Fiscal Highlights

2015 Capital Development Tour - Angela J. Oh

The State Building Board serves as a policy board to assess and prioritize the State's capital facility needs; to advocate high quality facilities that are safe and economical; and to oversee the planning, design, construction, and maintenance of the State's capital facilities.

Annually, the State Building Board compiles a list of capital development requests from state agencies and higher education institutions, including the Utah System of Higher Education and the Utah College of Applied Technology. Each August, the State Building Board participates in a two-day tour to assess the reasons for the requests and gain knowledge of location and site conditions of those requests. This year, the state Building Board visited sites throughout Central and Northern Utah.

During the State Building Board's October meeting, they will allow agencies and institutions to present their request for capital development projects. The State Building Board will then evaluate and rank the projects and compile a priority list to be presented to the Legislature.

The Legislature will use this information during the 2016 General Session to begin discussions regarding what capital development projects they will ultimately fund. The following table shows the state-funded capital development requests for FY 2017. A prioritized list will be available in October; the table below is ordered alphabetically.

FY 2017 Capital Development Projects - State Funded

Agency/Institution	Project	State Funding	Other Funding	Total Project Amount	Gross Sq. Ft.	O&M Request
State						
Dept. of Agriculture	William Spry Building Replacement	$ 21,590,500	$ -	$ 21,590,500	56,500	$ (28,900)
Dept. of Environmental Quality	Technical Support Center	$ 6,000,000	$ -	$ 6,000,000	20,000	$ -
Dept. of Natural Resources	Bear Lake State Park Marina Expansion	$ 43,503,700	$ 100,000	$ 43,603,700	46 acres	$ 100,000
Utah State Archives	Archives Storage Vault System	$ 3,056,400	$ -	$ 3,056,400	5,300	$ 23,400
UCAT						
Bridgerland ATC	Health Science and Technology Building	$ 26,765,000	$ -	$ 26,765,000	91,500	$ 705,500
Davis ATC	Allied Health Building	$ 33,133,000	$ 130,000	$ 33,263,000	85,000	$ 655,300
Mountainland ATC	Thanksgiving Point Campus Technology/Trades Building	$ 20,784,400	$ -	$ 20,784,400	80,000	$ 616,800
Ogden-Weber ATC	Business Ogden Depot - Bay 2 Build Out	$ 6,340,100	$ -	$ 6,340,100	43,600	$ 336,200
USHE						
Dixie State University	Human Performance/Student Wellness Center	$ 39,500,000	$ 10,000,000	$ 49,500,000	150,000	$ 962,200
Salt Lake Community College	Career and Technical Education Center (Westpointe)	$ 38,716,200	$ 3,250,000	$ 41,966,200	121,000	$ 1,080,500
Southern Utah University	New Business Building and Repurposed Existing Business Building	$ 7,000,000	$ 9,000,000	$ 16,000,000	68,100	$ 349,000
University of Utah	Medical Education and Discovery/Rehabilitation Hospital	$ 50,000,000	$ 217,000,000	$ 267,000,000	460,000	$ 292,600
Utah State University	Biological Science Building	$ 59,000,000	$ 10,000,000	$ 69,000,000	189,000	$ 1,199,500
Utah Valley University	Performing Arts Building	$ 25,500,000	$ 16,500,000	$ 42,000,000	140,000	$ 1,168,000
Weber State University	Social Science Building Renovation	$ 32,967,700	$ -	$ 32,967,700	119,300	$ 426,000
	Grand Total	***$ 413,857,000***	***$ 265,980,000***	***$ 679,837,000***	***1,629,300***	***$ 7,886,100***

Audit of the Attorney General's Office - Clare Tobin Lence

In June 2015, the Legislative Auditor General released two audits of the Office of the Attorney General, a performance audit and an in-depth budget review. The findings were recently presented to the Legislative Audit Committee and the Government Operations Interim Committee. Budget issues from the audit will be discussed during an interim meeting of the Executive Offices and Criminal Justice (EOCJ) Appropriations Subcommittee in September.

One key finding of the performance audit was that "the lack of an office-wide electronic case management and document control system at the OAG has contributed to dropped cases, missed deadlines, unnecessary time spent searching through documents, and an inability to gather overall office-wide performance measures." During the 2015 General Session, the Legislature appropriated $800,000 one-time and $300,000 ongoing from the General Fund for the AG to implement a case management system and add two FTE support staff.

The auditors highlighted the need for improved accounting of legal services provided to state agencies in the budget review. As the legal counsel for state agencies, the AG receives some direct General Fund support (38 percent of operating costs) and bills agencies for the other portion of these services in the form of dedicated credits (62 percent of operating costs). Although the AG has the authority to bill agencies, according to statute, "dedicated credits does not mean [...] revenues received by the Attorney General's Office from billings for professional services" (UCA 63J-2-102). Further, agreements with agencies range from explicit contracts to verbal agreements and there is inadequate tracking of the amount of service provided to each agency. In addition to legal concerns, the current process has created a number of other issues.

The first state agency billing issue is related to federal funds. Some agencies pay the AG with federal funds, and the federal government may rescind those funds in the case of insufficient documentation of expenditures. The lack of transparency in billing also limits the ability of the Legislature to exercise oversight of how and when legal services are distributed and increases the complexity of providing compensation to AG attorneys. Compensation increases were appropriated by the Legislature in both 2014 and 2015, but because some of these increases were in the form of dedicated credits, the full amount was not collected by the AG in FY 2015.

