

FISCAL HIGHLIGHTS

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EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE MEL BROWN, CO-CHAIRS

MEETING SUMMARY - MAY 17, 2011

Report: *Review of Federal Funds Approval Process*

During the 2011 General Session the Legislature passed S.B. 160, "Federal Funds Procedures Act Amendments," to clarify approval requirements. All federal funds, except those exempted by statute, must go through an approval process. The new bill allows an agency to expend up to 25% more than has been previously approved if the excess funds will not require new conditions.

Staff Contact: *Steven Allred*

Report: *Federal/Non-Federal Funds*

Ron Bigelow and Becky Brusio from the Governor's Office of Planning and Budget presented the Federal/Non-Federal Funds report. The Committee recommended approval of 4 new federal grants, and 12 re-applications on existing federal grants. EAC also recommended approval of 4 non-federal grant applications and 2 re-applications.

Staff Contact: *Patrick Lee*

Report: *Impacts and Responses to Federal Budget Reductions*

Ron Bigelow indicated that there remains a lot of unknowns about where the \$38 billion in federal fund reductions will take place. The three largest known areas of federal funding reductions are: (1) \$5 million in FY 2012 and \$5 million in FY 2011 for the Women, Infants and Children (WIC) Program, (2) \$3.6 million in FY 2011 for the Community Development Block Grant, and (3) \$2.3 million in FY 2011 for the Low-Income Home Energy Assistance Program.

Staff Contact: *Russell Frandsen*

Report: *Transportation Bond Issuance*

John Njord, DOT's Executive Director, provided a prioritized list and bonding

requirements for FY 2012. He also gave a brief update and answered questions.

Staff Contact: *Mark Bleazard*

Report: *Assignment of LFA In-Depth Budget Review*

The EAC asked the Legislative Fiscal Analyst to do an in-depth review of the Minimum School Program, as well as the State Office of Education and State Board of Education.

Report: *Recommendation for GOPB In-Depth Budget Review*

The EAC recommended that the Management Committee request that GOPB study how to display full programmatic information, including bond proceeds, in capital budget areas without double counting appropriations for debt service.

Staff Contact: *Steven Allred*

Report: *EAC Revenue Update*

The EAC adopted final revenue estimates of \$4,594,457,000 for FY 2011 and \$4,696,341,000 for FY 2012. The Division of Finance will use the FY 2011 numbers to compute any revenue surplus or rain day deposit.

Staff Contact: *Andrea Wilko*

Report: *Summary of 2011 General Session Budget Actions*

Staff presented a re-cap of how legislators balanced the FY 2012 budget. An initial funding gap of \$653 million was redefined in the Governor's Budget as \$424 million. That gap was solved by \$263 million in new revenue, \$77 million in budget reductions, and \$84 million from other sources. In the end, legislators trimmed a \$313 million structural deficit to \$52 million for next year.

Staff Contact: *Jonathan Ball*



NATURAL RESOURCES, AGRICULTURE, & ENVIRONMENTAL QUALITY

Staff Contact: Ivan Djambov

Deer Hunt Reductions

In the last several years, the deer herds in Utah have been struggling due to drought, habitat changes, and predators, among other factors. In an effort to increase quality and numbers of buck deer in Utah, the Wildlife Board met on May 5, 2011 to set permit numbers for the 2011 big game hunting season. The Board took action to reduce the numbers of deer permits by 7,000 this year (from 94,000 to 88,000, or 6%). The number of permits may be further reduced by another 5,000 in 2012.

These changes will lead to significant revenue loss for the Division of Wildlife Resources (DWR): estimated at more than \$400,000 in FY 2011 with the possibility of an additional \$350,000 in FY 2012. The Division is not planning to increase fees to compensate for the revenue shortfall. Instead, DWR managers are preparing to implement budget reductions.

For more information on DWR's actions regarding the deer herds in Utah, please visit: <http://go.usa.gov/TsO>.

