

FISCAL HIGHLIGHTS

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OFFICE OF THE
LEGISLATIVE FISCAL ANALYST

STATE CAPITOL COMPLEX
HOUSE BUILDING, SUITE W310
P.O. BOX 145310

SALT LAKE CITY, UTAH 84114

PHONE: (801) 538-1034
FAX: (801) 538-1692

WWW.LE.UTAH.GOV/LFA



EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - OCTOBER 14, 2008

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-CHAIRS

Proprietary and Other Governmental Fund Types

Proprietary and governmental funds are groups, each containing various fund types. The fund types examined in this report included internal service funds, enterprise funds, capital projects funds, and debt service funds.

The state maintains various internal service funds and enterprise funds. Internal service funds account for centralized services provided by one state agency to another on a fee-for-service basis. The state has various classifications of enterprise funds, including revolving loan funds, alcoholic beverage control funds, Utah Correctional Industries, housing loan funds, and others.

Capital projects funds account for funds appropriated or bond proceeds approved by the Legislature for capital developments or improvements. Interest earned on cash appropriations in capital projects funds is deposited in the General Fund. Debt service funds are used to pay principal and interest on the state's bonded indebtedness.

The report makes the following recommendations:

- Consider formalizing the policy that internal service funds may reduce rates in the interim between legislative general sessions and require notification to the Legislature of any rate changes and potential cost savings to agencies.
- Consider requiring ISFs to report contractor positions in their annual budget submissions and/or change statute to include contractor positions in the annual FTE appropriation by the Legislature.
- Consider changing the make-up of each of the three internal service fund rate

committees so that none are chaired by the ISF agency's executive director.

- Consider changing the policy from "acquisition" to "encumbrance" when describing the requirement for lapsing capital outlay authority.
- Consider requiring that interest on former Education Fund dollars in the Capital Projects Fund be returned to the Education Fund.
- Consider dividing the debt service line item into two line items: one for general obligation bond debt service, the other for revenue bond debt service.

Staff Contacts: Steven Allred, Richard Amon, Mark Bleazard, Patrick Lee

Report: Federal Funds/Non-Federal Funds Grants Reports

Tenielle Young from the Governor's Office of Planning and Budget and Danny Schoenfeld from the Legislative Fiscal Analyst Office presented the Federal Funds report. The Committee approved both the new applications.

Staff Contact: Danny Schoenfeld

Report: Turnover Savings

John Nixon from the Governors Office of Planning and Budget presented their finds on turnover savings from all state agencies. This report concluded that the state definition of turnover savings is adequate. Long-term vacancies in agency budgets should receive further analysis.

(Continued on page 2)

UPCOMING MEETINGS

- **Executive Appropriations- November 18, 2008, State Capitol**
- **Public Education Appropriations- November 21, State Capitol**



EXECUTIVE APPROPRIATIONS

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There is a relationship between ongoing turnover savings and unfunded inflationary costs that agencies absorb within existing budgets.

Staff Contact: Jonathan Ball

Report: *21st Century Workforce Initiative*

Gayle McKeachnie of the Governor’s Office presented the 21st Century Workforce Initiative that has been initiated by Governor Huntsman to address the increasingly important need to connect education in Utah with workforce needs, particularly in a globally competitive environment. The Initiative is intended to be an effort by stakeholders to address these needs for the long term using sound data to improve the process of workforce development across the state.

Staff Contact: Patrick Lee

Report: *Bonding Update*

The State of Utah currently has \$1.028 billion of general obligation debt outstanding and an additional \$1.432 billion of authorized general obligation debt not yet issued. The current financial environment is deferring the short-term ability of the state to issue bonds. The state budget for debt service in FY 2009 was \$247 million – \$62 million for buildings, \$155 million for highways, and \$30 million for lease revenue bonded buildings. Building general obligation bond debt service has decreased over the last several years; while highway general obligation bond debt service has increased.

Staff Contact: Rich Amon



TRANSPORTATION

Staff Contact: Mark Bleazard

United States Highway Trust Fund Update

Recently the United States Department of Transportation (DOT) officials announced that as of October 1, 2008 the highway account within the Highway Trust Fund would have a zero or more likely negative balance. These same officials indicated that they expect the highway account to take in \$2.7 billion during September. However, outlays for September in the form of reimbursements to states are estimated to be \$4.4 billion. Therefore, the U.S.D.O.T notified state transportation departments that reimbursements would likely cease or at best be for only

a portion of requests until the available funds are secured.

