

# 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.LEUTAH.GOV/LFA



EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - APRIL 15, 2008

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-CHAIRS

**Report: Federal Funds**

**Summary:** Tenielle Young of the Governor's Office of Planning and Budget presented the list of federal fund grant applications to Executive Appropriations Committee. There were six new grants that required committee approval. They included Utah State Board of Education, Department of Natural Resources, Department of Environmental Quality, Department of Health, Department of Administrative Services, and Department of Agriculture and Food. All six of the new applications were approved by the subcommittee. There were also nine reapplications that also required legislative action. Executive Appropriations also approved all nine reapplications.

**Staff Contact:** Danny Schoenfeld

**Report: Interim Study**

**Summary:** Committee members considered study items for the 2008 interim, approving some for EAC itself, assigned others to appropriations subcommittees, and assigning some to staff. Members prioritized four items to be taken-up by EAC before the next General Session, including studies of: the EAC subcommittee structure; approaches to Minimum School Program appropriations bills; Zero-Based Budgeting; and Dynamic Analysis of Fiscal Notes.

The latter two items were assigned to EAC from the Master Study Resolution (S.J.R. 11, 2008 General Session) by the Legislative Management Committee. EAC members referred three other Master Study Resolution items -- Capital Facilities Prioritization, Grant Proposal Hearing Process, and Weighted Pupil Unit Funding -- to appropriations subcommittees. Under Joint Rule 3-2-502, the Committee assigned the Office of the Legisla-

tive Fiscal Analyst with studying recodification of the Budgetary Procedures Act. Finally, under Utah Code section 63-38-14, EAC recommended to the Legislative Management Committee that Management request of the Governor's Office of Planning and Budget an in-depth study of turn-over savings in state agencies and institutions. Committee members asked that subcommittees and GOPB report back to EAC with the results of their interim work.

**Staff Contact:** Jonathan Ball

**Report: Capitol Hill East/West Buildings Remodel**

Now that the Capital Building's occupants have moved in, certain spaces in the East and West buildings which served temporary purposes during the Capitol renovation will be remodeled for permanent purposes. Dave Hart, the Capitol Preservation Board Executive Director, briefed the committee on the construction schedule, estimated costs, and design elements of the remodel.

Mr. Hart reported that work has recently begun. The schedule calls for completion by November 17, 2008.

**UPCOMING MEETINGS**

**Executive Appropriations**  
June 17, 2008

**Health and Human Services**  
**Appropriations Subcommittee**  
May 7, 2008

**Central City Community Health Center**  
461 South 400 East, Salt Lake City, Utah

**Public Education, Higher Education**  
**Appropriations Subcommittees**  
**& Education Interim Committee**  
Joint Meeting

July 10 & 11, Cedar City, Utah



The Capital renovation budget included an allowance of \$3,500,000 for this purpose. During the 2008 General Session the Legislature appropriated another \$5,500,000 to cover inflation in construction costs since the Capital renovation budget was set. Construction costs will consume about 75 percent of the budget, and the remainder of the budget will be expended on furniture, contingency, demolition, and other overhead costs. Construction costs are estimated at \$130 per square foot.

The East Building will have three new committee rooms, 15 new offices for the Senate, 15 new parking stalls (30 total), an expanded conference room, and expanded space for existing offices. The West Building will have one new large committee room (former House chamber), 49 new offices for the House, and remodeled space for existing offices.

**Staff Contact:** Steven Allred

**Report:** State Engineer Report on Beryl-Enterprise Groundwater Management

During the 2008 General Session the Legislature adopted intent language forbidding the Division of Water Rights from expending their FY 2009 appropriations to change or implement plans for water use in the Beryl-Enterprise area. Intent language also required the State Engineer to report to the Executive Appropriations Committee all actions to date in the area.

The State Engineer reported that ground water in the Beryl-Enterprise area is over-appropriated. Long term average recharge to groundwater in the area is 34,000 acre-feet per year. Withdrawals for the period 1995-2004 averaged about 85,000 acre-feet per year. Several other basins in the state also have withdrawals exceeding recharge, a condition known as "water mining."

