

2015

ECONOMIC REPORT *to the* GOVERNOR

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P R E P A R E D B Y T H E
U T A H E C O N O M I C C O U N C I L



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A collaborative endeavor of the David Eccles School of Business and
Governor's Office of Management and Budget

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Content

Figures	iii
Contributors	vi
Map of Utah	vii
Economic Indicators for Utah and the United States	viii
Executive Summary	1
Economic Overview	
National Outlook	5
Utah Outlook	7
Economic Indicators	
Demographics	11
Employment, Wages, and Labor Force	27
Personal Income	31
Gross Domestic Product by State	35
Utah Taxable Sales	39
Tax Collections	43
Exports	49
Price Inflation and Cost of Living	57
Regional / National Comparison	61
Social Indicators	71
Economic Development	75
Industry Focus	
Public Education	77
Higher Education	89
Agriculture	99
Construction	101
Energy	105
Minerals	115
Tourism, Travel, and Recreation	119
Nonprofit Sector	123
Special Topics	
Intergenerational Poverty	131
Economic Mobility	135

Nonprofit Sector

Nonprofits play a significant role in the social and economic fabric of Utah and the United States. Charitable nonprofits earn their tax exempt status every day by giving back to the community, dedicating themselves to the public good, and working in collaboration with business and government to solve our communities' most intractable problems.

There were 8,281 registered tax-exempt nonprofit organizations in the state of Utah in 2014. 4,313 of these organizations were active registered 501(c)3 public charities whose work addresses needs within our communities and throughout the world.¹ Charitable organizations accounted for over 9 percent of Utah's Gross Domestic Product and employed more than 5.5 percent of Utah's workforce.² The nonprofit sector is expected to continue to grow at an increasing rate, despite expenses that exceed revenues as organizations financially recover from the Great Recession.

Through 2015, public charities will continue to see a steady or increased demand for services from the public and will continue to work towards creating financially stable and sustainable organizations by diversifying their funding streams, improving outcome measurement and reporting and expanding their marketing and outreach efforts to further engage with local communities.

2014 Summary

When speaking about the nonprofit sector as a whole, this includes all organizations that qualify for an exemption from paying federal income tax under 34 categories established in the U.S. Code of Federal Regulations, Title 26, section 501. There were over 1.4 million tax exempt organizations registered in the United States as of September 2014. The largest category of exempt organizations is the 501(c)3 category, which includes 1.09 million public charities that serve religious, educational, scientific, and public purposes. While this IRS category includes public charities and foundations, this chapter will focus specifically on 501(c)3 public charities, because they make up the largest portion of the nonprofit sector in Utah. However, it is important to note that religious institutions and state funded universities are either not included or under-represented in this group due to their tax filing status, despite their sizable charitable contributions and impact within the state. For example, universities in Utah are most often categorized within the government sector and religions are not required to file an IRS 990 form unless they request government grants. Both of these entities have substantial impact on Utah's economy and community.

In 2013, 371,000 reporting public charities in the U.S. spent \$1.56 trillion and held \$2.99 trillion in assets. From 2000-2010, nonprofit revenues and assets increased 42 percent, after adjusting for inflation, while the U.S. gross domestic

product grew only 16 percent after adjusting for inflation. The number of reporting public charities grew from 249,859 in 2000 to 366,086 in 2010 representing a 47 percent increase over ten years, an average growth rate of 4.6 percent per year. However, most growth in the sector occurred from 2000-2005 and from 2010 to 2012 the number of public charities grew to 371,320, so the sector grew at a rate of only 0.7 percent per year. Thus, while the number of reporting public charities continues to grow, the rate of growth in the sector has slowed considerably. This may be due to the fact that while public charities revenues and assets increased at approximately 42 percent, their expenses increased at 53 percent after adjusting for inflation.

According to IRS records there are 8,281 nonprofit organizations filing as tax exempt in the state of Utah as of October 2014. Between 2003 and 2013 the number of registered public charities in Utah increased by 16.9 percent, an average growth rate of 1.7 percent annually. However, from October 2013 to September 2014, the total number of public charities registered in Utah increased by 4.1 percent, while the number of reporting public charities grew by 2.8 percent indicating a steady and increasing rate of growth in Utah throughout 2014.

