Tough Choices as the “Fiscal Cliff” Nears

You've probably heard the terms “Taxmageddon” or “Fiscal Cliff,” which refer to tax cuts that are set to expire on December 31, 2012—exactly the same time mandatory federal discretionary spending cuts are set to take place. The non-partisan Congressional Budget Office reports, “The combination of policies under current law will reduce the federal budget deficit by $607 billion, or 4.0 percent of gross domestic product” in 2013. However, the report also estimates that current laws would slow economic growth in early 2013 to a level that “would probably be judged to be a recession.”

Congress will face a series of tough choices in December. Allowing the tax cuts to expire could help reduce federal debt, but could slow down the economy. Undoing or delaying the fiscal cliff could mean little progress toward long-term deficit reduction, which raises fiscal risks in the future.

Tax provisions scheduled to expire at the end of 2012 include:

- The “Bush Tax Cuts,” which reduced income taxes by reducing rates, repealing the marriage penalty, repealing limitations on personal exemptions and itemized deductions, expanding credits, modifying education incentives, and reducing estate tax liabilities and rates.
- The alternative minimum tax (AMT) patch, which increased the amount of income that is exempt from AMT and currently prevents some 26 million taxpayers from owing the AMT.
- The payroll tax cut, which reduced an employee’s share of Social Security taxes from 6.2 percent to 4.2 percent.
- A variety of previously extended temporary tax provisions commonly referred to as “tax extenders,” which affect many segments of the economy.

Although Utah is currently outperforming much of the nation in economic activity, as stated in our June Revenue Update to the Legislature, we are not immune from external forces.

Fixing the WPU Funding Error

In early April, the Utah State Office of Education notified the Legislature of an error in their estimate of Weighted Pupil Units (WPU). The estimate excluded 8,913 WPUs, costing approximately $25 million.

The error equates to about one percent of the Minimum School Program (MSP) budget, but impacts school districts and charter schools. This amount of funding is roughly equal to the WPU Value increase provided by the Legislature for FY 2013. Immediately, we began working on a solution to address the shortfall. You might ask, where did we find $25 million after 4 years of recession and in a budget where available revenues are already appropriated? The answer is the MSP.

(Please see “Public Ed Funding” on p. 3)
The Executive Appropriations Committee (EAC) recommended approval of the following federal grants:

New: 1) USDA-NRCS Emergency Watershed Protection Grant-Green River, and 2) a consolidated grant for Natural Resources;
Re-applications: 1) Department of Defense US Army Corps of Engineers, and 2) National Utah Clean Diesel Grant;
Revisions: 1) Heart Disease and Stroke Prevention Programs.

EAC also approved re-application for one non-federal grant: Influenza Population-Based Hospitalization Surveillance Project.

Andrea Wilko and Thomas Young presented the revenue update. With all sources included, the consensus range estimate for year-end revenue is $30 million below target and $60 million above target. The consensus range comprises an anticipated General Fund range of ±$15 million from target, and an anticipated Education Fund range of -$15 million to +$45 million from target. The Transportation Fund is expected to end FY 2012 approximately $20 million below target.

Thomas Patterson, Executive Director, Department of Corrections (UDC), and Mike Haddon, Deputy Director, presented the inmate capacity issues facing the state for the next five years. According to UDC projections, inmate capacity for the state will reach its maximum levels at the end of FY 2017, at which time it will be necessary to have more available beds. UDC suggested that these extra beds should be obtained by building an additional jail pod in the Gunnison area.

Mr. Patterson also addressed the funding issues coinciding with the inmate capacity issues. In the 2012 General Session, the Legislature appropriated $1.1 million in one-time funding to increase the daily contract rate with the counties. This opens up available beds (increases capacity) but the funding will run out at the end of FY 2013. All of the projections UDC provided assume that the Legislature will approve ongoing funding for the additional capacity needs arising in each ensuing fiscal year, beginning in FY 2014.

