

FISCAL HIGHLIGHTS

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EXECUTIVE APPROPRIATIONS COMMITTEE

MEETING SUMMARY - NOVEMBER 16, 2010
SENATOR LYLE HILLYARD & REPRESENTATIVE RON BIGELOW, CO-CHAIRS

Report: Federal Funds Report

Becky Brusco 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 eight requests: two new and six reapplications for federal grants.

Staff Contact: Patrick Lee

Report: Department of Human Services In-Depth Budget Review, LFA

Stephen Jardine of the Office of the Fiscal Analyst presented the in-depth budget review report, which contained 29 recommendations. The first recommendation is the Division of Child and Family Services (DCFS) establish a pilot program that would decrease office time and increase field time by the use of non-traditional work schedules, laptops, cell phones, etc. *For this and an additional 14 of the 29 total recommendations, please refer to page 5.*

Staff Contact: Stephen Jardine

Report: Medicaid Coordination In-Depth Budget Review, GOPB

In response to an in-depth review assignment by the Legislative Management Committee, the Governor's Office of Planning and Budget presented a report entitled "Medicaid; Coordinating & Reporting Study" with the following five recommendations:

- Agencies should continue to collaborate for Medicaid improvement
- Establish a target date for completing certain collaboration goals
- Department of Health be responsible for a coordinated expenditure report
- Provide coordinated report annually by December 31 to the EAC chairs

- Eventually the coordinated report should include expenditures by contracted providers

Staff Contact: Russell Frandsen

Report: Revenue Report

The economists of the Fiscal Analyst's Office reported that the General Fund/Education Fund revenue ended FY 2010 \$45 million below the consensus February forecast. Based upon current collection rates and economic indicators updated in November, the General Fund/Education Fund revenue is expected to be \$6.4 million above the FY 2011 February consensus (\$900,000 General Fund/\$5.5 million Education Fund). Although there are conflicting signs regarding the strength and direction of future economic activity, slow revenue growth is expected for the next two fiscal years. The growth is largely contingent upon a recovering consumer, increasing wages, and accelerating growth in business income and passive income.

Staff Contact: Andrea Wilko & Thomas Young

Report: Paid Time Off

In response to an item included in the Master Study Resolution from the 2010 General Session, the Fiscal Analyst's Office presented a report on Paid Time Off (PTO). PTO combines annual and sick leave accounts into one account. *For details, please see "Executive Appropriations" on page 2.*

Staff Contact: Gary Ricks

Bill: November Special Session Bills

EAC members endorsed HJR 201 for the November Special Session.

Staff Contact: Steven Allred



GOVERNMENT OPERATIONS

Staff Contact: Steven Allred

How to Recoup Increasing Legal Costs of Employee Grievances?

When state employees file personnel action grievances, the grievances are reviewed at various levels with the goal of resolving them at the lowest level. When grievances rise to higher levels, the final step before going to court is the Career Service Review Office (CSRO). The Office hears cases on a wide variety of issues, and conducts jurisdictional, evidentiary, and appellate levels of adjudications.

Until approximately five years ago, employees usually waited until a case reached court before hiring private counsel. Today it is more common for employees to have representation at the CSRO level. As a result, the State must bring in its own attorneys from the Attorney General's Office, which increases costs to the State.

Recognizing the situation, the Legislature passed House Bill 140 during the 2010 General Session. This bill tightened employee grievance procedures, but also required that costs incurred by the AG's Office to defend against grievances be submitted to the DHRM Internal Service Fund Rate Committee. In turn, the Rate Committee should recommend a rate to charge State agencies to recoup the costs starting in FY 2012.

The Rate Committee has recommended a rate of \$23.65 per FTE in order to generate \$450,000 per year. This rate would be paid by each agency regardless of their past or current number of grievances before the CSRO. The committee debated whether costs should be charged on a pure fee-for-service approach (where each agency would pay only for grievances it defends), on a mix of fee-for-service and a flat rate, or on a pure flat rate. Ultimately the committee settled on the flat rate.

During the upcoming General Session we will bring this recommendation before the Legislature so you can decide if the Rate Committee's approach is the best policy.



