

# FISCAL HIGHLIGHTS

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EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - MAY 20, 2008

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-CHAIRS

**Report:** *Budgetary Procedures Act In-Depth Study-Executive Branch*

The first in a series of seven reports related to the Budgetary Procedures was received by the Executive Appropriations Committee. The Legislative Fiscal Analyst reported on current practices, practical application of statute, and recommendations for further study. Executive Appropriations voted to create a group of EAC to work through specifics of the recodification. Next month, a report will address Fees.

**Staff Contact:** Jonathan Ball

**Report:** *Revenue Impact of Tax Commission Decisions*

On March 11, 2008 the news media reported that Utah State Tax Commissioners deemed textbook sales at campus book stores to be part of the educational mission of a college. Deeming textbooks as integral to the educational mission exempts a non-profit college or university from remitting sales tax.

Students will now purchase textbooks sales tax-free given the books are purchased at the campus book store. The ruling brought to the fore concerns that Tax Commission decisions may have revenue impacts. An initial study indicates that, on average, Commission decisions increase revenue to the GF/EF by \$2 million annually.

**Staff Contact:** Thomas Young

**Report:** *2007 General Session Fiscal Note Follow-up*

The Legislative Fiscal Analyst's office presented a second iteration of a report that followed-up on selected bills passed in the previous session. The bills selected were those that were controversial, high profile, or bills where

there was some disagreement over the fiscal note. For each bill, the report shows the original fiscal note, the implementation status, the accuracy of the information provided to the legislature by the agency, and the accuracy of the fiscal note as prepared by the fiscal analyst.

The report was presented in a Red-Yellow-Green "stoplight" format that highlights problems, cautions, and bills that are being implemented as expected. Committee members used the report to further investigate policy issues and ask questions of agency officials.

**Staff Contact:** Stan Eckersley

**Report:** *State Funding for Military Installations*

The Governor's Office of Economic Development reported on a \$5,000,000 one-time appropriation made in the 2005 General Session for Military Installation Partnerships. Funds were required to be used for the following purposes:(see "Executive Appropriations, insert page)

UPCOMING MEETINGS

**Executive Appropriations**  
June 17, 2008  
C445 State Capitol

**Commerce and Workforce Services Appropriations Subcommittee**  
June 12, 2008

**Utah State Office of Rehabilitation, Division for the Blind and Visually Impaired**

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

July 10 & 11, Cedar City, Utah



1. Projects with a strong probability of increasing the growth and development of a military installation leading to significant economic benefits for the state.
2. Projects which provide a significant number of new jobs that will remain in the state for several years.
3. Projects which involve partnerships between the military and private industry or local government.

Funding was utilized for projects at Hill Air Force Base and the Dugway Proving Grounds. Approximately 613 jobs are expected to be created as a result of the State's investment with an estimated annual payroll of \$32,775,000.

**Staff Contact:** Andrea Wilko

**Report:** *Utah Retirement Systems Eligibility*

Dan Andersen and Jeff Jensen from the Utah Retirement Systems presented a report to the Executive Appropriations Committee regarding qualifications in URS and PEHP. They reported that an entity may make application for participation in the system. From that application the Utah Retirement Systems Board will determine eligibility of the entity to participate in the Utah Retirement Systems and Public Employees Health Program committee members asked about current membership.

**Staff Contact:** Danny Schoenfeld

**Report:** *Weber County Prioritization of Projects from Proposed Sales Tax Revenues*

The Weber County Council of Governments reported to Executive Appropriations Committee on a proposed increase in sales tax by a third quarter cent for transportation projects. They presented their prioritization process as per provisions of Title 59-12-1703 UCA. Executive Appropriations Committee approved the Weber County Council of Governments request.

**Staff Contact:** Mark Bleazard

**Report:** *Federal Funds*

Tenielle Young of the Governor's Office of Planning and Budget presented the list of federal fund applications to Executive Appropriations Committee. There were two new grants that required approval, one from the Utah Department of Public Safety and the other from the Utah State Office of Education. Both were approved by the committee.

