MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE
Tuesday, September 17, 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. Gene Davis
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
Speaker Rebecca D. Lockhart
Rep. Don L. Ipson
Rep. Jennifer M. Seelig

Members Excused:
Rep. Gregory H. Hughes

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 1:28 p.m.

MOTION: Rep. Brown moved to approve the minutes of the July 16, 2013 meeting. The motion passed unanimously with Rep. Cosgrove and Speaker Lockhart 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 September 17, 2013. Under federal grants, there were seven new grants, one reapplication/continuation of an existing grant, and two revisions of existing grants requiring legislative action. In addition, there were four new grants, three reapplications/continuations of existing grants, and one revision of an existing grant approved by the Governor's Office.

Under non-federal grants, there was one non-federal reapplication/continuation of an existing grant requiring legislative action. The Governor's Office approved one new grant.

Co-Chair Hillyard asked about the funding for the three Affordable Care Act (ACA) grants and if they expand programs or increase benefits. Ms. Flygare explained that there is no state match required on any of the grants. The ACA - Maternal, Infant and Early Childhood Program Expansion Grant is a two-year grant with an annual federal award of $7 million. The Bureau of Child Development ACA Maternal, Infant and Early Child Grant provides $1.1 million in start-up money for the first ACA grant.

Mr. Russell Frandsen, Fiscal Analyst, LFA, stated that the Affordable Care Act - Maternal, Infant, and Early Childhood Program Expansion Grant used an authorization through the Affordable Care Act to expand an existing program.

Dr. David Patton, Director, Department of Health, explained that the Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review, Cycle III was developed through the Health Reform Task Force and the Department of Insurance. The funding for this grant is new and allows the department to develop its All-Payer Claims Database information to give risk adjustment information to the Department of Insurance to do the exchange.

Dr. Patton understood that most of the federal funding for the Maternal, Infant, and Early Childhood Program now comes through the ACA. He indicated that this is the same funding and not an expansion.

MOTION: Rep. Brown moved to recommend acceptance of the federal and non-federal grants 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, September 17, 2013. The motion passed unanimously with Speaker Lockhart absent for the vote.

Co-Chair Hillyard commented that by asking questions and receiving responses, the committee is better able to understand all of the funding issues related to these grant programs and the impacts those issues may have on the state's budget.

3. FY 2013 Preliminary Surplus, Closing Nonlapsing, and Restricted Fund Balances

Mr. John Reidhead, Director, Division of Finance, discussed "State of Utah Financial Highlights" for the fiscal year ending June 30, 2013. He reported that there is zero surplus in the General Fund. The Education Fund had a gross surplus of approximately $241.9 million. From this amount, approximately $119.5 million was transferred to the Education Budget Reserve Account (Rainy Day Fund), which leaves an unassigned balance of $122,366,000 in the Education Fund.

Mr. Reidhead also pointed out that budgeted reserves carried over to FY 2014 from FY 2013 revenues have been reduced by $350,000 to cover a deficit in the General Fund.

Sen. Jones ask if the surplus in the Education Fund needs to be treated as one-time money. Mr. Reidhead stated that based on discussions with the GOMB and the Legislative Fiscal Analyst (LFA), these surplus funds should be treated mostly as one-time money.

Mr. Ball explained that the surplus revenues were largely taxes paid on profit taking. He indicated that much of this revenue came in as final pays from individuals taking advantage of a lower capital gains rate. The economists do not expect that this money will be there in 2014 and 2015. This is purely a one-time phenomenon with an ongoing impact. These are taxes that would have been paid in the future that were paid early and could effect revenue in the out years.

Co-Chair Hillyard reminded the committee that the Deep Creek Case was settled using $3 million in the General Rainy Day Fund. Since there is no General Fund surplus to replenish that fund, the Legislature will have to replace that money.

Mr. Zackery King, Fiscal Analyst, LFA, presented the Issue Briefs, "FY 2013 Preliminary Lapsing and Nonlapsing Balances" and "FY 2013 Preliminary Fund Balances."

As of September 5, 2013, the Division of Finance calculates that state agencies will lapse $2.9 million back to the General and Education funds and $45.1 million back to other funds for FY 2013. The preliminary numbers also show that state agencies and public education will carry forward $328.1 million from FY 2013 to FY 2014 as nonlapsing balances.

Mr. King also reviewed the actual nonlapsing balances and percentages of total budget for FY 2012 and the preliminary nonlapsing balances and percentages of total revised estimated budget for FY 2013.

In response to Rep. Wilson's inquiry, Mr. King explained that the preliminary nonlapsing balances for transportation were not yet available.

Rep. Briscoe asked why some institutions carry nonlapsing balances in excess of 20 percent. Mr. King called attention to the graphs showing the appropriated vs. actual nonlapsing balances for all subcommittees and individual subcommittees for FY 2007 - FY 2013. He indicated that there is a time span of about a year and a half from when the estimated nonlapsing balances are appropriated and the actual nonlapsing balances are reported.

