EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - SEPTEMBER 14, 2010
SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-chairs

Report: Utah Advisory Commission to Optimize State Government
Fraser Bullock, Vice Chair of the Utah Advisory Commission to Optimize State Government, introduced the Commission’s report to Governor Herbert. He outlined and expanded upon the following recommendations:

- Restructure state government to drive continued efficiency improvement.
- Systematically change the mix between state employee salary and benefits to reflect private sector practices.
- Leverage technology in education to lower cost and improve outcomes.
- Develop and implement a strategic plan for managing prison population.
- Combat fraud, waste, and abuse through a statewide recovery audit initiative.

Staff Contact: Rich Amon

Report: Fiscal Year 2010 Restricted Funds Close-out
General Fund restricted accounts ended FY 2010 with balances of $254 million (down 29 percent from $359 million at the beginning of the year). The General Fund Budget Reserve Account has an FY 2010 ending balance of $105 million.

Education special revenue funds ended FY 2010 with a $135 million balance (down 63 percent from $363 million at the beginning of the year). The Education Budget Reserve Account has an FY 2010 ending balance of $105 million.

Staff Contact: Jonathan Ball

Report: Federal Funds/ARRA/Non-Federal Funds Grants Reports
Becky Bruso of the Governor’s Office of Planning and Budget presented the Federal and Non-Federal Grants applications that require legislative action. The committee accepted all 12 requests: seven new and four reapplications for federal grants; and one new ARRA (American Recovery and Reinvestment Act) application.

Staff Contact: Patrick Lee

Report: Fiscal Year 2010 General/Education Fund Close-out
The Division of Finance calculates that fiscal year 2010 ended with a $4 million General Fund revenue deficit and a $44 million Education Fund revenue deficit. On the expenditure side, agencies lapsed $20 million to the General Fund, which will offset the revenue deficit. Agencies also carried $288 million of General Fund over from FY 2010 to FY 2011 as authorized by the Legislature.

Staff Contact: Mark Bleazard
GOVERNMENT OPERATIONS
Staff Contact: Rich Amon

Utah’s Triple-A Bond Rating
The State of Utah received a rating of “AAA” from each of the three rating agencies (Moody’s, Standard & Poor’s, and Fitch) for the upcoming issuance of general obligation bonds. Credit agencies do not rank or rate states; rather, credit agencies rate individual issuances of bonds. Bond ratings indicate to investors the level of risk for a given bond issuance. “AAA” ratings reflect bonds of high quality, low risk, and secure payments. They also reflect best financial practices and economies of the entities issuing bonds.

Each rating agency is independent of the others and a bond issuer may receive an “AAA” rating from one agency, but not the other. In fact, seven states recently received a “AAA” rating from two of the three agencies, but not all three. Only eight states received an “AAA” rating from all three credit agencies on their most recent bond issuance (Maryland, Missouri, Virginia, Utah, Delaware, Georgia, Iowa, and North Carolina). Of those eight, four states (Maryland, Missouri, Virginia, and Utah) have received an “AAA” rating on their bonds since the 1960s.

PUBLIC EDUCATION
Staff Contact: Ben Leishman

Basic Property Tax Rate Set for FY 2011
Local school districts share in the cost of providing a basic education to students in Utah. School districts must impose a minimum basic tax rate on taxable property within their boundaries and contribute the proceeds towards their cost of the Basic School Program. Assessing this Basic Tax Rate allows districts to receive state funding appropriated to support the Minimum School Program.

Statute allows the Basic Tax Rate to generate the same level of revenue collected in the prior year plus the growth in revenue generated from the value of net new properties over the prior year. During each general session, the Legislature adopts the target revenue amount allowed by statute and estimates the property tax rate required to generate the target revenue amount. In late June, the Utah State Tax Commission certifies the final Basic Tax Rate that generates the target revenue amount.

During the 2010 General Session, the Legislature adopted targeted revenues of $273.9 million for FY 2011. No net new growth is expected in FY 2011 over FY 2010, so the target revenue amount did not increase from the FY 2010 level. However, the Basic Tax Rate increased from 0.001307 in FY 2010 to an estimated rate of 0.001513 in FY 2011 to generate the same level of revenue. In June 2010, the Tax Commission certified the FY 2011 Basic Tax Rate at 0.001495, slightly lower than the estimate made in the General Session.

