

FISCAL HIGHLIGHTS

EXECUTIVE APPROPRIATIONS COMMITTEE

SENATOR LYLE HILLYARD & REPRESENTATIVE MEL BROWN, CO-CHAIRS

MEETING SUMMARY - SEPTEMBER 20, 2011

Report: Federal/Non-Federal Funds

Staff Contact: Gary Syphus

Becky Brusco from the Governor's Office of Planning and Budget introduced the new website for grants management (www.grants.utah.gov) and explained that staff is in the process of providing legislators with access to the database.

Ms. Brusco also presented the Federal/Non-Federal Funds Report. The committee recommended approval of one new federal grant and five reapplications/continuations of existing grants.

Report: FY 2011 Preliminary Surplus, Closing Nonlapsing, and Restricted Account Balances

Staff Contact: Rich Amon

The General and Education funds have closed FY 2011 with a \$7 million and \$53 million surplus respectively after deposits of \$23 million and \$5 million into the respective budget reserve (rainy day) funds. State agencies, public education, and institutions of higher education have closed FY 2011 with \$304 million of unexpended appropriations that will carry forward into FY 2012. General and Education restricted accounts closed FY 2011 with \$391 million of balances.

Report: Water Issues Task Force

Staff Contact: Ivan Djambov

The Water Issues Task Force was created by H.B. 428 (2011 General Session) and was tasked to explore future water needs in the state, as well as potential funding sources for water projects. Rep. Painter, co-chair of the task force, shared the initial projections for the construction costs of the Lake Powell Pipeline, which is intended to supply water to southern Utah. The estimated costs are \$1.1 billion, with \$27 million needed for the design of the project as early as FY 2014. Rep. Painter stated that the task force is still consider-

ing the options for financing the project. The task force is required to present its final report to the Natural Resources, Agriculture, and Environment Interim Committee before November 30, 2011.

Report: Introduction to Medicaid Consensus Forecasting

Staff Contact: Russell Frandsen

The Office of the Legislative Fiscal Analyst is working with the Governor's Office of Planning and Budget and the Department of Health to develop consensus forecasting for Medicaid costs. The goal of the consensus forecasting is to improve prior error rates which have ranged in the past nine years from 0.1% in FY 2004 to 7.7% in FY 2010.

Report: Medicaid Management Information System

Staff Contact: Russell Frandsen

The Department of Health plans to implement a new pharmacy payment system by January 2012. There will be a two-day shutdown of payments while transitioning to the new system in December. In January 2012 the department plans to issue Requests for Proposals for the main core replacement of the Medicaid Management Information System.

Report: Health Plans Under the Affordable Care Act

Staff Contact: Andrea Wilko

The Insurance Department presented a report on federal health reform required by statute. The department detailed the progress they have made on compliance with certain provisions of the Federal Health Care Reform Act. The department explained that they continue to analyze the requirements of the Act and that they will implement those provisions that preserve Utah's right to regulate the insurance market.

Executive Appropriations	1
Medicaid to Cover Inpatient Stays of Prisoners	2
Internal Service Fund Rate Committee	2
Department of Community and Culture Restructuring	2
How Will Federal Budget Issues Impact Utah?	3
Higher Education Appropriations Subcommittee Meeting	4
Beverly Taylor Sorenson Arts Learning Program Update	4
H.B. 116 Implementation and Timing	5
Proposed Changes in the Appropriations Schedule of Programs for the Department of Workforce Services	5
Utah's Inclusive Budget Process	6

OFFICE OF THE LEGISLATIVE FISCAL ANALYST

STATE CAPITOL COMPLEX
HOUSE BUILDING, SUITE W310
P.O. BOX 145310
SALT LAKE CITY, UTAH 84114

PHONE: (801) 538-1034
FAX: (801) 538-1692

WWW.LE.UTAH.GOV/LFA



LEGISLATIVE FISCAL ANALYST



SOCIAL SERVICES

Staff Contact: Russell Frandsen

Medicaid to Cover Inpatient Stays of Prisoners

At the request of counties and the Department of Corrections, the Utah Medicaid Program developed a proposal for using Medicaid to cover some of the medical costs of prisoners. Starting October 1, 2011, Medicaid will process claims to pay for the inpatient hospital stays of prisoners. The correctional institutions would be responsible for paying the 30% state match for Medicaid payments, as well as the standard 1%/2%/3% administrative match charged on contracts. For the short term, the applications to Medicaid for these inmates will be processed manually. The Department of Workforce Services estimates a \$60,000 to \$100,000 total cost to make the necessary programming changes in its Medicaid eligibility determination system (eREP) for prisoners.

