Significant Factors Affecting Budgets in the 2018 General Session*
(General and Education Funds Only, in Millions)

	Range	
Ongoing Costs	**Low**	**High**
Public Education Growth	$25	$35
Medicaid Growth and Inflation	$30	$49
Jury Witness Interpreter	$1	$2
Employee Healthcare	$12	$16
Insurance Premium Tax Shift	$8	$12
Operation Rio Grande	$5	$8
Structural Deficit	$6	$7
Jail Contracting	$9	$10
Jail Reimbursement	$4	$5
Actuarially Determined Internal Service Fund Impacts	$0.3	$0.4
Other Internal Service Fund Rate Changes	$1	$3
Total, Ongoing Costs	$101	$147

	Range	
One-time Costs	**Low**	**High**
Public Education Growth	$4	$5
Medicaid Growth and Inflation	$10	$13
Jury Witness Interpreter Deficit	$2	$3
Insurance Premium Tax Shift	$24	$26
Operation Rio Grande	$5	$8
Debt Service Costs	$7	$9
Reappropriation of Lapsed Balances	$2	$3
Wildland Fire Suppression	$19	$22
Phase-funded Higher Education Buildings	$20	$67
Aging Debt to Rainy Day Funds	$85	$94
Total, One-time Costs	$178	$250

*Not including cost of WPU value increases ($25 m-$30 m/1%) or
State/HED Salary ($15 m-$20 m/1%).

NOTE: By no means is this an exhaustive list of budget requests that will be made during the 2018 General Session. These numbers will change as better information becomes available. Some of these costs could potentially be offset by savings or budget cuts in the same or other areas of State Government.

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MEDICAID CONSENSUS FORECASTING

EXECUTIVE APPROPRIATIONS COMMITTEE
STAFF: RUSSELL FRANDSEN & THOMAS YOUNG

ISSUE BRIEF

SUMMARY

The Medicaid consensus forecast team estimates costs to the General Fund in FY 2018 of $10.2 million one-time and an ongoing cost of $29.8 million with one-time offset of ($4.2) million in FY 2019. The consensus teams recommends a buffer of $9.4 million that can be used anywhere in Medicaid or the Children's Health Insurance Program (CHIP) in FY 2018 and in CHIP for FY 2019. These estimates do not include any funding for state administration or any optional provider inflation.

RECOMMENDATIONS

By statute, the Legislature must include in the base budget $9.1 million for FY 2019 from the General Fund for accountable care organization costs. These increases are included in the overall estimate above. There is disagreement between the Department of Health and the fiscal analyst if $0.4 million in FY 2018 and $1.0 million in FY 2019 for blockbuster drugs qualify as a mandated program change as defined in statute and would therefore be included in the base budget.

DISCUSSION AND ANALYSIS

Below is a summary of the consensus General Fund mandatory cost estimates for FY 2018 and FY 2019. All numbers for FY 2018 are as compared to the amounts expended in FY 2017 plus 2017 General Session appropriations for FY 2018 and ongoing appropriations for FY 2019.

Medicaid Consensus General Fund Cost Estimates ($ in Millions)	FY 2018	FY 2019	One-time Offsets
Caseload	$465.2	$474.7	$0.0
Inflationary Changes	$4.3	$17.0	($2.5)
Program Changes	$5.2	$3.6	$2.9
Less Base Funding	($461.7)	($466.8)	$0.0
Subtotal	**$12.9**	**$28.5**	**$0.4**
Human Services - FMAP	$0.0	$1.2	$0.0
Medicaid Expansion Fund	($2.7)	$0.0	($4.6)
Grand Total	**$10.2**	**$29.8**	**($4.2)**

What is Included in Consensus for the First Time This Year?

1. **Full ongoing costs of increases that start mid-year** - regardless of when ongoing increases happen, the full ongoing costs is now included in the forecasted cost with one-time offsets to match the cost for the year of implementation. For FY 2019 this makes the ongoing costs $2.5 million higher than they would have been under the previous methodology. Additionally, there is a $2.5 million one-time offset to reflect the lower costs in the first year, FY 2019.

2. **Department of Human Services federal medical assistance percentage** – the federal medical assistance percentage has been included annually for the Department of Health. The same changes that affect Health also affect the Department of Human Services. This adds $1.2 million to the forecasted costs compared to the previous methodology for FY 2019.

Medicaid – What is Included in Consensus for Mandatory Costs?

The Medicaid consensus forecast team (Legislative Fiscal Analyst, Governor's Office of Management and Budget, and the Department of Health) estimates increases to the General Fund in FY 2018 of $10.2 million one-time and an ongoing cost of $29.8 million in FY 2019. The forecast accounts for legislative appropriations changes in FY 2018 and FY 2019. Additionally, the consensus estimates recommend a $9.4 one-time million or 2% buffer, which can be used in any of Medicaid's or CHIP's (Children's Health Insurance Program) line items. Each of the items in the forecast has a more detailed discussion below. All numbers for FY 2018 are as compared to the expenditures incurred in FY 2017. The cost increases mentioned for FY 2018 carry forward into FY 2019 unless specifically noted. The FY 2019 numbers are as compared to the updated FY 2018 estimates. The estimates for FY 2019 are all ongoing changes unless specifically noted. All changes in item names in *italics* have not been previously addressed by the Legislature.

Caseload Changes - $7.9 Million Increase in FY 2019

1. ***Change in caseloads*** – estimated decrease over FY 2017 of (2,500) or (0.8%) clients in FY 2018 and an increase of 800 or 0.3% in FY 2019 compared to the updated FY 2018 forecast. The current caseload forecast is (7,000) clients or (2.1%) lower for FY 2018 compared to the February 2017 forecast, which results in lower baseline costs of ($8.1) million for FY 2018 when using FY 2017 per member per month costs. The FY 2019 enrollment estimate is (6,100) clients or (1.8%) lower than the February 2017 forecast for FY 2018. Because there are increases in more expensive client groups and decreases in less expensive groups, the changes overall only reduce costs in FY 2019 by ($1.4) million. The baseline caseload costs are $453.1 million in FY 2018 with an additional $6.7 million in FY 2019. The three traditional groups with highest number increase in FY 2019 are: (1) qualified Medicare beneficiary (dual eligible for Medicaid and Medicare), (2) blind/disabled, and (3) aged. These changes are shown in the table below.

Eligibility Category	FY 2018 (Feb. 2017)	FY 2018 (Oct. 2017)	FY 2019 (Oct. 2017)	FY 2017 PMPM	Original FY 2017	New FY 2017	FY 2018
Adult	34,341	31,272	30,720	$109.31	$ 45,046,400	$ 41,020,500	$ 40,297,000
Aged	16,210	16,365	16,753	$413.35	$ 80,402,900	$ 81,174,400	$ 83,099,900
Blind/ Disabled	41,352	40,968	41,942	$310.14	$ 153,899,800	$ 152,471,200	$ 156,094,500
Child	192,690	188,478	187,459	$ 40.41	$ 93,446,600	$ 91,403,700	$ 90,909,500
Primary Care Network	16,556	17,610	17,610	$ 36.14	$ 7,180,200	$ 7,637,200	$ 7,637,200
Pregnant	5,718	5,297	5,467	$341.39	$ 23,425,400	$ 21,699,900	$ 22,394,300
Qualified Medicare Beneficiary	30,539	30,454	31,343	$157.78	$ 57,821,500	$ 57,661,100	$ 59,343,400
Total	337,400	330,400	331,300		$ 461,200,000	$ 453,100,000	$ 459,800,000
Difference		(7,000)	(6,100)			$ (8,100,000)	$ (1,400,000)

