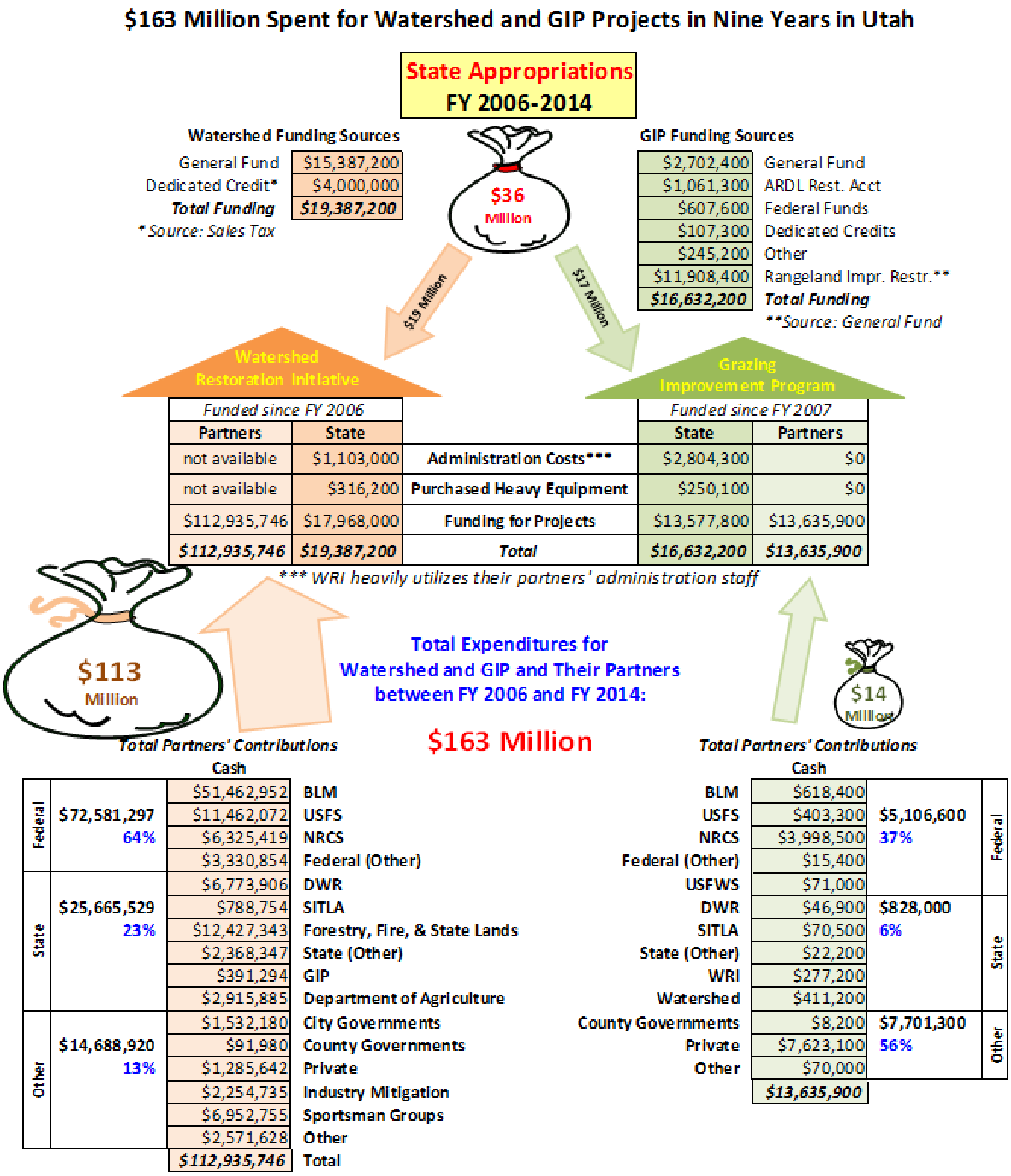
Fiscal Highlights

$163 Million for Watershed and Grazing Improvement in nine Years - Ivan D. Djambov

The State of Utah has benefited from watershed and grazing improvement projects worth $163 million in nine years. The funding has come from a variety of sources: state, local, and federal government agencies, as well as nonprofit organizations and private individuals. The chart below provides details on the participants and the amounts contributed to the projects between FY 2006 and FY 2014. The Legislature has provided direct appropriations of $36 million (22% of the total) to the two state organizations (Watershed and Grazing Improvement Program) for that period.



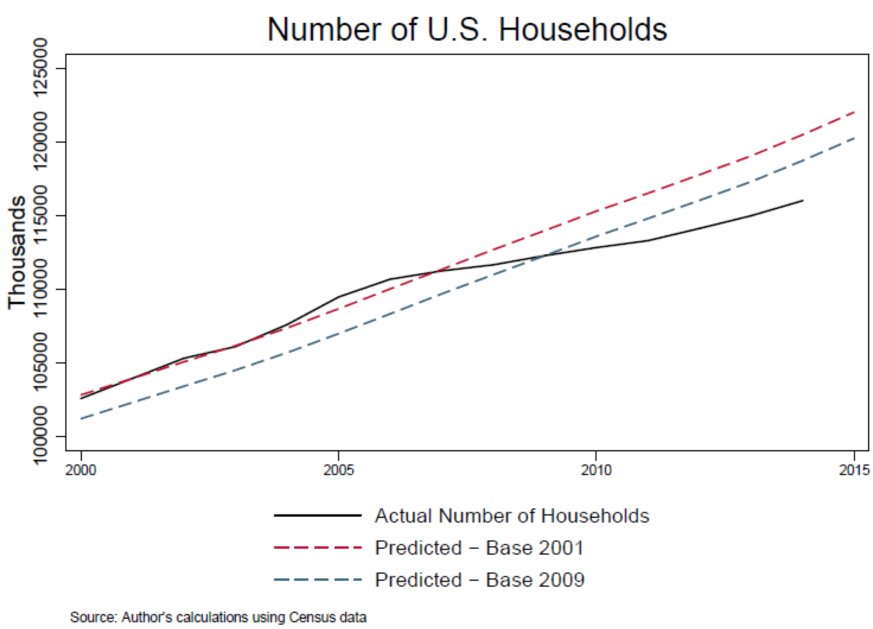
The managers of the Watershed program and the Grazing Improvement Program reported to the Natural Resources, Agriculture, and Environmental Quality Appropriations Subcommittee during its September 30, 2015 meeting.

Are Millennials Buying Houses? - Clare Tobin Lence

The National Conference of State Legislatures (NCSL) recently held a training seminar for fiscal analysts in Portland, Maine. Among the plenary session topics was a report on the U.S. economic outlook from Daniel Cooper of the Federal Reserve Bank of Boston, which included data and projections on the rates of household formation, or home purchases by first-time buyers. Household formation represents an important economic driver, both nationally and in Utah.

The recent economic downturn stalled home purchasing across demographic sectors, but the trend was most pronounced among Millennials, those individuals born after 1980. A difficult job market and tighter restrictions on mortgage qualifications, among other factors, were expected to be the cause of household formation rates that were below expectation for those currently aged 18-34, as compared to previous generations.

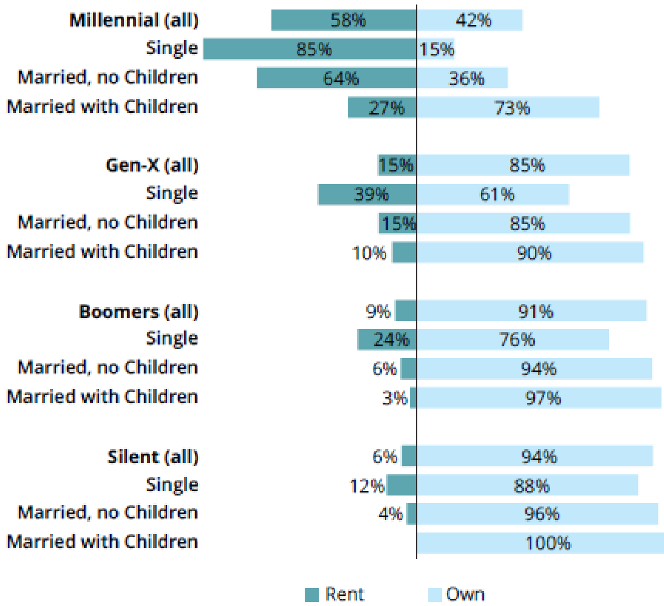
However, household formation rates remain below projections despite gains in housing prices and reductions in the rate of foreclosures. This likely contributes to weak rates of new housing starts and residential investment, and thus a slower overall recovery of the housing market.