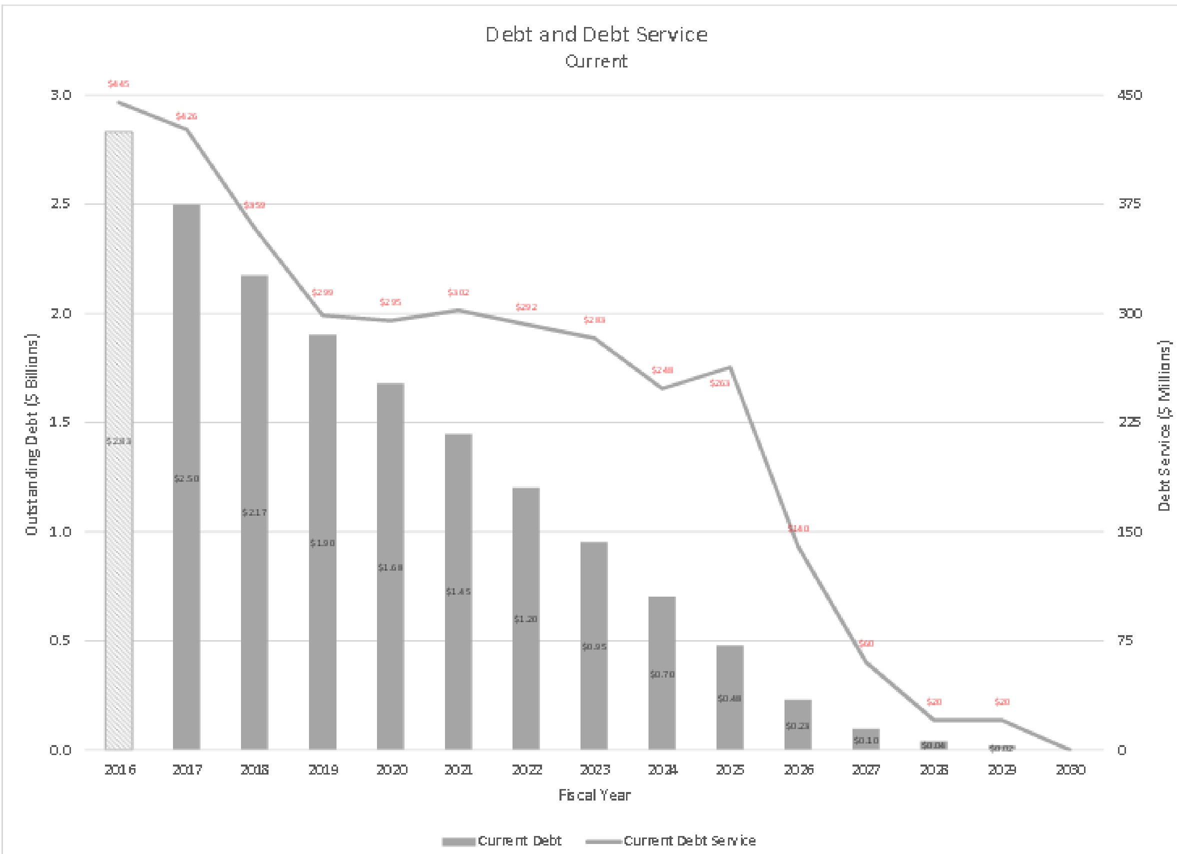
The auditors recommended converting the AG's state agency counsel services to an Internal Service Fund (ISF) to address these billing concerns. Other inter-agency services, such as technology and human resource services, are centralized and agencies pay for services on a set schedule. The Legislature provides appropriations for ISF services to agencies during each General Session. This system provides detailed accounting and tracking, as well as allows agencies to access needed services.

In the budget review, the auditors highlighted a few additional issues which will also be addressed by EOCJ in their interim meeting: bringing certain off-budget funds on budget, improving accounting for the Internet Crimes Against Children and Strike Force programs and for settlement appropriations, and tracking meaningful performance measures.

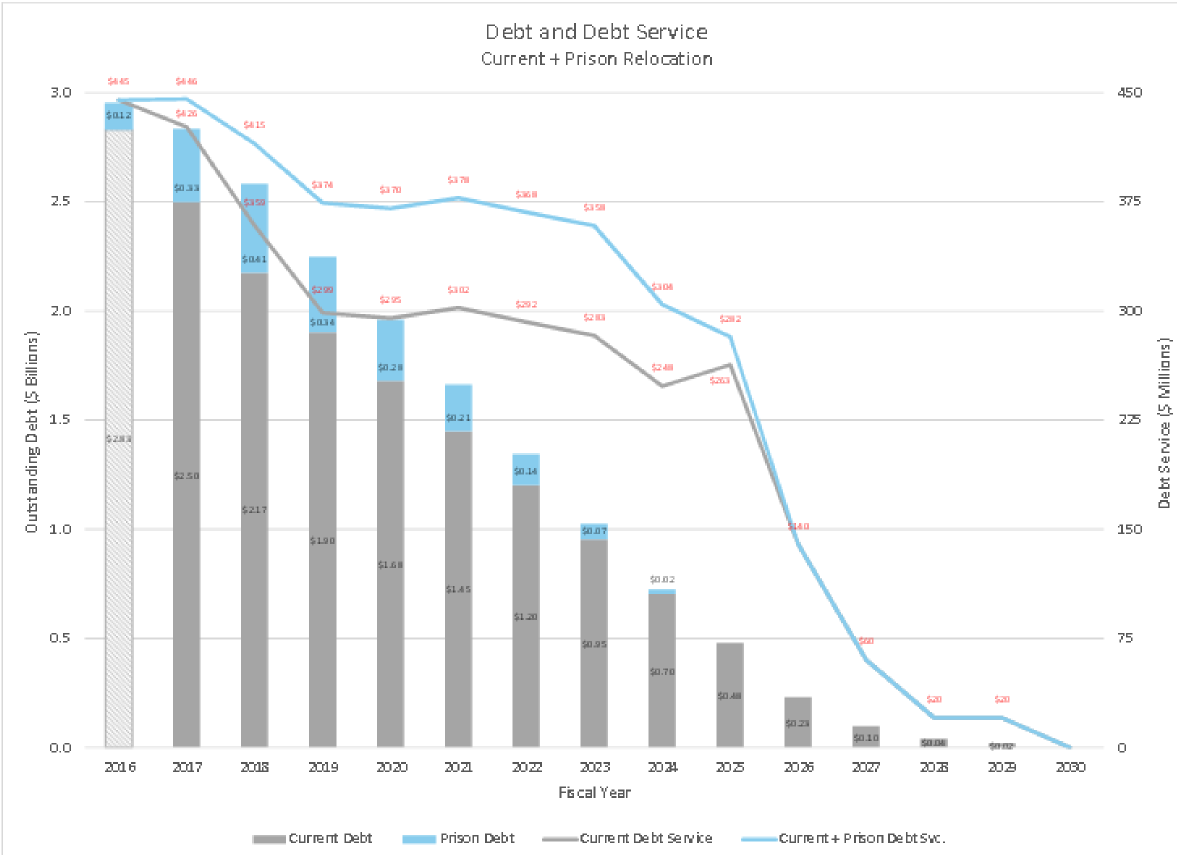
Current Debt Service and Prison Debt Modeling - Brian Wikle

