

FISCAL HIGHLIGHTS

EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE MEL BROWN, CO-CHAIRS

MEETING SUMMARY - OCTOBER 18, 2011

Report: Federal/Non-Federal Funds

Staff Contact: Gary Syphus

Jill Flygare from the Governor's Office of Planning and Budget (GOPB) presented the Federal/Non-Federal Funds Report. The committee recommended approval of four new federal grants and four continuations of existing grants. Ms. Flygare also distributed a handout on accessing the grants database at www.grants.utah.gov.

Report: Impacts of Federal Deficit Reduction Actions

Staff Contact: Gary Syphus

Juliette Tennert, GOPB, reported that if Congress doesn't pass the Joint Select Committee on Deficit Reduction plan by December 23, automatic across-the-board cuts will go into effect in January 2013. GOPB estimates Utah's budget would see a reduction of about \$90 million in federal funds. If Congress adopts a FFY 2012 budget reflecting the current Continuing Resolution, Utah would see a reduction of about \$15 million.

Report: Revenue Update

Staff Contact: Andrea Wilko

Staff presented a range forecast for FY 2012 revenues. Currently revenues are expected to be within targets and could end the year in the range of down \$50 million to up \$100 million. FY 2011 revenues ended approximately \$107 million above targets. When adjusted for expenditures and transfers, the available one-time revenue will be close to \$60 million.

For more information, please refer to the article on page 3.

Report: Actuarial Valuation of Other Post Employment Benefits

Staff Contact: Steven Allred

The Governmental Accounting Standards Board (GASB) requires an actuarial valuation of government entities' accrued liability for Other Post Employment Benefits (OPEB) every two years. In Utah, OPEB generally refers to state-paid health and life insurance for retirees. Representatives from Aon-Hewitt Consultants presented the valuation as of December 31, 2010. Their valuation shows that, compared to two years ago, the state's Annual Required Contribution (ARC) to the OPEB trust fund has declined from \$44 million to \$38 million.

For further discussion, please see the article on page 4.

Report: DTS Budget Issues

Staff Contact: Gary Ricks

Staff presented a report on the Department of Technology Services (DTS). The report recommends that the Legislature reduce FTE and capital authorization for DTS. The committee referred the report to the Infrastructure and General Government Appropriations Subcommittee.

Report: Eligibility Determination Systems Study

Staff Contact: Russell Frandsen

By early 2012, the Department of Health hopes to receive a report from contractors on whether the consolidation or privatization of Medicaid eligibility will bring greater efficiencies. The Departments of Health and Workforce Services were pleased with the coordination among the state entities involved with this project.

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PUBLIC EDUCATION

Staff Contact: Ben Leishman

Meeting Summary of the Public Education Appropriations Subcommittee

On October 11, 2011, members of the subcommittee met for the first of two interim meetings. The subcommittee's agenda focused on advancements in education technology. Eight private education technology firms demonstrated emerging classroom technologies or methodologies. These advancements include school/classroom management, student leadership training, curriculum/instructional support, and connectivity.

Former First Lady, Jacalyn Leavitt, introduced the iKeep-Safe program to the subcommittee. This program teaches students, educators, and parents about safely using technology, especially the internet and how to handle improper use. The Utah State Office of Education (USOE) briefed the subcommittee on the development of state-wide standards for education technology in the classroom. The development process has just begun; the USOE is seeking input from various stakeholders on improvements or modifications of the standards.

Finally, the USOE also discussed with the legislators the transition from our current Criterion Referenced Test (CRT) system to a new Computer Adaptive Testing (CAT) system. Currently, the CRTs cost approximately \$4.7 million or \$13.50 per student. This cost includes two parts:

- Test development in Language Arts, Mathematics, and Science at approximately \$7 per student;
- A computer-based test delivery system at approximately \$6.50 per student.

Moving to a CAT system, which is currently underway, increases the total cost to an estimated \$11.4 million or \$30 per student. While more expensive, a CAT system provides multiple testing opportunities during the school year, improved reporting capabilities, and student-level diagnostic information. The end cost may vary depending on several factors, including test development contracts and school-level technology infrastructure.



