



FISCAL HIGHLIGHTS

VOLUME 2, ISSUE 7

EXECUTIVE APPROPRIATIONS COMMITTEE

NOVEMBER 14, 2006

CO-CHAIRS

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW

Inside This Issue:

Executive Appropriations Summary	1-2
Excessive Levels of Mercury in Utah's Environment	2
Create an Other Post Employment Benefits Trust Fund?	2
Health Department launches Utah Premium Partnership (UPP)	2
Appropriations Subcommittee Meeting Summaries: -Higher Education -Health and Human Services	3
Update on Medicaid Interim Committee Activities	4

Office of the Legislative Fiscal Analyst

John E. Massey	Director
Mark C. Bleazard	Deputy Director & Transportation
Jonathan Ball	Deputy Director & Database/Information Technology Manager
Steven Allred	Capital Facilities
Derek Byrne	Criminal Justice
Ivan Djambov	Natural Resources
Stanley R. Eckersley	Commerce & Revenue
William J. Greer	Health
Debbie Headen	Human Services
Benjamin Leishman	Public Education
Spencer C. Pratt	Higher Education
Gary Ricks	Executive Offices & Public Safety
Danny Schoenfeld	Public Education
Juliette Tennert	Staff Economist & Economic Development
Todd Wardrop	Capitol Construction
Dr. 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

Report: Federal Funds

Summary:

Tenielle Young, Governor's Office of Planning and Budget, presented the list of federal fund grant applications submitted since the last EAC meeting. The list showed five reapplications requiring action by the EAC, one new application and one reapplication that have been approved by the Governor's Office, and 384 grants currently being tracked by the Governor's Office .

Committee Action:

The committee approved the applications requiring EAC action.

Staff Contact: Juliette Tennert

Report: Charter School Study

Summary:

The Utah Education Policy Center at the University of Utah presented the results of a study on Utah charter schools commissioned by the Legislature through a request for proposal process conducted earlier this year. A joint report was also issued by the Office of Legislative Research and General Council, Office of the Legislative Fiscal Analyst, and the Utah State Office of Education.

A presentation was given to the committee by Dr. Andrea Rorrer and Dr. Charles Hausman. Parents, charter school, district, and state officials were involved in a survey conducted by the Utah Policy Education Center. Dr. Rorrer presented several findings including the desire of parents to have a choice in the type of school that their children attend. The study also showed that parents perceived that charter schools do more with their money than public schools.

The joint report from the Office of Legislative Research and General Council, Office of the Legislative Fiscal Analyst, and the Utah State Office of Education looked at charter school's funding, facilities, assets, liabilities, technical assistance, and oversight. The Office of the Legislative Auditor General will also release an audit on the financial aspects of charter schools.

Staff Contacts: Ben Leishman and Danny Schoenfeld

Report: Executive and Judicial Compensation

Summary:

John T. Nielsen, Chairman of the Executive and Judicial Compensation Commission (EJCC), presented the Commission's 2006 report. Mr. Nielsen highlighted the following EJCC recommendations:

The EJCC recommends that Governor's salary should first be established and the salaries of the remaining elected officials be set in accordance with a fixed percentage of the Governor's salary. Further, the Commission recommends that the salaries of the State Auditor and State Treasurer be set at 95 percent of Governor's salary, the current rate at which the salaries of the Attorney General and Lieutenant Governor are set. The cost of this recommendation is approximately \$41,000 annually.

The Commission proposes a new salary structure for the appointed officials covered in Utah Annotated Code §62-22-2, in which the four current executive salary ranges are collapsed into one broadband salary. This structure would allow for executives to be paid within a range higher than deputy and division directors within their departments and would provide an opportunity for executives to receive annual cost-of-living and market comparability adjustments commensurate with the adjustments of other State employees. The cost of implementing this recommendation would depend on actions of the Governor, who would set individual executive salaries within the permissible salary range.

