

FISCAL HIGHLIGHTS

Inside this Issue:

Invasive Species Mitigation Funding Allocation Process Needs Tweaking	1
Executive Appropriations	2
Western States' Fiscal Year 2012 Year-End Balances	3
"Spice" Surges	4
Higher Education Appropriations Subcommittee Meeting	4
State Office Building Construction Projects	4
How Are Individuals Taken off the Disabilities Waiting List when Funding is Available?	5
Our Magical, Mystical, Wonderful Fortune Tellers	6

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



Invasive Species Mitigation Funding Allocation Process Needs Tweaking

NATURAL RESOURCES, AGRICULTURE & ENVIRONMENTAL QUALITY

Staff Contact: Ivan Djambov

The 2012 Legislature passed SB 61, *Invasive Species Amendments*, which appropriates \$1 million ongoing from the General Fund to the Invasive Species Mitigation restricted account, administered by the Department of Agriculture and Food. The statute (UCA 4-2-8.7) states that the department should use existing infrastructure and employees as they plan and implement the projects.

In June 2012, the department distributed 73% of the \$1 million for 13 large watershed projects and 17% to fund 18 smaller-scale projects. Almost all the funded projects were proposed by county weed departments or CWMA's (Cooperative Weed Management Area). The remaining 10% (\$99,800) of the funds will be used for administrative costs: 5% for department monitoring expenses and 5% for grant recipients' administration costs.

The department used the following criteria to evaluate the proposed projects:

- Project involves multiple stakeholders (30 points)
- Project includes monitoring that will measure the outcomes (20 points)
- Project has matching funds allocated by other agencies (10 points)
- Project targets species identified as an invasive species of concern for FY 2013 (10 points)
- Project contains a biological control method (10 points)

- Project helps meet specific goals and objectives identified in other planning or assessment documents (10 points)
- Proposal includes details on future management to ensure the long term success of the project (10 points)

However, the department's Project Ranking Criteria did not include all criteria identified in UCA 4-2-8.7(4).

The statute states the following:

"In giving a grant, the department shall consider the effectiveness of a project in preventing:

- first, the risk to public safety and health from:
 - air pollution;
 - flooding;
 - reduced visibility on a highway; or
 - increasing encroachment of an invasive species;
- second, damage to the environment, including:
 - soil erosion;
 - degraded water quality; and
 - release of carbon; and
- third, damage to:
 - a local economy; and
 - habitat for wildlife or live stock."

The \$1 million appropriated through SB 61 is ongoing. The Department of Agriculture and Food has recognized the need to make adjustments to its Project Ranking Criteria and has committed to include all criteria listed in statute for future years.



LEGISLATIVE FISCAL ANALYST

EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE MEL BROWN, CO-CHAIRS

MEETING SUMMARY - AUGUST 14, 2012

Report: Federal/Non-Federal Funds

Staff Contact: Gary Syphus

<http://le.utah.gov/interim/2012/pdf/00001073.pdf>

The Executive Appropriations Committee (EAC) recommended approval of the following federal grants:

1. BLM Utah Rich County Sage Grouse Initiative (SGI) Implementation;
2. Capacity Building Assistance for Public Health Immunization Infrastructure: Components 5 and 6; and
3. Section 811 Supportive Housing for Persons with Disabilities – Project Rental Assistance Demonstration.

The EAC also approved one non-federal reapplication of an existing grant, Systems Improvement to Promote Permanency and Wellbeing.

Report: Performance Notes Implementation

Staff Contact: Stan Eckersley

<http://le.utah.gov/interim/2012/pdf/00001074.pdf>

The 2012 General Session marked the first implementation of performance notes. There were 23 bills that required performance notes, and agencies responded to 17 of them. As allowed by the rules, one legislator wrote a performance note for his bill.

This post-session evaluation pointed to five areas that could be improved. The Analyst's first two recommendations are technical and will ensure that performance notes do not slow a bill's progress through the legislative process. The third calls for a "look-back" report to be given in the 2014 interim that reports how the performance measures have affected agencies and legislative debate. The fourth recommendation calls for legislator training early in the next session. Lastly, performance notes will be added to the "Fiscal Note Status Report" and distribution will be extended to all legislators.