To temporarily rectify this situation, the Department proposed two courses of action:

- (1) Passage of legislation that will allow for the immediate transfer of \$8 billion from the general fund to the highway account.
- (2) Payment of proportional reimbursements to states until the \$8 billion transfer is approved.

The DOT announcement stipulated that this action is only a “temporary” solution because the revenue being received into the account is projected to be less than the allocations approved in the most recent Federal Highway legislation.

The U.S. House of Representatives gave its approval to H.R. 6532 prior to their summer recess that included legislative language to transfer \$8 billion from the federal general fund into the highway account of the Highway Trust Fund. This was also approved by the U.S. Senate, on a voice vote on September 8, 2008. This legislation will help to head off ongoing and anticipated future reductions in revenue coming into the highway account for FY 2009. It simultaneously prevents states from losing federal highway reimbursement funds that could affect projects and/or exacerbate state fiscal conditions.



COMMERCE AND WORKFORCE SERVICES

Staff Contact: Danny Schoenfeld

Unemployment Trust Fund Update

During the 2008 General Session the Legislature passed SB 176 Unemployment Insurance Contribution Rate Amendments sponsored by Senator Howard Stephenson. This increased the reserve factor for the fund from 17-19 months to 18-24 months.

This will allow the state to better handle the current economic downturn. Currently, the State of Utah Unemployment Insurance Trust Fund is the 7th most well funded fund in the country. The Department of Workforce Services will be updating the 2009 Unemployment Insurance rates in December.



HEALTH AND HUMAN SERVICES

Staff Contacts: Russell Frandsen & Stephen Jardine

Special Session Reductions

Department of Health – Health had its ongoing FY09 General Fund budget reduced by \$9.7 million or 2.5 percent. These ongoing reductions include:

- \$5,468,400 – Medicaid provider reductions
- \$2,966,100 – Medicaid savings and reductions in programs & benefits
- \$628,300 – efficiencies & non-Medicaid reductions
- \$625,000 – administrative reductions & efficiencies

The ongoing reductions may result in a \$22.1 million loss of federal funds. Additionally, Health had \$13.9 million in one-time General Fund savings.

Department of Human Services - Human Services had its ongoing General Fund budget reduced by \$8.4 million or 2.8 percent. The ongoing reductions came in the following areas:

- \$1,991,000 – administrative reductions & efficiencies
- \$1,832,900 – *Alcopops* and treatment contract at prison reductions
- \$1,449,600 – Family Preservation refocus/police will do some investigations
- \$1,200,000 – disabilities attrition and non-waiver services fund reductions
- \$773,000 – ongoing DORA treatment reduction
- \$535,400 – Foster Care Citizen Review Board elimination
- \$330,000 – disabilities waiting list/ supported employment - entrants frozen
- \$213,100 – federal disabilities council reduction/ ombudsman elimination
- \$50,000 – senior center renovation reductions.

The ongoing reductions in state funds resulted in a \$4,536,700 loss in federal funds. Additionally, Human Services had \$2,901,000 in one-time General Fund reductions.

Medicaid Case Load Update

- 169,200 September 2008 Medicaid caseloads
- 1,900 member increase over August 2008
- 7.5% increase over September 2007
- 10 months of increasing caseloads



CAPITOL FACILITIES

Staff Contact: Steve Allred

Building Board's Prioritization for the 2009 General Session

On Thursday, October 16, 2008 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. Requested state funds for buildings total over \$604 million.

