

Office of the
Legislative Fiscal Analyst

FY 2005 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Introduction

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and the Utah College of Applied Technology.

According to the Council of Economic Advisors, Utah's economy improved only slightly in 2003 due to the lingering national recession and other factors. Personal income growth was the weakest since 1954 and a second consecutive year of job losses was the worst since 1946. Most of the job losses occurred in the technology sector. Record defense spending and housing construction kept the economy from being worse. While the outlook for 2004 calls for a return to moderate growth, positive impact on the state budget will take some time.

Therefore the Executive Appropriations Committee has allocated prior year ongoing appropriations to appropriations subcommittees. The Analyst has drafted recommendations for FY 2005 based on this direction. The Executive Appropriations Committee may take further actions later, depending on revised revenue estimates. Revised FY 2005 revenue estimates should be available by February 16, 2004. Funding of any other items such as building blocks, salary and benefit increases, and Internal Service Fund adjustments will be done subject to subcommittee recommendations, available revenue, and final action by the Executive Appropriations Committee.

The FY 2005 recommendations include all budget cuts made in FY 2001 through FY 2004 that were ongoing in nature. They also include prior budget increases (such as personnel benefit cost increases) that were ongoing in nature. The current budget recommendations do not include any additional funding for compensation issues or other areas that may be deemed important to the Legislature. It is expected that a balanced budget will result from the work of the Legislature in the 2004 General Session.

The co-chairs of the Executive Appropriations Committee have requested that appropriation subcommittees review all budgets in as much depth as possible. It is anticipated that this will include presentations by the agencies, institutions, and the Office of the Legislative Fiscal Analyst. Subcommittees should remember that they have the prerogative to reallocate funds within existing budgets for those issues that they deem to be important. **In addition, subcommittees may prepare a list of critical issues in priority order that they would recommend subject to funding availability.**

It is estimated that Thursday, February 12th, 2004 will be the last day for regular subcommittee work. All recommendations for the Executive Appropriations Committee should be completed at that time.

	Analyst FY 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing			
General Fund	88,798,300		88,798,300
Uniform School Fund	16,712,900		16,712,900
Transportation Fund	5,857,400		5,857,400
General Fund Restricted	29,884,000		29,884,000
Transportation Fund Restricted	133,800		133,800
Federal Funds	203,844,700		203,844,700
Dedicated Credits	17,231,400		17,231,400
Restricted Revenue	20,859,200		20,859,200
Trust and Agency Funds	30,622,400		30,622,400
Transfers	2,849,100		2,849,100
Pass-through	75,200		75,200
Beginning Balance	12,533,500		12,533,500
Closing Balance	222,000		222,000
Lapsing Balance	(2,600)		(2,600)
Total	\$429,621,300	\$0	\$429,621,300
Programs			
Tax Commission	64,407,300		64,407,300
Workforce Services	261,570,500		261,570,500
Alcoholic Beverage Control	18,465,200		18,465,200
Labor Commission	8,462,600		8,462,600
Commerce	20,127,200		20,127,200
Financial Institutions	4,463,900		4,463,900
Insurance	39,945,800		39,945,800
Public Service Commission	12,178,800		12,178,800
Total	\$429,621,300	\$0	\$429,621,300
FTE/Other			
Total FTE	1,689		1,689

2.0 Commerce and Revenue Budget Highlights

2.1 Alcoholic Beverage Control Relationship to General Fund

Excess liquor profits are transferred to the General Fund. Increases to the Department’s budget should be treated like General Fund. However, the mission statement says that “the Department operates as a public business using sound management principles and practices generating revenue for State and local government programs.”

2.2 Alcoholic Beverage Control Bond Payments. \$341,800.

The Legislature authorized the Department’s issuance of revenue bonds for warehouse expansion and liquor store construction. In the last session the Legislature funded the partial bonding cost due in FY 2004. For FY 2005 the remaining annual costs need to be funded. The Analyst recommends:

Liquor Control Fund\$341,800

2.3 Alcoholic Beverage Control 2 FTE for New Store \$75,000.

The Tooele store is increasing from 2,286 to 10,000 square feet. They will increase sales and are requesting one addition full-time and two part-time FTE. The Analyst recommends:

Liquor Control Fund\$75,000

2.4 Alcoholic Beverage Control Package Agency Increase \$31,600.

Compensation for Package Agencies is based on prior year’s sales. The Department determined that eight agencies need increases totaling \$31,600.

Liquor Control Fund\$31,600

2.5 Commerce and Public Service Commission Change in Funding for Public Utilities, Committee of Consumer Services, and the Public Service Commission

Funding for the Division of Public Utilities (DPU) and the Committee of Consumer Services (CCS) has been from the Public Utility Regulatory Fund (PURF). Utilities pay an assessment to cover the costs of regulation. These funds have been deposited in the Commerce Service Fund for appropriation. PURF also funds the Public Service Commission but there the funds are called “General Fund.” Calling PURF “General Fund” and “Commerce Service Fund” in another has caused confusion and problems in the past. The Analyst’s recommendation is to call these Public Utility Regulatory Funds “GFR-CSF-PURF” which stands for General Fund Restricted – Commerce Service Fund – Public Utility Regulatory Funds. This gives the Department of Finance the necessary information: Category and type of fund, Name of the fund, and that it is a special account within the fund.