Economists and others have speculated as to whether the slow rate of household formation represents "pent up" demand, such that Millennials are still delaying buying homes but that they will eventually do so. Conversely, it may be possible that significant debt (often from student loans) and continuing weak wages will prevent Millennials from forming households at the same rate as previous generations. Millennials may have less confidence or interest in home ownership, having witnessed the housing market crash at a formative age. There may also be cultural differences across generations that could limit household formation among Millennials over the long term, such as preferences for urban living and smaller family size.

A recent report by Utah Foundation found that Millennials in Utah are more likely to own a home than Millennials in any other state except one. Whereas nationally 30 percent of Millennials own their home, 41 percent of Utah Millennials own their home. The report also considers possible factors in Millennial household formation, such as the impact of marital and family status, through survey data.

Figure 27: Tenure by Marital and Parental Status by Generation in Utah



Note: The sample size for several of these categories is small.
Source: Utah Foundation Survey.

Enhancing the State's Long-term Fiscal Health - Steven M. Allred

Representatives from the Pew Charitable Trusts recently visited Utah to present their research on policies that support and enhance states' long-term fiscal health. The representatives spoke to legislative leadership and presented in the October 20 Executive Appropriations Committee meeting.
Their research shows "Utah has repeatedly emerged as a leader" in the area of long-term fiscal planning. However, they found two areas where they recommended improvements. Here is a summary of their findings:

Best Practices

"Pew recommends that states study their revenue volatility on a regular basis in order to inform reserve policy - a practice that Utah has had in place since 2009. This volatility study has been used to inform the savings targets of Utah's two main reserve funds." The Legislature passed H.B. 49, "Budget Reserve Account and Disaster Recovery Amendments" in the 2008 General Session which required the LFA and the Governor's Office to prepare a joint revenue volatility report beginning in 2011 and every three years thereafter. The last study was prepared in December of 2014 and recommended "increasing rainy day fund transfer thresholds to 9% for the General Fund Budget Reserve Account and 11% for the Education Budget Reserve Account." The recommendation was adopted in House Bill 333, 2015 G.S.

State budgets tend to be pro-cyclical, meaning they grow when the economy expands and they shrink when the economy contracts. This creates challenges for policymakers, since growing budgets in good times can lead to ongoing commitments funded with one-time revenues; when the economy declines, states may reduce spending when residents most need it, or increase taxes when residents can least afford it. In the 2014 G.S. the Legislature passed H.B. 311, "Budgeting Amendments" and HJR 11, "Joint Rules Resolution on Budget

Process Amendments," both of which require the Executive Appropriations Committee to look at long term revenue trends and consider treating above-trend revenue growth as one-time revenue.

Recommendations

Pew's staff said Utah can improve volatility management in the areas of deposits into and withdrawals from the rainy day funds.

Currently most of Utah's rainy day fund deposits are made at the end of the fiscal year by depositing a percentage of the prior year surplus (25% of the surplus, plus another 25% to repay recent appropriations from the funds.) In addition to the surplus deposit, the Legislature can appropriate more funds to the rainy day funds in any amount. Pew suggested that an improved practice would be to deposit a percentage of above-trend revenue to the rainy day funds.

Regarding withdrawals, currently Utah's statute allows for withdrawals only to resolve a budget deficit, pay a settlement agreement, or pay retroactive tax refunds. An improvement in the process would be to allow withdrawals based on cyclical declines in the economy and/or state revenues.

Fiscal Year 2017 Capital Development Rankings by the State Building Board - Angela J. Oh

In October 2015, the State Building Board held their capital development hearings and subsequently prioritized capital development needs for FY 2017. As defined by UCA 63A-5-104, "capital developments" means a:
(i) remodeling, site, or utility project with a total cost of $2,500,000 or more;
(ii) new facility with a construction costs of $500,000 or more; or
(iii) purchase of real property where an appropriation is requested to fund the purchase.

The following table shows the Board's prioritized list. The two farthest right columns show the score and rank of each project. Criteria used by the Board to rank these requests include items such as life safety, program growth, cost effective solutions, and criticality of programs or initiatives.

FY 2017 Capital Development
Building Board Rankings

Agency	Project	Score	Rank
Utah Valley University	Performing Arts Building	32.6	1
Utah State Archives and Records Service	Archives Storage Vault Expansion	30.0	2
Utah State University[1]	Biological Science Building	29.3	3
University of Utah	The Medical Education & Discovery (MED) / Rehabilitation Hospital (MED Complex)	27.2	4
Department of Environmental Quality (DEQ)	Technical Support Center (TSC)	26.6	5
Salt Lake Community College	Career & Technology Education Center at Westpointe Center	26.1	6
Ogden-Weber Applied Technology College (OWATC)	OWATC BDO Bay 2 Improvement Project	25.7	7
Weber State University	Social Science Building Renovation	22.0	8
Southern Utah University	New Business Building & Repurposed Existing Business Building	22.0	9
Mountainland Applied Technology College (MATC)	Thanksgiving Point Campus Technology/Trades Building	20.6	10
Bridgerland Applied Technology College (BATC)	Health Science and Technology Building	18.4	11
Department of Agriculture and Food[2]	William Spry Agriculture Building Replacement	18.3	12
Davis Applied Technology College (DATC)	Allied Health Building	17.7	13
Dixie State University	Human Performance / Student Wellness Center	16.1	14
Department of Natural Resources-Parks	Bear Lake State Park Marina Expansion	15.0	15

1. USU Biology Building was ranked high based on only the new building portion of the project. $38 million + $7 million other funds.
2. Agriculture and Food needs additional study -- high need.

One item to note: while the Board received several land banking requests for FY 2017, they did not rank any of the requests. As stated in their prioritized list, "... [the] Board agrees that land banking should not be ranked because there is no immediate need."

Higher Education Subcommittee Meeting - Spencer C. Pratt

On September 29, 2015, the Higher Education Appropriations Subcommittee held its interim meeting. Several items were on the agenda for discussion affecting funding of, and information dealing with, the Utah System of Higher Education (USHE and the Utah College of Applied Technology (UCAT).
The Analyst presented a comparison of tuition projections for FY 2016 that were made by the Analyst during the 2015 General Session to those included in the USHE FY 2016 budget. Generally, the projections overestimated the current budgetary figure, due to tuition increases that were lower than any year since 1999-2000, and because the projections included the portion that is used to cover a portion of compensation increases, which was then added to the estimates. The Analyst noted that in the future, a revision to the methodology will be made to account for this piece of tuition increases.

Representative from the University of Utah and Utah State University reported on how they plan on improving and strengthening graduate programs with $4 million appropriated to those two institutions. Those two institutions also reported on how they used federal grant funds to cover some of the Operations and Maintenance (O & M) costs. The Subcommittee reviewed FY 2015 budgetary information for each USHE and UCAT line item, in anticipation of the 2016 General Session. Commissioner Buhler and President Brems then discussed how their respective groups had implemented intent language requesting various performance measures.

President Brems then provided training and educational information of the Utah College of Applied Technology. He explained how the campuses determine which courses to provide to meet employer and market demands. UCAT enrollment is made up of secondary students (High School and post-secondary students (adults)). Adult students can be categorized as certificate-seeking, occupational upgrades, and other post-secondary. In FY 2015, UCAT awarded 7,582 program certificates and 757 occupational upgrade certificates, reporting a completion rate of 88.4%. President Brems then reported on funding approved over the past three years for campus equity and campus capacity.

Higher Education items from the Building Block/Fiscal Note follow-up report that was presented to the Executive Appropriations Committee were shown to the Subcommittee. These include Mission-Based Funding (Distinctive Mission and Equity); Performance-based Funding; UCAT Campus Capacity; USU Graduate School; S.B. 38 Snow College Concurrent Education; College Readiness Initiative; UCAT Campus Equity, Custom Fit, Scholarships for Students with Intellectual Disabilities, and Marketing and Messaging.

Historical Indebtness of Utah and Political Subdivisions - Brian Wikle

The State of Utah and its political subdivisions incur bond debt primarily to finance large capital projects. This article and the accompanying chart focus on historical indebtedness for General Obligation (GO) bonds issued by the State, bonds issued by school boards (SBG) or in behalf of charter schools (CSCE) that are guaranteed by the State, and lease revenue bonds issued by the State Building Ownership Authority (SBOA) either for governmental activities (GA) or for business-type activities (BA).

