(Draft - Awaiting Formal Approval)

MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE

Tuesday, December 10, 2013 - 1:30 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. Gregory H. Hughes
Speaker Rebecca D. Lockhart
Rep. Don L. Ipson
Rep. Jennifer M. Seelig

Members Excused:
Rep. Brad L. Dee

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 1:48 p.m.

MOTION: Rep. Brown moved to approve the minutes of the November 19, 2013 meeting. The motion passed unanimously with Sen. Davis, President Niederhauser, Speaker Lockhart, and Rep. Seelig absent for the vote.

Co-Chair Hillyard recognized Rep. Brown for some introductory remarks regarding December's EAC meeting and the accomplishment of certain tasks related to the Base Budget.

2 Federal/Non-federal Grants

Ms. Jill Flygare, Governor's Office of Management and Budget (GOMB), presented "Federal/Non-Federal Grants Review and Approval" dated December 10, 2013. Under federal grants, there were no new grants and no reapplications/continuations or revisions of an existing grant requiring legislative action.

Under non-federal grants, there were two new grants and one reapplication/continuation of an existing grant requiring legislative action.

The Governor's Office did not approve any federal or non-federal grants for this same time period.

President Niederhauser inquired about the reduced number of grants the committee has reviewed in the last two meetings. Ms. Flygare clarified that at this time of year, agencies include federal funds in their budget requests to the Governor, which go through the approval process during the legislative session. Agencies will continue to apply for federal grants during the session and these grants will be reviewed by the EAC during the Interim.

MOTION: Rep. Brown moved to recommend the acceptance of the non-federal grants as outlined on page 1 of the handout entitled, "Federal and Non-Federal Grants Review and Approval" under the heading, "Grants Requiring EAC Review and Recommendation" and dated December 10, 2013. The motion passed unanimously.

3. Revenue Estimates

Dr. Andrea Wilko, Chief Economist, LFA, called attention to the consensus revenue estimates on page 1 of "Revenue Estimates - October 2013," dated December 10, 2013. In regards to the General Fund/ Education Fund (GF/EF), the revised revenue estimates for FY 2014 show a 0.2 percent increase from the revised May 2013 estimate, approximately $10 million. Estimated GF/EF revenue increase for FY 2015 is approximately $210 million or 4.0 percent. Dr. Wilko pointed out that legislation passed during the 2013 General Session requires that an estimate for Federal Funds be included in the report.

Dr. Wilko also referred to the table on page two, "Crosswalk from Revenue Estimates to Available GF/EF Revenue - October 2013." Taking into account one-time adjustments, required set asides, and transfers, the table shows $132 million in available one-time revenue and $206 million in available ongoing revenue.

Dr. Wilko clarified that the revenue estimates and the crosswalk from revenue estimates to available GF/EF revenue do not include earmarks.

MOTION: Rep. Brown moved to adopt the revised revenue estimates for FY 2014 (column c) and new estimates for FY 2015 (column e) as indicated on page 1 of the sheet titled "Revenue Estimates - October 2013." The motion passed unanimously.

4. Appropriations Limit Estimates

Ms. Angela Oh, Staff Economist, LFA, presented "Appropriations Limit Calculation," dated December 10, 2013.

Ms. Oh explained that the State Appropriations and Tax Limitation Act of 1989 limits state government spending and restricts non-exempt GF/EF appropriations to a formula amount determined on a per-person basis. The appropriations limit changes as a certain measure of inflation and population estimates change.

Ms. Oh reported that the non-exempt base budget appropriations are well below the appropriations limit, which is approximately $3.3 billion for FY 2014 and $3.4 billion for FY 2015. The difference or "Cap Gap" between the estimated appropriations limit and the current non-exempt appropriations is about $853 million for FY 2014 and $1.1 billion for FY 2015.

Ms. Oh noted that these numbers are only estimates and will be finalized in February once the Bureau of Economic Analysis publishes inflation and population numbers.

MOTION: Rep. Brown moved to adopt the Fiscal Year 2014 and 2015 appropriations limit estimates as indicated on the sheet entitled, "Appropriations Limit Calculation" and dated today, December 10, 2013. The motion passed unanimously.