**2.6 Insurance
HIPUtah**

Preserving the individual insurance market.

\$10,000,000. (one-time)

Created in 1991, the Utah Comprehensive Health Insurance Pool (now called *HIPUtah* to avoid confusion with CHIP) provides access to health insurance coverage to people who are considered uninsurable. The Pool is funded by appropriations from the Legislature, premiums by the insured and by employers, and interest and dividends.

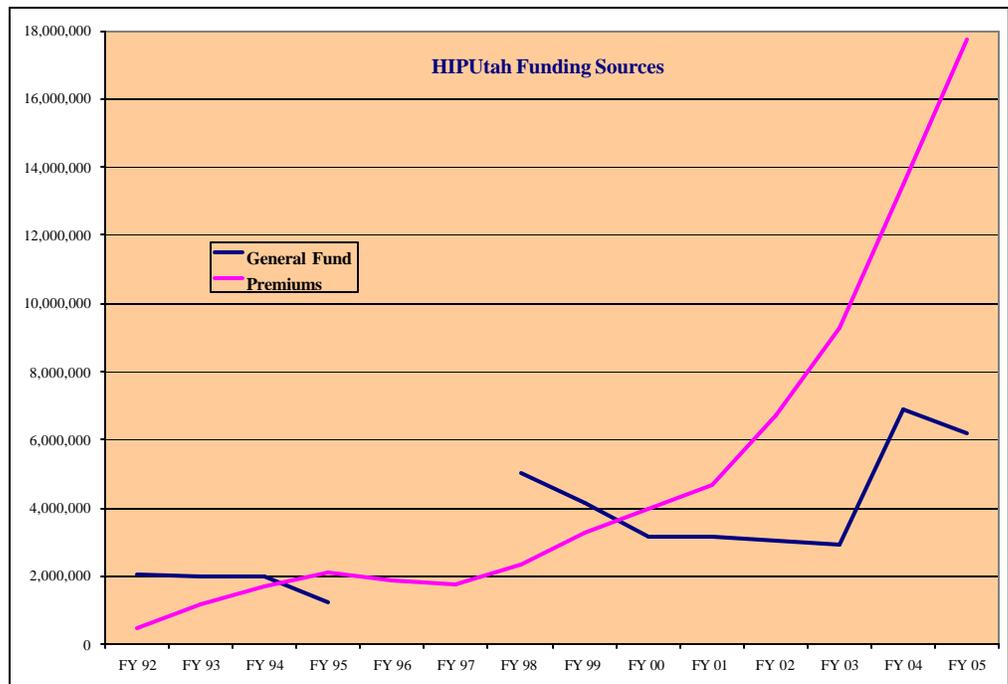
Health Insurance Portability & Accountability Act of 1996 (HIPPA).

This federal law guarantees health insurance for groups 2-50 in the private market. Individuals losing coverage because their conditions are uninsurable are guaranteed coverage. In Utah, those individuals are insured through *HIPUtah*. All other individuals have coverage through private individual insurance.

S.B. 60, 1997 Session, Open Enrollment Amendments, mandates access to individual coverage for Utah Residents who are not eligible for public programs or private group insurance. Coverage comes through *HIPUtah* for individuals with uninsurable medical conditions. These people would otherwise seek coverage from private insurance companies which might cause them to discontinue offering individual insurance coverage. To avoid this, the Legislature agreed to increase *HIPUtah* funding and provide coverage for individuals with an average medical risk of 200% or higher. All others have access to coverage through private individual insurance.