GOVERNMENT OPERATIONS

Staff Contact: Rich Amon

FY 2012 State Building Board Rankings

The State Building Board oversees the State's capital facility needs and projects. Each year the Building Board tours agency and higher education capital facilities throughout the state to gain insight into statewide facility needs. The Board then hears presentations from all agencies and institutions requesting new buildings for the coming budget year. Finally, the Board ranks the annual

requests for new buildings based on five criteria – life safety, program growth, cost effectiveness, program effectiveness, and alternative funding. The following list contains the top ten projects prioritized by the Board (out of 23) with their associated costs in state funds (in rank order).

1. Human Services State Hospital building consolidation: \$30,881,000
2. Multi-agency warehouse: \$10,383,000
3. Courts Ogden juvenile courthouse: \$27,100,000
4. Unified state laboratory module #2: \$35,855,000
5. U of U utility infrastructure replacement: \$50,000,000
6. Weber State University Davis campus classroom building.: \$31,535,000
7. Gunnison prison 192-bed expansion: \$46,295,000
8. SW Applied Technology Center health science building.: \$14,393,000
9. Dixie Applied Technology land purchase: \$2,436,000
10. College of Eastern Utah arts and education: \$18,589,000



EXECUTIVE APPROPRIATIONS

Continued from Page 1 (Paid Time Off)

Paid Time Off (PTO) allows employees to use all provided leave hours at their own discretion. A switch to PTO could decrease administrative complexity in accounting for managing leave time, and increase efficiency in the long-run. Depending on the PTO structure, it could generate cost savings, improve productivity, and reduce payout for accrued compensated absences.

Under HB 213 (2005 General Session) the State is recognizing and funding retiree health benefits liabilities. However, the State is not recognizing up front the costs of leave payouts to retirees and current employees. The Analyst recommends that regardless of the decision to implement a PTO program, the State should recognize and sink the cost of leave payouts to retirees as they accrue.

A shift to PTO may entail legal and managerial issues and also result in unintended consequences, as it is difficult to predict employee behavioral changes relative to a new leave program. PTO should therefore be carefully considered in a policymaking committee before proceeding with legislation.

Action: EAC referred the report to the Retirement and Independent Entities Appropriations Subcommittee for further study during the upcoming 2011 General Session.



CAPITAL FACILITIES

Staff Contacts: Gary Ricks

White Memorial Chapel Improvement Project

The White Community Memorial Chapel Improvement Project (located adjacent to the State Capitol Campus) was allocated \$200,000 in improvement funds to restore and care for several items that had fallen into disrepair.

The scheduled beginning and completion dates for the project are September 6, 2010 thru November 23, 2010. The Capitol Preservation Board (CPB) and the Division of Facilities Construction and Management (DFCM) provided the following information on the progress of the effort.



The project has focused primarily on the exterior preservation and access issues at the building. The first problem to address was the deterioration of the brick crenellation and buttress caps, likely due to certain detailing problems and freeze/thaw cycles associated with the state's weather patterns. These elements are being replaced with cast stone elements detailed to match historic examples. Flashing (protective material used to cover and protect certain joints and angles) on the south

gable parapet is also being upgraded to provide additional protection to the masonry. The south outside service/egress stairway was in extremely bad condition with cracking and deterioration problems. It also did not have a safe hand rail or code-compliant stairs. Repairs are being made to fully resolve these issues.

At the main north entry new stairs, an ADA compliant (American with Disabilities Act of 1990) ramp and hand rails have been installed to provide a safe, fully accessible entry. The glass transom above the entrance, which had been broken for years, has now been replaced with new stained glass designed very similar to the missing historic transom. The pews inside the chapel were worn and are being replaced with ones similar in appearance to the originals.

The improvement project, as reported by the agency, is on time and on budget. CPB and DFCM will report to the Capital Facilities and Government Operations Appropriations Subcommittee during the upcoming 2011 Legislative General Session on the completion of the project.



PUBLIC EDUCATION

Staff Contacts: Ben Leishman

Public Education Subcommittee Meeting Summary

The Public Education Appropriations Subcommittee met for an all-day meeting on October 5, 2010. During the meeting Legislators examined several new education technologies available to public schools. These technologies assist in delivering student assessments, evaluate and track student performance, improve student/parent/teacher communication, and classroom/school management.

Subcommittee members participated in a live "Interactive Video Conferencing" class facilitated by the Utah Education Network. The interactive class from Alpine School District had a total of 146 students at eight school sites. With only one teacher and several assistants, this technology provides schools with the ability to increase efficiency and class offerings for students while also reducing instructional costs.