Holding current contract rates constant, and not accounting for additional funding for inmate programming in the contract county jails, the jail contracting funding needs break down as follows:
- $2,982,808 for FY 2014;
- $2,823,931 for FY 2015; and
- $1,791,357 for FY 2016.

Thomas Patterson and Mike Haddon, Department of Corrections, also presented the UDC health care cost report. Mr. Patterson stated that as with the free population, incarcerated individuals are experiencing an increase in the cost of health care services. This being the case, larger appropriation requests are being made to the Legislature to meet these fiscal impacts.

Another issue is the fact that an inmate who has insurance coverage prior to being incarcerated is not allowed to access that insurance to pay for health care costs. Rather, the state is paying for these costs.

UDC has taken steps to reduce medical costs, increase efficiencies, and protect the public. Some of these steps include: On-site dialysis, Tele-medicine, Mobile MRI, Medicaid Access, UMC Contract Adjustments, and supporting legislation allowing inmates to use their insurance.

The statutory requirement for capital improvements exceeds the available funding, and deferred maintenance continues to grow. The Analyst made the following recommendations for capital improvement funding:

- Use capital improvement funds primarily for infrastructure projects.
- Improve accuracy by removing auxiliary space from funding calculations.
- Use restricted revenue sources for improvements on facilities built with agency restricted funds.
- Require new capital projects to include funding for improvements and remove transfers for DFCM project management.
The division leadership has been working with the National Guard and members of the Utah Congressional delegation on cost recovery. The Federal Emergency Management Agency (FEMA) authorized the use of federal funds to pay for up to 75% of the eligible firefighting costs. In May 2012, the division received more than $1.3 million through a FEMA’s Fire Management Assistance Grant. We anticipate the Utah National Guard will make a request to the Legislature for the remaining $470,000 during the 2013 General Session, even though strictly speaking, this amount is owed by Herriman City.

**New UDOT App for Smart Devises**

**Infrastructure & General Government**

Staff Contact: Mark Bleazard

The Utah Department of Transportation (UDOT) is offering the public a free smart device application to Apple and Android users that assists motorists with Utah traffic conditions from the UDOT Intelligent Transportation System.

The system is designed to use technology to save lives, time, and money. It is a computer-controlled system designed to monitor and manage traffic flow on freeways and major surface streets. System components include cameras, electronic roadway signs, traffic speed, volume, pavement, and weather sensors. The public has already downloaded the app 67,000 times and currently averages an additional 1,000 downloads per week.

UDOT reports that the app allows access to road conditions and traffic information on mobile devices and includes:

- a zoomable, scrollable map,
- current traffic conditions on Utah’s freeways and major surface streets,
- accident, road construction, and other hazard alerts,
- current road weather conditions and road weather forecasts,
- seasonal road closure status,
- traffic camera images, and
- electronic roadway sign messages

For safety’s sake, UDOT cautions the Traffic Smartphone Application user to never use the app while driving.

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State funding appropriated to public schools through the Minimum School Program (MSP) is based on estimates. Specifically, estimates of the number of students and local property tax contributions by school districts. If the enrollment estimate is high, not all funding is used. Conversely, if the property tax estimate is low, school districts will contribute more, and less state funding is required. Any excess funding is retained as a nonlapsing balance in the MSP. Nonlapsing balances range dramatically each year, from zero to nearly $100 million.

At the close of the 2012 General Session, the Legislature left approximately $16 million in uncommitted nonlapsing balances from FY 2011 in the program. In addition, a combination of estimated nonlapsing balances anticipated at the close of FY 2012 ($4.5 million) and state funds not appropriated by the Legislature during the 2012 General Session ($4.8 million) provided the remaining amounts needed to fix the error.

