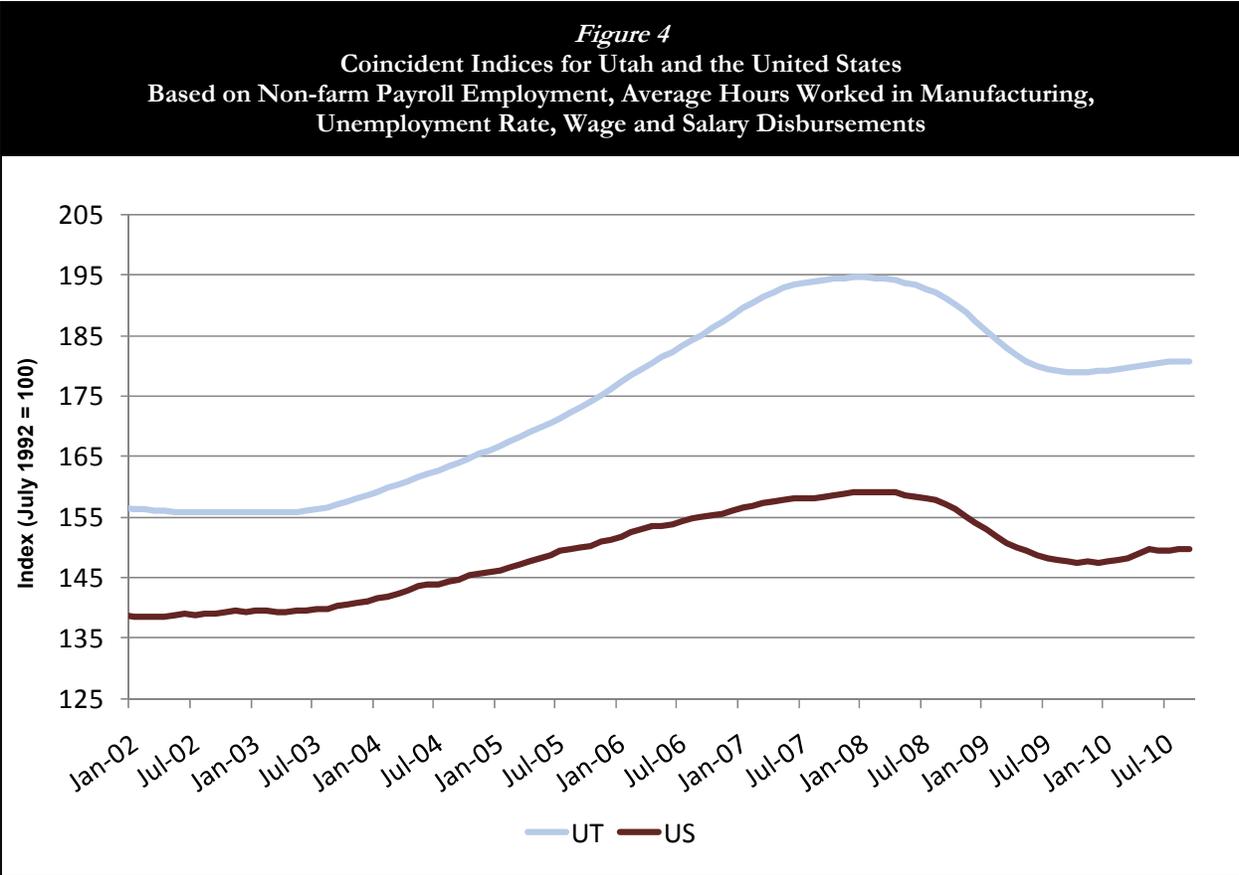
Some of the Commission’s recommendations require further review and are being considered by the Governor and policy makers within the individual agencies. Further details and implementation status information will be posted online at: www.optimizationtracking.utah.gov.

Economic Outlook

Utah has not been immune to the prolonged and severe national economic recession that began at the end of 2007. However, it managed to weather the storm better than most other states for many reasons outlined throughout this document.

The Federal Reserve Bank of Philadelphia Coincident Index for Utah shows that economic declines finally halted during late summer 2009 as shown in Figure 4. Though the recovery has been slow to take hold, Utah's natural advantages - including a young and productive workforce, sensible regulatory environment, excellent educational system, and location as a logistical hub for the Intermountain West - leave the State poised for economic growth in 2011 and 2012.

