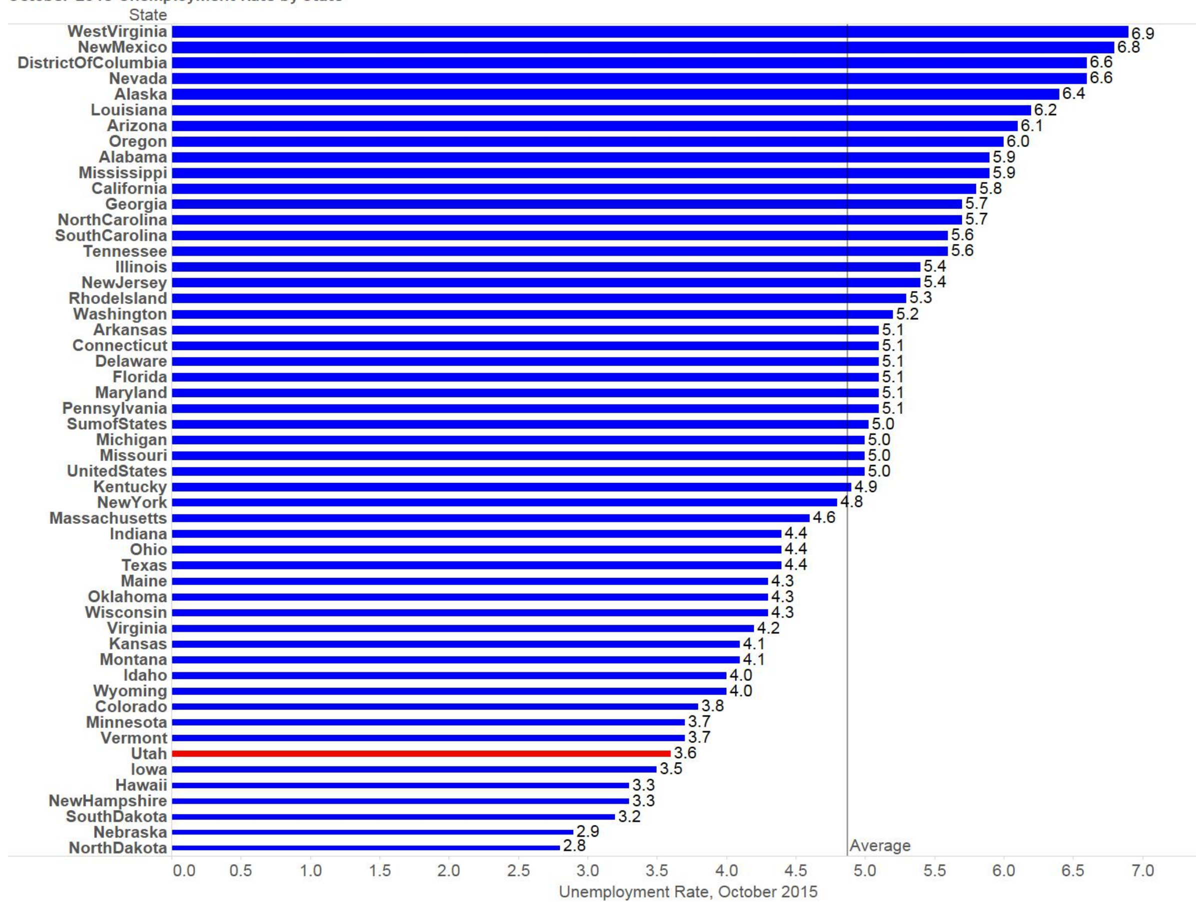
Fiscal Highlights

A Look at the Change in Utah's 2015 Unemployment Rate Compared to Other States - Thomas E. Young

