



FISCAL HIGHLIGHTS

VOLUME 2, ISSUE 2

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Office of the Legislative Fiscal Analyst

John E. Massey	Director
R. Michael Kjar	Deputy Director & Public Education
Mark C. Bleazard	Asst. Deputy Director & Transportation
Steven Allred	Capital Facilities
Jonathan Ball	Database/Information Technology Manager
Derek Byrne	Corrections
Ivan Djambov	Natural Resources
Stanley R. Eckersley	Commerce & Revenue
William J. Greer	Health
Debbie Headden	Human Services
Benjamin Leishman	Public Education
Spencer C. Pratt	Higher Education
Gary Ricks	Executive Offices & Public Safety
Juliette Tennert	Staff Economist & Economic Development
Todd Wardrop	Capitol Construction
Andrea Wilko	Chief Economist & Economic Development
Kirk Broadhead	LAN Administrator
Debbie Benson	Administrative Staff
Greta Rodebush	Administrative Staff
Sally Thompson	Administrative Staff

Other reports and staff e-mail addresses are available on the LFA website: www.le.utah.gov/lfa

EXECUTIVE APPROPRIATIONS COMMITTEE

MAY 16, 2006

CO-CHAIRS

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW

Report: Federal Funds

Summary:

Sophia DiCaro Goodick, Governor's Office of Planning and Budget, presented the list of federal fund grant applications since the last EAC meeting. The listing shows no new applications and six reapplications requiring action by the EAC, seven applications that have been approved by the Governor, and the tracking of over 300 outstanding federal fund grants.

Juliette Tennert briefed committee members on a Department of Natural Resources federal funds application that will require action by the entire legislature in the upcoming special session. Greg Sheehan, Division of Wildlife Resources, also addressed the committee with information on this grant, which would provide funds for land acquisition to protect the desert tortoise. Further details are provided in the Natural Resources section in this issue of *Fiscal Highlights*.

Committee Action: The committee approved the seven applications requiring EAC action and passed a motion to encourage the Governor to include approval of the Natural Resources grant application on the upcoming special session call.

Staff Contact: Juliette Tennert

Report: Public Education Post Employment Liabilities

Summary:

Representatives from the State Office of Education, Jordan School District and Provo School District provided an update on the progress of an actuarial study to determine each school district's post employment benefit liability under the new GASB 45 and 47 accounting standards. The State Office of Education contracted with the actuarial firm Milliman to conduct the actuarial study. The State Office of Education, through its contract with Milliman, is developing standards to guide the post employment benefit liability studies that will be conducted by each of the state's school districts.

The Jordan and Provo school districts have been key to the development of these standards.

Both school districts have conducted actuarial studies. As a result of these studies, Jordan and Provo school districts have adjusted the post employment benefits offered to employees to ensure that they can provide for these benefits in the future. In addition, these two districts have also begun addressing any incurred liability established through previously offered post employment benefits.

Staff Contact: Mike Kjar & Ben Leishman

Report: Higher Education Post Employment Liabilities

Summary:

The University of Utah has undertaken an actuarial study to determine its liability for post-employment benefits. Two areas of liability are identified. These include Retiree Health Benefits Program and the Early Retirement Incentive Program. The Retiree Health Benefits Program falls under GASB 45 regulations and provides health benefits to those who have retired, but are under the age of 65. The retiree pays 100% of the group health insurance premium, but has an "implicit subsidy due to the retiree contributions . . . being based on blended active/retiree costs rather than retiree only costs." The Early Retirement Incentive Program is not an entitlement benefit and its cost is covered by turnover savings.

The actuarial assumptions will be applied to the other institutions in the Utah System of Higher Education to determine their liability for post-employment benefits.

Staff Contact: Spencer Pratt

UPCOMING MEETINGS

- ◆ **Medicaid Interim Committee**
June 14, 2006 - 8:00 a.m.
W135 State Capitol Complex

Tentative Meeting - Please Confirm Meeting Date & Time with Committee Staff

Staff Contacts: Bill Greer, Debbie Headden, Stan Eckersley, & Derek Byrne

EXECUTIVE APPROPRIATIONS COMMITTEE

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Report: Report on Capital Improvement Funding

Summary:

The purpose of this report was to bring committee members up to date on the state's facilities condition assessment program, what the assessments reveal about Utah's maintenance needs, and how well our capital improvements program is meeting those needs.