The State of Utah often uses bonds to finance large capital expenditures including new facility construction, major remodeling, and highway projects, and such bonds add to the State's indebtedness. The State is limited in borrowing to 1.5 percent of the value of taxable property in the state (see Utah Constitution, Article XIV, Section 1). In practice, the State stays well below the constitutional debt limit in an effort to maintain a sound financial position. Current outstanding General Obligation (GO) debt totals $2.499 billion and the debt limit based on the latest official property valuation is $4.556 billion giving a debt to debt limit ratio of 54.8 percent. The State made payments toward GO bond principal totaling $331,255,000 on July 1, 2015. The next payments toward principal will total $324,910,000 and will occur on July 1, 2016. Without issuance of further debt, the debt to debt limit ratio will fall to 47.7 percent next July.

The following chart shows the payoff schedule of current outstanding debt and debt service each fiscal year through 2030 when current debt will be retired. Debt outstanding is depicted as columns with black font in the column showing the debt amount, and the scale is the left hand y-axis; debt service is depicted as a line with red font showing the amount, and the scale is the right hand y-axis.



In the 2015 General Session, the Legislature authorized issuance of up to $470 million in bonds for relocation of the prison, and additional bonding may be authorized by future legislatures. Once authorized, the State Treasurer has discretion to issue bonds. In doing so, the Treasurer considers the State's overall financial position, the financing needs for a particular project, and conditions in the bond market along with other factors. The following chart depicts a hypothetical scenario in which the full $470 million of bonding authorized for the prison project is issued at three percent interest in three series that are repaid over seven years: Series 1 - $120 million issued in 2016 with the first payment on July 1, 2017; Series 2 - $230 million issued in 2017 with the first payment on July 1, 2018; and, Series 3 - $120 million issued in 2018 with the first payment on July 1, 2019.



DCFS Responds to Legislator Concerns About Children in Foster Care - Stephen C. Jardine

As part of the 2015 Social Services Appropriations Subcommittee deliberations, Representative Chavez-Houck and Senator Jackson expressed concerns regarding the number of out-of-home (foster care) placements in the Division of Child and Family Services (DCFS). Senator Jackson asked the agency, "Given that the DCFS long term goal is to reduce the use of foster care by reducing recurrences of child abuse and neglect and the need for DCFS intervention, please provide FY 2011 - FY 2015 comparison information for In-home Services and Out-of-Home Services both statewide and in particular for the Northern Region where increased in-home efforts have been fully implemented." Representative Chavez-Houck also asked for a comparison of the cost per case for DCFS in-home compared to out-of-home placements in order to assess the trend line of making the shift between these two services.

DCFS responded to these Legislators' questions during the Social Services Appropriations Subcommittee meeting held on June 12, 2015. DCFS stated its vision regarding In-home services and Out-of-home services as: "Safe Children - Strengthened Families - Children must be protected from the trauma of abuse and neglect. When safe to do so, we must also protect them from the compounding trauma of removal from their families by effectively utilizing In-home services." DCFS referred to a program it has launched in its Northern Region called *HomeWorks* and explained the program as enhanced in-home services that are "evidence-based services, strategies, and tools that best support the safety, permanency, and well-being of children and the strengthening of their family." DCFS also indicated that the goal of the *HomeWorks* program is to "enhance parents' capacity to safely care for their children in their home and safely reduce the need for foster care in Utah." DCFS anticipates measuring success by seeing: 1) reduced use of foster care, 2) reduced recurrences of child abuse and neglect, and 3) reduced need for DCFS intervention. DCFS provided the following comparison information to the committee:

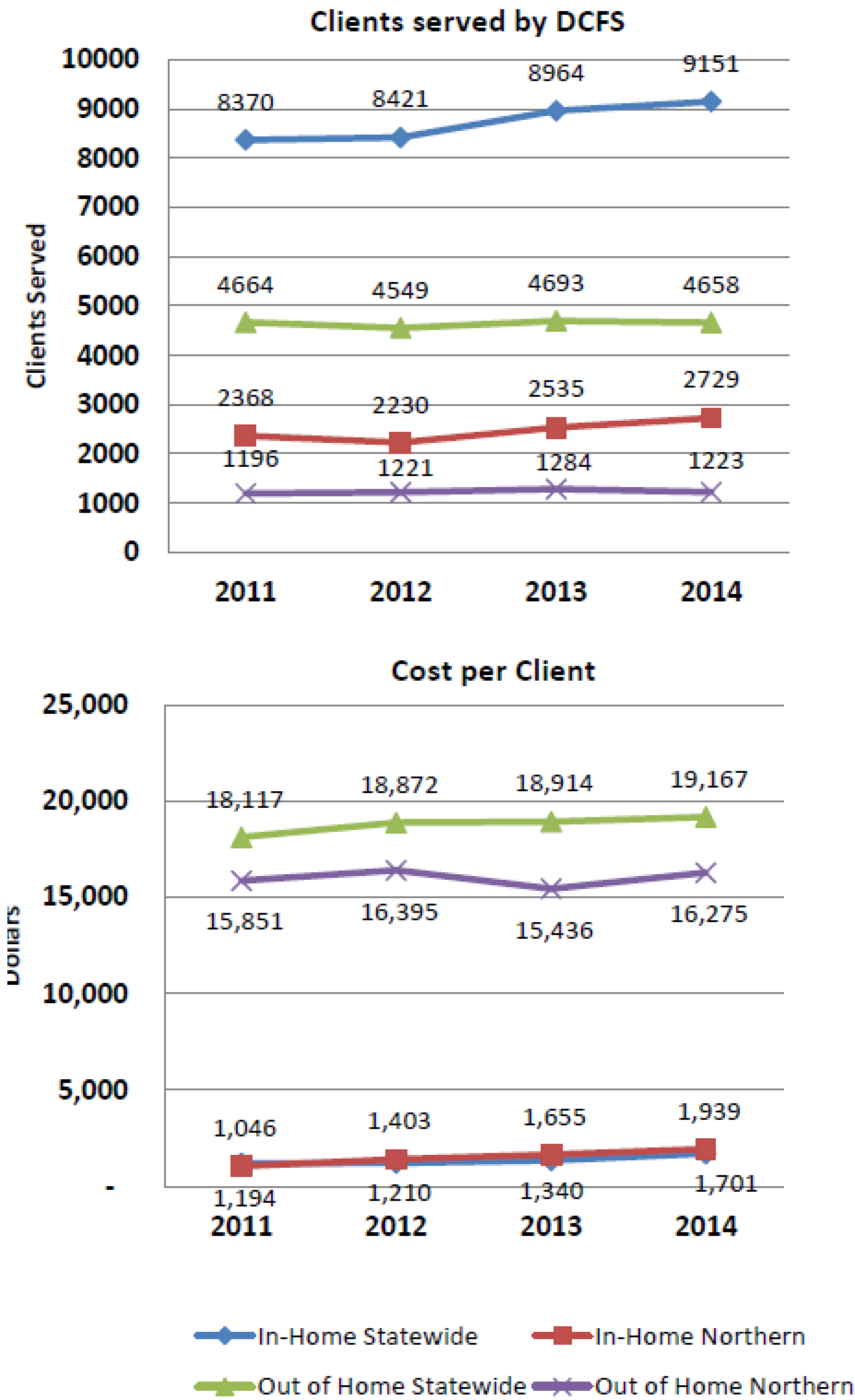

Clients served by DCFS
Clients Served
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
8370
8421
8964
9151
4664
4549
4693
4658
2368
2230
2535
2729
1196
1221
1284
1223
2011
2012
2013
2014
Cost per Client
25,000
20,000
15,000
10,000
5,000
-
18,117
18,872
18,914
19,167
15,851
16,395
15,436
16,275
1,046
1,403
1,655
1,939
1,194
1,210
1,340
1,701
2011
2012
2013
2014
In-Home Statewide
In-Home Northern
Out of Home Statewide
Out of Home Northern

Figure 1

Figure 1 reflects case cost and case count data comparing in-home services and foster care services for the period from FY 2011 - FY 2014 for DCFS Northern Region and statewide. DCFS indicates it will use this data as a baseline period from which to measure future trends as it strengthens its in-home services statewide.

DCFS has indicated that in the last several months, *HomeWorks* initial training has also taken place in the Southwest, Salt Lake Valley, and Eastern regions and the launch of the *HomeWorks* program in its Western Region will occur in November of 2015. DCFS indicated that the practice changes required for *HomeWorks* are significant and require additional post-training supports and coaching in order for caseworkers to fully incorporate it into their day-to-day work with parents and children. DCFS also indicated that *HomeWorks* is being rigorously evaluated through the University of Utah Social Research Institute.

Dredging the Marinas of the Great Salt Lake and Utah Lake - Ivan D. Djambov

The little precipitation in recent years has contributed to lower water levels of many lakes and reservoirs in Utah. In order to help boat owners launch their boats in the Great Salt Lake and Utah Lake, the 2015 Legislature appropriated $3 million one-time from restricted accounts ($2.5 million from the Sovereign Lands Management Account and $500,000 from the State Park Fees Account) for the dredging of the marinas of the two lakes ($1.5 million each).

The Division of Facilities and Construction Management (DFCM) is overseeing these projects. As of August 2015, DFCM has contracted with an engineering firm (J-U-B Engineers) to do the design and secure the necessary permits from the U.S. Army Corps of Engineers. One option is to build a cofferdam at the marinas and pump out water. Then, using heavy equipment, the marinas would be deepened.