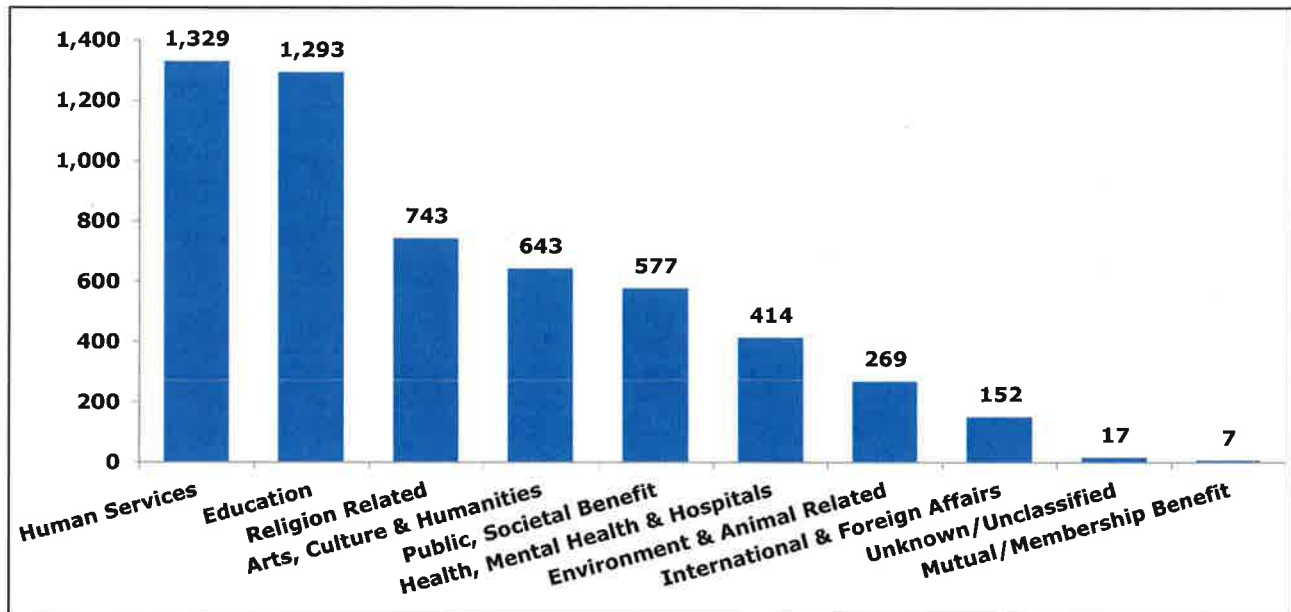
Public charities are classified into nine subsectors and the number of organizations in each subsector in Utah closely resembles the demographics of the sector across the nation, with Human Service organizations accounting for the largest majority, or one third of the field, while education organizations account for about 16 percent and health organizations for 12 percent. The three largest charitable organizations in the state are Intermountain Healthcare, Edward Hospital, and the Center for Excellence in Higher Education, a group of colleges that includes Stevens-Henager College. These three public charities reported more than \$9.3 billion in gross revenues for 2013. The total gross revenues reported by all 501(c)3 organizations in Utah was more than \$12 billion in 2013, which represents 9.1 percent of Utah's 2013 Gross Domestic Product.

