



FISCAL HIGHLIGHTS

VOLUME 3, ISSUE 1

Inside this Issue:

Executive Appropriations Summary	1-2
Interim Revenue Updates	2
State Bond Rating	3
Capital Improvements Funding	3
Tuition Increases at Utah's Colleges and Universities	4
FY 2007 Tobacco Master Settlement Payments	4
Concealed Weapons Permits in Utah	5
Medicaid Eligibility Consolidation	5
Oil and Gas Program Growth	5
Update on Utah's Rainy Day Funds	6

Office of the Legislative Fiscal Analyst
Staff by Assignment

John Massey	Director
Mark Bleazard	Deputy Director & Transportation
Jonathan Ball	Deputy Director & Information Technology
Steven Allred	Capital Facilities
Derek Byrne	Criminal Justice
Ivan Djambov	Natural Resources
Stan Eckersley	Commerce & Revenue
Debbie Headden	Human Services
Ben Leishman	Public Education
Spencer Pratt	Higher Education
Gary Ricks	Executive Offices & Public Safety
Danny Schoenfeld	Public Education
Juliette Tennert	Department of Health
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

Full Reports and Staff E-mail Addresses are Available on the LFA Website: www.le.utah.gov/lfa



EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW
MEETING DATE: APRIL 17, 2007

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 four new applications and two reapplications requiring action by the EAC, four new applications and four reapplications that have been approved by the Governor's Office, and 309 grants currently being tracked by the Governor's Office. Ms. Young directed the Committee to disregard the second application on the legislative approval list (Utah Clean School Bus Retrofit) since the application was denied at the federal level.

Committee Action:

The committee approved the applications requiring EAC action.

Staff Contact: Juliette Tennert

Report: State School Board, Discussion on Teacher Salary Increases

Summary:

The State Office of Education reported on the implementation of H.B. 382 - Amendments to Education Funding. The bill provided an ongoing pay increase to qualifying educators and a one-time bonus. The USOE provided an overview on distribution of the salary adjustment to the educators, a draft administrative rule, and highlighted complications with including the salary within the various salary schedules of the school districts.

The committee asked some clarifying questions regarding the issue of how the money was to going to be included with the salary schedule. The USOE requested clarification on Legislative intent pursuant

to the placement of the salary adjustment 'in' or 'on' the salary schedule, specifically, whether it was to be included separate from the regular school district salary schedule or was it to be added to the existing salary schedule.

Committee Action:

Rep. Clark moved that USOE instruct the districts to include the salary increase 'in' the various salary schedules and clarified the Legislature intended to provide an ongoing adjustment of \$2,500 to all qualifying educators.

Staff Contacts: Ben Leishman & Danny Schoenfeld

Report: PEHP Proposal

Summary:

Jeff Jensen, Director for the Public Employees Health Program, presented a proposal to change the prescription benefit of the state employee Summit Care and Advantage Care plans. The changes would equalize the benefit for both plans by requiring the following new co-payment levels:

- \$4 for generic drugs
- 20% of cost (\$10 minimum, \$40 maximum) for preferred brand name drugs
- 35% of cost (\$30 minimum, no maximum) for non-preferred brand name drugs

Mr. Jensen noted that the overall effect of the proposed changes would be cost-neutral to the State. Committee members expressed concern over the actual plan changes as well as whether or not they had the authority to approve plan changes but took no action on this item.

Staff Contact: Juliette Tennert

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BEN LEISHMAN AND JULIETTE TENNERT, EDITORS

Report: UDOT - Matching Requirements for Corridor Preservation

The Department of Transportation received an appropriation of \$40 million for corridor preservation funding in FY 2007 and FY 2008. The appropriation for FY 2007 was \$10 million and is designated to match local corridor preservation funds generated through locally imposed vehicle registration fees. During the 2007 General Session, the Legislature appropriated \$30 million in FY 2008 for "advanced right of way purchases".

UDOT appeared before the Committee to seek clarification on several items related to rights of way purchases.