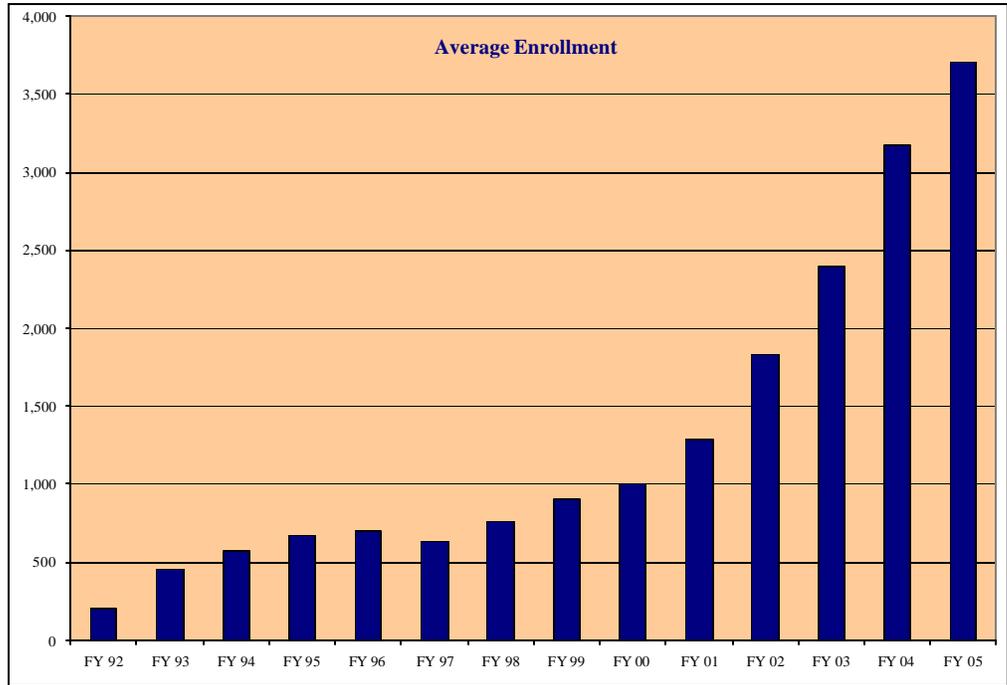
HIPUtah Funding

This shows premium income increasing. General Fund contributions increased to \$6,916,200 in FY 04. In FY 96 & FY 97 there was no General Fund appropriation. Ongoing funding amounts to \$6,203,900.



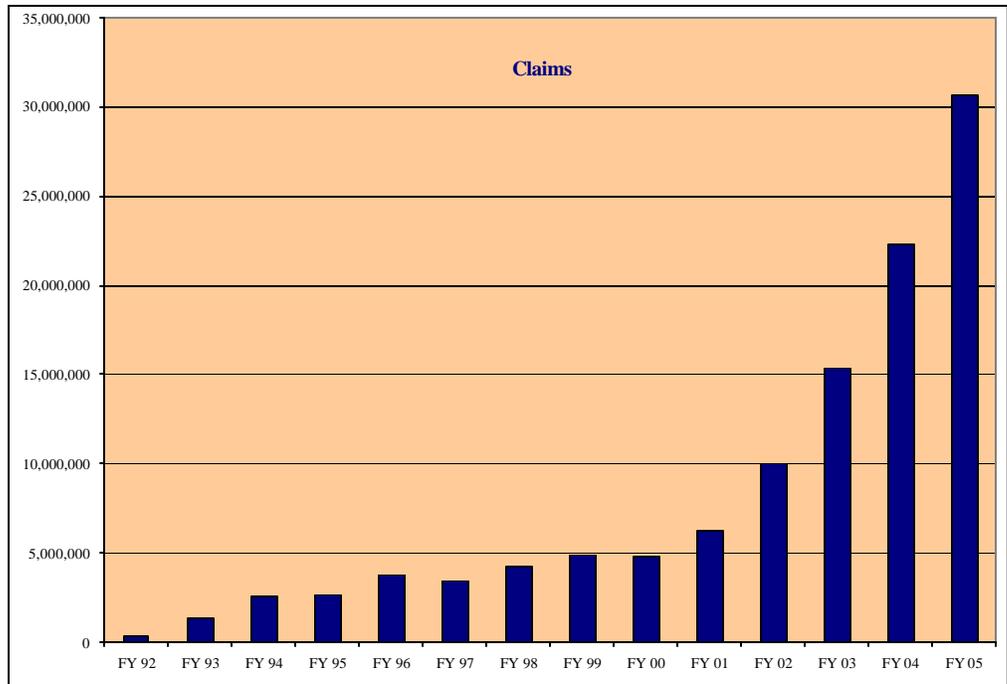
HIPUtah Average Enrollments

Enrollments increased dramatically while state funding was stable. The FY 04 increase staved off capping the fund but did not replenish reserves.



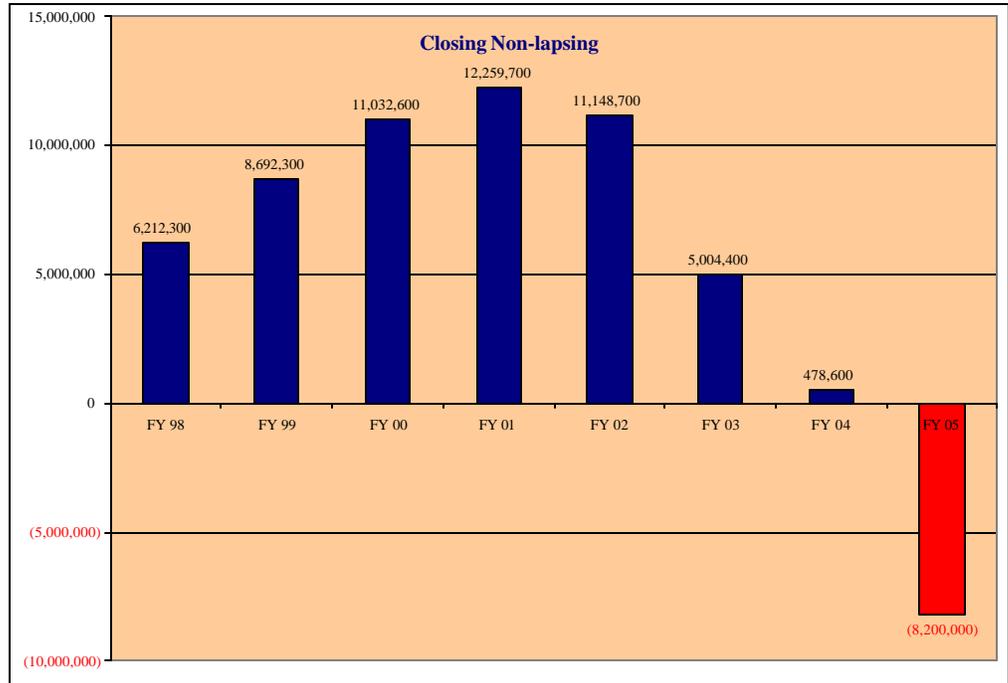
HIPUtah Claims

The increase in claims follows the increase in enrollments.