SOCIAL SERVICES

Staff Contact: Russell Frandsen

Meeting Summary of the Social Services Appropriations Subcommittee

The Social Services Appropriations Subcommittee met on October 20, 2011 in two locations for an all day meeting.

Items discussed at the morning meeting at the Davis Local Health Department in Clearfield:

- Four written reports from the Department of Health including: (1) *Assessment of Additional Tools for Medicaid Provider Screening, Asset Verification and Beneficiary Screening*, (2) *Single Point of Entry for Long Term Care Services Eligibility*, (3) *Reimbursement Alternatives for Inpatient Hospital Outlier Payments*, and (4) status of Medicaid Management Information System replacement.
- Preferred Drug List—options to expand and improve it.
- Sharing of grant funds between the Department of Health and local health departments.
- Two Issue Briefs from staff: (1) *Social Services Review and* (2) *Safety Net Services for Low Income Populations*.
- A panel of six safety net providers responded to questions from Legislators.
- Options to identify high cost individuals in Medicaid.
- Status of Department of Health's budget reductions.
- Tour of the Davis County Local Health Department facilities.

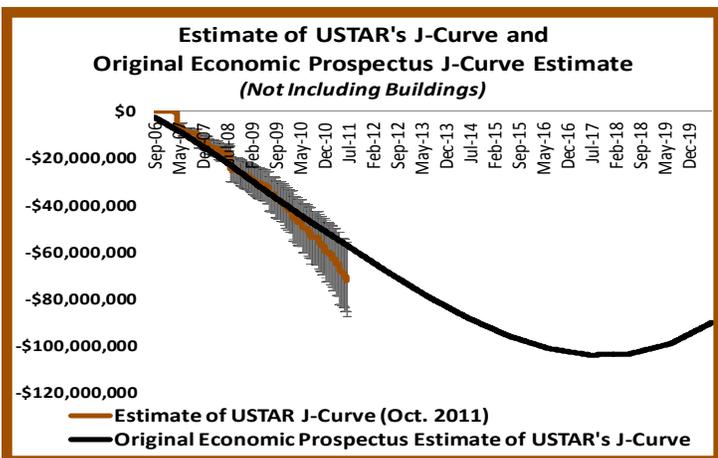
Items discussed at the afternoon meeting at the Department of Workforce Services in Clearfield:

- Department of Workforce Services' cost allocation model.
- Status of Department of Workforce Services' budget reductions.
- False Claims Act changes—Master Study Resolution #139.
- Received public input on Utah's low income safety net from three individuals.
- Two Issue Briefs from staff: (1) *Medicaid Review—Status of Recommendations* and (2) *Medicaid Providers—A Snapshot*.
- Annual report on fraud, waste, abuse findings in Medicaid from the Office of the Inspector General of Medicaid Services.
- Coordinating Medicaid Program—Master Study Resolution #102: heard from five agencies on how they are coordinating the administration of the Medicaid program.
- Tour of the Clearfield Department of Workforce Services' building.
- Updates and reports from the Department of Human Services.
- Status of the Department of Human Services' budget reductions.

EAC Report: *Utah Science, Technology, and Research (USTAR) Annual Report*

Staff Contact: *Thomas Young*

USTAR reported to EAC on the progress of the program. Entering its sixth year of existence, total USTAR-related expenditures through FY 2011 summed to \$284 million of state funds (bond revenues, General Fund, Education fund), of which \$195 million was for building construction and \$89 million for administration, technology outreach, and university researchers. In general, the federal grants received, construction costs, and other operational expenditures have generated roughly \$39 million in revenue. Overall, the net profit/loss to the state is roughly a loss of \$245 million. When comparing against the original economic prospectus, which excluded the costs of building construction, USTAR is about \$15 million below target, but within the margin of error (see figure below).



