

OFFICE OF THE
LEGISLATIVE
FISCAL
ANALYST

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MEMORANDUM FOR EXECUTIVE APPROPRIATIONS COMMITTEE

FROM: Clare Tobin Lence, Analyst
DATE: December 5, 2016
SUBJECT: Funding Mixes for State Employee Compensation
Adjustments and Internal Service Fund Rate Impacts

At the September 2016 meeting of the Executive Appropriations Committee, the committee considered criteria for determination of funding mixes for state employee compensation adjustments and internal service fund rate impacts. The committee moved to open a bill file for a joint rules resolution that would set the criteria discussed in rule.

Included in this packet is a draft of Joint Rules Resolution 2017FL-0626/003, which outlines the criteria that LFA should use in determining funding mixes. The rule directs that these funding mixes should be proportionate to an agency's base budget, determined at the appropriation unit level, with certain exceptions. LFA has incorporated a limited list of exceptions -- those that are based on state statute, federal regulation, or the terms of a federal grant -- into the draft compensation and internal service fund rate impacts bills that will be presented at the December meeting. A list of these exceptions is included in the packet.

Other exceptions, as proposed by agencies or legislators, to funding mixes for state employee compensation adjustments and internal service fund rate impacts may subsequently be approved by the Executive Appropriations Committee.

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1 **JOINT RULES RESOLUTION ON FUNDING MIX**

2 **DETERMINATIONS**

3 2017 GENERAL SESSION

4 STATE OF UTAH

5

6 **LONG TITLE**

7 **General Description:**

8 This joint rules resolution addresses the allocation of funds for the purpose of state
9 employee compensation adjustments and internal service fund rate impacts.

10 **Highlighted Provisions:**

11 This joint rules resolution:

- 12 ▶ addresses processes for determining the mix of funding sources to be used for state
13 employee compensation adjustments and internal service fund rate impacts; and
14 ▶ provides for exceptions.

15 **Special Clauses:**

16 None

17 **Legislative Rules Affected:**

18 ENACTS:

19 **JR3-2-403**

20

21 *Be it resolved by the Legislature of the state of Utah:*

22 Section 1. **JR3-2-403** is enacted to read:

23 **JR3-2-403. Funding mix for state employee compensation adjustments and**
24 **internal service fund rate impacts.**

25 (1) The Legislative Fiscal Analyst shall prepare a budget for state employee
26 compensation adjustments and internal service fund rate impacts that minimizes costs to the
27 unrestricted General Fund, Education Fund, and Uniform School Fund, by:

28 (a) using a mix of funding sources that is proportionate to that of the base budget, as
29 defined under Joint Rule 3-2-402, at the appropriation unit level for the same budget year;

30 (b) including sources other than the unrestricted General Fund, Education Fund, and
31 Uniform School Fund, regardless of the availability of additional revenue;

32 (c) adjusting the funding mix when the full or partial use of one or more sources is
33 directed in statute, federal regulation, or the terms of a federal grant; and

34 (d) adjusting the funding mix based on the appropriate use of funding sources other
35 than the unrestricted General Fund, Education Fund, and Uniform School Fund,
36 transportation-related funds, federal funds, restricted accounts, and dedicated credits.

37 (2) When the Legislative Fiscal Analyst adjusts the funding mix in accordance with
38 Subsection (1)(c) or (d), the Legislative Fiscal Analyst shall:

39 (a) eliminate the appropriate portion of the source from the funding mix;

40 (b) deduct the amount associated with the source from the base budget total;

41 (c) recalculate the proportional distribution among remaining sources; and

42 (d) distribute the appropriate budget adjustment amounts accordingly.

43 (3) If the Legislative Fiscal Analyst identifies a funding mix that would provide
44 additional spending authority for sources other than unrestricted General Fund, Education
45 Fund, and Uniform School Fund and additional revenue is unavailable, in accordance with
46 Subsection (1)(b), an agency may make or request program reductions, reprioritizations,
47 reallocations, or fee increases pursuant with Utah Code Title 63J, Chapter 1, Budgetary
48 Procedures Act.