GO Bond Debt. The State is legally obligated to use its taxing authority to guarantee that repayment of GO bonds occurs in full and on time. As such GO bonds are effectively risk-free investments for bondholders and interest rates are relatively low. In practice, the Legislature appropriates a sufficient amount each year from existing revenue streams to service GO bond debt; it does not levy an explicit tax for the purpose of making GO debt payments. This debt is subject to the constitutional debt limit that is equal to 1.5 percent of the value of taxable property in the State.

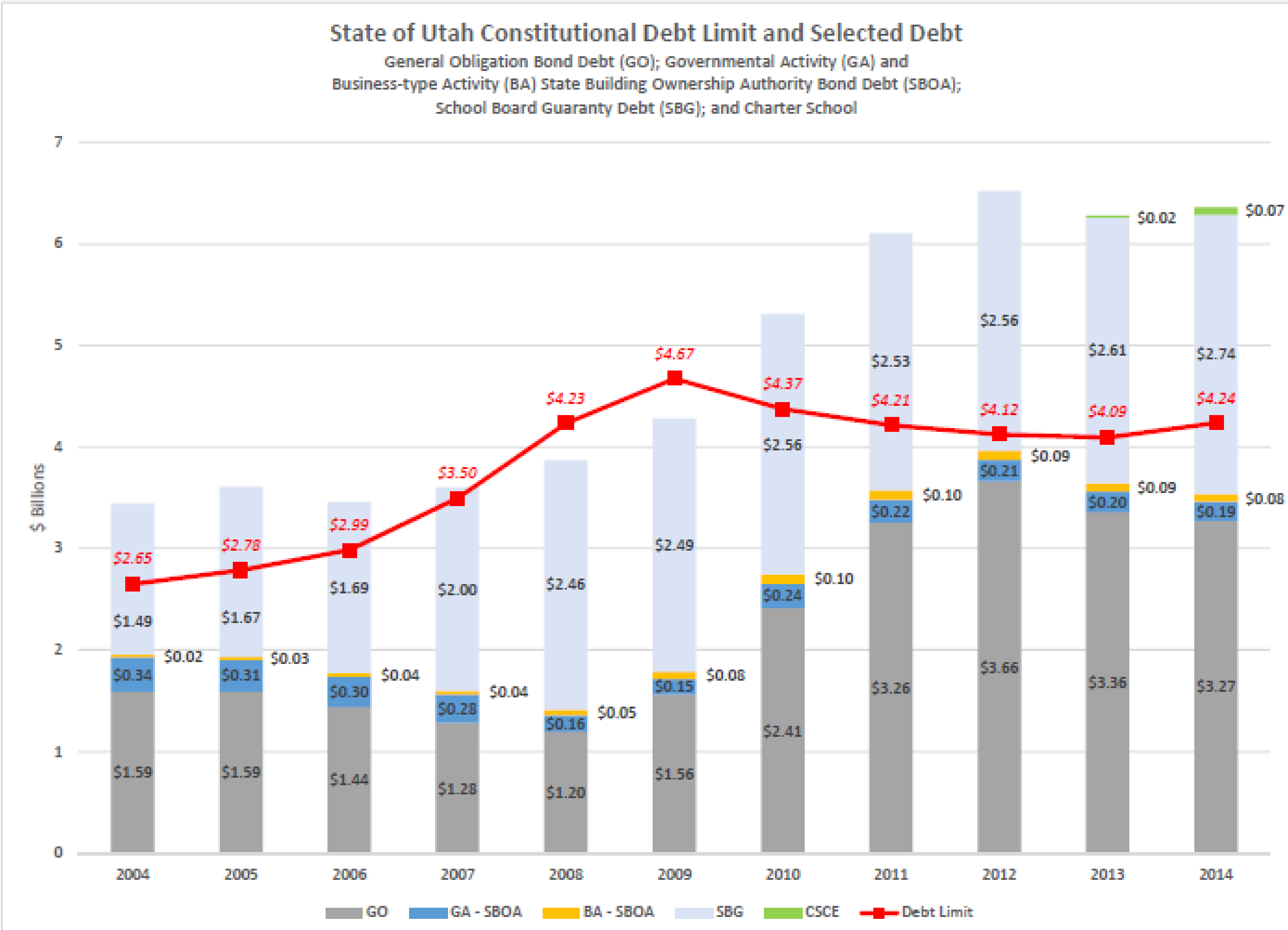
The State's GO bond indebtedness declined gradually through the first several years of the 2000s. GO debt hit a low of $1.20 billion in 2008 just prior to the Great Recession. From 2008 to 2012 GO debt more than tripled reaching a peak of $3.66 billion in 2012. If no additional debt were issued, the State would pay off its GO indebtedness by 2030. However, the 2015 Legislature authorized issuance of up to $470 million for construction of a new prison, and other projects that might be financed through GO bonds are being discussed.

School Board Guaranty and Charter School Bond Debt. In order for local school boards to borrow at more favorable terms, the State allows boards to borrow with its backing. As with GO bonds, the State pledges its full faith and credit to guarantee that qualifying debt issued by school boards will be repaid in full and on time. However, this debt is not subject to the constitutional debt limit. School board debt backed by the State nearly doubled between 2004 and 2014 from $1.49 billion to $2.74 billion.

The first charter school bonds to be guaranteed by the State were issued in 2013. That year the liability to the State was about $20 million, and that figure grew to about $70 million in 2015.

Lease Revenue Bond Debt. As implied by the name, debt service on lease revenue bonds is funded through collection of "lease" payments. The State is not legally obligated to repay this debt if the issuing entity were to face default. Consequently, lease revenue bonds are more risky for investors and the issuing entity pays higher interest rates than issuers of guaranteed debt. However, regardless of the legal distinction, creditors would look to the State to make them whole in the event of a default, and the State would likely step in prior to a default in order to avoid any negative impact on the State's credit rating. It is important to understand that some "lease" payments are really appropriations that flow from either the General or Education Funds to the leasing entity and back to the State; only a portion of "lease" payments are truly from a third party. Total SBOA lease revenue bond debt has been relatively stable for the past decade at around $300 million.

Historical Indebtedness. The following chart shows the State's liability for bond indebtedness for the various debt types described above for fiscal years 2004 through 2014. It also shows the constitutional debt limit that, as explained above, applies only to General Obligation bond debt.



Licensing of SAGE Test Items - Ben Leishman

In fall 2014, the Utah State Board of Education (Board) received a request to license Utah's SAGE (Student Assessment of Growth and Excellence) test items to three states, namely, Florida, Arizona, and Tennessee. The Board has since received a fourth request, from the State of Ohio, to license test items. The Board worked with the Attorney General's office to complete the license agreements.

The American Institutes of Research (AIR) is the contractor that supports Utah in developing and administering the SAGE for Utah's students. AIR also contracts with the states listed above to develop similar assessment systems and the Utah test items will be used as these states transition to their own assessment system. The agreements with AIR, Utah, and these other states assert that Utah retains ownership of all test items. AIR will provide the revenue generated from these licenses to the Utah State Office of Education (USOE) through a reduction of contract payments the State is required to pay, or by direct payment.

During the 2015 General Session, the Legislature passed the following intent language for these licensing agreements:

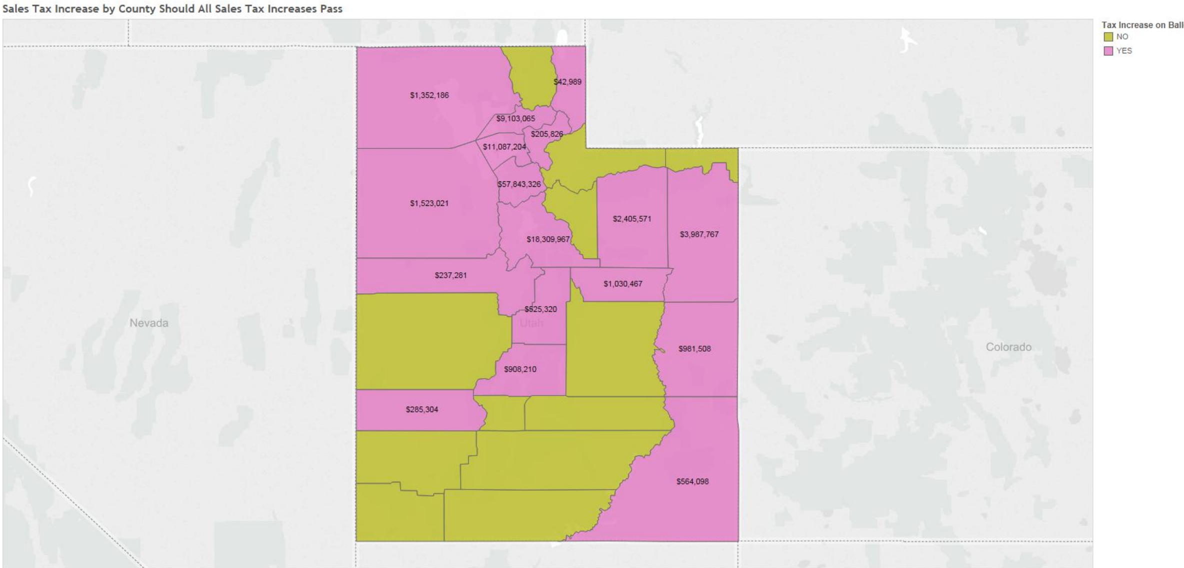
The Legislature intends that the State Board of Education use any nonlapsing balances generated from the licensing of Student Assessment of Growth and Excellence (SAGE) questions to other states to develop additional assessment questions and provide professional learning for Utah educators.