Mr. Ball pointed out that there is a reason for each of these nonlapsing balances. As far as the Legislature's nonlapsing balances for FY 2012 and FY 2013 are concerned, Mr. Ball indicated that the Legislature typically carry's one-quarter's operating budget in reserve just in case there is a standoff among the branches of government. He also noted that the big difference in the nonlapsing balances for FY 2012 and FY 2013 can be attributed to the fact that transportation is not included in the figures.

4. Implementation of Federal Health Care Reform and FY 2013 Medicaid Balances

Mr. Michael Hales, Deputy Director, Department of Health, discussed the implementation of various aspects of the Affordable Care Act (ACA) as outlined in two reports: 1) "Mandatory Changes to Medicaid and Children's Health Insurance Program (CHIP) Eligibility," dated August 22, 2013, and 2) "Enhanced Funding for Medicaid Eligibility Systems Operation and Maintenance," dated September 6, 2013.

Mr. Hales reviewed changes to the State's existing eligibility system (eREP). He explained that starting in 2014, Medicaid has to convert to the Modified Adjusted Gross Income (MAGI) based methodology for determining income and household size. Mr. Hales stated that this change has required a substantial amount of reprogramming to the eREP system. In addition, he noted that there is a cost associated with eliminating the asset test for children over the age of six and the working adult population.

Mr. Hales responded to Speaker Lockhart's inquiries about the status of the federal health exchange, how customers will be served, data sharing, and security of information.

Mr. Hales expressed concerns that the federal health exchange might not be ready for the hand off of applications between DWS and the eREP system and the exchange.

Sen. Davis ask if we would be better off and further ahead if we had done a state exchange instead of allowing the feds to do it. Mr. Hales said that there are a lot of different opinions on this. He pointed out that Utah does have a small business exchange model that is already in place. The federal government is bringing in the individual exchange, which the state is having to build to.

Mr. Hales also discussed the enhanced funding for Medicaid eligibility systems operations and maintenance. Historically, the federal match for maintenance and operations has been matched at a 50 percent rate. As of October 1, 2013, states may now receive 75 percent federal match for maintenance and operations, in the context of eligibility determinations.

Speaker Lockhart asked about the potential for savings. Mr. Hales stated in general, the state spends about $40 million a year at the 50/50 match rate. If we assume that half of these costs would be eligible for the 75/25 match rate, this would free up between $4 to $5 million a year in the General Fund.

Mr. Hales distributed "Description of SFY 2013 Unaudited Medicaid Surplus" and discussed the carry forward General Fund balances in the Medicaid Program and the factors contributing to those savings.

5. Medicaid Expansion Cost Comparisons

Mr. Russell Frandsen, Fiscal Analyst, LFA, presented the Issue Brief, "Medicaid Expansion Financial Estimate Comparison." The brief reviews the financial estimates of the optional Medicaid expansions from the Fiscal Analyst and from the Public Consulting Group (PCG).

The Fiscal Analyst's findings show an average savings of $13.5 million General/Education Fund for CY 2014 to 2016. For that same time period, PCG shows a savings of $19.4 million General/Education Fund, a difference of $5.9 million. Through CY 2021, the Fiscal Analyst shows costs of $59.7 million General/Education Fund, and PCG shows costs of $31.7 million General/Education Fund, a difference of $28.0 million. The primary reasons for the differences are client projections, cost per client, and estimated savings from prisoner's medical costs.

Mr. Frandsen noted that the Fiscal Analyst did the analysis as a fiscal note for H.B. 153, Medicaid Amendments (Chavez-Houck), and PCG did a cost-benefit analysis as part of a contracted study. Both entities analyzed direct impacts, but PCG analyzed indirect impacts as well. The PCG report estimates an increase of tax revenue to the state of $4.1 million in 2014 and $11.3 million in 2023.

Co-Chair Hillyard asked how much money will be needed to set aside to fund Medicaid expansion. Mr. Frandsen stated that by 2021, the state will need to set aside approximately $60 million ongoing General Fund.

6. Implementation of S.B. 175 (Assessment of College Readiness) and FY 2013 Minimum School Program Balances

Mr. Bruce Williams, Associate Superintendent, Utah State Office of Education (USOE), discussed the one-page handout, "Summary of USOE Implementation of Senate Bill 175." He explained that this bill pertains to the implementation of the assessment of college and career readiness. Mr. Williams discussed the funding for the ACT contract and the online test preparation program contract approved by the Utah State Board of Education. Both contracts are funded with UPASS monies and appropriations set forth in S.B. 175, *Assessment of College Readiness.*

Mr. Williams also discussed the carryover balances in the Minimum School Program (MSP) and the variables that drive the carryover balances: taxable value estimation, basic rate estimation, and the Weighted Pupil Unit (WPU) estimation. For FY 2013, the carryover balances for the Basic School Program, Related to Basic School Program, and the Voted and Board Leeway Programs were $64,024,000 million.

