



# FISCAL HIGHLIGHTS

VOLUME 2, ISSUE 6

## EXECUTIVE APPROPRIATIONS COMMITTEE

OCTOBER 17, 2006

CO-CHAIRS

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW

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Other reports and staff e-mail addresses are available on the LFA website:  
www.le.utah.gov/lfa

### Report: Federal Funds

#### Summary:

Tenielle Young, Governor's Office of Planning and Budget, presented the list of federal fund grant applications submitted since the last EAC meeting. The list showed one new application and one reapplication requiring action by the EAC, one new application and two reapplications that have been approved by the Governor's Office, and 374 grants currently being tracked by the Governor's Office.

#### Committee Action:

The committee approved the applications requiring EAC action.

**Staff Contact:** Juliette Tennert

### Report: Tax Commission Report: Tax Modernization System

#### Summary:

Tax Commission Executive Director Rod Marrelli and Chief Information Officer Steve Fletcher presented a progress update on the modernization of the State's tax computer system. The venture—dubbed the Arches project—is a joint effort between the Tax Commission and Department of Technology Services.

Mr. Marrelli told the Committee that the first phase of the project, the income tax component, is on time and under budget. Development and testing of this component will be complete in time for the income tax module to be up and running by January. He also reminded the Committee that Department of Technology Services will be seeking \$5 million for FY2008 to move on to developing the sales tax module in the second phase of the project.

The presenters said that they plan to continue providing an update on the progress of the Arches project the Executive Appropriations Committee at least quarterly.

**Staff Contact:** Juliette Tennert

### Report: Utah Science, Technology, and Research

#### Summary:

During the 2005 General Session, the Legislature allocated funding to the University of Utah and Utah State University to recruit and hire research teams, purchase research equipment, and develop and implement a high technology research and development initiative. This initiative was named the Utah Science, Technology, and Research (USTAR) Economic Development Initiative and the 2006 General Session passage of SB 75 (USTAR Initiative) greatly broadened its scope and funding. Senate Bill 75 establishes the USTAR Governing Authority, to which funds are appropriated for the construction of research buildings at Utah State University and the University of Utah, the creation of a technology outreach program at five locations throughout Utah, and the recruiting and funding of research teams.

Juliette Tennert, Office of the Legislative Fiscal Analyst, presented EAC members with an overview of USTAR's funding levels. SB 175 provides \$50 million one-time from the General Fund and \$111.1 million in bonding authority for two initial USTAR research buildings. Ongoing funding totals \$19.25 million: \$15 million for the research teams and commercialization, \$4 million for the technology outreach program, and \$250,000 for administrative expenses.

USTAR Executive Director Ted McAleer and Board Chairman Dinesh Patel provided EAC members with an update on activities and expenditures since commencement of the program in July and a description of future plans. To date, the nine-member USTAR Governing Authority has formed and selected an executive director, approved a framework for the technology outreach program, reviewed the universities' strategic team hiring plans, and initiated the request-for-proposal process with the Division of Facilities and Construction Management. The Governing Board and Executive Director are working to develop initiative objectives, meeting and reporting guidelines, and performance measures and plan to make a detailed report to the 2007 Legislature.

**Staff Contact:** Juliette Tennert

## EXECUTIVE APPROPRIATIONS COMMITTEE

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**Report:** Retirement and Independent Entities Interim Committee Report

**Summary:**

In April, EAC asked the Legislative Management Committee to assign three State retirement issues to the Retirement and Independent Entities Interim Committee for review. Retirement and Independent Entities Interim Committee Chairs Beverly Evans and Michael Morley presented their Committee's findings to EAC members. Highlights are summarized below.

***Potential Increase in the cost of living allowance cap for State Public Safety retirees***

- Retirees of the Public Safety System receive an annual cost-of-living adjustment (COLA) to their pension allowance based on changes in the Consumer Price Index (CPI) up to a maximum of 2.5%.
- Annual CPI increases in excess of the maximum COLA are accumulated and used in years when the CPI is below the maximum.
- The additional cost to the State to fund an increase in the maximum Public Safety Retirement COLA to 4% is about \$2.6 million annually; the cost to local Public Safety entities is about \$4.8 million annually.