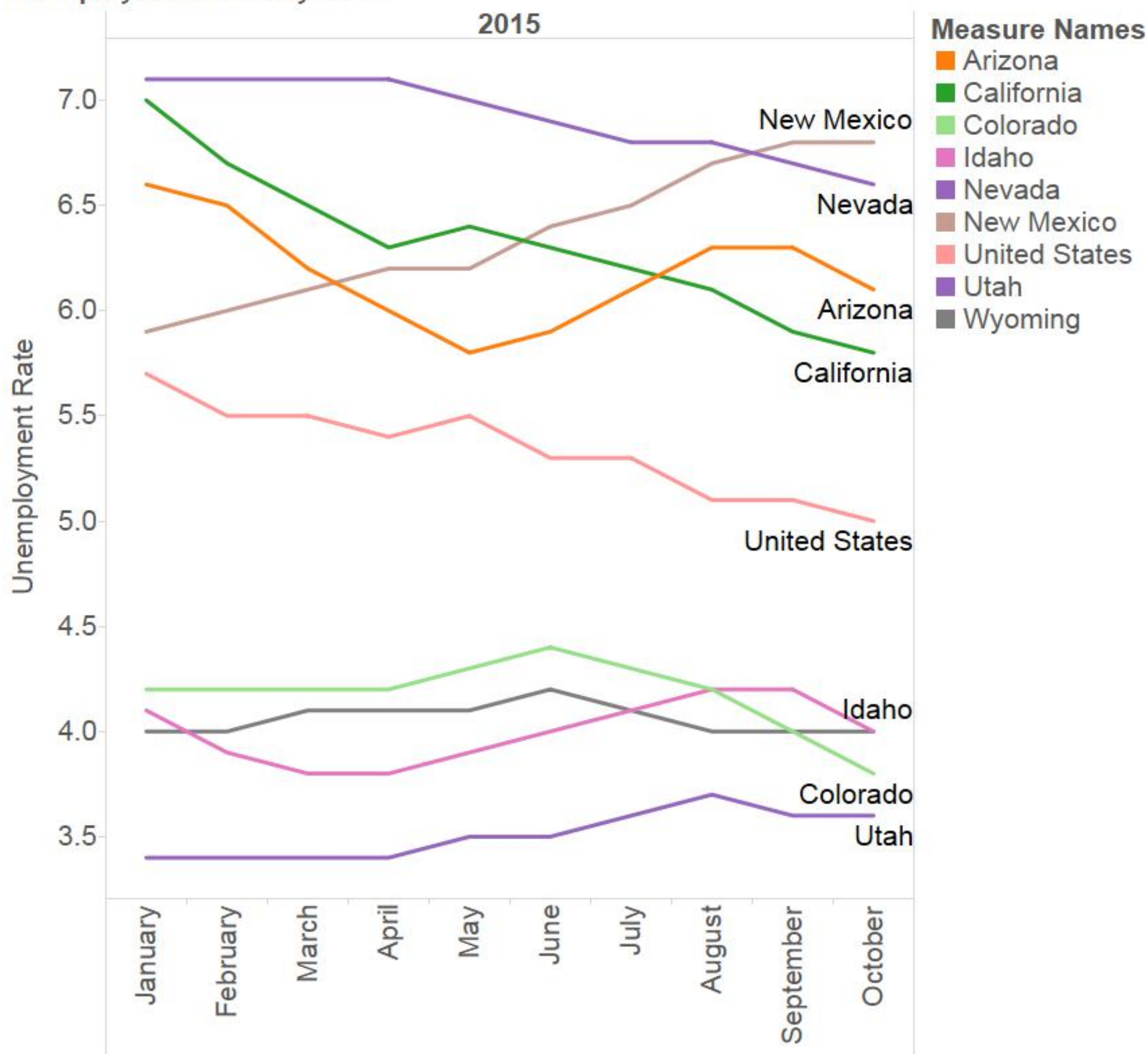
The unemployment rate in Utah is one of the lowest in the country at 3.6%. Based on the most recent October accounting, only six other states have lower unemployment rates - North Dakota at 2.8%, Nebraska at 2.9%, South Dakota at 3.2%, New Hampshire at 3.3%, Hawaii at 3.3%, and Iowa at 3.5%.

The average unemployment rate across all states is 4.9% and the nation as a whole is 5.0%.



Source: BLS

Here's a look at Utah's unemployment rate against surrounding states. Utah has the lowest, although it has increased since January, whereas most states have seen their unemployment rates decline.



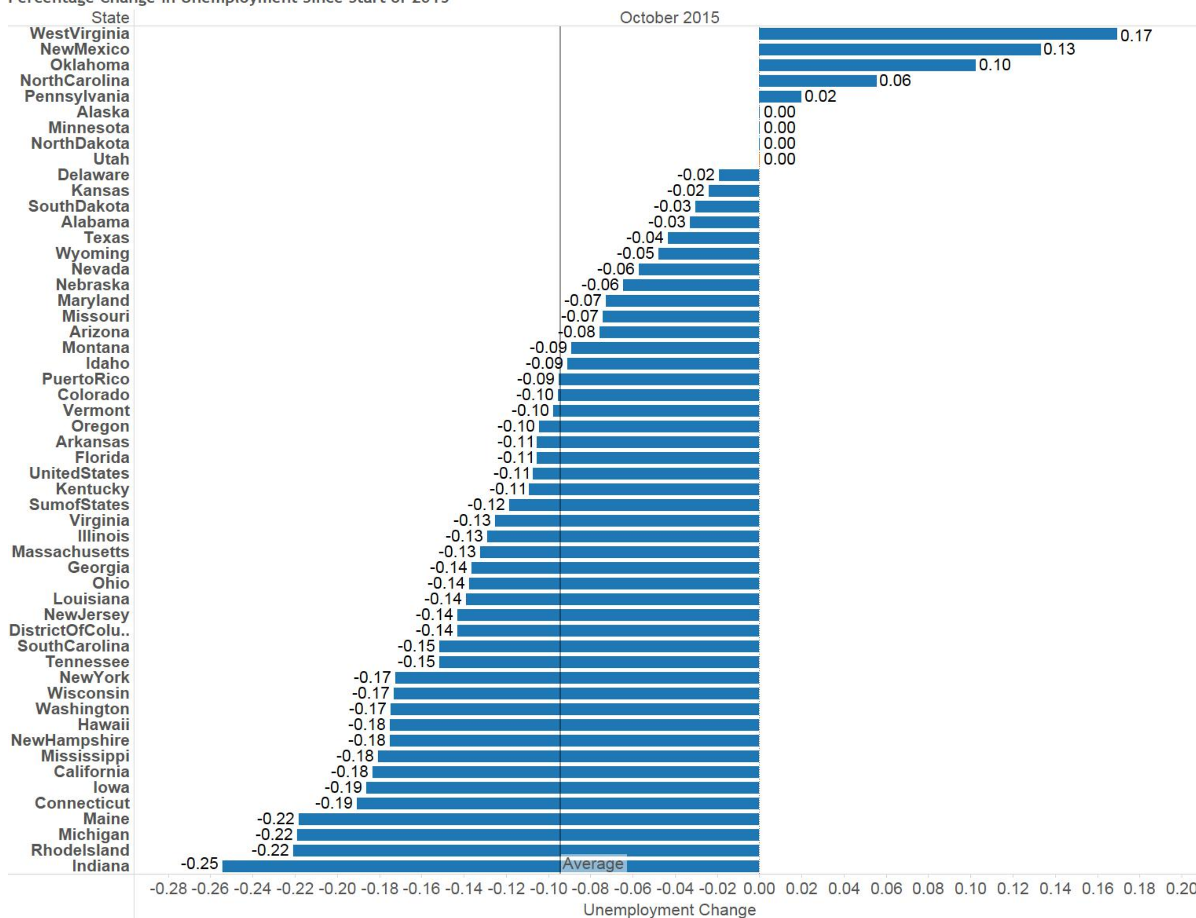
The slightly increasing Utah unemployment rate presents the question: Where is the unemployment rate accelerating, and where is it decelerating.