Mr. Kent Beers, DFCM, informed the committee that the state's contractor has assessed 99 percent of state facilities and infrastructure, including higher education campuses. Assessments reveal that facilities need \$237 million in "immediate" (next 1-2 years) repairs, \$754 million in the next five years, and \$357 million in the next ten years. Total needs sum to \$1.3 billion.

The main source of funding to address deferred maintenance comes from the state's capital improvement program. Statute requires funding to be 1.1 percent of the replacement value of state-owned buildings. In FY 2007 the Legislature authorized \$65.4 million. Assuming funding will remain at the current pace, the Legislature will appropriate about \$131 million in the next two years, and about \$822 million in the next ten years. While this funding alone does not fully cover deferred maintenance, other sources of funding such as operation and maintenance budgets and capital developments (such as replacement of aging buildings) help close the gap. National studies indicate that total funding needed to eliminate deferred maintenance is approximately two to four percent of replacement value of existing buildings. No state in the union currently sets aside that level of funding.

Staff Contact: Steve Allred

Report: Charter School Study - Request for Proposal

Summary:

Connie Steffen, Policy Analyst from the Office of Legislative Research and General Counsel, explained the purpose and specifications of the proposed Charter School Study RFP. The purpose of the RFP is to contract with a researcher, or research group, to obtain information from school districts and charter schools regarding the following:

1. What is the purpose of charter schools;
2. Why are charter schools in Utah generally authorized by the State Charter School Board rather than a local school board;
3. How charter schools should be governed; and
4. To what extent should charter schools be exempt from state laws and rules regulating public schools.

The proposed RFP states that "the researcher shall use survey or interview methods that provide information that is sufficiently in depth to address the research questions. The researcher shall survey or interview administrators and board members representing a broad spectrum of school districts and charter schools, including school districts and charter schools of different size and in various locations throughout the state."

Staff Contacts: Ben Leishman, Mike Kjar, & Derek Byrne
(Source: Utah Legislature, Executive Appropriations Committee. Request for Proposals - "Charter Schools." Connie Steffen, Office of Legislative Research and General Counsel. May 2, 2006.)

Executive Offices & Criminal Justice

Utah Children's Justice Centers

Upon involvement in a 1986 child sexual abuse case, a concerned juror initiated a movement to significantly improve state and local response and prosecution of child abuse. Three years later, a statewide task force on child abuse was created. Then in the early 1990s, the Legislature funded a pilot project for Children's Justice Centers in three Wasatch Front Counties (Weber, Salt Lake, and Utah Counties). This pilot project was a public/private partnership of contributed resources including:

1. State personnel and funding of basic operating expenses;
2. Private contributions of buildings, equipment, and furnishings; and
3. Counties providing in kind support.

An independent sunset review performed by the University of Utah concluded that the Children's Justice Centers did make positive, meaningful contributions in the determination and prosecution of child abuse.

In recent years, the Legislature has continued its support of the Children's Justice Centers. During the 2005 General Session, the Legislature appropriated \$233,800 to increase the number of children served throughout the state and an additional \$127,500

to provide a Children's Justice Center in Iron County. During the 2006 General Session, the Legislature appropriated \$25,000 each to the Utah County and West Jordan Children's Justice Centers in support of their funding needs.

Staff Contact: Gary Ricks

Jail Reimbursement Summit

A Summit will be held in June to discuss jail reimbursement and how to allocate costs for state probation inmates sentenced to county jails. Leaders in the Senate, the House of Representatives, the Department of Corrections, the Utah Association of Counties, and the law enforcement community will seek a solution that satisfies the State of Utah and Utah's counties. For more information regarding the meeting and a full list of participants, please contact the Office of the Legislative Fiscal Analyst.