Eligibility Category	FY 2016 PMPM	FY 2017 PMPM	% Change	FY 2017 Actuals	FY 2016 PMPM	FY 2017 PMPM
Adult	$100.08	$109.31	9%	34,384	$ 41,291,900	$ 45,103,200
Aged	$365.34	$413.35	13%	15,843	$ 69,456,500	$ 78,584,200
Blind/ Disabled	$276.50	$310.14	12%	40,331	$ 133,817,800	$ 150,101,200
Child	$ 38.14	$ 40.41	6%	192,429	$ 88,080,700	$ 93,320,100
Primary Care Network	$ 36.12	$ 36.14	0%	14,772	$ 6,403,300	$ 6,406,300
Pregnant	$395.94	$341.39	-14%	5,637	$ 26,782,800	$ 23,092,500
Qualified Medicare Beneficiary	$142.16	$157.78	11%	29,568	$ 50,438,500	$ 55,982,700
		Average	5%	333,000	$ 416,271,500	$ 452,590,200
		High	13%		Increased Cost	$ 36,300,000
		Low	-14%		Projected Increased Cost	$ 30,500,000
					Difference	$ 5,800,000

   a. ***Change in per member per month cost*** – in the February 2017 consensus the forecast team estimated that per member per month costs in FY 2017 would be $30.5 million General Fund higher than in FY 2016. The actual increase was $36.3 million General Fund, which represents an increase in cost of $5.8 million. This $5.8 million increase is already included in the caseload increase described in number one. The Department of Health believes this is due primarily to lower pharmacy rebate collections, lower collections from the Medicaid Fraud Control Unit (MFCU), and lower collections from the Office of Inspector General (OIG). Although there were increased collections from the Office of Recovery Services (ORS), the amount of increase was not significant enough to offset the reductions in the other two areas. These changes are shown in the table above.

2. **2017 General Session appropriations** – The Legislature provided $8.2 million for FY 2018. The items over $0.1 million include:
   a. $6.5 million for inflationary increase for Medicaid's accountable care organizations
   b. $1.4 million for Medicaid dental coverage for adults with disabilities
   c. $0.6 million for direct staff salary increases in intermediate care facilities
   d. ($0.3) million transfer to Human Services for disability services portability

   For more information please visit https://le.utah.gov/interim/2017/pdf/00002431.pdf. These items cost $0.1 million more in FY 2019 due to the change in the federal medical assistance percentage described in number three below.
3. ***Federal medical assistance percentage*** – a favorable one-time change of 0.19% in FY 2018 with an updated cost estimate ($2.9) million lower and unfavorable change of 0.32% in FY 2019 for a cost of $2.0 million ongoing.
4. ***Collections by the Office of the Inspector General, Medicaid Fraud Control Unit, and Office of Recovery Services*** – the updated estimates assume that collections from these three entities will be lower (costing Medicaid more) by $0.4 million in FY 2018 and $0.6 million in FY 2019 primarily due to projected decreases in collections by the Office of Recovery Services of (16%) in FY 2018 and another reduction of (16%) in FY 2019. For the Medicaid Fraud Control Unit collections reported

through mid-October have FY 2018 actuals at $500,000 General Fund, which is $0.4 million higher than FY 2017 actuals. The current assumptions assume no more collections for FY 2018 and General Fund collections of $500,000 in FY 2019. The estimates for FY 2018 and FY 2019 match FY 2017 actual collections for the Office of the Inspector General. For information on the current and historical levels of Medicaid collections, please visit the “Medicaid Collections” measure at https://le.utah.gov/lfa/fiscalhealth/#revenuesTab.

5. ***Extra pay period*** – Every six years the calendar has an extra pay period (53 rather than 52). As fee-for-service claims come in regularly, this results in increased costs only in FY 2018 of $4.3 million based on the median experience of 48 pay periods for Medicaid in FY 2017. The Department of Health explains why it excluded 4 pay periods data with: “The reason that the average was taken over 48 pay periods was due to the fact that the remaining pay periods were split between old year and new year. This extra week would belong entirely to old year.”
6. **Delay of Medicaid provider taxes** - Medicaid's four accountable care organizations as well as managed care organizations for dental services and the Children's Health Insurance Program will not have to pay all the provider tax in FY 2018 due to the Consolidated Appropriations Act of 2016. Originally, the Department of Health believed that the full tax reduction would happen in FY 2018, but instead ½ took place in FY 2017. This results in higher than expected costs of $1.6 million in FY 2019 when the full tax must be paid.
7. **Other budget adjustments –** The following items for FY 2018 are not driven by caseload, are paid separately from caseload, and do not represent cost increases:
    a. Graduate Medical Education - $1.8 million
    b. Disproportionate Share Hospital - $1.1 million
    c. Medically Complex Children's Waiver – ($1.0) million reduction because in FY 2017 $1.0 million General Fund was used whereas in future years nonlapsing balances will be used. General Fund is tracked via the consensus process but not nonlpasing balances, which the Department of Health must track.

Inflationary Changes - $17.0 Million Increase in FY 2019

1. ***Accountable care organization contracts*** – A $4.2 million increase to account for a full year in FY 2019 of the 3.5% increase starting January 2018. A $4.9 million increase in FY 2019 with a ($2.5) million one-time back out for a 2% increase starting in January 2019. Beginning this year, the full cost of these increases are included with the original request, which is why there is a one-time back out for FY 2019 to account for the January 2019 start date. Medicaid contracts with four accountable care organizations who utilize about 38% of the General Fund appropriated to Medicaid to perform services statewide. These organizations serve about 84% of clients. These contracts traditionally have annual increases.
2. ***Forced provider inflation*** – this primarily includes cost increases to the State’s fee-for-service program. The updated forecast includes increases of $2.4 million for FY 2018 and $2.5 million for FY 2019, primarily due to a 5.3% projected inflationary increase in pharmacy drug costs. The increases are areas over which the state has no control due to federal regulation or has opted not to exercise more state control over cost increases. About 89% of the increases in FY 2019 come from the following two areas: pharmacy drugs and outpatient hospital. The increase keeps the state’s outpatient hospital reimbursement rates at 100% of Medicare rates. The consensus team is estimating 1.75% annual increases in Medicare outpatient hospital reimbursement rates beginning in 2018 and another increase in 2019.
3. ***Clawback*** – payments began in 2006 when the federal government took responsibility for the pharmacy costs of clients that are dually eligible for Medicaid and Medicare. State payments are projected to increase $0.7 million in FY 2018 and $1.2 million in FY 2019 based on a 3.1% increase in payments due.

4. **Medicare buy-in –** The federal government requires the State to pay Medicare premiums and coinsurance deductibles for aged, blind, and disabled persons with incomes up to 100 percent of the Federal Poverty Level. Medicare Part B premiums rose from $121.80 to $134.00 for calendar year 2017. There are no projected increases for 2018 and 2019. Medicare cost sharing increases are projected to cost the State an additional $1.1 million in FY 2018.

Program Changes - $3.6 Million Increase in FY 2019

1. ***H.B. 437 adjustment*** – H.B. 437, *Health Care Revisions*, from the 2016 General Session requires a shift of $2.7 million from the Medicaid Expansion Fund to Medicaid services in FY 2018 only. This adjustment helps to properly locate savings and expenses from the delayed start of the program. As part of a Medicaid systemwide reduction of ($1.7) million one-time in FY 2019 there is a $2.8 million one-time increase to Medicaid services to adjust appropriations provided for FY 2021 projected expenditures to FY 2019 appropriations.
2. **Accountable care organizations' administration rate change –** the federal government ruled that Healthy U, one of Medicaid's contracted accountable care organizations, can no longer seed its money to help pay for its administrative rate. In order to pay Healthy U the same rate as the other three contracted accountable care organizations without seed money, the projected cost increase is $1.6 million for FY 2018.
3. ***Autism increased federal requirements* –** increase of $0.5 million in FY 2018 and increase of $0.4 million in FY 2019 for the federal regulation to provide autism spectrum disorder-related services when medically necessary for any Medicaid clients up to age 21 with autism spectrum disorder beginning July 1, 2015. Previously only clients qualifying as disabled or those served by the Utah pilot program for those ages 2 through 6 qualified for these services.
    a. This autism requirement replaced a state pilot program providing autism services which saves the State ($0.1) million in FY 2018.
4. ***Blockbuster drugs*** – the Department of Health will be paying for new costly drugs statewide via the fee-for-service system rather than forecasting utilization and costs for inclusion into capitated rates paid to accountable care organizations. There are projected costs of $0.4 million in FY 2018 and $0.6 million in FY 2019 for the following five new drugs:
    a. Pembrolizumab – used to treat certain kinds of cancer.
    b. Uptravi - used to treat pulmonary arterial hypertension.
    c. Ilaris – used to treat active Systemic Juvenile Idiopathic Arthritis in children ages 2 and older.
    d. Bexarotene – used to treat cutaneous T-cell lymphoma.
    e. Olaratumab – used to treat soft tissue sarcoma cancer.
5. ***Orkambi*** – New prescription drug with an annual cost of $257,400 total fund ($76,400 General Fund) indicated for clients 6 years or older with cystic fibrosis who have two copies of the F508del mutation in their genes. Updated forecasted costs for the fee-for-service client population include an increase in costs of $0.1 million in FY 2018 and an increase of $0.1 million in FY 2019.

