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Fiscal Highlights

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Executive Appropriations Committee

Meeting Summary - May 18, 2010
Senator Lyle Hillyard & Representative Ron Bigelow, Co-chairs

***Report:** Federal Funds Approval Process*

Committee staff provided a follow-up to questions on the approval of the Ryan White Part B grant application discussed during the April meeting. Grant funds received from the federal government were approved during the 2010 General Session in Senate Bill 1, Item 97. The Ryan White Part B grant can move forward without further legislative action.

Staff also reported on the federal funds approval process and made recommendations on potential statutory changes to clarify when a proposed grant should be approved, how it should be approved, and what constitutes approval.

Staff Contact: Danny Schoenfeld

***Report:** Federal Funds*

Becky Bruso of the Governor's Office of Planning and Budget presented the list of Federal Grants, Non-Federal Grants, and American Recovery and Reinvestment Act (ARRA) applications that require legislative action. The committee approved ten new federal grants, 20 reapplications of existing federal grants, one ARRA grant, and one new non-federal grant submitted by agencies.

Staff Contact: Danny Schoenfeld

***Report:** Assignment of Interim Studies*

The committee assigned an in-depth budget review of the Department of Human Services to the Legislative Fiscal Analyst's Office. This in-depth study will be conducted over the 2010 interim and reported back to the EAC.

Committee members also reviewed a list of potential study items found in legislative intent language for appropriations subcommittees if interim meetings are authorized. Also, the Legislative Management Committee assigned items 243 through 243 of the Master Study Resolution (S.J.R. 15) to the EAC.

Staff Contact: Steve Allred

***Report:** Final Revenue Estimates*

The committee approved the final revenue estimates FY 2010 and FY 2011. This approval allows the Division of Finance to calculate any revenue surplus to make deposits into the Rainy Day Funds.

Staff Contact: Jonathan Ball

***Report:** FY 2010 and FY 2011 Budgets for the 2010 General Session and Appropriations Report*

The Analyst reported on actions taken during the general session to balance the FY 2010 and FY 2011 budgets. The presentation defined the "budget gap" for each fiscal year, explained how the gaps changed based on assumptions made by the Governor and/or the Legislature, and detailed the methods used to bridge the gaps in each fiscal year.

The Analyst provided the 2010-2011 Appropriations Report to each committee member. This report provides detailed information of appropriations made during the 2010 General Session. The report format has changed to a larger size, making the budget tables easier to read. Each of the ten sections has a brief narrative explaining major budget changes, followed by budget history tables. Each section concludes with tables showing detail on specific budget actions.

Staff Contact: Jonathan Ball

***Report:** Federal Health Care Reform*

Please refer to the detailed report on page 3.

Staff Contact: Russell Frandsen

Capital Facilities

Staff Contact: Rich Amon

Capital Improvement Allocations by the State Building Board

The Legislature annually appropriates funds to the capital improvements line item in the capital budget for repairs of existing buildings. The Legislature does not allocate funds to specific projects, but delegates that authority to the State Building Board. The Legislature approves a list of requested capital improvement projects from state agencies and institutions and allows the State Building Board to allocate funding to the most critical of those approved projects. During the 2010 General Session the Legislature approved projects amounting to over $182 million and appropriated $50,685,400 to the capital improvements line item. The State Building Board met in April to allocate the $50,685,400 as follows:

FY 2011 Capital Improvements Allocations

College of Eastern Utah	$1,120,000	Courts	$2,305,766
Dixie State College	$1,125,000	DFCM	$2,822,600
Salt Lake Commun Coll	$2,207,585	Enviro Quality	$89,192
Snow College	$1,046,500	Fairpark	$174,000
Southern Utah Univ	$1,750,000	Health	$540,000
University of Utah	$10,252,000	Human Services	$2,048,945
Utah State University	$4,970,000	National Guard	$975,476
Utah Valley State Coll	$2,411,000	Natural Resources	$1,527,382
Weber State University	$2,449,500	Office of Education	$189,472
Utah Coll of Applied Tech	$1,867,000	Public Safety	$255,000
Subtotal Higher Ed	**$29,198,585**	Tax Commission	$342,663
		Transportation	$1,322,000
Agriculture	$172,760	Veterans Affairs	$0
Alcoholic Beverage Ctrl	$234,909	Workforce Services	$477,750
Capitol Preserv Board	$1,842,000	Statewide Programs	$3,450,000
Community & Culture	$240,000	**Subtotal Agencies**	**$21,486,815**
Corrections	$2,476,900	**Grand Total**	**$50,685,400**

