

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**
Tuesday, December 9, 2014 – 1:00 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
Sen. Karen Mayne
Rep. Joel K. Briscoe
Rep. Rebecca Chavez-Houck
Rep. Gregory H. Hughes
Rep. Don L. Ipson
Speaker Rebecca D. Lockhart
Rep. Jennifer M. Seelig

Members Excused:

Sen. Luz Escamilla
President Wayne L. Niederhauser
Sen. Ralph Okerlund
Rep. Tim M. Cosgrove
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 Brown called the meeting to order at 1:17 p.m.

MOTION: Sen. Hillyard moved to approve the minutes of November 18, 2014. The motion passed unanimously with Rep. Hughes and Rep. Ipson absent for the vote.

2. Federal/Non-federal Grants

Mr. Evan Curtis, Governor's Office of Management and Budget (GOMB), presented the "Federal/Non-Federal Grants Report" dated December 9, 2014. Under federal grants, there was one new grant and two revisions to existing grants requiring legislative action. The Governor's Office approved five new grants.

Mr. Curtis reported that there were no non-federal grants requiring legislative action or approval by the Governor's Office.

MOTION: Sen. Hillyard 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, December 9, 2014. The motion passed unanimously with Rep. Hughes absent for the vote.

3. Fiscal Health Dashboard/Current Status of Obligations and Offsets

Mr. Jonathan Ball briefly reviewed a number of statutory reporting requirements that would be addressed in December's meeting.

Ms. Clare Tobin Lence, Fiscal Analyst, LFA, and Mr. Brian Fay, Fiscal Analyst, LFA, gave an update on the fiscal health dashboard. They showed the complete, live version of the dashboard and demonstrated its full features and functionalities. The fiscal health dashboard is now available on the website: <http://le.utah.gov/fiscalhealth/>.

Mr. Ball reported on long-term obligations and offsets using the fiscal health dashboard. He noted that the figures on long-term liabilities and reserves will be updated on a regular basis. Beginning with the 2015 interim meetings, expenditures and revenues will be updated monthly.

Rep. Wilson thanked Mr. Ball and his team for their preparation and presentation of the fiscal health dashboard. He commented that having budget data in one place will be helpful not only to policymakers but to the public as well. Mr. Ball indicated that the fiscal health dashboard might receive some national recognition for innovation in government reporting of financial information.

Rep. Wilson also talked about the importance of putting the state's financial house in order. He felt that when comparing today's debt to reserves, nonlapsing balances, and cash-funded infrastructure, we are nowhere near where we were in 2008 in terms of being prepared to deal with another financial tsunami.

Sen. Adams was very impressed with the dashboard. He agreed with Rep. Wilson that there are a lot of positives but there is also a lot we need to work on. Sen. Adams suggested that capital improvements be included in the fiscal health dashboard.

Mr. Ball stated that creating the fiscal health dashboard was a long and involved process. He recognized LFA staff members who worked on the project: Brian Fay, John Byers, Clare Tobin Lence, Dr. Andrea Wilko, Angela Oh, Gary Ricks, Brian Wickle, Steven Allred, and Dr. Thomas Young.

Co-Chair Brown encouraged all legislators to become acquainted with the dashboard and commented that having this information so readily available will make budgetary decision making a lot easier.

4. Revenue Volatility/Long Term Revenue Trend Report

Office of the Legislative Fiscal Analyst

Mr. Ball discussed the slide presentation, "Revenue Volatility & Revenue Business Cycle Components," and the findings and recommendations outlined in the Issue Brief, "Revenue Volatility & Revenue Trend Report." This report fulfills statutory requirements to report revenue volatility, recommend changes to rainy day fund (RDF) deposits and fund transfers, recommend prospective RDF deposit mechanisms, and compare consensus revenue estimates to 15-year trends for each tax type.

Mr. Ball discussed the adequacy of reserve deposits in Utah's rainy day funds in relationship to the amounts of revenue at risk due to forecast error over about 18 months. He indicated that since 2011, forecast errors have increased. To cover the increased amounts of revenue at risk for the same 18 month period, the Analyst recommends increasing rainy day fund transfer thresholds from 8 to 9 percent for the General Fund Budget Reserve Account and 9 to 11 percent for the Education Fund Budget Reserve Account.

Mr. Ball also discussed 15-year revenue trends associated with major tax types. He referred to the slides, "Business Cycle of Revenue" and "Business Cycle Ranges." When comparing current consensus revenue estimates to 15-year revenue trends by tax type, the Analyst finds that the General and Education Fund estimates combined are \$116 million above trend for FY 2016.