The places where the unemployment rate has increased in 2015 include West Virginia, New Mexico, Oklahoma, North Carolina, and Pennsylvania.

Utah is one of four states where the unemployment rate hasn't increased or decreased through the first ten months of 2015. The unemployment rate in Utah was 3.6% at the end of 2014, and its 3.6% today.

The average across all states is -0.1, meaning that most states have seen their unemployment rates decrease so far in 2015.

The leading improving state is Indiana at 0.25, followed by Rhode Island at 0.22, Michigan at 0.22, and Maine at 0.22.

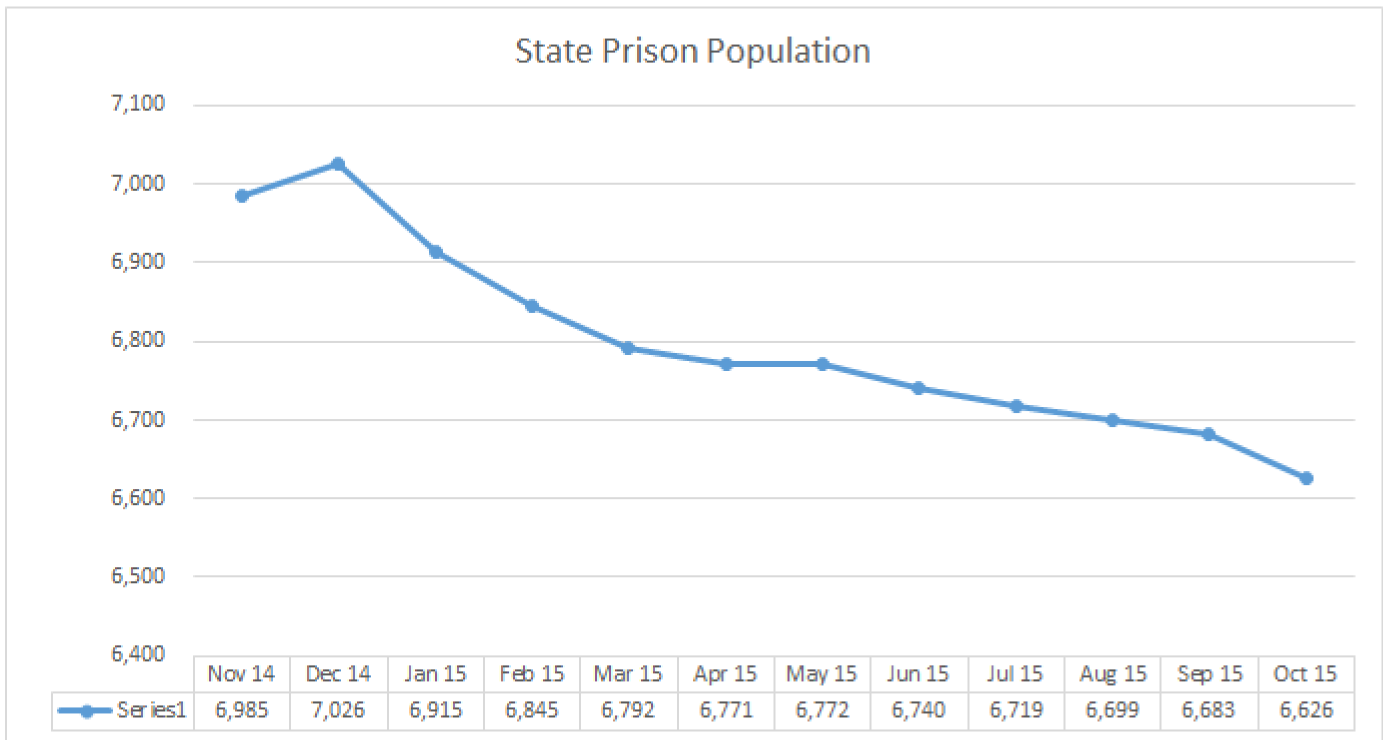


Corrections' Populations Status November 2016 - Gary R. Syphus

The main cost drivers of the Department of Corrections are the (1) prison population and (2) adult probation and parole (AP and P) populations, and related resources to manage the populations. These populations require significant resources in the form of correctional officers, housing, food, transportation, treatment, medical care, and so forth. In general, the greater these populations, the more resources that need to be expended, and conversely, the smaller the population, the fewer resources that need to be used.