HIPUtah Non-lapsing Balances

This is what is left over at the end of each fiscal year. An insurance company would need larger reserves. FY 05 shows a negative \$8.2 million balance.



The HIPUtah board will cap funding rather than allow the fund to go insolvent. The last chart shows the deficit if HIPUtah does not receive additional funding. If the board caps enrollment, private individual insurers would then be forced to guarantee coverage to those with uninsurable medical conditions. These private insurers may then face the option of going out of the individual coverage business or becoming unprofitable. A decision to get out of the business would leave thousands uninsured.

The Analyst recommends adding this to end of session Budget Increase List at \$10,000,000 in one-time General Fund with the following intent:

The Legislature intends to provide sufficient funding so that HIPUtah will not have to cap enrollment. If the amount appropriated is not sufficient, HIPUtah should request a supplemental appropriation in the next legislative session. The Legislature will give high priority to such a request.

The Analyst would prefer to recommend on-going funding but that is impractical in this tight budget year.

2.7 Insurance

COSMOS Maintenance Agreement
\$110,000.

The Department's COSMOS integrated database is the management information system that regulates insurance companies, agents, and agencies. When the system was installed, the Legislature funded the purchase but not the maintenance agreement. Since that time they have been funding the agreement with Non-lapsing Balances. For FY 04 and FY 05 the Department has run out of Non-lapsing. They are requesting \$110,000 (\$55,000 in FY 04 and \$55,000 in FY 05) for the Maintenance Agreement.

2.8 Labor Commission

Restore General Fund to Industrial Accidents.
\$455,500

In FY 2003, General Fund for the Industrial Accidents Division was replaced with funds from the Uninsured Employers' Fund and the Workplace Safety Fund. This was done as part of the overall General Fund reductions.

This measure was not meant to be ongoing for more than two years and the Workers' Compensation Advisory Committee is now asking that General Funds be restored to the Industrial Accidents Division.

Continued funding of the Industrial Accidents Division using the two funds will create actuarial problems for future years and hampers the promotion of safety issues from the Workplace Safety Fund.

The Analyst recommends including this item for consideration at the end of session

2.9 Tax Commission

Motor Vehicle Division Office Rent in Davis County.
\$110,000

According to Utah Code 59-2-406, each county has the option of determining whether the state or county will do the combined motor vehicle registration process for the citizens of their county. In January 2002, Davis County provided notice that they wanted to change the existing arrangement and contract with the state to do this work.

While there are reciprocal agreements covering the costs associated with staffing offices, the actual cost to rent office space is paid by the party that is contracted to do the work.

As part of the transition agreement, Davis County will allow the state to remain in their courthouse this year, though they want the state to find other office space on or before July 1, 2004. Based on lease information from DFCM, the estimated cost to rent office space will be \$16 per foot which is about \$110,000 General Fund annually.

The Analyst considers this a mandated cost and recommends that the Legislature add this to its Budget Increase List for funding at the end of the session.

2.10 Tax Commission

Maintain 4 Auditor and 4 Collectors.
\$374,600.

Last session the Legislature reduced funding for four auditors and four collectors. Late in the session that funding was replaced with one-time funding. Those positions will be lost in FY 05 if funding is not replaced again. The actual average annual assessments per auditor for the last three years is:

FY 01	\$399,900
FY 02	\$388,400
FY 03	\$658,900.

The average collector brings in about \$550,000 annually in delinquent collections. The Analyst believes that the state will lose more revenue from this reduction in appropriation than it would save. The Analyst recommends that the Legislature add \$374,600 in either General Fund or Uniform School Funds to its Budget Increase List for funding at the end of the session.