The consensus revenue forecast used for the Governor's budget recommendations is based on an economic outlook that is developed by economists and analysts from the Governor's Office of Planning and Budget, Office of the Legislative Fiscal Analyst, Utah State Tax Commission, the University of Utah, local governments, and private business. The full outlook is available online at: www.governor.utah.gov/dea/Forecasts/econind.pdf.



Source: Federal Reserve Bank of Philadelphia State Coincident Indexes, November 2010.

Figure 5
Coincident Indices for Utah and the United States
 Based on Non-farm Payroll Employment, Average Hours Worked in Manufacturing,
 Unemployment Rate, Wage and Salary Disbursements

	2008	2009	2010	2011	2012	Percent Change			
	Actual	Actual	Forecast	Forecast	Forecast	08-09	09-10	10-11	11-12
UT Non-farm Employment (thousands)	1,252.5	1,188.7	1,180.0	1,196.5	1,224.3	(5.1)	(0.7)	1.4	2.3
US Non-farm Employment (thousands)	136,776.6	130,910.8	130,246.4	131,550.8	133,980.9	(4.3)	(0.5)	1.0	1.8
UT Unemployment Rate	3.7	6.6	7.6	7.1	6.1	78.4	15.2	(6.6)	(14.1)
US Unemployment Rate	5.8	9.3	9.7	9.6	9.1	59.5	4.1	(0.5)	(5.3)
UT Personal Income (\$ billions)	88.9	88.0	90.3	94.0	98.4	(1.0)	2.5	4.2	4.6
US Personal Income (\$ billions)	12,391.2	12,174.9	12,502.7	12,900.2	13,409.3	(1.7)	2.7	3.2	3.9
UT Retail Sales (\$ billions)*	26.5	25.6	25.4	26.4	27.6	(3.4)	(0.8)	3.8	4.6
US Retail Sales (\$ billions)*	4,409.4	4,131.5	4,377.3	4,602.9	4,855.1	(6.3)	5.9	5.2	5.5
UT Population (thousands)	2,757.8	2,800.1	2,848.5	2,895.9	2,942.7	1.5	1.7	1.7	1.6
US Population (thousands)	305,169.1	307,842.1	310,834.3	313,838.3	316,875.4	0.9	1.0	1.0	1.0
UT Home Price Index (1980 Q1 = 100)	375.0	349.1	332.7	322.8	329.2	(6.9)	(4.7)	(3.0)	2.0
US Home Price Index (1980 Q1 = 100)	369.1	354.4	334.8	312.5	328.3	(4.0)	(5.5)	(6.7)	5.1

* Utah indicator is taxable retail sales and does not include motor fuel sales. United States indicator is both taxable and nontaxable retail sales and includes motor fuel sales.
 Source: Utah Revenue Assumptions Working Group, Moody's Economy.com, and Global Insight

After several years of declining indicators, the outlook anticipates gradual strengthening in Utah's economy over the next two years. The average annual employment level in Utah is expected to increase by almost 1.4 percent or 17,000 jobs in 2011 and 2.3 percent or 28,000 jobs in 2012. This return to job growth will be associated with a retreating unemployment rate and increased personal income as shown in Figure 5.

The rate of recovery may not be as robust as in past expansions but the State's many economic advantages will ensure that Utah will maintain the leading edge in economic growth in the country.