During the October meeting of the Executive Appropriations Committee, the Board reported that they have received approximately $7.0 million from the licensing agreements so far. The Board has developed a professional learning program to assist certain schools in understanding and implementing information learned from the SAGE assessment. Finally, the Board has also used a portion of the funding to front the current year cost of four new employees at the USOE. These employees will include three managerial accountants and a federal grants compliance officer. USOE will request ongoing funding for these positions in the FY 2017 budget cycle.

Looking at the Sales Tax Increase Component of Proposition 1 - Thomas E. Young

House Bill 362 of the 2015 General Session allows counties, if approved by a majority vote, to impose a 0.25% sales tax increase for transportation-related expenditures.
Of the 29 Utah counties, 17 have the issue on the ballot (Figure 1), representing a total potential tax increase of $108 million.

Sales Tax Increase by County Should All Sales Tax Increases Pass



Sources: LFA, Tax Commission

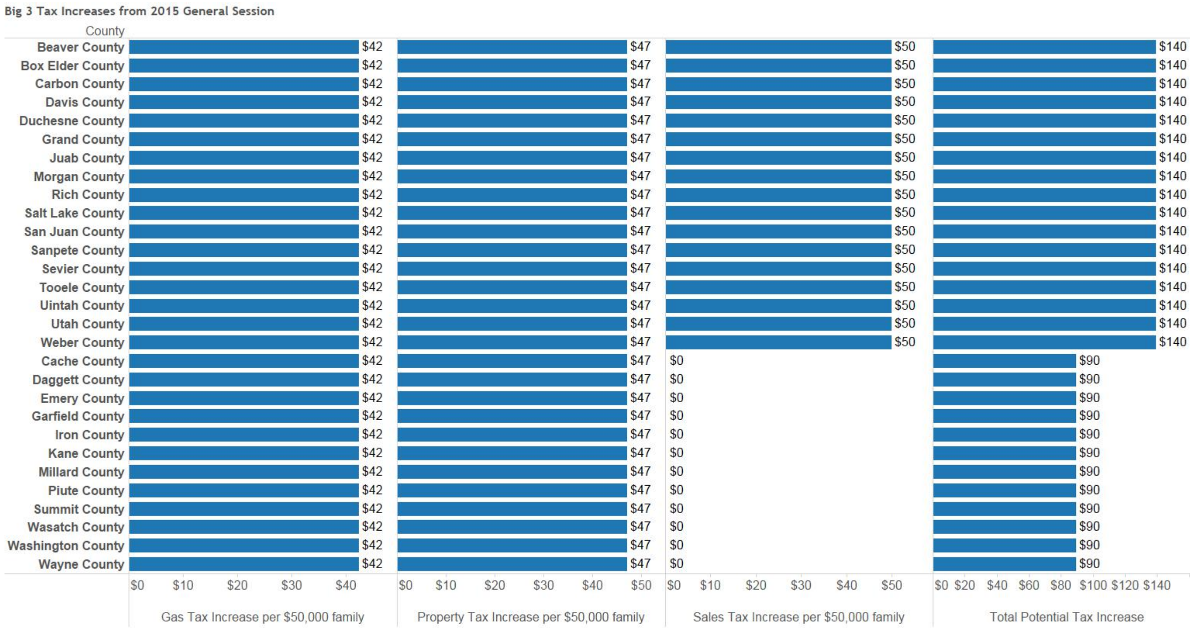
In looking at the sales tax change on a family basis, a family earnings $50,000 per year and spending $20,000 on non-food taxable items can expect a tax increase of about $50 per year from the 0.25% tax increase.

Figure 2 compares the $50 sales tax change to the other two big tax changes from the 2015 General Session.

The left column is the gas tax increase. The $42 per year represents an individual driving 13,000 miles per year in a car that gets about the average gas mileage.

The middle column is the property tax increase. The $47 per year is what a family owning a $250,000 primary residential home can expect to pay from the property tax increase.

In total, the three big tax changes represent about $260 million in tax liability adjustments.

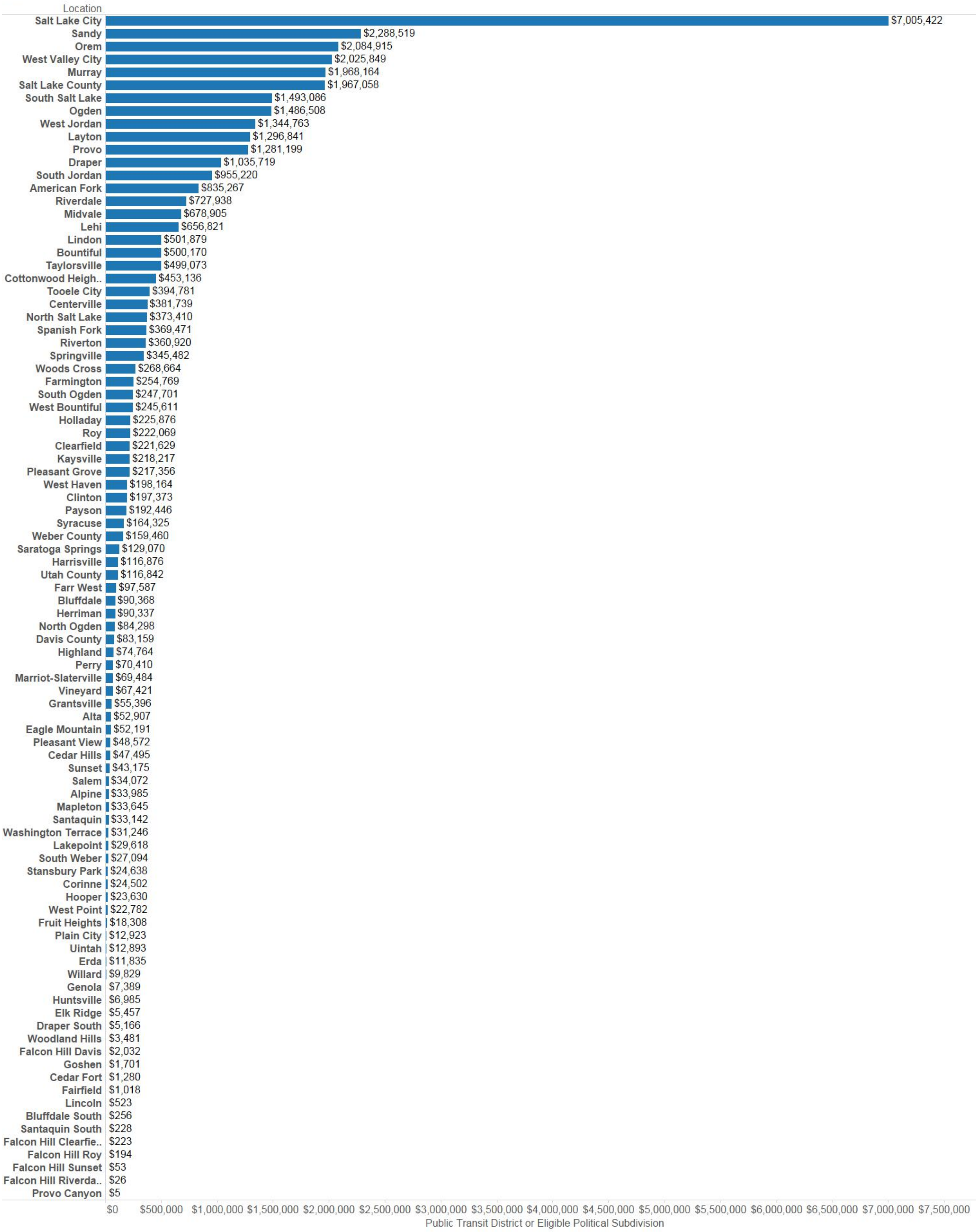


Source: LFA
Notes: Assumes a household owning a $250,000 home, spending $20,000 on non-food taxable items, and driving 13,000 miles per year.