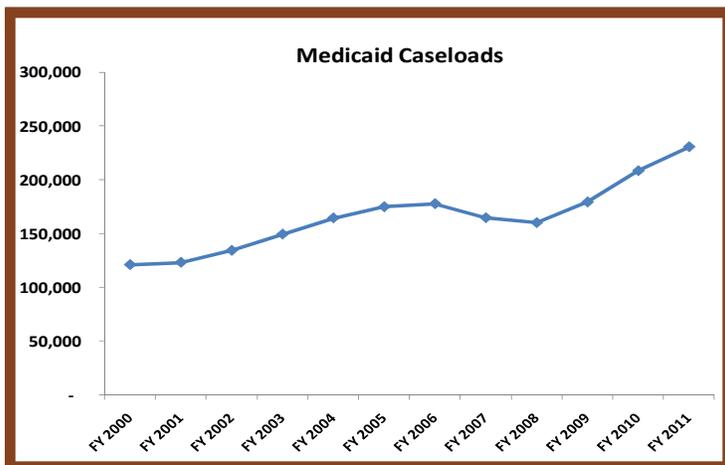


SOCIAL SERVICES

Staff Contact: Russell Frandsen

What Does the Future Hold for Medicaid Caseloads?

The short answer is that no one knows for certain. Medicaid caseloads in April 2011 came in at 239,700. April 2011 marked the 10th month of consecutive month-over-month growth in caseloads since June 2010. Prior to June 2010 there were 30 months of consecutive month-over-month growth in caseloads stretching back through December 2007. From November 2007 through April 2011 Medicaid caseloads grew 52%. The table below shows the average annual caseload in Medicaid by fiscal year.



BUSINESS, ECONOMIC DEVELOPMENT & LABOR

Staff Contact: Andrea Wilko

Economic Impact of Foreclosures

The growing inventory of defaulted mortgages will continue to weigh down a recovery in the housing market. Foreclosures are generally sold at significant discounts. As a result, they continue to depress the value of homes in the areas they are occurring, and they also have a potential impact on consumer spending. Foreclosures also affect sellers and real estate developers by increasing the stock of available housing and decreasing the supply of new houses.

As the number of foreclosures continues to increase in Utah over the next couple of years we may continue to see reduced spending and jobs in the construction industry. Revenues may also be impacted to the extent that home equity that would have been used for financing general expenditures may not materialize.



HIGHER EDUCATION

Staff Contact: Spencer Pratt

Higher Education Enrollment Growth, Tuition Up

Enrollment in the Utah System of Higher Education continues to grow. The Spring 2011 Third-Week FTE Enrollment figure of 104,352 students reflects an increase of 4,427 or 4.4% compared to the same time period in 2010. The institutions with the greatest percentage growth include Dixie State College (546 FTE students, 10.4%), USU-College of Eastern Utah (117 FTE students, 7.9%) and the University of Utah (1,356 FTE students, 5.8%).

Following the 2011 General Session, the State Board of Regents met and approved a 5% first-tier tuition increase for the 2011-2012 academic year for the Utah System of Higher Education. In addition to the first-tier tuition, the Regents also approved second-tier tuition increases ranging from 0% to 6.8%. The tuition increases are projected to generate approximately \$38.8 million. The following table shows the tuition increases by institution.

| | 1 st Tier | 2 nd Tier | Total |
|-----------------------------|----------------------|----------------------|--------|
| University of Utah | 5.00% | 2.80% | 7.80% |
| Utah State University | 5.00% | 4.00% | 9.00% |
| Weber State University | 5.00% | 1.00% | 6.00% |
| Southern Utah University | 5.00% | 6.00% | 11.00% |
| Utah Valley University | 5.00% | 2.40% | 7.40% |
| Snow College | 5.00% | 2.00% | 7.00% |
| Dixie State College | 5.00% | 6.80% | 11.80% |
| Salt Lake Community College | 5.00% | 0.00% | 5.00% |



In Case of Emergency...

State wildfires in the summer of 2007 broke records. In July of that year lightning started the Milford Flat fire in Millard County and grew to the largest in Utah history.

The fire burned 350,000 acres and temporarily closed a stretch of I-15. Among other accidents, two motorists died in a crash as a result of limited visibility from the smoke.



Milford Flat Fire, photo courtesy of Division of Forestry, Fire, & State Lands

Lingering effects of the wildfire impacted air quality as smoke and dust contributed to more than double the amount of unhealthy air days for the summer. Local, state, and federal resources were all used to manage the fire and its effect.

