

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS
COMMITTEE** Tuesday, May 15, 2012 - 1:00 p.m. -
Room 445 State Capitol

Members Present:

Sen. Lyle W. Hillyard, Co-Chair Rep.
Melvin R. Brown, Co-Chair Sen.
Kevin T. Van Tassell, Vice Chair
Rep. John Dougall, Vice Chair Sen.
Scott K. Jenkins Sen. Patricia W.
Jones Sen. Peter C. Knudson Sen.
Karen W. Morgan Sen. Wayne L.
Niederhauser Sen. Ross I. Romero
President Michael G. Waddoups Rep.
Brad L. Dee Rep. Gregory H. Hughes
Rep. Brian King
Rep. David Litvack
Speaker Rebecca D.
Lockhart Rep. Ronda

Rudd Menlove Rep.
Jennifer M. Seelig

Members

Excused: Sen.
Ben McAdams
Rep. Christine
Watkins

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 1:49 p.m. Sen. McAdams and Rep. Watkins were excused from the meeting.

MOTION: Rep. Brown moved to approve the minutes of February 22, 2012, March 5, 2012, and March 8, 2012. The motion passed unanimously with Rep. Hughes, Rep. Litvack, Speaker Lockhart, and Rep. Seelig absent for the vote.

Mr. Ball stated that the LFA would be adjusting its mailing and printing practices based on a survey that was being passed around to the committee. Mr. Ball indicated that LFA would continue to send copies of all the meeting materials via email and Drop Box.

2. Federal/Non-Federal Grants

Jill Flygare, Governor's Office of Planning and Budget (GOPB), presented the "Federal/Non-Federal Grants Reports," and dated May 15, 2012.

Ms. Flygare stated that under the federal grants, there were eight new grants, one continuation grant, and six revisions of existing grants requiring legislative action. In addition, Ms. Flygare noted that the Governor's Office had approved thirteen new federal grants and three reapplications/continuations of existing grants.

Under the non-federal grants, there were two new grants requiring legislative action. The Governor's Office approved three new non-federal grants.

President Waddoups asked the Governor's Office to provide more information on the following grants:

- Agriculture and Food, *Livestock Tracking Collars*
- Environmental Quality, *FY 12 and FY 13 Region 8 Wetlands Program Development Grant*

- Health, *Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations*
- Health, *Heart Disease and Stroke Prevention Programs*
- Health, *Well-Integrated Screening and Evaluation for Women Across the Nation*
- Public Safety, *National Incident Management System: Veterinary Response Capability*

Mr. Gary Syphus, Fiscal Analyst, LFA, informed that committee that the Judicial Council had approved one continuation grant, *Court Improvement Program Grant*, on February 27, 2012.

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, May 15, 2012, with revisions made on May 14, 2012.

Under suspension of the rules, President Waddoups proposed the following substitute motion:

SUBSTITUTE MOTION: President Waddoups moved to amend Rep. Brown's motion and add the following words: "with the exception of Health Department item, *Heart Disease and Stroke Prevention Programs*," on page 9 of the detail, striking the \$205,100 state match, and add the words "requesting that the Social Services Appropriations Subcommittee report back its rationale for wanting the grant as well as *Cancer Prevention and Control Programs for State, Territorial, and Tribal Organizations*, and *Well-Integrated Screening and Evaluation for Women Across the Nation*, and the benefits they anticipate coming to the State of Utah."

Rep. Litvack asked if the substitute motion withholds only the state portion of the *Heart Disease and Stroke Prevention Programs* grant. President Waddoups confirmed that it only withholds the state portion.

Sen. Jones stated that she was interested in hearing the rationale in support of the three health programs.

The motion passed with Sen. Jones, Sen. Morgan, Sen. Romero, Rep. Dougall, Rep. King, Rep. Litvack, and Rep. Seelig voting in opposition. Rep. Hughes was absent for the vote.

3. Utah Retirement Systems Funded Liability Report

Mr. Mark Bleazard, Fiscal Analyst, LFA, remarked that prior to the 2008 downturn in the economy, the Utah Retirement System's (URS) funded ratio was consistently in the 90th percentile. Since the 2008 downturn, its funded ratio has been in the 80th percentile. Mr. Bleazard stated that Mr. Robert Newman, Executive Director, URS, would be reporting on the most recent actuarial status and future outlook of the URS.

Mr. Newman stated that since the Tier II Retirement System had been functioning for less than one year, he would be reporting on the actuarial status of the Tier I Retirement System where most of the assets and liabilities are housed.

Mr. Newman referred to the handout, "State and School Retirement System."