Human Services and Juvenile Justice Services–$1.2 Million Increase in FY 2019

Federal medical assistance percentage – an unfavorable change of 0.32% in FY 2019 for a cost of $1.2 million, $1,220,500 for the part of the Department of Human Services overseen by the Social Services Appropriation Submission and $24,500 for the Juvenile Justice Services portion of Human Services overseen by the Executive Offices and Criminal Justice Appropriations Subcommittee.

Medicaid Expansion Fund - ($4.6) Million One-time Decrease in FY 2019

The Medicaid Expansion Fund may be used to pay the costs to the state of serving those newly eligible due to H.B. 437, *Health Care Revisions*, from the 2016 General Session.

- ***H.B. 437 adjustment*** – a shift of $2.7 million out of the Medicaid Expansion Fund to Medicaid services in FY 2018 only. This adjustment helps to properly locate savings and expenses from the delayed start of the program. As part of a Medicaid systemwide reduction of ($1.7) million one-time in FY 2019 there is a ($4.6) million one-time decrease in the Medicaid Expansion Fund to adjust appropriations provided for FY 2021 projected expenditures to FY 2019 appropriations.

Why Did FY 2017 Medicaid Actuals Use $6.2 of the $9.0 Million Buffer?

Medicaid services ended FY 2017 over budget by $6.2 million General Fund (and General Fund restricted account funds used as General Fund) but within the $9.0 million buffer funding provided. The unexpected unspent balance was $6.2 million or 1.4%. There was $0.4 million due to lower-than-projected collections. When you factor this out of the error rate for forecasting, there is a $5.8 million underestimate of costs which is a 1.3% error rate. Prior year error rates for FY 2016 through FY 2012 have been 2.7%, 0.4%, 0.3%, 2.6%, and 5%.

The Department of Health explains the $5.8 million overage for FY 2017 with: "The New Choices Waiver saw sharp increases in utilization. The New Choices Waiver alone had an increase of $1.2 million. Given that this program takes people out of nursing homes and places them in community-based services, the increase would have been experienced in nursing homes and would have been much more pronounced had this program not existed. The remaining $3.1 million is made up of utilization increases. The cost per claim in the fee-for-service program increased by 3.2% and the number of fee-for-service claims increased 2.2%. Both of these percentages illustrate higher utilization in FY 2017 given that overall caseload declined. Additionally, pharmacy rebates were lower than the previous year by $0.7 million."

What Optional Medicaid Services Had Cost Increases in Medicaid?

The Department of Health reports the following increases in contractual costs for optional Medicaid services:

- **Non-emergency Medical Transportation –** non-emergency medical transportation is an optional service for Traditional Medicaid clients who do not have transportation to receive medical care. The Department of Health received a request for proposal to increase costs by $0.6 million General Fund and $1.5 federal funds on an annual basis beginning April 1, 2017 to replace the current contractor who opted to end its contract.
    - If the Legislature voted to end this optional service, the State would spend $1.6 million less General Fund and $3.9 million less federal funds based on the projected FY 2018 spending period.

Children's Health Insurance Program (CHIP) – Why $13.2 Million Ongoing Cost Estimate?

Why is the ongoing General Fund cost for CHIP increasing $13.2 million? From October 2015 through September 2019, the federal government will pay 100% of the costs for CHIP program services. All ongoing General Fund appropriations can be backed out one-time through September 2019. The ongoing General Fund costs for CHIP have not been adjusted since FY 2016. From FY 2016 through FY 2019 the following changes are forecasted to increase General Fund costs:

1. **Caseload** – 23.1% growth
2. **Per member per month costs** – 16.9% growth
3. **Many CHIP clients now on Medicaid –** effective January 1, 2014, many former CHIP clients are now served by Medicaid. This primarily happened because Medicaid's asset test for children was removed. The federal government will still pay the higher CHIP match rate, but the benefits package for Medicaid costs more than CHIP's benefits package.

There is enough money in CHIP to cover the state's share of costs through FY 2018 and FY 2019 assuming that the federal government continues to fund CHIP at 100%. Federal health care reform included a maintenance of effort requirement for states not to change children eligibility levels through September 2019. This cost estimate is not included as part of the official consensus recommendation but it is shared as an information item.

Why Consensus Forecasting for Medicaid?

When arriving at final point estimates for tax revenue projections, economists from the Legislative Fiscal Analyst Office, the Governor's Office of Management and Budget, and the State Tax Commission compare numbers and attempt to reach a consensus. The details of each projection are examined and critiqued against the other offices' numbers. By comparing competing forecasts, all involved parties attempt to flush out any errors or left out factors. These same reasons apply to Medicaid. From June 2000 to June 2012, Utah Medicaid grew from 121,300 clients to 252,600 clients, an increase of 108%. Over the same period, the percentage of the State's population on Medicaid grew from 5.4% to 8.8%.

Officially, Medicaid is an "optional" program, one that a state can elect to offer. However, if a state offers the program, it must abide by strict federal regulations. As Utah has, to this point, chose to offer Medicaid, it has established an entitlement program for qualified individuals. That is, anyone who meets specific eligibility criteria is "entitled" to Medicaid services. An accurate forecast is essential to adequately funding that entitlement.

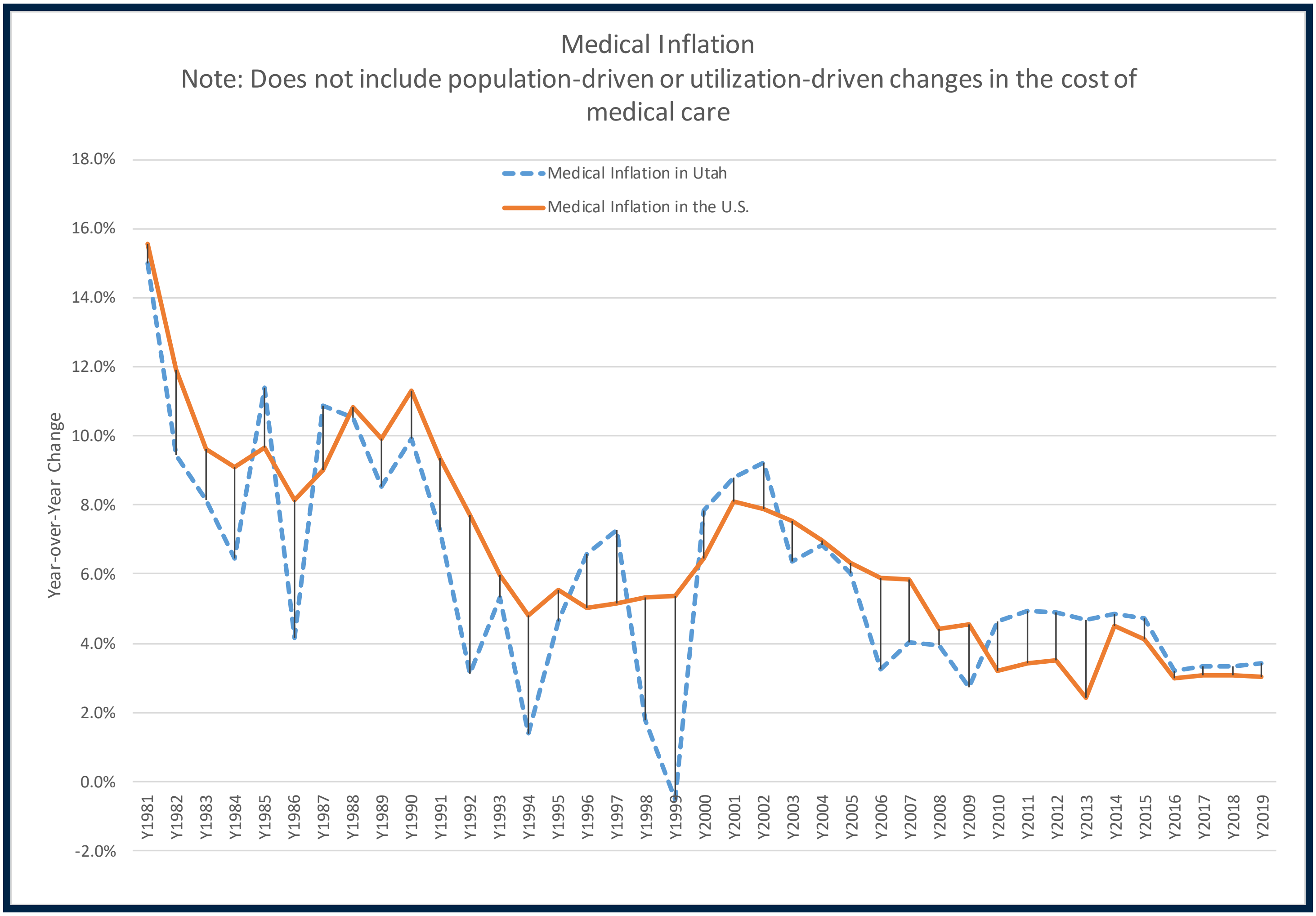
What Must Be Included in the Base Budget?

