

include building and maintaining roads; providing public safety, health, and environmental protection services to protect the general welfare of the State's citizens; helping adults, children, and families through difficult times such as abuse, divorce, illness, death, and unemployment; fostering an attractive business climate to encourage economic growth; and protecting public lands and natural resources for conservation and recreational activities. The State also provides significant financial support to its higher education institutions, local governments, and school districts to help those entities meet the specific needs of their constituents.

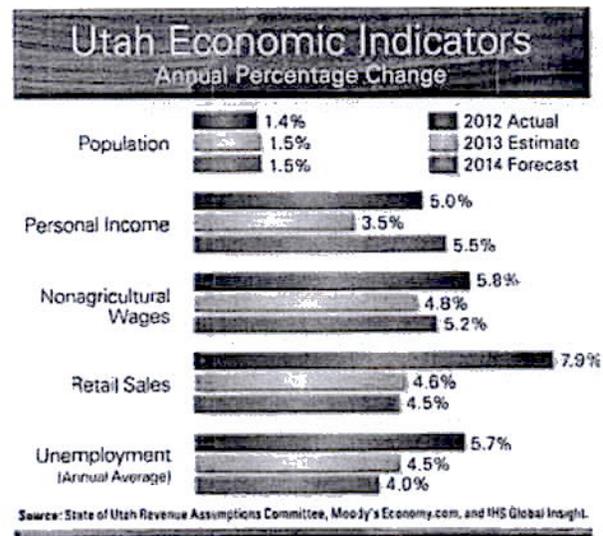
**The State Reporting Entity.** The State Reporting Entity includes the *primary government* and its *component units*. The *primary government* of the State of Utah includes all funds, departments, agencies, and other organizational units governed by the Legislature or the constitutional officers of the State. In addition to these *primary government* activities, this report includes information related to component units for which the primary government is financially accountable. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions. Additional information on all discretely presented component units can be found in the notes to the financial statements (see Note 1. A. on page 65).

**Budgetary Process and Control.** The *Constitution of Utah* requires that budgeted expenditures not exceed estimated revenues and other sources of funding, including beginning fund balances. Annually, the Governor is required to submit a balanced budget for the governmental funds with an annual appropriated budget (General, Education, Transportation, Transportation Investment and Debt Service Funds), by function (e.g., health), and activity (e.g., medical assistance) to the Legislature. The Legislature authorizes expenditures by line item in the annual *Appropriations Acts*. Line item is the legal level of budgetary control. The Acts also identify the sources of funding for budgeted expenditures. In the event actual revenues are insufficient to cover budgeted expenditures, the Governor must order budget reductions or call a special session of the Legislature to address budget issues. Adjustments to the budget may also be made throughout the year for changes in departmental or fund revenues so that line items and funds will not end the fiscal year in a deficit position. For additional information on the budgetary process and control, see the notes to the Required Supplementary Information beginning on page 132.

→ **INFORMATION USEFUL IN ASSESSING A GOVERNMENT'S ECONOMIC CONDITION**

**Local Economy.** The Utah economy continued to improve faster than the nation in 2013. Utah's economic expansion is expected to continue into 2014, with broad-based growth throughout the private sector.

Utah's unemployment rate was 5.7 percent in 2012 and is expected to decline to 4.5 percent in 2013 and 4 percent in 2014. In 2012, personal income increased by 5 percent and nonagricultural wages increased by 5.8 percent. In 2013, personal income is expected to increase by 3.5 percent and nonagricultural wages are expected to increase by 4.8 percent. Taxable retail sales increased by 7.9 percent in 2012, and are expected to increase by the 4.6 percent in 2013. Total construction value was \$4.3 billion in 2012, a 10.3 percent increase from the prior year. This increase marks the second year that construction value has increased as the local economy continues to rebound. In 2013, total construction value is expected to increase 7 percent. Residential construction was \$2.6 billion in 2012, a 36.8 percent increase from the prior year. Residential permitted value is expected to increase to \$2.9 billion in 2013, as housing plays a leading role in the economic recovery. In 2013, Utah population is estimated at 2,895,000, which is an increase of 1.5 percent over the prior year. Utah had positive net migration of approximately 5,000 people in 2012 and is expected to grow by another 5,000 in 2013. Utah has had positive net migration for the past 23 years and this trend is expected to continue in the coming years.