Nationally, nonprofit organizations contributed 5.5 percent of the country's gross domestic product in 2012. While there are many nonprofits in Utah, only a handful have a significant impact on the economy. Most public charities in the United States and more than three quarters in Utah report annual revenues of less than \$500,000. Less than 9 percent of Utah charities reported total revenues of over \$1 million annually, yet these public charities bring in 96 percent of revenues

1. Internal Revenue Service, Exempt Organizations Business Master File (2014, Oct) The Urban Institute, National Center for Charitable Statistics, <http://nccsdataweb.urban.org/>

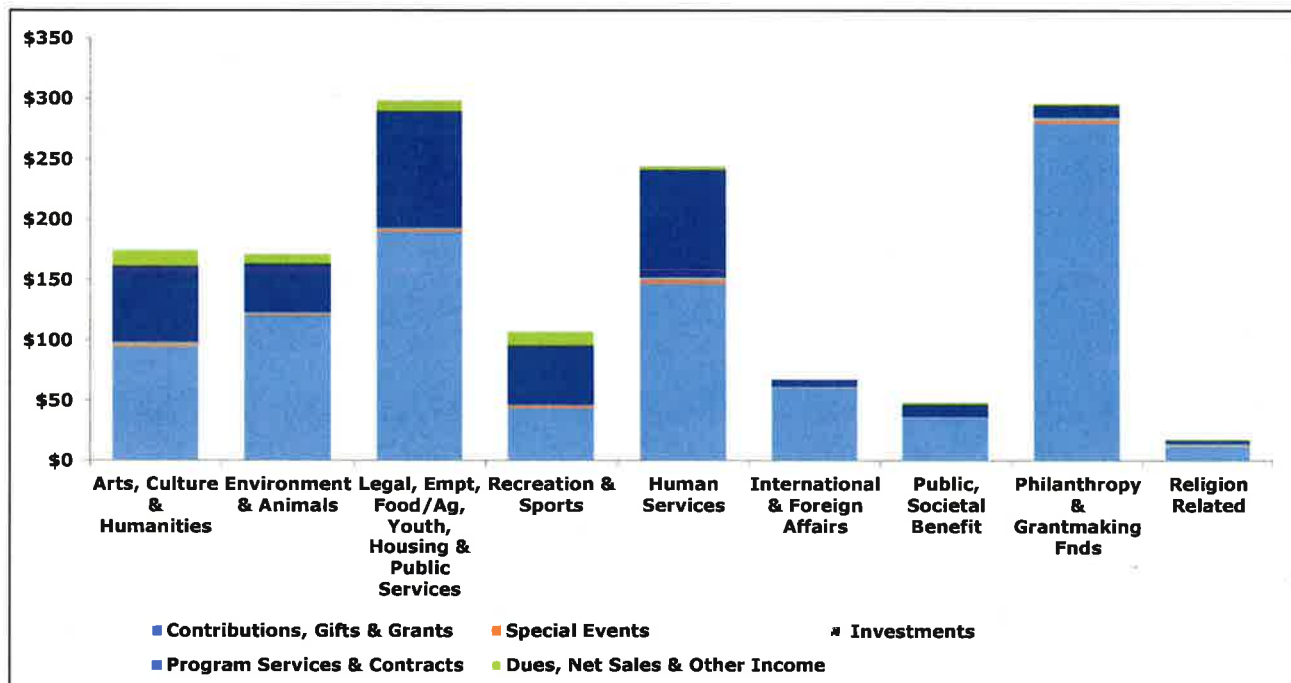
2. Independent Sector. The Nonprofit Sector in Utah. https://independentsector.org/uploads/Policy_PDFs/stateprofiles/utah.pdf

Figure 22.1
Registered 501(c)3 Organizations by Major Purpose/Activity: September 2014



Sources: Internal Revenue Service, Exempt Organizations Business Master File (2014, Sep); The Urban Institute, National Center for Charitable Statistics

Figure 22.2
Revenue Sources of Utah 501(c)3 Organizations Filing Form 990



Sources: NCCS Core File (Public Charities, circa 2012) The Urban Institute, National Center for Charitable Statistics, <http://nccsdataweb.urban.org/>