There is up to $0.4 million in FY 2018 and $10.1 million in FY 2019 General Fund from two items that might need to be included as per statute in the base budget:

1. **UCA 26-18-405** directs that mandated program changes determined by the Department of Health must be included in the base budget. The Department of Health determined that "Blockbuster Drugs," which is described under program changes number four on page five is a mandated program change. The fiscal analyst believes mandated program changes can only be part of accountable care organization contracts and disagrees with the mandatory program change designation by the Department of Health. The amount for possible inclusion in the base budget is $0.4 million in FY 2018 and $1.0 million in FY 2019.
2. **UCA 26-18-405.5** directs that rates paid to accountable care organizations increase at least up to 2% to match the General Fund growth factor. The General Fund growth factor for FY 2019 is not known currently. FY 2018 General Fund growth estimate is 5.0% as per the revenue estimates adopted at the May Executive Appropriations Committee. FY 2019's growth factor may or may not be similar to FY 2018. The growth factor will be announced as part of the December 2017 Executive Appropriations Committee meeting. The Governor's Office of Management and Budget and the Office of the Legislative Fiscal Analyst estimated 3.5% for FY 2019 General Fund revenue growth. The costs are described under "Accountable care organization contracts," which is number one under the "inflationary changes" section on page four. As per statute, the base budget should receive additional General Fund of $9.1 million in FY 2019 with a one-time offset of ($2.5) million.

What is Projected Medical Inflation for Utah?

The fiscal analyst projects medical inflation for Utah at 3.3% in FY 2018 and 3.4% in FY 2019. Medical inflation is defined as the change in the price per unit. The Centers for Disease Control provided medical expenditures by state from 1980 through 2009. By combining that information with National Health Expenditure Data from the Centers for Medicare and Medicaid Services for the remaining years the fiscal analyst has a forecast of medical inflation in Utah. The graph on page six shows both Utah and national medical inflation trends. A figure reporting total medical expenditures would be higher because that would include both population and utilization increases.



The two preceding subsections are the report required by **JR3-2-402(2)(a)(iv)**.

Additional Resources

- *Medicaid Consensus Forecasting* Issue Brief from the 2016 Interim https://le.utah.gov/interim/2016/pdf/00004868.pdf
- *Federal Medical Assistance Percentage or FMAP - Human Services* Issue Brief from the 2017 General Session https://le.utah.gov/interim/2017/pdf/00000178.pdf
- For more information on Utah's Medicaid enhancement, please visit http://health.utah.gov/MedicaidExpansion/index.html

OFFICE OF THE
STATE AUDITOR

November 1, 2017

President Wayne L. Niederhauser
Utah State Senate
Utah State Capitol, Suite 320
Salt Lake City, UT 84114

Speaker Gregory H. Hughes
Utah House of Representatives
Utah State Capitol, Suite 350
Salt Lake City, UT 84114

Re: Board of Examiners Recommendations

Dear President Niederhauser and Speaker Hughes:

Pursuant to Utah Code Ann. Section 63G-9-101 etc. seq., this letter reports to the Legislature the recommendations of the Board of Examiners for claims filed against the State for which funds have not been provided.

The Board reviewed the report provided by the Administrative Office of the Courts for over-expenditure of the juror/witness/interpreter line item and recommends payment in the amount of $1,009,600 (3-0 vote).

Respectfully,

John Dougall
State Auditor
Secretary, Board of Examiners

cc: Hon. Gary R. Herbert, Governor
Hon. Sean Reyes, Utah Attorney General
Thom Roberts, Assistant Attorney General
Ray Wahl, Administrative Office of the Courts
John Bell, Administrative Office of the Courts
Steve Allred, Office of the Legislative Fiscal Analyst

OFFICE OF THE
STATE AUDITOR

November 1, 2017

President Wayne L. Niederhauser
Utah State Senate
Utah State Capitol, Suite 320
Salt Lake City, UT 84114

Speaker Gregory H. Hughes
Utah House of Representatives
Utah State Capitol, Suite 350
Salt Lake City, UT 84114

Re: Board of Examiners Recommendations

Dear President Niederhauser and Speaker Hughes:

Pursuant to Utah Code Ann. Section 63G-9-101 etc. seq., this letter reports to the Legislature the recommendations of the Board of Examiners for claims filed against the State for which funds have not been provided.

The Board reviewed a presentation provided by the Utah State Tax Commission and recommends:

- an award of attorneys' fees under Utah Code Section 52-7-201 and payment in the amount of $46,000 (3-0 vote); and
- that the Legislature clarify Utah Code Section 52-7-201 in regards to the awarding of attorneys' fees in these circumstances, if necessary (2-1 vote).

Respectfully,

John Dougall
State Auditor
Secretary, Board of Examiners

cc: Hon. Gary R. Herbert, Governor
Hon. Sean Reyes, Utah Attorney General
Thom Roberts, Assistant Attorney General
Bridget Romano, Chief Deputy Attorney General
Commissioner John Valentine, Utah State Tax Commission
Steve Allred, Office of the Legislative Fiscal Analyst

OFFICE OF THE
STATE AUDITOR

November 2, 2017

President Wayne L. Niederhauser
Utah State Senate
Utah State Capitol, Suite 320
Salt Lake City, UT 84114

Speaker Gregory H. Hughes
Utah House of Representatives
Utah State Capitol, Suite 350
Salt Lake City, UT 84114

Re: Board of Examiners Recommendations

Dear President Niederhauser and Speaker Hughes:

Pursuant to Utah Code Ann. Section 63G-9-101 etc. seq., this letter reports to the Legislature the recommendations of the Board of Examiners for claims filed against the State for which funds have not been provided.

The Board reviewed a presentation provided by the Office of the Attorney General and supports legislation to allow the Office of the Attorney General to deficit spend to pay attorney fees awarded to prevailing parties in cases alleging a facial constitutional challenge to State law and, in cases of deficit spending, to bring those claims before the Board of Examiners (3-0 vote).

Respectfully,

John Dougall
State Auditor
Secretary, Board of Examiners

cc: Hon. Gary R. Herbert, Governor
Hon. Sean Reyes, Utah Attorney General
Thom Roberts, Assistant Attorney General
Bridget Romano, Chief Deputy Attorney General
Steve Allred, Office of the Legislative Fiscal Analyst

State of Utah 2018 / 2019 Renewal

Status Quo Scenario

(As of 10/24/2017)

Medical/Rx Renewal (State)	**5.7% ($15.4 Million)**
Dental Renewal	**-3.0% (-$0.4 Million)**

Medical/Rx Comment:

1) Assumes no benefit changes from 2017 / 2018 plan year offering.