The hope is that construction can begin this fall. One of the potential obstacles to the Utah Lake dredging project is freezing temperatures. But due to the higher concentration of salt and minerals, the water of the Great Salt Lake freezes at lower temperatures, and the construction project could potentially continue through the winter months.

Funding the State's Other Post-Employment Benefit (OPEB) Liability - Steven M. Allred

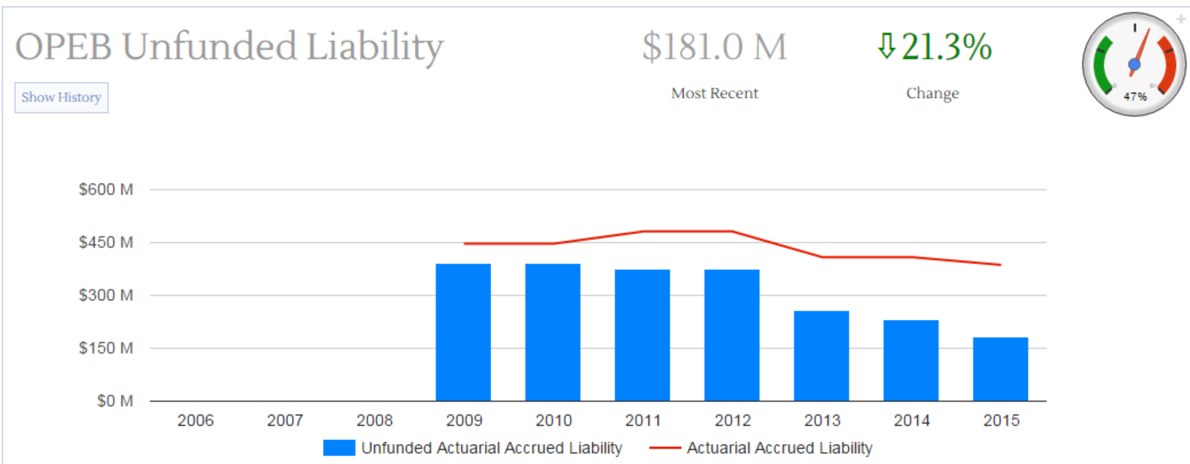
The term "Other Post-Employment Benefits" or OPEB, refers to benefits, other than pensions, that a state government employee receives as part of his/her package of retirement benefits. In Utah it principally involves post-retirement health care benefits. In order to receive these benefits, a state employee must have been hired before January 1, 2006, retire from active employment, and meet age and service criteria. For those who qualify, benefits include:

- 75% of Program I unused or converted sick leave balances accrued through 2005 may be converted to purchase medical and prescription drug coverage
- Eight hours of sick leave equates to one month of medical coverage for both the retiree and spouse until age 65
- After age 65, an additional eight hours of sick leave is required to continue spouse coverage

In order to cap the state's financial liability under conditions of rapidly growing health care costs, the Legislature passed House Bill 213 in the 2005 General Session, which eliminated the program for new employees hired after January 1, 2006.

The Governmental Accounting Standards Board (GASB requires a bi-annual actuarial determination of OPEB liabilities. Utah's contracted actuarial firm completed their most recent valuation just this month, using data from December 31, 2014 and assumptions approved by the State Board of Trustees, and reported their results to the Executive Appropriations Committee. As expected under a closed plan, both the state's total liability and the unfunded portion of the liability continue to decline.

The following chart from the Fiscal Health Dashboard summarizes the latest results.



Actuarial Accrued Liability (the red line) declined from $409 million in 2013 to $387 million in 2015. The largest reason for the decline is a net decrease in headcounts by 1,433 as employees leave state government or consume the last of their benefits.

Assets set aside by the state to pay off the liability increased from $150 million to $205 million. The state makes annual contributions to a trust fund and and fund has performed well in its investments.

Unfunded Actuarial Accrued Liability (the blue bars) therefore decreased from $259 million in 2013 to $181 million in 2015, meaning the unfunded liability is now 47% of total liability (as shown in the dial), compared to 63% two years ago.

Higher Education Reports on Equity and Mission Based Funding - Spencer C. Pratt

During the August meeting of the Executive Appropriations Committee, Commissioner Dave Buhler, Utah System of Higher Education, reported on how funding from two appropriations made during the 2014 General Session has been used. For FY 2015, the Legislature approved $50 million for Equity and $7 million for Distinctive Mission Based Funding.

Equity funding was targeted at five institutions that have experienced a significant increase in the number of students over the past decade, but without corresponding funding increases. Because of this growth, Utah Valley University, Salt Lake Community College, Utah State University - Regional Campuses, Dixie State University, and Weber State University all received a portion of the $50 million appropriation which moved them closer to 90 percent of the average of national peer institutions. Since most expenditures in higher education are personnel-related, most of the funding will be to hire new faculty to alleviate bottleneck courses in general education and high-demand programs. Course offerings will be expanded online, as well as during evenings, weekends, and advising. Commissioner Buhler referenced a handout detailing specific plans by each institution showing proposed spending of equity funding.

The $7 million Distinctive Mission Based funding was implemented by institutions to support the State Board of Regents' strategic goals of increasing participation, completion, and economic development through promoting each institution's specific mission. A detailed plan was presented which showed how each of the eight Utah System of Higher Education institutions and the State Board of Regents would utilize the Mission Based Funding.

