

# FISCAL HIGHLIGHTS

## EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE MEL BROWN, CO-CHAIRS

### MEETING SUMMARY - JULY 19, 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 two new federal grants, three reapplications of existing federal grants, and three continuations of existing federal grants. One reapplication was not approved—Public Safety's FY 2011 Emergency Management Performance Grant. No non-federal grants were submitted.

#### **Report: Deferred Maintenance**

*Staff Contact: Rich Amon*

Funding for building repairs and improvements has decreased over the last four years, while requests for improvements have increased. Current law requires capital improvement funding to increase by approximately \$52 million in FY 2013 before the state can build any new buildings.

#### **Report: State Debt Report**

*Staff Contact: Rich Amon*

Utah is currently at 87 percent of the constitutional debt limit as a result of two factors: increased bonding for highway projects and a decrease in property values. A recent figuring of the constitutional debt limit raised questions on how to make the calculation. The EAC asked for a report back to the committee with recommendations on how to clarify the calculation in statute.

#### **Report: Fiscal Note/Building Block Follow-up**

*Staff Contact: Steve Allred*

The LFA prepared and presented its annual "Fiscal Note and Building Block Follow-up Report." The report enhances accountability in the appropriations process. This year's report looks at 74 different items and uses a spotlight approach

(green, yellow, or red) in the categories of implementation, accuracy, and, if available, performance. In most cases the report looks at items from the 2009 or 2010 General Sessions, since many programs take time to implement and track, but it also includes nine items from the 2011 General Session. To view the report on-line, please visit: <http://le.utah.gov/interim/2011/pdf/00001380.pdf>

#### **Report: Implementation of SJR 5**

*Staff Contact: Stan Eckersley*

S.J.R. 5 creates Joint Rule 4-2-404 which requires a performance note on bills that do any of the following:

- Create a new program
- Provide new funding to an existing program
- Provide new services or benefits
- Expand existing services to new or enlarged populations

A performance note is a set of goals, outcomes, measures, benchmarks and resources that will gauge whether a program has performed as the Legislature intended.

The Analyst will administer the notes and attach them to bills. Performance notes will be written by state agencies. Sponsors may dispute the analyst's original determination or the agency's note.

#### **Report: Cigarette Tax Restricted Account**

*Staff Contact: Thomas Young*

The LFA reported on the revenues to the Cigarette Tax Restricted Account, transfers out of the account, and appropriations from the account. The account is expected to show a \$1 million deficit at the end of FY 2011 and to end FY 2012 \$2.5 million below the appropriations for three reasons.

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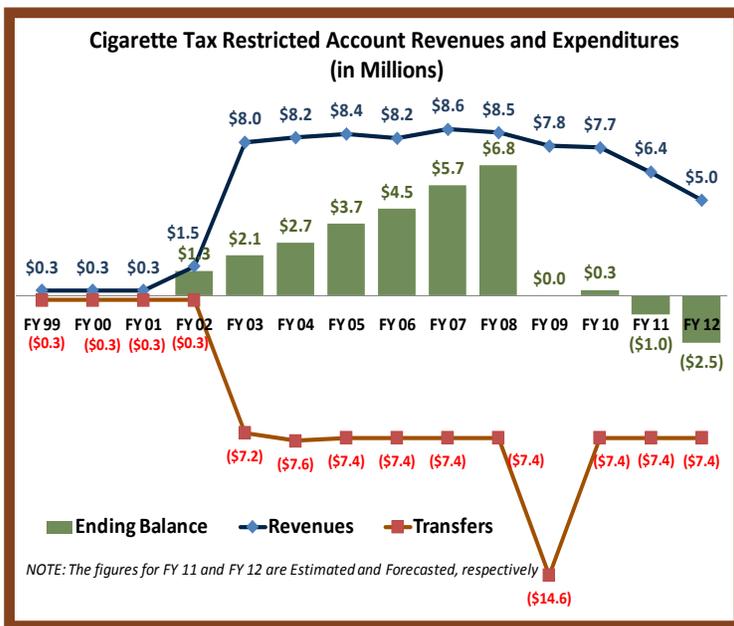
**LFA**  
LEGISLATIVE FISCAL ANALYST

## Report: Cigarette Tax Restricted Account

Continued from page 1

The first reason for the shortfall is an unintended consequence of the 2011 cigarette tax increase. Based upon the Tax Commission's interpretation of statute, the restricted account is experiencing all of the quantity decrease and none of the rate increase associated with the 2011 tax increase.

