

FISCAL HIGHLIGHTS

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EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE MEL BROWN, CO-CHAIRS

MEETING SUMMARY - JUNE 14, 2011

Report: Federal/Non-Federal Funds

Staff Contact: Gary Syphus

Becky Brusco from the Governor's Office of Planning and Budget presented the Federal/Non-Federal Funds Report. The committee recommended approval of three new federal grants and one reapplication of an existing federal grant. No non-federal grants were submitted.

Report: Revenue Update

Staff Contact: Andrea Wilko

General and Education Fund revenue is expected to end FY 2011 \$10 — \$110 million above the consensus February forecast. Although general economic conditions are showing improvement, recent economic data have been on the disappointing end of a recovered economy. The abating recession is expected to continue to lead to below-trend growth in the coming fiscal years. Final revenue numbers will be available mid September.

Report: Medicaid Reform Requirements and Progress

Staff Contact: Russell Frandsen

Senator Liljenquist and Michael Hales, deputy director of the Department of Health, talked about the changes to Medicaid from S.B. 180 and its proposed waiver. Senator Liljenquist discussed how annual Medicaid per person growth will be limited to overall General Fund growth. Michael Hales explained the performance measures that would be used to monitor the quality of care.

Report: Savings in DWS Eligibility Determination

Staff Contact: Gary Ricks

Since 2007, the Department of Workforce Services (DWS) has created a centralized Eligibility Services Division, opened a statewide call center, implemented a new comprehensive eligibility software system called eREP, and hired

consultants to help find and eliminate bottlenecks. Geoff Landward, DWS, reported that the number of public assistance cases has risen each year while FTE have declined each year, thus reducing the cost per determination. He also touched on a pilot Pay-for-Performance plan to increase worker productivity.

Report: Double Counting Due to Transfers Between Departments

Staff Contact: Rich Amon

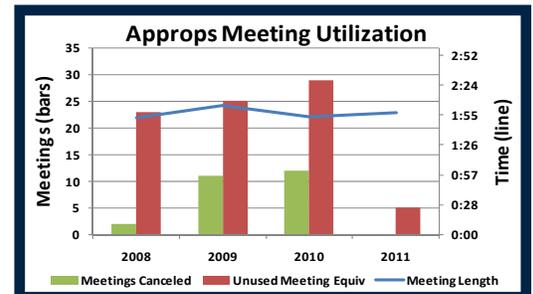
Transfers between the Department of Health and other agencies overstate Medicaid expenditures in the statewide budget by as much as \$300 million. The Analyst recommends changes in budget submissions, guidelines, and statute.

Report: Appropriations Subcommittee Meetings

Staff Contact: Jonathan Ball

In the 2011 General Session two subcommittees were eliminated, membership on each subcommittee increased, meetings were scheduled in the morning, and two blocks of subcommittees alternated meeting days.

The average meeting length stayed about the same, but the number of canceled meetings went to zero, and the amount of unused meeting time fell dramatically.



Staff reported only one instance in which a committee did not have a quorum to vote. Subcommittee chairs generally said that morning meetings were more productive, but that an additional meeting is desirable.



Emergency Funding for Flood Relief

On Thursday, June 2, 2011, the Weber River breached its banks, threatening homes, farms, and farmland. The breach is flooding approximately 2,000 acres and threatening 17 homes. Flooding has also occurred—and likely will continue to occur—in other areas of the state.

The Legislature has appropriated emergency funds in two separate areas: in the Governor’s budget and the Division of Homeland Security.

The Governor’s Budget

The first source is \$100,000 from the General Fund in the Governor’s budget. The Governor may use these funds to address a crisis or disaster without calling a special session. If funds are not used in a given fiscal year, they carry forward to the next fiscal year.

Division of Homeland Security’s Budget

The second is \$3,000,000 from the State Disaster Recovery Restricted Account in the Department of Public Safety – Division of Homeland Security budget. These funds may only be spent in response to a declared disaster. The Division may spend up to \$250,000 as it deems necessary; it may spend more than \$250,000 if the Governor approves and if the Division meets various other statutory notification and approval requirements. Like the Governor’s funds, any unused funds carry forward to the next fiscal year.

During the June 14, 2011 meeting the Executive Appropriations Committee called upon the Governor to declare a disaster and use the available appropriations for emergency flood relief in Weber County and other areas of the state as necessary. The committee also communicated its support for the use of any necessary state equipment.