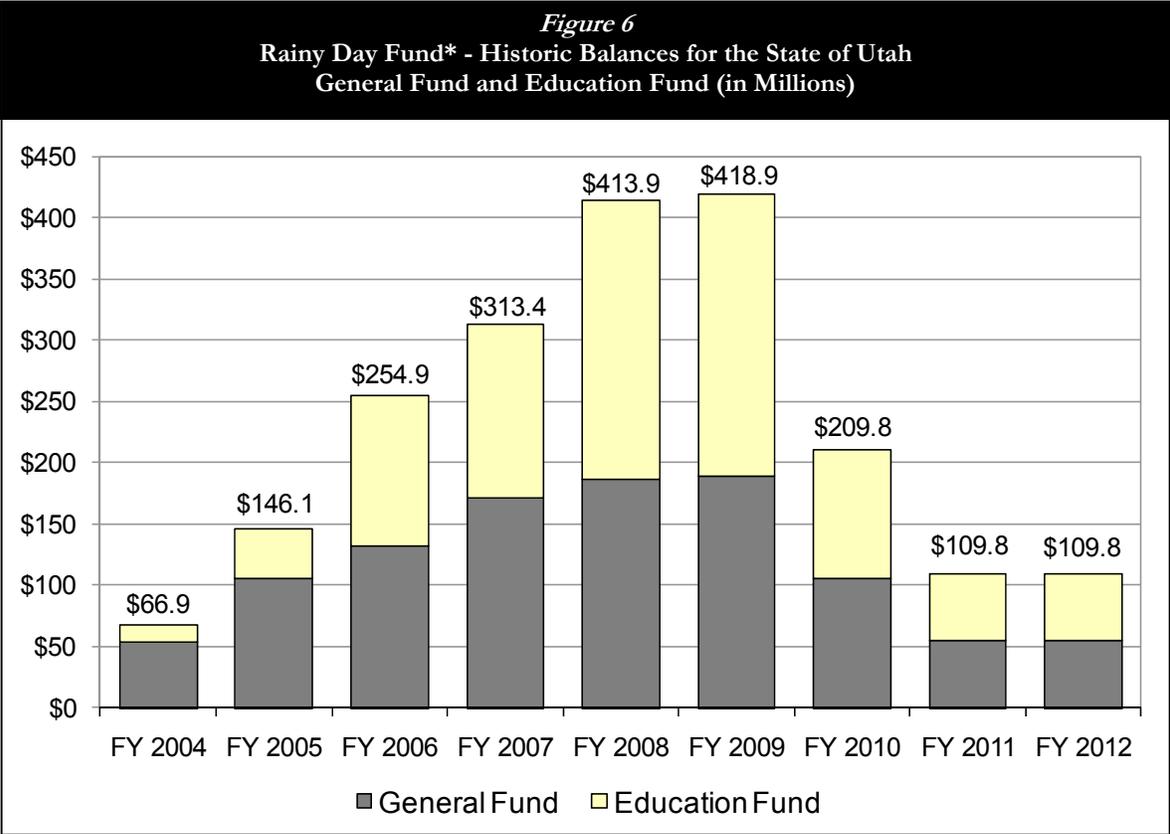
Appropriations Limit

Sections 63J-3-201 through 205, UCA, limits how much the State can spend from unrestricted General Fund sources and Education Fund not spent in support of public education. The limit allows State spending to increase relative to population and inflation increases. The budget recommendations for both FY 2011 and FY 2012 are within the limit.

Budget Reserve Fund and Education Budget Reserve Fund

The State continues to maintain the Budget Reserve Fund (Rainy Day Fund) and Education Budget Reserve Fund (Education Rainy Day Fund) with a combined total balance of \$209.8 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 \$50 million from the Budget Reserve Fund and \$50 Million from the Education Budget Reserve Fund in the FY 2012 budget. The combined balance of \$109.8 million would then be retained for future years as shown in Figure 6.