2009 General Session Capital Development Prioritization							
As ranked by Building Board, Board of Regents, and UCAT Board of Trustees							
BB	BOR	UCAT	Agency/Inst	Description	Requested	Projected	Total Cost
					State Funds	Other Funds	
1			USDB	Purchase/Renovate School for Deaf and Blind	\$6,500,000		\$6,500,000
2			DHS	State Hspitl: Demolish MS Bldg/Const New Bldg	57,286,000		57,286,000
3	T1		SLCC	Digital Design/Communication Technology Ctr	26,490,000	8,962,500	35,452,500
4		1	UCAT	MATC: North Utah County Campus Building	20,800,000		20,800,000
5	T1		U of U	School of Business Replacement/Expansion	25,815,000	64,445,000	90,260,000
6		2	UCAT	OWATC: Health Technology Building	24,212,000	700,000	24,912,000
7			Courts	Ogden Juvenile Courthouse	30,266,000		30,266,000
8			GOED	World Trade Center (State Office Building)	36,000,000		36,000,000
9		2	USU	Business School Addition/Remodel	39,946,000	20,000,000	59,946,000
10			Ntl Guard	Upgrades and Repairs to Armories	4,000,000		4,000,000
11	T3		DSC	Centennial Commons Building	35,592,000	10,000,000	45,592,000
12	T3		SUU	Gibson Science Center	15,390,000	5,000,000	20,390,000
13		4	UVU	Science/Health Science Building Addition	54,248,000		54,248,000
14			Agriculture	Unified State Laboratory Module #2	27,996,000		27,996,000
15			DPS	Homeland Security Emergency Operatons Ctr	19,952,000	1,000,000	20,952,000
16			UDC	Cook/Chill Kitchen	21,742,000		21,742,000
17		5	CEU	Arts and Education Building	21,473,000		21,473,000
18		6	WSU	Davis Professional Programs Bldg/Central Plaz	39,751,000	9,500,000	49,251,000
19			Agriculture	Replace Administration Building	20,065,000		20,065,000
20		3	UCAT	SWATC: Allied Health and Technology Bldg	12,885,000	120,000	13,005,000
21	NR		USU	Kent Concert Hall Addition/Renovation	6,290,000		6,290,000
22			DPS	Ogden Driver License Facility	3,468,000		3,468,000
23			DNR	Wasatch Mtn State Park Campground Renov	5,603,000		5,603,000
24			DEQ	Warehouse	2,980,000		2,980,000
25			DTS	Richfield Alternate Data Center Expansion	4,543,000		4,543,000
26			DHS	Juvenile Justice Weber Valley Detention Ctr	16,536,000		16,536,000
27			FairPark	Multipurpose Arena	25,000,000		25,000,000
Land Banking Prioritization							
1			Snow	20 Acres for Campus in Nephi	175,000		175,000
2			UCAT	BATC: 10.23 Acres North of Campus	1,510,000		1,510,000
3			DSC	Land Adjacent to Campus	6,920,000		6,920,000
4			UCAT	BATC: 26 Acres and 18 Acres Adjacent	6,695,000		6,695,000
5			SUU	42 Acres Surrounding Campus	50,000,000		50,000,000



NATURAL RESOURCES

Staff Contact: Ivan Djambov

Seeding Efforts in Milford Flat

The Milford Flat fire in 2007 was the largest in Utah history. It was started by lightning on July 6, 2007 near Milford and burned 363,052 acres (74% BLM, 17% private, and 9% state) before it was fully contained 9 days later. The smoke caused numerous accidents on I-15, including the death of 3 motorists. The fire suppression costs were \$6 million with cost shared as follows: 75% Federal, 17% private, and 8% state.

The 2008 Legislature provided a supplemental appropriation of \$2.5 million from the General Fund for the seeding of the burned areas. This funding was added to the resources from the Utah Partners for Conservation Development for the timely purchasing and application of the seeds.

The costs for the seeding project in 2008 were approximately \$24 million (\$22 million Federal funds) and covered almost 260,000 acres (160,000 acres of Federal lands).

Not in all areas the seeding was completely successful. Some areas the seeding failed due to early spring, dry conditions, and high winds blowing the soil. As of this fall, approximately 50,000 acres of BLM and SITLA and 8,000 acres of private land will be reseeded. The agencies will continue to monitor the situation and develop restoration plans to meet the restoration needs.



EXECUTIVE OFFICES & CRIMINAL JUSTICE

Staff Contact: Gary Ricks

CEASE DUI

The 2008 Legislature appropriated \$388,700 one-time General Funds (to be spent over three years) to the Commission on Criminal and Juvenile Justice (CCJJ) to implement the CEASE DUI Program. CEASE DUI stands for "Computer Expedited Arrest System to Eliminate Driving Under the Influence." The Commission has provided the following information concerning the program. CEASE DUI is a redesign of the current citation system used in the state to ensure that data flows seamlessly between law enforcement agencies, the courts and the state's criminal justice databases.