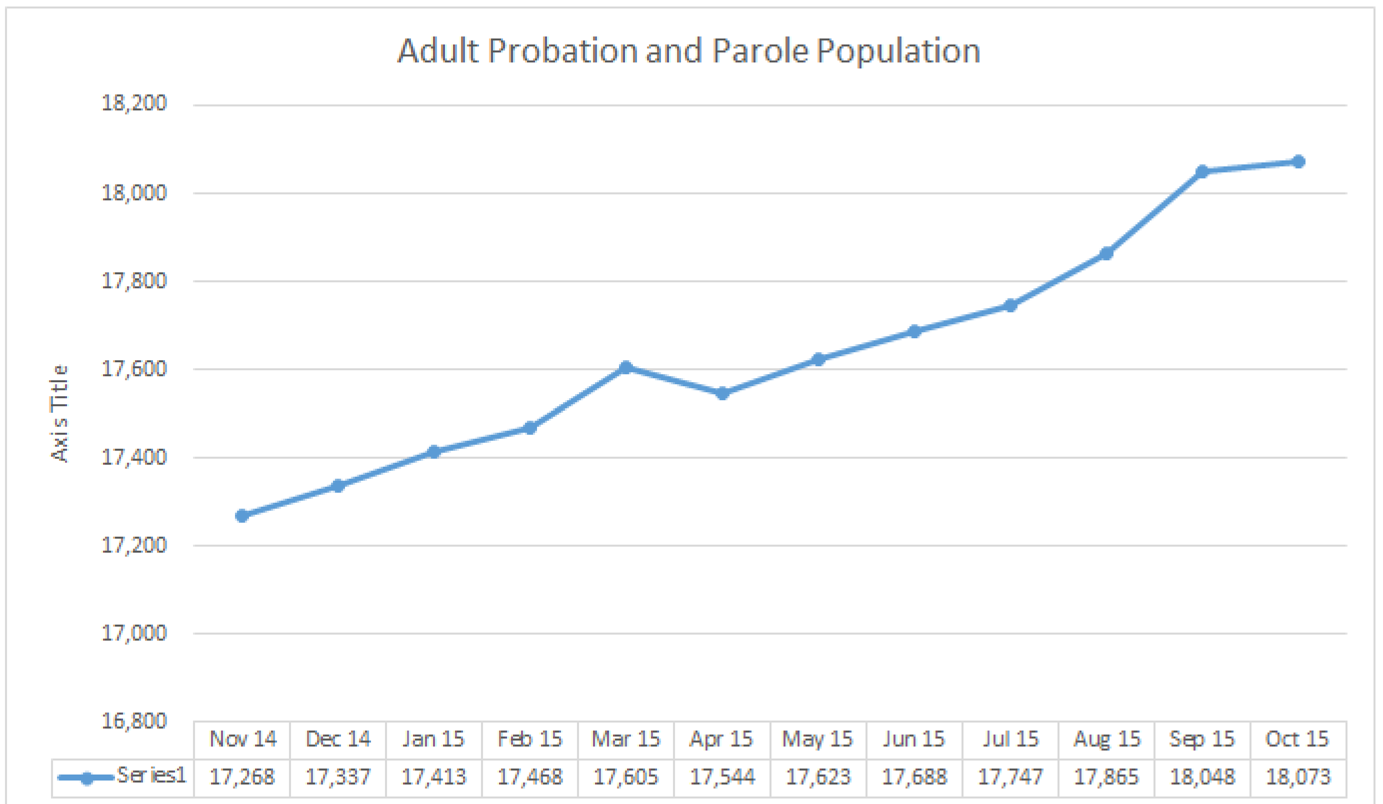
The Legislature should consider important questions when determining the budget to manage these populations such as, "What is the status of current prison population and what is the projected growth, if any?" In addition, the Legislature may ask, "What is the right balance of resources to manage and treat these populations?" Below are the two main populations - the combined state inmate population inside the Draper and Gunnison prison and county jails, and the state offenders on probation and parole within the community.

The prison population shows a significant decrease over the last 12 months - putting less pressure on resources used to manage this population. Interestingly, this decrease developed before the implementation of the policy change related to the Justice Reinvestment Initiative (JRI). The Department does not predict any new prison growth but expects additional AP and P growth for the new fiscal year and should have updated projections for the 2016 General Session.



	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15
Series1	6,985	7,026	6,915	6,845	6,792	6,771	6,772	6,740	6,719	6,699	6,683	6,626

Inverse from what the prison population shows, the Adult Probation and Parole Population grew over the last 12 months - putting additional pressure on AP and P officers and related resources that manage these populations.