Behind The Scenes

Staff Contact: Stan Eckersley

Doing Well and Getting Better

The office got a call from a legislative staffer in Kansas. They asked about our fiscal note process. We answered their questions and sent them copies of our forms, publications, and reports. Their final report makes one Recommendation for Executive Action: that they develop a fiscal note form for agency responses. "The Division may want to consider templates that other states use as part of the fiscal note process." My favorite line comes from the section where they say which states they studied and why: "We selected Utah and Tennessee because NCSL identified them as following best practices for fiscal notes." It's nice to be recognized for doing something well.

Economic Development & Revenue

Staff Contacts: Andrea Wilko & Thomas Young

Sales Tax on USTAR Buildings

During the 2006 General Session, USTAR was created and authorized $130 million to construct state of the art research buildings at Utah State (USU) and the University of Utah (UU). During the design phase, financial plans were made assuming the two buildings would be exempt from sales tax. This assumption turned out not to be the case. Because of the sales tax requirement, managers for the USU building adjusted their construction plans down by $2.5 million and mangers for the UU building revised their plans down by about $4.7 million. The sales tax requirement for the Utah State building has not affected the pre-planned features. Instead, the USU building is coming in under budget with some contingency money left over. The sales tax requirement for the UU building has meant, among a number of other changes, redesigning the blinds outside of the building and purchasing glass with darker tint and eliminating the function of a kitchen (absent UU fundraising efforts).

Health Care Update - Utah Health Exchange

As part of the May Executive Appropriations Committee meeting, the Utah Health Exchange presented information related to their program. The Utah Health Exchange is an Internet based information portal. The health exchange was created to facilitate consumer choice in the health market. The program allows eligible consumers to access the services provided in order to make better informed decisions. The exchange has three core functions:

1. Provide consumers with helpful information about health care and health care financing
2. Provide a mechanism for consumers to compare and choose a health insurance policies
3. Provide a standardized electronic application and enrollment system

The program has been operating as a pilot for the past fiscal year. Within the pilot year 2,333 employees signed up under 36 businesses. Under the pilot phase 66 plans were available for these employees to choose from. During the coming fiscal year the exchange will expand the number of small groups served and will begin to incorporate large group offerings.

Federal Health Care Reform Update

Department of Health

Federal health care reform will have numerous changes to Utah Medicaid, with some changes beginning as soon as 2010 all the way through 2020. This section will cover four large changes to Medicaid with a discussion of what is happening currently and what will be different.

1. New reimbursement for drugs (currently $25 million General Fund spent annually).
   - Current law - drugs reimbursed at lowest of 3 calculated scenarios.
   - Change effective 2011 - federal calculated scenario to be based on 175% of Average Manufacturer's Price (new reporting system).
2. Limits to eligibility changes
   - Current law - as part of the federal stimulus cannot change eligibility until 2011.
   - Change effective 2011 - limited changes to eligibility and only if Utah can prove financial hardship to the federal government. Utah has three smaller programs with annual spending of $10 million General Fund that might qualify to lower eligibility to 133% of the Federal Poverty Level ($29,300 income annually for a family of four).
3. No asset test - Currently about 4% to 5% of applicants are denied primarily based on asset levels.
   - Current law – various eligibility limits for cash, cars, and other liquid assets.
   - Change effective 2014 - No asset test for regular Medicaid. Long term care for Medicaid will still have some asset tests.
4. 138% Federal Poverty Level income level eligibility (currently $500 million General Fund spent annually statewide on Medicaid).
   - Current law - 100% of the Federal Poverty Level for most. Utah does not cover childless adults. Parents are covered up to 44% of the Federal Poverty Level.
   - Change effective 2014 - everyone with incomes up to 138% of the Federal Poverty Level. State pays 5% of newly eligible costs in 2017, rises annually to 10% in 2020.