**Figure 22.3
Revenue Sources of Reporting 501(c)3 Public Charities: 2012**

Organizations by Major Purpose or Activity	Number of Organizations	Contributions, Gifts & Grants	Special Events	Investments	Program Services & Contracts	Dues, Net Sales & Other Income	Total Revenue
Health Care/Hospitals	108	\$154,619,023	\$277,901	\$73,260,357	\$5,089,604,421	\$105,433,360	\$5,423,195,062
Education	318	\$343,812,948	\$2,237,107	\$6,491,779	\$382,440,348	\$17,070,044	\$752,052,226
Legal, Employment, Food/Agriculture, Youth Development, Housing & Public Safety Services	257	\$190,149,165	\$1,675,575	\$1,380,154	\$96,659,272	\$8,833,673	\$298,697,839
Philanthropy, Voluntarism & Grantmaking Foundations	120	\$280,029,440	\$1,399,971	\$3,556,475	\$9,893,695	\$1,500,504	\$296,380,085
Human Services	221	\$147,494,324	\$2,097,555	\$2,539,544	\$89,149,119	\$3,226,544	\$244,507,086
Mental Health, Voluntary Health Associations & Medical Research	135	\$97,326,511	\$3,172,147	\$2,957,066	\$721,763,852	\$12,477,470	\$207,697,046
Arts, Culture & Humanities	271	\$94,533,564	\$736,877	\$3,142,442	\$63,317,767	\$13,081,200	\$174,811,850
Environment & Animal Related	130	\$120,952,437	\$897,552	\$1,143,236	\$40,463,162	\$8,374,409	\$171,830,796
Recreation & Sports	187	\$44,291,434	\$1,355,205	\$830,411	\$49,264,368	\$11,572,858	\$107,314,276
International & Foreign Affairs	76	\$60,849,155	\$652,150	\$60,692	\$5,872,566	\$135,647	\$67,570,210
Public, Societal Benefit	119	\$35,622,244	\$450,598	\$309,621	\$10,709,312	\$1,890,545	\$48,982,320
Religion Related	70	\$12,193,726	\$71,970	\$1,860,306	\$3,045,397	\$991,540	\$18,162,939
Other/Unknown	3	\$112,542	\$0	\$662	\$69,894	\$0	\$183,098
Totals	2,015	\$1,581,986,513	\$15,024,608	\$97,532,745	\$6,562,253,173	\$184,587,794	\$7,811,384,833

- Notes:
- Organizations are grouped by their NTEE Codes and include data from registered, active tax-exempt organizations with over \$50,000 in gross receipts who filed IRS forms 990, 990-EZ or 990-PF
 - Contributions, Gifts & Grants include direct and indirect public support and money received from government grants reported on Part I, line 1d, Form 990.
 - Special events includes the net income or loss from special events the organizations hosted, reported in Part 1, Line 9 of Form 990.
 - Investments includes dividends and interest on savings, temporary cash investments securities etc. reported on Part 1, Form 990.
 - Program Services & Contracts includes revenue generated from fee for service programs and government fees and contracts, reported on Part VII, line 93, Form 990.
 - Dues, Net Sales & Other Income accounts for membership dues and assessments, sales of other assets and income from Part 1, Form 990.
 - Total Revenue includes all revenue reported on Part I, line 12 of Form 990.

Source: NCCS Core File (Public Charities, circa 2012); The Urban Institute, National Center for Charitable Statistics, <http://hccsdataweb.urban.org/>