During the afternoon session the Utah Electronic High School provided a demonstration of its online courses and provided a summary of its services to students. Finally, the Subcommittee heard updates on several programs, specifically, the ProStart program, critical shortage teaching positions, optional extended day kindergarten, and the Teacher Salary Supplement program.



ECONOMIC DEVELOPMENT & REVENUE

Staff Contact: Thomas Young

USTAR Infrastructure Update

USTAR has two building projects underway, along with other recent investments with the goal of adding to the State's research and commercialization infrastructure.

Buildings

In October, Utah State University held a ribbon cutting ceremony for the 110,000 square-foot USTAR BioInnovations Building in North Logan. The building will house researchers pursuing advanced nutrition, veterinary, and other life science efforts. Researchers are projected to move in January 2011 and facilities include:

- Bio Safety Level 3+ lab
- Vivarium and life science labs
- Clinical nutrition center

No other non-military building in the state has this level of Bio Safety capability, which will enable highly sophisticated research. USU has received inquiries from industry regarding potential collaboration projects.

At the University of Utah, the 208,000 square-foot James L. Sorenson Molecular Biotechnology Building – A USTAR Innovation Center – is projected for completion as early as December 2011. The U of U facilities are to include:

- Nanofabrication center
- Small animal imaging
- Advanced optical imaging
- Vivarium, neuroscience and biotechnology labs

Currently the projects are proceeding on budget; employing about 800 construction workers in the second half of 2010. Through November 16, 2010, about \$124 million in state funds have been spent on the projects. Both buildings seek Gold LEED designation.

Other Investments

With the receipt of federal stimulus funds, USTAR was able to make the following additional infrastructure investments:

- The U of U in September opened the Accelerator, a life sciences business incubator in Research Park that can support multiple start-up companies. USTAR invested \$500,000 in helping build out and equip the incubator.
- In February, USTAR assisted in the launch of the Information Technology and Renewable Energy incubator at Dixie State College in St. George. USTAR's investment over two fiscal years is \$35,000.

- At Granite Technical Institute in Salt Lake City, USTAR is supporting the BioInnovations Gateway incubator. The investment in staffing and equipment through FY 2012 is projected to be \$600,000.



HIGHER EDUCATION

Staff Contact: Spencer Pratt

Board Of Regents' Recommendations

The State Board of Regents, in an effort to encourage better-prepared students entering college, discussed a number of recommendations at its last Board meeting. The College and Career Readiness Recommendations cover four areas:

1. Build an academic foundation by taking challenging courses in high school in different subject areas.
2. Develop intellectual and career capacity by selecting courses that require critical thinking and analysis, establish study habits and good time-management skills, utilize all the time in middle school through the senior year in high school, and practice communication skills and utilize technology.
3. Evaluate progress toward college by taking the ACT and correct any deficiencies if applicable.
4. Explore post-secondary options by taking campus tours, learning about costs of college, and complete college entry steps (required tests and applications).

Students who follow these steps should be better prepared for college and will likely be better poised for a successful outcome.



COMMERCE & WORKFORCE SERVICES

Staff Contact: Patrick Lee

Public Service Commission

The Utah Public Service Commission recently secured funding from the National Telecommunications and Information Administration that will allow them to expand broadband data collection, validation, and development. The funding will also allow development of a comprehensive database of addresses and point locations for Utah emergency personnel, and expansion of broadband planning and outreach. Total federal funding for the grant is approximately \$5.2 million over the five-year grant period.

Mapping efforts will be combined with information from other State entities, including the Automated Geographic Reference Center and Utah Education Network, to provide more complete and accurate information on networks throughout the state.



From the 29 different recommendations in the body of the report the Analyst presented the following 15:

1. With better technology field workers could be more efficient and effective. The Analyst recommends DCFS establish a pilot program that would decrease office time and increase field time by the use of non-traditional work schedules, laptops, cell phones, etc.
2. The Analyst recommends DCFS explore alternatives to housing case workers in single, private offices and paying for multiple high-cost leases around the state.
3. The Analyst recommends the department realign priorities and decision making by moving State Hospital funding to counties since they are responsible for hospital placements.
4. All Human Services programs have statutory authority except the State Hospital 5-bed Acute Rehabilitation Treatment Center (ARTC) program. The Analyst recommends the Legislature eliminate or provide authority for the ARTC program at the State Hospital.
5. Four federal block grants used by the department are highly flexible and can be transferred across line items and departments, accumulated off the budget, and used according to agency rather than legislative direction. The Analyst recommends full disclosure of all federal block grants.
6. The state built five, \$450,000 group homes for DSPD and currently leases these buildings at no cost to private providers. Other providers house individuals in division programs at their own expense. The Analyst recommends the state sell or lease DSPD group homes to providers at market rates.
7. The Developmental Center has 62,400 square feet of vacant facility space available and 250 acres of available farm land. The Analyst recommends DFCM and the department study how to best use 62,400 square feet of vacant building space and use or sell 250 acres of excess land at the Developmental Center.
8. The Analyst recommends the Developmental Center and the State Hospital annually provide the Analyst with a detailed average direct and overhead cost per patient.
9. The Analyst recommends the department post transaction level detail showing vendor/payee information on the Transparency website.
10. The Office of Recovery Services has vacated approximately 23,000 square feet of space in the HK Tower, but renewed the lease for 5 years; thereby precluding any financial savings for its efforts. The Analyst recommends DFCM assist the Office of Recovery Services to find other state agencies to share 23,000 square feet of vacant lease space in the HK Towers.
11. The Office of Recovery Services holds the highest cost lease in the state for the 97,246 square foot, \$2 million-a-year lease of the HK Tower. Over the 20 years ORS will have been in the lease, the state could have paid off a state-owned building with the lease payments. The Analyst recommends ORS and DFCM plan to exit the HK Tower lease when it comes due in 2014 and explore options in state owned facilities.
12. Current space standards for the state are more than 16 years old and contain outdated information which limits its usefulness. The Analyst recommends DFCM develop new space standards based on current needs and employee information.
13. The best department examples are DCFS for state provided services and DSAMH for contract-provided services. Agency performance measures vary widely in quality and quantity. The Analyst recommends all department divisions follow best practices for performance measures:
 - Measure things that matter
 - Focus on outcomes, then outputs
 - Compare internally and against other states
14. Department programs collect detailed financial information which is often difficult for outsiders to obtain and understand once they do get it. The Analyst recommends all programs develop easily understood reports regarding major budget areas and routinely share them with the Legislature, Governor's Office and the public by publishing them on public websites.
15. Some department services do not appear to be distributed in a manner consistent with relevant populations. The Analyst recommends the department annually report distribution of services by county to the Legislature for:
 - State Hospital Forensic Unit
 - Developmental Center
 - DCFS regional budgets
 - JJS detention and secure care facilities.

Action: EAC postponed acting on the recommendations until they were heard by the Health & Human Services Appropriations Subcommittee, directed the Department of Human Services to provide a written response, and decided to include the report on the EAC's December meeting for further discussion and actions.



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RETURN SERVICE REQUESTED



A LIGHT DOWN A LONG TUNNEL

Staff Contact: Jonathan Ball

On November 17 we announced our latest revenue forecast for FY 2011 - and for the first time in a long while, it was good news. We expect total General and Education Fund revenue for the current fiscal year to increase by \$6.4 million. On a \$4.4 billion base, that's not a whole lot of growth - just more than 1/10th of a percent - but it's growth nonetheless!

While this is a positive sign, it doesn't mean next year's budget will be easy. Our current commitments - reflected in the FY 2012 base budget - are \$313 million higher than our current ongoing revenue. Next year's revenue would have to grow by nearly 7.5% in order to make-up that structural deficit. For the current year, we expect 4.5% revenue growth. We project that our economic indicators will improve at a rate somewhere between 4.2% and 4.6%. Given that, revenue growth for FY 2012 will likely not be sufficient to cover our entire structural deficit.

On top of the structural deficit, we'll need to address cost increases. According to some very rough preliminary estimates, we could face more than \$200 million in new

demands - things that at one time were considered "mandatory". Public education enrollment growth and related costs could be as high as \$80 million. Backfilling for the loss of ARRA funds in Medicaid and funding new Medicaid utilization and inflation could run as much as \$90 million. Then there's growth in employee health and retirement benefits costs - somewhere around \$40 million.

As you can see, we'll have plenty to talk about in budget committees. But at least this time, we're moving in a positive direction. The Governor will announce FY 2012 revenue estimates with his budget next month. And, with a nearly 5% balance in our rainy day funds, we're in much better shape than other states. While we face some challenges, we look forward to assisting you as you weigh numerous competing priorities and ultimately balance the budget.