49 (4) The Legislative Fiscal Analyst shall request that an internal service fund agency
50 reflect state employee compensation adjustments and impacts from rate changes in other
51 internal funds in the rates recommended by the internal service fund agency for a given budget
52 cycle, either:

53 (a) on a prospective basis for the budget year, based on an estimated amount; or

54 (b) on a one-year lag basis, if the specific internal service fund has sufficient operating
55 reserves to maintain the internal service fund's fiscal integrity.

56 (5) (a) The Executive Appropriations Committee may approve for one fiscal year
57 exceptions to the budget preparation criteria described in Subsections (1) through (4).

58 (b) The Legislative Fiscal Analyst shall prepare a budget that includes exceptions
59 approved by the Executive Appropriations Committee under this Subsection (5).

60 (c) The Executive Appropriations Committee shall annually determine whether to
61 re-approve an exception approved by the Executive Appropriations Committee under this
62 Subsection (5).

Statutory and Federal Regulatory Exceptions Included in Draft Compensation and Internal Service Fund Appropriations Bills

Proposed Joint Rules Resolution 2017FL-0626/003 outlines criteria for determining funding mixes for state employee compensation adjustments and internal service fund rate impacts. The exceptions below are provided for in the rule and have been included in the draft bills. Agencies or legislators may propose other exceptions to the Executive Appropriations Committee.

| Comp Exception | ISF Exception | Fund Name/Description | Code Citation | Agencies Impacted | Explanation of Exception |
|------------------|---------------|--|------------------------------------|---|--|
| Restricted Funds | | | | | |
| x | x | GFR - Cigarette Tax | 59-14-204 | Health, Higher Ed | Amount appropriated is capped in statute |
| x | x | All Special License Plate Funds | 41-1a-422(1)(a)(i) | Health, Human Services, Heritage and Arts, Public Safety | Donations are collected and then disbursed/passed-through to other entities, without provision for agency admin costs |
| x | x | GFR - Children's Account | 62A-4a-309 | Human Services | Account is only for pass-through grants to other entities |
| x | x | GFR - Intoxicated Driver Rehab | 62A-15-503 | Human Services | Account is only for pass-through grants to counties |
| x | x | GFR - Firearm Safety | 53-10-202.1 | Public Safety | <i>Limited for programs other than the Firearm Safety Program: Other programs cannot use the fund for comp/admin</i> |
| x | x | Uninsured Motorist ID | 41-12a-806 | Public Safety (JDA) | <i>Limited for POST only (no limitations for other programs): appropriations capped at \$500,000 (already at limit)</i> |
| x | x | GFR - Canine Body Armor Restricted Account | 53-16-301 | Public Safety (JHB) | Funds are granted out to local law enforcement agencies only |
| x | x | GRF - Public Safety Restricted Account | 53-1-117 | Public Safety (JJA) | <i>Limited for Highway Safety only (no limitations for other programs): Funds are obligated for local law enforcement agencies</i> |
| x | x | GFR - Electronic Payment Fees | 41-1a-121 | Tax Commission | Funds are only to cover the costs of electronic payments. |
| x | x | GFR - Tobacco Settlement | 51-9-201 | Tax Commission, Attorney General, Health, Higher Ed, Human Services | No "remaining funds" to be allocated for other purposes |
| x | x | Transportation Fund | 72-2-103 | Tax Commission, Public Safety, Admin Services (Finance), Economic Development (Tourism) | The amount appropriated or transferred from the Transportation Fund each year may not exceed a combined total of \$11,600,000 to agencies other than Department of Transportation. Other agencies are at this cap. |
| x | x | Transportation Investment Fund of 2005 (TIF) | 72-2-124 | Transportation | TIF funds can only be used for construction projects and bond-related expenses, as outlined in statute. |
| x | x | GFR - Special Administrative Expense Account | 35A-4-506 | Workforce Services | <i>Limited for non-Unemployment Compensation programs only: DWS: " In accordance with UCA 35A-4-506, when SAEA funds are used for a purpose unrelated to the administration of the unemployment compensation program (as described in Subsection 303(a)(8) of the Social Security Act, 42 USC 503(a)(8), as amended), DWS must develop and follow a cost allocation plan in compliance with United States Department of Labor regulations, including the cost principles described in 29 CFR 97.22(b) and 2 CFR Part 225. The cost allocation plan determines the cost of collecting the SAEA funds which are repaid to the Federal government."</i> |