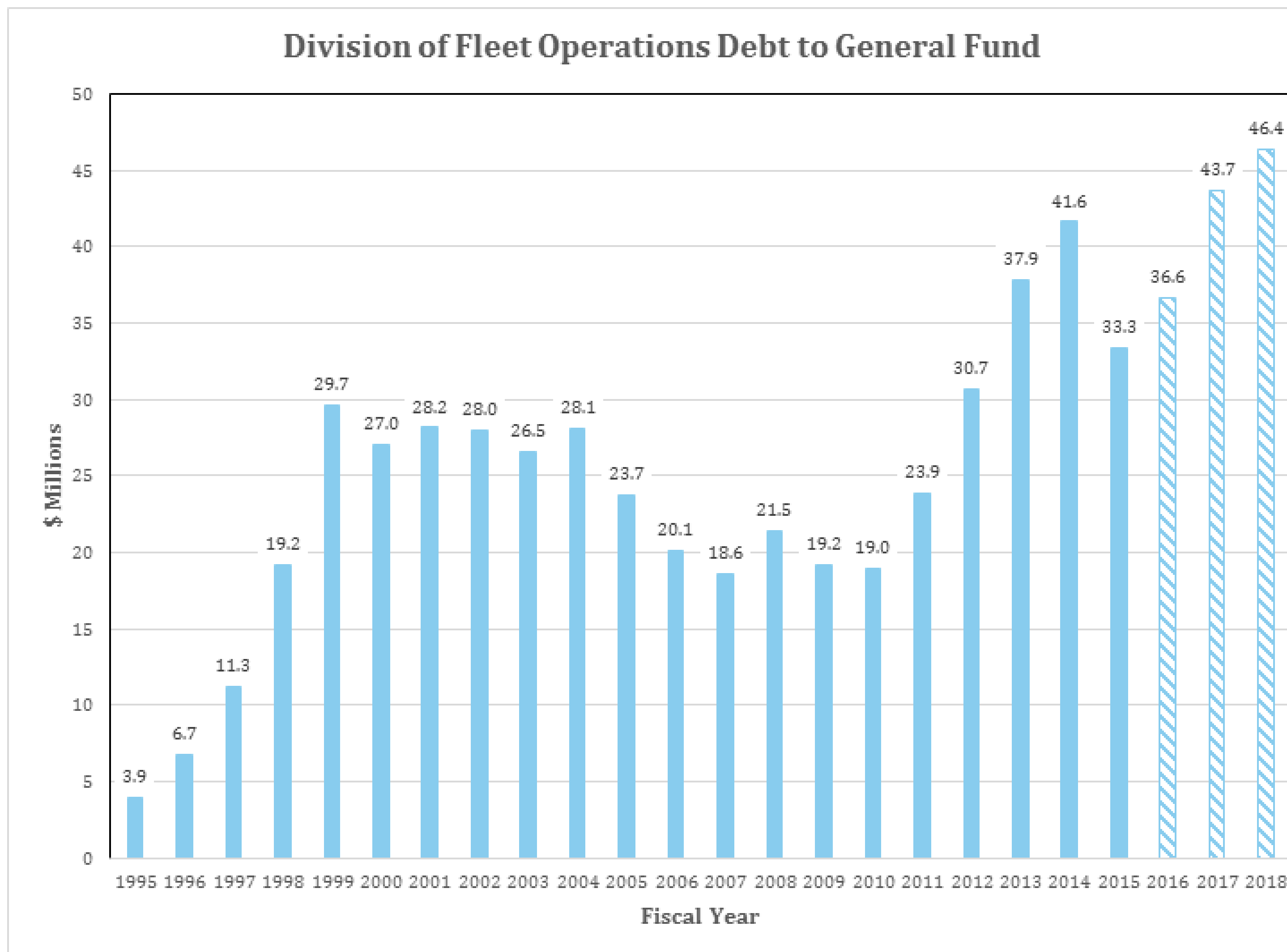
	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15
Series1	17,268	17,337	17,413	17,468	17,605	17,544	17,623	17,688	17,747	17,865	18,048	18,073

Presumably with this trend and an additional change in policy as a result of the Justice Reinvestment Initiative, this may be a trend for the short-term and long-term. The Executive Offices and Criminal Justice Appropriations Subcommittee began examining these populations during interim meetings and identified some potential resources that could be reallocated to better manage both of these populations and will require more attention during the General Session in order to best optimize resources against these cost drivers.

Division of Fleet Operations General Fund Borrowing - Brian Wikle

The Division of Fleet Operations was established as an internal service fund (ISF) in FY 1997. As an ISF, Fleet does not receive a General Fund appropriation; rather, it receives Dedicated Credits by charging customer state agencies for its services. Statute allows ISFs to incur long-term debt from the General Fund to eliminate negative working capital and to acquire capital assets.

The figure below depicts Fleets (and its predecessors) debt from FY 1995 through FY 2015. It also shows the division's projection of debt for FY 2016, FY 2017, and FY 2018. The increase in projected debt is due primarily to timing of purchases. The division has purchased an average of 660 vehicles per year since FY 2000. In FY 2015, the division purchased just 325 vehicles, but in the ensuing three years Fleet projects that it will purchase an above average number of vehicles.



The debt is due largely to three issues: (1) Fleet has historically under recovered on fuel charges, (2) Fleet has historically under recovered on maintenance costs, and (3) Fleet's lease rates have not been sufficient to cover the purchase cost of replacement vehicles. The fuel under charge is no longer an issue as, effective FY 2016, customer agencies are charged at cost for fuel. Fleet has adjusted the per mile rate charged to agencies, and it is now receiving sufficient revenue through the charge to cover maintenance costs. Finally, the division is taking measures and exploring options to reduce its need to borrow when purchasing replacement vehicles. However, due to federal rules regarding expenditures of federal funds by state agencies, the division has not included an inflationary adjustment in lease rates. Consequently, it would be difficult for the division to eliminate the need to borrow from the General Fund.

A number of options are available regarding Fleet's accumulated debt and/or borrowing such as the options explained below.