1. What is the Legislature's definition of the term "advanced right of way purchases"? Does it define advanced right of way purchases to include purchasing properties acquired from willing sellers and or through the condemnation process?
2. What right of way parcels should the Department pursue? Is it Legislative intent that the funds be used for right of way acquisition for projects expected to be built within a seven year construction cycle or for corridor preservation with a construction time line up to thirty years.
3. How long should the Department hold the matching funds for local governments? And what ratio should the match be?
4. Is it expected that as rights of way are incorporated into construction projects that the expenditures for rights of way purchases be revolved back into the "advanced right of way purchases funding" from the construction budget?

After discussion, Committee members and UDOT understood that the funding be used for both short and long term corridor preservation. In addition, the department should utilize the funding to acquire land parcels from both willing sellers and through the condemnation process when necessary to preserve corridors at the least cost to taxpayers.

The Committee discussed UDOT setting aside \$24 million to meet a one-to-one match ratio of all potential funding that might become available to those counties that have already imposed the allowable \$10 fee per motor vehicle registration. Further, the normal cycle for counties to receive and be able to expend the added fees would be two years and that UDOT maintain the match monies for that period of time.

Finally, the Committee discussed whether the appropriated funds qualify statutorily to be considered part of a revolving program. Statute appears to exclude these funds from participation in a revolving program, therefore, these funds should be considered as one-time funding.

Staff Contact: Mark Bleazard

Report: Local Contractor COLA

The Departments of Health and Human Services reported on cost of living adjustments (COLAs) allocated for local and private providers. The Legislature allocated revenue to provide a 6% COLA for these local contract providers in FY 2008. Subsequently, some concern emerged among Legislators that contractors were not receiving all of the COLA appropriated by the Legislature since contractors will only receive a 4% increase based on their total budget, rather than 6% based on the costs of a COLA.

The Legislative Fiscal Analyst calculates the COLA for local and private providers based on the compensation portion of the contractor's budget. This formula emerged from methodology developed in a report presented to EAC on July 17, 2001, entitled, "Review of Calculation Method for Local Provider COLA". Using this methodology, the 6% COLA increase for providers translates into an increase of about 4% of the total contract. All of the funding appropriated for the COLA will be included by the departments in the contract rate increases for FY 2008.

Staff Contacts: Debbie Headden (Human Services), Juliette Tennert (Health)

Interim Revenue Updates -

Look for Quarterly Revenue Estimates

Beginning in May, the Legislature will receive quarterly revenue estimates from the Revenue Assumptions Committee. Historically, this committee has provided revenue estimates to the Legislature twice each year. The first estimate is reported prior to the General Session in December of each year and the second estimate is made in February during the General Session. With quarterly reporting, the Legislature will receive additional reports in May and September of each year.

The Revenue Assumptions Committee is comprised of representatives from the Fiscal Analyst's Office, Governor's Office of Planning and Budget, the Tax Commission, the Department of Workforce Services, the Department of Natural Resources, the University of Utah, as well as, private sector contractors. The committee make-up provides a broad based approach to the revenue estimates used in building the state's annual budget.

Monthly, the Tax Commission produces the TC-23 which reports revenue based on actual collections, but does not provide a dynamic analysis of other economic factors influencing revenue. Quarterly revenue estimates will use the revenue collection information from the TC-23 and other methods to provide a more comprehensive picture of the State's economy as well as how revenues align with appropriations made by the Legislature each year.

Quarterly revenue updates will be reviewed by the Executive Appropriations Committee during their monthly meetings in May, September, and December. The Fiscal Highlights Newsletter will also contain these quarterly revenue estimates in the months listed above.

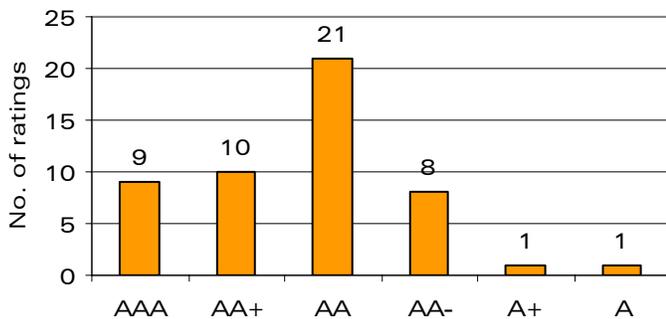
Staff Contact: Andrea Wilko

State Bond Rating - Utah's AAA Rating Continues

Standard & Poor's, one of three major bond rating agencies (the others are Moody's and Fitch Ratings) recently issued its annual fifty-state report card and general obligation bond ratings. Ratings are important because they indicate the perceived credit risk associated with a state's general obligation bonds issuances. A high rating shows less perceived risk and allows the state to secure lower interest rates as it takes its bonds to market.