2) Maintains current plan design and resulting plan relativities and employer cost share from the Legislature's historical directives, notwithstanding statutory requirement of actuarial equivalence.

3) Assumes 7.3% *(7% medical, 8.7% Rx)* projected trend.

Dental Comments:

1) Renewal change is driven by dental administrative costs decreasing from $1.75 per member per month to $1.15 per member per month.

Source: PEHP

Medical & Dental Renewal

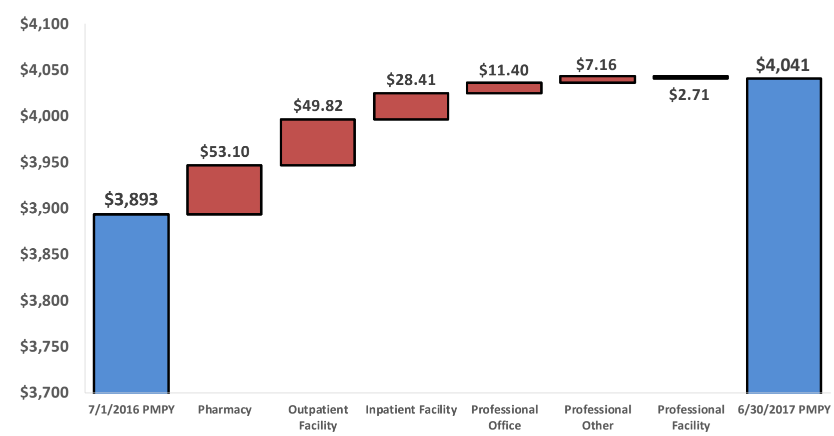
Executive Appropriations

November 14, 2017

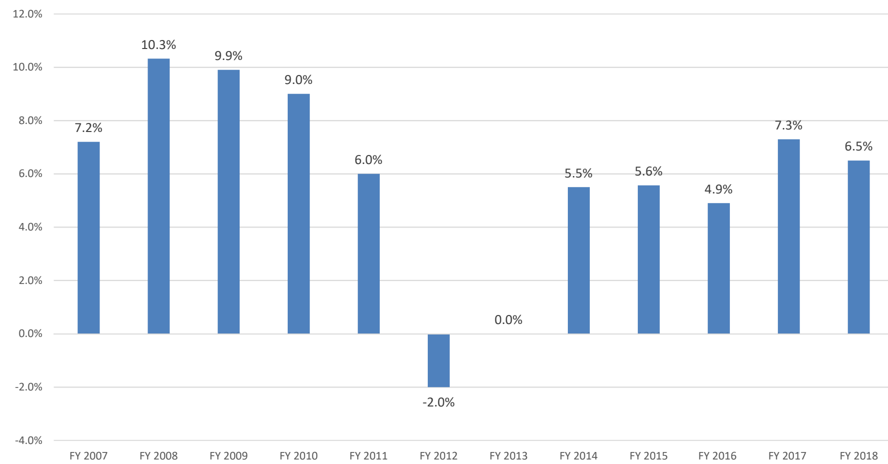
PEHP Health & Benefits | PROUDLY SERVING UTAH PUBLIC EMPLOYEES

Medical $15.4M/5.7% & Dental -$.4M/-3%

- ***Medical:*** Maintains current plan design with resulting plan relativities and employer cost share from the Legislature's historical directives, notwithstanding statutory requirement of actuarial equivalence. Assumes 7.3% *(7% medical, 8.7% Rx)* projected trend.
- ***Dental:*** Decrease is due to $.60 PMPM reduction in administrative fee



Medical Renewal History



PEHP Health & Benefits

Medical Reserve History

*Reserve refund of $20.9 M (27 days) in 14/15

PEHP Health & Benefits

Utah Retirement Systems
Preliminary Tier 1 Retirement Contribution Rates as a Percentage of Salary and Wages
Fiscal Year July 1, 2018 - June 30, 2019

	Preliminary Tier 1 2018-2019 RATES							Increase (Decrease) From Prior Year
	(1) Employee	(2) Employer	(3) Normal cost (1) + (2)	(4) Amortization of UAAL *	(5) Net Employer (2) + (4)	(6) Total (3) + (4)		
Public Employees								
Contributory Retirement System								
11- Local Government	6.00	6.09	12.09	8.37	14.46	20.46		0.00
12- State and School **	6.00	5.45	11.45	12.25	17.70	23.70	1,2	0.00
17- Higher Education	6.00	5.45	11.45	12.25	17.70	23.70	1,2	0.00
Public Employees								
Noncontributory Retirement System								
15- Local Government	-	11.86	11.86	6.61	18.47	18.47		0.00
16- State and School **	-	12.25	12.25	9.94	22.19	22.19	1,2	0.00
18- Higher Education	-	12.25	12.25	9.94	22.19	22.19	1,2	0.00
Public Safety								
Contributory Retirement System								
Division A								
23- Other Division A With 2.5% COLA	12.29	11.00	23.29	11.75	22.75	35.04		0.00
77- Other Division A With 4% COLA	12.29	11.42	23.71	12.91	24.33	36.62		0.00
Division B								
29- Other Division B With 2.5% COLA	10.50	14.07	24.57	8.71	22.78	33.28		0.49
74- Other Division B With 4% COLA	10.50	13.03	23.53	15.92	28.95	39.45		0.00
Public Safety								
Noncontributory Retirement System								
Division A								
42- State With 4% COLA	-	22.89	22.89	18.46	41.35	41.35	1	0.00
43- Other Division A With 2.5% COLA	-	22.29	22.29	11.75	34.04	34.04		0.00
75- Other Division A With 4% COLA	-	22.80	22.80	12.91	35.71	35.71		0.00
48- Bountiful With 2.5% COLA	-	23.73	23.73	26.65	50.38	50.38		0.80
Division B								
44- Salt Lake City With 2.5% COLA	-	22.50	22.50	24.17	46.67	46.67		0.00
45- Ogden With 2.5% COLA	-	22.41	22.41	26.27	48.68	48.68		0.00
46- Provo With 2.5% COLA	-	22.60	22.60	19.56	42.16	42.16		0.00
47- Logan With 2.5% COLA	-	22.59	22.59	19.33	41.92	41.92		0.00
49- Other Division B With 2.5% COLA	-	23.54	23.54	8.71	32.25	32.25		0.05
76- Other Division B With 4% COLA	-	23.02	23.02	15.92	38.94	38.94		0.00
Firefighters' Retirement System								
Division A								
Gross Rate	15.05	11.62	26.67	3.91	15.53	30.58		0.00
Insurance Premium Offset	0.00	(7.15)	(7.15)	(3.91)	(11.06)	(11.06)		0.54
31- Net rate	15.05	4.47	19.52	-	4.47	19.52		0.54
Division B								
Gross Rate	16.71	9.80	26.51	8.50	18.30	35.01		0.00
Insurance Premium Offset	0.00	(2.56)	(2.56)	(8.50)	(11.06)	(11.06)		0.54
32- Net rate	16.71	7.24	23.95	-	7.24	23.95		0.54
Judges' Retirement System								
Gross Rate	-	31.60	31.60	20.31	51.91	51.91	1	0.00
Court Fees Offset	-	0.00	0.00	(8.23)	(8.23)	(8.23)		0.99
37- Net rate- Noncontributory	-	31.60	31.60	12.08	43.68	43.68	1	0.99
Governors and Legislative								
14- Appropriation Payable by June 30, 2018					$384,103	$384,103		$ (7,780)