The system will enable local law enforcement to enter data directly into the Utah Criminal Justice Information System (UCJIS) thereby eliminating much of the necessary paperwork to issue a citation. Once in the system, the data flows directly to the prosecution and the courts. This will enhance timeliness and accuracy of state and

local criminal justice information systems and paperwork. CEASE DUI will also facilitate the production and filing of search warrants—streamlining citation workflow. Jail booking workflow will also be improved as part of the redesign.

Funding for CEASE DUI will be distributed through grants over a three year period to enable law enforcement agencies throughout the state to connect to the system. A portion of the funds will be used to regularly evaluate the system to measure its effectiveness. The Commission on Criminal and Juvenile Justice will continue to provide the Legislative Fiscal Analyst with progress reports and expenditures information as the system is implemented.



HIGHER EDUCATION

Staff Contacts: Spencer Pratt & Patrick Lee

Medical Education Council

The Utah Medical Education Program was created by legislation in 1997 and is administered by the Medical Education Council (MEC)—a nine-member board appointed by the Governor to bridge the gap between public and private healthcare workforce and education interests. The mission of the MEC is to: Assure Utah has an adequate, well trained medical workforce; stabilize funding for clinical training; and advise on workforce requirements.

The MEC has core responsibilities to: (1) assess supply and demand in health care, (2) advise and develop policy for addressing healthcare workforce and education issues, (3) seek and disburse Graduate Medical Education (GME) funds, (4) facilitate training in rural locations, and (5) manage Utah's GME demonstration project awarded by the Centers for Medicare and Medicaid Services (CMS).

For the past 10 years, funding for the MEC has come mostly out of dedicated credits resulting from hospitals and clinics contributing to their operational expenses. A pending rule change at CMS will lead to a tightening of budgets for these hospitals and clinics. The MEC was partially funded by the Legislature in the 2008 General Session for their administrative expenses and hopes to continue partnerships with hospitals and clinics to help support their operations. Its annual budget for FY 2009 as appropriated by the Legislature is \$1,667,800, of which, \$300,000 directly supports rural GME. Approximately 60% of its budget comes from the General Fund and 40% from Dedicated Credits.



HIGHER EDUCATION

Staff Contacts: Spencer Pratt & Patrick Lee

Special Session Update

During the Special Session, Higher Education's FY 2009 budget was reduced by four percent, for a total of \$33,980,900. The reduction includes the following:

- Utah System of Higher Education \$30,705,300
- Utah College of Applied Technology \$2,347,600
- Utah Education Network \$900,000
- Medical Education Program \$28,000

Specific items that will be cut were not identified, but will be reported during the 2009 General Session. Institutions have said that cuts will likely come from vacant positions, reduced program offerings, and other administrative reductions.

Also during the Special Session, the Legislature approved SB 2003, "Higher Education Budget Authority" which allows each institution to reallocate appropriations made for FY 2009 between line items, up to the amount of the SB 2001 reductions, but not more than four percent of any line item. This flexibility will allow institutions to spread the reductions where they can be accommodated best. Similar flexibility was also approved during the budget shortfalls in 2001 and 2002.



GOVERNMENT OPERATIONS

Staff Contact: Rich Amon

Utah Receives Prestigious National Honor for Digital Government

Utah received first place in the bi-annual Digital States Survey by the Center for Digital Government. The Center for Digital Government is a national research and advisory institute on information technology policies and best practices in state and local government.

Every other year the Center performs a comprehensive survey of digital solutions and best practices among state governments. The survey benchmarks progression in digital government such as infrastructure, citizen self-service technologies, and sustainability efforts in green IT.

Utah beat out Michigan and Virginia to win first place among the 50 states in 2008 for the best electronic delivery of government services. Utah offers over 800 state government services online – more than any other state – and touts a high usage rate among those online services. Online transactions in Utah continue to outpace more traditional methods (mail or waiting in line) for many Utah services. For example:

- 64% of drivers' licenses are renewed online;
- 71% of hunting and fishing licenses are purchased online;
- 88% of business registration renewals are done online; and,
- 78% of adoption and foster parent applications are submitted electronically.

Utah continues to be recognized for its efforts to provide high-quality services to the citizens of the state.



PUBLIC EDUCATION

Staff Contacts: Ben Leishman & Patrick Lee

Electronic High School

Utah's electronic high school (EHS) began operation in 1994 and serves students throughout the state. EHS also enrolls students from other parts of the country. The EHS is a free service to Utah students and students outside the state pay a \$50 fee for each course. The goal of EHS is to "educate, remediate, accelerate, and graduate Utah's diverse learners with caring, qualified teachers using current technology to provide rigorous curricula, timely access to quality online instruction, and prompt professional feedback to student work." (EHS, USOE, 2008)

Students enrolled in the EHS use courses to make-up school credit, take courses not offered through their high schools, or take extra-credits in order to graduate early. EHS courses are "developed by master teachers and are correlated to Utah core standards and objectives." (EHS, USOE, 2008) EHS provides competency-based instruction and an open-entry open-exit curriculum.

During the 2007-08 school year, 6,763 unique students earned credit through the EHS. The number of unique students earning credit has grown from 3,124 during the 2004-05 school year, or approximately 116 percent in 3 years. EHS students earned approximately 15,000 quarter credits during the 2007-08 school year, up from 8,765 in the 2004-05 school year.

The EHS budget totaled \$2,284,300 in FY 2008. The majority of EHS funding comes from a direct appropriation in the Minimum School Program. Over the past five fiscal years, the Legislature has increased the ongoing appropriation for the EHS from \$400,000 in in FY 2004 to \$2 million in FY 2009. In addition to the direct Minimum School Program appropriation, EHS administration is supported by \$284,300 in state and federal funds through the budgets of the Utah State Office of Education and the Utah Education Network.



OFFICE OF THE LEGISLATIVE FISCAL ANALYST
STATE CAPITOL COMPLEX
HOUSE BUILDING, SUITE W310
SALT LAKE CITY, UTAH 84114-5310

RETURN SERVICE REQUESTED



DECODING THE TC-23

Staff Contact: Jonathan Ball

Every so often we report to you the contents of the Tax Commission's Revenue Summary, affectionately known as the "TC-23". The TC-23 is a helpful indicator for monitoring budgets, that is, if you can figure out how to read it. However, it does not tell the whole budget story, nor should it be used to determine a surplus or deficit.

The TC-23 is a snap-shot of collections for the majority of revenue flowing into the General, Education, and Transportation funds. It does not show all revenue sources, but it covers the top twelve (95% of GF/EF/TF revenue). It displays two blocks of numbers - estimated annual changes (the left block), and experienced year-to-date changes (the right block). If one accepts the premise that timing of revenue flows should be the same year-over-year, one can compare the left block with the right block to see if year-to-date collections are coming in faster or slower than presumed for the year.

For example, the left block on this latest TC-23 shows that our economists forecast a 2.4% decline in major GF/EF revenue for all of FY 2009 when compared with FY 2008. The right block shows that for the first quarter of FY 2009, those same revenue types are 3.6% below the first quarter of last year. One might logically compare -3.6% to -2.4% and conclude that revenue is 1.2% behind what was projected.

That's a fine conclusion as long as it's followed by the truism

"this, too, will change". It will change because, despite our premise, timing of revenue flows are not the same year-over-year. First, the timing of economic performance is not the same year-over-year, and revenues depend upon economic performance. Second, external factors, like changing withholding tables, impact revenue flows.

The TC-23 can be a good indicator, but it does not by itself determine surplus or deficit. It shows one side of Utah's cash-flow. Our estimates of future revenue, against which we authorize spending, are based upon much more than that. While estimates include cash-flow, they also reflect many other independent variables like inflation, job creation, retail sales, population changes, interest rates, and performance in various sectors of the economy.

Even after a year is complete, the TC-23 is not a full accounting. First, it does not include all revenue sources. Second, it shows only revenue and does not consider changes in spending like mandated set-asides or unspent lapsing funds. The state's Comprehensive Annual Financial Report (CAFR) is a better source for information on surpluses and deficits.

No disputing the TC-23 is a good tool for monitoring current revenue flows and anticipating future budget action. But take it with a grain of salt. Or perhaps lately with a spoonful of sugar!