***Potential Increase in the retirement multiplier for years of service prior to 1975 for retirees of the Public Employees' Contributory Retirement System***

- To calculate a retiree's pension allowance, Utah Retirement Systems uses a benefit formula that multiplies the product of an employee's years of service and final average salary by a retirement multiplier.
- A retirement multiplier of 1.25% is applied to years of service prior to July 1, 1975 for retirees of the Noncontributory System who retired prior to FY 1991 and all retirees of the Contributory System. A 2% multiplier is applied to all other years of service. Therefore, all else equal, some retirees with years of service prior to FY 1976 receive a lower retirement allowance.
- The additional cost to the State to increase the 1.25% multiplier to 2% \$5.6 million annually; the cost to local public employers is about \$725,000 annually.

***Defined Benefit versus Defined Contribution Retirement Plans for State Employees***

- The major component of retirement benefits for State of Utah employees is a defined benefit pension plan, in which retirees receive a predetermined allowance based on length of service and final average salary. Most State employees are also eligible for a defined contribution plan in which the State provides a specific contribution (1.5 percent of salary) into individual employee retirement accounts.
- Of the states that are considering or have adopted a defined contribution plan as their primary retirement plan, most have defined benefit plans with relatively low funded ratios and high contribution rates (not the case for Utah).
- In the short and medium term, terminating a defined benefit plan will result in increased costs until the plan is completely dissolved. Savings could be realized in the long-term if cumulative employer contributions are less than they would have been under a defined benefit plan.

**Staff Contacts:** Juliette Tennert (OLFA), Ben Christensen (OLRGC), & Dee Larsen (OLRGC)

**Report:** Health Department Report on feasibility of a Medicaid Waiver

**Summary:**

Intent language of Senate Bill 4, New Fiscal Year Supplemental Appropriations Act, Item 87, required that the "Division of Health Care Financing within the Department of Health use part of this appropriation to: (1) determine the feasibility of developing and submitting a Medicaid waiver to the Secretary of the United States Department of Health and Human Services which would allow the state to match federal Medicaid funds with funds provided by private nonprofit charities for the delivery of optional Medicaid services; and (2) prior to November 30, 2006, report to the Legislature's Executive Appropriations Committee and the Legislature's Interim Health and Human Services Committee regarding the feasibility of the waiver and any proposed amendments to the state Medicaid plan to implement the Medicaid waiver.

The Utah Department of Health submitted its report early to meet the requirements of the legislative intent language. A summary of the findings follows:

- No federal waiver from the Secretary of the US Department of Health and Human Services is necessary to match federal Medicaid funds with funds provided by private non-profit charities for the delivery of optional Medicaid services.
- Current federal regulations specify the rules that need to be followed to use donations from non-profit organizations.
- The rules prohibit donations from health care providers or a donor entity related to a health care provider that will ultimately benefit that provider. The limitation includes direct and indirect donations.
- To qualify for federal matching dollars, a donation must be a bona fide donation. A provider-related donation must have no direct or indirect relationship to Medicaid payments made to a health care provider.
- The state cannot allow any payment offsets, such as tax credits, non-Medicaid payments or grants to return all or part of a donation to its originator or a related entity.

**Staff Contact:** William Greer

**Report:** Early College High Schools (High Tech Charter Schools)

**Summary:**

Legislators appropriated \$2.1 million in one-time funding to the remaining Early College High Schools to support school start-up costs. Originally, three schools received funding when the program was established in 2002. The remaining schools, now in operation, received funding similar to the original three to support equipment or capital costs.

Committee members received a brief overview of the programs offered by the schools receiving part of the \$2.1 million appropriation and how the appropriated funds are being used.

**Staff Contacts:** Ben Leishman & Danny Schoenfeld

## Executive Appropriations

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**Report:** Education Reform (2006 General Session HB181)

### Summary:

During the 2006 General Session, Legislators passed House Bill 181—Education Reform. The bill provides for two programs to facilitate student achievement. First, the legislation created a 4-6 Grade Mathematics Improvement Program. Second, the Basic Skills Education Program was created. Representatives from the Utah State Office of Education (USOE) provided implementation updates on each component of the H.B. 181 legislation.

#### 4-6 Grade Mathematics Improvement Program

Legislators appropriated \$7.5 million in one-time funds to support school district and charter school proposals to improve mathematics achievement test scores of students in grades 4-6. The legislation requires that proposals use educator professional development, incentive bonuses for teachers, or a combination for the two strategies to improve mathematics achievement.

The USOE received 26 proposals which were evaluated by external reviewers. Following reviewer recommendations, 13 proposals were selected to receive funding. Districts receiving funding include: Alpine, Carbon, Duchesne, Emery, Granite, Jordan, Juab, Nebo, Ogden, Salt Lake, San Juan, Washington, and a coalition including Box Elder, Davis, and Ogden school districts.