**Staff Contact:** Danny Schoenfeld

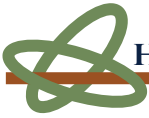
**Capitol Hill Construction Update**

The Utah State Capitol building is on track to have all system work completed by the end of May when commissioning (the complex process of ensuring that a building's systems perform as designed) will begin. The commissioning is scheduled to last until the end of June. The Executive Director of the Capitol Preservation Board is working closely with the tenants of the Capitol building and contractors to complete over a thousand requests for repairs and/or adjustments. Additionally, the painting of doors and decorative elements is scheduled to continue until June 30<sup>th</sup> and modifications requested by the Senate will take place in June, July, and part of August.

A remodel of the Senate and House buildings is currently underway and demolition has begun on walls, carpet, ceilings, and mechanical equipment. The completion date is scheduled for early November.

Other buildings scheduled for work this spring and summer include the Daughters of the Utah Pioneers (DUP) building and the Council Hall building. The DUP building has electrical and system problems and exterior stone problems that require re-pointing of the stone walls and some of the walkways. The Council Hall building is in need of an air conditioning system and fees are currently being negotiated so that the project will be completed before the summer gets too hot.

In addition to buildings, several memorials and statues are being placed on Capitol Hill. The Utah Law Enforcement Officer Memorial is currently under construction on the southwest grounds of the Capitol and is scheduled for completion this summer. The statues of Thomas Kane and Daniel Jackling (formerly in the Rotunda) have been placed on the plaza and the statues of Brigham Young and Philo Farnsworth will be placed on the plaza by June. Two of the four marble lion statues (Fortitude and Integrity) have been placed at the East entrance to the Capitol building and the other two (Honor and Patience) are scheduled to arrive this fall. The Curator of the Capitol has hung all of the artwork in the Capitol and is now working to get exhibition cases in the Capitol installed and filled. Over 98,000 visitors came to see the newly remodeled Capitol in the first 3 months of 2008.



**Interim Meeting Report**

The Subcommittee held their 1<sup>st</sup> interim meeting on Wednesday, May 7, 2008 at the Central Health Clinic, a recipient of funds through the State’s Primary Care and Rural Health Program for \$4 million. The subcommittee received updates on funding appropriated during the 2008 General Session and legislation affecting Health and Human Services. There was also a report on CHIP/Medicaid enrollments and funding, pending legal action and a follow-up on FY 2008 vision care funding.

The subcommittee identified 4 topics for interim study: (1) vaccinations and its results for children, (2) funding of Local Health Departments, (3) budget review of the Division of Services for People with Disabilities, and (4) a review of provider salaries for direct workers.

**Federal Policy Changes Impacting the Department of Human Services**

The federal government proposes two policy changes that could impact the Department of Human Services. The first proposal requires case managers to bill in 15 minute increments. This policy change could impact administrative costs because of the time involved to track case loads every 15 minutes. In addition, updates to the department’s computer system may be required to implement this policy.

The second proposal reduces federal Medicaid funding for rehabilitation services for therapeutic and mental health services. Currently, there is a moratorium imposed by Congress until June 30, 2008. The House has passed the continuation of the moratorium and it has moved to the Senate but the White House is threatening to veto the moratorium.

The effective date for the implementation of these two proposed policy changes is unknown, so the Department is unable to estimate the total impact at this time.