The Utah National Guard has submitted a cost estimate of \$25,000 to repair a canal. Weber County has submitted an estimate of approximately \$200,000 to rebuild an access road to the Weber River breach, bring in a large crane, and drive sheet pilings along the side of the breach.

The Federal Emergency Management Agency also may participate in mitigating a declared disaster. The Governor may also declare an “Agricultural Disaster” in any county that loses more than 30% of its agricultural production.



Funding Incentives for Vocational Education

The Public Education Base Budget (S.B. 1, 2011 General Session) amended statutory provisions governing how high schools count students that attend the Utah College of Applied Technology (UCAT) during a regular classroom period. Prior to this change, local education agencies (LEAs) – i.e. school districts & charter schools – were allowed to count students attending a UCAT campus as if those students were attending their regular high schools on a full-time basis.

Beginning on July 1, 2011, LEAs may no longer count students served at a regional UCAT campus in the regular school program Average Daily Membership (ADM). That student count will be used to distribute funds for the 2012-2013 school year.

This change in state funding policy does not directly impact vocational education budgets appropriated by the Legislature for LEAs (Career & Technology Education) or UCAT institutions. Section 53A-17a-114 stated that students “shall continue to be counted in the regular school program average daily membership.” Because of this, the Grades 1-12 program in the Minimum School Program (MSP) was reduced. The Grades 1-12 program provides general, unrestricted, operations revenue to LEAs to support the associated grades.

Since the end of the 2011 General Session, many questions have surfaced regarding the budget implications associated with this change in policy. Removing this incentive may cause LEAs that benefited most from the incentive to reevaluate program offerings in light of potential budget impacts. In the short term, the impact of this policy change on individual LEAs is unknown due to insufficient data collection. Budgetary impacts will range in severity based on an LEA’s use of the incentive and likely phase in over a couple of fiscal years. However, WPU calculation methodology will delay any disproportionate impact until FY 2013.

Policymakers will be better able to determine budgetary impacts in late fall 2011 once student enrollment counts are taken. Based on this information, the Legislature can make any FY 2012 budget adjustments or FY 2013 policy adjustments it deems necessary in the 2012 General Session.

An Issue Brief that provides greater detail on this issue is available by contacting the Legislative Fiscal Analyst’s Office.

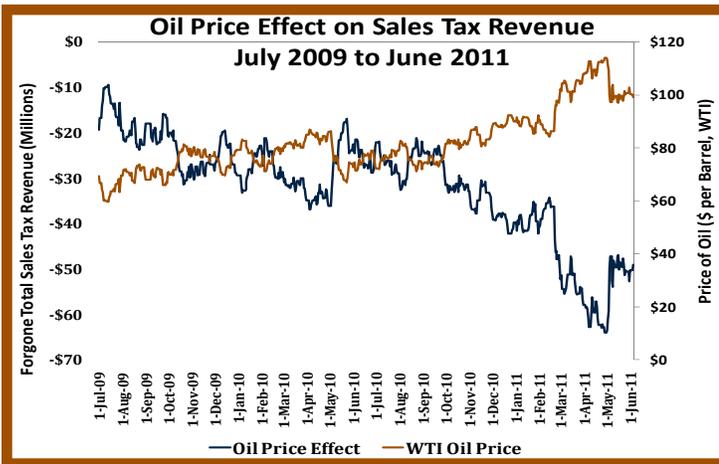


BUSINESS, ECONOMIC DEVELOPMENT & LABOR

Staff Contact: Thomas Young

Does the Price of Oil Affect Sales Tax Revenue?

The price of oil represents an input cost for many produced goods, from Barbie dolls to gasoline. In addition to overall inflation pressure when the crude oil price increases, spending on gasoline represents a shift from retail and other industries to the gasoline industry. Depending upon whether the price of oil is permanent, and within the current price range, every \$1 increase in the price of oil generally decreases sales tax revenue by \$0.5 million to \$1 million.



The chart above represents forgone sales tax revenue in Utah due to the recent oil price increases. In the past two years the price of the West Texas Intermediate (WTI) Crude oil has increased from \$69 per barrel to \$100 per barrel. This price appreciation has resulted in forgone total sales tax revenue of at least \$16 million per year for the past two years.