Department of Human Services

Federal health care reform will have a significant impact on the programs operated by the Department of Human Services (DHS) as well as the various populations with which this department is charged. Federal health care reform will impact the department and these populations in five general ways:

1. **Increased medical coverage for DHS populations**: **Increased Medicaid coverage**:

Many of the services provided through DHS are classified as "medical assistance" - thereby potentially qualifying for Medicaid financing. Increasing Medicaid eligibility up to 133% of the Federal Poverty Level (FPL) will allow many more among the DHS populations to qualify for coverage under this program.

2. **Increased coverage through other provisions**:

Other provisions of the new law increase coverage. Additional coverage may help pay for services either currently being provided by DHS or sought from DHS. Some of these provisions include:

- an extension of dependent coverage to age 26;
- a prohibition on pre-existing condition exclusions for children;
- a temporary reinsurance program for employers to provide health insurance coverage to retirees over age 55 who are not eligible for Medicare;
- the establishment of a national voluntary insurance program for purchasing community living assistance services and supports;
- mandatory Medicaid coverage for foster care graduates up to age 26; and
- the creation of state-based health exchanges with premium and cost sharing credits for individuals/ families between 133-400% of the federal poverty level.

3. **Changes in the Financing of Services**:

With the requirement that most U.S. citizens and legal residents have health insurance accompanied by the increase in Medicaid coverage, the creation of state-based health exchanges, and new requirements regarding employer-based insurance plans, it will likely take some time to sort out who will ultimately be paying for what.

5. **Increased administrative costs, both direct and indirect, associated with implementation:**

The new law includes language regarding oversight and reporting requirements; fraud, waste, and abuse provisions; streamlining of procedures for various program enrollments; a nationwide program for background checks on direct patient access employees of long-term care facilities and providers; and provisions regarding coordination of electronic health information.

5. **Increased training for those who serve DHS populations**:

A number of provisions in the new law address workforce development and direct care worker training.

Higher Education

Staff Contact: Spencer Pratt

Higher Education Enrollment Growth Update

Enrollment in the Utah System of Higher Education continues to grow. The Spring 2010 Third-Week FTE Enrollment figure of 99,922 students reflects an increase of 11.11% compared to the same period in 2009. Looking at percentages, Dixie State College's increase of nearly 27% was the highest in the system. Snow College saw an increase of 23.6% and the College of Eastern Utah was up 21.7%. Utah Valley University had 2,309 new FTE students and Salt Lake Community College had 2,210.

Following the 2010 General Session, the State Board of Regents met and approved a 1.5% first-tier tuition increase for academic year 2010-2011 for the Utah System of Higher Education. In addition to the first-tier tuition, the Regents approved second-tier tuition increases ranging from 4.5% to 11%. The tuition increases for academic year 2010-2011 are projected to generate approximately $33.2. The Utah College of Applied Technology Board of Trustees approved a tuition increase of $0.10 per membership hour. The 2009-2010 rate is $1.40 per hour; the rate for 2010-2011 will be $1.50 per hour. The following table shows the tuition increases by institution.

USHE Tuition Increases 2010-2011

	1st Tier	2nd Tier	Total
University of Utah	1.5%	8.0%	9.5%
Utah State University	1.5%	6.0%	7.5%
Weber State University	1.5%	4.5%	6.0%
Southern Utah University	1.5%	11.0%	12.5%
Utah Valley University	1.5%	4.5%	6.0%
Snow College	1.5%	8.0%	9.5%
Dixie State College	1.5%	9.9%	11.4%
College of Eastern Utah	1.5%	8.0%	9.5%
Salt Lake Community College	1.5%	4.5%	6.0%

Public Education

Staff Contacts: Ben Leishman & Patrick Lee

Program Updates at the Utah Schools for the Deaf and the Blind

Recent changes in leadership at USDB, budget reductions, and statutory clarifications, have led to the restructuring of several programs to better serve students in Utah. Some of these changes include major budget items such as early intervention and residential programs.