Incidents like the Milford Flat fire prompt certain questions in regards to emergency events: *Who is in charge in an emergency? What resources are available? What is the State's role in a disaster?*

Who Is In Charge?

In any emergency or disaster the local agency where the incident happens typically is responsible for the managing the incident. Depending on the seriousness of the event, a "unified command" will be established with all relevant bodies making up the unit. This may include local law enforcement, fire departments, state, federal, and private entities.

What Resources Are Available?

Once local resources are exhausted, the State provides support and if necessary, the Federal Emergency Management Agency (FEMA) may also help. Typically, the State and Federal governments will act under the direction of the local body. These entities will all make up

part of the unified command.

The Department of Public Safety (DPS) is the State agency tasked to support disaster management where the State is involved. Other agencies involved in disasters may include Departments of Health, Transportation, Natural Resources, Technology Services (which manages the State communications system), and Utah National Guard. At the State level, the Department of Public Safety directs available resources, which include:

- *Statewide Emergency Operations Center (EOC)* located at the Capitol – In the case of a incident that requires state and federal resources the EOC coordinates information and resources and acts as a bridge between locals and federal assistance.
- *State Emergency Response Team (SERT)* – group made up of state agencies, non-profit agencies (Red Cross and others) and the private sector. The SERT trains in the EOC monthly and will assist with communications, logistics, health, etc.
- *Liaison program* – The state is divided into 7 regions and has a designated liaison living in each of these regions that acts as the link between all of the communities within that region and the state.
- *Funding* – \$3 million of one-time state funds set aside for use in the event of a disaster.

What Is the State's Role?

The Department of Public Safety prepares for disasters by offering training, planning, and exercises. The Be Ready Utah campaign is promoted by the Department based on principles of individual preparedness in the case of a disaster. DPS partners with the Red Cross to teach a preparedness program in elementary schools. The Department also holds monthly training in the Emergency Operations Center and maintains an active relationship with FEMA.

Federal funds have helped pay for a better communications system and other emergency preparedness resources. Recent federal reductions of about \$3-3.5 million will decrease the amount of training, planning and exercise, and also the ability to purchase and maintain communications infrastructure.

The Department of Public Safety directs State resources and facilitates coordination between the Federal government and local governments. It also provides ongoing assistance and infrastructure in preparation of various types of emergencies or disasters.



Woman Released from Prison May Receive Compensation

Provisions of S.B. 16, "Exoneration and Innocence Assistance," 2008 General Session, allow for a finding of innocence based on factual evidence in addition to scientific evidence. On Monday, May 9, 2011, a Logan woman was released from prison after being found by a judge to be factually innocent of a crime for which she had served 17 years. This is the first time the new provisions of the law have been put into practice.

Under the law, the State must provide compensation for individuals who served a period of incarceration and are later exonerated by the Court. The Legislature is required to pay for compensation by appropriating money from the General Fund in the next general session following exoneration. Compensation is based on the average annual nonagricultural wage in Utah, as determined by the Department of Workforce Services (DWS) at the time of the individual's release, multiplied by the number of years the individual served (up to a maximum of 15).

DWS reports the average annual nonagricultural wage in Utah is approximately \$38,000. Multiply by fifteen, and the total compensation due in this case is \$570,000. Twenty percent, or \$114,000, must be paid from the Crime Victim Reparations Fund within 45 days of the court order. This amount must be restored by legislative appropriation from the General Fund. The balance, approximately \$456,000, must all be appropriated by the Legislature to a new line item in the Commission on Criminal and Juvenile Justice, and be paid to the petitioner in quarterly installments over a period not to exceed 10 years. The details are in UCA 78B-9-405.