Based on compelling information brought to the Commission, the recommendation for the judiciary is a salary increase of 11 percent for Fiscal Year 2008 and then a 7 percent over the next two years for District Court Judges; with other judicial salaries being based on that level. This increase would help reverse the trend of less qualified and/or younger applicants for judicial positions. The cost to implement this recommendation for Fiscal Year 2008 is about \$1.6 million.

Committee Action: No formal action was taken on this item.

Staff Contact: Juliette Tennert

Executive Appropriations Committee (continued)

Report: Medicaid Interim Committee

Summary:

The chairs of the Medicaid Interim Committee (MIC) gave a status report of the Medicaid Interim Committee as required by the Legislative Management Committee. The MIC was authorized to hold six meetings during the 2006 interim period. Five meetings have been held to date. The charge to the Committee was to review all programs within the Departments of Health and Human Services and make recommendations to address the potential Medicaid funding shortfall in FY 2008 and develop a strategy to establish long-term cost containment of Medicaid expenditures.

The Committee has reviewed the programs in the Departments of Health, Human Services and Workforce Services as well as programs in the Utah State Office of Rehabilitation and the Utah Schools for the Deaf and Blind. The magnitude of the challenge is now better understood by the Committee. A number of recommendations are under consideration. These recommendations include: consolidating the Medicaid eligibility systems of Health and Workforce Services, drug cost control measures and service prioritization, among others. The sixth and final meeting is tentatively scheduled for January 3, 2007.

Staff Contacts: Derek Byrne, Stan Eckersley, William Greer, and Debbie Headden

Transportation, Environmental Quality, and National Guard

Excessive Levels of Mercury in Utah's Environment

Studies conducted by the Department of Environmental Quality during the past several years have shown increasing levels of mercury in Utah fish and the environment along and in the Great Salt Lake.

Tests of some fish taken from Utah waters show mercury levels that exceed federal Environmental Protection Agency standards. The Division of Water Quality reported that two brown trout caught in Mill Creek near Moab, a catfish from the Green River, and a largemouth bass from Gunlock Reservoir in Washington County exceed the federal standards for mercury. Also some species of ducks taken along the shores of the Great Salt Lake have showed levels that exceed federal EPA standards.

Environmental studies show mercury occurs naturally in the environment but also can be increased by man made uses of coal fired industries and in mining extraction processes.

The Department of Environmental Quality convened a statewide task force this past year to study the increased levels of Mercury in Utah waters and wildlife. It is expected that the Department of Environmental Quality will be requesting appropriations during the 2007 General Session to continue testing wildlife tissues for mercury levels and continued assessment of the Great Salt Lake to determine the magnitude of ecological threat to the lake.

Staff Contact: Mark Bleazard

Capital Facilities & Administrative Services

Create an Other Post Employment Benefits Trust Fund?

New accounting rules require governments to calculate and disclose their obligations for post-retirement health care benefits for former employees. The new rules take effect in 2008, but Utah has already paid for an actuarial study that pegged the present value of our liability at approximately \$488 million. Nationwide preliminary estimates range from \$285 billion (Standard and Poors) to between \$600 billion and \$1.3 trillion (JP Morgan) (Source: Washington Post, September 24, 2006.)

The new rules don't require coming up with that money all at once. Governments have the option of funding the liability on a pay-as-you-go basis with annual appropriations, or paying off the liability over 25-30 years like a mortgage. Utah's estimated annual payment would be approximately \$47 million under the latter option. Utah has already taken steps to pay off the liability and limit additional growth.

In order for the obligation to be considered "funded" under accounting rules, governments must set aside their additional annual payments in an irrevocable trust. One benefit of being "funded" is that the obligation will not count against net assets, which are a critical part of credit ratings. Another benefit of trust funds is they allow investments of a longer-term nature than other funds under the Money Management Act.

During the 2006 General Session, H.B. 381 "Post-Retirement Benefits Trust Fund" would have created a trust fund, but didn't reach the Senate floor due to time constraints. The 2007 Legislature may wish to again consider establishing a trust fund and allowing local governments to use long-term investment strategies for their OPEB obligations.