The committee voted to have staff open a bill file and work with Sen. Niederhauser and the Chairs on the content and wording.

Report: Fiscal Notes/Building Block Follow-up

Staff Contact: Stan Eckersley

<http://le.utah.gov/interim/2012/pdf/00001075.pdf>

This annual report follows-up on selected fiscal notes and other budget items. The report tells if the bill was implemented on time and according to legislative intent; if the information from the agency and the fiscal note were accurate; and any performance measures. The report has a

"follow the money" section that starts with the original estimate and goes to current spending level and remaining balance. The report covered 92 items and found 63 deficiencies in 45 items.

Report: Internal Service Fund Oversight

Staff Contact: Gary Ricks

<http://le.utah.gov/interim/2012/pdf/00001076.pdf>

Internal Service Funds (ISF) are state entities that provide goods or services to other government agencies. Each ISF has a rate committee, which reviews and approves the ISF's budget and rates before they are submitted to the Governor and the Legislature for final approval. An ISF cannot operate without legislative approval of its budget, rates, fees, FTE, and capital outlays. The Analyst surveyed ISF customer agencies to determine their satisfaction with ISF services. With some exceptions, user agencies seem to be satisfied. To improve oversight and the customer experience, the Analyst made the following recommendations:

- Change the composition of the ISFs' rate committees.
- Allow customer agencies a reasonable timeframe to review their ISF invoices and the ability to approve or contest them.
- Ask DTS to seek feedback from the user agencies and improve the clarity and accuracy of the invoices to their customers' satisfaction.

The EAC voted to refer this report to the Government Operations Interim Committee.

Report: PEHP Health Insurance Rate Expectations

Staff Contact: Mark Bleazard

Chet Loftis of PEHP reviewed how the state's health insurance premiums will be impacted by the recent Supreme Court case upholding most elements of the Patient Protection and Affordable Care Act (PPACA). Mr. Loftis divided the impacts between provisions that are immediate (or already implemented) and provisions that will occur in the future.

Immediate provisions include:

1. Coverage to age 26 regardless of marriage and no preexisting exclusions for children.
2. No lifetime or annual dollar limits.
3. Additional patient protections in the appeals process.
4. No cost sharing for preventive care.

Please see **PEHP** on p. 3.

PEHP, continued from page 2

Mr. Loftis stated implanting these provisions added approximately 1.75% to premiums, or \$4.7 million across the state plan.

Future provisions include:

1. Next year: New summary of benefits and coverage.
2. January 2013: Reduction in an individual's maximum annual Flex contribution from \$7,500 to \$2,500.
3. January 2014: No preexisting exclusions for adults.
4. 2016: Exchange must allow employees of large groups (e.g. the State of Utah) to use the exchange if their employer's plan costs 9.5% or more of their household income, and employer pays a \$3,000 penalty.
5. 2018: A "Cadillac Tax" applies to plans valued at \$10,200 for individuals or \$27,500 for families, while PEHP's plans currently cost \$4,877 for individuals and \$13,423 for families.

PEHP reported that they expect to request a 3.7% premium increase in January. The state has held rates down in the last two years in order to draw down reserves. A 3.7% rate increase would continue to draw down reserves while moving toward paying for the inflationary trend.

Report: DABC Restructuring Update

Staff Contact: Andrea Wilko

<http://le.utah.gov/interim/2012/pdf/00001078.pdf>

The Department of Alcoholic Beverage Control (DABC) reported on the implementation of SB 66, *Alcoholic Beverage Control Related Amendments* and HB 354, *Alcoholic Beverage Amendments*. SB 66 clarified the overall administration of DABC. The bill included a process for addressing procurement, audits, conflicts of interest, and contracts. HB 354 modified the funding mechanism for the department by creating a Markup Holding Fund. The bill also established a process for collecting information related to abuse of alcoholic products.

Report: Fire Suppression and Restoration Costs

Staff Contact: Ivan Djambov

<http://le.utah.gov/interim/2012/pdf/00001083.pdf>

As of August of 2012, there were 1,020 wild fires, 422,112 acres burned, with an estimated total suppression cost of \$50 million. The state portion of the suppression costs is approximately \$16 million.