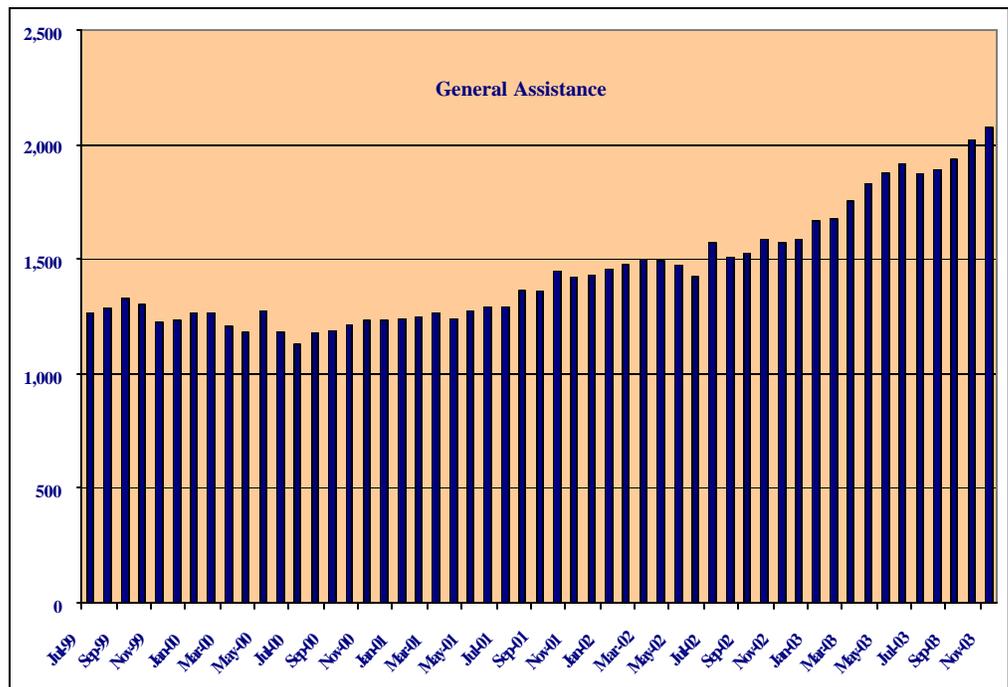
2.11 Workforce Services

General Assistance caseload growth and funding restoration. **\$2,424,300.**

Since the summer of 2000, cases have steadily increased to more than 2,000 (an 83% increase). During the December '02 Special Session the Legislature cut the program \$1,366,900 (\$1,000,000 of this cut was restored one-time for FY2004 only). For FY2005 DWS requests a restoration of the \$1,366,900 cut. DWS estimates that it will need an additional \$1,057,400 for caseload increases for a total of \$2,424,300.

Performance Measure

Caseloads have increased dramatically.



2.12 Workforce Services

Food Stamp federal match rate change and workload increase. **\$454,800 Ongoing**
\$945,200 1-time.

Ongoing federal match rate change – Employment & Training (\$454,800 ongoing)

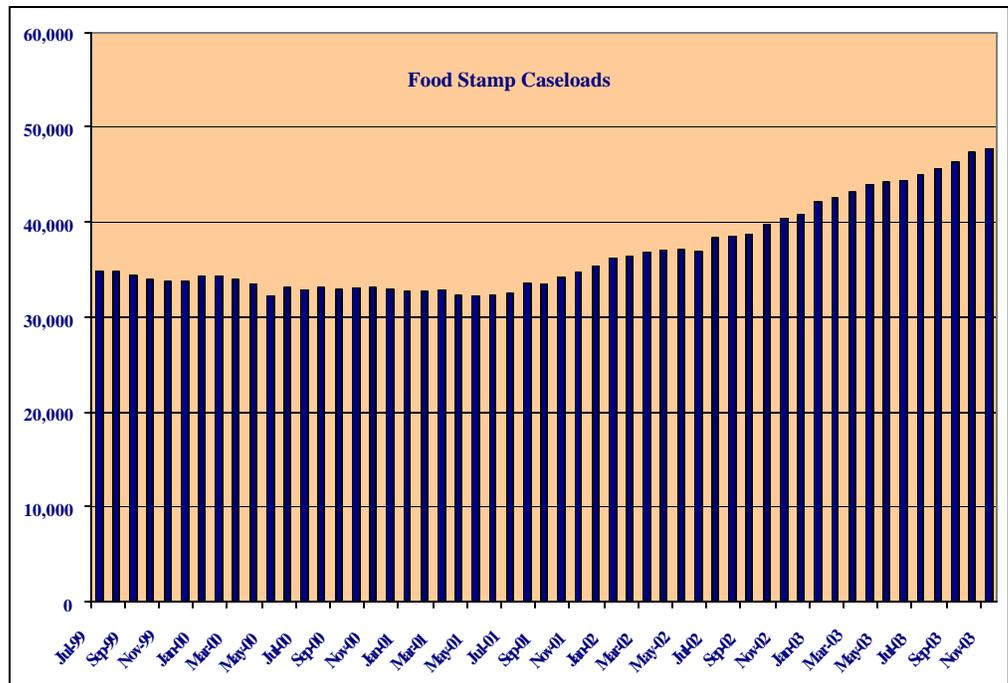
A portion of the funding for Food Stamp program’s Employment & Training component was federally funded 100% until last year, when Congress required the difference to be made up with 50% state match. For FY 04, the Legislature appropriated the \$454,800 in one-time General Fund needed to cover this match rate change. This is an ongoing match rate change, and the Analyst recommends that these funds be put on the list for end of session consideration as ongoing funds.

Continued caseload growth – Food Stamp Eligibility Determination (\$945,200 one-time)

Our current economic climate continues to have a direct effect on Food Stamp cases. Since May 2001 cases have steadily increased to over 45,000 (40% increase). Although Food Stamps are 100% federally funded, the workload associated with determining eligibility requires a 50% state match. For FY 04 the Legislature appropriated \$945,200 additional General Fund one-time, with the hope that the economy would recover by FY 05. Although the economy now hints of recovery, Food Stamp usage lags economic trends by six months to a year, and DWS economists predict that caseloads/workload will probably not begin to decrease until late in 2005. The Analyst recommends that this appropriation be put on the list for end of session consideration as ongoing funds.