Utah Retirement System Annual Report

Each April Utah Retirement Systems (URS) releases an annual financial report that provides information on the various retirement plans managed by the System for the year ending December 31, 2010. Highlights from the Management Discussion and Analysis include:

- \$2 billion increase in Defined Benefit System net assets
- 13.73 percent rate of return on Defined Benefit System investments
- 82.2 percent actuarial funding of Defined Benefit Systems as of December 31, 2010

Specific financial information for the six major Defined Benefit Systems include:

| Retirement System | | | |
|-----------------------------------|------------------|-----------------|-----------------|
| | Noncontributory | Contributory | Public Safety |
| Actuarial Assets | \$16,895,039,000 | \$1,090,313,000 | \$2,194,016,000 |
| Accrued Actuarial Liability (AAL) | \$20,544,827,000 | \$1,265,137,000 | \$2,840,359,000 |
| Unfunded AAL | \$3,649,788,000 | \$174,824,000 | \$646,343,000 |
| Funded Ratio | 82.2% | 86.2% | 77.2% |
| Annual Payroll | \$3,888,179,000 | \$116,395,000 | \$363,037,000 |
| | | | |
| | Firefighters | Judges | Gov. and Leg. |
| Actuarial Assets | \$810,216,000 | \$131,869,000 | \$10,197,000 |
| Accrued Actuarial Liability (AAL) | \$883,635,000 | \$166,344,000 | \$11,356,000 |
| Unfunded AAL | \$73,419,000 | \$34,475,000 | \$1,159,000 |
| Funded Ratio | 91.7% | 79.3% | 89.8% |
| Annual Payroll | \$105,275,000 | \$14,234,000 | \$910,000 |

For the full report, please visit: <https://www.urs.org/pdf/AnnualReport/2010/annualReport.pdf>



Last Session Review

At the Office of the Legislative Fiscal Analyst, we had to scramble as the Legislature reorganized committees and schedules just before the Session's start. We were unable to change committee assignments, so some analysts covered budgets in three different committees. During the 2011 General Session we also had one fewer analyst.

The fiscal notes on immigration challenged us, and one of the immigration bills (H.B. 116) resulted in the longest (3 pages) and most complex note ever written by our staff.

During the interim, we will have time to reorganize and reassign some analysts. They will then have to get familiar with new agencies and areas of responsibility.

Going on-line

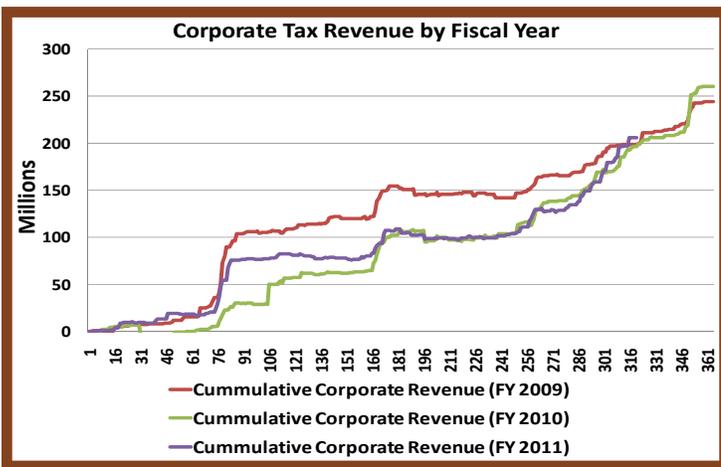
We are moving forward with our plan to put the Fiscal Note program on-line. The program will work faster and provide better analysis. We expect that legislators will be able to release notes through an application on their smart phones.



Corporate Taxes: Allocation and Apportionment of Income and Deduction of a Net Loss

During the 2010 General Session, the Legislature passed S.B. 165, "Allocation and Apportionment of Income and Deduction of a Net Loss." Currently, when a corporation is computing corporate income tax liability, a company may elect to equally weight sales, property, and payroll or choose to double weight the sales factor. With passage of the bill, beginning in calendar year 2011, corporate income taxpayers can expect a phasing-in of a mandatory single sales factor for all industries except Mining, Manufacturing, Transportation, Warehousing, Information (except NAICS code 519), Finance, and Insurance.

The sales factor weighting becomes four in CY 2011 (FY 2011 and FY 2012), ten in CY 2012 (FY 2012, FY 2013), and the sales factor is the only factor from CY 2013 forward. Because the bill shifts about 1/6th of the overall corporate tax liability between companies, and as corporations start making quarterly payments on CY 2011 taxes in April 2011, there may be questions or calls from constituents regarding the effect this bill has on both the bottom line and specific companies. We will continue to track the effects, and should there be questions regarding general effects or details on the specifics, please do not hesitate to call.