The second factor behind the shortfall regards a change from accrual to cash accounting for the last two months of FY 2011. In essence, the Tax Commission will now account for disbursements from the Cigarette Tax Restricted Account when the payment for the stamps is made, and not when the stamps were sold. This accounts for \$1.1 million of the \$2.5 million FY 2012 shortfall (please refer to the figure below).



The third reason behind the shortfall is that consumers are buying fewer cigarettes. Also, current appropriations from the account to the Huntsman Cancer Institute, the University of Utah Medical School, and the Department of Health do not match statutory distribution.

EAC voted to address these issues by clarifying legislative intent regarding the effect that the 2011 tax increase is meant to have on the Cigarette Tax Restricted Account, and to fix the statutory distributions.



### SOCIAL SERVICES

Staff Contact: Stephen Jardine

#### Social Services Appropriations Subcommittee Looked at Services for Individuals with Disabilities

The Social Services Appropriations Subcommittee met all day on July 21, 2011 in Utah County. The legislators

spent much of the day visiting and reviewing services to individuals with disabilities. The subcommittee began its morning in a packed room at the Utah State Developmental Center in American Fork. Many family members of individuals with disabilities as well as individuals with disabilities themselves commented to committee members regarding the efficacy of "Disability Safety Net in Utah" (see the summary overview document at: <http://le.utah.gov/interim/2011/pdf/00001392.pdf>).

Subcommittee members also spent an hour and a half meeting with a panel of individuals representing families, state agencies, the federal government, school officials, private community groups, and an individual with disabilities.

Legislators also toured the campus of the Utah State Developmental Center. This center provides services to 206 individuals and sits on 250 acres of property. Subcommittee members visited the apartments where residents live and cook and saw the various work activities residents do during the day including the making of many gifts and crafts for sale to the public, the shredding of Utah State Tax Commission outdated documents, and working in the center's gardens, orchard, and café.

At noon the subcommittee left on four separate tours throughout the communities of Utah County visiting day activity locations, community group homes, and private intermediate care facilities for individuals with intellectual disabilities (ICFs/ID).

The subcommittee then discussed various issues and challenges involved with providing services to individuals with disabilities including:

1. Assessment of the severity of an individual's situation, tying that severity to budgets and resources provided, and finding ways to consistently report back to the Legislature regarding the information;
2. Comparison of the costs for providing residential care to individuals with disabilities in different settings;
3. Review of the Account for People with Disabilities that was established to receive revenues from the sale, lease, or other disposition of real property associated with the Utah State Developmental Center.



## NATURAL RESOURCES, AGRICULTURE, & ENVIRONMENTAL QUALITY

Staff Contact: Ivan Djambov

### ***Privatizing the Operation of the Lone Peak Nursery Saves the State Money***

The Lone Peak nursery was owned and operated by the Division of Forestry, Fire, and State Lands for several decades. Under the division's management the nursery operation was not able to be self sustaining, and it had to be subsidized by as much as \$418,600 per year. During the first budget reduction cycle in 2008, the Legislature eliminated the funding for the nursery operations.

The division, which continues to maintain the ownership of the property and the resources of Lone Peak nursery, restructured the facility and invited private companies to operate it. For the last three years the division has contracted with High Mountain Nursery for the operation of the nursery. Under the terms of the contract, the division receives \$12,000 per year from the operator and pays \$4,500 per year to Risk Management to insure the facilities.

Privatizing the operation of the nursery has saved the division over \$400,000 per year in subsidies and also generated \$7,500 per year in profit. As the contract with High Mountain Nursery expires at the end of FY 2012, division staff is reevaluating the terms of the contract and has the option of renewing the current contract or preparing a new request for proposals (RFP). Division management is anticipating that the success High Mountain Nursery had during the first three years may generate interest by other companies in the industry, which could result in more competition and potentially higher revenues for the division.



