

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**

Tuesday, November 15, 2016 – 1:00 p.m. – Room 445 State Capitol

Members Present:

Sen. Lyle W. Hillyard, Co-Chair
Rep. Dean Sanpei, Co-Chair
Sen. Jerry W. Stevenson, Vice Chair
Rep. Brad L. Dee, Vice Chair
Sen. Jim Dabakis
Sen. Gene Davis
Sen. Luz Escamilla
Sen. Peter C. Knudson
Sen. Karen Mayne
Sen. Wayne L. Niederhauser, President
Sen. Ralph Okerlund
Rep. Patrice M. Arent
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck

Rep. James A. Dunnigan
Rep. Francis D. Gibson
Rep. Gregory H. Hughes, Speaker
Rep. Brian S. King

Members Excused:

Sen. J. Stuart Adams
Rep. Brad R. Wilson

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. Sanpei moved to adopt the minutes of October 18, 2016. The motion passed unanimously with Sen. Escamilla, President Niederhauser, Rep. Chavez-Houck, Rep. Dunnigan, Speaker Hughes, and Rep. King absent for the vote.

2. Federal/Non-federal Grants Review

Mr. Ken Matthews, Federal Assistance Management Officer, Governor’s Office of Management and Budget (GOMB), presented the “[Federal and Non-Federal Grants Report](#)” dated November 15, 2016. Mr. Gary Syphus, Fiscal Analyst, LFA, was available to answer questions.

The committee did not take any action on the report at this time due to the lack of a quorum.

3. Class B and C Road Funding Bill

Rep. Johnny Anderson explained draft legislation, “Class B and Class C Road Fund Amendments,” which amends the apportionment formula for funds available for use on class B and C roads.

Rep. Gibson asked the Utah Association of Counties (UAC) and the Utah League of Cities and Towns (ULCT) to respond to the draft legislation.

Mr. Lincoln Shurtz, Director of Government Affairs, UAC, stated that this proposal was presented to UAC members at their annual meeting in September 2016 and that the proposal has unanimous support of the membership.

Mr. Cameron Diehl, Director of Government Relations, ULCT, reported that the draft legislation also has the unanimous support of league membership throughout the state. During ULCT's Annual Convention in September 2016, the document, "[ULCT/UAC Class B and C Fund Distribution Consensus Framework](#)," was presented to its members and the framework received unanimous endorsement.

Sen. Okerlund remarked that this bill is important to the hold harmless counties who haven't had any revenue increases for a long time.

Rep. Anderson responded to committee questions.

MOTION: Rep. Sanpei moved to adopt the bill, "Class B and Class C Road Fund Amendments" presented to us today as an Executive Appropriation Committee bill." The motion passed unanimously with Rep. Dunnigan and Rep. King absent for the vote.

Co-Chair Hillyard recognized Rep. Sanpei for a motion of the Federal/Non-Federal Grants Report.

MOTION: Rep. Sanpei moved to recommend acceptance of the 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, November 15, 2016. The motion passed unanimously with Sen. Davis, Rep. Dunnigan, and Rep. King absent for the vote.

4. Justice Reinvestment Initiative Progress Report

Mr. Gary Syphus, Fiscal Analyst, LFA, provided some background information on H.B. 348 that was passed during the 2015 General Session. The main objective of the bill, commonly referred to as the Justice Reinvestment Initiative (JRI), was to address recidivism in the adult correctional system.

Ms. Doreen Weyland, JRI Coordinator, Commission on Criminal and Juvenile Justice (CCJJ), and Ms. Sophia Nystrom, Research Consultant, CCJJ, presented the "[Utah Justice Reinvestment Initiative 2016 Annual Report](#)." They gave a status report on the implementation of the JRI and highlighted some key findings.

Ms. Weyland spoke positively about CCJJ's working relationship with its partner agencies. She remarked that while it is too early to make long-term recommendations or to see recidivism rates, progress is being made toward meeting JRI objectives.