Mr. Newman stated that the current funded status of the retirement system is 78.4 percent, which is a decline from the past decade. He attributed the decline to the economic downturn in 2008 which affected all financial markets. Mr. Newman felt that 78.4 still represents a well-funded retirement system. Mr. Newman discussed the results of an actuarial study conducted in November 2009. He indicated that the retirement system is actually further ahead than where the actuaries thought it would be. In regards to the actuarial assumed investment rates of return, Mr. Newman stated that 7.5 percent is a conservative, reasonable rate of return. He felt that at 7.5 percent, URS could effectively earn enough on its investments to ensure that the retirement system is adequately funded in the upcoming years.

Mr. Newman also discussed actual vs. projected contribution rates. He pointed out that actual contribution rates were lower than actuarial estimates because of lower salary growth for public employees, lower turnover, vacant positions, fewer retirements, and higher returns in 2009 and 2010.

Finally, Mr. Newman commented that the Tier II system will save employers money. After July 1, 2011, the contribution that an employer pays for a new hire in the public system is 16.65 percent rather than 20.26 percent under the Tier I system. The difference represents a 3.61 percent savings in payroll to the agencies.

Mr. Newman responded to Rep. Dougall's question on why he thought 7.5 percent was a conservative rate of return.

4. Turnover Savings Report

Mr. Stephen Jardine, Fiscal Analyst, LFA, presented the Issue Brief, "Vacancies, Turnover Savings, and Personnel Cost Changes."

Mr. Jardine stated that legislative staff seeks clear policy direction on treatment of vacant positions when calculating personnel compensation cost changes.

Mr. Jardine reviewed a range of options the Executive Appropriations Committee could consider when calculating personnel cost changes. The LFA recommended the following three options: 1) all agencies include funded vacant positions in their budget personnel lists; 2) the LFA apply a standard 5 percent turnover savings factor to all agency personnel lists, including higher education, when calculating personnel cost changes; 3) the LFA exempt line items with fewer than 20 full-time equivalent (FTE) employees and local public education entities.

Sen. Niederhauser inquired about what happens to the money that is saved when funded vacant positions go unfilled. Mr. Jardine stated that the money is generally used elsewhere in an agency's budget.

Sen. Niederhauser asked for a clarification on the recommendation to apply a standard 5 percent turnover savings factor to reduce personnel costs. Mr. Jardine clarified that the 5 percent turnover savings factor referred to here was meant to be used only in calculating personnel cost increases.

Rep. Menlove commented that keeping vacant positions open in higher education for two years is not unusual. She felt that it would be important to look at the recruiting requirements for the different agencies before eliminating vacant positions.

MOTION: Rep. Brown moved to approve recommendations 1, 2, and 3 on page 1 of the report entitled, "Vacancies, Turnover Savings, and Personnel Cost Changes" under the heading, "Legislative Action."

Rep. Brown stated that the motion was a combination of items 2 and 4 on page 5 of the report.

SUBSTITUTE MOTION: Rep. Dee moved to approve the original motion with the following change: on recommendation 2, strike "apply a standard 5 percent" and insert in its place "calculate a historical turnover rate for each agency and apply this calculated rate."

Rep. Dee explained that the turnover in departments runs different across state government. He felt it would be more appropriate to apply historical data to each entity in determining the calculated rate.

Sen. Niederhauser asked about the availability of the historical data and stated that the calculated rates would be important for the subcommittees to have in making budget decisions.

The substitute motion passed unanimously.

5. Utah Department of Transportation Project Progress and Financing Report

Mr. Bleazard offered some introductory remarks regarding bonding authorizations the Legislature had approved over the last several years. He informed the committee that the Utah Department of Transportation (UDOT) would be reporting on the status of projects and bond issuance.

Mr. Bleazard stated that UDOT is not going to request issuance of a \$182 million bond this year, which will save the state an estimated \$60 million in interest payments over the fifteen-year life of the bond. He noted that by not bonding this year, bond indebtedness as a percentage of the constitutional debt limit will decrease by approximately 2 percent.

Carlos Braceras, Deputy Director, UDOT, reported on the progress of the Utah County I-15 Core and the Mountain View Corridor projects. Handouts on the projects' status were distributed to the committee.

Mr. Braceras stated that the I-15 Core project is 80 percent complete, the design-build contractor is meeting contract quality standards, and the project is coming in under budget. The first segment of the project, Lehi/Main Street to just north of Pleasant Grove, will be opened up on June 30, 2012. In regards to the Mountain View Corridor project, the first phase of segment one, 16000 South to 5400 South, will be completed by the end of this year. In addition, a two-mile section, 12600 South to 14400 South, opens June 2, 2012. Finally, additional earthwork, utility relocations, and residential property acquisitions are taking place north of 5400 South.

Mr. Braceras called attention to the handout with a map and list of projects programmed over the next few years for the Transportation Investment Fund. He also mentioned that there were other planned projects associated with the passage of H.B. 173, *Transportation Funding Modifications* (2012 General Session).

Mr. Braceras stated that UDOT's cash flow needs are diminishing as the completion of the large projects draw to a close. He reported that UDOT will not need to bond for \$182 million to meet its contract obligations in FY 2013. He recognized the collaborative efforts of the LFA, the UDOT, the Division of Finance, the State Treasurer, and the Governor's Office of Planning and Budget.

Sen. Jones recognized UDOT for its outstanding work on these projects and asked about the Timpanogos Highway/SR 92 project. Mr. Braceras reported that the project is behind schedule and that the contractor is not meeting contract provisions in terms of quality. Mr. Braceras assured the committee and the public

that UDOT is not going to accept this project until the contractor meets the quality standards set forth in the contract. However, at the end of the day, he felt that the Timpanogos Highway/SR 92 will be an outstanding project.

Rep. Hughes asked if UDOT was assessing a daily fine. Mr. Braceras stated that the contractor is being assessed \$15,000 a day, and so far, the contractor has been assessed more than \$3 million in fines. UDOT is currently withholding payments on work performed and holds two additional guarantees, a performance bond for the total cost of the project, and a warranty bond.

Rep. Seelig wanted to know what we have learned from this going forward. Mr. Braceras stated that in the last General Session, legislation created provisions that will rate a contractor's performance to determine if a contractor would be allowed to bid on future jobs or remain on a project.

Sen. Jenkins noted that because contractors do make mistakes, we require performance bonds.

6. Revenue Adoption

Dr. Andrea Wilko, Chief Economist, presented the "May Revenue Estimates, FY 2012 - 2013 (in Thousands)" and dated May 15, 2012.

Dr. Wilko explained that the EAC's adoption of the final revenue estimates for a fiscal year - including changes from bills passed in legislative sessions will allow the Division of Finance to calculate any revenue surplus for the purpose of making deposits to the Rainy Day Funds.

MOTION: Rep. Brown moved to adopt the revenue estimates shown on the sheet titled "May Revenue Estimates, FY 2012 - 2013 (in Thousands)" and dated today, May 15, 2012. The motion passed unanimously.

7. Legislative Fiscal Analyst In-depth Budget Review

Mr. Allred called attention to the memorandum, "Memo Re: Assignment of LFA In-Depth Budget Review," and dated May 8, 2012.

Mr. Allred stated that for FY 2012, the LFA is recommending a five-year fiscal sustainability review to help legislators assess the state's economic condition. Mr. Allred indicated that the LFA will focus on General and Education Funds.

Contingent upon the EAC's approval, LFA will carry out the study over the interim and report to the EAC before the 2013 General Session.

MOTION: Rep. Brown moved to direct the Fiscal Analyst's Office to conduct a five year fiscal sustainability review as explained in the office's memorandum with the subject, "Assignment of LFA In-Depth Budget Review.

Sen. Niederhauser asked about the reporting standards for financial sustainability GASB is developing. Mr. Ball stated that the GASB reporting standards have not been adopted. Although, these are not adopted standards, they may be helpful.

The motion passed unanimously with Rep. Dougall absent for the vote.

8. Governor's Office of Planning and Budget In-depth Budget Review

Steven Allred referred to the "Memo Re: Recommendation for GOPB In-Depth Budget Review," and dated May 8, 2012.

Mr. Allred indicated that LFA had consulted with the GOPB and determined that an in-depth budget review of the Department of Agriculture and Food would be mutually beneficial to the Governor and the Legislature.

MOTION: Rep. Brown moved to recommend to the Legislative Management Committee that they request of the Governor an in-depth budget review of the Department of Agriculture and Food during the 2012 Interim and that they report their findings to the Executive Appropriations Committee. The motion passed unanimously with Rep. Dougall absent for the vote.

9. 2012 General Session Budget Highlights

Jonathan Ball, Director, presented "Budget Highlights 2012 General Session."

Mr. Ball briefly outlined the new sources and uses of revenue for the 2012 General Session. The total available revenue for FY 2013 is \$237 million ongoing and \$213 million one-time. Mr. Ball also commented on a chart showing the uses of new money by subcommittee.

Mr. Ball highlighted the Legislature's successful budgeting practices in this year's General Session. He stated that the Legislature met ongoing commitments with ongoing resources; paid the Annual Required Contribution (ARC) for retirement; reduced authorized debt; avoided general obligation bonding in FY 2013; resumed pay-as-you-go for buildings; built preventive maintenance funds; replenished reserves; increased the transfer cap on rainy day funds; and authorized capital improvement projects for roads and buildings.

Mr. Ball pointed out the Legislature will continue to have ongoing budget requirements that include growth in public education, increased utilization in Medicaid, and structural imbalances.

Mr. Ball announced that the LFA had published its 2012-2013 Appropriations Report on-line, with Spencer Pratt as editor-in-chief.

10. Other Business

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

Co-Chair Hillyard adjourned the meeting at 3:22 p.m.