Revenue from the sales tax increase is earmarked either for public transit districts, county legislative bodies, or cities/towns.

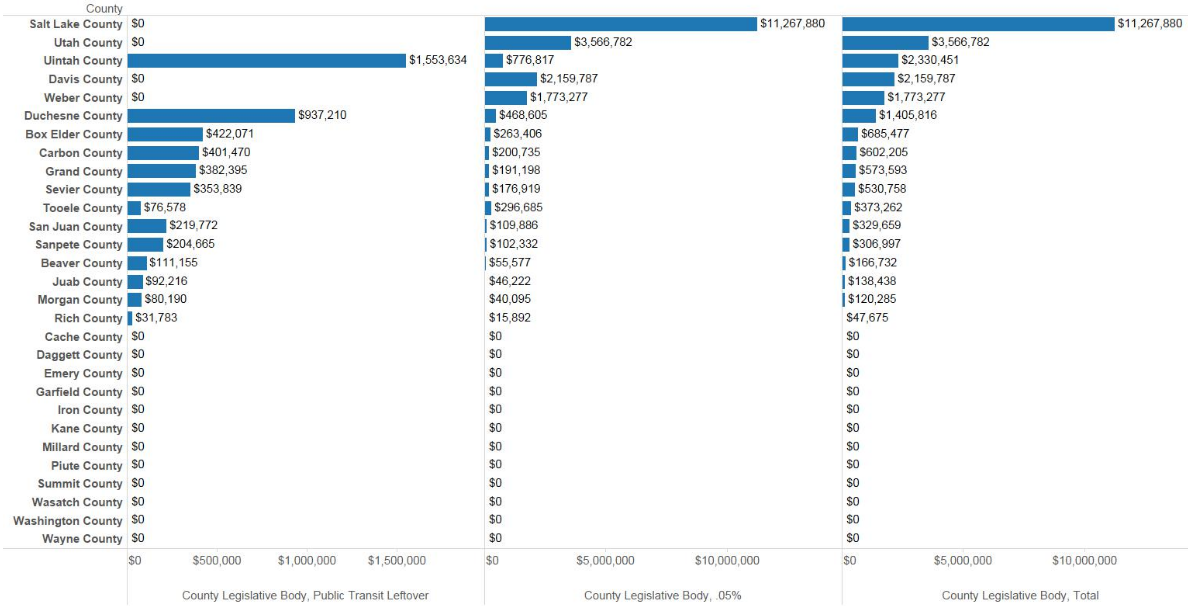
The following three figures detail where the money would go.

Figure 6: Public Transit Districts



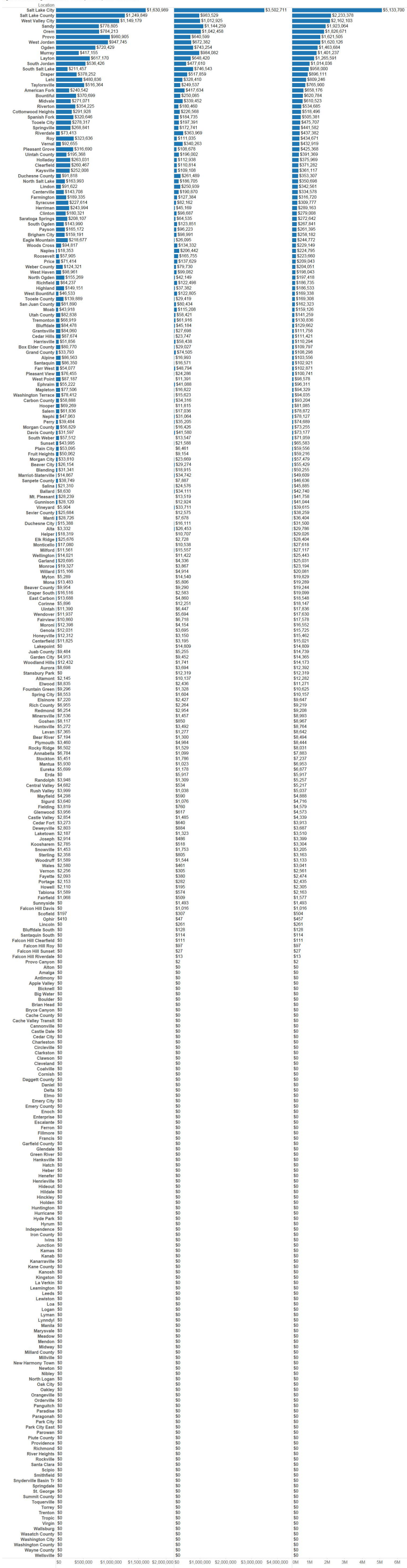
Sources: LFA, Tax

Figure 7: County Legislative Body



Sources: LFA, Tax

Figure 8: Remaining Distribution: 50% Population | 50% Point of Sale



Sources: LFA, Tax

Lastly, the following figure sums all three by entity.

Figure 9: Total Distribution

Sources: LFA, Tax

October 27th EOCJ Meeting Summary - Gary R. Syphus

The following is a summary of the Executive Offices and Criminal Justice Appropriations Subcommittee meeting held on October 27th, at the Adult Corrections - Fortitude Treatment Center.

1. **Approval of Minutes/Utah Communications Authority Report** - Per statute, the Utah Communication Authority submitted a report on financial activity to the Subcommittee on which they presented. They submitted:
2. - the total revenue collected by local entities in the last fiscal year under the imposed 911 levy,
   - amount of disbursements from the restricted accounts for the last fiscal year,
   - recipient of each grant during the last fiscal year,
   - the amount of unexpended funds carried forward,
   - anticipated expenditures from the restricted accounts for the next fiscal year,
   - public safety answering point 911 call volume,
   - fund balance from the emergency telephone services fund of each agency that has imposed a levy, and
   - anticipated expenditures from the radio system appropriation.
3. **Attorney General Budget Issues** - Per the direction of the Legislative Audit Committee, the Legislative Auditor presented two audits (a performance and in-depth budget review) to the Subcommittee. The Subcommittee passed a motion to receive a proposed level of Internal Service Fund budget structure in cases where the Attorney General represents state agencies. In addition the Subcommittee considered potential necessary legislation in order to change the budget structure as recommended.
4. **Division of Juvenile Justice Services: Council of State Government (CSG) Recommendations** - The Division of Juvenile Justice Services (JJS) and the Council of State Governments (CSG) presented research and findings within the Division of Juvenile Justice Services including budget and performance. Also, the Subcommittee considered legislation to change statutory required procedures in order to implement the recommendations.
5. **Base Budget Review** - Staff presented the "Preliminary Lapsing and Nonlapsing Balances Report" identifying relevant agency balances and potential funds that can be re-prioritized. Staff also introduced a new dynamic budget tool to look at historical budget activity in order to better analyze the budget and look specifically at 2015 actual data compared to 2015 appropriated amounts.
6. **Subcommittee Reports** - LFA presented two reports; (1) the Alcoholic Beverage Control Act Fund Report and (2) the Attorney General Litigation Fund report. The Alcoholic Beverage Control Act Fund Report contained information about financial activity within the fund, and whether DPS was complying with the statutory required ratios for alcoholic beverage law enforcement officers - which is currently in compliance. The Attorney General Litigation Fund contains information on financial activity within the account and staff recommended that it be brought on budget within the appropriation act - the Subcommittee passed a motion to that end.
7. **Other Business/Adjourn** - Staff informed the committee of several required/recommended reports enclosed in their material but that weren't planned to be presented in the meeting but if desired could be scheduled for a future meeting.

Statewide Data Alliance and Utah Futures Update - Jill L.Curry

During the 2014 General Session, the Legislature passed Senate Bill 34, which consisted of two main parts, Utah Futures and a statewide data system. Utah Futures is a web portal designed to help Utahns make decisions about education, career opportunities, financial aid, etc. The statewide data system is a comprehensive system to enable the examination of educational progress and outcomes over time. In S.B. 34, five entities were appropriated money. Table 1 shows the money appropriated to each entity.