Ms. Nystrom reported that the overall prison population has continued to decrease and the number of nonviolent, low-level offenders being sent to prison has been reduced significantly. In addition, there has been a leveling off in the growth of the probation population, and reclassifying of drug possession only penalties has reduced the percent of felony offenses.

Committee members asked questions and spoke to several JRI-related issues.

5. Internal Service Funds Rates and Impacts

Mr. Ball introduced Mr. Sean Faherty, LFA's new staff member, who will help staff the Infrastructure and General Government Appropriations Subcommittee and the Business, Economic Development, and Labor Appropriations Subcommittee.

Mr. Sean Faherty, Fiscal Analyst, LFA, presented the Issue Brief, "[Internal Service Fund Rates and Impacts – FY 2017 and 2018](#)." He provided some background information about internal service fund (ISF) agencies, rate proposals, and impacts. Mr. Faherty also reported on the total projected incremental impact of rate changes for customer agencies for FY 2017 and FY 2018 and reviewed the Analyst's recommendations.

Ms. Tani Downing, Director, Risk Management, commented on lowering rates for one ISF without lowering the rates for other ISFs, which can be problematic under federal regulations. Ms. Downing distributed a handout, "[Risk Management – Unfunded Impacts](#)," to the committee.

President Niederhauser asked if ISF rates are competitive with private market rates. Ms. Downing said that Risk Management's property rates are very competitive and that the coverage they represent provides broad protection. She offered to provide an outside review of Risk Management's rates that substantiates those findings.

6. URS FY 2018 Rates

Mr. Brian Fay, Fiscal Analyst, LFA, offered some introductory remarks regarding the Utah Retirement System's (URS) FY 2018 rates that included minor adjustments in the rates for the Judges' Retirement System and the Firefighters' Retirement System, and a change in the assumed rate of return from 7.5 to 7.2 percent.

Mr. Dan Anderson, Executive Director, Utah Retirement Systems, discussed "[URS Preliminary FY 2018 Contribution Rates](#)." He confirmed that for FY 2018 there were no significant changes to the contribution rates for state/school employees except for minor changes for the judges and firefighters. Mr. Anderson briefly explained the difference in the certified rate (what employers pay) and the calculated rate (what the actuaries calculate) and how that difference acts as a buffer when there is a change in the assumed rate of return.

Mr. Anderson briefly discussed revenue streams for the Firefighters' Retirement System.

7. PEHP FY 2018 Rates and Plan Changes

Mr. Fay offered some introductory remarks about PEHP's FY 2018 rate and plan changes as found in the Issue Brief, "[PEHP Plan Equity](#)."

Mr. Chet Loftis, Director, PEHP, discussed the handout, "[PEHP Presentation on Rates and Plan Changes](#)." He gave an update on the state insurance risk pool, increased PMPY (per member per year) costs over the last year, state plans overview, and options for making the STAR and the Traditional plans actuarially equivalent.

Mr. Loftis indicated that the latest numbers show that the state's cost for the renewal for the upcoming fiscal year without any changes to equalize the STAR plan with the Traditional Plan is 8.0 percent or \$20.0 million from all funds (\$11.5 million GF/EF). If the plans were equalized, the state's cost for the

renewal would be \$13.4 million. Mr. Loftis noted that any changes to the plans would have to go through the legislative process.

Mr. Ball remarked that plan equity will receive more attention later once we know what our resource constraints are next month. For now, we are quoting a renewal amount with no plan changes.

8. DHRM Market Comparability Report

Mr. Fay gave a short introduction to the report and introduced Ms. Debbie Cragun, Executive Director, Department of Human Resource Management (DHRM), and Mr. Benjamin Buys, Director of Compensation, Finance, and Benefits, DHRM.