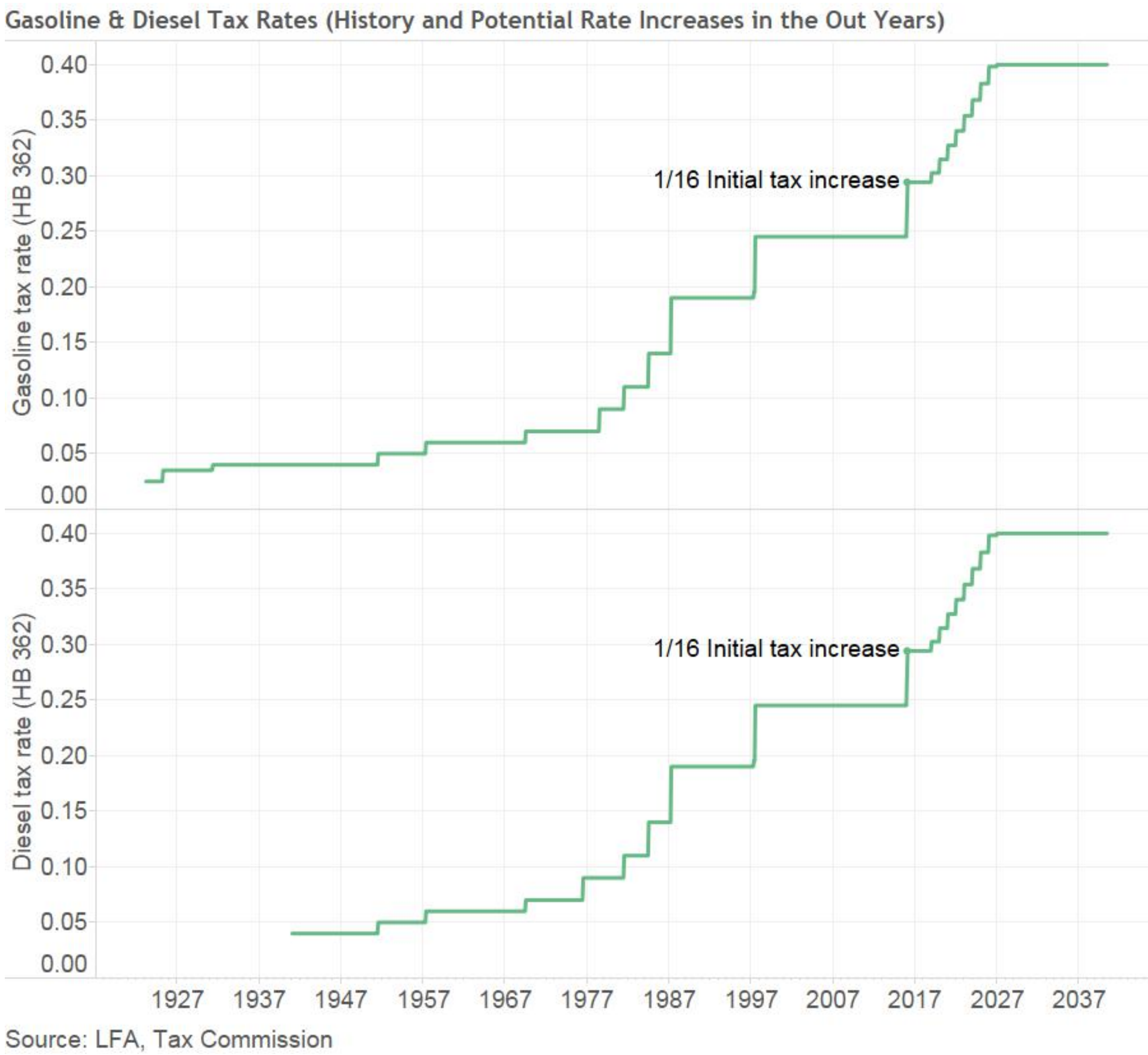
A request was made for an update of the $9 million for Performance Based Funding approved during the 2015 General Session. Commissioner Buhler told the Committee that the Board of Regents had recently approved the funding model and allocations and he would be prepared to present the model and an update to the Committee at an upcoming meeting.

Initial Gas Tax Increase Set at 4.9 Cents per Gallon - Thomas E. Young

On Tuesday, the Executive Appropriations Committee heard options regarding the definition of "statewide average rack price." The final recommended definition by the Tax Commission parallels the assumptions behind the gasoline tax fiscal notes discussed during the Legislative session, which defined the statewide average rack price by the following characteristics: regular, 10% ethanol, 9.0 Reed Vapor Pressure, net, average, closing price for the state as a whole. This initial year the Utah average rack price is $2.24 per gallon.
This statewide average rack price matters because future gasoline and diesel tax rates are linked to this price. The $2.24 per gallon is less than the $2.45 per gallon minimum, so the tax increase is $2.45 multiplied by 12 percent less the current tax rate of $0.245 per gallon, or 4.9 cents per gallon. The 4.9 cents per gallon represents a tax increase of about $25 million in FY 2016 and about $75 million in FY 2017.

Future years' tax increases are linked to the statewide average rack price based upon where the average rack price for the fiscal year ends up. If the rack price rises above $2.45 per gallon, but below $3.33 per gallon, then the tax rate is the average rack price multiplied by 12 percent. If the rack price is below the minimum ($2.45) or above the maximum ($3.33), then the tax rate is the minimum or maximum rack price multiplied by 12%.

Here's a history of the gasoline tax rate since inception. Overall, the upcoming January 1, 2016 gas tax increase represents the 12th gas tax increase since its inception in 1923. There has never been a gas tax rate decrease.