**2008 General Session Transportation Related Bills**

There were several high profile bills enacted during the 2008 Legislative Session that directly impact transportation funding issues. These bills include:

- House Bill 105 –This bill modifies the Transportation Finances Act and allows local city and county governments to obtain loans for local highway projects from the infrastructure bank managed by the UDOT.
- House Bill 242 – This bill modifies provisions relating to the use of monies in the County of the First Class State Highway Projects. The bill designates what projects will receive \$38 million available for fiscal year 2008-09 only, and requires the executive director of the Department of Transportation to pay for or to provide a municipality or county funds to pay for the costs of right-of-way acquisition, construction, reconstruction, renovations, or improvements to certain highways within Salt Lake County.
- House Bill 359 is a comprehensive tax overhaul affecting many areas of the Utah State Tax Code. A change that directly affects highway funding at the Department of Transportation is an amendment to the sales and use taxes. This change increases Utah State Sales Tax from 4.65% to 4.70% and dedicates the anticipated additional \$22 million in annual revenue to the Critical Highway Needs Fund.
- Senate Bill 245 prohibits Salt Lake City from using airport revenues to help fund the Airport TRAX Line. The bill directs \$2 from the \$10 vehicle registration fee to Salt Lake City for local roads. The bill also allows counties of the second class to raise the sales tax levy slightly for public transit in Davis and Weber Counties so that receipts are back to the original level prior to the loss of revenue when the sales tax was taken off food.
- Senate Bill 208 requires local governments to notify UDOT in cases where there are land use applications in declared “high priority transportation corridors.”
- Senate Bill 283 increases the amount of bonds authorized from \$1 billion to \$1.2 billion for highway projects prioritized within the Critical Highway Needs Fund.
- Senate Concurrent Resolution 6 authorizes UDOT to proceed with plans for the reconstruction of I-15 in Utah County from American Fork to Spanish Fork and with an estimated cost of \$2.6 billion.

**PENDING LFA INTERIM REPORTS**

- Re-codification of the Budgetary Procedures Act**
- 2007 & 2008 Building Block Follow Up Reports**
- 2008 General Session Fiscal Note Follow Up**



## HIGHER EDUCATION

Staff Contact: Spencer Pratt

### **Student Loan Changes**

The current credit crunch is taking its toll on the student loan industry. Lenders are closing their federally-backed student loan businesses, either permanently or temporarily. Locally, Zions Bank is among those lenders that are stopping their issuance of student loans.

This action is on the footsteps of other trouble in the student loan industry. Last October, legislation cut interest rates on federally-backed student loans in half, but cut \$20 billion in federal subsidies to lenders. Delinquencies have also been on the rise, especially for private student loans which have higher, uncapped, interest rates.

Sallie Mae, which is the nation's largest student loan lender, has said that it would reduce its private loans to students that it believes have less of a chance of graduating. In addition, many parents who were anticipating using home equity to help pay tuition bills have seen some of that equity disappear from falling home prices.

Earlier this month, President Bush signed the Ensuring Continued Access to Student Loans Act of 2008. This legislation increases loan limits to \$2,000 annually and allows the U.S. Department of Education to provide funding to state guaranty agencies so they can provide direct student loans if that is the only source of loan funds. The legislation also makes more grant and loan money available, eases the terms of repayment for certain borrowers, and does not allow disqualification for loans if they have had mortgage problems.

The Utah Higher Education Assistance Authority (UHEAA) has some reserves to weather the current storm. It also has low overhead and a high-quality portfolio of assets. UHEAA is urging Congress to allow emergency authority for the Federal Financing Bank and the Federal Home Loan Banks to provide access to additional student loan capital.



## ECONOMIC DEVELOPMENT & REVENUE

Staff Contacts: Andrea Wilko & Thomas Young

### **Affordable Housing Update**

Lack of affordable housing has become one of the biggest deterrents to growth in Utah. The problem is partly the availability of housing, but even more relevant is the ability of Utahns to afford what housing is available. There is growing recognition among officials at all levels that affordable housing is a key element to continued economic growth.

Utahns served by the Olene Walker Housing Loan Fund (OWHLF) include those with low-incomes, first-time

home buyers, residents with special needs such as the elderly, developmentally disabled, physically disabled, victims of abuse, homeless, and Native Americans.