Preliminary

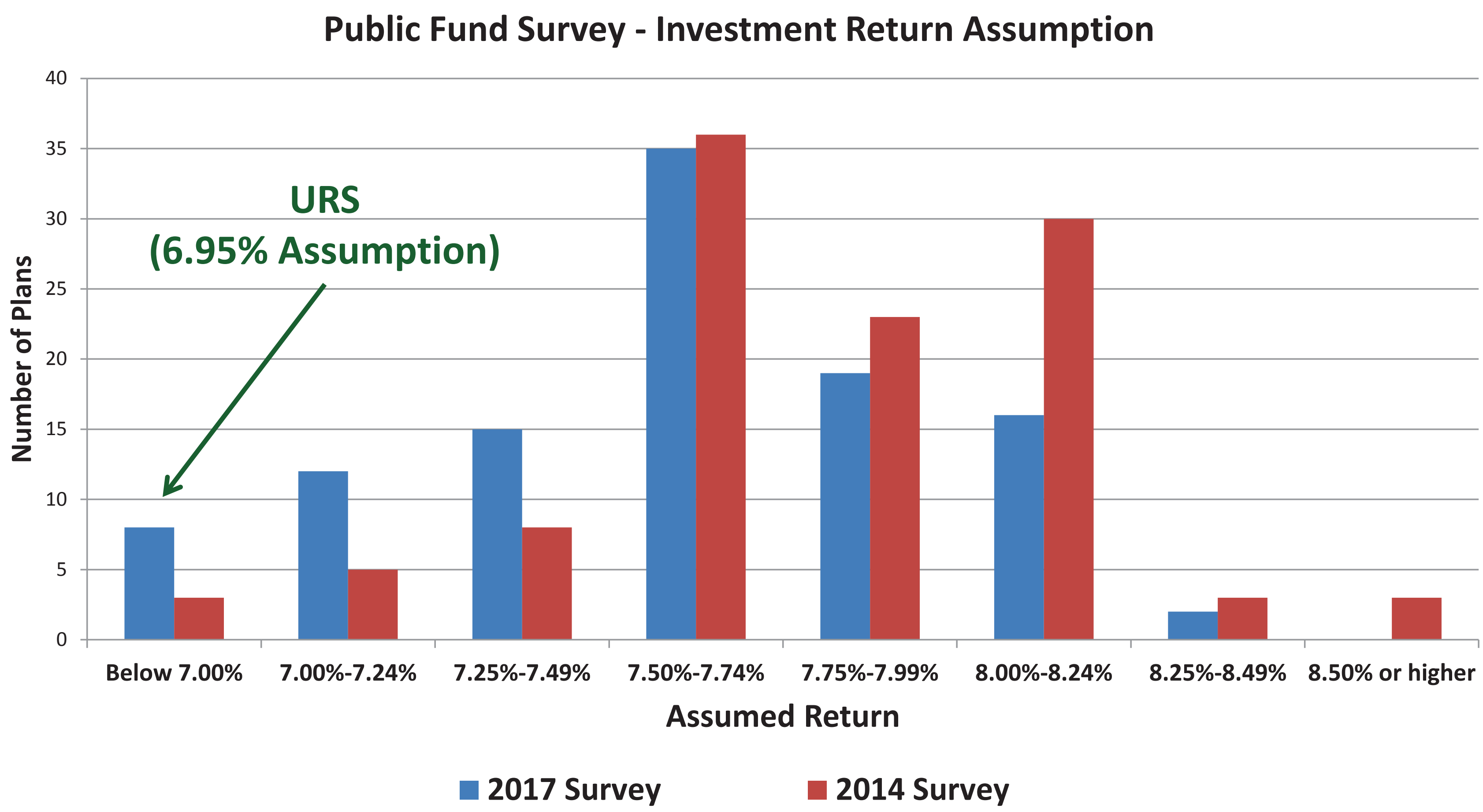
1 Includes funding of 3% Substantial Substitute based on salaries for all state and school employees.
2 Does not include 1.5% 401(k).
** Amortization of Unfunded Actuarial Accrued Liability (UAAL)*
*** Public School Districts and Charter School rates are effective September 1, 2018 - August 31, 2019*

Utah Retirement Systems
Preliminary Tier 2 Retirement Contribution Rates as a Percentage of Salary and Wages
Fiscal Year July 1, 2018 - June 30, 2019

	Preliminary Tier 2 Hybrid Retirement System						Preliminary Tier 2 Defined Contribution Plan				
	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	
	Employer Tier 2 Rate	Hybrid Plan DB Plan Rate	Hybrid Plan DC Plan Rate (1)-(2)	Death Benefit*	Tier I Amortization %	Total (1)+(4)+(5)	Employer Tier 2 Rate	Death Benefit*	Tier I Amortization %	Total (1)+(2)+(3)	Increase (Decrease) From Prior Year
Public Employees Contributory Retirement System											
11- Local Government	10.00	8.85	1.15	0.08	8.37	18.45	10.00	0.08	8.37	18.45	0.00
Public Employees Noncontributory Retirement System											
15- Local Government	10.00	8.85	1.15	0.08	6.61	16.69	10.00	0.08	6.61	16.69	0.00
16- State and School [1]	10.00	8.85	1.15	0.08	9.94	20.02	10.00	0.08	9.94	20.02	0.00
18- Higher Education	10.00	8.85	1.15	0.08	9.94	20.02	10.00	0.08	9.94	20.02	0.00
Public Safety Contributory Retirement System											
23- Other Division A (2.5% COLA)	12.00	11.26	0.74	0.08	11.75	23.83	12.00	0.08	11.75	23.83	0.00
77- Other Division A (4.0% COLA)	12.00	11.26	0.74	0.08	12.91	24.99	12.00	0.08	12.91	24.99	0.00
29- Other Division B (2.5% COLA)	12.00	11.26	0.74	0.08	9.75	21.83	12.00	0.08	9.75	21.83	0.00
74- Other Division B (4.0% COLA)	12.00	11.26	0.74	0.08	15.92	28.00	12.00	0.08	15.92	28.00	0.00
Public Safety Noncontributory Retirement System											
42- State	12.00	11.26	0.74	0.08	18.46	30.54	12.00	0.08	18.46	30.54	0.00
43- Other Division A (2.5% COLA)	12.00	11.26	0.74	0.08	11.75	23.83	12.00	0.08	11.75	23.83	0.00
75- Other Division A (4.0% COLA)	12.00	11.26	0.74	0.08	12.91	24.99	12.00	0.08	12.91	24.99	0.00
44- Salt Lake City	12.00	11.26	0.74	0.08	24.17	36.25	12.00	0.08	24.17	36.25	0.00
45- Ogden	12.00	11.26	0.74	0.08	26.27	38.35	12.00	0.08	26.27	38.35	0.00
46- Provo	12.00	11.26	0.74	0.08	19.56	31.64	12.00	0.08	19.56	31.64	0.00
47- Logan	12.00	11.26	0.74	0.08	19.33	31.41	12.00	0.08	19.33	31.41	0.00
48- Bountiful	12.00	11.26	0.74	0.08	26.89	38.97	12.00	0.08	26.89	38.97	0.00
49- Other Division B (2.5% COLA)	12.00	11.26	0.74	0.08	9.64	21.72	12.00	0.08	9.64	21.72	0.00
76- Other Division B (4.0% COLA)	12.00	11.26	0.74	0.08	15.92	28.00	12.00	0.08	15.92	28.00	0.00
Firefighters' Retirement System											
31- Division A**	12.00	11.26	0.74	0.08	0.00	12.08	12.00	0.08	0.00	12.08	0.00
32- Division B**	12.00	11.26	0.74	0.08	0.00	12.08	12.00	0.08	0.00	12.08	0.00

* *Employer paid active member death benefit (75% of salary) per Utah Code Section 49-22-501 and 49-23-501.*
** *For Firefighters, the fire insurance premium offset was applied first to the amortization charge, leaving no amount owed to Tier I by employers for Tier 2 Firefighters*
1 *Public School Districts and Charter School rates are effective September 1, 2018 - August 31, 2019*