GOVERNMENT OPERATIONS
Staff Contact: Gary Ricks

Department of Technology Services Data Center Consolidation
The Department of Technology Services (DTS) has completed a data center and server consolidation during the 2010 Interim. The effort included the consolidation of data centers and servers throughout executive branch agencies in the State. The project was completed in 12 months, preceded by a six-month planning period. The results of the project should include:

• Reduction in the number of data centers in the State from 35 to 2;
• Reduction in the number of physical servers from 1,864 to 591;
• State Government ongoing savings of $4 million annually in server, support, and energy costs;
• Increased security; and
• Increased performance.

Application performance improved with the consolidation. The consolidation allows resources to be broken into smaller, more flexibly used components and pooled for more effective utilization. Performance improvements include:

• 60 percent performance gain on a Data Warehouse batch job that is regularly run at the Department of Workforce Services;
• Measurable 30 percent performance increase at the Department of Health when accessing data files with outside entities; and
• Total runtime improvement from 39 hours to 3.5 hours and realized cost avoidance of $300,000 in hardware for the State payroll system.

DTS will continue to monitor, track and report additional savings and benefits of the consolidation initiative. For additional information, please visit:
Why the $33.4 Million in Unspent General Fund for the Departments of Health and Human Services?

$17.3 Million in the Department of Health

The Department of Health did not spend $17.3 million of its General Fund appropriation for FY 2010. Of this amount, $17 million came from Medicaid and $0.3 million from the rest of the Department.

The unspent $17 million in Medicaid represents 7 percent of all FY 2010 General Fund for Medicaid. The Department of Health believes that new enrollees have had lower-than-average costs, as compared to existing enrollees. Because of this, the Department plans to adjust its per-member per-month cost for its FY 2011 supplemental and FY 2012 Medicaid caseload building block requests. In order to comply with H.B. 446 (Edwards) from the 2009 General Session, the $17 million General Fund in Medicaid will stay in that program. Previously, the Legislature used the unspent General Fund in Medicaid from FY 2009 to reduce the appropriation provided for supplemental Medicaid growth.

The $0.3 million from the non-Medicaid portion of the Department of Health represents 1 percent of all non-Medicaid General Fund provided to the Department of Health. The Department officials explained this unspent balance as the Department’s compliance with the Governor's December 11, 2009 Executive Order to reduce spending. The savings for Health primarily come from not filling vacant positions and not replacing computers.

$16.1 Million in the Department of Human Services

The Department of Human Services, including Juvenile Justice Services, did not spend $16.1 million of its FY 2010 General Fund appropriation. This amount represents 4.8 percent of all FY 2010 General Fund appropriated to the Department. Of the $16.1 million:

- $11.2 million came from Child and Family Services (11.6 percent of the Division’s General Fund)
- $2.1 million from Juvenile Justice Services (2.6 percent of the Division’s General Fund)
- $1.9 million from Substance Abuse and Mental Health (2.3 percent of the Division’s General Fund)
- $0.9 million from the rest of the Department (1.2 percent of the General Fund)

Of the $16.1 million unspent General Fund, the Department will maintain $5.4 million for use in its FY 2011 budget, while $10.7 million is returned to the General Fund. The $10.7 million not retained by the Department of Human Services represents 51 percent of the unspent funds from all agencies returned to the General Fund.

The Department of Human Services attributes the unexpended funds to implementation of the Governor’s Executive Order to limit hiring and expenditures, intent language prohibiting agencies from spending excess federal stimulus funds over what the Legislature authorized, additional collections of federal funds, intensified utilization reviews of high cost placements, and a one-time Medicaid cost settlement.

Utah College of Applied Technology Continues to Grow

The Utah College of Applied Technology (UCAT) was established in 2001 by the Legislature, and provides career and technical education to both high school students and adults. UCAT campuses offer 331 approved certificate programs in 75 different courses of study. All of the eight campuses are fully accredited by the Council on Occupational Education (COE). Each campus provides training specifically requested by local employers. UCAT is governed by an 18 member Board of Trustees, who represent local business, industry, and employers.