Staff Contact: Steven Allred

Health & Human Services

Health Department launches Utah Premium Partnership (UPP)

The Department of Health kicked off a new program to increase participation in employer sponsored health insurance as a means to increase health care coverage among the uninsured. The Utah Premium Partnership (UPP) is the implementation of House Bill 276 "Medicaid Covered at Work Premium Subsidy" (2006 General Session) which replaces the current "Covered at Work" Program. State funding of \$267,500 along with federal funds of over \$622,000 will be used to increase the current premium subsidy from \$50, up to \$150 per person per month for employer provided insurance. Additional funding through the Primary Care Network may also be used. The Medicaid waiver authorizes the program to include up to 1,000 Utahns. A revision to the waiver would be required to expand the program.

Staff Contact: William Greer

APPROPRIATION SUBCOMMITTEE MEETINGS

SUMMARIES

Higher Education

Co-chairs: Senator Greg Bell & Representative Kory Holdaway

The Higher Education Joint Appropriations Subcommittee met on October 19, 2006. This meeting began with a discussion of need-based financial aid. As tuition rates have increased, so has the need for additional financial aid. The Utah Centennial Opportunity Program for Education (UCOPE) was established in 1997 and provides state-funded, need-based financial aid for Utah residents. The Legislature approved \$2.25 million in one-time funding for FY 2007. The request for the 2007 Legislature is expected to be to convert that one-time appropriation to ongoing plus an additional \$899,100. To provide the necessary state match for federal financial assistance, an additional \$210,300 will be requested.

The Subcommittee discussed the 75%/25% funding proposal. This proposal is for compensation increases only. It would alter the current funding ratio from varying levels of state funding and dedicated credits to a fixed 75% state funding and 25% dedicated credits (funded through tuition increases). Funding currently varies by institution - from a high of approximately 80% state funding to a low of just under 50% state funding, with dedicated credits picking up the balance. For institutions under the 75% state funding level, this compensation funding method skews the ratio further. By providing State funding for 75% of the costs for compensation increases, the total funding will slowly get back to historical funding levels. Because a quorum was not present, a formal motion was not in order, but the committee members who were there went on record in support of requesting the Executive Appropriations Committee approve this funding scenario for Higher Education compensation. Spencer Pratt showed that had this funding scenario been in place for the FY 2007 compensation increase, it would have been an additional state appropriation of \$3.8 million and a reduction in the dedicated credits of the same amount. This would have resulted in \$3.8 million in savings for tuition-paying students.

The Office of the Commissioner of Higher Education presented data showing the time taken by students to graduate with an Associates or Bachelors degree. Looking both at the number of semesters and the number of credit hours, students are taking longer to graduate than the standard (4 semesters for an Associates degree, 8 semesters for a Bachelors degree; 67-69 credit hours for an Associate degree, 122-130 credit hours for a Bachelors degree). It was brought up that many of the extra hours were because students change majors, are working more in order to pay tuition, and are taking courses for their own enrichment.

The Ogden Weber Applied Technology College made a presentation to the Subcommittee regarding an opportunity for a new program in conjunction with Williams International (WI), a manufacturer of gas turbine engines. WI has donated approximately \$25 million worth of manufacturing equipment to OWATC. With lease and programmatic funding, OWATC will begin a lean manufacturing program, training students in high tech machining. Along with the donated equipment, WI has delivered the equipment, and is providing the parts, tooling, and utilities. The FY 2007 funding request is for \$1 million to retrofit the leased space to accommodate the manufacturing lines and \$230,000 for the lease. The FY 2008 request is for the \$230,000 lease and \$326,000 for the faculty and program expenses.

Staff Contact: Spencer Pratt

Health and Human Services

Co-chairs: Senator Sheldon Killpack & Representative Merlynn Newbold

The Health and Human Services Joint Appropriations Subcommittee met on Tuesday, November 14, 2006. The committee received reports from both the Departments of Health and Human Services.