* Reflects the Governor's recommendation to use \$100 million in FY 2011

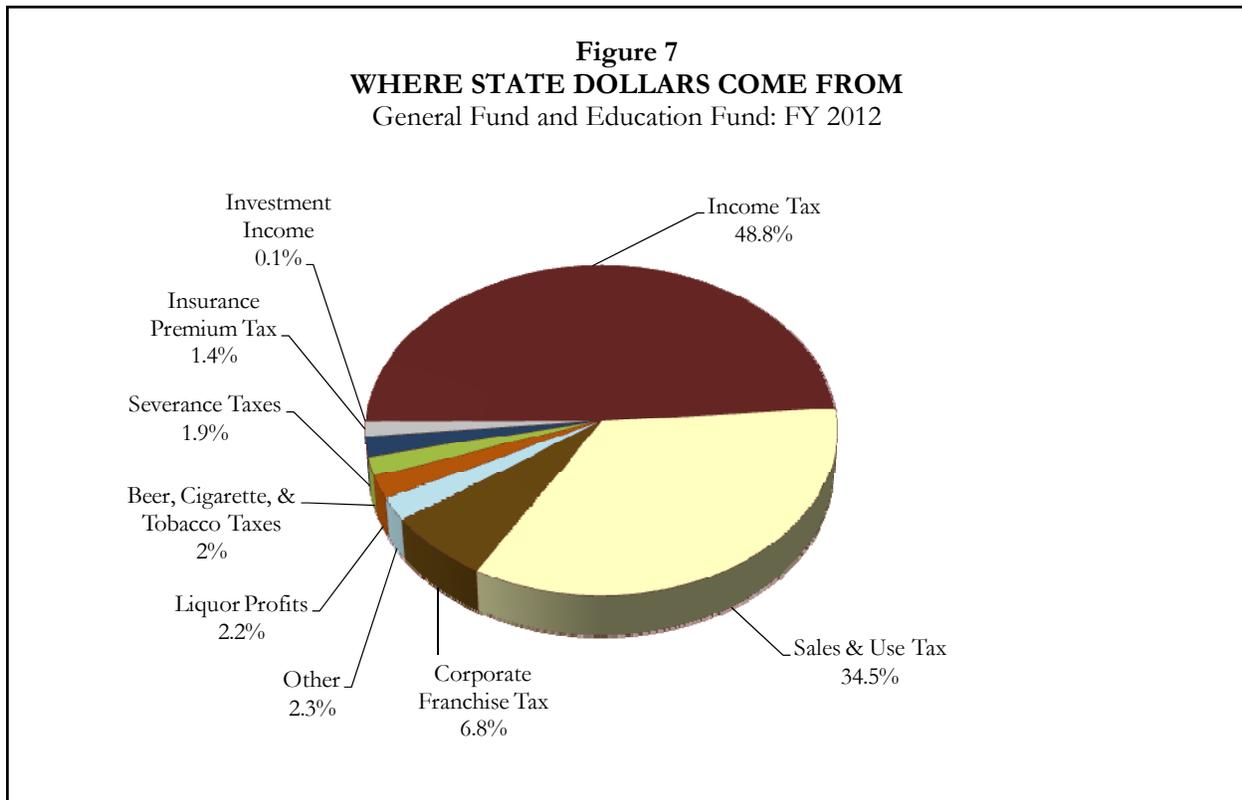


Figure 7 shows the estimated sources of State revenue (General Fund and Education Fund) for FY 2012.