5. Subcommittee Allocations and EAC Set-asides

Mr. Ball briefly discussed "FY 2015 Base Budget Allocations, General and Education Funds Only," which shows a total General Education, Education Fund, and Uniform School Fund allocation of $5.2 billion broken out by appropriations subcommittee. He explained that the base budget allocation is equal to last year's ongoing appropriation less one-time appropriations.

Mr. Ball clarified that the base budget allocations to the appropriations subcommittees do not include restricted funds or federal funds. The total allocation in the base budget bills is about $12.5 billion and $5.2 billion of that amount comes from General and Education Funds.

MOTION: Rep. Brown moved to allocate to appropriations subcommittees for Fiscal Year 2015 the General Fund, Education Fund, and Uniform School Fund totals listed on the sheet entitled, "FY 2015 Base Budget Allocations, General and Education Funds Only." The motion passed unanimously.

6. Fiscal Year 2015 Base Budget Bills

Mr. Ball called attention to the nine base budget bills behind Tab 6. He explained that the base budget bills include allocations to appropriations subcommittees; restricted fund reductions included in agency budget requests; adjustments to federal funds and dedicated credits as allowed by law; nonlapsing balances, transfers, and other dependent amounts as calculated.

Mr. Ball indicated that the base budget bills represent a starting point for FY 2015 budget deliberations and may change throughout the General Session.

MOTION: Rep. Brown moved to authorize legislative staff to number the base budget bills provided today as Executive Appropriations Committee bills to be introduced on the first day of the 2014 General Session. The bills include:

1. Ongoing General, Education and Uniform School Fund appropriations defined in the current years's appropriations acts;

2. Restricted fund reductions included in agency budget requests;

3. Adjustments to dedicated credits, and federal funds included in agency budget requests as allowed under the Budgetary Procedures Act; and

4. Adjustments to nonlapsing balances, transfers, and other dependent amounts as calculated.

In consultation with the Co-Chairs of the Executive Appropriations Committee, staff may make any technical changes necessary.

The motion passed unanimously.

7. Elected Official and Judicial Compensation Commission Report

Mr. Roger Tew, Chair, and Mr. David Bird, Vice Chair, Elected Official and Judicial Compensation Commission (EJCC), addressed the committee.

Mr. Tew explained that the EJCC has met to discuss the salaries of Utah's five statewide elected officials for several years. In November of 2012, the EJCC submitted its statutorily required compensation report, "Report of the Utah Elected Official and Judicial Compensation," to the EAC recommending a 36.5 percent salary increase for these elected officials. The report indicates that beyond the occasional COLA adjustment, there have not been any significant modifications in the salaries of Utah's elected officials in nearly a decade.

Mr. Tew noted that the EJCC was resubmitting its report this year because the EJCC is still of the opinion that its conclusions are valid. He proposed that a salary increase could be phased in over a period of years or perhaps making a salary increase effective at some future date to allow the existing terms of office to be completed (January 1, 2017).

Mr. Bird stated that the compensation for our elected officials is an important issue and merits legislative review again this year. He pointed out that the salaries of the four elected officials are uniquely tied to the Governor's salary. Current Utah law specifically sets only the salary of the Governor, and the remaining elected officials salaries are calculated at 95 percent of the Governor's salary. Mr. Bird commented that if the Governor does not take a salary increase, it puts political pressure on the other elected officials.

Mr. Tew pointed out that the legislative process for setting judicial salaries is different than for the five elected officials. Adjustments in judicial salaries are part of the appropriations process and are set out in the appropriations act. Salary changes, including COLA adjustments, for the elected officials are made via an independent piece of legislation. In its 2012 report, the EJCC recommends that the legislative process for setting the elected officials' salaries be handled in the same manner as judicial salaries.

Mr. Tew and Mr. Bird responded to committee members' questions and comments.

Mr. Bird said that the citizenry needs to understand that these politicians are expected to be living on the salary that the State of Utah grants them, and that this salary is not to be augmented by any other source of income. The EJCC is somewhat fearful that some people who are not independently wealthy can't afford to serve.

Co-Chair Hillyard encouraged committee members to read the report and examine the analysis more closely. If we do not do anything, the problem becomes more pronounced.

8. Implementation of House Bill 194, 2013 G.S., "State Employees Benefits Amendments"

Mr. Brian Fay, Fiscal Analyst, LFA, explained that in the last General Session, the Legislature passed H.B. 194, 'State Employee Benefits Amendments,' which created a new 401(k) matching program for state employees. He stated that the Legislature appropriated $4.5 million ongoing from the General Fund in FY 2014 for matching contributions to employees' 401(k) accounts. The bill requires the match to begin on or after January 4, 2014.

