MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE
Tuesday, June 18, 2013 - 1:00 p.m. - Room 445 State Capitol

Members Present:
Sen. Lyle W. Hillyard, Co-Chair
Rep. Melvin R. Brown, Co-Chair
Sen. Jerry W. Stevenson, Vice Chair
Rep. Brad R. Wilson, Vice Chair
Sen. J. Stuart Adams
Sen. Patricia W. Jones
Sen. Peter C. Knudson
President Wayne L. Niederhauser
Sen. Karen Mayne
Sen. Ralph Okerlund
Sen. Luz Robles
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck
Rep. Tim M. Cosgrove
Rep. Brad L. Dee
Rep. Gregory H. Hughes
Speaker Rebecca D. Lockhart
Rep. Don L. Ipson
Rep. Jennifer M. Seelig

Members Excused:
Sen. Gene Davis

Staff Present:
Mr. Jonathan Ball, Legislative Fiscal Analyst
Mr. Steven Allred, Deputy Director
Ms. Greta Rodebush, Legislative Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

1. Call to Order/Approval of Minutes

Co-Chair Hillyard called the meeting to order at 1:13 p.m.

MOTION: Rep. Brown moved to approve the minutes of May 14, 2013. The motion passed unanimously with Sen. Adams, President Niederhauser, Sen. Mayne, Sen. Stevenson, Rep. Dee, Speaker Lockhart, and Rep. Seelig absent for the vote.

2 Federal/Non-federal Grants Report

Ms. Jill Flygare, Governor's Office of Management and Budget (GOMB), presented the Federal/Non-federal Grants Report dated June 18, 2013. Under federal grants, there was one new supplemental grant requiring legislative action. In addition, the Governor's Office approved three new grants, one reapplication/continuation of an existing grant, and one revision of an existing grant.

Under non-federal grants, there were no grants requiring legislative action and the Governor's Office approved one new grant.

Ms. Flygare responded to a question from Rep. Briscoe.

MOTION: Rep. Brown moved to recommend acceptance of the federal grant as outlined on page 1 of the handout entitled, "Federal/Non-Federal Grants Review and Approval" under the heading, "Grants Requiring EAC Review and Recommendation" and dated today, June 18, 2013. The motion passed unanimously with Sen. Mayne, Rep. Cosgrove, Rep. Hughes, and Speaker Lockhart absent for the vote. Co-Chair Hillyard stated that Sen. Gene Davis had asked to be excused from today's meeting.

3. Revenue Update

Dr. Andrea Wilko, Chief Economist, and Dr. Thomas Young, Economist, LFA, presented the quarterly revenue report, "Revenue Update." Dr. Wilko stated that the June report included a range forecast for FY 2013 and reviewed the report structure.

Based on revised indicators and collection patterns, current year General Fund/Education Fund revenues are expected to be between $135 million and $195 million over the May projection for FY 2013. Most of this growth is in the Education Fund largely due to federal tax changes and policies that have caused individuals to shift gains into the tax year 2012. Dr. Wilko pointed out that at the close of the year, after adjustments are made for expenditures, half of any surplus will go into the rainy day funds.

Dr. Wilko also reported that Transportation Fund revenue is expected to be plus or minus $5 million from the May target. Overall, the economic indicators remain strong in Utah. However, we need to be cautious about federal tax and spending decisions that could impact revenues going forward.

Dr. Young commented that Education Fund revenue is anticipated to be the highest on record, $150 million to $180 million above target. The surplus can be attributed to investors shifting gains into tax year 2012, all-time equity market highs, greater than anticipated dividend income, and 2012 bonus income, which are all one-time shifts. Dr. Young also discussed major federal tax changes, sequestration, and education debt and the impacts on Utah's economy.

Staff responded to committee questions regarding fluctuations in severance tax revenues, natural gas surplus and pricing, potential impacts on state revenues related to problems at Kennecott and Hill Air Force Base furloughs, decreases in cigarette and tobacco tax revenues, and the status of beer tax revenues.

4. Fiscal Notes, Dynamic Fiscal Notes, and Cost/Benefit Analyses

Mr. Jonathan Ball presented "What Can You Take to the Bank?" He explained the similarities and differences between fiscal notes and cost/benefit analyses and discussed static vs. dynamic fiscal notes.