Investment Return Assumption

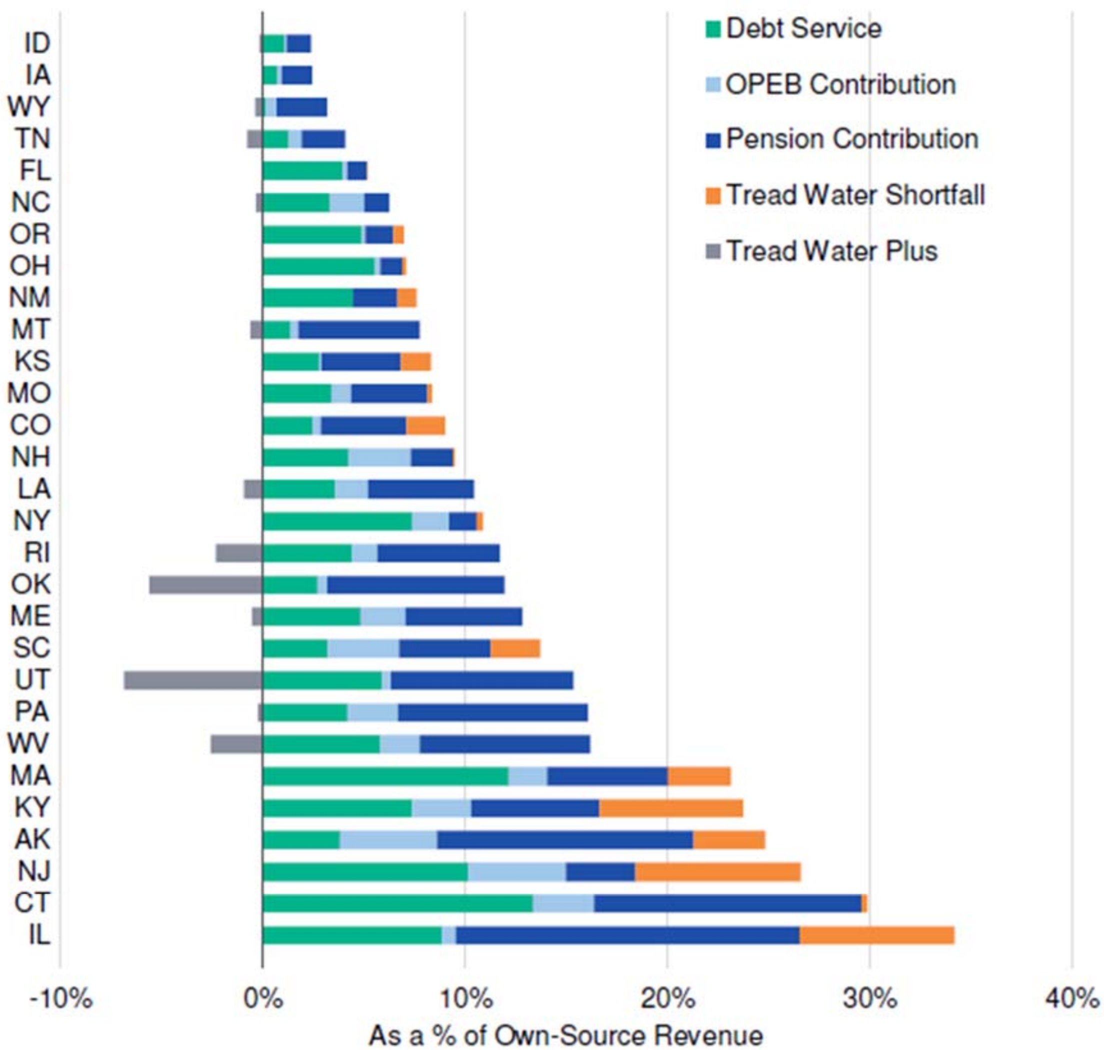


Source: NASRA Issue Brief, Feb 2017. n = 107

Exhibit 5

Fixed costs weigh on some states

Fiscal 2016 debt service, OPEB, and tread water payments

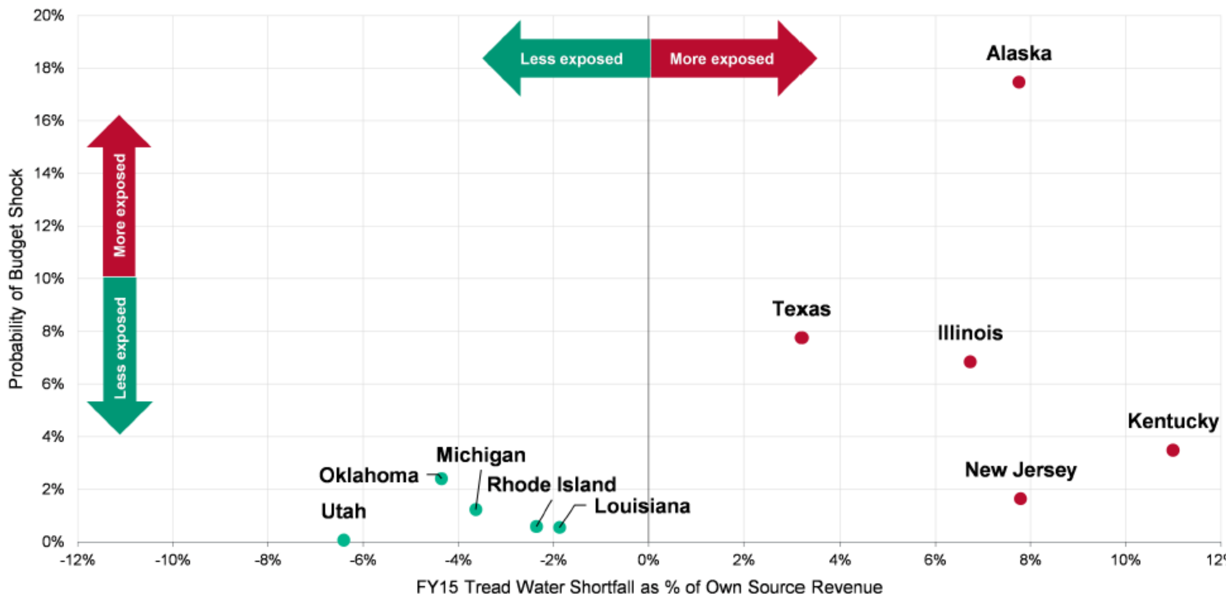


Reflects fixed costs for states with complete fiscal 2016 data

Source: Moody's Investors Service; State and pension plan financial statements

Exhibit 7

States with weak funding approaches are at greater risk of pain from asset losses



Note: Alaska revenues exclude investment income or draws on reserves.
Source: Moody's Investors Service; State financial statements

Budget shock risk from asset losses are greatest in Alaska, Illinois, Kentucky, New Jersey and Texas

» Based on the size of pension assets and estimates of portfolio volatility, the probability of pension investment losses equivalent to at least 25% of budget is at least 5% in 9 states, but less than 1% in 24 states. If such an event occurs, states with already weak funding practices must cover the greatest distance to replenish assets and establish adequate funding.

» Exhibit 7 displays the states that are least and most exposed to this risk, with Alaska an outlier because of the contraction of its revenue base due to plummeting oil prices. Least exposed states include those with robust funding policies that bring contributions above the tread water benchmark, with Utah (Aaa stable) having the most favorable exposure.

» To the extent states reduce portfolio risk and investment return targets, the probability of budget shock will decrease, all else equal.

FIRE INSURANCE PREMIUM TAX CHANGES

EXECUTIVE APPROPRIATIONS COMMITTEE
STAFF: GARY SYPHUS, THOMAS YOUNG, AND JONATHAN BALL

ISSUE BRIEF

SUMMARY

In 2016, due to specific tax reporting changes a portion of ongoing fire insurance premium tax revenue was diverted into the General Fund that was previously incorrectly deposited into two other accounts: (1) the GFR - Fire Academy Support Account (fund 1254) and the (2) Firefighters' Retirement Trust & Agency (Fund 8205).