Internal Service Fund Rate Committee



INFRASTRUCTURE & GENERAL GOVERNMENT

Staff Contact: Rich Amon

Internal service funds (ISFs) are funds created by the Legislature to account for services provided by one state agency to another (such as vehicle operations, mail, and insurance). An internal service fund sets its rates to recover the full cost of providing a particular service. A rate committee, comprised of representatives from user agencies, meets annually to approve rates for internal service funds.

The rate committee for the Department of Administrative Services internal service funds recently met and approved rates for fiscal year 2013. In the coming session, the Legislature will have the opportunity to deliberate on and give the final approval for these rates:

- Purchasing and General Services provides mail and distribution, print, and electronic purchasing services to state agencies. It requests a \$162,000 rate increase for State Mail.
- Fleet Operations manages vehicles statewide including fuel, maintenance, repair, and replacement. It requests decreasing rates by \$765,000 primarily for the Fuel Network.
- Risk Management self-insures the state for liability and property insurance, as well as manages the contract for Workers' Compensation. It requests pre-

mium adjustments, but no changes to rates.

- Facilities Management operates and maintains over 190 state facilities. It requests a \$169,000 rate decrease for building maintenance and utility costs on certain state buildings and a \$594,000 rate increase for building maintenance and utility costs at the State Capitol Complex.



BUSINESS, ECONOMIC DEVELOPMENT & LABOR

Staff Contact: Andrea Wilko

Department of Community and Culture Restructuring

H.B. 287, Restructuring of the Department of Community and Culture, directed the Department of Community and Culture to "conduct an in-depth assessment of the department to determine what internal restructuring or assignment of its functions, divisions, and programs to other entities of state government would:

- (a) improve the efficiency of government;
- (b) reduce the cost of government; and
- (c) better focus the state and its employees: on providing community and cultural development opportunities throughout the state; and in administering and coordinating all state and federal grant programs that are, or become, available for community and cultural development."

The department officials have spent the interim reviewing options for restructuring. As part of this review, they have met with and received input from various stakeholders. An initial report was made to the Workforce Services and Community and Economic Development Interim committee during its meeting in July. A final presentation will be made in October and November to the same committee. The department will be reporting to the Business, Economic Development and Labor Appropriations Subcommittee at their November meeting.



How Will Federal Budget Issues Impact Utah?

States, including Utah, should be prepared for major changes if Congress makes serious efforts toward fiscal reform. Approximately 25 percent of revenue in Utah's budget comes from federal funds. That states could lose federal funding seems certain, but right now there are more questions than answers. Here are the big questions:

What will the "Super Committee" do? The Joint Select Committee on Deficit Reduction was created during last July's bitter debate on the Budget Control Act (BCA). The committee was tasked with trimming \$1.2 to \$1.5 trillion from the deficit over the next 10 years. The group has a deadline of November 23 to present an outline for returning to fiscal sustainability, and Congress must vote the package up or down, with no amendments or filibuster, by December 23. Failure to meet these deadlines would result in automatic cuts called "sequestration" (essentially across-the-board reductions with certain exceptions), half to defense spending and half to discretionary programs.

According to NCSL staff, Medicaid is "low hanging fruit" for the committee to pick. They say that if the committee reaches its deadline, we should expect some reductions to Medicaid. Nobody knows how those reductions would be implemented. States are asking Congress to avoid simply passing costs down to them. Other items on the committee's table are discretionary spending, other entitlements, and the tax code.

If Congress fails to vote on a package by the deadline, sequestration will occur. This would set off automatic cuts to defense spending and across-the-board cuts to other discretionary spending. However, under sequestration, programs for "vulnerable populations" are exempted from cuts. These exemptions include, but are not limited to, Medicaid, unemployment insurance, temporary assistance to needy families, and child nutrition programs.

Meanwhile, multiple entities are asking the committee to dig deeper. For example, President Obama asked the committee to find another \$450 billion in offsets for the American Jobs Act, setting a new target of almost \$2 tril-

lion in net savings. Members of the Bowles-Simpson commission and the "Gang of Six" have asked the committee to find \$4 trillion.

Any plan will require at least seven votes of the 12-member panel, which is comprised of six Democrats and six Republicans with close ties to their leadership. Getting one swing vote will be a difficult task.

What would the American Jobs Act bring to Utah?

Around 30 percent of the act would send funds to states for transportation, public school construction and repairs, retraining teachers and first responders, developing an "infrastructure bank", extending unemployment benefits, and temporarily reducing employee and employer payroll taxes. However, some of the offsets may negatively impact the state.

Will Congress stay with targets in the Budget Control Act for FY 2012?

The BCA requires a \$7 billion reduction in FFY 2012 compared to FY 2011. The rest of the BCA's cuts are to be determined by the Super Committee or sequestration, so the largest cuts will be postponed until FFY 2013 and beyond. While the BCA calls for \$7 billion in cuts, the current House resolution calls for \$30 billion in cuts. The Senate is working toward the BCA target.