**Industries.** The employment environment continues to indicate strength in the Utah economy as it rebounds from the national recession that began in late 2007. Utah's nonagricultural employment growth is expected to increase by 3.4 percent in 2013, and by 3.6 percent in 2014, which is near the Utah average yearly rate of 3.1 percent (1950 through June 2013). All industrial sectors added jobs to Utah's employment base, with the exception of government in both the local and federal and state and higher education categories. The largest category, trade, transportation, and utilities led job growth with 10,500 new jobs. Retail trade contributed most of this growth with 5,600 new jobs. Leisure and hospitality provided 6,800 new jobs, with the majority in the food services and drinking places industries. The local and federal government category had an overall loss of 2,300 jobs. Local government led with a loss of 1,600 jobs. The federal government shed 700 jobs. This marks the fourth consecutive year of job losses at the federal level. State and higher education government shed 3,900 jobs. The tight spending environment at the federal level is expected to continue to lead federal employment down, and may lead to additional job losses at the state and local levels. The results for August 2012 to August 2013 are presented in the following table.

**State of Utah**  
**Jobs by Industry of Utah's Labor Force**  
*(Expressed in Thousands)*

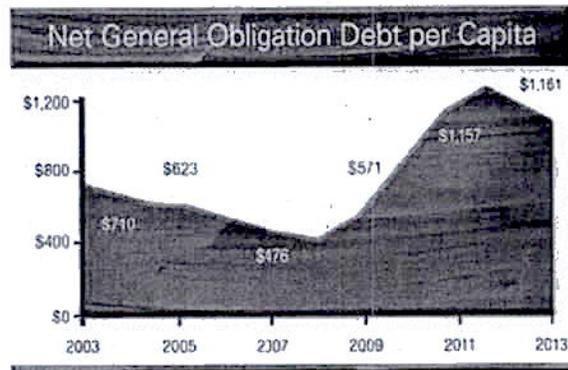
	Number of Jobs		Numerical Change		Percentage Change	
	2013 (est.)	2012	2012 to 2013	2012 to 2013	2013 (est.)	2013 (est.)
Trade, Transportation, and Utilities .....	253.6	243.1	10.5	4.3 %	19.8 %	
Professional and Business .....	174.8	170.2	4.6	2.7 %	13.6 %	
Education and Health Services .....	166.1	160.6	5.5	3.4 %	12.9 %	
Government (Local/Federal) .....	142.9	145.2	(2.3)	(1.6) %	11.1 %	
Manufacturing .....	120.4	117.8	2.6	2.2 %	9.4 %	
Leisure and Hospitality .....	129.1	122.3	6.8	5.6 %	10.1 %	
Construction .....	74.8	73.6	1.2	1.6 %	5.8 %	
Financial Activities .....	73.8	70.4	3.4	4.8 %	5.7 %	
Government (State/Higher Ed.) .....	63.1	67.0	(3.9)	(5.8) %	4.9 %	
Other Services .....	36.5	35.8	0.7	2.0 %	2.8 %	
Information .....	35.4	31.6	3.8	12.0 %	2.8 %	
Natural Resources and Mining .....	13.2	12.9	0.3	2.3 %	1.0 %	
<b>Total .....</b>	<b>1,283.7</b>	<b>1,250.5</b>	<b>33.2</b>		<b>100.0 %</b>	

Source: Utah Department of Workforce Services and the U.S Bureau of Labor Statistics. August 2013.

**Outlook.** The national economy is expected to continue to recover slowly with growth below potential. As in prior recoveries, Utah has grown more rapidly than the nation, due in part to its position as a logistical hub for production and distribution. Utah's economic growth is expected to plateau during the second half of calendar year 2013, primarily due to uncertainty at the national level surrounding federal deficit reduction and scheduled across-the-board spending cuts known as sequester, which trickle down to the Utah economy. Despite these risk factors, a better year is expected for Utah in 2014 with housing and construction playing a leading role in the strengthening recovery.

**FINANCIAL PLANNING AND POLICIES**

**Debt Administration.** As part of long-term financial planning, the State has used a combination of bonding and "Pay-As-You-Go" methods to meet its infrastructure needs. In fiscal years 2004 through 2007 the State bonded less and primarily funded projects with the "Pay-As-You-Go" method using one-time and ongoing money. In fiscal years 2003, and 2008 through 2012, under budget constraints coupled with a low interest rate environment, the State elected to increase its debt by issuing bonds for highway and/or building projects that otherwise would have been funded from current resources. In fiscal year 2012, the State issued \$609.9 million in general obligation bonds for capital facility and highway construction projects. In



fiscal year 2013, the State issued \$33.2 million in general obligation bonds for capital projects and advance refunded \$4.1 million of highway general obligation bonds to take advantage of continued low interest rates. As of June 30, 2013, the State's general obligation debt per capita was \$1,161. In early fiscal year 2014, the State issued \$226.2 million in general obligation bonds for highway construction. The State has an aggressive policy of repaying its general obligation debt within seven years for debt associated with capital facilities and fifteen years for highway construction projects. More information about the State's long-term debt is found in Note 10 to the Basic Financial Statements on page 100.