The department is working in partnership with local, state, and federal government organizations, as well as with private land owners to not only put out the fires but also to manage the recovery of the burned areas. The goal is to reduce the threat of future catastrophic wildfire, reduce the risk of mudslides, increase the forage for both livestock and wildlife, and improve the water quality and

quantity in these areas. Based on the current estimates, DNR plans to request supplemental funding as follows: \$13 million for the fire suppression, \$5 million for seed, and \$3 million for the re-seeding.



Western States' Fiscal Year 2012 Year-End Balances

GOVERNMENT OPERATIONS

Staff Contact: Steven Allred

The National Conference of State Legislatures (NCSL) recently surveyed state fiscal officers regarding their state budget outlooks. Part of their survey dealt with year-end balances, which are made up of closing balances and rainy day fund amounts. Year-end balances provide an indicator of a state's fiscal condition, especially when shown as a percentage of the state's general fund (and in our case, education fund) spending.

Utah's estimated FY 2012 year-end balance is approximately 7.1%. The states with the largest estimated FY 2012 year-end balances are those with strong energy natural resources, namely Alaska (214.3%) and Wyoming (146.3%). Two states, California (-3.3%) and Washington (-2.4%) currently project deficits at the end of FY 2012. NCSL reports that rating agencies typically recommend year-end balances above five percent of general fund spending.

Interestingly, total estimated FY 2012 year-end balances for all states is approximately \$46.5 billion. Two states, Alaska and Texas, hold approximately 60 percent of that amount.

The following table shows preliminary estimated FY 2012 year-end balances for Western states as a percent of GF/EF expenditures.

State	Estimated Balance
Alaska	214.3%
Arizona	4.4%
California	-3.3%
Colorado	8.6%
Idaho	6.8%
Montana	23.9%
Nevada	6.7%
New Mexico	8.8%
Oregon	4.9%
Texas	8.5%
Utah	7.1%
Washington	-2.4%
Wyoming	146.3%



“Spice” Surges

EXECUTIVE OFFICES & CRIMINAL JUSTICE

Staff Contact: Gary Syphus

During the 2011 General Session, the Legislature passed HB 23, *Controlled Substance Modifications*, which added forms of a substance commonly referred to as “spice” to the controlled substance list. Generally, this bill made it illegal to sell or possess this substance in the State of Utah. Since the bill went into effect July 1, 2011, processing suspected spice evidence related to this bill has surged.

The State Crime Lab estimates that processing suspected spice evidence amounts to approximately one-third of all evidence processed. Workload for the State Crime has increased due to the increased volume of spice evidence but also the complexity. The ability to create limitless forms of this substance makes testing difficult and expensive.

The State Crime Lab reports that even with help from the Drug Enforcement Agency’s Special Research Laboratory, one of the most advanced drug testing labs in the world, they are still unable to decipher some of the substances. Evidence often goes undetermined and thus unprosecuted. Evidence processing time increased from 10 to 20 days over this time.

The Legislature funded \$200,000 in the 2012 General Session to hire 2 additional forensic scientists to increase the amount of evidence processed. The Crime Lab reports that these positions are filled and estimates that processing time will return to 10 days or less in FY 2013.



Higher Education Appropriations Subcommittee Meeting

HIGHER EDUCATION

Staff Contact: Spencer Pratt

The Higher Education Appropriations Subcommittee held an interim meeting on August 16, 2012. The first presentation was based on the Jobs for Utah’s Future Symposium, which was held at Salt Lake Community College on May 9, 2012. The presentation focused on how to better align education and workforce needs. Coordination between the Utah System of Higher Education, the Utah College of Applied Technology, the Department of Workforce Services, and businesses is essential to improve this alignment.

Recently-confirmed Commissioner David Buhler outlined some of his goals and priorities for higher education. He stated his emphasis on innovation and working toward

the Governor’s goal of 66% of the adult population having some post-secondary certification or degree by 2020. The Commissioner also discussed how Concurrent Enrollment can help achieve that goal. Last year, 27,000 students earned 185,000 semester credit hours. Concurrent enrollment focuses on general education and increases a student’s likelihood of enrolling and continuing in college.