The Legislature appropriated these sources to affected programs through SB 4003 during June’s Special Session. This solution used one-time funding sources to address ongoing expenses. The Legislature will start building the FY 2014 budget with a $25 million structural deficit. Also, MSP nonlapsing balances regularly fund one-time education related projects authorized by the Legislature. Using these balances upfront may reduce the total one-time revenue available for special projects in FY 2014.

Finally, SB 4003 fully funded the estimate student growth for FY 2013. Actual enrollment this fall may come in higher or lower than estimated. As usual, we hope for lower figures to ensure enough funding is available.

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The 2010 Machine Gun Fire started during a training exercise at the Utah National Guard’s Camp Williams and caused damage to homes and property in Herriman, Utah. The suppression cost for this fire was more than $1.8 million and it was initially covered by the Division of Forestry, Fire, and State Lands. However, the division is not responsible for this cost, since the fire started on federal lands and burned into incorporated areas (outside the division’s statutory responsibility).

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**Payments for the 2010 Machine Gun Fire**

**Natural Resources, Agriculture & Environmental Quality**

Staff Contact: Ivan Djambov

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Departments’ Roles in Medicaid

- Health clears providers to be Medicaid providers, draws down federal funds, oversees contracted operations, processes prior authorizations, operates restriction programs for inappropriate use of services, and sets provider reimbursement levels.

- Human Services provides oversight and direct services (many services are contracted out) for Medicaid recipients through the divisions of Services for People with Disabilities, Child and Family Services, Substance Abuse and Mental Health, and Aging and Adult Services, as well as the Office of the Public Guardian. The Office of Recovery Services provides third-party collections for Medicaid.

Hospital Payment Issue/Lawsuit – The lawsuit has been stayed and the first payments should come to the state within the next few months. Additional negotiations with other providers affected by the payment issue are ongoing.

Modernizing SAFE Database System – Human Services presented three performance measures it will track in connection with an estimated $9 million in expenditures related to the Division of Child and Family Services’ modernization of its SAFE case management system to demonstrate organizational efficiencies and worker productivity resulting from the project.

Preferred Drug List – The state saved about $8 million from the General Fund in FY 2011 and expects to save $9.5 million in FY 2012 from the 76 drug classes on the preferred drug list.

Autism Pilot Project – The first clients should begin receiving services in September. The project will include a requirement for parental participation in providing therapy services.

Ways to Decrease Prescription Drug Abuse – DHS provided historical information regarding prescription drug abuse, updates on recent related legislation and the Utah Pharmaceutical Drug Crime Project, and a list of six recommendations to help decrease prescription drug abuse.

Update on Medicaid Data Breach - Mr. Mark Vanorden, DTS, and Dr. David Patton, Health, described the data breach that occurred on a computer server housing personal health information. They detailed the extent of the loss and provided information about the effort to remedy the situation for impacted individuals. The State has established a 24-hour toll free hot line to provide information (1-855-238-3339) and a website dedicated to provide additional information and assistance (www.health.utah.gov/databreach).
With the goal of having 66% of the Utah population holding a postsecondary degree or certificate by 2020, Utah System of Higher Education institutions have increased their efforts to help current or former students complete their degrees. The institutions have identified the following strategies:

**University of Utah:** Launched “Return to the U” (see [http://www.return.utah.edu/](http://www.return.utah.edu/)). The University has responded to more than 500 requests for information and seen 100 of these students complete their degree.

**Utah State University:** Utilizing DreamWorks software, USU can track near completers and is set to launch a campaign to identify near completers and help them complete those degrees.

**Weber State University:** Students who are no longer enrolled at WSU, but were close to completing a degree, have been contacted and encouraged to see a WSU advisor. Earlier this year, over 2,200 students were identified, 673 qualified, and 73 Associate degrees were awarded.

**Southern Utah University:** Identifies and contacts near completers who might be eligible to complete with a General Studies major.