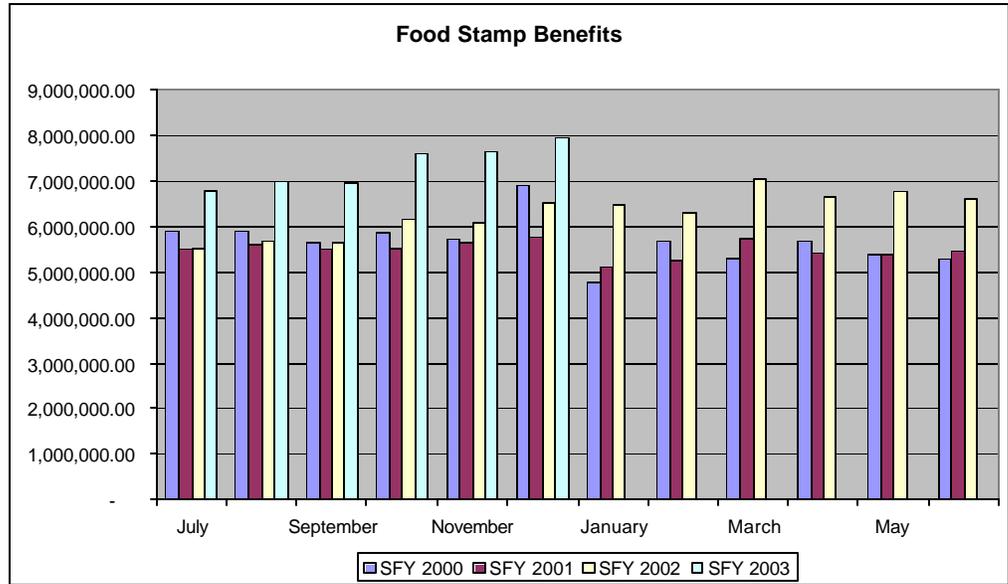
Performance Measure

Food Stamp caseloads have increased dramatically.



Performance Measure

Benefits paid show a corresponding increase.



2.13 Workforce Services
 Medicaid and Foodstamp eRep extensions.
\$6,321,000.

eREP is an **electronic Resource and Eligibility Product** being developed for the State of Utah to replace the current eligibility software, PACMIS. The Department’s of Workforce Services, Health, and Human Services, and the State’s Chief Information Office (CIO), are all partners in this enterprise system with Workforce Services playing the managing role.

eREP’s goal is to develop efficient and integrated eligibility and referral services for Utah’s residents in need of economic, health-related and other support services and assistance.

eREP supports self-directed activities across all modules of the system. This means that customers will, for the first time, have the opportunity to utilize the Internet to apply for, review, and update the status of their application for state support services. State employees across all departments will be able to work more efficiently by utilizing the rules-based system upon which **eREP** is built. This will lead to better decision support, resource utilization, and accurate benefits issuance.

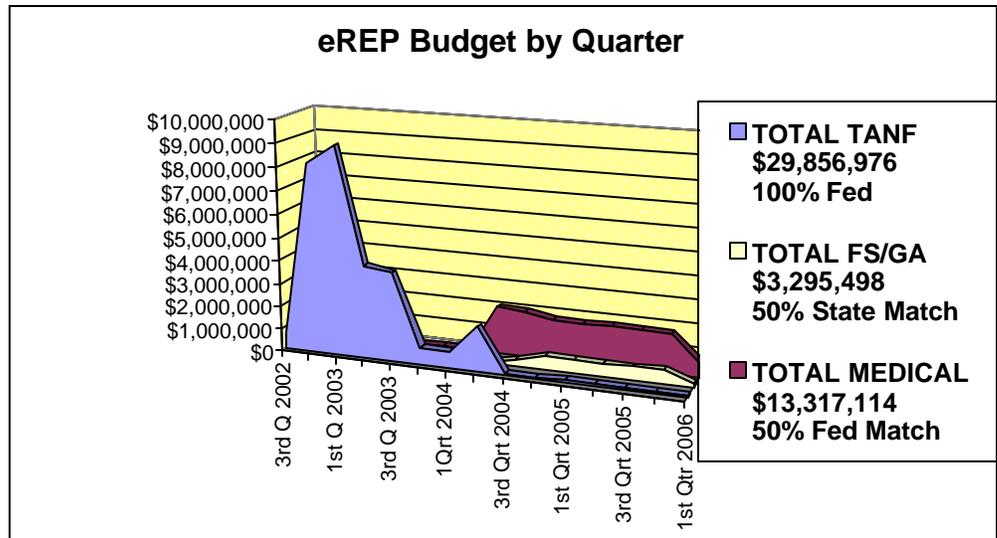
The first release of **eREP**, known as “*Utah Cares*,” was made available to the public in October 2003. This service is part of Utah.gov and matches customer health and human services needs with potential service providers. It is available via the Internet 24 hours a day, 7 days a week, in English and Spanish.

As shown in the following graph, approximately \$30 million in federal TANF funding is being used to develop the core system, which will include eligibility and benefits for TANF and Child Care. This initial project provides the core platform for all supportive service programs using the system, including Medicaid and Food Stamps extensions. It is anticipated that this project will move into pilot phase during the summer of 2004. By building the system in this manner, the State has been able to maximize federal funding by reducing the state matching funds required to add Medicaid and Food Stamps.