Mr. Williams pointed out that H.B. 49, *Voted and Board Levy Programs Amendments,* designates that any carryover balances in the Voted and Board Leeway be reallocated to school districts that receive a guarantee. As such, the FY 2013 carryover balance of $22,627,718, in the Voted and Board Leeway will be reallocated to that program in FY 2014. In addition, the designated funds from carryover related to the Basic School Program, $13,437,702, will carry over to the next year. Therefore, the final balance of FY 2013 carryover funds in the MSP is $27,958,780.

Mr. Williams also discussed "Five-Year History of Estimated vs. Actual Program Revenues." He observed that the differences between actual and estimated program revenues at the local level have been higher. When local revenue collections are higher, fewer state dollars are required to fund the MSP and a nonlapsing balance is created.

Mr. Williams thought that the WPU estimation was not the issue causing the carryover balances, but rather, the taxable value estimation and the basic rate estimation. He indicated that those estimations are now being refined.

Ms. Jennifer Condie, Utah State Tax Commission, discussed the calculation of the minimum state basic rate. She referred to the spreadsheet, "Basic Tax Rates and Yield, Tax Years 1980 Through 2012." Ms. Condie stated that the minimum state basic tax rate has been generating more money than the targeted statutory revenue amount. The goal is to decrease the variance between the statutory revenue target and actual collections for the minimum state basic rate. Ms. Condie reviewed both the historical method and the new method of calculating the state basic rate.

Rep. Briscoe inquired about the differences in the historical and new methods of calculation.

Mr. Williams felt that the change in the state basic rate should limit the amount of money in the carry forward balances. He indicated that the new methodology by which valuation estimates are established will affect both the Basic Program and the Voted and Board Levy Programs in getting closer to the estimation of dollars being generated by local property taxes.

Co-Chair Hillyard asked clarifying questions about the Reallocation of Voted and Board Leeway Carryover (H.B. 49) and how local tax revenues effect state guarantee levels.

Mr. Ball commented that we are constantly trying to improve our methodologies and that the closer we can get in all of our estimates, the better it is for the decision makers. Mr. Ball spoke in favor of the new process of calculating the minimum state basic rate.

7. State Debt Update

Mr. Mark Bleazard, Fiscal Analyst, LFA, discussed the Issue Brief, “State Debt Obligations.” He explained that in addition to the General Obligation debt, the state and its subdivisions incur other types of debt. Debt obligations are classified into three categories: legal obligations, credit obligations, and non-state obligations.

Currently the General Obligation debt is $3.36 billion or 82 percent of the constitutional debt limit. In FY 2013, the state paid off $315 million of principal and $143 million of interest on general obligation bond debt.

Mr. Bleazard also discussed the state’s credit obligation for the State Building Ownership Authority (SBOA), which finances the construction of facilities through the issuance of lease revenue bonds. The SBOA owes approximately $287.7 million in outstanding principal and is scheduled to pay about $18.33 million in principal and $15.24 million in interest in FY 2013.

Mr. Bleazard reviewed the moral obligations for the School Bond Guaranty, Higher Education Student Loans, and the State Board of Regents Building Revenue Bonds. Finally, he identified three entities that may issue debt under their own authority, which does not constitute legal or moral obligations to the state. They are the Utah Housing Authority, student loans of the Utah System of Higher Education Assistance Authority, and the State Charter School Finance Authority.

Mr. Bleazard concluded his remarks stating that the combined state and non-state related debt totals just under $10 billion.

The committee discussed the calculation of interest savings through the lending of the state’s AAA bond rating, whether or not the indirect and non-state obligations are performing at expected levels, caps on non-state obligations, the state’s debt obligation in relationship to the constitutional debt limit from a historical standpoint, and adjusting for changes in property values.

Rep.Wilson requested some more information on the state’s student loan debt level.

Co-Chair Hillyard related a text from Commissioner Dave Buhler, Utah System of Higher Education, which indicates that the USOE can provide him with that information. Mr. Buhler noted that student loans are guaranteed, Utah has the lowest loan default rate in the country, and that upon review by the Legislative Auditor, “the revenue bonds passed with flying colors.”

8. Implementation of S.B. 42 (Medical School Admissions)

Dr. Vivien Lee, Dean of the School of Medicine, University of Utah, expressed her gratitude to the committee, the Legislature, and the Governor for passing S.B. 42, *Medical School Admission Funding* (Valentine) that enables the University to restore the Medical School class of 82 students to 102. In two years, that number will increase to 122 students. She was pleased that the University was doing its part to address the physician shortage in Utah.

