



Memorandum

To: Executive Appropriations Committee

From: Nate Osborne, Financial Analyst

Date: December 9, 2024

Re: **Funding Mixes for State Employee Compensation Adjustments and Internal Service Fund Rate Impacts**

During the 2017 General Session, the Legislature passed [S.J.R. 1](#), creating new [Joint Rule 4-2-406](#), which outlines how LFA should determine funding mixes when preparing budgets for state employee compensation adjustments and internal service fund (ISF) rate impacts. A funding mix is the proportional contribution of various funding sources that comprise the total appropriated amount.

The rule directs that funding mixes should be proportionate to an agency's base budget for the budget year, determined at the appropriation unit level. It allows for certain exceptions, including those that are based on state statute, federal regulation, or the terms of a federal grant. A list of these "statutory" exceptions is included in this packet on pages 3-4.

Other "non-statutory" exceptions to funding mixes, as proposed by agencies or legislators, may be submitted to and approved by the Executive Appropriations Committee. The rule directs the committee to reconsider non-statutory exceptions each year. A list of non-statutory exceptions that the committee approved for the 2024 General Session is provided in this packet on pages 5-8. The committee may consider approving these exceptions for the 2025 General Session.

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

Joint Rule 4-2-406 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 will be included in 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	Exception Type	Percentage of Source to Remove from Mix (estimate)
Restricted Funds							
x	x	GFR - Crime and Violence Prevention Fund	67-5-24	Attorney General's Office	Fund collects donations and allows the donator to determine where funds should be spent.	statutory	100%
x	x	GFR - Cigarette Tax	59-14-204	Health and Human Services, Higher Ed	Amount appropriated is capped in statute	statutory	100%
x	x	All Special License Plate Funds	41-1a-422(1)(a)(i)	Health and Human Services, Cultural and Community Engagement, Public Safety	Donations are collected and then disbursed/passed-through to other entities, without provision for agency admin costs	statutory	100%
x	x	Ambulance Service Provider Assessment Expendable Revenue Fund	26B-3-803(4)	Health and Human Services	Administration costs capped at \$20,000. This cap was reached in FY 2023.	statutory	100%
x	x	GFR - Survivors of Suicide Loss	26B-1-327	Health and Human Services	Account is only for pass-through grants to other entities	statutory	100%
x	x	GFR - Psychiatric Consultation Program	26B-1-328	Health and Human Services	Account is only for pass-through grants to other entities	statutory	100%
x	x	Uninsured Motorist ID	41-12a-806	Public Safety (JDA)	Limited for POST only (no limitations for other programs): appropriations capped at \$1,500,000 <u>\$2,000,000</u> (already at limit)	statutory	100%
*	*	GFR—Canine Body Armor Restricted Account	53-16-301	Public Safety (JHB)	Funds are granted out to local law enforcement agencies only	statutory	100%
x	x	GFR - Public Safety Restricted Account	53-1-117	Public Safety (JJA)	<i>Limited for Highway Safety only (no limitations for other programs):</i> Funds are obligated for local law enforcement agencies	statutory	100%
x	x	GFR - Electronic Payment Fees	41-1a-121	Tax Commission	Funds are only to cover the costs of electronic payments.	statutory	100%
x	x	Transportation Fund	72-2-103	Tax Commission, Public Safety, Government Operations (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.	statutory	100%
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.	statutory	100%
x	x	Native American Repatriation	9-9-406	Cultural and Community Engagement (WEA)	Funds are to be used for the repatriation of native american human remains. Funds are not used for personnel or ISF's	statutory	100%
x	x	New Public Safety and Firefighter Tier II Retirement Benefits Restricted Account	49-11-904	Various Agencies with qualifying Public Safety and Firefighter employees	Funds are to be limited to qualifying state agencies for certain retirement contributions that state agencies make on behalf of members as an employer pick up	statutory	100%
x	x	Post Disaster Recovery and Mitigation Restricted Account	53-2a-1302	Public Safety	Funds from this account are limited to grants to local communities for disaster recovery efforts and post hazard mitigation	statutory	100%
X	X	Nursing Care Facilities Provider Assessment Fund	26B-1-332	Health and Human Services	Administrative costs are capped at 3%. This cap was reached in FY2024	statutory	100%
Federal Funds							
x	x	Government Prosecutor Grants		Attorney General (DGA)	Grant passed through to graduating law school students who agree to become government prosecutors.	regulatory (use restriction)	100%
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	regulatory (pass-through)	some portion

x	x	Grants to Locals		CCJJ (CEA, CEB)	Most federal funds are passed-through to locals; a small portion is allowed for CCJJ administration	regulatory (use restriction)	some portion
x	x	Federal Match Rates for Medicaid and Health Financing		Health and Human Services	Admin costs can be billed to federal government at 3 match rates, depending on the cost specifics: 90, 75, or 50%. Agency: "For ISF costs for Medicaid administration, federal participation averages 73.1% due to the majority of expenditures qualifying for an enhanced match rate per Federal regulation. For compensation costs for Medicaid administration, federal funds participation averages 54.4% due to only 17% of our expenditures qualifying for the enhanced federal funds participation, with the remainder only qualifying for a 50% federal funds participation rate."	regulatory (admin match)	applicable rate
x	x	CHIP		Health and Human Services (KPBAB)	There is a standard federal match rate for all administrative costs	regulatory	some portion
x	x	Project-Based Federal Funds		Transportation	Federal funds for specific projects	regulatory (use restriction)	as applicable
	x	Armory Risk Management		Utah National Guard	Federal funds won't cover utilities and insurance (i.e. Risk Management) on armories	regulatory (use restriction)	some portion
x	x	National Endowment for the Arts (NEA)		Cultural and Community Engagement (WQB, WQC)	Federal dollars are granted out and do not pay for personnel or ISF's	regulatory	100%
x	x	Library Services and Technology Act (LSTA)		Cultural and Community Engagement (WRC)	Federal dollars pay for 1 individual and the rest are granted out. In the whole picture, the percentage of dollars that pay for personnel and ISF's is very small	regulatory	100%
Dedicated Credits							
x	x	Medicaid and Health Financing		Health and Human Services	Some dedicated credits in the Division of Integrated Health Care Services are state match from non-state agencies; expenditures are accounted for in those agencies (tracked by separate revenue source code in KTAAB)	regulatory (accounting)	some portion
x	x	Drug Rebates		Health and Human Services (KTAAB)	Drug rebates can be spent on Ryan White personnel but not other KTAAB personnel	regulatory (use restriction)	some portion
x	x	Special License Plates	41-1a-422(2)	Higher Ed	Special plate fees to institutions are only to be used for scholastic scholarships	statutory	<u>100%</u>
x	x	Search and Rescue Funds to Locals	53-2a-1102	Public Safety (JBA)	Funds can only be used to reimburse local entities	statutory	100%
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	regulatory (use restriction)	100%
x	x	Special License Plates	71A-1-201	Veterans' and Military Affairs	Exception is consistent with treatment of other special license plate funds	statutory	100%
Expandable Receipts - Rebates							
x	x	Women, Infants, and Children (WIC) Rebates	CFR 246.14, 246.16	Health and Human Services (KTBAJ)	Health and Human Services: "Expandable Receipts - Rebates are WIC formula rebates which are required to be used to offset the WIC Food federal draws.	regulatory (use restriction)	100%
Designated Sales Tax							
x	x	Watershed Projects	59-12-103(5)(b)	Natural Resources (RGC)	Amount of sales tax appropriated is capped in statute at \$500K	statutory	100%
x	x	Cloud-Seeding Projects	59-12-103(5)(c)	Natural Resources (RPE)	Amount of sales tax appropriated is capped in statute at \$150K	statutory	100%
x	x	Species Protection	59-12-103(4)(b)	Natural Resources (RGA)	Amount of sales tax appropriated is capped in statute at \$2.45M (14% of \$17.5 million)	statutory	100%
x	x	Water Rights	59-12-103(4)(d)	Natural Resources (RWE)	Amount of sales tax appropriated is capped in statute at \$175K (1% of 17.5 million)	statutory	100%

Non-Statutory Exceptions Approved for the 2024 General Session

Comp Exception	ISF Exception	Fund Name/Description	First Session Approved	Agencies Impacted	Explanation of Exception
x	x	Higher Education Tuition	2017	Utah System of Higher Education	Use a funding mix of 75% General Fund/Education Fund and 25% dedicated credits from tuition.
x	x	Higher Education Tuition	2017	Salt Lake Community College School of Applied Technology; Utah College of Applied Technology	Use a funding mix of 100% General Fund/Education Fund.
x		Funds transferred from Temporary Assistance for Needy Families (TANF) to Social Services Block Grant (SSBG)	2017	Health and Human Services	Funds transferred from TANF to SSBG would be treated as General Fund for calculating the funding mix. This would reduce the compensation burden on federal sources. Health and Human Services has received this exception since about 2006.
x		Dedicated Credit Revenue, Federal Fund (SCAAP grant), and GFR -Interstate Compact for Adult Supervision Account	2017	Corrections	Dedicated credit revenues are unpredictable. Also, the Department further explained "We have no reasonable way of increasing any of these funds to accommodate an increase to compensation. None of these funding sources goes directly towards the funding of personnel. Therefore, any proposed increases to compensation using one of these funding sources is in essence a budget cut to the Department of Corrections."
x		Dedicated Credits	2017	Corrections	Dedicated credit revenue declined or remained static in recent years. The Department explained "We have no reasonable way of increasing any of these funds to accommodate an increase to compensation. None of these funding sources goes directly towards the funding of personnel. Therefore, any proposed increases to compensation using one of these funding sources is in essence a budget cut to the Department of Corrections."
x		Various Restricted Accounts, Transfers and Dedicated Credits	2017	Courts	Restricted Accounts, Transfers and Dedicated Credits revenue are trending downward and would be insufficient or unreliable to fund increases out of for relevant programs.
x		Dedicated Credits in Governor's Office of Management and Budget	2017	Governor's Office	Dedicated credits in the GOMB line item are for possible conference fees. The office states "GOMB has some dedicated credits authority in our budget in case we need to collect fees for our annual conference. Even though we have the place holder, we don't actually collect any of the fees. [...] If GOMB ever changed how we ran the conference, we could collect fees. Those fees would go directly to the conference costs. We wouldn't ever use them to pay for staff staff or ISF bills."
x		Dedicated Credits for the Judicial Nominating Commission	2017	Governor's Office	Dedicated credits in Commission on Criminal and Juvenile Justice are for the sole purpose of background checks for the Judicial Nominating Commission, and do not cover any salary and benefits for CCJJ.
x		Various Restricted Accounts, Transfers and Dedicated Credits	2018	Utah State Board of Education	The State Board of Education requests an exception to certain revenue sources being used in the compensation funding mix for select programs.

X	Federal Funds	2022	Department of Environmental Quality	From FY 2014 to FY 2021, the cumulative ongoing difference in appropriated versus collected Federal Funds for salary increases in the Department of Environmental Quality is \$1.8 million. For example, in Air Quality, Federal Funds represent 32% of the funding mix, meaning that salary increases are expected to be funded in this same ratio, despite the fixed and restricted nature of most ongoing grants received by the department. The three percent compensation increase provided during the 2021 General Session for FY 2022 resulted in \$109,000 in salary increases which were billed to ongoing Federal Funds. The average total compensation for Air Quality employees is in FY 2020 was \$105,500, meaning that the unfunded portion of salary increased billed to Federal Funds may result in the loss of an FTE each time the Legislature approves a COLA.
X	Federal Funds	2023	Department of Public Safety	The majority of funding for this program is from federal funds that largely get passed through to local governments. This includes federal funding from FEMA (Federal Emergency Management Agency) in which the state qualifies for funding related to declared emergencies and disasters. For example in FY 2022, federal funding was \$223.7 million compared to \$226.7 million in total funding.
<u>X</u>	<u>Dedicated Credits/Federal Funds</u>	<u>2024</u>	<u>Utah Department of Transportation</u>	<u>UDOT employees are funded out of transportation funds and the vast majority of compensation is paid from state transportation funds. UDOT does not collect more in federal funding or dedicated credits for increases in personnel, which has eroded the budget for current expense in all lines items over the years. UDOT uses federal funds primarily for projects and collects dedicated credits for things like damage claims and materials testing, which do not increase based on compensation levels.</u>

New Non-Statutory Exceptions Requested for the 2025 General Session

Comp Exception	ISF Exception	Fund Name/Description	Line Items Impacted	Explanation of Exception	Fund	Requested ISF Split	Requested Comp Split
X	X	KMBAD Primary Care and Rural Health		<u>Opioid Litigation Proceeds Restricted Account is used for 100% pass through and is not being used to cover ISF and Comp expenditures. DHHS believes using funds from this restricted account for general compensation increases for employees in this office/division would likely violate the intended purpose of these funds. As such, it should be eliminated as a funding source for the funding splits.</u>	General Fund	74.20%	74.20%
					Income Tax Fund	0.00%	0.00%
					Opioid Litigation Proceeds Restricted Account (GFR)	0.00%	0.00%
					Federal Funds	25.80%	25.80%
					Transfers	0.00%	0.00%
X	X	KMDAB Correctional Health Services		<u>Correctional Health Services (CHS) has historically been funded at 100% General Fund due to dedicated credits being derived from inmate copays, which are set in statute. Unless statute was changed to increase the copays, CHS will need 100% General Fund to support ISF and Comp increases.</u>	KMBAD Total	100.00%	100.00%
					General Fund	100.00%	100.00%
					Correctional Institution Clinical Services Transition Account (GFR)	0.00%	0.00%
					Dedicated Credits Revenue	0.00%	0.00%
					KMDAB Total	100.00%	100.00%
X	X	KPBBB Substance Use and Mental Health Services		<u>Opioid Litigation Proceeds Restricted Account is used for 100% pass through and is not being used to cover ISF and Comp expenditures. DHHS believes using funds from this restricted account for general compensation increases for employees in this office/division would likely violate the intended purpose of these funds. As such, it should be eliminated as a funding source for the funding splits.</u>	General Fund	43.90%	43.90%
					Income Tax Fund	0.00%	0.00%
					Electronic Cigarette Substance and Nicotine Product Proceeds Restricted Account (GFR)	0.20%	0.20%
					Medicaid Expansion Fund	0.70%	0.70%
					Opioid Litigation Proceeds Restricted Account (GFR)	0.00%	0.00%
					Statewide Behavioral Health Crisis Response Account (GFR)	22.40%	22.40%
					Tobacco Settlement (GFR)	0.60%	0.60%
					Expendable Receipts	0.20%	0.20%
					Dedicated Credits Revenue	0.10%	0.10%
					Federal Funds	29.50%	29.50%
					Transfers	2.50%	2.50%
					KPBBB Total	100.00%	100.00%
X	X	KPCAF Services for People with Disabilities		<u>The Division of Services for People with Disabilities Restricted Account (GFR) is intended to be a buffer in the case that mandatory DSPD expenditures exceed available revenue in a fiscal year. This fund has no ongoing sources of funds and is only made up of nonlapsing funds from prior years. DSPD requests this funding source be excluded from ISF and Comp funding splits as it would not be prudent to use this fund to support ongoing costs.</u>	General Fund	50.00%	50.00%
					Income Tax Fund	0.00%	0.00%
					Division of Services for People with Disabilities Restricted Account (GFR)	0.00%	0.00%
					Expendable Receipts	0.00%	0.00%
					Federal Funds	0.00%	0.00%
					Federal Funds - Enhanced FMAP	0.00%	0.00%
					Transfers	50.00%	50.00%
					KPCAF Total	100.00%	100.00%
X	X	KTAAC Health Promotion and Prevention		<u>Opioid Litigation Proceeds Restricted Account is used for 100% pass through and is not being used to cover ISF and Comp expenditures. DHHS believes using funds from this restricted account for general compensation increases for employees in this office/division would likely violate the intended purpose of these funds. As such, it should be eliminated as a funding source for the funding splits.</u>	General Fund	11.30%	11.30%
					Cancer Research Restricted Account (GFR)	0.00%	0.00%
					Cigarette Tax (GFR)	11.70%	11.70%
					Electronic Cigarette Substance and Nicotine Product Proceeds Restricted Account (GFR)	20.10%	20.10%
					Opioid Litigation Proceeds Restricted Account (GFR)	0.00%	0.00%
					Tobacco Settlement (GFR)	6.00%	6.00%
					Expendable Receipts	0.10%	0.10%
					Dedicated Credits Revenue	0.00%	0.00%
					Federal Funds	44.70%	44.70%
X	X				Transfers	6.10%	6.10%
					KTAAC Total	100.00%	100.00%
					General Fund	26.10%	26.10%
X	X				Income Tax Fund	0.00%	0.00%
					Adult Autism Treatment Account (GFR)	3.00%	3.00%

X X

<u>KTBAH</u> <u>Children with</u> <u>Special</u> <u>Healthcare</u> <u>Needs</u>	<u>Administrative costs from the Adult Autism Treatment Account are limited ensure grants to organizations are maximized, as intended by statute. The Division of Family Health recommends this funding source be limited to 3% for the funding splits.</u>	Children's Hearing Aid Pilot Program Account (GFR)	0.00%	0.00%
		Children's Organ Transplant (GFR)	1.20%	1.20%
		Expendable Receipts	0.60%	0.60%
		Dedicated Credits Revenue	4.10%	4.10%
		Federal Funds	28.90%	28.90%
		Transfers	36.20%	36.20%
		KTBAH Total	100.00%	100.00%
		General Fund	97.70%	97.70%
		Juvenile Justice Reinvestment Account (GFR)	0.00%	0.00%
		Expendable Receipts	0.00%	0.00%
<u>KTDAE</u> <u>Community</u> <u>Programs</u>	<u>The Juvenile Justice Reinvestment Account has no ongoing source of revenue as it is derived from prior year nonlapsing balances and should not be used for ongoing general compensation and ISF increases.</u>	Dedicated Credits Revenue	1.30%	1.30%
		Federal Funds	1.00%	1.00%
		Transfers	0.00%	0.00%
		KTDAE Total	100.00%	100.00%