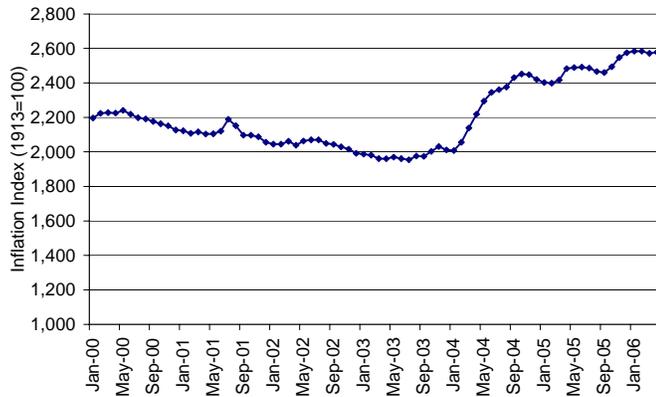
Staff Contact: Derek Byrne

CAPITAL FACILITIES & ADMINISTRATIVE SERVICES

Construction Materials Costs Continue to Outpace the Overall Inflation Rate

Indications from early 2006 show that construction materials costs continue to rise faster than the overall rate of inflation (AGC Alert, March 2006). This increases the cost of state construction projects and increases the difficulty in forecasting project costs.

**Construction Materials Cost Index
January 2000— January 2006**



Source: McGraw-Hill Engineering News-Record

McGraw-Hill's Materials Cost Index (above) tracks the weighted price movement of structural steel, Portland cement, and two-by-four lumber. Prices for these commodities stayed relatively flat between 2000 and 2004, but escalated rapidly starting in January of 2004. Cement prices provided the biggest push to April of 2006's increase, with prices rising 1.3 percent during the month.

Since January of 2004 materials inflation has increased 28 percent, or 12 percent per year, or one percent per month. Although the pace has slowed in recent months, increases in petrochemicals and gypsum may cause another jump. Inflation

RETIREMENT & INDEPENDENT ENTITIES

Public Employees Health Program Announces Revised Changes for 2006-2007 Plan Year

Shortly after the April Executive Appropriations Committee meeting, Public Employees Health Program (PEHP) notified State human resource directors and payroll coordinators that the major changes to health benefits for the 2006-2007 plan year previously announced would no longer take effect. Beginning July 1, 2006, PEHP will institute an up-front deductible of \$250 per individual or \$500 per family per plan year for inpatient care, outpatient care, and major diagnostic services. This new change in benefits will lower the State's health benefit costs by approximately \$5.5 million, the amount necessary to facilitate a half percent increase in State employee salaries. Consequently, PEHP will not have to transfer dental reserves to the medical plan to partially fund a reduction in benefit costs (which EAC members expressed concern over at the April meeting).

Staff Contact: Juliette Tennert

of one percent per month on a project with a \$25 million materials budget can add \$250,000 per month.

During the 2006 General Session the Legislature faced almost \$6 million (state funds) in cost increases on three previously-authorized projects. The Legislature directed DFCM to cover these costs with \$4.4 million from the Project Reserve Fund and a transfer of \$1.5 million from the Contingency Reserve Fund.

The construction industry does not have much opportunity to reduce or substitute materials. As a result of rising demand both globally and locally, combined with escalating transportation costs, 2006 is likely to be another year of elevated construction materials prices.

Staff Contact: Steven Allred

Capitol Renovation Update

One quadrant of the four rotunda foundation piers was successfully transferred onto base isolators on May 10, 2006. Each one of the massive piers is estimated to weigh nearly nine million pounds. Seismic protection for the rotunda area is undoubtedly the most complicated task of the entire base-isolation project. All components of construction, including virtually every trade, are actively being completed inside the building; however the most visible improvement from the outside, are probably the new windows on the east side, the new terra cotta pieces around the dome, and also the new reflecting fountain on the plaza.

One order of business of a recent Capitol Preservation Board meeting, May 11, 2006, was to review a recommendation to the Board from the CPB Preservation, Planning and Maintenance Subcommittee; requesting approval for two new parking areas. The Board approved the parking recommendation requesting that a resolution be drafted to move \$15 million from the Capitol Renovation project to provide funding for the new parking area. The Board recommended the resolution be presented at the May 24, 2006 special session of the legislature. If approved, the excavation of the structures would begin immediately; relocating the construction offices to the greenhouse area on the north end of the Capitol campus until construction is completed.