| Federal Funds | | | | | |
|-------------------|---|---|--------------------|------------------------|--|
| x | x | Government Prosecutor Grants | | Attorney General (DGA) | Grant passed through to graduating law school students who agree to become government prosecutors. |
| x | x | Local Children's Justice Centers | | Attorney General (DQA) | Federal funds pay for state-level staff and operations only; most state funds are passed through to locals, but not all as of FY17 |
| x | x | Grants to Locals | | CCJJ (CEA, CEB) | Most federal funds are passed-through to locals; a small portion is allowed for CCJJ administration |
| x | x | Federal Match Rates for Medicaid and Health Financing | | Health | Admin costs can be billed to federal government at 3 match rates, depending on the cost specifics: 90, 75, or 50%. |
| x | x | CHIP | | Health (LPA) | CHIP will be fully federally funded this year, like last year (on a one-time basis, not ongoing) |
| x | x | Community Mental Health Services | | Human Services (KBC) | Federal funds pay for state-level staff/admin costs |
| x | x | State Substance Abuse Services | | Human Services (KCC) | Federal funds pay for state-level staff/admin costs |
| x | x | Project-Based Federal Funds | | Transportation | Federal funds for specific projects |
| | x | Armory Risk Management | | Utah National Guard | Federal funds won't cover utilities and insurance (i.e. Risk Management) on armories |
| x | x | Community Development Block Grant (CDBG) | 14.228 | Workforce Services | <i>Limited by 1:1 federal matching requirement portion only:</i> DWS: "The State may use up to \$100,000 of its grant funds for administrative purposes. In addition to this amount, up to three percent of the grant may be expended at the State level for administrative costs and technical assistance. However, <u>administrative costs must be matched from State resources on a one-to-one basis.</u> " |
| x | x | Community Services Block Grant (CSBG) | 93.569 | Workforce Services | <i>Limited for subgrants (pass-throughs) portion only:</i> DWS: "State administrative expenses, including monitoring activities, may not exceed the greater of \$55,000 or 5 percent of CSBG funds. Such expenditures must be made from the portion of funds remaining to a State after <u>subgranting at least 90 percent of funds to eligible entities</u> (42 USC 9907(b)(2))." |
| Dedicated Credits | | | | | |
| x | x | Medicaid and Health Financing | | Health | Some dedicated credits in the Division of Medicaid and Health Financing are state match from non-state agencies; expenditures are accounted for in those agencies (tracked by separate revenue source code in FINET) |
| x | x | Drug Rebates | | Health (LEH) | Drug rebates can be spent on Ryan White personnel but not other LEH personnel |
| x | x | Women, Infants, and Children (WIC) Rebates | CFR 246.14, 246.16 | Health (LFD) | Health: "Most dedicated credits are WIC formula rebates which are required to offset the WIC Food federal draws. There is a small amount of ~\$155,000 that is revenue agreements and Mother to Baby donations." |

| | | | | | |
|---|---|---|---------------------------------|--|--|
| x | x | Special License Plates | 41-1a-422(2) | Higher Ed | Special plate fees to institutions are only to be used for scholastic scholarships |
| x | x | Species Protection | 59-12-103(4)(b) | Natural Resources (RGA) | Amount of dedicated credits appropriated is capped in statute at \$2.45M (14% of \$17.5 million) |
| x | x | Watershed Projects | 59-12-103(5)(b) | Natural Resources (RGC) | Amount of dedicated credits appropriated is capped in statute at \$500K |
| x | x | Cloud-Seeding Projects | 59-12-103(5)(c) | Natural Resources (RPE) | Amount of dedicated credits appropriated is capped in statute at \$150K |
| x | x | Search and Rescue Funds to Locals | 53-2a-1102 | Public Safety (JBA) | Funds can only be used to reimburse local entities |
| x | x | E-Rate Reimbursements to School Districts | | Utah Education and Telehealth Network (UETN) | Dedicated credits are reimbursements that UETN collects from the federal government and passes through to local entities |
| x | x | Special License Plates | 41-1a-422 | Veterans' and Military Affairs | Exception is consistent with treatment of other special license plate funds |