Money from the fund is generally loaned to first time homebuyers, rural homeowners, builders, and developers. The OWHLF is a revolving loan fund. Payments made on these loans are returned to the fund, thus allowing it to be used again for future projects. For multi-family projects, \$15 is leveraged from federal and other sources for each dollar contributed by the state.

Current efforts by the Olene Walker Housing Loan Fund board include assisting Utah's affordable housing market by dipping into the fund's reserves by spending \$2.1 million in earned interest on outstanding loans to aid affordable-housing developers. The funding will go toward six properties totaling 263 new or renovated low-income housing units



## EXECUTIVE OFFICES & CRIMINAL JUSTICE

Staff Contact: Gary Ricks

### **Increased Impound Fee for DUI**

During the 2008 General Session, the Legislature approved a tougher financial penalty for DUI impoundment. Lawmakers passed Senate Bill 15, "Driving Under the Influence Amendments." This legislation increased the administrative impound fee by \$100 from \$230 to \$330 for vehicles, vessels, or outboard motors as stipulated under Utah Code 41-6a-527. It is estimated that this fee increase will generate \$1,470,000 in additional annual revenues to the State beginning FY 2009.

The funds will be used to enhance law enforcement, prosecution and punishment of DUI offenders. Senate Bill 15 appropriates \$1,320,000 for six additional Utah Highway Patrol Troopers and Liquor Law Enforcement Officers assigned to enforce Utah's DUI laws.

Other state agencies and entities will be involved in the effort and receive additional funding as well. The Department of Corrections will receive \$132,000 in FY 2009 and \$264,000 in FY 2010 and each year thereafter. The Administrative Office of the Courts (AOC) will receive \$210,000 annually beginning FY 2009. AOC estimates that additional State fee revenue from case adjudication in the District Courts will amount to \$120,000 annually beginning in FY 2009. Public Safety's Driver License Division will receive a one-time appropriation of \$7,500 for reprogramming expenses to accommodate the new legislation.

Research estimates indicate that approximately 600 additional DUI arrests will be made each year by the six additional UHP Troopers specifically assigned to this effort. In FY 2007, 14,658 DUI arrests were made in Utah.



## PUBLIC EDUCATION

Staff Contacts: Ben Leishman & Patrick Lee

### **Ongoing Educator Salary Adjustments - FY 2008 Implementation Update**

The table “FY 2008 Ongoing Educator Salary Adjustments” provides an update on the implementation of the \$2,500 salary adjustment by school district. Each district reports allocating to each qualifying educator at least the \$2,500 adjustment authorized by the Legislature.

After discovering an under-count in the total number of qualifying educators and the total level of salary adjustment intended by the Legislature (\$2,000 or \$2,500) it was determined that additional funding would be required to provide the full \$2,500 adjustment intended by the Legislature for each educator. During the 2008 General Session, Legislators approved a supplemental appropriation of \$19,905,000 (on top of the \$68.7 million base) to fully-fund the program.

The State Office of Education began distributing funding to school districts and charter schools on the basis of \$2,500 per qualifying educator. Some school districts opted to wait for a supplemental appropriation from the Legislature before providing the full adjustment amount to their educators. The differences in allocation among the school districts can be seen in the “Initial Allocation” and “Supplemental” columns of the table.

In FY 2009, the ongoing base budget for educator salary adjustments totals more than \$148 million. This amount includes the original adjustment of \$2,500/teacher and increases the base amount by \$1,700/teacher.



## CAPITOL FACILITIES

Staff Contact: Steve Allred

### **Nonresidential Construction Remains Strong in Utah**

2007 was a year of contrasting construction conditions in Utah. The downturn in new single-family residential construction is well known. However, nonresidential construction—the arena in which the state acquires buildings—remains vigorous, helping to allay the negative effects of the slump in residential construction.

Residential construction values fell 20 percent during 2007, from \$5 billion to \$4 billion. Nonresidential construction values climbed 29 percent to a record amount of just over \$2 billion. Combined, the value of all new permit-authorized construction (not including additions/remodeling) fell 8.2 percent.