Mr. Fay explained the DHRM had identified some job classifications that have fallen far enough behind market compensation to warrant a funding increase. The initial cost estimate for these targeting funding increases is approximately \$14.2 million, of which approximately \$7.5 million would come from the General Fund or Education Fund.

Ms. Cragun presented the report, "[DHRM Classification/Compensation Overview](#)," along with the "[DHRM Presentation](#)." She explained that DHRM is statutorily responsible for the classification and compensation of the State's workforce and that DHRM controls these functions centrally to assure consistency in application. Each year, DHRM makes recommendations to the Governor on employee compensation that typically include a mix of across-the-board increases and targeted funding.

Mr. Buys, explained the process of targeted funding in identifying jobs that demonstrate compensation-related problems.

Ms. Cragun responded to committee questions.

9. Public Education Consensus Enrollment Growth Forecast

Mr. Ben Leishman, Fiscal Analyst, LFA, presented "[Public Education: Preliminary Consensus Enrollment Growth Forecast](#)."

The preliminary consensus enrollment growth forecast (prepared by the Common Data Committee) estimates that student enrollment for the upcoming year in 2017 will be 654,565, which is 10,089 more students than the current year. Preliminary enrollment growth cost estimates from all funding sources include \$8.0 to \$15.0 million one-time for FY 2017 Supplemental to cover under-projection associated costs and Educator Salary Adjustments, and \$105.0 to \$115.0 million for FY 2018 to pay for additional adjustments required by statute.

Mr. Leishman highlighted changes in enrollment, annual enrollment projections compared to actual enrollment, net migration, and new baseline population estimates. He also reviewed other factors that influence the cost of enrollment growth that include statutory adjustments in the Charter School Local Replacement, Voted & Board Local Levy Programs, and Educator Salary Adjustments.

Mr. Leishman responded to committee questions.

10. Medicaid Consensus Enrollment Growth Forecast, ACO Report, and Program Changes

Mr. Russell Frandsen, Fiscal Analyst, LFA, presented the Issue Brief, "[Medicaid Consensus Forecasting](#)."

In summary, the Medicaid consensus forecast team estimates a reduction of \$8.3 million in Medicaid costs for FY 2017 and an increase of \$10.8 million in Medicaid costs in FY 2018. Included in this estimate is \$4.0 million for FY 2017 and \$10.5 million for FY 2018 from the General Fund for mandatory program changes and accountable care organization costs, which are statutorily included in the base budget.

Mr. Frandsen pointed out that in some years the Legislature has opted to address all Medicaid costs in the base budget. Should the Legislature choose to do so this year, there would be less money appropriated in the base budget if the Legislature funded the entire estimate of \$8.3 million reduction in FY 2017 and \$10.8 million cost in FY 2018.

Mr. Frandsen discussed factors driving Medicaid costs in three areas: caseload, inflationary changes, and program changes. He also discussed projected medical inflation for Utah, newly required information that is to be reported to the EAC.

Mr. Frandsen responded to committee questions.

11. Other Business/Adjourn

Co-Chair Hillyard called attention to the four written reports behind Tab 12. He asked the committee to read the reports, and if there were any concerns, he would place them on next month's agenda. They are as follows:

- a. [Turnover Savings Factors for use in the 2017 General Session](#)
- b. [Division of Finance Long Term Liabilities Report](#)
- c. [Career and Technical Education in Utah Report](#)
- d. [Point of the Mountain Development Commission Report](#)

Mr. Ball reminded that committee that in next month's meeting, the EAC will be looking at the base budgets and may want to factor in Medicaid inflation and state health insurance plans options.

MOTION: Rep. Sanpei moved to adjourn. The motion passed unanimously with Sen. Dabakis, Sen. Mayne, Sen. Okerlund, Sen. Stevenson, Rep. Briscoe, Rep. Dee, Speaker Hughes, and Rep. Wilson absent for the vote.

Co-Chair Hillyard adjourned the meeting at 3:59 p.m.