## PUBLIC EDUCATION

Staff Contact: Ben Leishman

### ***Critical Languages and Dual Immersion***

Utah schools continue to participate in two pilot programs designed to increase foreign language instruction for students. First, the Critical Languages program targets language instruction for secondary students in Chinese, Arabic, Russian, Farsi, Hindi, and Korean. Second, the Dual Immersion program provides elementary students with a language immersion experience in Chinese, Spanish, and French. In FY 2012, the Legislature appropriated \$975,400 ongoing to support the two programs.

Much of the Critical Languages program is delivered over the Utah Education Network's IVC Distance Education system, where one teacher can reach students in various locations. This past school year, 85 secondary schools

offered Mandarin Chinese to over 5,000 students and 12 secondary schools offered Arabic to over 400 students.

The Dual Immersion program in the elementary schools is a 50/50 model offering dual language experience to students at a development level when their minds are best able to acquire a second language. Each class has two teachers, a native English speaker and a native speaker of the 2nd language. This structure doubles the number of participating students with a half-day of instruction in each language. There are 59 state-supported Dual Immersion programs in Utah (17 Mandarin Chinese, 9 French, 33 Spanish) reaching over 10,000 students.



## INFRASTRUCTURE & GENERAL GOVERNMENT

Staff Contact: Rich Amon

### ***Recent Bond Issuance***

On July 6, 2011 the State of Utah issued \$610 million of "AAA" rated General Obligation (GO) bonds for building and highway projects. Each of the three rating agencies (Moody's, Standard & Poor's, and Fitch) reaffirmed Utah's "AAA" credit rating for these bonds.

The bonds sold for \$702 million which generated \$92 million of premium. The overall interest rate on the bonds, as measured by true interest cost (TIC), was 2.78 percent. After paying costs of issuance and underwriter's discount, the state will deposit \$700 million of bond proceeds into construction funds for the following projects:

- \$571 million to further the I-15 Utah County and Mountainview Corridor highway projects
- \$75 million to finish Critical Highway Needs projects
- \$10 million to begin construction of the Utah State Hospital building consolidation
- \$14 million to begin construction of the Weber State Davis campus classroom building
- \$10 million to begin construction of the Tooele Applied Technology College campus
- \$7 million to begin construction of the Utah State University Business School addition
- \$5 million for the U of U Business School expansion
- \$5 million to remodel the Freeport Center warehouse
- \$3 million to purchase land in Herriman for the Salt Lake Community College



***Return to Five-Eights Could Save at South Valley***

During the 2010 General Session appropriators provided \$250,000 from the General Fund to open the South Valley motor vehicle office on Fridays. Given a return to five day operations statewide, this appropriation is presumably no longer needed. The funds could be redirected to other priorities.

Among those priorities might be costs associated with returning to five day operations statewide. The Division of Facilities Construction and Management (DFCM) estimated that costs for utilities and custodial service would increase by \$790,000 if the state returned to a traditional work week. As DFCM recovers costs from various funding sources, if their estimates were to hold, only \$250,000 of that \$790,000 would need to come from the General Fund.

Because DFCM is an internal service fund (ISF), its rates for FY 2012 were already set and fully funded before ultimate passage of H.B. 328 - the bill that returned state operations to five days per week. Those FY 2012 rates would not change due to H.B. 328. Costs for ISFs are funded on a lag. Any cost increase associated with H.B. 328 would not be reflected in the budget until at the earliest FY 2013, and any cost increase might be offset by other cost decreases.

DFCM has now announced preliminary rate changes for FY 2013. Those changes will result in General Fund savings - not costs. DFCM will rebate to the General Fund nearly \$1.7 million. Some of that - roughly one-third - will need to go back to the Federal government. Except for a building-block request to restore operations and maintenance at the State Capitol, DFCM's ongoing rates for FY 2013 - after the return to five-eights - will hold steady or fall slightly.