INFRASTRUCTURE & GENERAL GOVERNMENT

Staff Contact: Rich Amon

Changes in the State Building Board

The Utah State Building Board oversees the state’s capital facility needs and projects. The Governor appoints seven members to the Board for a four year term. The director of the Governor’s Office of Planning and Budget serves as an eighth, non-voting member. Appointments to the Board are staggered every two years so that the entire Board will not be completely replaced in any given time. Though not statutorily required, appointments are typically made to ensure geographic diversity.

The terms for four of the seven appointed positions on the State Building Board ended in May of 2011. The individuals serving in those positions were Mel Sowerby,

chair from Weber County (appointed in September, 2005); Steve Bankhead from Utah County (appointed in December, 2002); Cyndi Gilbert from Washington County (appointed in May, 2003); and Wilburn McDougal from Salt Lake County (appointed in June, 2008).

George Daines (appointed in May 2009) replaces Mel Sowerby as the new chair of the State Building Board. The four new members appointed in May and June of 2011 are: David Fitzsimmons, retired architect, from Salt Lake County; Ned Carnahan, experience in facilities management, from St. George; Gordon Snow, ex-Legislator, from Roosevelt; and Scott “Chip” Nelson, experience in real estate from the Ogden area.



HIGHER EDUCATION

Staff Contact: Spencer Pratt

UtahFutures Establishes Partnership with Learning Express Library

UtahFutures is a tool to help students plan for their future. It is provided free of charge to all Utah residents, through the support of the Utah State Office of Education, the Utah System of Higher Education, the Utah Higher Education Assistance Authority, the Utah State Office of Rehabilitation, the Department of Workforce Services, Gear Up, and the Utah State Library.

UtahFutures has free access to more than 800 skill-building practice tests, eBooks and college and career prep tests and can even give financial aid advice on how to pay for school. These testing and prep resources nearly quadruple those previously available, thanks to a new partnership between UtahFutures and Learning Express Library.

The Learning Express Library now available on UtahFutures.org (<http://www.utahfutures.org/>) is a comprehensive, online database of practice tests and tutorial courses designed to help students and adult learners succeed on academic and licensing tests. It provides options for improving skills and passing key benchmark tests. A single sign on feature links UtahFutures users directly to the Learning Express Library.

Learning centers are available for students in elementary schools through college and graduate programs. Students can improve their math and reading skills, learn computer software programs, prepare for college and graduate degree programs and more.

While many states have education and career planning tools, UtahFutures has the largest partnership of education and workforce planning agencies of any state in the country.



SOCIAL SERVICES

Staff Contact: Russell Frandsen

What Will the Social Services Appropriations Subcommittee do This Interim?

The Social Services Appropriations Subcommittee, with approval from the Legislative Management Committee, has made preliminary plans for two all day interim meetings at four agency locations. The plans for these two meetings include:

Meeting #1 - Thursday, July 21, 2011 8 a.m. to 5 p.m.

Main purpose: look at the safety net for individuals with disabilities in Utah and hear from the public regarding the efficacy of this system; analyze the costs of serving individuals with disabilities in various service locations.

Meeting locations: Utah State Developmental Center in American Fork and a location near the Central Utah Center for Independent Living in Provo.

Other topics: Preferred Drug List, the number of nursing home beds in the state, and update on budget changes to the Utah State Office of Rehabilitation.

Meeting #2 - Thursday, September 22, 2011 8 a.m. to 5 p.m.

Main purpose: Look at the safety net for individuals with low income in Utah and hear from the public regarding the efficacy of this system; analyze some of the cost trends in Utah's Medicaid program.

Meeting locations: Davis County's local health department and the Department of Workforce Services in Clearfield.

Other topics: Implementation status of budget reductions for the Departments of Health, Workforce Services, and Human Services. The agenda also includes changes to the False Claims Act, improving coordination of Medicaid amongst State agencies, Workforce Services' cost allocation model, reduction in costs for eligibility services, and the sharing of funds between the Utah Department of Health and local health departments.



EXECUTIVE OFFICES & CRIMINAL JUSTICE

Staff Contact: Gary Syphus

DNA Specimen Restricted Account

Funds in DNA Specimen Restricted Account (UCA 53-10-407) are for certain costs related to DNA collection and processing in the state criminal justice system. The purpose of DNA specimen collection is to assist law enforcement authorities when analyzing crime scenes.