Table 1. S.B. 34 (G.S. 2014) Appropriation

Entity	Appropriated Amount (Ongoing)	Appropriated Amount (One-time)
Utah Education Network	$345,000	$300,000
Utah Education Policy Center	$310,000	
Utah State Office of Education	$355,000	
State Board of Regents	$245,000	
Utah College of Applied Technology	$245,000	
Total	$1,500,000	$300,000

Tables 2 through 6 below provide a breakdown of how the appropriation was spent within each agency in fiscal year 2015. The Utah Education Network (UEN) was appropriated $345,000 ongoing money and $300,000 one-time money. UEN used the vast majority of its appropriation on personnel and software (see Table 2). The remaining money was spent as shown in the table below. Of the remaining balance of the appropriation, $32,500 are encumbered and the remaining $41,900 are earmarked for software purchases that will happen in the 2nd quarter of fiscal year 2016.

Table 2. UEN S.B. 34 Expenditures for F.Y. 2015

Item	Amount
Personnel	$206,900
Professional Development and Training	$8,300
Maintenance	$34,900
Equipment and Supplies	$7,300
Data Breach Insurance	$57,400
Software	$255,800
Total	**$570,600**

The Utah Education Policy Center (UEPC) was appropriated $310,000. Most of the appropriation was spent on personnel as shown in Table 3. These individuals coordinate Utah Data Alliance (UDA) research activities, conduct independent and original research, analysis, and reporting using UDA longitudinal data. The remaining funds from the appropriation have been allocated for fiscal year 2016 to expand initially proposed projects. These additional projects include analyses of Utah Teacher and Leader Preparation Pathway, Need, Placement, Employment, and Retention (Reports and Dashboards).

Table 3. UEPC S.B. 34 Expenditures for F.Y. 2015

Item	Amount
Personnel	$277,030
Travel	$2,800
Equipment	$3,450
Professional Development	$1,590
Total	**$284,870**

The Utah State Office of Education (USOE) was appropriated $355,000 in S.B. 34, all of which was spent in fiscal year 2015. In terms of personnel expenditures, USOE's appropriation funds a project manager, a UDA assistant, and an individual dedicated to IT. Personnel expenditures also cover two part-time researchers.

Table 4. USOE S.B. 34 Expenditures for F.Y. 2015	
Item	**Amount**
Personnel	$344,260
Purchased Services	$2,880
Supplies and Materials	$1,280
Equipment	$6,580
Total	**$355,000**

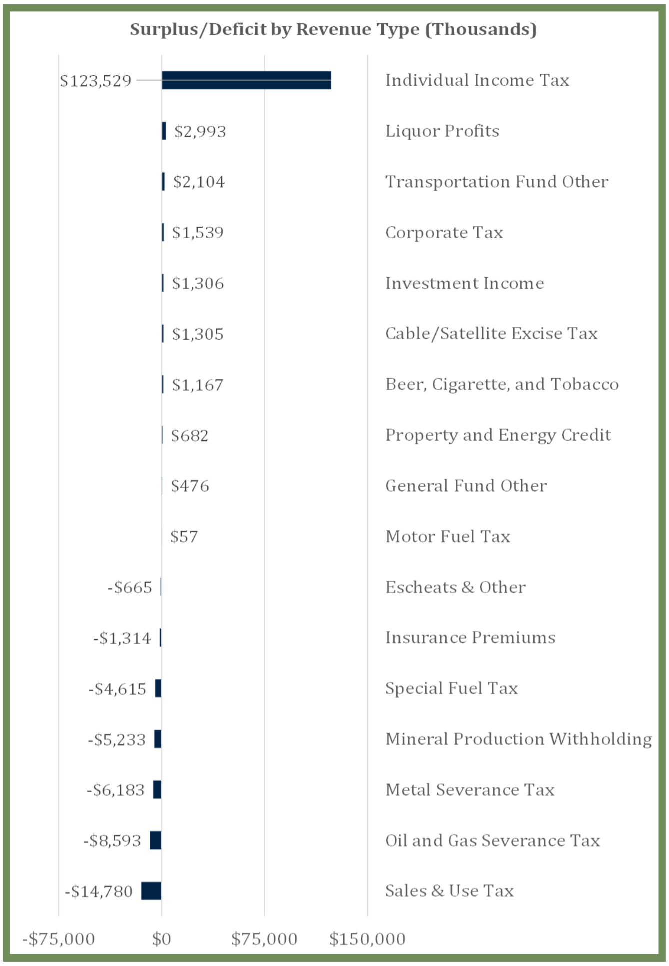
The State Board of Regents was appropriated $245,000. They used this appropriation to hire two senior research analysts (see Table 5). These analysts are responsible for data administration, data cleansing, and data validation of all information provided to the Utah Data Alliance database. In addition, both employees engage in educational research projects and accountability reports to various stakeholders within the education community. Remaining funds are being used to adjust employees salaries to bring them in line with the market since the senior research analysts were hired at lower than market rate, and also on additional software purchases, equipment upgrades, and professional development.

Table 5. State Board of Regents S.B. 34 Expenditures for F.Y. 2015	
Item	**Amount**
Personnel	$163,860
Operation and Maintenance	$34,000
UDA Database Enhancement Contract	$4,670
Software	$2,320
Training	$450
Supplies	$430
Total	**$205,730**

The Utah College of Applied Technology (UCAT) was appropriated $245,000 in S.B. 34. Their expenditures are detailed in Table 6 below. Personnel money was used for a director of data and also a data analyst. Money was also spent on equipment and a statistical software package.

Table 6. UCAT S.B. 34 Expenditures for F.Y. 2015	
Item	**Amount**
Personnel	$175,440
Equipment and Software	$2,100
Travel	$2,890
Total	**$180,430**

Utah ended FY 2015 with a $96.2 million General and Education Fund revenue surplus. The revenue surplus was due almost entirely to better-than-expected growth in the withholding and gross final payments to the Education Fund, while the Education Fund ended FY 2015 $119.2 million above target. General Fund closed FY 2015 in a revenue deficit of $23.0 million. The chart below shows the surplus/deficit by revenue type. Individual income tax is by far the largest contributor to the surplus. Individual income tax as a whole came in at 9.3 percent year-over-year growth.
After accounting for expenditure side adjustments and a transfer to the Education Fund Budget Reserve Account, the FY 2015 budget surplus is $43.8 million and is exclusively Education Fund.



As mentioned earlier, the General Fund ended FY 2015 with a revenue deficit of $23.0 million. The largest factors behind the revenue deficit were softer than expected sales tax revenue ($14.8 million) and weak severance tax revenue, driven largely by the decline in the prices of oil, natural gas, and commodities. On the positive side, revenue from Insurance Premiums, Liquor Profits, Tobacco taxes, and Cable/Satellite tax came in above target in FY 2015. When budget adjustments are made the General Fund deficit is $15.7 million.

The Education Fund ended FY 2015 with a revenue surplus of $119.2 million. When expenditure side adjustment are made the Education Fund surplus is $59.5 million.

What Happened at the September 11th Meeting of the Social Services Appropriations Subcommittee?
- Russell T. Frandsen