***DWS Displaced Homemaker Program Description and Recent Fiscal Data***

The Displaced Homemaker Program is established in the Utah Workforce Services Code and the Employment Support Act. The program is administered by the Department of Workforce Services (DWS). It targets individuals who have been a homemaker for eight or more years and:

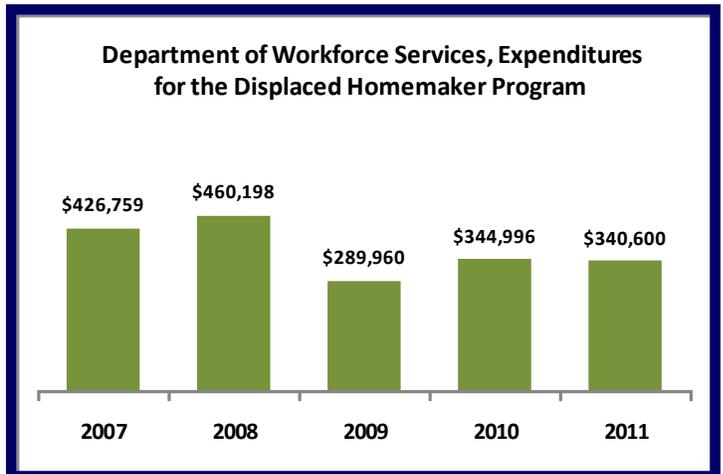
- Whose primary occupation during this period was providing unpaid household services for family members;

- Had no significant gainful employment outside the home during this time;
- Who found it necessary to enter the job market;
- Who are not reasonably capable of obtaining employment sufficient to provide self-support or necessary support for dependents, due to a lack of marketable job skills or other skills necessary for self-sufficiency; and
- Who have depended on the income of a family member and lost that income, or depended on governmental assistance as the parent of dependent children and are no longer eligible for that assistance.

Statute directs DWS to work with other state and local governmental agencies, community-based organizations, and private employers to provide education and employment skills training, transitional and career counseling, referral and placement services, financial management services, health education, and counseling services.

Statute also requires that \$20 be collected from the sale of each marriage license in the state and transferred to the Division of Finance to be credited to the Displaced Homemaker Program. During the last five years 24,800 couples have paid the fee, contributing \$496,000 to the program.

The department declared that outcomes for the program are "obtained employment". DWS indicated that it must make changes in certain data collection efforts to identify the number of displaced homemakers who have obtained employment through the program. The Analyst is working to ensure that the department will make the data collection changes necessary to provide this information to policymakers. The following table shows the amounts expended for the program during the last five fiscal years:





## EXECUTIVE OFFICES & CRIMINAL JUSTICE

Staff Contact: Gary Syphus

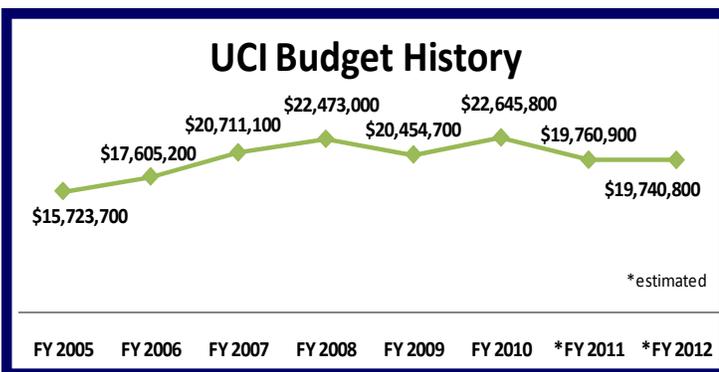
### Utah Correctional Industries

Within the Department of Corrections budget is the Utah Correctional Industries (UCI) line item. Unlike the rest of Corrections' budget, the UCI portion generates revenue to cover its costs (UCA 64-13a). UCI is a self-supporting program, deriving its revenues solely from sales of products and services. The mission of the division is to provide work experience and training for inmates to assist in increasing the success of those released from prison and parole.

*Operations* - UCI enterprises include: furniture manufacturing, seating manufacturing, license plate manufacturing, sign manufacturing, printing, computer refurbishing, data entry, microfilming, community work crews, asbestos abatement, commercial sewing, meat and milk processing, electronic recycling, waste recycling, commissary services, roofing, and construction.