Now in its 9th year, UCAT has developed a new logo and website with the goal of helping students understand what it is and what it offers to them. By logging on to the new website, www.ucat.edu, students can request information, schedule campus tours, and find detailed information about each campus. In addition, information about each program, including tuition, the length of time to complete the program, and potential starting wages, is all included.

UCAT’s current enrollment is the highest ever with over 40,000 students. About one-quarter of these are high school students, and three-quarters are adult students. The students have registered for 10 percent more hours than students one year ago.
**Western States Budget Gaps**

When Utah’s Legislature set out to draft a budget for FY 2011, it had to close an estimated $482 million gap. The gap resulted from a projected revenue shortfall of $38 million, the ending of some federal stimulus funds, and various cost increases. The Legislature successfully closed the gap using a combination of rainy day funds, budget cuts, a tobacco tax increase, and other restricted funds and balances.

A glance at figures compiled by National Conference of State Legislature (NCSL) shows that Utah’s estimated gap was smaller than the average of other Western States (see figure below).

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**DEQ Assists with Disposal of Unused Prescription and Over-the-counter Medications**

The Drinking Water Division of the Department of Environmental Quality (DEQ) is encouraging Utah citizens to properly dispose of unused prescription and over-the-counter medications. Incorrect disposal presents a two-fold problem.

First, studies have shown that pharmaceuticals and over-the-counter drugs are present in our nation’s water bodies and certain drugs may cause ecological harm. Outdated or unusable drugs that are disposed of by flushing or pouring down a sink enter the environment because wastewater treatment facilities are not designed to remove them.

Second, storing unused or outdated prescriptions creates an opportunity for illicit use. One in five teens report intentionally misusing someone else’s prescription drugs to get high. Nearly half say they get the medications from friends and relatives for free, often by raiding the medicine cabinet or by attending “pharming parties” where teens barter legal drugs to get high.

The Drinking Water Division has partnered with the Office of the Utah Attorney General, Utah Prevention Network, Utah Poison Control Center, Utah Department of Health and Utah Pharmaceutical Drug Crime Project to provide Utah families an opportunity to drop off their unused prescription and over-the-counter medications at “Clean Out Your Medicine Cabinet” community medication take-back events. On September 25, 2010 these events will take place at 20 locations throughout the State. For more information, please visit: [http://www.medicationdisposal.utah.gov/](http://www.medicationdisposal.utah.gov/).

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**Estimated FY 2011 Budget Gaps During Enactment of the Budget (in millions)**

<table>
<thead>
<tr>
<th>State</th>
<th>FY 2011 Estimate</th>
<th>Percent of General/Ed Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$2,580</td>
<td>27%</td>
</tr>
<tr>
<td>California</td>
<td>$13,800</td>
<td>13%</td>
</tr>
<tr>
<td>Colorado</td>
<td>$700</td>
<td>9%</td>
</tr>
<tr>
<td>Hawaii</td>
<td>$466</td>
<td>9%</td>
</tr>
<tr>
<td>Idaho</td>
<td>$242</td>
<td>10%</td>
</tr>
<tr>
<td>Nevada</td>
<td>$1,807</td>
<td>45%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>$583</td>
<td>11%</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>$1,201</td>
<td>18%</td>
</tr>
<tr>
<td>Utah</td>
<td>$482</td>
<td>11%</td>
</tr>
<tr>
<td>Washington</td>
<td>$1,395</td>
<td>9%</td>
</tr>
<tr>
<td>Average</td>
<td>$2,326</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Note: Montana, Oregon and Wyoming did not provide information (Montana and Oregon have biennial budgets).*

With the exception of Utah, Nevada, and Oklahoma, each of these states budgeted in the six-month FMAP (Federal Medical Assistance Percentage) extension recently enacted by Congress. Without the extension, these states would have had even larger gaps to close.