Option 1 - maintain the status quo. Regulations for ISFs allow the agency to have debt of up to 90 percent of the net book value of the agency's capital assets, and Fleet's debt is within this allowable limit. If the division were to continue its current practices, its debt to the General Fund should grow by the inflationary amount for purchases of replacement vehicles, but the debt should not grow beyond the legal limit.

Option 2 - appropriate to eliminate the current debt. The current debt plus projected additional debt could be retired through an ongoing appropriation of about $8 million for the next five fiscal years. In practicality, the appropriation would be a one-time hit to the budget as Fleet would return the money to the funding source (e.g. General Fund) and it would then be available for the next year's appropriation. This option alone would not eliminate Fleet's need to borrow as it does not address the financing gap that results from collecting on contract prices while not factoring in inflation.

Option 3 - build an inflationary factor into lease rates. The formula for lease rates could be modified to include an inflationary adjustment. Given a correct adjustment, Fleet should have sufficient cash to purchase replacement vehicles without having to borrow from the General Fund. However, federal rules allow collection based on a vehicles purchase price, so including an inflationary adjustment would be seen by the federal government as an overcharge, and the State would have to reimburse the federal government the amount of the overcharge each year.

Option 4 - continue the current model and appropriate to cover inflation. Absent an explicit inflation adjustment in the formula for lease rates, Fleet is knowingly under collecting in terms of financing replacement vehicles. The under collection could be mitigated through an annual appropriation.

Fall Enrollment on the Upswing in Higher Education - Spencer C. Pratt

The Utah System of Higher Education experienced an increase of 2,775 Budget-Related FTE students for the Fall 2015 semester. This represents an increase of 2.6% when comparing it to the Fall 2014 semester. The following table shows the Fall 2014 and 2015 enrollments and the increase/decrease experienced at each institution.

Institution	Fall 2014	Fall 2015	FTE Change	% Change
University of Utah	26,508	26,573	65	0.24%
Utah State University	19,456	20,514	1,056	5.43%
Weber State University	13,080	13,026	(54)	(0.41%)

Southern Utah University	5,785	6,425	640	11.06%
Snow College	3,443	3,620	178	5.17%
Dixie State University	6,050	6,021	(29)	(0.47%)
Utah Valley University	18,560	19,689	1,129	6.08%
Salt Lake Community College	13,934	13,724	(210)	(1.51%)
Total USHE	**106,816**	**109,591**	**2,775**	**2.60%**

Enrollment at Utah Valley University was up by 1,129 FTE students, while the increased number at Utah State University was 1,056. Three institutions saw small decreases: Salt Lake Community College was down by 210 FTE students, Weber State University was down 54 FTE students, and Dixie State University was down by 29. Final enrollment figures will be determined after the semester concludes in a few weeks.

Medicaid Costs Projected to Rise - Russell T. Frandsen

Medicaid - What is Included in Consensus for Mandatory Costs?

The Medicaid forecast team (Legislative Fiscal Analyst, Governor's Office of Management and Budget, and the Department of Health) estimates costs to the General Fund in FY 2016 of $18.0 million one-time and an ongoing of $37.8 million in FY 2017. The consensus forecast for FY 2016 from February 2015 estimated cost increase for Medicaid of $11.9 million, but no additional funding for FY 2016 was provided during the 2015 General Session. The forecast accounts for legislative appropriations changes in FY 2016 and FY 2017. Additionally, this is the second year where the consensus estimates do not include a cushion (extra money for unforeseen circumstances) in estimates. Each of the items in the forecast has a more detailed discussion below:

Caseload - $12.2 Million in FY 2017

1. Change in caseloads - estimated increase of 11,700 or 4% in the number of clients in FY 2016 and 3,900 or 1% in FY 2017. The majority of the increase in FY 2016 is from children.
2. Federal medical assistance percentage - unfavorable change of 0.18% for an ongoing cost of $2.6 million beginning in FY 2016 and an unfavorable change of 0.34% in FY 2017 at an additional ongoing cost of $5.1 million.
3. Collections by the Office of the Inspector General, Medicaid Fraud Control Unit, and Office of Recovery Services - the estimates assume that collections from these three entities will be lower by $3.4 million in FY 2016 and $4.4 million in FY 2017 as compared to FY 2015 collection of $18.2 million. These estimates represent each of these three agency's low estimates of collections.
4. Medicaid to CHIP adjustment - transfer of $4.1 million ongoing beginning in FY 2016 for children on Medicaid with incomes 100% to 138% of the poverty level who previously qualified for CHIP whose services are paid at the higher CHIP match rate. The Affordable Care Act increased Medicaid's income eligibility levels for children and removed an asset test. As a result of these changes, many CHIP children became eligible for Medicaid.