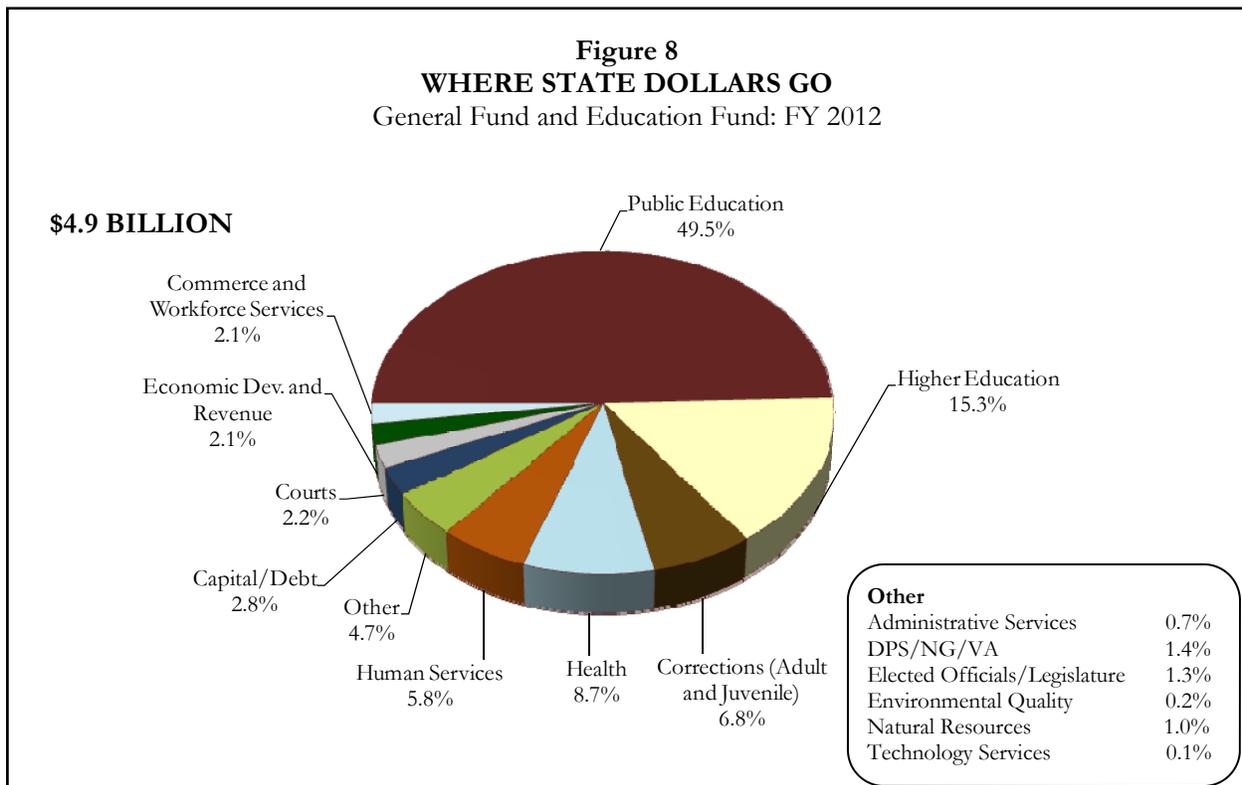


Figure 8 shows how State funds (General Fund and Education Fund) will be expended in FY 2012. The largest portion, amounting to 64.8 percent, goes to Public and Higher Education.