David Feitz, Executive Director of the Utah Higher Education Assistance Authority (UHEAA), discussed the student loan program. With the recent federal decision to originate all student loans from the U.S. Department of Education, UHEAA no longer makes student loans, but is now in the business on servicing student loans. It currently services 104,000 accounts, worth \$2 billion for students throughout the country. UHEAA hopes to increase the number of accounts to 2 million. UHEAA also administers the state’s financial aid and scholarships.

Spencer Pratt explained about the Mission-Based Funding (see SB 97, 2011 General Session) and the institutions’ proposals for the use of the \$4 million that was appropriated for these priorities. He also explained a brief from NCSL showing states utilizing Performance-Based Funding, which is similar to Utah’s Mission-Based Funding.



State Office Building Construction Projects

INFRASTRUCTURE & GENERAL GOVERNMENT

Staff Contact: Rich Amon

Work is currently underway on the first of two major remodeling projects for the State Office Building (SOB) on Capitol Hill. From now until December 2012, the east exterior staircase connecting the third floor of the SOB to the lower parking lot will be closed for demolition and replacement. The project includes replacement of worn concrete, the enclosure of the staircase (currently open to the elements), and connection to the plaza (currently inaccessible). Work should conclude several weeks before the beginning of the 2013 Legislative General Session.

The second major project will begin after the 2013 General Session in which the window panels and curtain walls on the north side of the State Office Building will be replaced. The project will significantly increase the energy efficiency of the building, improve the interior work environment, and prevent insect intrusion.

Neither project will materially affect the Legislature, as both projects are scheduled around the Legislative session and will be confined to the State Office Building.



How Are Individuals Taken off the Disabilities Waiting List when Funding is Available?

SOCIAL SERVICES

Staff Contact: Stephen Jardine

During the 2012 General Session, the Social Services Appropriations Subcommittee posed the following question to the Department of Human Services: how are individuals taken off of the Division of Services for People with Disabilities (DSPD) waiting list as additional funding is provided? The Department of Human Services answered the question during the June 13, 2012 interim Social Services Appropriations Subcommittee meeting.

As part of its intake and waiting list process, each individual's needs are evaluated using a tool the department refers to as a Needs Assessment. This document evaluates:

1. The severity of an individual's disability,
2. The level of family involvement,
3. The level of risk of an individual to harm him/herself or others,
4. The ability of the caregiver(s), and
5. The length of time the individual has been on the DSPD waiting list.

These five elements correlate to criteria outlined in statute at UCA 62A-5-102(3) regarding the provision of services by the Division of Services for People with Disabilities "within appropriations from the Legislature."

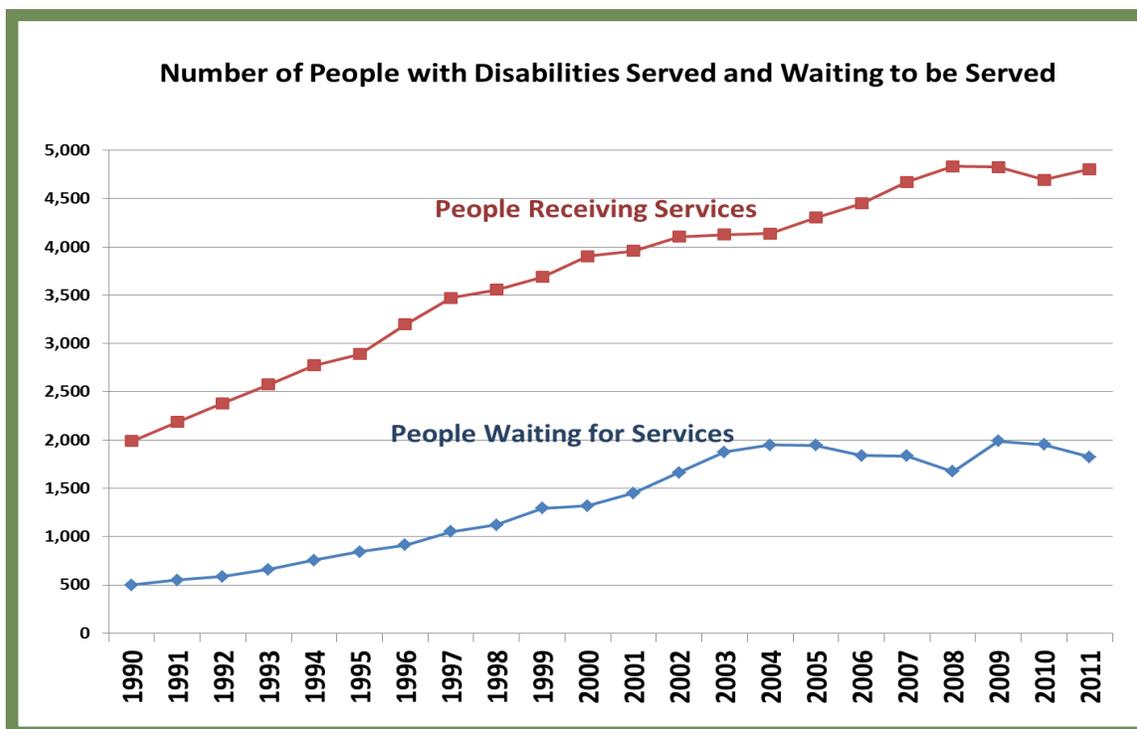
Once a needs assessment has been conducted, each indi-