**Utah Valley University:** Working on a baccalaureate degree in University Studies.

**Dixie State College:** Implementing a Degree Works program to provide consistent and concise advisement for students. Also added a Testing Center tutorial model, an extended retention model, and an early alert program, all to support students with retention.

**Snow College:** Beginning to contact near completers (both transfer students and stop-out students) to help them with completion plans.

### Capital Improvement Allocations by the State Building Board

**INFRASTRUCTURE & GENERAL GOVERNMENT**  
**Staff Contact:** Rich Amon

The Legislature annually appropriates funds to the capital improvements line item in the capital budget for repairs of existing buildings. The lawmakers do not allocate funds to specific projects, but delegate that authority to the State Building Board. The Legislature approves a list of requested capital improvement projects from state agencies and institutions and allows the State Building Board to allocate funding to the most critical of those approved projects.

During the 2012 General Session the Legislature approved projects amounting to over $195 million and appropriated $71.7 million to the capital improvements line item. The State Building Board met in April, May, and June this year and allocated the $71.7 million as listed in the table below. Projects receiving funding include infrastructure upgrades, roofing improvements, paving improvements, and general repairs to buildings.

<table>
<thead>
<tr>
<th>Higher Education</th>
<th>Amount</th>
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<tbody>
<tr>
<td>College of Eastern Utah</td>
<td>$800,000</td>
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<tr>
<td>Dixie State College</td>
<td>$1,659,500</td>
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<tr>
<td>Salt Lake Community College</td>
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<tr>
<td>Snow College</td>
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<tr>
<td>Southern Utah University</td>
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<tr>
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<td>Utah State University</td>
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<td>Utah Valley State College</td>
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<tr>
<td>Weber State University</td>
<td>$2,775,500</td>
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<tr>
<td>University College of Applied Tech</td>
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**Subtotal Higher Ed**  

$43,877,400

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<tr>
<th>State Agency</th>
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<tbody>
<tr>
<td>Agriculture</td>
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<td>Alcoholic Beverage Control</td>
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<td>Capitol Preservation Board</td>
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<td>Community &amp; Culture</td>
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<td>Workforce Services</td>
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<tr>
<td>Statewide Programs</td>
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</table>

**Subtotal Agencies**  

$27,861,699

**Grand Total**  

$71,739,099
In the spirit of cooperation with our executive branch counterparts, we’re working on three projects to streamline budgeting while maintaining independent validation and verification.

**Fees Dataset:** Of the 260 or so pages comprising the “big budget bill” each year, about 210 pages (80%) are fees. That’s almost 8,000 lines of fees. Fees generate more than 15% of the state’s operating and capital budget. Most fees must be approved in an appropriations act every year. Currently, state budgeteers touch fees three times – once at the agency level, once at the Governor’s Office, and again at the Legislature. Most of the time, these fees don’t change.

We’re working with GOPB and the Department of Technology Services on a single fees database. It will be accessible to agency, GOPB, and legislative parties. It will allow us to track fee changes over multiple years across government. It will streamline data entry, validation, and reporting.

**Fiscal Notes Input:** We ask for a lot of help when we formulate fiscal notes. Most of the help comes from state agencies impacted by a proposed bill. We currently collect input from agencies via a plethora of means – email, phone, even fax. Most of the information we ourselves enter into our fiscal notes system. This year and next we will develop an on-line tool that will allow agencies and other interested entities to provide fiscal note feedback directly into our system – eliminating re-keying and improving data integrity. This will allow our staff to devote more time to analyzing the data and completing the fiscal notes.

**Public Education Distribution Model:** One positive side effect of USOE’s $25 million WPU calculation error is that we, on legislative staff, now have access to additional public education base data. We’ll use that data to validate future USOE calculations, but it has other benefits as well. We’re developing models that will allow legislators to see how proposed education policy changes would impact funding for individual districts and charter schools. We hope to be able to provide those distributional impacts real-time via tables as well as maps.

All this goes to show that separation of powers does not have to mean duplication of effort!