Staff Contact: Todd Wardrop

HIGHER EDUCATION

Grant Update

During the past month, the University of Utah received a grant from the National Science Foundation in the amount of \$1.2 million and Utah State University received a grant in the amount of \$1.8 million from the NASA Jet Propulsion Laboratory.

The University of Utah has submitted 32 new proposals for grant funding to the National Science Foundation, the National Institutes of Health, and the Children's Hospital of Pittsburgh, totaling \$64.7 million. Utah State University has submitted three new proposals to the National Institutes of Health and the US Department of Agriculture, totaling \$5.3 million. Utah Valley State College has submitted two proposals to the National Science Foundation and the TRIO Educational Opportunity Center, totalling \$3.1 million.

Staff Contact: Spencer Pratt

PUBLIC EDUCATION

Allocation of Adult Education Revenue is based on Performance Outcomes

During the 2006 General Session, the Legislature appropriated an additional \$1,000,000 to support Adult Education programs in FY 2007. This appropriation restores programming that was reduced by the 2002 Legislature.

Funding for Adult High School Completion, Adult Basic Education and English as a Second Language are funded by the Legislature through the Adult Education line item in the Minimum School Program. In FY 2007, the total appropriation for Adult Education is \$9,148,563.

Granite Peaks Lifelong Learning invited the Legislative Fiscal Analyst and the Governor's Budget Analyst to tour the adult education programs offered in the Granite School District. This tour demonstrated how the adult program interrelates with the secondary program. The program serves adults that are returning to school after a continued break in their education and new immigrants attempting to learn language and job skills. The program also works to transition high school students that will not graduate with their designated class.

The State Office of Education distributes appropriated revenue to Adult Education programs in the districts on a formula basis. Revenue distribution is based on outcomes, or the success of students in completing the program. Districts receive an allocation based on the number of high school graduates, GED recipients, level gains, credits earned, and contact hours (time spend in direct contact with teachers), and the number of enrollees (based on 12 or more hours of contact time).

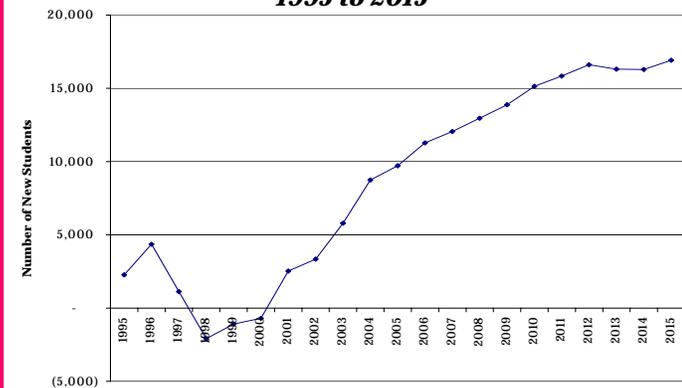
Staff Contact: Ben Leishman

Utah's Projected Student Population Growth

Since the fall of 2001, enrollment in Utah's public schools has continued to increase. The following chart shows the annual change in public school fall enrollment since 1995 and provides enrollment projection estimates through 2015. Enrollment in the state's public schools was 508,518 in fall 2005 (3,118 student over 2004 projections). A total of 12,836 new students enrolled in fall 2005. Total student enrollment is expected to reach 652,662 in the fall of 2015, an increase of 144,144 over the actual fall 2005 enrollment.

Staff Contacts: Andrea Wilko & Ben Leishman

Annual Fall Enrollment Change - History & Projections 1995 to 2015



Source: USOE, Finance and Statistics. "Projected Public School Fall Enrollment" January 2005.

COMMERCE & REVENUE

Discontinuation of Child Care Quality Improvement Grants

At the May meeting of the Child Care Advisory Committee, Child Care Director Lynette Rasmussen announced that after a thorough review of all programs they have decided to discontinue the Quality Improvement Grants and curtail the Career Ladder program. The funding for the Quality Improvement Grants will go to Health Child Care Licensing under contract for one year where it will be used to assist in playground safety improvements. During that time Child Care will review the program and determine a new course.

Staff Contact: Stan Eckersley

Issue Updates - Commerce and Revenue

In the 2006 General Session the Legislature funded increased rent for the St. George Motor Vehicle Office. The Analyst visited the office and it does seem to be too small for the size of population.