DTS Enterprise Hosting Services Product and Rate

The Department of Technology Services (DTS) provides information technology services and support to State agencies and entities. DTS charges rates approved by the Legislature to recoup the costs of this service. One of the

subscription services provided by DTS to 25 Executive Branch agencies and entities is the Enterprise Hosting Services Product.

As described by DTS, this service includes the management of servers, storage and backup and restore for Executive Branch agencies within the State. It also includes the installation, deployment, maintenance and support of the operating system, web server and application server software. Recipient agencies are responsible for the costs of securing proprietary software, application server software, database software and software maintenance. DTS is responsible for the funding of hardware, and hardware maintenance related to the server environment. DTS system administrators deploy and manage security revisions, version upgrades, data storage, data backup and restore and other services required for maintaining the stability, safety and peak functionality of the servers.

The Enterprise Hosting Services Product Subscription Rate covers the costs associated with server administration including personal services and current expenses. The following table delineates the rates to be charged in FY 2012 to those Executive Branch agencies and entities contracting for this service:

| Department of Technology Services FY 2012 Hosting Services Subscription Rate | |
|-----------------------------------------------------------------------------------------|-----------------------------|
| Agency | FY 2012 Hosting Rate |
| Administrative Services | \$809,950 |
| Agriculture | \$18,725 |
| Alcoholic Beverage Control | \$96,051 |
| Automated Geographic Reference Center | \$169,017 |
| Board of Pardons | \$19,308 |
| Capitol Preservation Board | \$4,738 |
| Commerce | \$146,349 |
| Community & Culture | \$69,045 |
| Corrections | \$491,831 |
| Environmental Quality | \$175,700 |
| Financial Institutions | \$10,270 |
| Governor's Office | \$78,883 |
| Governor's Office of Economic Development | \$46,285 |
| Health | \$834,732 |
| Human Resource Management | \$126,290 |
| Human Services | \$1,149,177 |
| Insurance | \$150,186 |
| Labor Commission | \$45,141 |
| Natural Resources | \$314,946 |
| Public Lands | \$12,064 |
| Public Safety | \$579,145 |
| Public Service Commission | \$5,411 |
| Tax Commission | \$606,602 |
| Transportation | \$1,076,376 |
| Workforce Services | \$2,949,271 |
| Total | \$9,985,493 |



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RETURN SERVICE REQUESTED



FINAL REVENUE ESTIMATES - FOR NOW

Staff Contact: Jonathan Ball

In this month's Executive Appropriations Committee, members approved final revenue estimates for FY 2011 and FY 2012. Well, OK, maybe they're not so final for FY 2012. We all know that those numbers will be updated again in November, 2011 - and again after that in February 2012. But the FY 2011 numbers are pretty much final.

You had already balanced the FY 2011 budget, so you might ask yourself why adopt revenue after-the-fact? Two reasons really:

1. Some of the bills you passed in the 2011 General Session had fiscal notes that impact revenue, and
2. The Division of Finance needs a bottom-line against which to calculate deposits to rainy day funds.

The first part is pretty basic. You balanced the budget using consensus revenue estimates adopted in February. As part of that balancing act, we on staff adjusted available revenue up or down for any bill that passed and - according to its fiscal note - impacted revenue. We also added to consensus revenue any one-time sources you approved to cover expenditures. Tuesday's action made

those revenue adjustments official. We'll now report that revenue, and associate expenditures, in our Appropriations Report.

The second part has much more impact. And it's something we haven't really contemplated lately. Statute directs the Division of Finance to deposit into the General and Education Budget Reserve Accounts, and the Disaster Recovery Account, given amounts of revenue surplus. That's right. I said revenue surplus - and I immediately knocked-on-wood.

In order to calculate any surplus, Finance needs to know how much revenue we expected in the first place. In the past, it was unclear whether this calculation of surplus should include "savings" on the expenditure side or just additional revenue. About three years ago, the Legislature redefined revenue surplus for the purposes of rainy day funds to mean any amount of collections that exceeds the final revenue estimate adopted by Executive Appropriations. Thus the need for last week's vote.

This month's TC-23 Report shows collections right about on target for the year - if maybe slightly ahead. We won't know until September or October if we had a revenue surplus, but if we do, Finance will have what it needs to make deposits into the rainy day funds.