The five counties with the highest nonresidential construction during 2007 were Salt Lake (41 percent), Utah (15 percent), Washington (7 percent), Davis (6 percent) and Uintah (5 percent).

### **FY 2008 Ongoing Educator Salary Adjustments**

Total Amount Per Qualifying Educator  
with Supplemental Appropriation

School Districts	Initial Allocation	Supplemental	Total
Alpine	\$2,501	\$0	\$2,501
Beaver	1,952	680	2,632
Box Elder	2,500	0	2,500
Cache	2,500	0	2,500
Carbon	1,938	562	2,500
Daggett	2,500	0	2,500
Davis	1,938	562	2,500
Duchesne	2,500	0	2,500
Emery	2,000	500	2,500
Garfield	2,000	562	2,562
Grand	1,938	562	2,500
Granite	1,934	566	2,500
Iron	2,500		2,500
Jordan	1,932	568	2,500
Juab	2,500	0	2,500
Kane	2,500	0	2,500
Logan	2,500	0	2,500
Millard	1,945	555	2,500
Morgan	2,012	488	2,500
Murray	1,936	564	2,500
Nebo	1,938	562	2,500
North Sanpete	1,900	600	2,500
North Summit	1,938	562	2,500
Ogden	1,918	582	2,500
Park City	2,371	161	2,532
Piute	1,938	562	2,500
Provo	1,938	562	2,500
Rich	2,500	0	2,500
Salt Lake	1,938	562	2,500
San Juan	2,500	0	2,500
Sevier	1,913	587	2,500
South Sanpete	2,500	0	2,500
South Summit	2,000	500	2,500
Tintic	1,900	600	2,500
Tooele	1,930	570	2,500
Uintah	2,500	0	2,500
Wasatch	1,938	562	2,500
Washington	2,004	513	2,517
Wayne	2,040	460	2,500
Weber	2,500	0	2,500

Source: Utah State Office of Education



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## RETURN SERVICE REQUESTED



### WE'RE FROM THE (FEDERAL) GOVERNMENT, AND WE'RE HERE TO HELP

Staff Contact: Jonathan Ball

By many economists' estimations, Utah may be better insulated from an economic downturn than is the country as a whole. But there are aspects of national economic worries that directly impact Utah. Among them, pressures on the Federal budget are squeezing the state.

While growth in Utah's state economy has certainly slowed, the impact of that slower growth is already factored into our state budget. The latest Tax Commission Revenue Update through April shows revenue growth for the first ten months of FY 2008 equal to 1.2% compared with the first ten months of FY 2007. Legislatively adopted revenue estimates assumed total annual FY 2008 growth of 0.4%.

This is not to say that there is no risk. While overall revenue is growing slightly faster than predicted, sales and individual income tax growth is very slightly less than anticipated. The sales and individual income tax performance is currently offset by better than expected corporate tax receipts. But corporate tax is among the most volatile of the state's tax streams, and its final performance will not be known until after the end of the fiscal year.

Perhaps of greater risk to Utah's budget is the impact of national economic trends on the Federal budget. The Federal Government's financial exposure to the sub-prime crisis and credit crunch alone will likely put pressure on Federal assistance to states.

Already, Utah has experienced federal funding reductions. A \$288 million nation-wide budget rescission in the Workforce Investment Act reduced Utah's adult, youth, and dislocated workers funding by \$2.1 million. \$670 million in Medicaid rule changes will reduce Utah allocations by more than \$40 million. If Utah's economy outperforms the nation, our share of Federal Medicaid Assistance Program (FMAP) payments will likely increase. And, as noted in this newsletter, Federal student aid cuts will impact the Utah Higher Education Assistance Authority.

As appropriators, you will weigh all of these impacts when you consider FY 2009 supplemental appropriations and FY 2010 budgets in the 2009 General Session. As staff, we'll have options for you on how to address them.