The Legislature may wish to address two issues in the upcoming General Session:

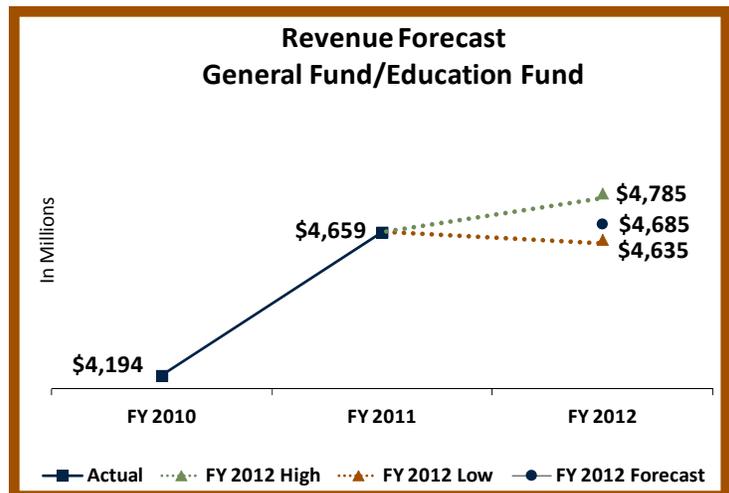
1. USTAR's structural deficit and nonlapsing balance: For the past three years USTAR has used one-time federal assistance to fund ongoing operational costs. Absent further assistance, USTAR's projected ongoing expense budget will fall by \$4.6 million in FY 2013. This is because USTAR used some federal ARRA funding on ongoing expenditures. USTAR has sufficient nonlapsing balances to cover the differential between its ongoing costs and ongoing revenue until FY 2013.
2. Performance differential between the research teams at the University of Utah and Utah State: USTAR funding is split between the University of Utah (60%)

and Utah State (40%). Due to investment return differentials, the Legislature may wish to allocate funding based upon performance instead of on a 60/40 basis.

EAC Report: *Revenue Update*

Staff Contact: *Andrea Wilko & Thomas Young*

Utah ended FY 2011 with a \$107 million General and Education Fund revenue surplus. When adjusted for expenditures and transfers, our most recent revenue projections show FY 2012 targets are well within range, with slightly more upside than downside risk. We anticipate that FY 2012 General and Education Fund revenue will be between \$50 million less and \$100 million more than estimated last spring. We further believe the Transportation Fund may be \$10 million below to \$5 million above our previous estimate.



The key risk factors for economic growth continue to be the housing market, wage growth, consumer spending, inflation and corporate volatility. The baseline scenario for Utah's economy continues to be a dull recovery.

Signals on the upside include increased residential permit values, accelerating labor force growth, and retail sales growth.

Nonagricultural employment in Utah bottomed in February 2010 at 1,173,000. The peak was in December 2007 at 1,264,000, representing a drop from peak to trough of 91,000 nonagricultural jobs. Since hitting the low in February 2010, job growth has been steadily climbing—gaining back almost half of the jobs lost. Job growth is expected to continue into 2012 and 2013 at close to a 3% growth rate.



HIGHER EDUCATION

Staff Contact: Spencer Pratt

Higher Education receives \$24 million in Research Grants

During its September meeting the Utah State Board of Regents approved 11 research grants awarded to the University of Utah and Utah State University totaling \$24.3 million. Six awards went to the University of Utah with a total of nearly \$14.9 million. Four of the six awards to the University of Utah were from the National Institute of Health (NIH) and are worth \$12.1 million. The other two included one from the Health Resources and Services Administration (Department of Health and Human Services) for \$1.2 million and one from Salt Lake County for \$1.5 million.

Five awards were approved for Utah State University totaling \$9.4 million. These included one grant from each of the following: Naval Research Lab (\$1.5 million), Department of Education (\$1.3 million), Utah Department of Health (\$1.1 million), Utah Department of Workforce Services (\$1.1 million), and the government of the Dominican Republic (\$4.4 million).



RETIREMENT AND INDEPENDENT ENTITIES

Staff Contact: Steven Allred

Other Post Employment Benefits Valuation

As discussed on page 1, the state recently hired an actuarial consultant to calculate the state's accrued liability for OPEB. The Governmental Accounting Standards Board (GASB) created this requirement so that governmental entities would be forced to recognize and book their liabilities for promised post-retirement medical, dental, and life insurance benefits to employees.