Morning Agenda

1. Call to Order
2. Approval of Minutes
3. Report on Salaries of Direct Care Workers Working with Individuals with Intellectual Disabilities - Department of Human Services (http://le.utah.gov/interim/2015/pdf/00004066.pdf, http://le.utah.gov/interim/2015/pdf/00003955.pdf, http://le.utah.gov/interim/2015/pdf/00004028.pdf, http://le.utah.gov/interim/2015/pdf/00004030.pdf, and http://le.utah.gov/interim/2015/pdf/00004032.pdf) - The Utah Division of Services for People with Disabilities, DSPD, received a $5,395,200 state fund appropriation ($18,177,900 total funds) during the Legislature's 2015 General Session. This appropriation was intended to raise wages for direct care service staff in the DSPD contracted private provider system based upon public input from families and providers that turnover rates in the system were excessive, often exceeding 100 percent annually. The DSPD contracted providers presented a three year plan to receive $15 million in state funds ($50 million in total funds). The first year appropriation resulted in a 10.5 percent rate increase to services identified as having a direct care component. Along with the increased appropriation, the Legislature passed intent language requesting DSPD and providers to report to the Office of the Legislative Fiscal Analyst (LFA) by September 1, 2015. Intent language also provided that no portion of these increases should be allocated to administrative functions or provider profits. The Human Services report stated, "Providers realize profits by maintaining a positive margin between what is expended by providing services and the funding they receive from DSPD, private fund raising, donations, and other business ventures." Committee members expressed concerns regarding whether increases were going as intended to direct care workers at the lower end of the hourly rate scale. The committee indicated it would have several members meet with the Department of Human Services to explore data verifying that lower paid direct care workers received the majority of the appropriation increase.
4. Report on Salaries of Direct Care Workers Working with Individuals with Intellectual Disabilities - Department of Health (http://le.utah.gov/interim/2015/pdf/00004116.pdf and http://le.utah.gov/interim/2015/pdf/00003927.pdf) - The Department of Health received an ongoing $200,000 state fund appropriation ($673,900 total funds) during the Legislature's 2015 General Session. This appropriation was intended to raise wages for direct care service staff in the Intermediate Care Facilities for Individuals with Intellectual Disabilities contracted private provider system. Along with the increased appropriation, the Legislature passed intent language requesting the Department of Health and providers to report to the Office of the Legislative Fiscal Analyst (LFA) by September 1, 2015. Intent language also provided that no portion of these increases should be allocated to administrative functions or provider profits. Health: "In Utah, there are currently 16 privately owned and operated ICF/ID facilities. All of the clients residing in these facilities are Medicaid clients meaning Medicaid is the only payer of services in this industry. To make a profit, ICF/ID providers must maintain a high bed occupancy rate, which maximizes revenues. Providers must ensure adequate services and attempt to control costs, to the extent possible, in order to ensure that revenues exceed costs. If successful, the provider obtains a profit and the business is a viable on-going operation."
5. Report on Division of Services for People with Disabilities Status and Proposed Uses of FY 2015 Closing Nonlapsing Funds (http://le.utah.gov/interim/2015/pdf/00003957.pdf).
6. Department of Human Services Responses to In-depth Budget Review and Audit Recommendations (http://le.utah.gov/interim/2015/pdf/00003959.pdf) - intent language required the Division of Services for People with Disabilities to report on the amount of FY 2015 nonlapsing funding and on the intended use of these funds. DSPD reported it had $1.3 million in FY 2015 closing nonlapsing funds and it intended to use the total amount to pay for one-time

respite services based upon state statute found at UCA 62A-105-102(7)(d)(iii) as well as 2015 General Session legislative intent language.

7. Report on Local Authority Mental Health Medicaid Match (http://le.utah.gov/interim/2015/pdf/00003967.pdf, http://le.utah.gov/interim/2015/pdf/00003963.pdf, http://le.utah.gov/interim/2015/pdf/00004048.pdf, and http://le.utah.gov/interim/2015/pdf/00004067.pdf) - In its 2014 and 2015 General Sessions, the Legislature appropriated $6.4 million one-time General Fund to assist local mental health authorities to pay for their mental health Medicaid match. The Utah Association of Counties (UAC) uses the match to meet the local mental health and substance abuse disorder needs that exist in their counties. UAC states, "In addition to the $6.4 million provided by the Legislature, the counties are currently matching that $6.4 million with 20 percent local matching funds ($1,280,000) as required by UCA 17-43-301(4)(a)(x). In turn, the State and local funds are then being used to draw down additional federal Medicaid Funds." In addition to the appropriation, the Legislature also passed intent language in 2015 indicating that the $6.4 million General Fund appropriation was for one year only until local authorities could find ways to provide their own matching funds in the future. The intent language also required the local mental health authorities to report plans to provide their own matching funds in the future to the Office of the Legislative Fiscal Analyst (S.B. 2, Item 82). Local mental health authorities have provided a report to the LFA. The local authority report describes the need for the state to "continue to partner with the local mental health authority and fund a portion of the federal match" on an ongoing basis and does not address plans on the part of local authorities to "provide their own matching funds in the future."
8. Report on Office of Recovery Services Proposed Uses on Increased Fees from the 2014 General Session (http://le.utah.gov/interim/2015/pdf/00003965.pdf) - the Office of Recovery Services (ORS) reported, in compliance with intent language, regarding "a detailed listing of the intended uses of the additional fee revenue with associated amounts" (S.B. 2, Item 84). ORS estimated the fee increase to be $1,422,200 and proposed using the fee increase to fund an additional 18 staff in order to "lower the cases per agent ratio" and "provide additional customer service agents."
9. Report on Options for State Laboratory to Serve More Government Entities (http://le.utah.gov/interim/2015/pdf/00004135.pdf) - The Department of Health estimates that state agencies spent $3.7 million on laboratory services outside of the Utah Public Health Laboratory in FY 2015. The Department identified five barriers to serving some of these needs from other agencies and has plans to address each barrier. Health: "The Utah Public Health Laboratory is available 24 hours/7 days a week to provide services to entities that have a public health mandate to protect citizens of Utah. This investigation has shown there is roughly $3 million in laboratory services that are required by state entities. While the laboratory is poised to be able to accept these test requests, we are unable to determine at this time if the UPHL is able to provide comparable services for a fee that would be a savings to the state and tax-payers. With more time, the laboratory may explore the services used by the departments with the highest volumes to determine the costs for tests needed by those departments. Alternatively, the laboratory would be able to assess the needs of other departments with a right-of-first-refusal policy. This would allow the laboratory to have direct discussions with the agency about their needs, how much they have to spend on testing, and how/if the laboratory would be able to meet those needs within their budget."
10. Quarterly Status Reports on Replacement of Medicaid Management Information System (http://le.utah.gov/interim/2015/pdf/00003921.pdf) - Health: "Three CNSI deliverables were approved during June. The design sessions for Release 4 continued through the month. Systems integration testing for Release 3 continued, Provider outreach continued and project staff met with provider associations to discuss project status and Release 3."
11. Public Input on Topics on Today's Agenda.
12. Follow Up on State Policy and Practice Regarding Drug Testing of State Job Applicants (http://le.utah.gov/interim/2015/pdf/00004069.pdf) - the Department of Human Resource Management (DHRM) provided additional information in response to committee questions asked at the June

12, 2015 presentation on this topic. DHRM indicated between 2010 and 2014 state agencies administered 5,438 drug tests but found only 23 positive results from those tests.

13. Report on Highest Cost Individuals - Individuals Receiving Services in Excess of $100,000 Total Fund Annually in Any Social Services Agency (http://le.utah.gov/interim/2015/pdf/00004101.pdf and http://le.utah.gov/interim/2015/pdf/00003929.pdf) - In its 2015 General Session, the Legislature passed intent language requiring the departments of Health, Human Services, and Workforce Services and the Utah State Office of Rehabilitation to provide a report regarding each agency's highest cost individuals and possible efficiencies through coordination, early intervention, and prevention. The report summarizes each agency's highest cost individuals and possible efficiencies through coordination, early intervention, and prevention with regard to individuals receiving services in excess of $100,000 total funds annually. The four agencies identified 2,419 individuals for a total cost of $396.2 million, or an average cost of $163,800 per individual. The primary interaction between agencies regarding services for high cost individuals occurs between Health and Human Services. The State Office of Rehabilitation served only one individual with more than $100,000 in services annually. Workforce Services had no single individual with more than $100,000 in services annually. For the Department of Health, all of the 1,658 high cost individuals were within the Medicaid program. Health describes its 20 most expensive individuals as having various medical issues such as preterm birth, cancer, and renal failure. None of these individuals received significant services from multiple agencies. The majority of high cost individuals receiving services from multiple agencies (primarily Human Services with 760 individuals) were those enrolled in the Medicaid program and were: 1) individuals with disabilities, 2) individuals at the Utah State Developmental Center, and 3) youth in the Utah State Hospital. Report: "In FY 2015, the Utah Department of Health (UDOH) provided services to 1,658 individuals in excess of $100,000. All were Medicaid members. The service totals included fee for service claims made directly to UDOH and encounter claims submitted by Medicaid accountable care organizations (ACOs) and prepaid mental health plans. One member had $7,000 in Ryan White services in addition to the Medicaid services provided. Services to these individuals totaled $292 million, which was approximately 15% of services provided to Medicaid members in FY 2015 ... The Department of Human Services (DHS) had 760 clients who had individual costs exceeding $100,000 totaling $103,328,900, which represents 14% of the DHS fiscal year 2015 expenditures ... The Utah State Office of Rehabilitation recommends the listed agencies explore establishing data-share agreements, similar to the agreement in place between USOR and DWS. USOR believes this will enhance interagency coordination and collaboration in order to meet the needs of common consumers and high cost individuals and help avoid duplication of services."

14. Distribution of all General and Education Fund and Total Funds Among Programs by the Lowest Organizational Unit Possible (http://le.utah.gov/interim/2015/pdf/00003980.pdf, http://le.utah.gov/interim/2015/pdf/00003978.pdf, http://le.utah.gov/interim/2015/pdf/00004026.pdf, http://le.utah.gov/interim/2015/pdf/00004050.pdf, and http://le.utah.gov/interim/2015/pdf/00004052.pdf) - the committee received additional information regarding agency budgets at the lowest accounting unit. Preliminary information was provided to the committee on this topic during its June 12, 2015 interim meeting.