Dr. Lee provided some demographic information about the class of 2017. She stated that 84 of the 102 students are either Utah residents or non-residents who graduated from Utah high schools or universities, and that almost every college and county in Utah is represented. Dr. Lee noted that the School of Medicine has been able to recruit outstanding in-state students and in some cases has brought them back to Utah from other schools. There were 1,535 applications for 102 spots. She recognized the outreach efforts of the admissions dean and others to recruit students.

Dr. Lee also commented on the expansion of the Medical Education Program. She mentioned a more labor intensive curriculum, switching from large lectures in classrooms to small group teaching, early intensive exposure to patients, use of advanced technology, and small group exams with patient actors. Students are also being instructed on healthcare reform.

Dr. Lee responded to committee questions on the average age range of medical students, the drop out rate, integrating national class standards to include cultural competency, gender and ethnic diversity, tracking students who drop out, and tracking students who go out-of-state to do their residency and then return to Utah to practice medicine.

Rep. Chavez-Houck indicated that she would like to have a discussion with Dr. Lee on how to bring back a loan forgiveness program that encourages students to practice medicine in rural areas.

Rep. Seelig suggested that it might be useful to track students who drop out of medical school and pursue other productive endeavors. This information could provide some insight into the rate of return on state dollars.

Co-Chair Hillyard announced that Agenda Item 10, Performance Note Follow-up, would be heard in the October 15th meeting.

9. Wildland Fire Suppression Activities and Costs

Mr. Mike Styler, Director, Department of Natural Resources (DNR), and Mr. Dick Buehler, State Forester, gave an overview of this year's fire suppression efforts and restoration costs. The committee viewed a slide presentation documenting recorded fires and watershed initiatives around the state.

Mr. Styler explained that since 2006, over 1,120,000 acres of land have been torn up and replanted with seed. State monies have help to fund 1,299 projects. Mr. Styler pointed out that various other public and private partners have also contributed to this effort. For one state dollar, the partners have contributed six dollars. Mr. Styler stated that the watershed restoration projects are having a direct effect on where fires take place throughout the state.

According to a fire management handout, the 2013 wildland fire season was calm compared to last year. However, in late July and into August, fuel moisture declined and lightning activity picked up resulting in some larger fires. Mr. Styler reported that there were 1,272 fires and 25 of those fires exceeded an acre. He stated that the larger fires burned 87,741 acres including state, private, and federal lands. On fires that were less than an acre in size, firefighters caught 98 percent of those wildfires starts.

Mr. Styler noted the Division of Forestry and Fires trained over 80 fire departments across the state giving them the equipment and the know-how to knock down these fires very quickly. He stated that the fire suppression costs to the state are about $6.8 million.

Mr. Styler said that the department is not going to request supplementing funding to suppress the fires. The department has access to $8 million in the Wildlife Fire Suppression Fund plus some FEMA money. However, the department may need about $600,000 to offset rehabilitation and re-seeding costs.

Mr. Buehler, State Forester and Director, Division of Forestry and Fires, commented on insurance companies that hire fire fighters to protect the homes they have insured.

Sen. Robles asked if there is an equation on how state and federal funding is used. Mr. Styler said that the costs are divided up by whose land burned. If the land that burns is 30 percent private and state land, then the state assumes 30 percent of the cost. The costs also depends on what resources are used. This payment method holds true in all states.

Rep. Chavez-Houck asked if there are ways you can anticipate land areas that might have a high propensity for fires. Mr. Buehler stated that in areas where fires are most likely to occur, they partner with local communities to do fuel mitigation work.

Mr. Ball commented on his observations of the Rockport fire and how the defensible space concept helps stop fires and saves the state money.

Sen. Okerlund stated how impressed he was with division efforts to train and equip local fire departments. He commented on the benefits of having defensible space and a trained fire department to put out fires quickly. He felt that it would be important to have a similar program on federal lands.

Mr. Buehler mentioned that the division conducts about five wildland fire academies a year and trains hundreds of firefighters to safely fight and suppress wild fires. Unfortunately, the funding for this program has been lost through sequestration. Mr. Buehler said that he is going to approach the Legislature for some funding to continue the academies.

Co-Chair Hillyard asked Mr. Buehler if he might be retiring. Mr. Buehler said that he was thinking about retiring. He started his career in September 1973 and has been working for the state for 40 years. Co-Chair Hillyard said that the EAC would like to invite him back before he retires so members of the committee can express their appreciation to him.

10. Performance Note Follow-up

This item was not heard. It will be placed on the agenda for the October 15, 2013 meeting.

11. Other Business

MOTION: Rep. Brown moved to adjourn. The motion passed unanimously.

Co-Chair Hillyard adjourned the meeting at 3:56 p.m.