Authorities (Corrections, Courts, Division of Juvenile Justice Services and local law enforcement) collect DNA from

certain offenders including anyone charged with a felony or class A misdemeanor. That sample is sent to the Department of Public Safety's Crime Lab and is analyzed, stored, and entered into a database (CODIS – Combined DNA Indexing System) for use by law enforcement.

Total funds in the account for FY 2010 equaled \$525,800. Funds include (1) \$216,000 of General Fund appropriations and (2) \$309,800 in collections from a \$150 fee charged to the offender. The authority collecting the sample may retain up to \$25 dollars of the \$150 fee before sending it to the Crime Lab.

This money is appropriated to Public Safety and Courts for FY 2012. It is used for DNA kits, chemicals, software, personnel, and other expenses. The Department of Public Safety will give detail on developments and improvements to the Executive Offices and Criminal Justice Subcommittee during their interim meeting on Wednesday July 13th.



INFRASTRUCTURE & GENERAL GOVERNMENT

Staff Contact: Mark Bleazard

Utah County I-15 Rebuild Update

During the 2009 General Session the Legislature provided funding of \$1.725 billion for the rebuild of portions of I-15 in Utah County. The project known as the "I-15 CORE Project" is beginning to take shape. The I-15 CORE will add two additional north and south bound lanes from Lehi to past Spanish Fork, rebuild and reconfigure 10 freeway interchanges, replace or modify 63 bridges, and extend the express lane from Orem to Spanish Fork.

The Department of Transportation reports as of June 2011 the design is complete and construction is over 40% complete. Over 637,000 square yards of concrete pavement have been placed representing 90 lane miles of new roadway. Three new bridges are completed and are open for traffic with 35 additional bridges under construction.

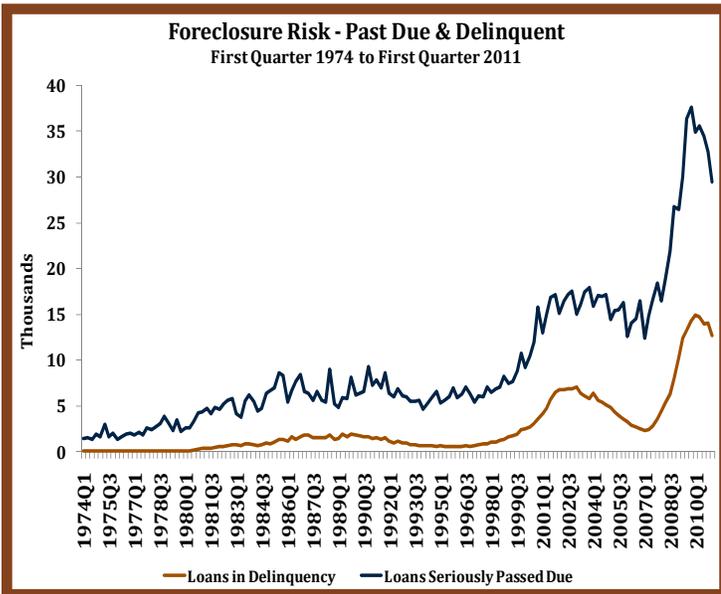
UDOT made history in March 2011 when crews completed the longest two-span bridge move by self-propelled modular transporters in the western hemisphere when the new Sam White Bridge was moved into place.

A few other construction highlights for the remainder of 2011 include: the freeway bridge over Provo Center Street to be moved into place; an additional 1,200,000 square yards of concrete will be placed; traffic will be shifted to the new U.S. 6 bridge and the old bridge will be demolished; and traffic will be shifted to new concrete the majority of the 24 mile project. Crews are on schedule for the planned December 2012 project completion.