The second project involves the development of medical services, which is projected to commence upon completion of the core project. The Department of Workforce Services is requesting funding for the Medicaid project in FYs 2004 and 2005 totaling \$6,321,000 which will fund the 50% match for the projects total cost of \$12,641,800. The Department is negotiating with federal agencies on the match rate and hope to reduce the state cost from \$6,321,000 to \$3,844,900. The third project will include food stamp, general assistance, and refugee services functionalities, which will commence towards the end of FY 2005.

The partners in the system development effort have agreed that, with DWS playing the managing role, the amount needed for the project development will be requested through the Commerce and Revenue Appropriation's Subcommittee. The Department's of Health and Human Services will also be requesting, through their subcommittee, the funds needed to develop interfaces between eREP and their agency specific systems. The Department of Health has requested \$1,424,000, which will require a \$460,000 General Fund match. Human Service's request is for \$902,000, which will require a \$509,000 General Fund match.

The Analyst recommends that the Legislature consider this item for end of session funding so that this \$30,000,000 project might be completed.



2.14 UCAT
Enrollment Growth.
\$850,000.

The Analyst recommends State funding of \$850,000 for FY 2005 based on the current year’s enrollment growth subject to available funding. The total enrollment growth is 869,354 (201,620 for FY 2005 and 667,734 unfunded from FY 2004) Membership Hours. This represents a 21.27 percent increase system-wide. Enrollment for UCAT system-wide is still growing and long-term projections indicate that growth will continue into the foreseeable future.

2.15 UCAT
Funding Inequity.

The old method of funding enrollments by incremental increases in the base budget based on a system-wide average for enrollment growth created an inequity in funding. Campuses with higher enrollment growth than the system-wide average were under-funded, while entities with lower enrollments received a windfall. Four of the nine campuses continue to have a disparity in the funding of students. The direct cost of instruction per membership hour for the four campuses falls below the average cost of instruction by 5.17 to 30.41 percent.

2.16 UCAT
Lease Funding.
\$470,800.

The Analyst recommends State funding of \$470,800 for Mountainland and Southeast Applied Technology Campuses subject to available funding (\$434,800 for MATC and \$36,000 for SEATC). These campuses do not own any property. Thus, funding for leases is of highest priority for these campuses. For instructional courses, these campuses rely on classroom space through lease agreements.

2.17 UCAT
Administration expenses.
\$250,000.

The Analyst recommends if funding becomes available an appropriation of \$250,000 for the UCAT administration for FY 2005. If funding does not become available, the Analyst recommends relocating the central office of UCAT to the Davis Applied Technology Campus making it the main campus with eight branch campuses. This would require a statutory change.

With the creation of the Utah College of Applied Technology, the Administration initially received one-time funding of \$200,000 in FY 2002 for the operating budget of the central office even though the expenditures were ongoing in nature. In FY 2003, UCAT received one-time funding of \$242,600. The Administrative Office for UCAT has a current operating budget of \$368,100 to support 3.4 full-time employees, cover the lease cost of approximately \$35,000 and other operating expenses such as travel and office supplies. UCAT is requesting funding of \$250,000 to build their infrastructure and support the administration.

Once again, there are insufficient monies to appropriate to the UCAT administration. The financial situation of the State forces governmental entities to look for creative ways of funding institutional needs. By moving UCAT's Administrative staff and funding to the Davis Campus and making it the main campus of UCAT with eight branch campuses could solve two problems: (1) alleviate the concerns by the accreditation boards of whether UCAT is one college or nine colleges; and (2) Davis Applied Technology Campus has an infrastructure already in place and it would be more economical and efficient to have one administration rather than two.

2.18 UCAT
Administrative Costs.
\$560,200.

All three of these campuses are functioning with limited administrative staff to perform the necessary functions such as payroll, purchasing, payables, computer tech, and finance manager. In each case, the higher education institution within their region acts as the fiscal agent.

2.19 UCAT
Americans with
Disabilities Act.
\$137,900.

The Americans with Disabilities Act is designed to remove obstructions that prevent disabled persons from full participation in activities that are available to the general public. As student enrollments increase, the number of disabled students participating in college life also increases. Nevertheless, the limited State resources projected for FY 2005 probably will not allow the funding of this program.

2.20 UCAT
Facilities Operations
& Maintenance
\$298,300.

It has been the practice of the Legislature to view Operation and Maintenance (O&M) of facilities as an obligation of the State when the Legislature has approved both the construction of the facility and the payment of the O&M from State tax funds. Three campuses are requesting O&M funding for FY 2005.

2.21 UCAT
Leases.
\$459,300.

The Davis and Salt Lake Campus are requesting lease funding. Davis is seeking a new lease to accommodate lost space with the reconstruction of the Davis High School. Salt Lake-Tooele is requesting the unfunded balance from FY 2004 for five leases.

**2.22 UCAT
Custom Fit.
\$500,000.**

Through the Custom Fit Training Program, training is developed for Utah employers tailored to specifically meet their needs. The Program is also designed to attract new businesses, and aid in the retention and expansion of existing businesses. Custom Fit offers a diversity of services for business and industry, which in turn stimulates the economy.