Will Congress pass continuing resolutions before September 30?

The U.S. has gone more than 880 days without an official budget. The federal government almost shut down in April after Congress struggled to pass a continuing resolution on the budget. That resolution expires September 30. At this point, passage of an FFY 2012 budget through appropriations acts seems impossible. It appears that Congress has reached agreement on a six-week continuing resolution to avoid a federal shutdown after September 30.

Here's one thing we know: Last session the Legislature passed H.B. 138, "Federal Receipts Reporting Requirements", which requires state agencies to prepare and report contingency plans for a potential federal fund reduction of 5 percent and 25 percent. The Division of Finance will compile the reports and present them to the Executive Appropriations Committee in November 2011.

Sources for this article: NCSL, CSG, Christian Science Monitor, Business Insider.



HIGHER EDUCATION

Staff Contact: Spencer Pratt

Higher Education Appropriations Subcommittee Meeting

On August 17, 2011, the Higher Education Appropriations Subcommittee met at the Mountainland Applied Technology College's new Thanksgiving Point building. The Subcommittee first heard a presentation from Prosperity 2020, which is a statewide group of business associations who are trying to improve public and higher education in the State. The group commissioned a survey to measure how higher education has affected the lives of citizens. The survey reported that annual compensation is 75 percent greater for those with a degree or certificate than for those without a degree or certificate. Benefits are greater, and unemployment rates are lower for the group with a degree or certificate than for those without.

Dave Jordan, Chair of the Utah State Board of Regents, and Commissioner William Sederburg, discussed the \$5.5 million one-time funding for Excellence in Education, approved by the 2011 Legislature. The funding is to be used for mission-based funding (S.B. 97), data integration, UtahFutures.org, economic development efforts, and technology-intensive concurrent enrollment. Further results will be reported during the 2012 General Session.

The 2011 Legislature approved intent language requesting higher education institutions review the returns on taxpayers' investment in their operations. Commissioner Sederburg explained that while approximately 28 percent of the population has a Bachelor's degree or higher, they account for 48 percent of the state tax collections; 34 percent of the population has no postsecondary education and accounts for 12 percent of the tax collections. As mentioned earlier, wages increase and the unemployment rate decreases as the level of education increases. President Rob Brems, Utah College of Applied Technology (UCAT), explained UCAT's mission and provided completion and placement rates. He showed examples from each UCAT campus of salaries of recent graduates before attending and after completing UCAT, and the associated increase in taxes paid. Using that information, UCAT computed an average return on the cost of the education.

Spencer Pratt, Fiscal Manager, presented an Issue Brief, "Strategies Other States Use to Reduce Costs and Improve Outcomes." Utah has used or looked at several of these

strategies, but some have not been considered. Strategies fell into three general areas: increasing college-readiness, improving educational productivity, and achieving administrative efficiencies.

Following the meeting, legislators were able to tour the new facility at Thanksgiving Point.



PUBLIC EDUCATION

Staff Contact: Ben Leishman

Beverly Taylor Sorenson Arts Learning Program Update

The Beverly Taylor Sorenson Arts Learning Program was created by the Legislature "to enhance the social, emotional, academic, and arts learning of students in kindergarten through grade six by integrating arts teaching and learning into core subject areas." The State Board of Education, in consultation with the Utah Arts Council, oversees a grant program to hire 50 full-time arts specialists in 50 schools, each with a \$10,000 one-time grant for supplies and equipment. A second component of the program provides matching funds to school districts to hire 10 art coordinators. Finally, statute requires the Board to annually contract with an independent program evaluator to assess the implementation of the program.

The program just completed its third year, and the Utah Education Policy Center is providing the program evaluation. In its 2009-10 report the Utah Education Policy Center found that "school participation in the program had a small and positive effect on academic achievement in Language Arts (2008-09, 2009-10) Mathematics (2009-10) and Science (2008-09), controlling for student demographics and prior performance." The evaluation for the 2010-11 school year is not yet available.

A total of 50 schools in 22 school districts or charter schools participated in the Arts Teaching Specialist grant program. Similarly, seven school districts, representing 133 schools, participated in the District Arts Coordinators matching program.

The 2011 Legislature appropriated \$4 million in one-time funding to maintain the program in FY 2012 (2011-12 school year). During the 2012 General Session, legislators may wish to review the program evaluation conducted by the Utah Education Policy Center and decide if the program should continue in FY 2013 (and at what funding level) or be repealed.



H.B. 116 Implementation and Timing

During the last Session, the Legislature passed H.B. 116, Utah Immigration Accountability and Enforcement Amendments. The timing and projected costs of the bill are significant as it directly and indirectly affects many state agencies. Costs are not currently funded due to the uncertainty of a federal waiver and related timing.