NCSL’s survey asked for estimates made during budget enactment. Utah has since closed FY 2010 with an ongoing revenue shortfall of $48 million (offset by $21 million in funds lapsed by state agencies). As this is an ongoing revenue shortfall, it reduces the base for FY 2011. We don’t yet know how other states’ actual revenues held up to their estimates.
Highway Safety Funding

Many factors contribute to highway safety – car safety standards, driver alertness, highway safety standards, highway safety campaigns, safety inspections, patrolling of the highways, and more. The Department of Public Safety (DPS) has the responsibility to ensure that highways are safe. The following programs within DPS are directly responsible for highway safety:

- Highway Patrol – Field Operations
- Highway Patrol – Commercial Vehicle
- Highway Patrol – Safety Inspections
- Highway Patrol – Federal Projects
- Highway Patrol – Special Enforcement
- Highway Safety (line item)

These programs make up the majority of DPS’s budget. Department funding has increased (total actual dollars) over time with more noticeable increases beginning in FY 2007. When adjusted for inflation (2010 dollars), the funding for these highway safety programs is more even and has smaller increase over time compared to actual dollars (see figure below).

Appropriations for these programs are mostly General Fund with a significant amount of Restricted Funds and Federal Funds. Much of the increase from FY 2007 to 2010 is due to increased funding from the federal government.

DWR Offers Rebates for Non-Lead Ammunition

In August, the Utah Division of Wildlife Resources (DWR) started a pilot program to encourage hunters to use non-lead ammunition while hunting on the Zion unit (near the Utah/Arizona border). Lead poisoning is a major cause of death among the endangered California Condors. The Condors get exposed to lead by eating animals that die after being wounded by hunters. They also eat gut piles that are left after hunters clean the harvested animals.

DWR mailed rebate coupons to more than 2,000 deer, elk and bighorn sheep hunters who indicated they planned to hunt on the Zion unit this fall. The coupons are to be mailed to DWR, along with proof of purchase of a box of truly non-lead ammunition (bonded or jacketed lead bullets do not qualify). In return, the Division will mail a check for $25 to each hunter. The rebate funding comes from the U.S. Fish and Wildlife Service and Utah’s Endangered Species Mitigation Fund.
Last week the State’s Division of Finance released unaudited year-end numbers for FY 2010. A mere three months ago, in June, we told you to expect a year-end deficit of as much as $150 million. In that context, Finance’s recent announcement is really good news. But questions remain. Namely, where exactly did we end-up relative to the potential $150 million downside? You’ve probably heard $28 million, $44 million, and $50 million. Which is true? They all are.

The first number - $28 million - is a comparison of actual revenue to actual expenditures for the General and Education funds combined. There are at least two components to that comparison - revenues and expenditures. On the revenues side, the State collected $48 million less than we anticipated. On the expenditure side, agencies spent $20 million less than you authorized. The net effect is the $28 million budget deficit. Expenditures were $28 million more than collections.

The above mentioned $48 million revenue shortfall is part General and part Education Fund. General Fund revenue was $4 million shy of estimates. The remainder is therefore an Education Fund revenue deficit - the $44 million you may have heard. Actual Education Fund revenue was $44 million less than projected revenue.

Last General Session the Legislature redirected $6 million in Tobacco Settlement proceeds to Education. Floor Amendment 2 to H.B. 464 (Dougall) deposited $6 million in tobacco money to the General Fund to forestall proposed public education budget reductions. In April we learned that Tobacco Settlement payments will be short by more than that $6 million. Add this $6 million to the $44 million Education Fund revenue deficit and you get the $50 million discussed in the context of EduJobs.

If the above discussion hasn’t completely confused the issue in your mind, I’ve included a table to seal the deal! Bottom line - we’re better off than we anticipated in June. And you made contingencies in General Session to prevent this small shortfall from becoming a crisis.

### FY 2010 Preliminary Year-end Balance (millions)

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Education Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$-4</td>
<td>$-44</td>
<td>$-48</td>
</tr>
<tr>
<td>Spending</td>
<td>$20</td>
<td>$0</td>
<td>$20</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td><strong>$16</strong></td>
<td><strong>$-44</strong></td>
<td><strong>$-28</strong></td>
</tr>
<tr>
<td>PE Tobacco</td>
<td></td>
<td>$-6</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td><strong>$-50</strong></td>
<td></td>
</tr>
</tbody>
</table>