USDB is beginning to re-focus its efforts to early intervention services for children preparing to enter pre-school and kindergarten (up to 3 years old). Funds have been shifted within USDB to allow greater support and teaching services for early intervention activities. Effective early intervention may allow a student to enter kindergarten in their home school with fewer specialized services or programs and, over time, reduce education costs.

The Residential Program at USDB has been in place for several years and provides some students with opportunities for experience in an independent living environment. Courses in food preparation, housekeeping, employment training, etc. provide opportunities for students to practice skills necessary to search for a job and to live on their own. Recently, program entrance requirements were restricted due to budget reductions. New guidelines include a minimum age of 16 years.

Transportation

Staff Contact: Mark Bleazard

Transportation Project Update

The Legislature enacted HB 438 "Transportation Modifications" that decreased sales taxes dedicated to the Centennial Highway Fund Restricted Account by $113,000,000 one time in FY 2011. The Department of Transportation agreed to delay construction projects totaling $113 million previously programmed to be built in 2010 and 2011 until 2015.

The Transportation Commission at their April 2010 commission meeting identified $28,150,000 savings, from bid amounts compared to engineer estimates, for highway projects and accepted by motion to delay until 2015 completion or contracting for the following projects:

State Road 114	Geneva Road Widening	$ 1,181,000.00
State Road 73	Ranches Road to Redwood Road	$ 8,739,000.00
US 89	State Street – 2000 North to Geneva Road	$ 10,000,000.00
US 40	Mile Post 59.7 to 61.1 & 89.4 to 93.0	$ 7,650,000.00
State Road 10	Ferron to Rock Creek Bridge	$ 4,380,000.00
US 6	Mile Post 274 to Woodside	$ 2,000,000.00
Vineyard Connect	New facility	$ 33,000,000.00
State Road 30	1400 West to Main Street, Logan	$ 14,000,000.00
State Road 265	University Parkway – State Street to 800 East	$ 3,900,000.00

Executive Offices & Criminal Justice

Staff Contact: Steve Allred

Cost of Personnel in the Executive Offices

We are sometimes asked, "What percentage of this budget goes to personnel?" Overall for the executive offices (Governor, Auditor, Treasurer, and Attorney General), the answer is approximately 65 percent. But a look at each line item shows some interesting variations. Some line items have significant amounts of money for pass-through to other agencies or local governments. For example, the GOPB budget received $16 million in flexible federal stimulus funds in FY 2010 for pass-through to other entities; thus its personnel percentage dropped significantly. The following table provides a look by line item. Line items with low personnel percentages reflect large amounts of pass-through funds in their budgets. Note, however, that some line items are over 90 percent personnel services.

Line Item	Actual FY 2008	Actual FY 2009	To Date FY 2010
Governor's Office	$10,097,000	$5,421,800	$5,173,100
% Personnel	30%	61%	69%
Character Education	$5,000	$1,700	$93,300
% Personnel	100%	0%	0%
GOPB	$4,076,000	$4,077,500	$20,921,600
% Personnel	68%	67%	20%
LeRay McAllister			$2,840,100
% Personnel			0%
CCJJ	$16,248,700	$14,750,200	$24,241,700
% Personnel	16%	19%	21%
State Auditor	$4,875,400	$5,095,800	$4,810,800
% Personnel	92%	95%	93%
State Treasurer	$2,349,800	$2,526,400	$2,980,500
% Personnel	73%	73%	77%
Attorney General	$44,599,350	$46,867,150	$47,302,050
% Personnel	89%	90%	90%
Contract Attorneys	$1,284,700	$773,400	$377,400
% Personnel	0%	0%	0%
Children's Justice Ctrs	$2,838,500	$3,271,600	$3,395,800
% Personnel	6%	6%	9%
Prosecution Council	$771,700	$820,200	$848,700
% Personnel	65%	64%	66%
Domestic Violence	$78,300	$78,300	$78,300
% Personnel	80%	95%	$0
Total Elected Offices	**$87,224,450**	**$83,684,050**	**$113,063,350**
% Personnel	**63%**	**70%**	**63%**

Natural Resources

Staff Contact: Ivan Djambov

New Rebate Programs

The State Energy Program (SEP) has recently started two new cash rebate programs: the Renewable Energy Rebate Program and the Cash for Appliances Program. Both of these are funded through the American Recovery and Reinvestment Act (ARRA).