The work of a legislative Water Issues Task Force during the 2005 Interim led to passage of House Bill 228 in the 2006 General Session. This bill set guidelines for the State Engineer to adopt ground water management plans with the objective to limit ground water withdrawals to safe yield, protect the physical integrity of the aquifer, and protect water quality. The Beryl-Enterprise system is the first area of the state where a new management plan is being developed under this legislation.

The State Engineer has held three public meetings in the Beryl-Enterprise area to inform the water-user commu-

nity and to solicit comments, and has proposed some basic elements of a plan, while continuing to seek public input on the major issues. The proposed draft plan covers 90 years with 45 percent reduction of total depletion. The first five percent reduction is proposed to be implemented in 20 years (year 2028).

**Staff Contacts:** Ivan Djambov / Steven Allred

**Report:** Progress Report on Engineering and Nursing Initiatives

John Sutherland, chairman of the Technology Initiative Advisory Board (TIAB), presented an update of the Engineering Initiative to the Executive Appropriations Committee. He noted that the Engineering Initiative has been successful in increasing the number of engineering graduates by 38 percent since 2001. This increase is double the increase seen nationwide. The industry continues to experience a high demand for engineers, where the average beginning salary is over \$50,000 annually. The Legislature has seen the value of increasing the number of engineers in the state and has provided over \$39 million since the inception of the Initiative. There is currently \$9 million in ongoing funding among the higher education institutions for their engineering programs. A unique aspect of the initiative is that ongoing funding must be matched by the institutions through reallocations of existing institutional funding.

Maureen Keefe, Dean of the College of Nursing at the University of Utah, provided the Committee with an update of the Nursing Initiative, which began with funding from the Legislature in FY 2005. The purpose of the Nursing Initiative is to address the nursing shortage by expanding the capacity to train more students to become nurses. Enrollments in nursing programs have increased approximately 50 percent since 2004. The Legislature has appropriated a total of \$9.25 million ( \$1.05 million one-time) in the four years of the initiative. There is currently \$2.925 million in ongoing funding that goes to eight USHE institutions and four UCAT campuses.

**Staff Contact:** Spencer Pratt

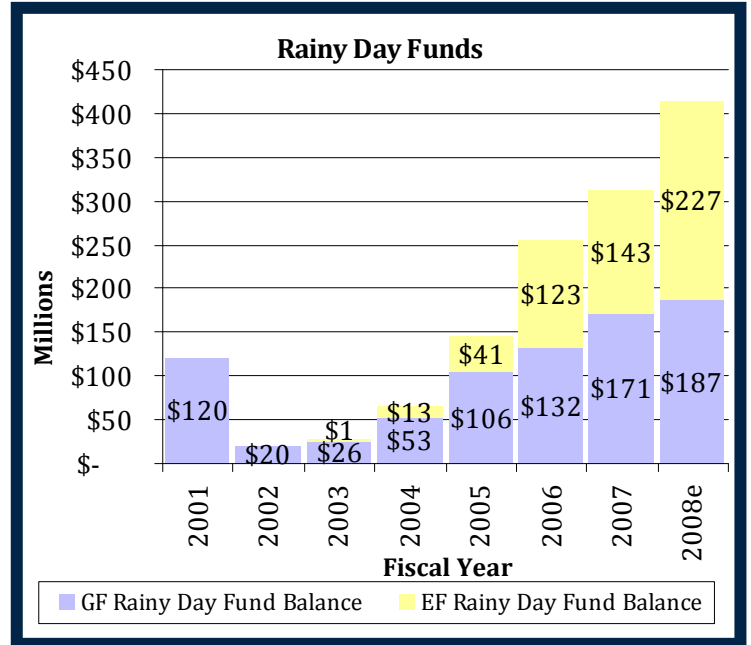


## RAINY DAY FUND UPDATES

Staff Contacts: Andrea Wilko & Thomas Young

House Bill 49, 1<sup>st</sup> Substitute clarifies procedures and allows for greater oversight from the Legislature regarding revenue surplus, budget deficit, and operating deficit. Because new definitions of revenue surplus and budget deficit directly require an officially adopted revenue estimate, adjusted for legislative changes, the Executive Appropriations Committee adopted an official estimate.

In addition, House Bill 49, 1<sup>st</sup> Substitute requires 25% of a revenue surplus to be automatically deposited into a respective budget reserve account up to the maximum level (6% GF/7% EF) before any contingent appropriations, year-end set-asides, and other year-end transfers. Also, statute now requires a volatility report every three years. Assuming no additions or withdrawals, it is likely that the combined rainy day fund balances will surpass \$414 million by the end of the fiscal year, or just shy of 7% of total FY 2008 appropriations from the Education and General Funds.



## NATURAL RESOURCES

Staff Contact: Ivan Djambov

### DWR Fee Restructure

The 2007 Legislature authorized the Division of Wildlife Resources (DWR) to restructure its fees with the intention to generate additional revenues. Forty six of the total 262 fees were changed, with 32 increased and 14 reduced. The change took effect in July 2007 but the actual fiscal impact of the restructure could not be measured until the Spring of 2008.

The fee restructure did result in higher revenues for DWR. It is estimated that the net revenue increase for FY 2008 will be \$4 million. Further, Division officials are expecting in FY 2011 an additional \$1.6 million from the US Fish and Wildlife services through the Excise Tax (paid by manufacturers of fishing and hunting equipment and supplies). Applications for Big Game Permits this year were 237,166, which is 8,920 (3.6 percent) less than the year before. This reduction was due to a decrease in the number of applications by non-residents (10,222, or 21.4 percent). The number of permits purchased by residents was slightly higher than the year before (1,302, or 0.7 percent). The impacts in application numbers were mainly attributed to the new requirement that an applicant must have a hunting license before applying in the draw.



## HIGHER EDUCATION

Staff Contact: Spencer Pratt

### Grant Awarded

The Davis Applied Technology College (DATC) was recently awarded a grant from the U.S. Department of Labor in the amount of \$2,271,000 to prepare students for careers in the composites industry. The composite industry is growing rapidly in Utah, particularly in the Davis and Weber counties. There is an immediate and growing need for trained workers in this area.

The grant, provided under the President's Community-Based Job Training Grants Initiative, seeks to meet the needs by expanding composites training capacity, developing and implementing industry-standardized composites training and curricula, designing outreach and recruiting strategies, and providing transition from training to employment.

The DATC projects enrollments of 1,100 students, most of whom will receive customized training and then enter into related employment. Key partners in the project include Davis School District, Weber State University, Southern Utah University, Salt Lake Community College, Department of Workforce Services, Governor's Office of Economic Development, U.S. Air Force, and numerous private parties.



## CAPITAL FACILITIES

Staff Contact: Steve Allred

### Capital Improvements Allocations

During the 2008 General Session the Legislature appropriated \$82,838,200 for capital improvements in FY 2009. This amount complied with UCA 63A-5-104 which requires that 1.1 percent of the replacement value of existing state facilities be appropriated for capital improvements before any capital developments may be funded.

The Legislature also passed S.B. 221, "Capital Development and Improvement Amendments" to increase reporting requirements to the Legislature. "Capital Improvements" still means any:

- (i) remodeling, alteration, replacement, or repair project with a total cost of less than \$2,500,000;
- (ii) site and utility improvement with a total cost of less than \$2,500,000; or
- (iii) new facility with a total construction cost of less than \$500,000.

Under changes implemented in S.B. 221, the State Building Board may approve projects that exceed \$2,500,000 if the project requires more than one year to complete and the Legislature has affirmatively approved the project.

On April 9 the State Building Board approved a list of Capital Improvement projects for Fiscal Year 2009. The following table summarizes the allocations.

#### FY 2009 Capital Improvements Allocations

College of Eastern Utah	\$986,200	Courts	\$3,016,700
Dixie State College	\$2,500,000	DFCM	\$3,462,600
Salt Lake Commun Coll	\$3,701,600	Enviro Quality	\$128,600
Snow College	\$1,682,000	Fairpark	\$503,700
Southern Utah Univ	\$2,426,500	Health	\$800,400
University of Utah	\$16,678,800	Human Services	\$3,794,200
Utah State University	\$8,405,000	National Guard	\$2,996,900
Utah Valley State Coll	\$2,931,300	Natural Resources	\$4,781,900
Weber State University	\$4,248,800	Office of Education	\$574,300
Utah Coll of Applied Tech	\$2,707,100	Public Safety	\$312,000
<b>Subtotal Higher Ed</b>	<b>\$46,267,300</b>	Tax Commission	\$260,000
Agriculture	\$76,000	Transportation	\$1,937,300
Alcoholic Beverage Ctrl	\$304,800	Veterans Affairs	\$207,700
Capitol Preserv Board	\$1,753,700	Workforce Services	\$637,500
Community & Culture	\$402,000	Statewide Programs	\$6,467,300
Corrections	\$4,153,300	<b>Subtotal Agencies</b>	<b>\$36,570,900</b>
		<b>Grand Total</b>	<b>\$82,838,200</b>