Rep. Hughes appreciated looking at business cycles in this manner. He made the comment that gauging or measuring our expectations is a more responsible approach to budgeting and brings stability to our economy. He felt that above trend dollars should be treated potentially as one-time revenues.

Rep. Briscoe made some observations about the business cycle charts and asked clarifying questions.

Rep. Wilson commented on the importance of having a mechanism in place that can alert us to economic bubbles. At this point in time, the trend lines indicate that we are above trend and we need to know what to do about this.

Mr. Ball also discussed options for rainy day fund deposit mechanisms based upon revenue volatility. He referenced the study conducted by the Pew Charitable Trusts, "Above-Trend Revenue Growth and Rainy Day Fund Deposit Rules." The Revenue Volatility Report finds that balances in Utah's rainy day funds would have been higher had Utah used other deposit mechanisms (Idaho, Tennessee, or Virginia). The Analyst recommends legislators use existing deposit rules to appropriate into rainy day funds an amount of above-trend revenue sufficient to fulfill prior-year transfers or repay previous rainy day fund withdrawals.

Finally, Mr. Ball briefly discussed the "Federal Revenue Business Cycle" and federal funds at risk. The forecasted error associated with federal funds over the next 18 months is 10 percent, or about \$358 million. Mr. Ball pointed out that legislators could consider hedging against this error by depositing more in reserves but this would require that General Rainy Day Fund transfer rules more than double. As such, the Analyst did not make any recommendations.

Governor's Office of Management and Budget

Mr. Phil Dean, GOMB, distributed the handout, "Trend Revenue – Key Points." He presented the "Revenue Volatility Report" and spoke about GOMB's perspective on revenue volatility. More specifically, Mr. Dean addressed the committee's discussion on trend revenue and the recommendations presented by the Legislative Fiscal Analyst.

Mr. Dean emphasized the importance of prudently managing the state's budget. He pointed out that budgeting by formula constitutes a major budget policy shift that needs vetting. He felt that measuring competing priorities against each other is a much better system. Mr. Dean also talked about opportunity

costs and placing above trend revenues in reserve. While a prudent level of reserves is appropriate, a real tradeoff exists between current funding needs and potential future funding needs. Dr. Dean also pointed out that the Legislature has many tools for managing the state budget, not just the two formal budget reserve accounts. Finally, Mr. Dean remarked that the General Fund/Education total trend revenue analysis does not account for the roughly \$1 billion in policy changes over the past decade. He indicated that such an analysis does not examine the true trend in actual tax revenues. Mr. Dean mentioned the impact in the growth of earmarks in particular.

Mr. Dean summarized by stating that the Governor's Office is very open to conversations about ways to best manage the state's budget, but at the same, when we talk about revenue trends, we need to be clear about what is being measured and what we are comparing things against.

Rep. Wilson said that he was hoping to have this debate. He clarified that it was never our intention to have a mandated, formula-driven requirement for the state budgeting process. Rep. Wilson felt that it is important to have a process and a procedure that elevate the discussion around what we should do when we are above trend.

Ms. Kristen Cox commented on the process of how above trend revenue growth should to be treated. Because the process is so new and the implications are so significant, vetting the numbers, understanding the trend and the assumptions behind the trend, is really critical.

Rep. Wilson explained that the trend analysis process will instruct us on how to spend the revenue estimates we have adopted.

Sen. Adams and Rep. Hughes expressed their support on the effort that is being made to manage above trend revenues.

Rep. Briscoe asked if the Governor's research analysis suggests that the increased use of earmarks is making tax revenues more volatile. Mr. Dean responded that earmarks do not affect the amount of tax revenue generated but earmarks affect the allocation of that revenue. He referred to chart, "Sales Tax 15-Year Trends," to illustrate how the trend lines would look if earmarks and sales tax were included or excluded. Mr. Dean also clarified that the Governor's Office believes that the current automatic year-end surplus transfer caps of 8 percent of General Fund appropriations and 9 percent of Education Fund appropriations are sufficient.

Rep. Briscoe felt that there is an opportunity cost associated with taking all or most of the \$116 million and putting it into one-time or rainy day funds.

5. Adoption of FY 2015 and 2016 Revenue Estimates

Dr. Andrea Wilko, Chief Economist, LFA, called attention to three green sheets behind Tab 5 in the committee binders: "Revenue Estimates – December 2014 (in thousands of dollars)," "General and Education Fund Related Revenue Set-asides (in millions of dollars)," and "Available GF/EF Revenue – December 2014 (in millions of dollars)."