S&P's report continues to give Utah a G.O. rating of AAA/Stable, the highest possible rating. Only nine states received the AAA rating.

U.S. State G.O. Ratings Distribution



The report highlighted the following facts about Utah's FY 2008 budget:

- Strong revenue growth accelerated a tax reform package totaling \$220 million
- Tax revenue is expected to be up to 50% less volatile than before as a result of system changes
- Rainy day funds exceed six percent of expenditures
- A new disaster relief fund was adopted with a formal process for deposits
- Cash funded certain transportation projects and other capital projects
- Authorized \$1.1 billion in bonding for transportation projects
- Contained other post employment benefit liability two years ago—the estimated liability is \$488 million—and established an irrevocable trust fund to receive required annual contributions

The high rating is good news for the state and will save money for Utah taxpayers on general obligation bonds. For example, on a \$1 billion bond, the difference in interest costs between 3.5% interest rate and a 4% interest rate is approximately \$46 million over fifteen years. Costs vary depending on how bond issuances are structured, but this shows how the state benefits by having a good economy and prudent fiscal management.

Staff Contact: Andrea Wilko

Capital Improvements Funding

During the 2007 General Session the Legislature appropriated \$73,059,900 for capital improvements in FY 2008. This amount complied with UCA 63A-5-104 which requires that 1.1% of the replacement value of existing state facilities be appropriated for capital improvements before any capital developments may be funded.

As revised by House Bill 216, 2007 General Session, "Capital Improvements" means any:

- remodeling, alteration, replacement, or repair project with a total cost of less than \$2,500,000;
- site and utility improvement with a total cost of less than \$2,500,000; or
- new facility with a total construction cost of less than \$500,000.

Capital developments are projects with higher dollar values than those shown for capital improvements.

On April 11 the State Building Board approved a list of Capital Improvement projects for Fiscal Year 2007. The board allocated 60 percent of the funding to higher education. This equals higher education's share of the replacement cost of existing facilities statewide, and is similar to allocations in the previous five years.

FY 2008 Capital Improvements Allocation

College of Eastern Utah	\$974,300
Dixie State College	1,779,600
Salt Lake Commun College	3,848,000
Snow College	1,793,300
Southern Utah University	2,510,400
University of Utah	13,035,400
Utah State University	7,328,500
Utah Valley State College	3,279,000
Weber State University	4,152,800
Utah College of Applied Technology	2,051,800
Subtotal Higher Ed	\$40,753,100
Alcoholic Beverage Control	\$346,100
Capitol Preserv Board	1,694,500
Community & Culture	250,000
Corrections	4,041,800
Courts	2,093,900
DFCM	4,510,100
Fairpark	607,400
Health	250,100
Human Services	3,067,200
Veterans Affairs	236,400
National Guard	1,254,000
Natural Resources	4,493,300
Office of Education	600,000
Public Safety	667,400
Tax Commission	126,500
Transportation	1,760,400
Workforce Services	660,400
Statewide Programs	5,647,300
Subtotal Agencies	\$32,306,800
Grand Total	\$73,059,900

Staff Contact: Steven Allred

Tuition Increases at Utah's Colleges & Universities

Following the conclusion of the 2007 General Session, the State Board of Regents (SBR) approved a 4% first tier tuition rate increase for academic year 2007-2008. This funding provides for a portion of the monies necessary for the approved compensation increase. The Legislature approved capping the tuition part of compensation funding at 25%, with State funds picking up the balance. Had this new funding not been in place, the Commissioner's Office reports that first tier tuition increases would be 5%.

In addition, the SBR approved second tier tuition ranging from 0% to 5%. Second tier tuition is used for institution-specific, student-approved initiatives such as library support, advising and counseling services, new faculty, and other student services.

The tuition increases for academic year 2007-2008 will generate approximately \$24.3 million (\$13.9 million from first tier tuition and \$10.4 million from second tier tuition). The following table shows the tuition percent increases:

USHE Tuition Increases for 2007-2008

	1st Tier	2nd Tier	Total
University of Utah	4.0%	3.5%	7.5%
Utah State University	4.0%	3.0%	7.0%
Weber State University	4.0%	3.0%	7.0%
Southern Utah University	4.0%	3.0%	7.0%
Snow College	4.0%	1.5%	5.5%
Dixie State College	4.0%	5.0%	9.0%
College of Eastern Utah	4.0%	0.0%	4.0%
Utah Valley State College	4.0%	2.7%	6.7%
Salt Lake Community College	4.0%	2.0%	6.0%

Staff Contact: Spencer Pratt

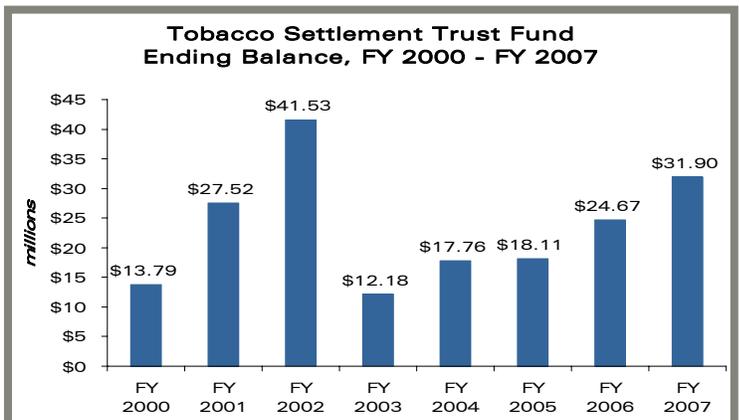
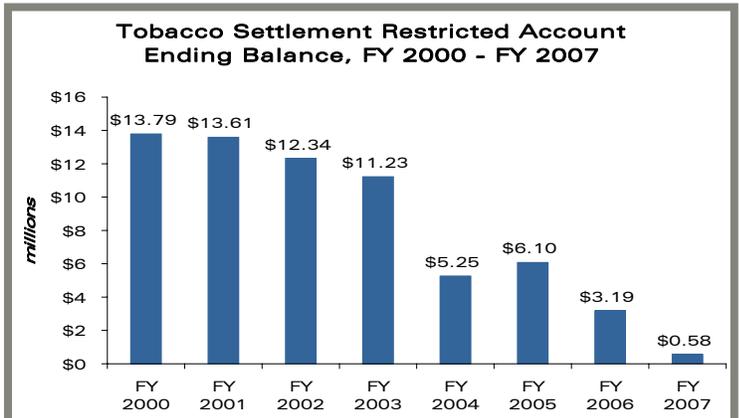
Upcoming Meetings

- Executive Offices & Criminal Justice Appropriations Subcommittee
 - Date:** Wednesday, May 9, 2007
 - Time:** 9:00 A.M.
 - Location:** Larry H. & Gail Miller Public Safety Training Center - Salt Lake Community College, Miller Campus
- Health & Human Services Appropriations Subcommittee
 - Date:** Wednesday, May 2, 2007
 - Time:** 8:30 A.M.
 - Location:** Utah State Hospital, Provo
- Joint Education Committees - Public Education & Higher Education Appropriations Subcommittees and Education Interim Committee
 - Meeting to be held in early June
 - Details forthcoming

FY 2007 Tobacco Master Settlement Agreement Payments

As of April 19, 2007, the Governor's Office of Planning and Budget reported that FY 2007 payments from tobacco companies participating in the Master Settlement Agreement total \$27,033,600. In accordance with UCA 63-97-201 and 63-97-301, \$6,758,400 (25% of all payments) has been deposited to the Tobacco Settlement Trust Fund and \$20,275,200 (75% of all payments) has been deposited to the Tobacco Settlement Restricted Account.

Restricted account funds available for fiscal year 2007 (including a beginning balance and interest) sum to \$23,483,700, which is sufficient to cover \$22,899,300 in appropriations to fund programs in the Utah Departments of Health and Human Services, the Courts, the Attorney General's Office, and the University of Utah Science Center. Histories of Tobacco Settlement Restricted Account and the Tobacco Settlement Trust fund ending balances are provided in the following tables. After appropriations, the estimated restricted account ending balance for FY 2007 is about \$584,000. The estimated ending balance in the Tobacco Settlement Trust Fund for FY 2007 is \$31,897,900.

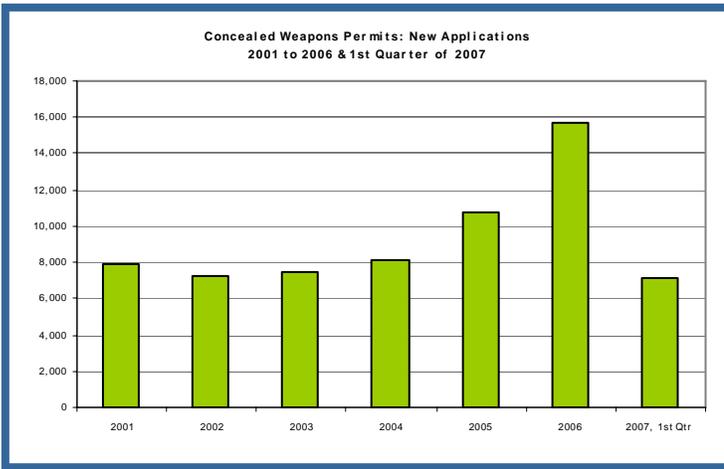


A detailed report on tobacco monies will be presented in the May Executive Appropriations Committee meeting.

Staff Contact: Juliette Tennert

Concealed Weapons Permits in Utah

The "Concealed Weapon Act" (UCA 53-5-7), the Bureau of Criminal Identification (BCI) is responsible for issuing Concealed Weapon Permits. BCI charges \$59 for a new application, of which \$35 remains in Utah. The remaining \$24 is forwarded to the Federal Bureau of Investigation (FBI) to conduct background and fingerprint checks of the applicant. Application renewals are \$10. No FBI background check of fingerprints is required for renewal. The following graph illustrates, by calendar year, recent concealed weapon permit applications data.



New applications have increased in each of the last four calendar years, with particularly strong growth in 2005 and 2006. Calendar year 2007 is on track to continue this trend based on the number of new applications reported in the first quarter.

BCI is statutorily required to remit all Concealed Weapon Permit fees received (exclusive of those required by the FBI) to the state treasury. Bureau operations are primarily funded with a General Funds appropriation and Dedicated Credits from other services provided. During the 2007 General Session, the Legislature passed House Bill 39, "Concealed Weapons Fees Amendments." The legislation permits BCI to retain Concealed Weapon Permit fees beginning Fiscal Year 2008 to cover operational costs. A commensurate offset to the Bureau's General Fund allocation was also established in the bill, making the bill revenue neutral.

Fourteen states have formal reciprocal agreements recognizing Utah's Concealed Weapon Permit; sixteen other states also recognize the permit informally. The Utah fee is competitive nationally and internationally. The Bureau reported that out of state applications now outnumber in state applications. Based on preliminary analysis, there was an unexpected increase in applications following the Trolley Square shooting earlier this year.

House Bill 39 requires that BCI annually report to the Legislature on the Concealed Weapon Permit program and its fiscal implications for the state.

Staff Contact: Gary Ricks

Medicaid Eligibility Consolidation

As the Department of Health (DOH) and the Department of Workforce Services (DWS) work out the details of the consolidation they found that there are a few people in the original estimate that do not need to be transferred. This would drop the transfer of employees from 255 to 253 and reduce the funding transfer as well. Neither department opposes the change but it will be reported as part of the presentation to Executive Appropriations Committee in November, 2007.

Staff Contact: Stan Eckersley

NATURAL RESOURCES

Oil and Gas Program Growth

Driven by high commodity prices, there is a steady increase in oil and gas exploration and production in Utah. The Division of Oil, Gas & Mining reports that currently 42 rigs are developing known resources and searching for new ones. Production is increasing at the rate of 6% to 13% annually. The natural gas production total for 2006 exceeded the all-time record established in 1994 of 348 billion cubic feet. Production sales value for crude oil and natural gas extracted within Utah is \$2.8 billion for 2006, an increase of 115% from calendar year 2003.

Steady growth has impacted the ability of the Division of Oil, Gas, & Mining to perform its regulatory duties. The Division's Oil and Gas Program is responsible to process the 'Applications for Permit to Drill' (APD). The number of APD issued by staff in FY 2006 was 2,003, which was 51% higher than the previous year (1,329 in FY 2005). The Division is projecting that over 1,700 APDs will be approved in the current fiscal year (FY 2007).

The Division is using the additional funding appropriated by the 2006 Legislature (\$50,000 in FY 2006 and \$100,000 in FY 2007) to develop an electronic permitting system for greater efficiency in the Oil and Gas Program. Additional funding for five FTEs (21% increase) also enabled the Program to hire staff in FY 2006 to help with the permit growth noted above. According to Division administration, currently, 79% of the new drilling permits are issued in less than 45 days. The production sales value from the oil and gas industry is approximately \$1,400 for each dollar of Program expense.

Staff Contact: Ivan Djambov

Changes in Fiscal Analyst Staff Assignments

Bill Greer accepted a position with the Department of Workforce Services, concluding his work in the Fiscal Analyst's office on Friday, April 13, 2007.

Juliette Tennert assumed the responsibilities as Fiscal Analyst for the Department of Health.



RETURN SERVICE REQUESTED

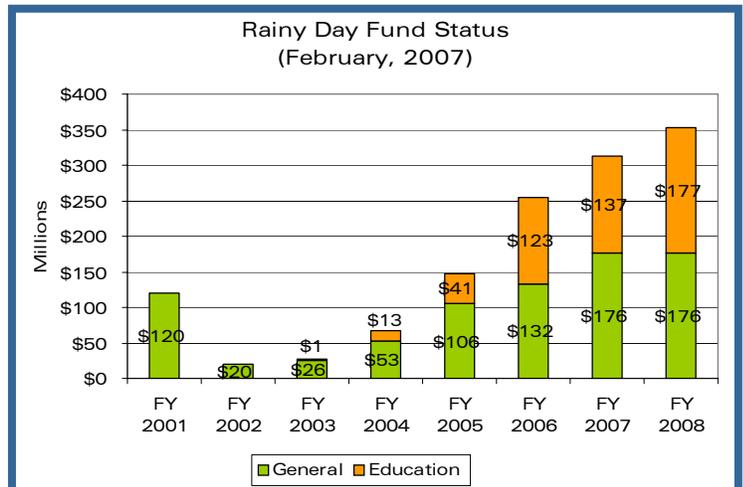
Good for a Rainy Day - and Today:
An Update on Utah's Rainy Day Funds

During the 2007 General Session, the Legislature put \$85.4 million of our surplus and projected revenue growth into the state's rainy day funds. Of that amount, \$45.4 million goes to the funds in FY 2007 and \$40 million goes in FY 2008. For FY 2007 the \$45.4 million appropriation in H.B. 1, plus \$11.4 million in disaster relief loan repayments, will bring the combined funds to \$313 million. An additional \$40 million makes the funds \$353 million in FY 2008.

The funds in FY 2008 will be nearly three times what they were before we first borrowed from a rainy day fund in FY 2002. The figure below shows annual balances in both funds from FY 2001 to FY 2008. However, the funds will not automatically grow in the future. Statute requires the Division of Finance to transfer certain amounts of year-end surplus to the rainy day funds. But, the transfer is capped once balances reach 6% of current year appropriations. For FY 2007, rainy day balances are 6.2% of FY 2007 revised appropriations. For FY 2008, they will be almost exactly 6.0% of initial appropriations. As such, rainy day funds will only grow further if legislators appropriate money into the funds.

Our growing rainy day balances are a great safety-net should tax revenues grow by less in the future than what we projected. But it also has positive im-

plications for today. As reported in another article in this publication, Standard and Poor Rating Services recently reiterated Utah's AAA bond rating after considering our FY 2008 budget action. S&P specifically noted Utah's "fiscal prudence" as demonstrated by rainy day balances. The AAA rating means Utah pays less interest to borrow for capital investment. So, while the rainy day funds protect us from downside risk, they also save us money on an ongoing basis.



Staff Contact: Jonathan Ball