## GOVERNMENT OPERATIONS

Staff Contact: Rich Amon

### Rates Changes Approved

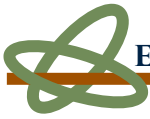
In the 2008 General Session the Legislature approved substantial changes in the service rates charged by the Department of Technology Services (DTS). Prior to Fiscal Year (FY) 2007 state agencies managed their own individual information technology (IT) personnel to maintain agency information systems and provide technical support to the agency. After FY 2007 all information technology functions, including agency IT personnel, transferred to the Department of Technology Services as mandated by House Bill 109 of the 2005 General Session.

In order to help smooth the transition of over 700 personnel from agencies to the newly created DTS, the Department, with the approval of the Legislature, created temporary service rates within the Agency Services program. These rates charged agencies a fixed amount based on the number of IT employees working with the agency. In this last General Session, DTS took the next step to change the rate structure from a bill for personnel to a fee-for-service.

DTS looked at the job functions of the 700-plus employees and created service categories and rates based on those job functions. For instance, a major function of the former agency IT personnel was to solve computer-related problems in the agency and help wire and connect desktop equipment. Based on those functions, DTS created a Desktop/LAN Management Enterprise rate of \$63 per month per desktop device. The goal of these new rates is to provide better services for the same cost to the agencies.

In order to reflect the changes being made within the Department, DTS has created a new website found at <http://dts.utah.gov/>. From this new website agencies have access to an online 24/7 Service Desk, technology news and research, and product descriptions and billing rates for all of the IT services offered by the Department.





## ENVIRONMENTAL QUALITY

Staff Contact: Mark Bleazard

### **Change in Ozone Regulations**

Ground level ozone (air pollution) is formed from automobile, industrial, and other pollutions by chemical reactions. The Department of Environmental Quality reports Utah's highest ozone concentrations usually occur between 2 p.m. and 8 p.m. from May through September. Vehicles are said to account for at least half of the air pollution along the Wasatch Front.

Some of the health impacts from ozone are irritation to the respiratory system, throat irritations, and chest discomfort. Those most sensitive to the impacts are the very young, the elderly and those with breathing problems. The federal Environment Protection Agency (EPA) sets national standards for allowable ozone pollutants to be reported in parts per million or ppm. Until March 12, 2008 the EPA standard for ozone was .08 ppm. That day the standard was lowered to .075 ppm. This new standard will impact Salt Lake, Davis Weber, Box Elder, and Tooele Counties.

Utah air quality officials have set in motion several ideas to help reduce air pollution. They have been working with school districts to retrofit school buses with cleaner combustion technology and assisting state officials to implement more energy efficient policies and practices in state office buildings. Department of Environmental Quality personnel are also looking at tightening regulations for gasoline stations as another alternative. The Legislature approved \$2,010,000 ongoing and \$200,000 one-time General Fund appropriations during the 2008 session that will allow the Department help meet requirements of the tougher federal air quality regulations.



## PUBLIC EDUCATION

Staff Contacts: Ben Leishman & Patrick Lee

### **Utah Schools for the Deaf and the Blind - Capital Facilities Update**

USDB is negotiating contracts for new building leases and looking into the possibility of constructing a new facility in Salt Lake County. Two lease contracts will be closing for the Jean Massieu School in South Jordan in June 2008 and for the Connor Street facility in Salt Lake in June 2009. USDB is working with the Division of Facilities Construction and Management as well as Granite School District to provide a more permanent facility for students.