The St. George Alcoholic Beverage Control store is located outside of St. George proper, is medium sized, and probably not adequate for the size of the population.

The Commerce Department has been selected by the Governor to develop improved performance measures. The Analyst continues to monitor the process.

Staff Contact: Stan Eckersley

TRANSPORTATION

Transportation Commission Approves Express Lane - Individual Use for a \$50 Fee

At their April 21, 2006 meeting the Transportation Commission approved an Express Lane to be added to the carpool lane on I-15. Currently the carpool lane can be used by vehicles with two or more occupants or by motorcycles, emergency vehicles, buses, and clean-fuel vehicles. Individuals driving vehicles will now be allowed to use the Express Lane if they are willing to pay a fee. Single occupant drivers can pay a fee of \$50 per vehicle per month to use the lane.

According to studies authorized by the Department of Transportation the carpool lane is designed to handle 1500 cars per hour while traveling at least 55 miles per hour. The study determined that between 650 and 750 vehicles per hour are currently using the carpool lane. That leaves the additional capacity of at least 750 more vehicles before average speeds would be compromised.

The Department will begin immediately to re-stripe the carpool lane with an intended operation to begin near September 1, 2006. Six hundred passes will be available initially on a first-come first-serve basis. Transportation officials will determine after a few months if additional capacity is available and then could recommend sale of more passes.

Initial cost of the program is estimated to be \$2.61 million. User fees are expected to cover administrative cost, maintenance, and enforcement. No addition revenue is expected by the Department beyond operation of the program.

Staff Contact: Mark Bleazard

Natural Resources

Campaign to Promote "Utah's Own"

The 2006 Legislature provided a supplemental appropriation of \$400,000 to the Department of Agriculture and Food (DAF) for the "Utah's Own" program. The Department's goal is to make the name Utah's Own be synonymous with wholesome, fresh, quality food; as well as to help Utahns realize that when they buy Utah products they are helping the local economy. To that end, DAF has partnered with the Bonneville Radio Group and Associate Food Stores.

About 20 Utah companies, members of the Utah's Own group, are currently participating in the 12 week kick-off campaign. Several of these companies, who have not previously been able to get into a warehouse, presented their products at the Associate Food Stores' Annual Food Show at the SouthTowne Exposition Center, April 5-7, 2006. As a result, they are now either in the warehouse or have arrangements to cross dock or direct deliver products to partnering grocery stores.

Twenty nine corporate and independent Associate Grocery stores will participate in the initial campaign and will allow all Utah's Own companies to demo during the promotion at no fee. Over the 12 weeks, the companies will be featured on radio as well as in the Associate Stores ad for the week. This program is currently focused on consumers along the Wasatch Front, but it is intended to spread to rural areas over time.

Staff Contact: Ivan Djambov

High Impact Federal Funds Request

On March 31, 2006, the Department of Natural Resources reapplied for funding through the Endangered Species Program for land acquisition to protect the desert tortoise. If the Department of Natural Resources receives the \$15.4 million in federal funding it applied for under this grant, it will fulfill the state match requirement of \$5.1 million with land donated by State Parks and Recreation.

The Governor's Office of Planning and Budget and the Office of the Legislative Fiscal Analyst called attention to the Endangered Species federal funds application during the May Executive Appropriations Committee meeting because it meets the definition of new federal funds under a high impact federal funds request and therefore requires special legislative approval ("Federal Funds Procedures." Utah Code, Title 63, Chapter 38e). In order for an agency to receive funds under such a request, the Legislature must approve the request within 3 months after submission of the request in either an annual general session or a special session. After being briefed, the Committee passed a motion encouraging the Governor to include approval of the Endangered Species Program grant application on the upcoming special session call.

Staff Contact: Juliette Tennert

Health & Human Services

Fatal Contact: Bird Flu in America – TV Movie

Recently a made-for-TV movie titled "Fatal Contact: Bird Flu in America" aired on ABC network television. The movie presents a fictional account of an outbreak of the H5N1 avian flu virus tracking its origins in a Hong Kong market through its mutation into a pandemic virus that becomes easily transmittable from human to human and spreads rapidly around the world. The U.S. Department of Health and Human Services (HHS) prepared a Viewer's Guide to provide factual information for viewers of the movie. This guide may be found at: www.pandemicflu.gov/news/birdfluinamerica.html#guide.