MOTION: Under Joint Rule 3-2-402(2)(a)(i), Sen. Hillyard moved to adopt the revised revenue estimates for FY 2015 (column c) and new estimates for FY 2016 (column e) as indicated on page 1 of the green sheet titled “Revenue Estimates – December 2014” and dated today, December 9, 2014. The motion passed unanimously with Sen. Knudson absent for the vote.

6. Consideration for Treatment of Above Trend Revenue

Co-Chair Brown recognized Rep. Wilson.

MOTION: Rep. Wilson moved under Joint Rule 3-2-402(2)(a)(ii) to treat \$58 million in above trend General Fund revenue and \$58 million in above trend Education Fund revenue as one-time for purposes of budgeting.

SUBSTITUTE MOTION: Rep. Briscoe moved to treat 50 percent of the \$116 million projected above trend revenue as one-time funds.

Rep. Wilson spoke against the motion to reduce the ongoing reallocation from \$116 million to \$58 million. He pointed out that even though the economy is growing, our financial health is not what it was seven or eight years ago. For purposes of budgeting right now, Rep. Wilson felt it would be more prudent to treat the \$116 million as one-time. He pointed out that the EAC will have an opportunity to revisit these numbers when the revised revenue forecast comes out in February.

Rep. Briscoe summed his motion by stating that he would like to move some of the \$116 million back into ongoing.

A vote was taken on the substitute motion. The substitute motion failed. The motion tied in the Senate and failed in the House with Sen. Davis, Sen. Jones, Sen. Mayne, Rep. Briscoe, Rep. Chavez-Houck, and Rep. Seelig voting in favor of the motion. Sen. Knudson was absent for the vote.

A vote was taken on the original motion. The motion passed with Rep. Briscoe voting in opposition. Sen. Knudson was absent for the vote.

7. Set-aside Amounts for End of Session

Sen. Hillyard explained that the Legislature is required by statute to set aside special allocations from ongoing revenue.

MOTION: Sen. Hillyard moved under Joint Rule 3-2-402(2)(a)(iv) to set aside from ongoing revenue the following special allocations for the end of the General Session:

From the General Fund, for:

| | |
|--|--------------|
| Tourism Marketing Performance Fund Existing Budget | \$15,000,000 |
| Tourism Marketing Performance Fund FY 16 Growth | \$3,000,000 |
| Annual Leave II (SB 269, 2014 GS) Structural Deficit | \$11,000,000 |

From the Education Fund, for:

| | |
|--|-------------|
| Annual Leave II (SB 269, 2014 GS) Structural Deficit | \$1,000,000 |
|--|-------------|

The motion passed unanimously with Sen. Knudson absent for the vote.

8. Allocation to Subcommittees

Sen. Hillyard stated that the EAC would be allocating a base budget amount to the subcommittees that represent 98 percent of the current budget's ongoing General and Education Fund appropriations, which will require each subcommittee to come up with 2 percent in reallocations or savings.

MOTION: Under Joint Legislative Rule 3-2-402(2)(a)(v), Sen. Hillyard moved to allocate to subcommittees for the 2015 General Session the amount shown on the red sheet titled, "Subcommittee Allocations – December 2014" and dated today, December 9, 2014. The ongoing amounts represent 98% of the current budget's ongoing General and Education Fund appropriations. The one-time amounts equal lower than anticipated costs in the Medicaid program for FY 2014 and FY 2015.

The motion incorporates one technical change by Mr. Ball that correctly identifies Joint Legislative Rule 3-2-402 (2)(a)(v).

SUBSTITUTE MOTION: Rep. Briscoe moved under Joint Legislative Rule 3-2-402(2)(v) to allocate to subcommittees for 2015 the 98 percent allocations with the following changes: allocate \$52,063,900 to the Public Education Appropriations Subcommittee for growth for the 2015 General Session, and to allocate \$64,800,000 to the Infrastructure and General Government Appropriations Subcommittee for capital improvements (to reach the required 1.1 percent of the replacement value) for the 2015 General Session.

Sen. Hillyard asked that the motion be divided and spoke against adding the two allocations. He stated that it would be premature to allocate resources towards growth in education and capital improvements this early in the appropriations process as opposed to the end of the session when we will know exactly how much money is available.

Rep. Briscoe pointed out that because the enrollment growth figures represent a consensus forecast, we should start out the Public Education appropriations process by adding in this money.

SUBSTITUTE MOTION DIVISION: Rep. Briscoe moved to allocate \$52,063,900 to the Public Education Appropriations Subcommittee for enrollment growth for the 2015 General Session. The substitute motion failed. (It passed in the Senate with Sen. Stevenson and Sen. Adams voting against the motion, and failed in the House with Rep. Briscoe, Rep. Chavez Houck, and Rep. Seeing voting in favor of the motion.) Sen. Knudson was absent for the vote.