Inflationary Changes - $18.2 Million in FY 2017

1. Accountable care organization contracts - $4.5 million in FY 2016 and FY 2017 for 2% increases starting in January 2015 and 2016. Medicaid contracts with four accountable care organizations to provide about 50% of all services statewide. These organizations serve about 88% of clients. These contracts traditionally have annual increases.
2. S.B. 98, Medicaid Accountable Care Organizations - (http://le.utah.gov/2015/bills/static/SB0098.html) from the 2015 General Session requires that the base budget include an appropriation increase to the per member per month for Medicaid accountable care organizations equal to the projected General Fund growth factor up to at least 2%. The Department of Health estimates a $2.3 million cost to the General Fund to complete the growth in the per member per month rate for Medicaid accountable care organizations by 2% over FY 2016.
3. Medicare Buy-in - The federal government requires the State to pay Medicare premiums and coinsurance deductibles for aged, blind, and disabled persons with incomes up to 100 percent of the Federal Poverty Level. Medicare cost sharing increases are projected to cost the State $1.1 million in FY 2016 and $2.1 million in FY 2017.
4. Clawback - payments began in 2006 when the federal government took responsibility for the pharmacy costs of clients that are dually eligible for Medicaid and Medicare. State payments are projected to increase costs by $1.9 million in FY 2016 and $3.9 million in FY 2017.
5. Forced provider inflation - this includes cost increases to the State's fee-for-service program of $3.1 million ongoing beginning in FY 2016 and an additional $2.3 million in FY 2017 over which the state has no control due to federal regulation or has opted not to exercise more state control over cost increases. About 92% of the increases come from the following two areas: pharmacy drug reimbursement ($1.8 million) and outpatient hospital ($0.3 million). The $1.8 million increase keeps the state's outpatient hospital reimbursement rates at 100% of Medicare rates. The federal government has announced plans to increase its Medicare outpatient reimbursement rates 2.1% in 2016.

Program Changes - $7.4 Million in FY 2017

1. Autism increased federal requirements - $3.0 million in FY 2016 and FY 2017 for a new federal regulation to provide autism spectrum disorder-related services when medically necessary for any Medicaid clients up to age 21 with autism spectrum disorder beginning July 1, 2015. Previously only clients qualifying as disabled qualified for these services or those served by the Utah pilot program for those ages 2 through 6. The funding includes 7.5% for administration of $354,000 General Fund ($708,500 total funds in FY 2016 and FY 2017). The administrative funding is 75% for utilization control and 25% for program administration. This administrative structure is the same one used for the Medicaid autism pilot in FY 2014 and FY 2013. Through October 28, 2015 there have been service claims of $81,000 General Fund ($274,000 total funds).
2. Orkambi - New prescription drug with an annual cost of $257,400 indicated for clients 12 or older with cystic fibrosis who have two copies of the F508del mutation in their genes. Accountable Care Organizations estimated to have 108 eligible clients at an annual ongoing cost of $3.0 million beginning in FY 2016. Fee-for-service 13 Utah counties not served by accountable care organizations are estimated to have 20 eligible clients at an annual ongoing cost of $1.4 million beginning in FY 2016.

Children's Health Insurance Program (CHIP) - Why $0 Cost Estimate?

From October 2015 through September 2019, the federal government will pay 100% of the costs for CHIP program services. There is enough money in CHIP to cover the state's share of costs from July through September of 2015 for FY 2016.

For more information please see the brief on this topic available at le.utah.gov/interim/2015/pdf/00005242.pdf.

Performance Note Improvements in Six Easy Steps - Steven M. Allred

Most of us have become familiar with performance notes since a rule change in the 2011 General Session (SJR 5) began requiring them on bills that create a "new program" or "new agency" as defined in rule. The Legislative Fiscal Analyst (LFA) reviews all bills to determine if they require a performance note. During the 2015 General Session, LFA decided that 39 bills required a performance note. Previous years were lower, most likely because revenue estimates were higher in 2015 and more bills created new or expanded programs.
After reviewing performance notes over the past four years, the LFA and Legislative Auditor General (LAG) recommended the following process improvements to the Executive Appropriations Committee on November 17 in order to raise the visibility and quality of performance notes. The Executive Appropriations Committee approved the recommendations.

1. Make the process more visible by attaching a performance note to every piece of legislation, on a separate page, similar to a fiscal note. For bills that don't require a performance note, the note would state something like, "No Performance Impact."
2. Create a data feed from the agencies so they can submit performance note input directly to LFA similar to the way they submit fiscal note input.
3. Improve internal reviews of performance notes. Currently, rules don't ask LFA to review performance notes. However, LFA and LAG could do so in tandem with LFA's fiscal note process.
4. Consider using a different color on floor calendars for bills that have a performance impact.
5. Remove the notice currently placed on the bottom of fiscal notes stating whether a performance note is required or not, as this will be covered by recommendation #1.
6. Consider heightened consequences to legislation if the performance note is not supplied or is not adequate. The rule could require a bill that does not have a performance note to be held until a performance note is posted.

We are working to implement as many of these recommendations as we can in time for the 2016 General Session.

Phragmites Control on the Great Salt Lake - Ivan D. Djambov

The Division of Forestry, Fire, and State Lands is continuing to work on phragmites control on sovereign lands in Utah. In FY 2015, they spent $300,000 on the Great Salt Lake and their efforts included treating (aerial spraying) over 2,500 acres. This was the first of their three-year treatment plan that includes:

- Year 1 - aerial spraying;
- Year 2 - trample or burn; and
- Year 3 - re-spraying.

The benefits of the treatment include:

- reducing the risk of accidents by opening airboat channels;
- opening access points along the shoreline;
- increasing native vegetation;
- reducing fire risk; and
- restoring wildlife habitat.

The division staff maintains a webpage with current data on the phargmites project for the Great Salt Lake, Bear Lake, Utah Lake, and theBear River: http://arcg.is/1HioDet.