All proposals have three year implementation plans. Of the proposals, one proposal provides incentives only and one proposal provides professional development only. The remaining proposals provide a combination of methods.

#### Basic Skills Education Program

Legislators also appropriated \$7.5 million in one-time funds to support the Basic Skills Education Program. The program provides students that have not passed the Utah Basic Skills Competency Test (UBSCT) supplemental instruction in the skills needed to pass the test. The stipend program provides students with the ability to seek supplemental instruction from private institutions or school district programs. The entity providing supplemental instruction only receives payment once the student passes the UBSCT.

School districts and charter schools are meeting with students that have not passed the UBSCT and whose scores qualify them for participation in the program. Districts and charter schools provide information to student on the program and a list of private instruction providers.

Presently, the Utah State Board of Education has authorized four private instructional providers and one additional provider has recently applied for Board approval.

As the program goes forward, the USOE has established a tracking database that will provide information on the number of students participating from each school district or charter school, number of students registered by each provider, and the number of students passing the UBSCT test by provider, amount of stipend, and by UBSCT subtest.

### Committee Action:

Committee members requested a supplemental written report outlining each funded proposal of the 4-6 Grade Mathematics Improvement Program as well as the amount each program was allocated, and how the proposals will be evaluated to determine success and wider implementation.

**Staff Contacts:** Ben Leishman & Danny Schoenfeld

## Executive Offices and Criminal Justice

### **VINE: Victim Information and Notification Everyday**

Victim Information and Notification Everyday (VINE) is a national automated victim notification system that has been operational and available in Utah since May 2004. VINE allows crime victims, their families and other concerned citizens to obtain timely, reliable information about custody and court case status of offenders. Nationally, VINE serves more than 1,500 communities. The majority of the nation's largest metropolitan areas and more than half of the nation's Departments of Correction participate in the system. VINE is fully operational in 21 states including Utah.

#### How VINE Works:

- VINE receives continuous updates from Utah's prison, jail and district court record management systems ensuring accurate and timely data.
- Crime victims and the general public can access the information by calling a local toll-free number, or logging onto [www.vinelink.com](http://www.vinelink.com) at anytime; day or night.
- (In Utah the number is 1-877-884-8463.)
- Individuals can inquire whether an offender is in custody and at what location.
- Users can register to receive immediate notification of a change in an offender's custody status, such as release, transfer or escape.
- VINE provides notice to users on the date, time and location of district court case hearings.
- When notification is activated, VINE calls the number(s) the user has supplied; the calls will continue for the user-designated time period, or until the user enters his/her four-digit personal identification number.
- Notification can also be provided via email.
- Through Justice Connect, VINE data is made available to Utah's law enforcement community giving them access to booking photos and jail rosters.
- The VINE system can monitor Utah's jails, ensuring that law enforcement agencies are notified when supervised offenders are booked into jail.

#### VINE usage in Utah:

- Beginning May 2004, VINE has made more than 145,000 calls in Utah. Usage is trending upward; December 2005 calls were double that of those made in December 2004.
- Online searching has become the most popular method of inquiry. More than four times as many searches are done online as by phone. Recent average monthly phone calls were approximately 3,700; recent average monthly VINE-Link online searches were approximately 17,230.
- The startup cost to implement VINE in Utah was \$706,800. Annual maintenance expense for notification from district courts and correctional facilities is \$388,100, the cost for Justice Connect is \$50,000 and the cost of the new protective order system is \$60,000. The Crime Victims Reparations Program within the Commission on Criminal and Juvenile Justice has paid for these expenses.

**Staff Contacts:** Gary Ricks and Derek Byrne

## Capital Facilities & Administrative Services

### ***Building Board Recommendations***

On Thursday, October 19, 2006 the State Building Board met to fulfill its statutory responsibility to determine its capital development priorities and recommendations for submission to the Legislature. The board makes recommendations on behalf of all state agencies, commissions, departments and institutions.