Provisions of this bill state that implementation of the program begins the sooner of: (1) 120 days after a federal waiver is granted; or (2) July 1, 2013 (i.e. FY 2014).

With an estimated 60,000 non-citizen workers to participate in the program, the Department of Public Safety and the Tax Commission will need time before the full implementation to make changes for the requirements of this bill. Changes include computer programming, training, personnel, equipment purchases, and other costs. Costs for FY 2013 amount to \$5.9 million in one-time General Funds and \$162,200 of ongoing restricted funds (in FY 2014 the program is to be self-sustaining).

Regardless of the federal waiver outcome, it may be best if the projected costs of the bill are funded in an appropriations bill by the upcoming 2012 General Session to ensure implementation begins as outlined. If a waiver is granted before the Session, the Legislature may consider providing funding immediately, as the program is to be fully implemented 120 days after it is granted.



Proposed Changes in the Appropriations Schedule of Programs for the Department of Workforce Services

The Office of the Legislative Fiscal Analyst (LFA) in conjunction with the Governor’s Office of Planning & Budget (GOBP) and the Department of Workforce Services (DWS) has reviewed the Appropriations Schedule of Programs for DWS during the interim. The LFA is recommending changes for the DWS agency budget, beginning in FY 2013.

DWS currently has its budget divided among five line items, however, many of the programs within these line items are simply too broad and have not provided adequate fiscal detail and transparency. The LFA is proposing the same number of line items for the agency’s budget

(five), but is recommending increasing the number of programs to provide greater fiscal detail in the appropriations process. Note that the increase in programs does not mean an increase in funding; rather, it constitutes dividing and reconfiguring programs into smaller units. Following are the recommended changes:

Administration Line Item: increase the number of programs from one (the Administration Program) to the following five programs:

- Executive Director’s Office
- Administrative Support
- Communications
- Internal Audit
- Human Resources

Operations and Policy Line Item: increase the number of programs from seven to the following twelve:

- Information Technology
- Workforce Research & Analysis
- Workforce Development
- Eligibility Services
- Facilities and Pass-Through
- Child Care Assistance
- Nutrition Assistance
- Workforce Investment Act Assistance
- Refugee Assistance
- Temporary Assistance to Needy Families
- Trade Adjustment Act Assistance
- Other Assistance

Unemployment Insurance Line Item: increase the number of programs from one (the Unemployment Insurance Program) to the following two programs:

- Unemployment Insurance
- Adjudication

The following two line items will remain unchanged:

General Assistance Line Item: has one program (General Assistance Program).

Unemployment Compensation Fund Line Item: has one program (Unemployment Compensation Fund Program).

The Analyst will prepare the attendant budget documents providing fiscal and operations details of these changes for the Legislature to review and consider for action during the 2012 General Session.



OFFICE OF THE LEGISLATIVE FISCAL ANALYST
STATE CAPITOL COMPLEX
HOUSE BUILDING, SUITE W310
SALT LAKE CITY, UTAH 84114-5310

RETURN SERVICE REQUESTED



UTAH'S INCLUSIVE BUDGET PROCESS

Staff Contact: Jonathan Ball

One of the unique and likely underappreciated aspects of our state's budget process is its inclusiveness. Every legislator has a hand in crafting the Utah's state budget. Many other states rely on a smaller - and usually very powerful - select committee.

Utah's appropriations process is spelled-out in Joint Rule 3, Chapter 2. That rule and its counterparts establish a Joint Appropriations Committee that "consists of all the members of the Legislature." For various reasons, not least among them seating capacity, the 104 members of the Joint Committee are divided into 8 subcommittees. Subcommittees are organized around issue areas. Each subcommittee crafts a budget for the agencies under its jurisdiction.

By way of contrast, our neighbors to the North have a single Joint Finance-Appropriations Committee (JFAC). That committee has 20 members out of 105 total legislators (19%). JFAC's partisan mix reflects that of the legislature

as a whole (80% Republican, 20% Democrat). It meets in the Capitol's third chamber - the old Supreme Court - to hear all budget requests and craft all budget bills. Appropriations bills are submitted to the full House and Senate, but if a legislator wants to change a bill, it goes back to JFAC.

Utah's Executive Appropriations Committee (EAC) also has 20 members (19% of 104 legislators), with 12 Republicans (60%) and 8 Democrats (40%). Our Legislature as a whole is currently 77% Republican, 23% Democrat. EAC acts as "traffic cop" for appropriations - prioritizing across subcommittees to hit a single state-wide revenue target. It proposes a balanced state budget using input from Appropriations Subcommittees. Appropriations bills are submitted to Joint Appropriations Committee members on the House and Senate floor where the bills can be - and often are - amended.

Each state has its own approach to budgeting. Utah's approach includes all legislators.