While many governmental entities across the United States are just now recognizing their liabilities, the State of Utah recognized its liability several years ago and took action to stop its growth. H.B. 213, *Unused Sick Leave At Retirement Amendments*, 2005 General Session, closed most state employees' option to accumulate sick leave and exchange it for post-retirement state-paid medical insurance (this was known as "Program I" sick leave). As a result, actuaries consider Utah's general system to be "closed." Under the closed system, the state recognizes and books its liability from past programs, but has changed its commitment going forward.

The state is paying off its accrued liability over 25 years and has established an irrevocable trust fund into which it makes payments called the "Annual Required Contribution" (ARC). Four years ago, the ARC was \$53 million; two years ago the ARC was \$44 million; the new ARC is \$38 million. Two years ago the liability was 12% funded; now it is 22% funded. Every two years the ARC should continue to decline and the percent funded should continue to increase. As the ARC declines, the Legislature has more flexibility to appropriate funds to other priorities.

Not all liabilities are declining, however. After Program I was closed, it was replaced with Program II as of January 1, 2006. Program II sick leave hours also represent a liability, albeit not as steep as Program I. Currently, the state is not setting aside funds to cover the increasing liabilities of Program II. We recommend the state recognize the increasing liabilities associated with Program II, and as Program I costs continue to decline, the state should set aside a portion of the savings to cover Program II costs.



INFRASTRUCTURE & GENERAL GOVERNMENT

Staff Contact: Mark Bleazard

Meeting Summary of the Infrastructure and General Government Appropriations Subcommittee

The appropriations subcommittee for Infrastructure and General Government met on October 20 and 21, 2011. Some of the topics discussed were:

- DFCM presented requests from the U of U for \$50 million, an office complex in SLC for \$66 million, \$19 million at DATC, and \$27 million for the Ogden Juvenile Court.
- DOT presented information about current and future highway construction projects. They provided a tour showing the progress of the Mountain View Corridor project and the footprint of the various West Davis Corridor routes.
- Representative Patrick Painter presented information from the Water Task Force outlining the need for over \$3 billion to fund water projects in the state in the next twenty years.
- The Department of Administrative Services and the Department of Technology Services presented programs they are implementing to save costs for their services.



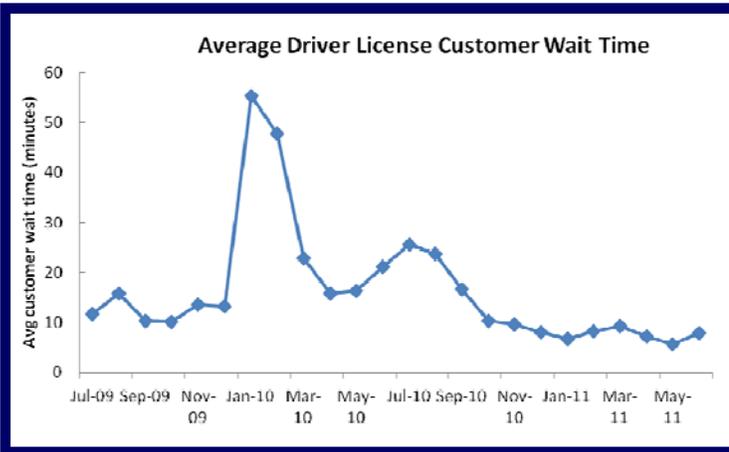
Driver License Division: Changes and Performance

In January 2010, there were reports of long wait times for those seeking a driver license/license renewal. S.B. 81, *Illegal Immigration*, 2008 General Session, changed the requirements for the Driver License Division in issuing licenses. The new requirements called for physical legal documentation of: (1) identity and legal/lawful status, (2) Social Security verification and (3) Utah residency verification. These documents would then be scanned and securely stored in a database as directed in the bill.

Factors that led to the long wait times in driver license offices were:

- Additional on-site renewal applicants,
- Applicants not bringing complete/correct documentation,
- Longer process time (additional scanning and storage of documents), and
- Lack of employee knowledge of new database system.