The Renewable Energy Rebate Program started on April 19, 2010. The rebate will be issued for new solar or wind energy systems, after installation and inspection. The rebate amount will cover up to 25 percent of the cost of the system. The total funding for this rebate program was $3 million but the available amount as of May 10, 2010 is $1.7 million. For details, please visit: http://geology.utah.gov/sep/stimulus/sep_formula/renew_energy_rebate.htm.

The Cash for Appliances Program is an appliance replacement program and was initiated on May 12, 2010. The rebates through this program are in addition to rebates available through utility companies, retailers, and/or manufacturers. The rebates for qualified products include:

- clothes washers ($75)
- room air conditioners ($30)
- gas furnaces ($300)
- gas storage water heaters ($50)
- gas tank-less water heaters ($300)

The program's goal is to replace over 19,000 inefficient appliances with energy-efficient models, which is anticipated to save over $460,000 in annual energy costs for the customers. For details, please visit: http://www.cashforappliancesutah.com/.

Retirement and Independent Entities

Staff Contacts: Danny Schoenfeld

Retirement Audit Update

The Retirement and Independent Entities Appropriations Subcommittee met on May 19, 2010 to hear proposals on actuarial services auditing. The committee issued an RFP for an audit of long term actuarial projections relating to Utah Retirement Systems. Eight companies responded to the RFP: Price Waterhouse Coopers, Aon Consulting, EFI Actuaries, Buck Consultants Bolton Partners, Cheiron, Gallagher Benefit Services, and Deloitte Consulting. The committee awarded the contract to Cheiron. The final report will be issued later this year.

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Return Service Requested

Closing Out FY 2010

Staff Contact: Jonathan Ball

We're getting close to the end of fiscal year 2010 and some anticipated revenue has not yet arrived. We knew of this risk back in February and planned for it. We won't know for sure until August or September, but we may face yet another shortfall in the current fiscal year. However, you the policymakers, will have time and tools to address it.

Our consensus revenue estimates assumed strong final income tax payments. These are checks taxpayers remit with their income tax filings netted against amounts taxpayers receive as refunds. Those final payments have not been as large as we and our counterparts in the Governor's Office projected for FY 2010. While there are still officially about two and one-half months left before the end of FY 2010 (the remainder of May, June, and some accounting close-out time called "period 13"), the State likely will not collect as much revenue as estimated for the year that officially ends June 30.Many of you have asked "If we're not going to have enough revenue for the year that ends June 30, how can we wait until after June 30 to address it?" The answer is advanced planning on your part.

During the last General Session, you faced budget gaps for two fiscal years - the current one, FY 2010, and one that ends a little more than a year from now - FY 2011. You used one-time revenue sources to cover the gaps in both years - $208 million in FY 2010 and $313 million in FY 2011. The largest of these revenue sources were rainy day funds ($209 million) and the Growth in Student Population Account ($103 million).

While you used these one-time sources to cover spending in FY 2010 and FY 2011, you deposited most of them into the General and Education funds early. Of the one-time funds you plan to spend in FY 2011, $262 million is available in FY 2010. The $262 million is there in the General and Educations Funds like a balance in your checking account. Eventually, state agencies will spend enough to draw down that balance - but not likely before January 2011. The next regular General Session will occur halfway through FY 2011, at which time you will need to make-up any revenue gap.

We on staff will be monitoring collections closely between now and the end of this fiscal year. We plan to give you a consensus update in next month's Executive Appropriations Committee meeting. Should you have any questions or concerns in the mean time, please do not hesitate to contact us.