Mr. Ball stated that fiscal notes and cost/benefit analyses are both good tools. They are related but serve different purposes. Fiscal notes focus on near-term government impacts and are used to help balance the budget. Fiscal notes are not an expression of benefits, a measure of impact on society, or intended to influence passage of a bill.

By comparison, cost/benefit analyses focus on longer-term, societal benefits, and are used to evaluate policy options. Cost/benefit analyses are not a budgeting tool, a projection of future costs or revenues, or intended to be compared to one another, especially across subject areas.

Mr. Ball also discussed static vs. dynamic fiscal notes. Dynamic fiscal notes include direct cost and/or revenue impacts plus cost/revenue impacts associated with indirect/induced behavior changes. Dynamic fiscal notes are more realistic, more accurate, and less likely to "kill a bill" than a static fiscal note. Dynamic fiscal notes, however, take more time and effort, increase risk, and may include revenue that would otherwise be available for other needs.

Finally, Mr. Ball reviewed a number of questions that help clarify results when considering a cost/benefit analysis.

5. Department of Health Report on Medicaid Expansion Assessment Impact Analysis

Dr. David Patton, Director, Department of Health (DOH), offered some background information pertaining to the contract with the Public Consulting Group (PCG) to produce a cost/benefit analysis on potential expansion options for the state's Medicaid program. Dr. Patton reported that the final version of the study, "State of Utah Medicaid Expansion Assessment," is now complete and has been posted to the DOH website. The DOH has also presented the study to the Medicaid Expansion Work Group that is currently working on the different policy options.

Mr. Nathan Checketts, Health Reform Coordinator, DOH, presented the results of the PCG study referring to a one-page summary prepared by the department, "Public Consulting Group Summary of Cost/Benefit Analysis." He also utilized a power point presentation. Mr. Checketts explained the five expansion scenarios: a mandatory only option, and four options that include the mandatory option with either full or partial expansion and full or benchmark benefits. He referenced a cost/(savings) table with one-year, three-year, and ten-year totals for each of the scenarios.

Mr. Checketts discussed Scenario 1 - Mandatory Only, and Scenario 2 - Full Optional Expansion, Full Benefits that included estimated highlights over the next ten years.

PCG study findings show that the impacts of the Affordable Care Act (ACA) on Medicaid eligibility and enrollment will initially save the state money, but will eventually have an overall cost to the state. Under a full expansion (Scenario 2 and 3), the cost increases over time as the Federal Financial Participation (FFP) declines from covering 100 percent of the expansion population in 2014 to a federal coverage of 90 percent of the costs in 2020 and beyond. Under the mandatory only and partial optional expansion (Scenarios 1, 4, and 5), enhanced cost sharing is not available and will result in higher costs to the state.

The study also identified potential savings to the state as individuals gain insurance and no longer generate uncompensated care. Savings will also be realized to current public assistance programs and changes to the state's medically needy program.

Mr. Checketts responded to committee questions regarding ten year savings totals vs. annual impacts, if the expansion options require a waiver, the economic impact of other states under expansion vs. states not under expansion, if studies conducted in other states are showing similar outcomes, what are the reimbursement formulas for managed care in Florida, whether or not the state can determine its time frame for participation, whether drug and mental health courts will be covered under expansion, and what happens if the federal government does not meet its commitments.

Mr. Ball asked if there were other benefits that have been measured beyond the federal payment to the state for expanding Medicaid. Mr. Checketts responded that the primary driver in PCG's analysis was the increased federal funding that would come into the state and the impact that would have on the state's budget as it replaced state costs. The analysis also looked at the impact these funds would have on state and county revenues and hospitals.

Mr. Ball asked for a clarification on the ratio of state economic impact to federal funding. Mr. Checketts stated that the comparison would be a 1:1 ratio.

Sen. Hillyard asked how much state tax money would be required to sustain the expansion program. Mr. Checketts indicated unless the state could somehow control enrollment or expenditures per enrollee, the state would bear a cost of $3.5 billion over a ten-year period.

6. Department of Health Update on Medicaid Management Information System Project

Dr. Patton offered some introductory background on the Medicaid Management Information System Project (MMIS).

Mr. Michael Hales, Director, DOH, presented the quarterly report on the status of replacing the MMIS as outlined in a letter to the Legislative Fiscal Analyst, "Medicaid Management Information System Quarterly Report," and dated March 28, 2013. He identified several modules of the replacement project that have been completed. DOH is now working to replace the core of the MMIS system. In March 2013, the department finalized a contract with CNSI that will be replace the core. The total projected cost for this program is $123.9 million. The federal government will pay 90 percent of the cost of the development and 75 percent of the cost for hardware and software.