As revenue increased into the General Fund, corresponding revenue decreased into these two accounts and created a structural deficit for the respective programs that these accounts were created to support – specifically the fire academy (UCA 53-7-204) and firefighter retirement system for eligible “firefighter service employees” (UCA 49-16). The Tax Commission and LFA estimates the following amounts would keep these funds whole:

Estimates to Make Funds Whole	FY2016	FY2017	FY 2018	FY 2019
GFR - Fire Academy Support Account (8205)	$3,193,932	$5,306,365	5,871,553	6,100,543
Firefighters' Retirement Trust & Agency (1254)	$6,387,859	$10,612,728	11,743,104	12,201,085
Total	$9,581,791	$15,919,092	$17,614,657	$18,301,629

LEGISLATIVE ACTION

Considering this, the Legislature could choose from the following options:

1. **Do nothing and keep/affirm current funding structure.** This would likely have the effect of (1) the fire academy having to make program/budget adjustments to reflect lower revenue and (2) compel local firefighter entities to make decisions on how to fund any unfunded retirement obligations.
2. **Make these specific funds whole using the following options:**
    a. Fund a portion or all of the estimated shortfall with General Fund. Specifically, this includes the one-time $25.5 million amount for FY 2016 and FY 2017 ($9.6 million total for FY 2016 and $15.9 million total FY 2017) and an estimated $18 million ongoing for total projected shortfalls.
    b. Change fire insurance premium tax structure to reflect pre-tax reporting change amounts.
    c. Use a combination of the above options.
3. **Pay only the ongoing portion associated with retirement employer contributions - an estimated $1.2 million ongoing from the General Fund.**

OFFICE OF THE
LEGISLATIVE
FISCAL
ANALYST

JONATHAN C. BALL
DIRECTOR

MEMORANDUM FOR EXECUTIVE APPROPRIATIONS COMMITTEE

FROM: Gary Syphus, Analyst

DATE: November 14, 2017

SUBJECT: Jail Contracting and Jail Reimbursement

In your October 2017 meeting, you received a report from the Department of Corrections including the following slide regarding the average state daily incarceration rate (please note the department wrote "final" state daily incarceration rate, but this is really a calculation of the "average" state daily incarceration rate):

The estimated ongoing needs for Jail Contracting and Jail Reimbursement assuming the new average state daily incarceration rate are:

Jail Contracting	$9,510,400
Jail Reimbursement	$4,274,700

Actual costs will depend on the final state daily incarceration rate adopted by the Legislature. The department may request appropriations for other issues in addition to these rate changes.

UTAH STATE CAPITOL COMPLEX
HOUSE BUILDING, SUITE W310
P.O. BOX 145310
SALT LAKE CITY, UTAH

PHONE: (801) 538-1034
FAX: (801) 538-1692

WEBSITE:
WWW.LE.UTAH.GOV/LFA

LFA
LEGISLATIVE FISCAL ANALYST

Debt Service Nonlapsing Balance and FY 2018 Interest Payments for Newly Issued Debt

In the 2017 General Session the Legislature appropriated $354,326,700 for debt service for general obligation bond debt for FY 2018. According to the State's debt payment schedule, FY 2018 principal and interest payments for existing debt would total about $352,222,700. Thus the total appropriation would exceed required payments for existing debt by about $2,104,000. The Legislature anticipated that the State would issue debt for the prison project and transportation projects in July 2017 and in January or February 2018. The first interest payments for the newly issued debt would be due on July 1, 2018 and the payments would accrue to the FY 2018 budget. In addition to the $2.1 million excess for existing payments, planners expected to use a portion of the nonlapsing balance in the debt service line item to cover the new interest payments for prison debt and to use appropriations from transportation-related funding sources to cover the payments for transportation debt.

The table below shows the contractual interest for the July 2017 issuance and the projected interest for the January/February 2018 issuance that will be due on July 1, 2018 along with sources of funding for the payments as recommended by the fiscal analyst.

	Prison	**Transportation**
Interest Due on July 1, 2018		
July 2017 Issuance	4,886,485	1,701,133
January/February 2018 Issuance	4,198,229	3,185,000
Total	*9,084,714*	*4,886,133*
Sources of Funding		
From Excess Appropriation for Existing Debt	2,104,000	
From Debt Service Nonlapsing Balance	6,980,714	
From Transportation-related Sources		4,886,133
Total	*9,084,714*	*4,886,133*

The Division of Finance reported that the debt service nonlapsing balance as of June 30, 2017 was about $7,810,000 and the division stated that it needs at least $500,000 to cover certain miscellaneous expenses associated with bonds. Under the debt issuance and interest payment scenario above, this would leave a maximum of about $329,300 in excess nonlapsing balance.

Capital Development Commitments and Capital Improvements

Capital development commitments. In the 2017 General Session the Legislature appropriated $8 million for the Dixie State University Human Performance Center, $5 million for the University of Utah Medical Education & Discovery / Rehabilitation Hospital, and $14 million for the Weber State University Social Science Building Renovation for FY 2018. The Legislature committed a total of $57,940,000 in FY 2019 and $20 million in FY 2020 for these projects as follows (see S.B. 2, 2017 G.S., Item 51):

- Dixie State University Human Performance Center – $17 million from the General or Education Fund in FY 2019;
- Weber State University Social Science Building Renovation – $15,940,000 from the General or Education Fund in FY 2019; and
- University of Utah Medical Education & Discovery / Rehabilitation Hospital – $20 million from the Education Fund and $5 million from the General Fund in FY 2019, and $20 million from the Education Fund in FY 2020.

The Legislature directed that in FY 2019, $9 million of General Fund be moved one-time from the Capital Development - Higher Education line item to the Employability to Careers Program Restricted Account and that $9 million be appropriated from the restricted account to the Governor's Office of Management and Budget line item (see S.B. 3, 2017 G.S., Item 123)

Capital improvements. In the 2017 General Session the Legislature appropriated $119,068,800 ongoing in FY 2018 to meet the statutory requirement to appropriate 1.1 percent of the replacement cost of existing state facilities and infrastructure to capital improvements before funding any new capital development projects (see UCA 63A-5-104(7)). For FY 2019, the State Building Board has calculated the 1.1 percent replacement cost as $118,241,000—a decrease of $827,800 from FY 2018. The fiscal analyst recommends making the reduction one-time as the replacement value of buildings is likely to increase in the future as new inventory is added to the State's property portfolio.

Utah State Legislature

Senate • Utah State Capitol Complex • 320 State Capitol
PO BOX 145115 • Salt Lake City, Utah 84114-5115
(801) 538-1035 • fax (801) 538-1414

House of Representatives • Utah State Capitol Complex • 350 State Capitol
PO BOX 145030 • Salt Lake City, Utah 84114-5030
(801) 538-1029 • fax (801) 538-1908

http://le.utah.gov

November 7, 2017

Senator Jerry W. Stevenson, Co-Chair
Representative Dean Sanpei, Co-Chair
Executive Appropriations Committee
State Capitol Complex
Salt Lake City, UT 84114

Senator Stevenson and Representative Sanpei,

Due to the increasing number and associated costs of wildfires in Utah, the Commission for the Stewardship of Public Lands (the commission) examined the state's wildfire management process with the Division of Forestry, Fire and State Lands (the division). One of the commission's concerns is the cost-negotiation process that takes place between the division and federal government whereby wildfire costs are allocated among the federal, state, and local governments. More specifically, the commission is worried that the Legislature is not receiving adequate notice of significant costs for which it will ultimately be asked to pay for with an appropriation.

The commission directed certain commission members discuss with the division ways in which the Legislature can be more involved in the wildfire cost-negotiation process. The division compiled the state's costs for wildfire suppression for the previous 10 years and found that, on average, there are five fires each year that cost the state at least $1 million. Further, the cost of suppression for two of those five fires exceeds $2 million on average. We also learned that the division already provides regular communication to the Governor regarding those fires that exceed $2 million, including detailed and real-time cost estimates.

This effort concluded with the recommendation that the division inform the Legislature of any state wildfire suppression costs that exceed $2 million, and that the Executive Appropriation Committee (EAC) is the appropriate entity to receive this information. We hope that learning of any extensive costs to the state as they occur will help with budgeting and make for a better appropriation process. The division has agreed to this approach and will begin immediately to implement it.

Please reach out to us with any questions or concerns.

Sincerely,

Senator David P. Hinkins, Co-Chair
Commission for the Stewardship of Public Lands

Representative Keven J. Stratton, Co-Chair
Commission for the Stewardship of Public Lands