Minimum School Program Estimates - Ben Leishman

The annual appropriation for the Minimum School Program (MSP) is mostly based on two estimates: local school district property tax collections and the number of students. Over the past several years, large year-end balances have accumulated in the program at the close of the fiscal year. These balances have ranged from $30 million to $100 million annually and occur when the amount of property tax collections is underestimated or the number of WPUs is overestimated.
A consensus process is used to develop the MSP estimates. Specialists from the Office of the Legislative Fiscal Analyst, the Utah State Office of Education, the Governor's Office of Planning and Budget, and the Utah State Tax Commission develop the estimates. Accurate projections are important to not unnecessarily tie up funding that could be used for other purposes or require the Legislature to allocate additional funding.

Through the consensus process, the methodology used to estimate local property tax collections changed two years ago. The goal of the change was to decrease the variance between the statutory local revenue target appropriated by the Legislature each year and actual collections. From FY 2010 to FY 2014 the variance ranged from 4 percent to 12 percent as seen in the chart below. The new methodology anticipates a variance between 1 percent and 4 percent.

FY 2015 was the first budget year using the new methodology. Based on actual collections, the property tax collection estimate came in within the new range at 2 percent. The change in methodology has reduced the variance between the amount estimated in local property tax collections and the amount actually collected. As a result, the amount remaining in the program is also lower at $5.6 million.

Fiscal Year	Basic Rate: Estimated vs. Actual Collections FY 2010 to FY 2015			
	Estimated	Actual	Difference	Variance
2010	$273,950,764	$283,799,229	$9,848,465	4%
2011	$273,950,764	$297,509,243	$23,558,479	9%
2012	$284,221,713	$310,279,300	$26,057,587	9%
2013	$289,021,900	$322,574,011	$33,552,111	12%
2014	$294,092,000	$306,814,191	$12,722,191	4%
2015	$296,709,700	$302,335,197	$5,625,497	2%

Historically, the student enrollment estimate has been very accurate. In FY 2015, initial estimates indicated that 622,813 students would enroll in Utah's public schools. The actual enrollment was 622,153, a difference of 660 students (0.1 percent). The Legislature appropriated funds based on the higher enrollment estimate. As a result, approximately $2.2 million more was appropriated than required.

Approximately $7.8 million may be added to the MSP year-end balance as a result of the property tax and enrollment estimates. Preliminary figures show that FY 2015 may close with approximately $40.0 million in remaining balances.

This information leads to a natural question: will there be approximately $40.0 million available to spend on education programs next year? The Utah State Office of Education is still in the process of finalizing the FY 2015 budget and it is likely this estimate will change. Also, the amount includes funds committed to multi-year programs or encumbered and waiting for distribution to school districts or charter schools.

When accounting for final changes, multi-year programs, and encumbrances, there may be approximately $25.0 million in balances remaining in the MSP. Before you answer the question on how much can be spent in the next session, you may want to answer the following:

- How much of a budgetary cushion is appropriate for the Minimum School Program?
- What happens when estimates are off and balances are insufficient to cover the difference?

While $25.0 million is a lot of money, it is less than 1 percent of the total $3.5 billion MSP budget. Also, funding for students (converted to WPUs) is guaranteed under statutory formulas. The Legislature has two options if future estimates are significantly wrong and balances are insufficient to cover the difference. First, the Legislature could appropriate more funding either in a special session or the following general session. Or, second, statute requires that the State Board of Education reduce the WPU Value (reduce funding for all students) to meet the level of revenue appropriated by the Legislature.

Mountainland ATC New Apprenticeship Training Center - Jill L.Curry

The Mountainland Applied Technology College (MATC) serves Summit, Utah, and Wasatch Counties, with campuses in Lehi, American Fork, Orem, Spanish Fork, and Heber. MATC is one of the fastest growing campuses in the Utah College Applied Technology (UCAT). During the 2015 General Session, the Legislature appropriated $3 million to UCAT for campus equity to ensure each service region is adequately funded. The funding distribution was determined by population and current service levels. Out of that $3 million appropriation, $1,383,300 (46 percent) went to MATC (in S.B. 2 and S.B. 3, 2015 General Session). A total of $10,765,400 was appropriated by the Legislature to MATC for FY 2016 so this new equity money represents about 12.8 percent of Mountainland's total appropriation.

Since the 2015 General Session, MATC has been engaged in exciting new developments. One of those developments is a new building for the partnership between MATC and Associated General Contractors (AGC). MATC and AGC have been working together to develop skilled construction workers to supply the job market with competent, skilled workers. Their partnership has grown over time. Initially, a small portion of the building was leased to MATC for the new partnership. However the program has tripled since its beginning causing a need for an expansion. MATC leased and renovated the entire building making it more conducive for student learning. The renovated building now has a new classroom and a large shop for the hands-on aspect of the training. The building will serve as the training grounds for many students interested in the construction industry. This development is especially important because MATC is the leader in producing skilled workers for the Mountainland Region's job market.