*Purpose* - Any costs, such as personnel or equipment, are to be covered from the sale of goods and services to public entities (this includes state agencies and local governments). Corrections reports this is one of the valuable tools for managing inmates while in prison and helps keep them from returning, as they learn skills that will aid in obtaining work when they are released. History shows that inmates who are employed after they are released are less likely to return to prison. For every one that does not return to prison, the Department avoids an average cost of \$28,100 per year.

*Issue* - From FY 2005 to FY 2008, UCI grew at an average of 13% per year. From FY 2008 to FY 2012 (estimated), Corrections has decreased by an average of 3% per year (please refer to the figure below).



The Executive Offices and Criminal Justice Appropriations Subcommittee will examine possible factors contributing to this decline, including the economic downturn, the Utah Code regarding the purchase of prison industry goods (63G-6-423, which requires state agencies

to use UCI where service, quality, and price are comparable or better), and other factors.



## HIGHER EDUCATION

Staff Contact: Spencer Pratt

### Higher Education Mission-Based Funding Update

During the 2011 General Session, the Legislature passed S.B. 97, *Higher Education Mission Based Funding*, which links part of the State Board of Regents' budget request to the specific mission of each of the institutions in the Utah System of Higher Education (USHE).

Mission-based funding includes enrollment growth and up to three strategic priorities. At the end of the session, the Legislature appropriated \$1 million in one-time funding for mission-based funding.

Each of the eight USHE institutions submitted proposals for a proportionate share of the funding approved for mission-based funding. The proposals are divided into the three strategic priorities of Participation, Completion, and Economic Development.

#### Participation:

- Southern Utah University - First-year student retention
- Utah Valley University - Recruiting and retaining female students

#### Completion:

- University of Utah - Proactive intervention to boost retention
- Utah State University - E-student service delivery project
- Weber State University - On-line course offerings to improve retention and graduation rates
- Dixie State College - Multicultural/Diversity center student retention and completion
- Utah Valley University - Expanding non-traditional bachelor degree programs

#### Economic Development:

- University of Utah - Electronic post award management
- Utah State University - Energy facility upgrade
- Snow College - Richfield placement office
- Salt Lake Community College - Equipment, programs, and supplies to support new media

The proposals are currently being reviewed by the Commissioner's office, after which, funding will be distributed for the projects.



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## RETURN SERVICE REQUESTED



### COULD WE HAVE A REVENUE SURPLUS?

Staff Contact: Jonathan Ball

The State Tax Commission issued a T.C. 23 for twelve months of FY 2011 - and it shows a \$103 million surplus! That's great news - but it's not the end of the story. For FY 2009, the twelve month TC-23 showed a \$30 million surplus - and two months later we had a \$23 million deficit. So, it's still too early. And even if the surplus is \$103 million, nearly half of that is designated for some purpose.

Here are some of the reasons we can't claim victory just yet:

1. I'm sure that you all remember from grade school that there are 12 months in a year - except in public finance when there are 13. "Period Thirteen" is an amount of time allowed for reconciliation - things like allocating sales tax between state and local entities. We'll have a better idea of the state's final revenue position by September interim day.
2. The TC-23 does not track all General and Education Fund revenue. Certain revenue types - like escheats (unclaimed property) and transfers of fund balances - will no doubt change the revenue bottom-line. The

TC-23 covers about 95% of General/Education Fund revenue, but that other 5% represents \$235 million.

3. While a revenue surplus is a good indicator of available funds, it's only half the story. Expenditures, too, are figured in to a year-end operating surplus or shortfall. In most cases, agencies don't spend everything they are appropriated, but we won't know the true amount available until after those agencies have finished paying their bills.

That said, presume for a moment that the year-end revenue surplus is indeed \$103 million and is split 45% General Fund, 55% Education Fund. Of the \$46 million General Fund surplus, \$23 million would go to the rainy day fund, \$6 million to the Disaster Recovery Fund, and about \$12 million to the Industrial Assistance Fund - leaving \$5 million. Due to restrictions in the federal Education Jobs Fund act, only about \$4 million of the \$57 million Education Fund surplus would go to the rainy day fund - leaving \$53 million.

We don't yet know what this surplus will mean for next year. We face a \$52 million structural deficit in FY 2013.