**Figure 22.4
Number of Nonprofit Organizations in Utah: 2003-2013**

	2003		2013		2003-2013 Percent Change
	Number of Orgs.	Percent of All Orgs.	Number of Orgs.	Percent of All Orgs.	
All Nonprofit Organizations	7,718	100.0%	7,993	100.0%	3.6%
501(c)(3) Public Charities	4,559	59.1%	5,331	66.7%	16.9%
501(c)(3) Private Foundations	793	10.3%	803	10.0%	1.3%
Other 501(c) Nonprofit Organizations	2,366	30.7%	1,859	23.3%	-21.4%
Small community groups and partnerships, etc.	Unknown	NA	Unknown	NA	NA
501(c)(3) Public Charities	4,559	59.1%	5,331	66.7%	16.9%
501(c)(3) Public Charities Registered with the IRS (including registered congregations)	4,559	59.1%	5,331	66.7%	16.9%
Reporting Public Charities	1,588	20.6%	4,209	52.7%	165.1%
Operating Public Charities	1,310	17.0%	3,776	47.2%	188.2%
Supporting Public Charities	278	3.6%	433	5.4%	55.8%
Non-Reporting, or with less than \$25,000 in Congregations (about half are registered with IRS)*	2,971	38.5%	1,122	14.0%	-62.2%
501(c)(3) Private Foundations	793	10.3%	803	10.0%	1.3%
Private Grantmaking (Non-Operating) Foundations	732	9.5%	721	9.0%	-1.5%
Private Operating Foundations	61	0.8%	82	1.0%	34.4%
Other 501(c) Nonprofit Organizations	2,366	30.7%	1,859	23.3%	-21.4%
Civic leagues, social welfare orgs, etc.	493	6.4%	296	3.7%	-40.0%
Fraternal beneficiary societies	278	3.6%	263	3.3%	-5.4%
Business leagues, chambers of commerce, etc.	532	6.9%	511	6.4%	-3.9%
Labor, agricultural, horticultural orgs	265	3.4%	199	2.5%	-24.9%
Social and recreational clubs	174	2.3%	134	1.7%	-23.0%
Post or organization of war veterans	218	2.8%	145	1.8%	-33.5%
All Other Nonprofit Organizations	406	5.3%	311	3.9%	-23.4%

Note: The number of congregations is from the website of American Church Lists (<http://list.infousa.com/acl.htm>), 2004. These numbers are excluded from the totals for the state since approximately half of the congregations are included under registered public charities.

Source: IRS Business Master File 10/2013 (with modifications by the National Center for Charitable Statistics at the Urban Institute to exclude foreign and governmental organizations)

earned by the sector in the state. The economic impact of Utah's public charities is driven by these large organizations which are primarily hospitals and higher education organizations.

In 2010, the nonprofit sector paid \$587.7 billion or 9.2 percent of all wages in the United States.³ Of paid nonprofit employees, 54 percent worked in the health or social assistance sectors. Nonprofit wages increased 29 percent over the decade from 2000-2010 and employment in the sector grew by 17 percent, with growth continuing throughout the recession. In terms of growth rate, wages and employment numbers, the nonprofit sector grew faster than both the business and government sectors. According to the Utah Compensation Report, nonprofit organizations reported an 8.7 percent average increase in their salary budgets from 2013 to 2014, thus it can be assumed wages are growing within the state's sector as well.⁴ Currently, it is difficult to extrapolate wage and employment data representative of the nonprofit sector in Utah and the United States because there is no single source that collects or requires reporting of this type of