The Orem Extension of USDB has used portable buildings for many years. USDB is working with Alpine School District to create a more permanent situation for their stu-



## HEALTH & HUMAN SERVICES

Staff Contacts: Debbie Headden & Russell Frandsen

### **Two Medicaid Changes - Possible Reduction of \$60 Million:**

The federal government through the Centers for Medicare & Medicaid Services has 2 new rules for Medicaid set to go into affect in May 2008: (1) elimination of paying for the training of doctors through Medicaid, a program entitled Graduate Medical Education with a budget of \$19 million and (2) new mandate to pay public hospitals through cost settling, rather than fee-for-service. Cost settling refers to an auditing process used to determine actual costs incurred for providing the service and paying that amount. Payments to public hospitals may be reduced up to \$41 million total funds (\$12 million General Fund) in FY 2009.

### **Public Health Lab Construction Update:**

The Public Health Laboratory was approved for construction during the 2007 General Session at an estimated cost of \$30.9 million. The ground breaking and construction phases have been delayed due to the discovery of a seismic fault on site. This necessitated a redesign of the building's foundation and structural components, and a change of the building's location on the selected site. These changes will likely add an extra \$1.3 million in costs, which the Division of Facilities and Construction Management will absorb from their reserve funds. The project's completion has been delayed from April 2009 to September 2009.

### **Upcoming May 7<sup>th</sup> Meeting:**

The Health and Human Services Appropriations Subcommittee will meet on May 7<sup>th</sup> from 9 a.m. to 12 p.m. at the Central City Community Health Center in Salt Lake City. This center receives monies from the State's Primary Care Grants Program. Part of the meeting will include a tour of the facility and learning more about this program.

dents. Solutions include using modular buildings built on existing school sites to meet the needs of USDB students.

Present USDB school facilities in the Salt Lake area are deteriorating compared to many district schools. Problems with heating and air conditioning at JMS have posed difficulties for effective teaching. Connor Street is an old building that is lacking many of the same standards as newer facilities.

Legislators appropriated \$265,000 one-time for FY 2009 to provide for USDB lease extensions. USDB can use this funding for another lease after the JMS lease is complete in June 2008. USDB hopes to combine the JMS and Connor Street campuses into one central facility.



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

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## REVENUE ON TARGET . . . . BUT STILL UNDER SCRUTINY

Staff Contacts: Jonathan Ball

General and Education Fund revenue collections for the first nine months of FY 2008 are well within range of the Legislature's revenue estimates. The Utah State Tax Commission's latest Revenue Summary - dubbed the "TC-23" - shows that for categories constituting nearly 95% of General and Education Fund revenue, collections through March 2008 have increased by 0.4% over collections for the same period last year. Final FY 2008 estimates adopted by the Executive Appropriations Committee this month also project 0.4% growth year-over-year. (The 0.6% projected annual growth shown on the TC-23 represents February consensus estimates before adjustment of Legislative action in the 2008 General Session.)

While revenue appears to be coming-in as anticipated for FY 2008, we on staff continue to monitor it very closely. Two potentially offsetting factors remain our focus. First, the latest TC-23 does not include the period in which final collections and filings occur. Historically, final quarter revenue grows by 0.4% on average. But in any one year that last quarter has grown by as much as 2.5% or declined by as much as 0.7%.

Second, the TC-23 represents only 95% of the revenue categories included in our total General and Education Fund estimates. Other sources - like Multi-Channel Video or Audio Service Taxes, Liquor Profits, and Investment Income - are not included in the TC-23. These other categories will influence final collections as well.

Generally speaking, given current economic indicators and the latest collections data, our economists feel pretty good about the accuracy of their FY 2008 projections. In addition, you as appropriators reserved about \$270 million of projected FY 2008 revenue for expenditure in FY 2009. Therefore, an FY 2008 budget shortfall is unlikely. Legislative and Executive Branch economists projected only 0.4% growth in ongoing revenue from FY 2008 to FY 2009, most of which (\$15 million - 0.3%) you left unappropriated. You reserved \$100 million of FY 2009 revenue for Public Education needs in FY 2010. You built the state's Rainy Day Fund balances to \$414 million, or 7% of current appropriations. Your FY 2009 budget includes a \$12 million structural surplus. Reducing FY 2009 budgets through supplemental appropriations is an option for the 2009 General Session. All of this is to say that Utah is well prepared for future revenue volatility should it occur. Still, we'll be watching. And we'll have official revenue updates for you in the summer and fall.