SUBSTITUTE MOTION DIVISION: Rep. Briscoe moved to allocate \$64,800,000 to the Infrastructure and General Government Appropriations Subcommittee for capital improvement for the 2015 General Session. The motion failed with Rep. Briscoe voting in favor of the motion. Sen. Knudson was absent for the vote.

A vote was taken on the original motion. The motion passed unanimously with Sen. Knudson absent for the vote.

9. Authorization for Drafting of Base Budget Bills

MOTION: Under Joint Rule 3-2-402(2)(a)(vii), Sen. Hillyard moved to authorize legislative staff to prepare and number base budget bills for each appropriations subcommittee and the Executive Appropriations Committee (EAC) as EAC bills to be introduced on the first day of the 2015 General Session. Staff shall include in these bills:

1. Ongoing General, Education and Uniform School Fund appropriations defined in the current year's appropriations acts;
2. Restricted fund and account amount that are the lesser of current year appropriations or agency budget requests;
3. Adjustments to dedicated credits and federal funds included in agency budget requests up to the 125% of current appropriations 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 with Sen. Knudson absent for the vote.

10. FY 2015 and 2016 Appropriations Limit Estimates

Ms. Angela Oh, Senior Statistician, LFA, presented the "Appropriations Limit Calculation," dated December 9, 2014.

Ms. Oh reported that the non-exempt GF/EF base budget appropriations are well below the estimated appropriations limit of \$3.3 billion for FY 2015 and \$3.4 billion for FY 2016. When those numbers are offset against nonexempt appropriations, the state spending limit is approximately \$665 million for FY 2015 and just over \$1 billion for FY 2016.

Ms. Oh noted that these numbers are preliminary and final numbers will be calculated in February after the Bureau of Economic Analysis publishes inflation and population numbers.

11. Executive and Judicial Compensation Commission Report

Mr. Roger Tew, Chair, and Mr. David Bird, Vice Chair, Elected Official and Judicial Compensation Commission (EJCC), presented the Commission's 2014 report on executive and judicial salaries, "Report of the Utah Elected Official and Judicial Compensation Commission," dated December 2014.

Chair Tew reported that the EJCC was recommending substantial increases for both the judiciary and the five state-wide elected officials. The EJCC recommended a 36.5 increase in the Governor's salary, which automatically translates into a 36.5 increase in the salaries of the Lieutenant Governor, Attorney General, State Auditor, and State Treasurer, which are based at 95 percent of the Governor's salary.

Chair Tew indicated that these adjustments would increase state expenditures by approximately \$262,700 ongoing from the General Fund. He noted that the EJCC has made this same recommendation for the last two years.

Vice Chair Bird stressed that the importance of having a judiciary that is competent, experienced, and well-respected. He commented that since 2007, judicial salaries have not remained competitive, which may explain why the pools of applicants are shrinking and changing in their make-up. Vice Chair Bird also recognized that it is important to the business and economic health of the State, that we have a judiciary that is well-trained and understands business issues. He stated that the Commission unanimously recommended increasing the salary of trial courts judges (District and Juvenile Court Judges) to \$160,000 per year, an 18.7 percent increase over a two-year time frame. This increase with salary and benefits for 114 judicial positions (all types) calculates to approximately \$4.0 million in ongoing costs.

12. Other Business/Adjourn

Speaker Lockhart recognized Mr. Mark Bleazard, Fiscal Manager, LFA, for his achievements over the last 31 years of service to the State of Utah. Mr. Bleazard announced his retirement this week. Sen. Davis commented on Mr. Bleazard's great accomplishments particularly in regards to transportation. Sen. Jones said that he was a great professional and she wished him well.

Sen. Jones recognized committee members, Speaker Lockhart and Rep. Seelig, who were also retiring from the Legislature.

Co-Chair Hillyard thanked Sen. Jones and Rep. Ipson for their service on the committee. Sen. Jones would be retiring and today would be Rep. Ipson's last EAC meeting serving in a leadership capacity.

12. Other Business/Adjourn

Co-Chair Brown called attention to the report from the Division of Finance, "Federal Receipts Reporting and Plan of Potential 5% and 25% Federal Receipts Reductions," behind Tab 12.

MOTION: Sen. Hillyard moved to adjourn. The motion passed unanimously with Sen. Knudson absent for the vote.

Co-Chair Brown adjourned the meeting at 3:06 p.m.