**Revenue and Expenditure Forecasts.** Economists and budget analysts from the Executive and Legislative branches of government work with experts from the private sector and academia to develop the consensus revenue forecast used for establishing the State's annual budget. The final 2013 consensus forecast projected combined General and Education Fund revenue growth of 4.81 percent in fiscal year 2013 and 2.84 percent in fiscal year 2014. The long-term average annual revenue growth rate, adjusted for inflation, was approximately 3.8 percent for fiscal periods 1971 through 2012.

**Budget Stabilization.** In accordance with Sections 63J-1-312 and 313 of the *Utah Code*, the State maintains the General Fund Budget Reserve Account in the General Fund (the "Rainy Day Fund") and an Education Fund Budget Reserve Account in the Education Fund (the "Education Reserve"). State law requires 25 percent of any revenue surplus in the General Fund to be deposited in the Rainy Day Fund and 25 percent of any revenue surplus in the Education Fund to be deposited in the Education Reserve, in each case up to a statutory limit. State law limits the totals of the Rainy Day Fund and Education Reserve based on the amount of appropriations from the General Fund and Education Fund, respectively, for the fiscal year in which the surplus occurred. For additional information on the State's budget stabilization accounts see Note 11.B. on page 115.

**Public Education Growth.** Projections indicate that an additional 13,300 new students will enroll in September 2013. Addressing this growth and future enrollment growth and the demands placed on state funding for public education continues to be a top priority for the Governor and the Legislature. The Office of the Legislative Fiscal Analyst developed a Public Education Distribution Model that allows legislators to see how proposed education policy changes will impact funding.

**Medicaid Sustainability.** The State implemented reforms in the Medicaid program in an effort to bring Medicaid growth more in line with overall state revenue growth. The reforms align financial incentives in the health care system by replacing the fee-for-service model with one or more risk-based delivery models. When a General Fund revenue surplus occurs, an amount representing the Medicaid growth savings from the new risk-based delivery models will be deposited into the "Medicaid Growth Reduction and Budget Stabilization Account." The account will then be used to meet the growing needs in the program.

**Federal Funding.** In an effort to prepare for potential future reductions in federal funding for critical state programs, Legislators passed a bill that requires certain state agencies including public education and higher education institutions to report specific federal funding information to the Legislature. Annually these entities must report total federal receipts received the preceding fiscal year in addition to providing contingency plans in the event federal receipts are reduced by either 5 percent or 25 percent.

During the 2013 General Session, the Legislature created the Federal Funds Commission to study and make recommendations on federal funding issues. The Commission will consider the financial stability of the federal government, the risk that the State will experience a reduction in the amount or value of federal funds, and methods to avoid or minimize the risk. Legislators also passed a bill that requires economists and budget analysts from the Executive and Legislative branches of government to consider expected changes in federal funding when preparing the annual revenue volatility report and, if appropriate, recommend changes to amounts or limits of reserve funds.

In addition, all federal funds for state agencies must go through the annual appropriations process. To gain tighter control over federal grants that span several years, the Legislature also requires multiyear grants to go through an approval and summary requirements process, including approval in the annual Appropriations Acts.

**Spending Limitation.** The State has a statutory appropriations limit. The appropriations limit adjusts annually pursuant to a statutory formula based on population and inflation. The definition of appropriations includes only appropriations from General Fund and Education Fund sources (spending for public education and for transportation is exempt from the limitation). For the fiscal year ended June 30, 2013, the State was \$829.3 million below the appropriations limitation.

**Adequate Funding for Ongoing Programs.** The Legislature has been working toward ensuring all programs have adequate ongoing funding. Coming into the 2013 General Session of the Legislature, before accounting for growth in costs or revenue, the State was facing a structural imbalance of \$25 million in public education for the 2014 fiscal year budget. A structural

imbalance occurs when ongoing programs are funded with one-time revenue. The first \$25 million of ongoing revenue growth in the 2013 General Session covered the \$25 million structural imbalance. A small structural imbalance of approximately \$2 million remaining at the end of the 2013 General Session is associated with the cost of a new benefits program for State employees that replaced the current postemployment program related to sick leave benefits. Savings from the old program will offset the cost of the new program as employees retire, thus the structural imbalance is considered temporary.