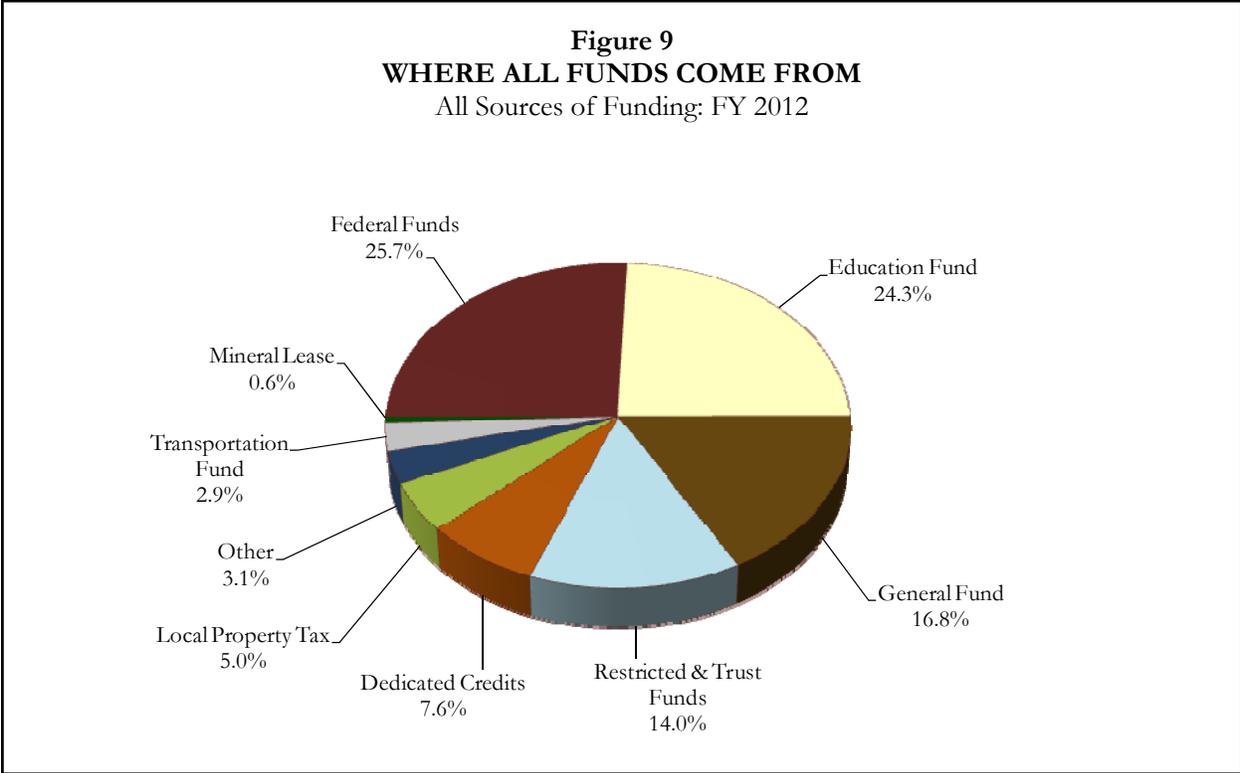


Figure 9 shows the total estimated sources of revenue for the FY 2012 budget. The General Fund and Education Fund, consisting primarily of sales and income taxes, generate just less than one-half (41.1 percent) of the total State budget.

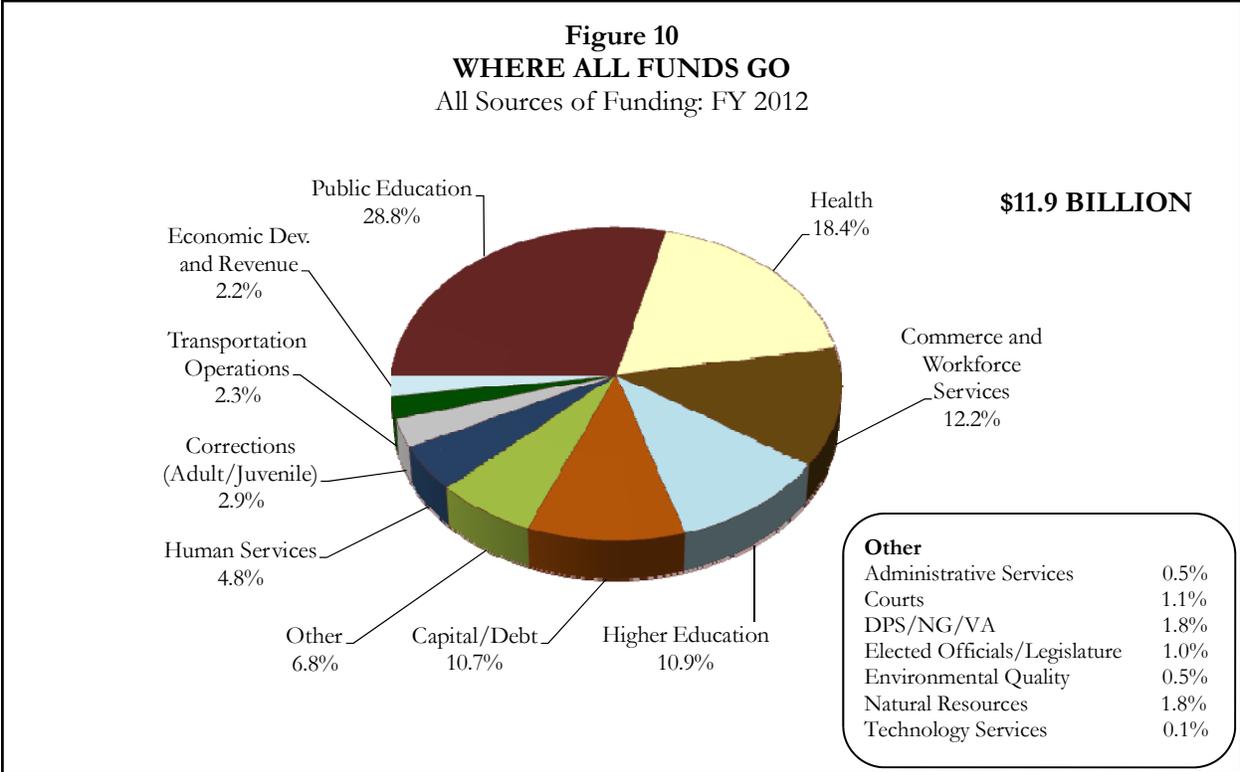


Figure 10 shows the total budget expenditures for FY 2012 from all sources of funding.