Spending on Planned Parenthood - Russell T. Frandsen

On August 14, 2015 Governor Herbert issue an executive order, which included the following instructions to state agencies: "I have instructed state agencies to cease acting as an intermediary for pass-through federal funds to Planned Parenthood." Most state contracts have a 30 day notification minimum for federal funds to stop flowing. State agencies currently are working with attorneys to determine which of the $220,000 contracts can be ended of those shown in the table below:

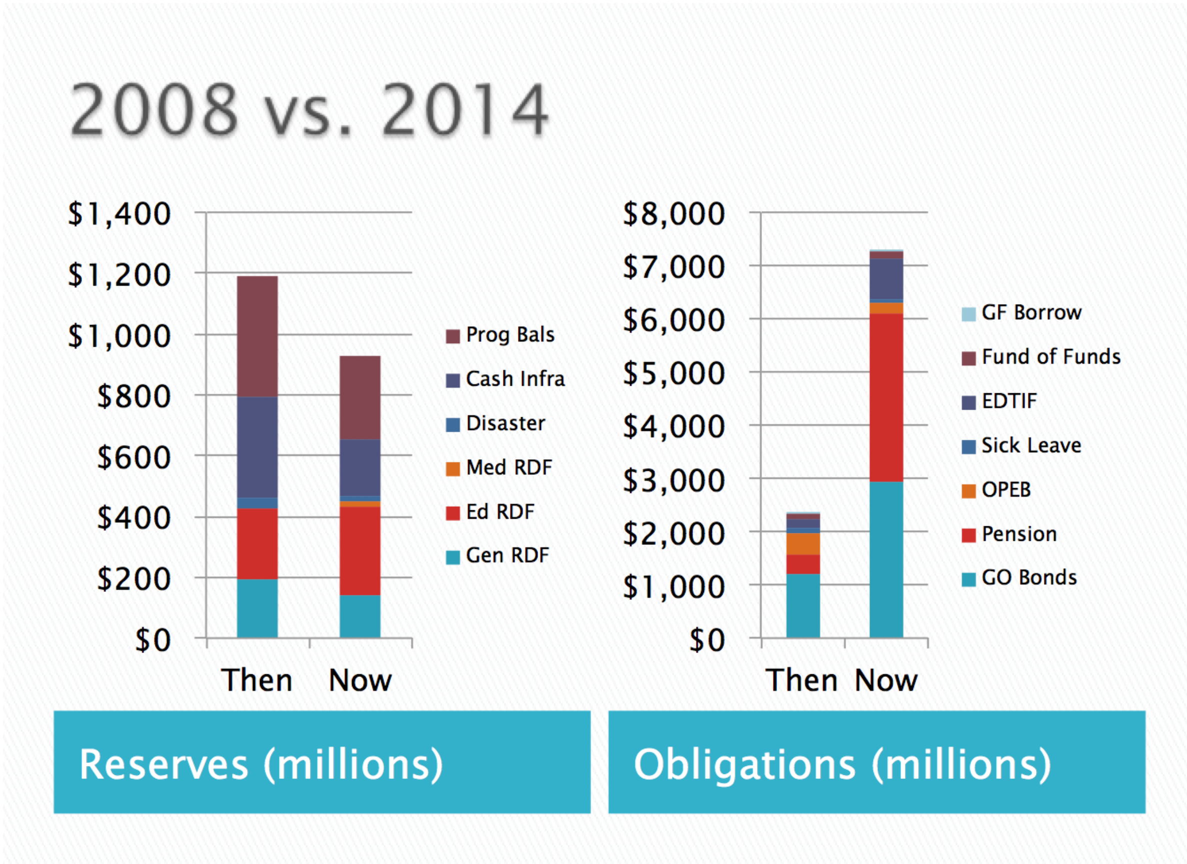
Agency - Program	FY 2014	FY 2015 (estimated)	Explanation
Health - Maternal and Child Care	$ 56,400	$ 115,700	Abstinence only sexual education in schools outside of normal school hours.
Health - Communicable Disease	$ 75,000	$ 75,000	Up to $75,000 reimbursement to the Utah Public Health Laboratory for chlamydia and gonorrhea testing for clients of Planned Parenthood.
	$ 80,000	$ 30,000	Electronic health record modernization payments to improve accuracy timeliness of sexually transmitted diseases.
	$ 85,200	$ -	Comprehensive treatment for chlamydia.
Office of Victims of Crime	$ 700	$ 1,300	Pregnancy testing and/or disease testing for victims of sexual assault.
Human Services	$ 400	$ -	Inmate medical costs.
Utah State Board of Education	$ 100	$ 100	Charges to obtain health records as part of disability program applications.
Total	**$ 297,800**	**$ 222,100**	
General Fund	$ 400	$ -	
Federal Funds	$ 297,400	$ 222,100	

State Budget Lessons Learned at the 2015 NCSL Annual Summit - Andrea Wilko

State budgets have grown for the past five years at historically slow rates. In spite of this, financial conditions in most states appear to be improving. Nationwide state budgets are expected to grow at approximately 3.1 percent in FY 2016. However, states continue to face a number of challenges including the following:

1. Increased revenue volatility
2. Decreased federal funding
3. Decreased labor force participation

Revenue growth remains slow due to employment and wage constraints. Reserve funds remain lower than pre-recession levels and unfunded liabilities are at historical highs for many states. Using Utah as an example, pre-recession obligations were just over $2 billion compared to obligations over $7 billion today. The increase is largely attributed to increased pension obligations and bonding, a common factor for most states.



Total state spending nationwide has experienced funding and programmatic shifts since 2009. Over the past four fiscal years, spending from states' own revenue sources has moderately grown each year, while total state expenditure levels (including all state and federal funds have been more volatile due to the impact of federal funding changes. Federal funds to states have fluctuated as a result of both the Affordable Care Act and the Recovery Act. States remain concerned about long term spending pressures including increasing costs in healthcare, education, infrastructure, and pensions.

State budgets are projected to grow again in FY 2016 for a sixth consecutive year, extending the period of fiscal prosperity for states. Most states continue on a path of stable, moderate spending and revenue growth, though some states face budget challenges that will need to be addressed going forward. Long-term spending pressures on K-12 education, health care, pensions and other critical areas continue to grow, often faster than state revenue growth. Overall, state finances continue to improve, but growth remains slow.