Utah received a federal planning grant of \$1,000,000 to address issues related to the possibilities of a pandemic flu event. Of the \$1,000,000 grant, 80 percent of the funds will be distributed to local governments. Utah has already developed a pandemic response plan and has its own website to help prepare the state, from state government down to the individual citizen level of action. The state website is: <http://www.pandemicflu.gov/plan/states/utah.html>. The federal funds received through this grant should enhance Utah's pandemic flu preparations.

Staff Contact: Bill Greer

Update on the David C. Lawsuit

The Division of Child and Family Services (DCFS) had a court hearing on May 16, 2006. The judge and plaintiff attorneys recognized significant progress by DCFS in the qualitative case review and the case process review. The court also recognized recent progress in the quality improvement committees required in the Milestone Plan. Judge Campbell also requested that both parties strive to come to a resolution of the current lawsuit with a target date of spring of 2007. The next court hearing will be in November of 2006.

Staff Contact: Debbie Headden

NEW LFA STAFF

The LFA welcomes a new addition to our staff:

- ◆ Sally Thompson worked in the LFA front office during the 2006 General Session. She assisted with the fiscal note process and other office support functions. Sally will continue her work part-time in the front office.

State Budget

Legislators Reinforce AAA Ratings with Structural Surplus

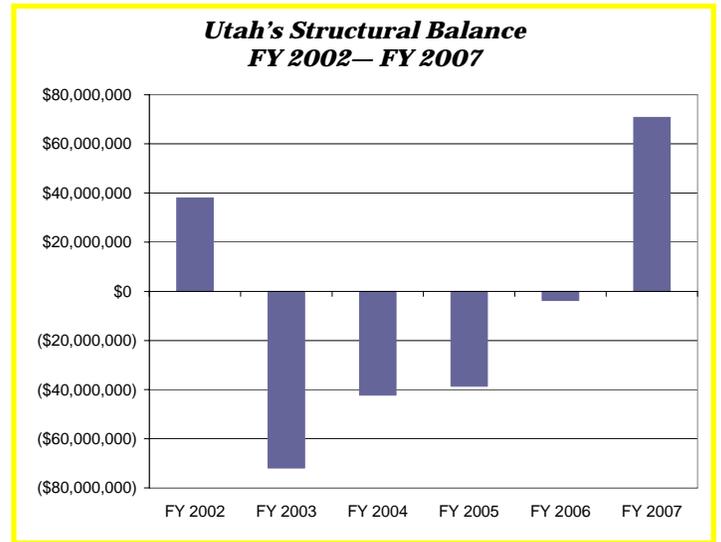
Utah's budget for FY 2007 has a \$71 million structural surplus. From a bond rating agency's point of view, that is a good thing.

Rating agencies like Standard and Poor's, Moody's, and Fitch rank a state's creditworthiness based in part on the states abilities to meet its future obligations. Since structural surpluses mean that ongoing revenues are greater than ongoing obligations, rating agencies view them positively. Utah has AAA ratings from each of the three rating agencies, and the FY 2007 structural surplus will help to protect them.

As the chart below demonstrates, FY 2007 represents the first year since the 2001 General Session that Utah has had a budget in structural surplus. In recession years, the state used one-time revenue - such as federal grants, nonlapsing balances, rainy day funds, and bond proceeds - to partially fill the gap left by declining ongoing revenue. This was reflected in structural deficits. The end of these structural imbalances is one indication of a healthy economy.

Admittedly, Legislators did not pass income tax reductions as proposed in the 2006 General Session. However, had they done so given what was known at the time, the state budget would still have had a \$5 million structural surplus.

Staff Contact: Jonathan Ball



UTAH LEGISLATURE
OFFICE OF THE LEGISLATIVE FISCAL ANALYST
W310 STATE CAPITOL COMPLEX, SALT LAKE CITY, UTAH 84114
PHONE: 801-538-1034 FAX: 801-538-1692

To: