

FISCAL HIGHLIGHTS

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EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - AUGUST 18, 2009

SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-CHAIRS

New Century Scholarship Update

"Earlier today, Majority legislative leadership and Governor Herbert instructed the Utah Board of Regents to fully fund the New Century Scholarship.

"The past week both sides of the aisle have provided constructive input in trying to come up with a solution. Legislative leadership will continue to work with the Governor and the Utah Board of Regents between now and the legislative session to specify funding sources. We expect that the amount of the scholarship restoration will be a reallocation from within the Higher Education budget. The Board of Regents has agreed to notify qualified recipients, within 72 hours, that their scholarship will be fully funded."

Report: Federal Funds/ARRA/Non-Federal Funds Grants Reports

Tenielle Young from the Governor's Office of Planning and Budget and Danny Schoenfeld from the Legislative Fiscal Analyst's Office presented the Federal Fund/ARRA/Non-Federal Grants Reports. The Legislature approved both the new applications and reapplications.

Staff Contact: Danny Schoenfeld

Report: FY 2009 State Employment Update

Gary Ricks from the Legislative Fiscal Analyst's Office presented a report on total state employment numbers for the 2009 Fiscal Year. He reported that the total positions eliminated from State Agencies and Higher Education were 1,371 employees. In FY 2009 the total number of resignations that occurred were 1,000 and the number of retirements were 417. The Executive Appropriations Committee asked for further

information on how agencies determined the differences in Reductions in Force and also further information on the total number of retirements and resignations from higher education institutions.

Staff Contact: Gary Ricks

Report: Transportation Funding Updates

The Department of Transportation gave an update to the Executive Appropriations Committee on the status of construction progress of the I-15 in Utah County, Mountain View Corridor, and the Southern Parkway. The department also gave updates on the progress of bonding for road projects, as well as the status of highway projects funded through the American Recovery and Reinvestment Act.

Staff Contact: Mark Bleazard

Report: Agency Planning for Implementing FY 2011 Base Budget Allocations-Capital Facilities and Government Operations Appropriations Subcommittee

Most of the reductions to the subcommittee's budgets took place in FY 2009 and FY 2010. Three significant items received one-time funding in FY 2010 to delay implementation of the reductions until FY 2011: the Technology Services server consolidation, the facility maintenance for Capitol Hill, and the maintenance of the Omnilink communications system.

(Continued on page 2)

UPCOMING MEETINGS

**Executive Appropriations Committee,
September 15, Capitol Room 445**



EXECUTIVE APPROPRIATIONS

~ Continued from Front

The Legislature reduced all of the ongoing funds in the Capital Development program and reduced over \$27 million of ongoing funds in the Capital Improvements program. Any capital facilities development in FY 11 will require either additional funding to the Capital Improvements program or a statutory change in addition to new funds to either cash fund the project(s) or to pay for debt service.

Staff Contact: Rich Amon and Gary Ricks

Report: 2009-2010 Appropriations Report

Jonathan Ball reported on the 2009-2010 Appropriations Report. He reported on the updated 2010 Base Changes and the overall impacts of the reductions during the 2009 and 2010 Fiscal Years. Other important facts that were brought to the attention of the committee were the \$1.8 billion in cumulative revenue shortfalls and 4 rounds of balancing the budget. Copies will be made available to all members of the Legislature.

Staff Contact: Jonathan Ball



HIGHER EDUCATION

Staff Contacts: Spencer Pratt

Update of Student Loan Program

For FY 2009, student loan volume was at its highest level. Between the recent growth in enrollment and higher borrowing limits, the number of student loans reached 120,700, an increase of 29% over FY 2008. This represents nearly \$500 million, which reflects an increase of 34% over FY 2008. The increase was most pronounced at Dixie State College, Salt Lake Community College, and Utah Valley University where increases are between 48 and 62% higher than last year. Even with many lenders having retreated from the student loan market, the Utah Higher Education Assistance Authority (UHEAA) has been able to meet the increased demand for student loans. FY 2009 marks the first time that UHEAA has made loans directly. New loans totaled \$144 million. New federal regulations allow UHEAA to sell loans to the U.S. Secretary of Education if they cannot be economically financed. By exercising this option for specific loans, UHEAA can save approximately \$30 million in costs it would otherwise incur.



NATURAL RESOURCES

Staff Contact: Ivan Djambov

West Desert Ground-Water Monitoring

Development of the Utah Geological Survey's (UGS) West Desert Ground-Water Monitoring Network that began in March 2007 is nearly complete. The estimated cost of the project is \$3,347,400 from the General Fund.

The goal of the project is to establish a long-term (50+ years) ground-water monitoring network in Snake Valley, western Millard County, and adjacent areas, in response to planned ground-water development in Nevada. The monitoring network includes both wells and flow gages at springs.

The objectives included: (1) establishing ground-water monitoring wells near the planned pumping wells to assess their potential impacts on ground water in Utah, (2) establishing monitoring of discharge from selected springs, (3) evaluating regional flow patterns in the deep carbonate aquifer from Snake Valley to Fish Springs National Wildlife Refuge, (4) determining baseline water-level and chemical trends as a basis for evaluating possible future changes in local and regional ground-water flow systems, and (5) conducting aquifer tests to measure the capacity of the aquifers to transmit and store ground water. UGS reported that these objectives will be met by the end of August 2009.

The wells comprise 68 individual PVC wells in 51 boreholes (1-3 wells per borehole) at 27 sites (1-3 boreholes per site). Well depths range from 12 to 1633 feet. Hydrologic settings of well sites include ground-water recharge areas along range margins, basin centers, agricultural areas, regional springs, and fault zones. The vast majority of wells are equipped with pressure transducers to measure water levels daily, and were sampled for water chemistry. The transducer data must be downloaded on-site quarterly.

Installation of flow gages is in progress at relatively large-discharge springs that could be impacted by future ground-water development. These springs have relatively large water rights on record and/or their outflow areas provide habitat for sensitive aquatic species. The division reported that 11 gages will be installed at 6 sites and the real-time data will be streamed to DNR via radio telemetry.

Data and more detailed project descriptions can be found at:

http://geology.utah.gov/esp/snake_valley_project/index.htm.



Preferred Drug List – Savings Higher Than Anticipated

The State’s preferred drug list for Medicaid clients began October 1, 2007 because of Senate Bill 42 “Preferred Prescription Drug List” from the 2007 General Session. Currently Utah law requires approved generic drugs to be used for Medicaid clients whenever available unless a physician obtains authorization for an exception. As of July 2009 the State has 35 drug classes approved for the preferred drug list. Savings for FY 2009 came in at \$2,120,600 General Fund. Through December 2008 FY 2009 estimated savings had been \$1.3 million. Based on an external audit, the Department of Health changed how it calculated the program savings to include inflationary increases in drug prices.

Current estimates of savings for FY 2010 are \$2,690,500 General Fund. The original estimate of annual savings from S.B. 42’s fiscal note was \$2,743,800 General Fund.

August 2009

- 197,200 July 2009 Medicaid caseloads
- 2,000 member increase over June 2009
- 18.8% increase over July 2008

New Multi-agency Office Building to House Human Services and Environmental Quality

During the 2007 General Session, the Legislature acted upon an opportunity to solve several building issues. The Department of Human Services (DHS) building on North Temple and 200 West in Salt Lake City was in need of \$5.0 million in repairs and still had \$4.5 million in revenue bond debt. The fourth floor was considered unsafe for occupancy and the building lacked sufficient electrical capacity. The LDS Church offered \$11.0 million for the DHS building. The Legislature accepted the offer and used the proceeds to purchase an existing building for the Utah School for the Deaf and Blind for \$6.0 million, improve the current DHS building for \$0.5 million, and pay off the DHS building revenue bond for \$4.5 million. While these transactions solved several problems, they left DHS without permanent space. The new owners agreed to lease the DHS building back to the state for up to two years allowing the state time to find new space.

The Legislature subsequently made a determination to construct a multi-agency building at 1950 West 200 North in Salt Lake City at a construction cost of \$47 million. This new four-story, 244,000 square foot building will accommodate both the Department of Human Services (390 FTE) and the Department of Environmental Quality (400 FTE). Human Services is anticipated to occupy the building on November 1, 2009. Environmental Quality is anticipated to occupy the building on March 1, 2010. The vacated buildings housing the Department of Environmental Quality will have minor remodeling done and eventually house other state agencies.



Teacher Salary Supplement Program Update

During the 2008 General Session, the Legislature created the Teacher Salary Supplement Program to provide additional compensation to certain math and science teachers. Qualifying teachers can receive up to \$4,100 in additional compensation. The program was funded with an ongoing appropriation of \$4,300,000 from the Uniform School Fund and is managed by the Utah Department of Human Resource Management (DHRM).

As of the end of July 2009, the first year of the program resulted in 1,483 total applications submitted to DHRM, with 87 applicants teaching in charter schools. Applicants currently teach in 38 school districts and 26 charter schools. Teachers from two school districts, Beaver and Tintic, did not apply for the salary supplement. As of the end of July 2009, DHRM has paid school districts and charter schools a total of \$3,543,700 to provide qualifying teachers with a salary supplement. Approximately \$756,300 remains in the program to pay for applications not yet processed, or as a program ending balance.



New Role for CCJJ in Jail Reimbursement Payments

“Jail Reimbursement” refers to payments made by the state to reimburse counties for a portion of the cost of housing felony probationers and parolees sentenced to county jails. It is different than “Jail Contracting” which is an agreement between the Department of Corrections and county sheriffs to house a number of state inmates in county jails.

Until now, both Jail Reimbursement and Jail Contracting have been managed by the Department of Corrections. However, with the passage of H.B. 220 in the 2009 General Session, Jail Reimbursement will now be managed by the Commission on Criminal and Juvenile Justice (CCJJ).

The law outlines the timeline and procedures as follows:

- Each month, counties submit a report to CCJJ detailing the number of relevant inmates and inmate days provided by the county
- By September 1, CCJJ compiles the information for the preceding fiscal year and the Department of Corrections calculates the “average actual state daily incarceration rate” for the most recent three years
- By September 15, a group of sheriffs, county representatives, corrections officials, the CCJJ director, and GOPB director meet to discuss the rate
- By September 30, CCJJ informs the Division of Finance and each county of the exact amount of the payment that will be made to each county
- By December 15, the Division of Finance distributes payment to each county

If appropriations allow, the law requires payments at a rate of 50% of the legislatively-approved final state daily incarceration rate. If appropriations are insufficient to pay this rate, CCJJ must pro-rate the approved payment to match appropriations. The Legislature reserves the right to set the final state daily incarceration rate. The Legislature appropriated \$6,500,000 (all one-time funds) to the Division of Finance for Jail Reimbursement in FY 2010. Prior to H.B. 220, funds were appropriated to the Department of Corrections. Final FY 2009 appropriations totaled \$10,753,300.

Current Prison Population vs. Capacity

Prison systems are like freeways – they do not decide who enters and exits, they only operate with what they are dealt.

Not unlike other state agencies, the Utah Department of Corrections budget decreased 12.5 % from the beginning of Fiscal Year 2009 to the end of the fiscal year (\$294 million to \$261 million). The Legislature managed to make such reductions without requiring releasing inmates early. While the budget has decreased the prison population has increased - tracking historical trends. Balancing increasing prison populations with decreased funds is a challenge for the Department of Corrections.

The Department of Corrections has two main metrics to assess prison capacity and plan for housing – maximum capacity and operational capacity. Maximum capacity is the total number of prison beds available at the prison which is about 6,900. Operational capacity is approximately 95% of maximum capacity, or about 6550. Operational capacity is the maximum point at which the Department estimates that they can safely manage inmates and ensure a reasonably safe environment for staff. Beyond this amount, the safety risk increases for staff and inmates.

This increased safety risk includes the lack of flexibility in shuffling inmates within the system including pairing two inmates together in the same room that poses the minimal safety risk. For example, having available open beds gives the Department options when they have two violent high-risk offenders that may clash if they were to be housed together.

Currently, the Department is approaching this operational capacity (as of August 11, prison population was 6,539) threshold. While prison population does fluctuate, historically it increase at about 18-20 inmates per month. As of late, the population has somewhat leveled off and is constantly being monitored and is continuously a concern so as to anticipate and notify of possible prison “pileups”.



TRANSPORTATION

Staff Contacts: Mark Bleazard

Utah County I-15 Rebuild Update

During the 2009 General Session the Legislature provided funding of \$1.725 billion for the rebuild of portions of I-15 in Utah County. The project known as the “I-15 CORE Project” is beginning to take shape. The I-15 CORE will add two additional north and south bound lanes from American Fork to Provo, rebuild and reconfigure interchanges, replace or modify bridges, and extend the express lane from Orem to Provo.

The Department of Transportation reports that on June 16, 2009 UDOT released the Request for Proposal (RFP) for the I-15 CORE Project to the three preapproved design-build teams who will continue in the bidding process for the project. The teams preapproved by UDOT (in alphabetical order) are:

- Flatiron-Skanska-Zachry
- Provo River Constructors
- Timpanogos Transportation Constructors

The preapproved list was determined by the Request for Qualifications (RFQ) submitted by each team in May of 2009. The teams will have until November 2009 to develop and submit their proposals and bids. One of the teams’ proposals will be selected in December 2009 and a contract signed. Construction is expected to begin in spring of 2010.



CAPITAL FACILITIES

Staff Contact: Rich Amon

Energy Projects in State Facilities

In the August meeting of the State Building Board the Division of Facilities, Construction and Management (DFCM) presented information regarding new funding the Division received from the federal stimulus to make state buildings more energy efficient. This federal stimulus money was originally received by the Department of Natural Resources (DNR) to promote energy projects statewide. DNR recently allocated \$10 million of those funds to the DFCM for energy projects in state buildings.

The Division anticipates using \$1.5 million of these funds as grants to energy projects receiving loans from the State Facility Energy Efficiency Fund. The Legislature created this fund as a revolving loan fund to enable agencies to borrow interest-free funds for energy efficiency projects and to pay back the loan over a period of time with the cost savings generated by the energy efficien-

cies. The Legislature originally capitalized the fund with \$3.65 million; however, in the previous General Session the Legislature reduced the funds available by \$1.5 million. The DFCM intends to restore \$1.5 million to energy efficiency projects by applying a matching grant (of approximately 50 percent) to the loans made by the fund.

The Division also anticipates using \$4.5 million of the federal stimulus funds to move forward with substantial energy projects and infrastructure improvements to state institutions of higher education and state-owned buildings. These funds would be used in conjunction with private Energy Services Companies (known as ESCOs), which offer to pay for the capital investment of energy projects with the agreement that the resulting energy savings will pay back the capital investment over a period of time. The Division anticipates using the remaining \$4.0 million from the stimulus funds for renewable energy projects.



COMMERCE AND WORKFORCE SERVICES

Staff Contact: Danny Schoenfeld

In-depth Budget Review

The Executive Appropriations Committee tasked the Legislative Fiscal Analyst Office to conduct an in-depth budget review of the Department of Workforce Services. This review will look at the all aspects of the department. It is anticipated that this review will give the Executive Appropriations Committee and the Commerce and Workforce Services Appropriations Subcommittee a greater understanding of the operations of the department. This report should be completed in November.

ARRA Fund Update

During the 2009 General Session the Legislature appropriated approximately \$98 million in American Recovery and Reinvestment Act funds to the Department of Workforce Services and Utah State Office of Rehabilitation. These funds went to programs such as Child Care, Food Stamps, Workforce Investment Act and Vocational Rehabilitation. The Legislative Fiscal Analyst’s Office along with the Governor’s Office of Planning and Budget are tracking each of these sources of financing and will be reporting back to the subcommittee in future meetings.



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RETURN SERVICE REQUESTED



THE NEXT STEPS

Staff Contact: Jonathan Ball

Anyone who endured the last few legislative sessions knows that they were not easy from a budgetary perspective. The proof is in the fact that FY 2010 unrestricted appropriations are on average 8% lower than the FY 2010 base budget. Next January, those budgets must decline by another 9%.

Sometimes it's best to let the numbers speak for themselves.

Budget Changes, FY 2010 Base Budget - FY 2011 Base Budget
 General and Education Fund plus Proxies Used to Balance the Budget
 by Area of Expenditure

Area	FY 2010 Base	FY 2010 Appropriated	Diff	% Diff	FY 2011 Base	Diff	Diff as % of '10 Base
Executive Offices & Criminal Justice	589,778,550	534,948,750	(54,829,800)	-9%	530,321,850	(4,626,900)	-1%
Capital Facilities & Government Operation	201,937,100	153,843,000	(48,094,100)	-24%	144,662,400	(9,180,600)	-5%
Commerce & Workforce Services	120,205,700	107,711,800	(12,493,900)	-10%	104,167,500	(3,544,300)	-3%
Economic Development and Revenue	113,293,500	112,347,200	(946,300)	-1%	98,341,700	(14,005,500)	-12%
Health & Human Services	685,889,300	645,855,000	(40,034,300)	-6%	588,194,500	(57,660,500)	-8%
Higher Education	845,889,700	769,455,500	(76,434,200)	-9%	705,354,700	(64,100,800)	-8%
Natural Resources	64,908,900	61,749,600	(3,159,300)	-5%	54,009,900	(7,739,700)	-12%
Public Education	2,533,270,886	2,407,472,986	(125,797,900)	-5%	2,111,249,186	(296,223,800)	-12%
Transportation & Environmental Quality	110,799,300	72,119,600	(38,679,700)	-35%	71,360,500	(759,100)	-1%
Legislature	20,596,700	19,545,400	(1,051,300)	-5%	17,135,700	(2,409,700)	-12%
Total	5,286,569,636	4,885,048,836	(401,520,800)	-8%	4,424,797,936	(460,250,900)	-9%

"Proxies" used to balance the budget include flexible ARRA funds (ARRA FMAP rate changes, the "State Fiscal Stabilization - Education" program, and the portion of the "State Fiscal Stabilization - General" program that supplants state funds in existing state programs) and certain revenue changes (H.B. 2009 2008 2nd Special Session, as well as motor vehicle registration, Courts security, and Agriculture fee changes passed in the 2009 General Session).