15. Update on Funding of Requests for Appropriations Authorized During the 2015 General Session - the Department of Human Services provided the committee with an update on funding of Requests for Appropriation authorized during the 2015 General Session and the status of each funded item with regard to an open bid process versus a sole source contract and why each approach was applicable.

16. Review of Statutorily Required Reports (http://le.utah.gov/interim/2015/pdf/00004077.pdf) - The Fiscal Analyst and state agencies recommend removing two reports required in statute that go to the Social Services Appropriations Subcommittee. Any changes to these reporting requirements must be done via legislation. The Speaker of the House and President of the Senate sent letters in July 2015 directing all appropriations subcommittees to review the relevancy of all statutorily-

required reports. Senator Christensen indicated that he would open a bill file to remove these two reporting requirements.

17. Detailed Explanation of How Federal Block Grant Spending is Approved (http://le.utah.gov/interim/2015/pdf/00004112.pdf) - A federal block grant is typically a large amount of funding provided to states that contains only general provisions from the federal government as to how grant funds are spent. Categorical grants often have much more restrictive provisions about the uses of grant funds. Because of the general requirements regarding block grants, the Legislature may direct or redirect the use of these grants as long as doing so would meet the general purposes of the block grant and would not create federal matching issues. This issue brief discusses federal block grants used in funding programs within the Social Services Appropriations Subcommittee which include the following agencies; 1) the Department of Health, 2) the Department of Human Services, 3) the Department of Workforce Services, and 4) the Utah State Office of Rehabilitation. The total annual receipt of block grant funds shown in this brief for 2016 is above $250 million.
18. Items From the Afternoon Agenda.
19. Tour of Services at Palmer Court - this tour and the one below were featured in a front page news article in the Deseret News, see http://www.deseretnews.com/article/865636617/Lawmakers-get-glimpse-of-lives-of-homeless-people-services-that-help-them.htmlpg=all.
20. Saint Vincent de Paul Dining Hall & Homeless Tour.

<u>Afternoon Agenda</u>

1. Unfinished Items from the Morning Agenda.
2. USOR Vocational Rehabilitation issues (http://le.utah.gov/interim/2015/pdf/00004013.pdf, http://le.utah.gov/interim/2015/pdf/00003969.pdf, http://le.utah.gov/interim/2015/pdf/00003976.pdf, http://le.utah.gov/interim/2015/pdf/00004104.pdf, http://le.utah.gov/interim/2015/pdf/00003994.pdf, http://le.utah.gov/interim/2015/pdf/00003996.pdf, http://le.utah.gov/interim/2015/pdf/00004075.pdf, and http://le.utah.gov/interim/2015/pdf/00004107.pdf) - A recently completed Legislative audit, A Performance Audit of USOR's Budget and Governance, summarized the Utah State Office of Rehabilitation (USOR) as follows: "USOR is housed within the Utah State Office of Education (USOE). USOR offers multiple programs to help disabled Utahns achieve employment, greater independence, and a higher quality of life. Primarily, USOR provides a range of vocational rehabilitation (VR) services to disabled Utahns with the goal of obtaining employment. VR services include training, education, transportation, assistive technology, and others. In federal fiscal year 2014, USOR served approximately 20,000 clients." The Office of the Legislative Auditor General (OLAG) further explains, "Since the 2008 recession, USOR has had problems managing its budget. . . . During the 2014 General Legislative Session, USOR appeared before the SSAS (Social Services Appropriations Subcommittee) to report a pending budget deficit of $7.8 million." The Legislature addressed the $7.8 million shortfall with an ongoing appropriation. In the 2015 General Session USOR also requested a $6.3 million supplemental increase. The auditors further explain that "these difficulties eventually led to the request of this audit by the Social Services Appropriations Subcommittee." The main themes of the audit results include: 1) "USOR mismanaged its budget" by "running a $4.9 million deficit in 2014, eliminating approximately $17 million of federal spending reserves traditionally available in the second year of USOR's vocational rehabilitation (VR) grant, needing a $6.3 million state supplemental appropriation in 2015, and anticipating a potential penalty from the federal government of $5 to 6 million; 2) "weak oversight and communication prolonged and worsened financial problems" because "nonfunctioning oversight and poor communication aggravated financial problems," "USBE failed to provide an appropriate level of governance of USOR," and "USOE failed to provide oversight of USOR;" 3) "USOR's mission would be better served elsewhere in state government" by concluding that "USOE is not the best location for

USOR" and that "DWS appears to be the most likely candidate for USOR placement" while acknowledging that "stakeholder concerns exist" and also that "other options also exist for USOR placement;" and 4) "use of the Visually Impaired fund for Vocational Rehabilitation was imprudent" and acknowledging that "guidance on the fund use is limited" and that "options exist for possible reimbursement of the funds." In addition to the request for an audit, the Social Services Appropriations Subcommittee also approved intent language requiring USOR, USOE, and the Utah State Board of Education to provide a report on actual and projected fiscal status of vocational rehabilitation over several years, including identification of one-time funding sources used to pay for ongoing services.

3. Tour of Utah Independent Living Center (http://le.utah.gov/interim/2015/pdf/00003951.pdf and http://le.utah.gov/interim/2015/pdf/00004066.pdf) - The Independent Living Center in Salt Lake City received $514,300 Education Fund and $1,092,600 total funds in FY 2014 from the State. The State spent on all Independent Living Centers $2,937,100 Education Fund and $4,842,600 total funds during that same period. The funding from the State represents 61 percent of all funds spent by the State's Independent Living Centers.
4. Report on Drug Court Program and Best Practices for Substance Abuse Treatment for Offenders (http://le.utah.gov/interim/2015/pdf/00003953.pdf) - The Office of the Utah State Auditor released *A Performance Audit of Utah's Adult Felony Drug Courts* on January 21, 2015. This audit was presented to the Social Services Appropriations Subcommittee. The committee and Legislature subsequently adopted intent language (S.B. 2, Item 82) requiring the Department of Workforce Services (DWS) and the Administrative Offices of the Courts (AOC) to provide a report describing: 1) a summary of efforts to improve coordination between the Drug Court program and DWS' Workforce Development Division in order to improve Drug Court success, 2) data indicating the success of the efforts including the implementation and reporting on measures of post program recidivism, and 3) any identified savings or additional funding of drug court recipients as a result of improved coordination efforts.
5. Justice Reinvestment Initiative (http://le.utah.gov/interim/2015/pdf/00004109.pdf and http://le.utah.gov/interim/2015/pdf/00003998.pdf) - During 2014 the Commission on Criminal and Juvenile Justice (CCJJ) partnered with the Pew Charitable Trusts to review Utah's data regarding sentencing and corrections. Among other things, this review found there had been an 18 percent increase in Utah's prison population in the past decade while Utah prison admissions declined eight out of ten years in the decade prior to that. CCJJ estimated that without action, the state would need to house an additional 2,700 inmates by 2034. In its Justice Reinvestment Report and Report Summary CCJJ stated, "Almost half (46% of Utah's inmates who are released from state prisons return within three years". In addition, this review found: 1) 62 percent of offenders sent directly to prison from court were admitted for nonviolent offenses, 2) as of January 2014, offenders on probation and parole supervision were failing at higher rates than they did 10 years previous with 46 percent of Utah's prison population now made up of those who were there for a probation or parole violation, and 3) prisoners were spending 18 percent longer in prison than they did 10 years previous even though research now shows that there is "diminishing public safety returns for longer prison sentences." There are currently 6,687 state inmates along with 17,755 probationers and parolees in the community. During the 2015 General Session the Legislature passed H.B. 348, *Criminal Justice Programs and Amendments*, to: 1) focus prison beds on serious and violent offenders, 2) strengthen probation and parole supervision, 3) improve and expand reentry and treatment services by increasing the availability of mental health and substance abuse treatment services across the state, 4) support local corrections systems by focusing jail resources on high-level offenders, and 5) ensure oversight and accountability through training and data collection and reporting of key performance measures. The Legislature also provided $11,980,000 ongoing and $2,000,000 one-time for implementation of H.B. 348. Of the $13,980,000, funding was distributed as follows: $6,036,000 to the Department of Corrections, $4,975,000 to the Department of Human Services, $2,848,200 to CCJJ, and

$120,800 to the Board of Pardons. Of the $13,980,000 appropriated for JRI, $7,098,700 will directly benefit counties through risk and needs screening and treatment programs.

6. Other Business.