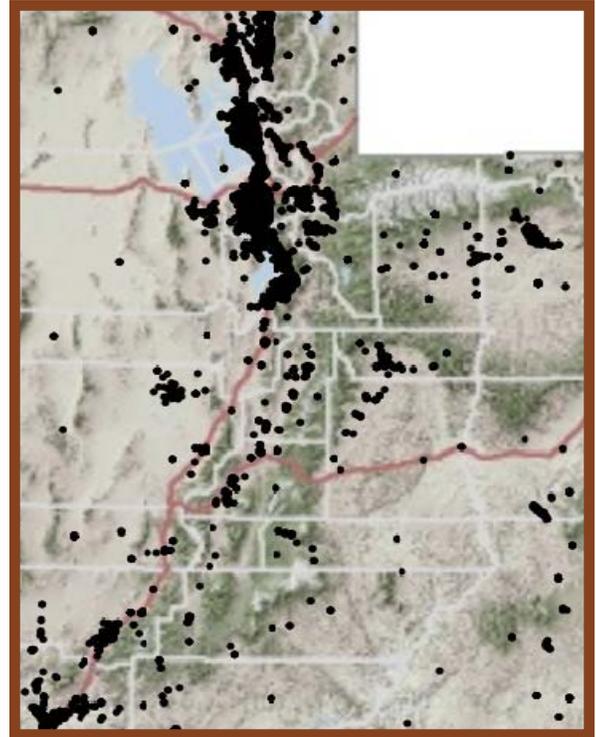
Housing Market's Impact on the Economy

The housing market continues to be a drag on the economy. Housing and all related sectors, such as the construction industry, will remain slow—well below historical averages for the next 12 to 24 months. Continued foreclosures (see figure below), difficulty for potential homeowners to qualify for mortgages, more than 6 months worth of new home supply on the market nationally, as well as a more mobile demographic will work against home ownership and new home sales and construction for the foreseeable future.



Currently 120,000 homes in Utah have negative equity. Each of these homes is mapped in black on the following map. Larger clusters represent a higher density of homes with negative equity in 2010.

This large amount of homes with negative equity will continue to constrain equity-based spending for at least the next two years. Economists expect to continue to see a decrease in home ownership rates for the next several years.



BEHIND THE SCENES

Staff Contact: Stan Eckersley

And Two Players to be Named Later

The Fiscal Analyst has changed some assignments to accommodate the new subcommittee session schedule and the departure of two fiscal analysts. One of the goals of the restructuring was to provide double coverage for the subcommittees yet maintain experienced staff with the agencies and issues they know. The Office of the Legislative Fiscal Analyst will be hiring two people, an analyst and an economist. This is the new structure:

- *Business, Economic Development & Labor:* Andrea Wilko & New Economist
- *Executive Offices & Criminal Justice:* Gary Syphus & New Analyst
- *Higher Education:* Spencer Pratt & New Analyst
- *Natural Resources, Agriculture, & Environmental Quality:* Ivan Djambov & New Economist
- *Infrastructure & General Government:* Mark Bleazard, Richard Amon, & Gary Ricks
- *Public Education:* Ben Leishman & Thomas Young
- *Retirement & Independent Entities:* Mark Bleazard
- *Social Services:* Russell Frandsen, Stephen Jardine, & Gary Ricks



RETURN SERVICE REQUESTED



SURPLUS AT THE END OF FY 2011?

Staff Contact: Jonathan Ball

This month the Executive Appropriations Committee heard from our economists that Utah could have a revenue surplus of between \$10 million and \$110 million in FY 2011. A surplus would be nice - but its potential raises some questions.

With 15 days left in FY 2011, why such a large range?

- This is a consensus range – meaning both legislative and executive branch economists must agree upon it. The range has to be wide enough to encompass differing degrees of optimism.
- While June 30 is only a few days away, certain transactions are recorded and reconciled in the month of July (called “Period 13”).
- \$100 million is a margin of error of only +/- 1%.

If there is a surplus, how much can be spent?

- Normally, under current circumstances, 50% of any surplus would go to the two rainy day funds.
- 50% of the remaining General Fund surplus would go to the Disaster Recovery Fund.
- Another approximately \$12 million would go to the

Industrial Assistance Fund.

- If the surplus itself was \$100 million, only \$28 million would be available for discretionary spending.

Given \$101 million in federal grants under EduJobs, are current circumstances normal?

- In the 2011 General Session, policymakers reduced FY 2011 appropriations to public education by \$50 million to make-up for an FY 2010 revenue shortfall.
- At about the same time, public education received \$101 million from EduJobs.
- EduJobs says “A State that receives an allocation may not use such funds, directly or indirectly, to— (A) establish, restore, or supplement a rainy-day fund; (B) supplant State funds in a manner that has the effect of establishing, restoring, or supplementing a rainy-day fund.” (H.R. 1586, 111th United States Congress, p. 2)
- Executive Appropriations directed Legislative General Counsel to identify steps that must be taken to prevent depositing up to \$50 million of any Education Fund surplus into the rainy day fund – whereby preserving it for appropriation to education.

We've got another couple of months to go before we'll know for sure. Stay tuned!