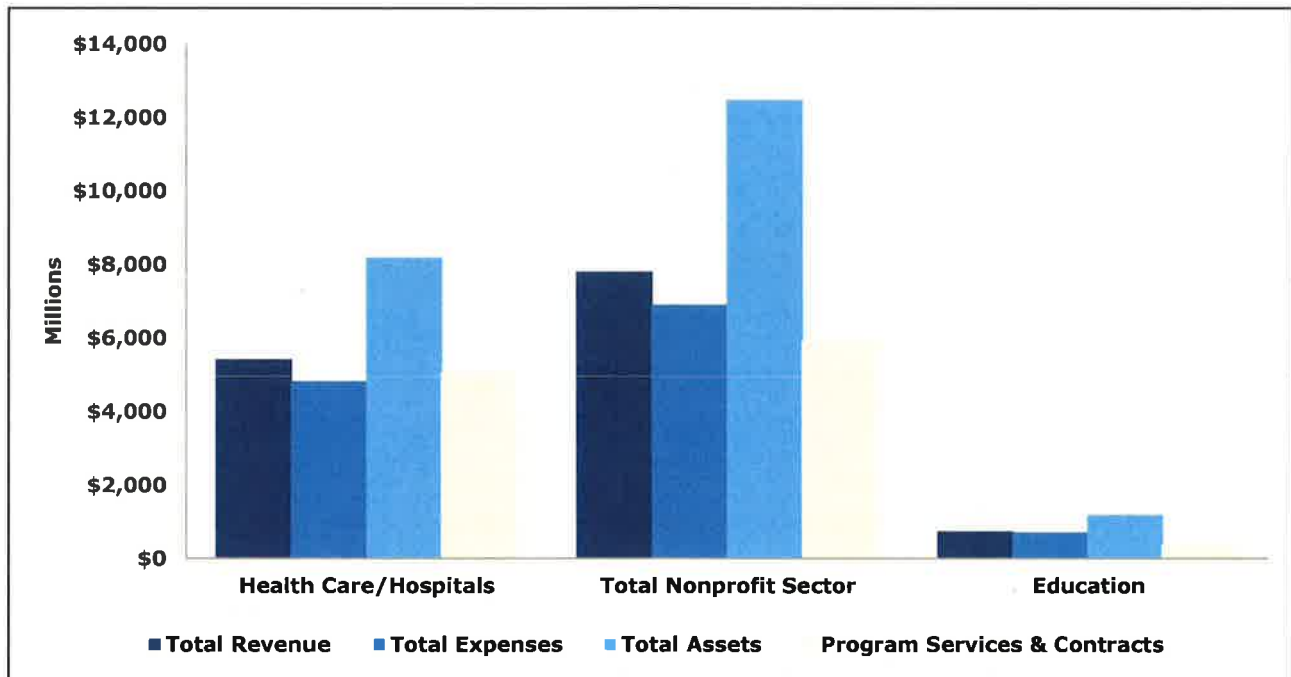
data. The Utah Department of Workforce services compiles data solely based on NAICS sector codes which does not have any direct correlation to the National Taxonomies of Exempt Entities. All information currently collected about the nonprofit sector comes primarily from IRS reports or from close examination of labor statistics and unemployment reports. This missing data makes it difficult to describe the complete impact of the nonprofit sector on Utah's economy and workforce.

Significant Issues: Government Contracting and Grants
In 2012, 255 public charities in Utah received \$265 million in funding from government contracts and grants. The largest portion of this funding, 46 percent or \$121.9 million, was awarded to human services organizations and arts, culture and humanities organizations accounted for another 23 percent or \$60.9 million. The Great Recession and the federal

3. Roeger, K., Blackwook, A. S. and Pettijohn, S. L. (2012). The Nonprofit Almanac 2012, Urban Institute.

4. Columbia Books and Association. (2014). TRENDS - The Compensation Report: An Analysis of Utah Nonprofits 2014

Figure 22.5
Health and Education Charities Compared to the Whole Public Charity Sector



Note: Total Revenue includes all revenue reported on Part I, line 12 of Form 990. Total Expenses is the total reported from Part I, line 17 on Form 990. Total Assets includes cash, savings, property etc. reported from Part IV of Form 990. Program Services and Contracts includes revenue generated from fee for service programs and government fees and contracts.

Source: NCCS Core File (Public Charities, circa 2012). The Urban Institute, National Center for Charitable Statistics, <http://nccsdataweb.urban.org/>

sequester caused public charities to experience a decline in revenue from multiple sources including government agencies at all levels, private and corporate donors.

Of Utah nonprofits receiving federal funding, 44 percent reported a decline in revenue from federal agencies in 2012. Over one third of agencies with government contracts also experienced a decline in revenue from local and state government agencies. Revenue from corporate donations and private foundations also decreased. As a result, 48 percent of these organizations froze or reduced employee salaries while many also reduced their number of employees, drew on financial reserves, borrowed funds or increased their lines of credit in order to cope with cuts in federal spending.⁵ Over one third of Utah organizations reported operating at a deficit for 2012 regardless of their overall budget size. Reduction of funding means that nonprofits are expected to do more with less. Government contracts and grants rarely cover the full costs of services provided and 54 percent of nonprofits nationwide see this as a problem facing the sector. This is due to unrealistic reimbursement rates, and arbitrary limits on indirect costs that are not reasonable because they were written without assessing the actual costs of providing these

services. This has weakened public charities structurally and financially and as a result negatively impacted their programs and the communities that they serve.⁶