**2.23 UCAT
Academic Library
Consortium.
\$50,000.**

UCAT is in the process of working on accreditation. A critical component for accreditation is the need for access to libraries for UCAT institutions. The Utah Academic Library Consortium (UALC) currently evaluates the library needs of the other higher education institutions. Additional funding would allow the UCAT institutions to become a member of the UALC.

**2.24 UCAT
Management
Information System.**

As a consolidation of formerly separate entities, UCAT currently has no centralized administrative system for payroll, human resources, financial tracking, and/or student information. In order to efficiently manage UCAT, the Analyst believes the college should have a central system, or at minimum, an agreed upon set of rules, technical standards, and account codes. The Analyst suggests UCAT work with the state's Division of Information Technology Services to leverage existing state technology assets and expertise in developing an Enterprise Resource Planning system for UCAT.

**2.25 UCAT
Equipment
\$500,000.**

Applied Technology Education is typically comprised of technically intensive programs requiring high tech equipment that tends to be expensive.

**2.26 UCAT
Tuition Revenue**

Currently, adults enrolled in Applied Technology Education programs at the ATC's pay tuition of \$1.00 per full-time membership hour. (Secondary students are exempt from tuition based on statute.)

In FY 2004, the dedicated credits totaled \$4,883,500. Tuition is an additional source of revenue to offset operating costs such as ADA, administrative costs, leases and O&M, and the purchase of new equipment. The proposed tuition increases for FY 2005 have not been approved at this time.

4.0 Additional Information

4.1 Funding History

	2001	2002	2003	2004	2005
Financing	Actual	Actual	Actual	Estimated*	Analyst
General Fund	92,915,400	86,832,300	84,576,900	91,043,700	88,798,300
General Fund, One-time				495,000	
Uniform School Fund	16,580,800	17,335,800	15,479,600	16,712,900	16,712,900
Uniform School Fund, One-time				59,200	
Transportation Fund	4,857,400	4,859,900	5,857,400	5,857,400	5,857,400
General Fund Restricted	24,621,500	24,649,800	28,785,000	30,839,000	29,884,000
Transportation Fund Restricted	283,800	133,800	133,800	133,800	133,800
Federal Funds	174,148,100	194,816,300	219,244,400	225,306,500	203,844,700
Dedicated Credits	21,379,600	20,425,500	14,559,600	18,404,800	17,231,400
Restricted Revenue	104,400	2,850,000	9,565,100	13,456,300	20,859,200
Trust and Agency Funds	23,837,400	22,440,700	24,793,600	30,399,900	30,622,400
Transfers	7,070,500	4,055,600	3,181,800	3,067,300	2,849,100
Pass-through			37,800	75,200	75,200
Beginning Balance	38,180,700	35,903,000	31,353,900	22,603,800	12,533,500
Closing Balance	(37,850,200)	(30,305,900)	(22,778,500)	(15,294,700)	222,000
Lapsing Balance	(1,100,100)	(2,327,800)	(2,624,500)	124,200	(2,600)
Total	\$365,029,300	\$381,669,000	\$412,165,900	\$443,284,300	\$429,621,300
Programs					
Tax Commission	62,237,400	61,218,400	55,226,800	62,024,100	64,407,300
Workforce Services	236,098,400	253,584,100	276,654,000	285,695,800	261,570,500
Alcoholic Beverage Control	15,279,500	16,317,100	16,676,100	18,515,900	18,465,200
Labor Commission	8,893,400	8,821,600	8,215,300	8,736,100	8,462,600
Commerce	15,123,300	16,485,500	16,922,100	20,642,700	20,127,200
Financial Institutions	2,751,700	3,390,800	4,073,500	4,590,800	4,463,900
Insurance	14,939,000	5,386,500	22,978,300	30,909,600	39,945,800
Public Service Commission	9,706,600	16,465,000	11,419,800	12,169,300	12,178,800
Total	\$365,029,300	\$381,669,000	\$412,165,900	\$443,284,300	\$429,621,300
Expenditures					
Personal Services	164,091,200	175,126,600	179,043,700	189,716,300	187,406,300
In-State Travel	1,008,700	1,158,900	977,600	1,270,800	1,258,300
Out of State Travel	1,198,200	1,087,000	1,026,000	1,355,900	1,328,600
Current Expense	60,169,500	58,039,300	79,855,400	94,711,300	99,015,200
DP Current Expense	22,338,900	25,751,700	22,252,800	27,529,800	24,676,500
DP Capital Outlay	6,201,200	3,803,700	1,165,200	3,182,700	3,380,800
Capital Outlay	170,100	114,600	11,835,100	11,591,500	628,100
Other Charges/Pass Thru	109,822,300	116,480,600	115,753,800	113,375,800	111,377,300
Trust & Agency Disbursements	29,200	106,600	256,300	550,200	550,200
Total	\$365,029,300	\$381,669,000	\$412,165,900	\$443,284,300	\$429,621,300
FTE/Other					
Total FTE	3,502	3,581	3,542	3,652	3,656

*Non-state funds as estimated by agency.