The Building Board's prioritized list is provided below. For comparative purposes, the rankings that the Board of Regents (BOR) and the UCAT trustees gave their projects are also shown.

| <b>FY 2008 Building Board Recommendations</b> |     |      |                    |                            |                       |                       |              |
|---|-----|------|--------------------|----------------------------|-----------------------|-----------------------|--------------|
| BB  | BOR | UCAT | Agency/Institution | Description                | Requested State Funds | Projected Other Funds | Total Cost   |
| *   |     |      | Capitol Preserv Bd | Capitol Building/Parking   | \$50,000,000          |                       | \$50,000,000 |
| *   | *   |      | CEU                | Dormitory Mortgage Payoff  | 2,184,500             |                       | 2,184,500    |
| 1   |     |      | Health             | Unified Lab & Replacement  | 30,852,000            |                       | 30,852,000   |
| 2   |     |      | DPS/Tax Cmn        | Joint Driver Lic/DMV Bldg  | 5,342,000             |                       | 5,342,000    |
| 3   |     | 2    | UCAT DATC          | Technology/Manuf Bldg      | 14,240,000            | 760,000               | 15,000,000   |
| 4   | 1   |      | WSU                | Classroom Bldg/Chiller     | 24,950,000            | 6,000,000             | 30,950,000   |
| 5   | T4  |      | Snow               | Library/Classroom Bldg     | 17,651,000            | 3,300,000             | 20,951,000   |
| 6   |     | 1    | UCAT MATC          | N. Utah County Bldg        | 14,855,000            |                       | 14,855,000   |
| 7   |     |      | Courts             | St. George Courthouse      | 29,000,000            |                       | 29,000,000   |
| 8   |     | 1L   | UCAT DXATC         | Land Purchase 19.25 acres  | 5,450,000             |                       | 5,450,000    |
| 9   |     |      | Board of Education | Schools for Deaf & Blind   | 15,378,000            | 450,000               | 15,828,000   |
| 10  | 2   |      | U of U             | Nursing Bldg Renov/Addn    | 13,775,000            | 9,000,000             | 22,775,000   |
| 11  |     | 3    | UCAT OWATC         | Health Technology Bldg     | 18,613,000            |                       | 18,613,000   |
| 12  | T4  |      | SLCC               | South Campus Building      | 49,679,000            | 12,200,000            | 61,879,000   |
| 13  | 3   |      | USU                | Ag Science Bldg            | 41,110,000            | 42,000,000            | 83,110,000   |
| 14  |     |      | Multi-Agency       | Salt Lake Govt Office Bldg | 38,500,000            |                       | 38,500,000   |
| 15  | 5   |      | UVSC               | Science/Health Bldg Addn   | 47,645,000            |                       | 47,645,000   |
| 16  |     |      | Parks and Rec      | 3 Campground Replace       | 12,500,000            | 150,000               | 12,650,000   |
| 17  |     | 2L   | UCAT SWATC         | Land Purchase 11.4 acres   | 2,282,000             |                       | 2,282,000    |
| 18  |     |      | Wildlife Resources | Springville Hatchery Renov | 4,476,000             |                       | 4,476,000    |
| 19  | 6   |      | SUU                | Science Center Addition    | 20,727,000            |                       | 20,727,000   |
| 20  |     |      | Multi-Agency       | Richfield Regional Ctr     | 15,197,000            |                       | 15,197,000   |
| 21  | 7   |      | DSC                | Centennial Commons         | 71,050,000            |                       | 71,050,000   |
| 22  |     |      | Human Services     | Weber Valley Detention Ctr | 11,479,000            |                       | 11,479,000   |
| 23  |     |      | Courts             | Ogden Property Purchase    | 2,000,000             |                       | 2,000,000    |
| 24  |     |      | Human Services     | State Hosp Pediatric Ctr   | 23,077,000            |                       | 23,077,000   |
| 25  |     |      | UDOT/GOED          | St. George Visitors Ctr    | 3,000,000             |                       | 3,000,000    |
| 26  |     |      | Fairpark           | Multipurpose Building      | 20,000,000            |                       | 20,000,000   |

\*Recommended but not ranked

## Natural Resources

### ***DWR Proposed Fee Changes***

To address the increasing costs for employees, liability insurance, and fuel, as well as to meet the many wildlife management and sportsman needs, the Division of Wildlife Resources (DWR) has proposed fee changes for FY 2008 to its Board. The most significant change is requiring all hunters, including big game hunters, to buy a hunting license before they apply for or buy any hunting permit. This hunting license would cost Utah residents \$26 and would also allow the holder to hunt small game. Some of the other fee changes include reducing the resident combination (hunting and fishing) license from \$34 to \$30, reducing the resident deer permit from \$40 to \$35, reducing the resident elk permit from \$65 to \$45, and increasing the drawing application fee from \$5 to \$10. In addition, DWR is proposing a new \$10 Wildlife Management Area access fee for people who do not have a valid hunting or fishing license, and the brine shrimp industry has supported increasing the cost of their Certificate of Registration (COR) from \$10,000 to \$13,000.