vidual is given a score based upon his/her own unique assessed needs. If and when waiting list funding becomes available, individuals are funded off the list based upon their Need Score. Individuals with the most critical needs receive funding first.

Depending upon the amount of funding appropriated, DSPD begins funding from the most critical person with the highest need score down the list until the funding is used up. As a general rule, an allocation of around \$1 million allows individuals with needs scores between 100 and 65 to receive funding. The only exceptions to this practice of funding the most critical from the waiting list were special one-time appropriations for provision of non-Waiver (state only) respite and supported employment programs that were approved by the Legislature in FY 2009. These one-time programs were eliminated during the special session that implemented budget reductions due to the economic downturn (September 2008). A new appropriation for Supported Employment began again in FY 2011.

Other than these special one-time programs, DSPD has never moved people into services from the bottom of the waiting list using an ongoing waiting list allocation. To do so would violate current Utah statute requirements that clearly outline that waiting list funds should be assigned based upon a person's critical need (UCA 62A-5-102(4) (a)).

The figure below shows the number of people with disabilities who received services and the number who are on the waiting list.





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

RETURN SERVICE REQUESTED



Our Magical, Mystical, Wonderful Fortune Tellers

Staff Contact: Jonathan Ball

One of the ways we know whether we're successful in the Fiscal Analyst's office is the precision with which we predict revenue collections. In fact, it's one of our performance measures. Our target is to forecast total General and Education Fund revenue with better than 98% accuracy in our final (usually February) estimate. Ideally, our estimate is just shy of collections and there's a little money left over.

I'm pleased to say that our economists appear to have succeeded again this year. While the final books have yet to close and annual audits are pending, at this point, it looks like collections for FY 2012 came in about 1.5% above projections. Almost all of the over performance is in Individual and Corporate Income Tax.

This is good news as far as our office performance goes, but it does not equate to an amount of money available. That number will depend upon other, yet to be determined, factors.

1. Revenue is only one-half of the surplus/deficit calculation - expenditures being the other half. When agencies and the Division of Finance are finished booking total expenditures for FY 2012, we'll know whether any author-

ized expenditures will lapse back to the General and Education funds.

2. By law, a portion of excess revenue is deposited into reserve accounts. This year, half of any General Fund and Education Fund revenue surplus will go to the General and Education rainy day funds. As much as half of any remaining General Fund revenue surplus will go to the Disaster Recovery Fund.

3. Surplus General Fund revenue is earmarked for other purposes. First, if there is any shortage in debt service funding, the General Fund surplus will make it up. We don't expect such a shortage this year. Second, though, any past commitments made by the Industrial Assistance Fund will be set-aside from surplus for further consideration of the Legislature.

On September 18 we'll report to the Executive Appropriations Committee near-final available surplus numbers. But audits will continue into October.

For now, we know that our economists, Dr. Wilko and Dr. Young, along with their colleagues in GOPB and the Tax Commission, have done their jobs well and deserve our gratitude. They have mine!