Taking the Game Out of Salary and Related Benefit Budget Estimates - Stephen C. Jardine

Prior to 2012 the possibility existed that an agency could estimate the salary and related benefit portion of their budget excessively high. This, in turn, would result in the Legislature providing an agency extra funding for things like cost-of-living increases, retirement rate changes, and health benefit additions. In 2012, the Executive Appropriations Committee (EAC) took action to limit an agency's ability to game estimated salary and related benefit amounts during the budget process. The original information presented, *Vacancies, Turnover Savings, and Personnel Cost Changes*, can be found at: http://le.utah.gov/interim/2012/pdf/00000756.pdf. After discussing this issue, EAC passed a motion to have the Office of the Legislative Fiscal Analyst (LFA) calculate and apply a historical turnover savings (TOS) for each agency including Higher Education. EAC also determined that the turnover savings factor should not be applied to agencies with less than 20 full-time staff because vacancies in these smaller agencies caused greater staffing fluctuations from year to year than in larger agencies. As a result, the LFA has calculated a two-year rolling average of turnover savings and applied those TOS factors to all agency salary and benefit changes since the 2013 General Session. In the initial calculation, it could be seen that several large agencies had estimated salary and benefit budgets nearly 15 percent higher than their actual costs later turned out to be. The TOS calculation for the 2016 General Session contained in the memo *Update on the Turnover Savings Factor Calculation* and dated November 17, 2015 can be found in: http://le.utah.gov/interim/2015/pdf/00005210.pdf. The effect of the EAC motion passed in 2012 has been to reduce the aggregate percentage of calculated TOS factors and to implement a penalty (the TOS factor) for agencies when they do overstate their salary and related benefits budget estimate.

Background

Turnover savings represents the amount of money saved when budgeted positions go unfilled or remain under-filled. Turnover savings is a normal and expected part of the process of losing and then replacing staff in state agencies. However, the possibility previously existed for an agency to overstate its salary and related benefits budget beyond what natural turnover savings would warrant. The cost of staff, as represented through employee salary and benefits, is a large part of many state agency budgets. For agencies where functions are performed primarily by state staff, salary and related benefit costs can represent as much as 80 percent of an agency's budget. For example, the appropriated FY 2016 budget for the Utah State Hospital (USH) is $59.3 million. Of the total USH appropriated budget, $47.2 million or 80 percent is for staff salary and benefit costs. Calculating personnel cost changes is part of the yearly state budget process. This may include calculating cost-of-living (COLA) increases, changes in retirement or health insurance rates, or other related items such as life insurance costs or set asides for post-employment benefits. Calculations are done using agency personnel lists. Including funded vacant positions has the effect of increasing the number of employees on the list. Turnover savings, if applied, either reduces the size of the list or discounts the cost associated with the list.

USTAR's Proposed Budget Changes - Clare Tobin Lence

The Utah Science Technology and Research (USTAR) Initiative has undergone budget reorganizations in the 2014 and 2015 General Sessions, following legislative audits. Currently, funding is allocated across three line items: USTAR Administration, Technology Outreach and Innovation, and University Research Teams. USTAR has proposed statutory changes for the 2016 General Session that would further modify its budget structure, based on a recent assessment by outside consultants.

The first proposed change addresses funding of university research teams. Prior to FY 2015, research team funding was allocated 60 percent to the University of Utah and 40 percent to Utah State University. Starting in FY 2015, funding was appropriated by research team -- of which there are 12 at the University of Utah and five at Utah State University -- allowing more flexibility for USTAR to adjust funding based on team performance, rather than a default allocation. For the 2016 General Session, USTAR has proposed allowing other state universities to compete for research funding that was not previously committed to USTAR faculty. The proposal would reduce the percentage of total USTAR funding going to university research from 82 percent to 50 percent.

Funding reduced from university research would be reallocated to the Technology Outreach and Innovation Program (TOIP), increasing TOIP funding to 45 percent of USTAR's total budget. TOIP would offer new programs, such as pre-seed funding to support early stage companies through the "valley of death" -- the point in between basic research funding and angel investing, where many fledgling companies fail. TOIP would also work to develop new industry partnerships to align researchers with the needs of Utah's main industries.

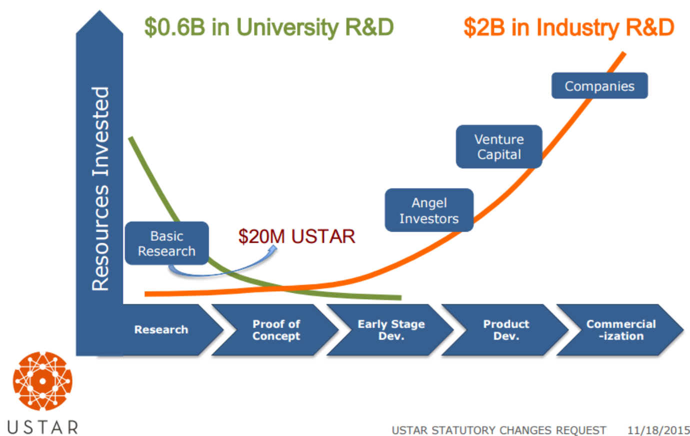


Figure 1: USTAR proposes targeting funding where the green curve (representing basic research funding) and the orange curve (representing private investment) are both low; this "valley of death" is a point at which many early-stage companies fail due to limited funding opportunities.

Total funding for USTAR, as well as funding for the Administration line item, would remain the same. USTAR anticipates that these changes would clarify USTAR's mission as an economic development organization rather than simply a source of research funding, and accelerate return on investment to the State by supporting and investing in technologies and companies that are closer to successful operation.