In terms of funding, the Legislature has appropriated $6 million. After FY 2012, the MMIS replacement project had a balance of $5.3 million that was carried into FY 2013. An additional $15.5 million will be needed to complete the project ($9.5 million beyond the current level of appropriation). To help the department meet projected cash flow demands, the 2013 Legislature collapsed the MMIS Line Item into the Medicaid Mandatory Services Line Item. Mr. Hales stated that this is an area where the department will be looking for a one-time appropriation to finish the project.

Mr. Hales responded to questions regarding ongoing expenses, the federal and state participation rates for computer hardware and software expenditures, education and training for pharmacists and providers on the new system, and managing complaints or concerns as the rollout occurs.

7. Department of Transportation Project Progress and Financing Report

Mr. Carlos Braceras, Executive Director, Utah Department of Transportation, UDOT, presented a list of projects and bonding requirements in anticipation of issuing bonds in June 2013. He referenced two handouts, "Highway Bonding Authorization and Spending," and "H.B. 173 & 377 Projects - 2012 & 2013 Session."

Mr. Braceras indicated that there was $1.2 million in authorized funding remaining in the Centennial Highway Needs Fund (CHNF) and $63.3 million in authorized funding remaining in the Transportation Investment Fund (TIF).

President Niederhauser asked if there were caps on the CNHF and the TIF. Mr. Braceros mentioned that the CHNF has been rolled into the TIF and that there are no caps on the TIF program, but the constitutional debt limit caps bonding levels.

Rep. Briscoe asked for an explanation on four projects that fall under the purview of H.B. 377.

Sen. Okerlund asked if the highway projects were prioritized. Mr. Braceras stated that the projects and the project amounts were prioritized by the Legislature in H.B. 173 and H.B. 377. Most of the funding will be passed through to cities that will certify how the money is used and then return any remaining balances.

Speaker Lockhart requested a chart showing the pay downs for each of the TIF bonds.

Pres. Niederhauser asked when real estate values are going to be reevaluated. Mr. Ball responded that the Tax Commission's Annual Report, which is used as a baseline, comes out in August and September.

8. DFCM Deferred Maintenance and Capital Improvement Funding Report

Mr. Mark Bleazard, Fiscal Analyst, LFA, presented the Issue Brief, "Capital Improvements and Deferred Maintenance." He briefly discussed the 10-year history of capital improvement funding, noting that during the 2013 General Session the Legislature appropriated $87.7 million, of which $41.7 million was ongoing and $46 million was one-time, for capital improvements. This amounts to 1.02 percent of the replacement value of buildings in FY 2014. He stated that in order to reach statutory 1.1% of replacement value in FY 2015, the Legislature will need to appropriate approximately $53 million.

Mr. Bleazard indicated that intent language during the 2013 General Session requires the Department of Administrative Services (DAS) to propose a prioritized scoring process for capital improvements similar to what the Transportation Commission uses to prioritize highway projects. He said that DAS is working with the Building Board and the appropriations subcommittee to develop the process.

Mr. Bleazard referred to the list of capital improvement requests approved by the State Building Board for FY 2014 in Appendix A. In addition, Appendix B shows the distribution of the appropriated $87.7 million approved by the State Building Board.

Mr. Bleazard responded to questions from Sen. Hillyard, Speaker Lockhart, and Sen. Adams.

9. DFCM Capital Developments and Planning Update

Mr. Bleazard presented the Issue Brief, "Capital Development." He identified two issues. First, the Legislature funded planning or design of five buildings during the 2013 General Session. Future occupants of those facilities are likely anticipating those projects will get preference in the appropriations process during the next general session. In the past the Legislature has shied away from phase funding of capital development projects.

Second, during the 2013 General Session the Legislature enacted S.B. 278 to require an appropriation for future operations and maintenance, as well as capital improvements, before the Legislature may authorize a new facility paid for by non-state funds.

10. Other Business

MOTION: Rep. Brown moved to adjourn. The motion passed unanimously with Sen. Mayne, Sen. Robles, and Sen. Stevenson absent for the vote.

Co-Chair Hillyard adjourned the meeting at 3:08 p.m.