The net result of the proposed fee changes will be increased costs to some sportsmen and decreased costs to others. Sportsmen who have traditionally participated in many different hunting and fishing activities will likely see their overall costs reduced, whereas sportsmen who only applied in the draw but did not otherwise participate in hunting and fishing activities will see their overall costs increased. The DWR's proposed fee changes have been discussed at 12 public meetings, as well as on the DWR web site discussion forum and in other venues, and the public is generally supportive of the changes.

The fee changes are projected to bring additional revenues of \$5 million to the Division. All five Regional Advisory Councils voted to recommend the fee changes, and the Wildlife Board approved the changes on October 5, 2006. The fee changes will be submitted for Legislative approval during the 2007 General Session.

**Staff Contact:** Ivan Djambov

## Commerce & Revenue

### ***"Enhancing Administration of the Food Stamp Program through Technology" Award***

Workforce Services has been working to modernize delivery of eligibility services. Utah was recognized for its efforts and accomplishments with the presentation of the Pinnacle Award from the U. S. Department of Agriculture for "Enhancing Administration of the Food Stamp Program through Technology" in June, 2006. The Under Secretary of Agriculture along with Food Stamp officials from the Denver regional office visited Utah on October 17th to see Utah's processes in person. They were especially interested in Utah's new telephone interviewing process. Workforce Services recently got a waiver that allows them to complete Food Stamp applications by telephone in the Salt Lake Area. This will shorten processing time.

**Staff Contact:** Stan Eckersley

## Health & Human Services

### ***Estimated Federal Medical Assistance Percentage (FMAP) Rate Change***

The Federal Funds Information for States (FFIS) has released the potential impact of the new FMAPs on Medicaid/State Child Health Insurance Program (SCHIP) grants. The release of personal data for calendar year 2005 permits calculation of federal fiscal year (FFY) 2008 federal Medicaid matching rates (Federal Medical Assistance Percentages – FMAP) for most states. The estimate for Utah is an increase in the federal match rate. This percentage must be adjusted for overlap between the Federal Fiscal Year and the State Fiscal Year. The initial estimated rate adjustment is a state rate increase of 0.96 percent. The actual impact on the State General Fund is still being calculated.

**Staff Contact:** William Greer

## UPCOMING MEETINGS

- **Health and Human Services Joint Appropriations Committee Meeting**, Tuesday, November 14, 2006, 8:30AM -Noon, Location to be announced



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## Revenue Growth

### ***Are We Up \$500 million in FY 2007?***

Recent references to the Tax Commission TC 23 report may have led one to conclude that Utah will have a \$500 million surplus for the current fiscal year (FY 2007). When considering these reports, one must note the following three points. First, a surplus is retrospective, not prospective. Second, we have already accounted for part of FY 2007 growth in our FY 2007 appropriation. And third, one cannot extrapolate future growth from one quarter of revenue data.

It is true that Utah had a \$380 million surplus for the past fiscal year - FY 2006. Of that amount, \$80 million was deposited into the state's two rainy day funds, leaving \$300 million unappropriated and potentially available for one-time needs in future years. This surplus was calculated by Utah's Division of Finance only after revenue was collected and expenses were paid for FY 2006. But, any discussion of total FY 2007 revenue is still a projection - an estimate of how much the state might collect. Additional FY 2007 revenue amounts cannot be called "surplus" until after they occur.

For each fiscal year, state economists estimate future revenue at least twice - once sixteen months in advance of year-end and once mid-year, four months in advance of year-end. Last February, those economist projected 5% revenue growth for FY 2007

and Legislators spent that projected growth or returned it to taxpayers through sales and income tax cuts. Revenue estimators will update their FY 2007 projections again in the coming months, as they do every year, but any available new revenue will be computed as compared with earlier estimates, not as compared with last year's collections.

Finally, budgeteers cannot draw conclusions from one quarter's worth of data alone. Revenue estimators consider collections-to-date as one factor in their projections, but equally important are pending tax changes, employment trends, inflation, and personal income. For example, the Tax Commission numbers for the first quarter of FY 2007 do not yet reflect recently passed income tax cuts of \$70 - \$80 million. Further, personal income is growing at between 7% and 8% - much lower than the 12.9% year-to-year growth in revenue reported in the most recent TC 23 summary.

There is no doubt Utah's economy is humming along nicely. But, any surplus cannot be calculated until after the fact; legislators have already assumed a certain amount of growth from FY 2006 to FY 2007; and, as they say on Wall Street, past performance is no guarantee of future results.

**Staff Contact:** Jonathan Ball