Below is the on-site wait time for driver license applicants. The chart shows the spike in wait time beginning in January 2010 and normalizing by about September 2010.



The Driver License Division made adjustments before the implementation of these changes to minimize the impact of these requirements, such as sending out notices to the public about the new changes, launching a new database and purchasing equipment, and hiring and training new employees.

The Legislature funded \$688,000 in ongoing restricted funds for a separate call center that would receive field

calls previously handled by those servicing on-site applicants. The Legislature also appropriated \$1,279,600 ongoing from the General Fund to help with notifications, additional employees, and programming changes. The division also used nonlapsing balances to hire more temporary workers to help with the demand.

The division reports that wait times improved as the public became aware of the documentation requirements, as staff became more knowledgeable, and a separate call center was initiated (allowing for on-site workers to dedicate their attention entirely to on-site applicants).



Revenue Bond Issuance

On October 5, 2011 the State of Utah issued \$5.25 million of “AA+” rated State Building Ownership Authority (SBOA) bonds for two building projects. The overall interest rate on the 20 year bonds, as measured by true interest cost (TIC), was 2.98%. After paying costs of issuance and underwriter’s discount, the state will receive \$1.2 million for the Utah College of Applied Technology administration building and \$3.9 million for the purchase of the Davis County Courts building.

The Legislature created the State Building Ownership Authority to borrow money, issue obligations, operate and encumber facilities, and rent or lease any facility to any state body. Obligations issued by the SBOA do not count against the constitutional debt limit and must be legislatively authorized.

Authorization for these bonds comes from S.B. 5, *Revenue Bond and Capital Facilities Authorizations*, from the 2011 General Session. The bill authorized \$1.2 million of bonds for the acquisition and construction of an administration building for the Utah College of Applied Technology (UCAT) in Lehi. UCAT administration will pay the debt service on these bonds from within their existing budget. The bill also authorized \$3.9 million of revenue bonds for the Judicial Branch to purchase the Davis County Courts building and adjacent land from Farmington City. The Courts currently lease space in the building from the city. The revenue bonds allow the Courts to purchase the property and redirect their lease payments to pay debt service on the revenue bonds.



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RETURN SERVICE REQUESTED



NEW FACES & NEW PLACES

Staff Contact: Jonathan Ball

Some recent employee turnover combined with last year's subcommittee shuffle offers an opportunity to improve our service here in the Office of the Legislative Fiscal Analyst. We have two new employees and support for appropriations subcommittees is more evenly distributed.

Staff Economist Angela Oh comes to us from Zions Bancorporation, where she worked in Risk Management. She holds a Master's Degree in Economics from the University of Utah.

Fiscal Analyst Zackery King has a Master's Degree in Public Administration from BYU, and a Bachelor's Degree in Finance and Economics from Utah State.

Our new line-up looks like this:

- **Business, Economic Development, and Labor:**
Zackery King (DFI, Labor, PSC, Tax, USTAR)
Andrea Wilko (All Others)
- **Executive Offices and Criminal Justice:**
Zackery King (JJS, Elected Officials, CCJJ)
Gary Syphus (All Others)

- **Executive Appropriations:**
Steven Allred (Legislature)
Mark Bleazard (UNG, VA, CPB)
- **Higher Education:**
Angela Oh (UCAT, UEN, MEC)
Spencer Pratt (All Others)
- **Infrastructure and General Government:**
Rich Amon (Capital, DAS)
Mark Bleazard (UDOT)
Gary Ricks (DTS)
- **Natural Resources, Agriculture, and Environmental Quality:**
Ivan Djambov (DNR, DAF, SITLA)
Angela Oh (DEQ, PLPCO)
- **Public Education:**
Ben Leishman (MSP, Arts & Sciences Outreach)
Thomas Young (USOE, USDB, Capital)
- **Retirement and Independent Entities:**
Mark Bleazard
- **Social Service:**
Russell Frandsen (DOH)
Stephen Jardine (DHS, USOR)
Gary Ricks (DWS)