Department of Human Services' Reports:

The Office of Recovery Services (ORS) in the Department of Human Services reported the impact of the federal Budget Deficit Reduction Act on their division. The federal act, starting in FY 2008 will disallow the use of federal incentive funds received by states to be used as state match for Child Support Programs. This policy change will result in the loss of \$7.1 million in federal funds and have a significant impact on ORS's ability to collect child support payments. The total impact in child support, Medicaid and private medical insurance collections is estimated at \$51.2 million. In addition, ORS would have to reduce their staff by 120 FTE over the next two years.

The Director of the Division of Child and Family Services (DCFS), Richard Anderson shared the status of the David C. Lawsuit with the subcommittee. In the latest court hearing which was November 13, Judge Campbell requested that DCFS and the Plaintiffs work together to move toward exiting this case. DCFS has shown continued improvement in their score cards set in the Milestone Plan in 1999.

The Division of Services for People with Disabilities reported on the status of the waiting list. The waiting list was reduced from 1,945 to 1,839. They also reported on the impact of passage of H.B. 31, a pilot program for supported employment.

Department of Health Reports:

Dr. Robert Rolfs, the state epidemiologist, updated the committee on the pandemic disaster preparation. Reductions in federal funding were reported during the last General Session. The Governor has organized a task force to address the most critical steps for the State to prepare. Once the task force is completed, the work of actual preparation will need to be addressed.

The Baby Watch Early Intervention program is a family-centered system to serve children from birth to age three who have disabilities and/or are developmentally delayed. Dr. George Delavan, the director of Community and Family Health Services, detailed the use of the funding increase of \$675,300 appropriated to the Early Intervention/Baby Watch program for FY 2007. He reported that the program's average annual caseload growth is six percent. Caseload growth and services provided by the program were discussed.

Required Annual Reports Presented

The committee also received statutorily required reports and reports required by intent language from both departments. Copies of the reports or links to the reports can be accessed through the committee's meeting website at <http://www.le.utah.gov/asp/interim/Commit.asp?Year=2006&Com=APPHHS>.

Staff Contacts: William Greer and Debbie Headden



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

RETURN SERVICE REQUESTED

Medicaid Interim Committee

Update on Medicaid Interim Committee Activities

The Medicaid Interim Committee held two meetings since the last legislative interim day. The first meeting was held on October 23, 2006 where the committee analyzed the Medicaid Base Program and reviewed the key cost drivers of Medicaid. A summary of mandatory and optional programs was presented along with a data sort that listed the largest programs and those with the fastest growing budgets. The committee discussed the current Medicaid eligibility system. Staff was directed to study the possibility of consolidating the eligibility systems of the Departments of Health and Workforce Services. Staff gave an overview of the current pharmacy program and outlined options for future consideration.

The fifth meeting was held on November 10, 2006. The staff presented a summary of Medicaid funding trends. The committee was informed that a reduction in the average annual Medicaid rate of growth from 11 percent to 10 percent could result in state savings of \$1 billion over the next 15 years. It was pointed out that this would not be a base budget cut, but a reduction in

the average annual Medicaid funding increase. Prioritization of services was also discussed, including Oregon's Medicaid funding prioritization system.

Additionally, reports were given on the status of the eligibility system consolidation, the cost containment potential of changing the pricing structure of hospital outpatient procedures, pharmaceuticals and in-home and community-based services. The committee also reviewed programs administered by the Division of Substance Abuse and Mental Health, within the Department of Human Services.

Additional information, including copies of documents presented to the committee are available upon request from the Office of the Legislative Fiscal Analyst or the Office of Legislative Research and General Counsel. Information presented at the meetings is also available at the Medicaid Interim Committee website at: <http://www.le.utah.gov/asp/interim/Commit.asp?Year=2006&Com=INTMED>.

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