Outcome and Impact Measurement for Reporting

Donor trust is of paramount importance for a nonprofit organizations long term ability to deliver services in the community. A stellar reputation and accountability are key components that must be in place for this trust to exist. To ensure that nonprofits are accountable to their donors, grantors and service users, many organizations measure outcomes and quantitative impacts of their programming. However, as evidence based programming and best practice knowledge has grown, so has the burden of increased reporting and measuring outcomes for nonprofit organizations. For organizations with government contracts, this has resulted in complicated and duplicitous reporting

5. Pettijohn, Sarah L., Boris, Elizabeth T., De Vita, Carol J. and Saunji D. Fyffe. (2013). Overview of Nonprofit Contractors and Grantees Survey. Urban Institute.

6. National Council of Nonprofits. (2014). Toward Common Sense Contracting: What Taxpayers Deserve, <http://www.councilofnonprofits.org/files/downloads/toward-common-sense-contracting-what-taxpayers-deserve.pdf>

requirements. Over 70 percent of nonprofit organizations in Utah reported that this was a problem for their organizations.

The cost of assessments and reporting are rarely covered by earmarked donations, grants or contracts, even though reports are required by the funder. Many measures required by funders generate extraneous data and nonprofits rarely have the necessary technology to efficiently manage and analyze data collected. The costs of compliance and consistency require that nonprofits spend more time and money raising funds to collect data which may not even be used to evaluate and actually reform programming.

Moving forward, nonprofit organizations, governments and other stake holders must consider the usefulness of extensive reporting requirements and determine what is truly useful and necessary and reduce the amount of redundant and unnecessary reporting measures that place undue burdens on nonprofit organizations so they can continue the work that is core to their missions within their communities.

2015 Outlook

Despite the Great Recession, the nonprofit sector and particularly the size and scope of public charities in Utah continued to grow. The number of public charities as a percentage of all nonprofit organizations grew by 16.9 percent from 2003 to 2013, with 501(c)3 organizations now comprising 66.7 percent of the sector, up 7.6 percent from 2003. Between 2003 and 2013, the number of reporting public charities (those with over \$25,000 in gross receipts) has increased 165.1 percent in ten years, an annual average growth rate of 16.5 percent annually. Slow, yet continual growth can be expected to occur in the nonprofit sector, particularly in the number and revenue of private charities. These 501(c)3 organizations will continue to focus on improving the sustainability of their organizations by growing and diversifying their revenue streams to keep up with expenses.

In the Nonprofit Finance Fund's 2014 Survey on the state of the nonprofit sector 42 percent of Utah respondents reported that "achieving long-term financial sustainability" is their greatest challenge, followed by "marketing, outreach and community engagement" (25 percent) and "diversifying funding sources" (22 percent). Nonprofits will continue to see growth in their revenue from fees charged for services and may also finally expect to see growth in revenue from their assets as the stock market and housing market continues to rebound. In Utah, 76 percent of nonprofits reported an increase in the demand for services from 2012 to 2013 and most organizations anticipate that the demand for services will remain steady through the remainder of 2014 and 2015.⁷ As the economy continues to pick up steam, wages and employment numbers will continue to increase in the sector to meet community demands.

Conclusion

The nonprofit sector contributes goods and services to Utah's economy and adds implicit value to the state by providing services to vulnerable populations and strengthening our communities. Nonprofit organizations provide employment to many of Utah's citizens and the sector has continued to experience growth throughout the economic recession. Nonprofit organizations and particularly public charities will need to develop diverse, consistent revenue streams to continue this rate of growth without hollowing out their organizations. Currently the rate of growth is unsustainable unless donors and contractors in both the public and private sector develop long term relationships with organizations and begin to cover the full cost of programming, specifically related to outcome measurement and reporting. With Utah leading the nation in volunteerism and a strong local culture of charitable giving, the nonprofit sector can expect continued growth as it strives to meet the diverse needs of Utah's citizens and communities.

7. Nonprofit Finance Fund State of the Sector Survey 2014, <http://nonprofitfinancefund.org/state-of-the-sector-surveys>