Mr. Fay said that the LFA has been working with the Department of Human Resource Management (DHRM) to inform employees about the new program and with the Governor's Office of Management and Budget (GOMB) to analyze the risk and how the funding will be split out. He indicated that every year the Legislature would need to set a matching amount for the 401(k) program not to exceed $26 per pay period. In addition, it would also be important to know how many people are going to contribute to their 401(k) to get that match.

Mr. Paul Morley, DHRM, briefly discussed the department's efforts to educate employees about the new 401(k) matching program. Since September 2012, DHRM has held 113 orientation sessions throughout the state. There were 4,650 employees who attended those sessions. Mr. Morley stated that there are currently 10,540 employees who are participating in a 401(k) plan. This number includes approximately 589 employees who have recently enrolled to take advantage of the new 401(k) matching program.

Mr. Morley indicated that overall, employees were positive about this change. However, many employees are somewhat skeptical about contributing to their 401(k) plans until they know exactly what the employer match is going to be. Mr. Morley suggested that this might explain why more employees are not participating. He said that DHRM does not expect a large number of employees to suddenly participate in the 401(k) matching program come January. No matter what, DHRM is encouraging employees to start saving at least $26 per pay period and is optimistic that employees will use the match as an additional retirement incentive.

Mr. Morley stated that DHRM supports the $26 bi-weekly match rate set forth in the Governor's budget.

Mr. Nate Talley, GOMB, stated that GOMB supports the dual objectives of maximizing employee benefits and minimizing the risk to agencies. He reported that the most risk that any agency would face under a $26 bi-weekly match with 100 percent enrollment is approximately $500,000 with most agencies experiencing less than $100,000 risk in FY 2015.

Mr. Brian Fay referred to the "Options for Implementing H.B. 194, 2013 G.S." and discussed Timing Option #1 and Matching Option #1. They are as follows:

<u>Timing Option #1</u>: Pass a 401(k) compensation bill at the start of the 2014 General Session, with a retrospective effective date going back one pay period to January 4, 2014. Reallocate existing General Fund appropriation and add other funding sources.

<u>Matching Option #1</u>: Set the matching rate according to the take-up rate as of January 3, 2014 (up to $26 per pay period) such that total General Fund costs will not exceed the current appropriation. Any unused General Fund appropriation will remain in the Division of Finance.

Sen. Mayne asked if DHRM was not selling its product in the correct way and if the $26 per pay period was affordable. Mr. Morley stated that DHRM and URS had done an excellent job in helping employees understand the importance of investing in the 401(k) matching plan. Because not as many employees attended the orientation sessions as they would have liked, DHRM will need to reach out to them further.

Mr. Talley responded that existing literature suggests that an employer provided 401(k) match will induce about a 14 percentage point up-take in enrollment, controlling for salary, demographics, market conditions, and other organizational and cultural aspects that might influence whether someone chooses to invest or not. Some of the results seen thus far are reflective of marketing efforts and are probably typical of the responses one might see under a 401(k) match environment.

Mr. Ball added that after the new 401(k) matching program was announced, there was a small up-tick in 401(k) contributions, 589 employees. The current take-up rate is 52 percent. He pointed out that many people may be waiting to find out what the return on investment is going to be on January 3, 2014 before they make the election to get the 100 percent match.

MOTION: Rep. Brown moved to adopt Timing Option #1 and Matching Option #1 on the sheet entitled, "Options for Implementing H.B. 194" and dated today, December 10, 2013. The motion passed unanimously with Sen. Adams absent for the vote.

9. Other Business

Co-Chair Hillyard encouraged committee members to read the two written reports behind Tab 9, "Federal Receipts Reporting and Plan of Potential 5% and 25% Federal Receipts Reduction, For State Fiscal Year 2013," and "Report of the Utah Legislative Compensation Commission."

Co-Chair Hillyard recognized Ms. Sandy Naegle who is retiring from the Governor's Office of Management and Budget this month after 30 years of service to the State.

MOTION: Rep. Brown moved to adjourn. The motion passed unanimously with Sen. Adams absent for the vote.

Co-Chair Hillyard adjourned the meeting at 2:39 p.m.