**Operating/Capital Expenditure Accountability.** The Legislature requires an in-depth budget review carried out by the Legislative Fiscal Analyst's Office on at least one department or major program each year. In fiscal year 2013, the Analyst's Office also conducted a five-year fiscal sustainability review focusing on the General and Education funds to help legislators assess the State's budget condition.

## MAJOR INITIATIVES

An economic expansion continues in the State of Utah. The consensus revenue forecast adopted during the 2013 General Session anticipates that fiscal year 2014 will mark the fourth consecutive year of growth in unrestricted General Fund and Education Fund revenue collections. The fiscal year 2012 revenue surplus of \$46 million, an upward revision to the fiscal year 2013 revenue forecast, and additional growth of 2.8 percent projected for fiscal year 2014 resulted in approximately \$425 million in new unrestricted revenue. This revenue, combined with savings resulting from lower-than-anticipated Medicaid costs, funding reallocations, and other one-time monies allowed Legislators to nearly eliminate a \$25 million structural imbalance and allocate approximately \$475 million in new discretionary resources to infrastructure needs, growth in public education, and other priorities, as described below:

**Governor's Improvement 25% Initiative.** In his 2013 State of the State Address, Governor Herbert called on state agencies to improve operations and services by 25 percent over the next four years as measured by a combination of quality, cost, and throughput (the rate at which a system can produce a service or product). With the support of the Governor's Office of Management and Budget (GOMB), state agencies are working to achieve this goal by leveraging agency expertise and implementing a set of management principles called the SUCCESS Framework. Further details and progress updates are available online at [governor.utah.gov/gomb](http://governor.utah.gov/gomb).

**Public Education.** Approximately 32 percent of new discretionary sources were allocated to public education. In addition to eliminating the structural imbalance, the Legislature appropriated \$68.5 million to address enrollment growth of 2.2 percent and \$47.8 million to increase the value of the Weighted Pupil Unit (WPU) by 2 percent. The WPU is the primary funding mechanism for public education. Other major new funding initiatives in public education include \$10 million (\$8.5 million one-time and \$1.5 million ongoing) for a Science, Technology, Engineering, and Mathematics (STEM) Action Center, \$7.5 million ongoing for early intervention and enhanced kindergarten programs that were previously funded one-time, \$6.6 million ongoing for statewide computer adaptive testing infrastructure, and \$4 million ongoing for the Beverly Taylor Sorenson Elementary Arts Learning Program.

**Higher Education.** State funding for higher education in fiscal year 2014 increased by approximately \$110 million during the 2013 General Session. Higher education institutions and the State Board of Regents received \$18 million ongoing to improve funding equity between the institutions and for specific priorities at each entity. Other major new funding initiatives for higher education include \$54 million for the construction of a new classroom building at Utah Valley University (UVU), approximately \$10.6 million ongoing for increased compensation-related costs, \$6.5 million in fiscal year 2014 (\$10 million ongoing thereafter) for increased enrollment at the University of Utah's School of Medicine, \$5 million ongoing to increase capacity at the Utah College of Applied Technology campuses, and \$4.5 million one-time for building designs on the Weber State University (WSU) and Utah State University (USU) campuses.

**Social Services.** The Legislature provided major new investments in social service programs, including \$4.4 million ongoing for programs for people with disabilities, \$2 million for Baby Watch Early Intervention, and \$1.1 million to maintain services for youth aging out of Child and Family Services custody. The costs for these programs were offset by funding reallocations and savings associated with lower-than-anticipated Medicaid Costs. After accounting for new investments, net savings of approximately \$16 million was available for other needs outside of social service programs.

**Infrastructure.** In addition to \$58.5 million appropriated for the capital development at higher education campuses, the Legislature appropriated \$36.3 million in state funds for an Ogden Juvenile Courts building (\$29.3 million), completion of a State Hospital project (\$5 million), and design of the second Unified State Lab module (\$2 million). Approximately \$46 million in new funds were allocated to the capital improvements budget, bringing the total budget to \$87.7 million in fiscal year 2014 (1.06 percent of the replacement value of State buildings).