

**MINUTES OF THE
EXECUTIVE APPROPRIATIONS COMMITTEE**

Tuesday, October 18, 2016 – 2:00 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. J. Stuart Adams
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
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 Sanpei called the meeting to order at 2:07 p.m.

MOTION: Sen. Hillyard moved to adopt the minutes of September 20, 2016. The motion passed unanimously with Sen. Adams, Sen. Mayne, Rep. Briscoe, Rep. Dee, Rep. Dunnigan, 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 October 18, 2016. Mr. Gary Syphus, Fiscal Analyst, LFA, provided assistance.

MOTION: Sen. Hillyard 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, October 18, 2016. The motion passed unanimously with Sen. Adams, Sen. Mayne, Rep. Briscoe, Rep. Dee, Rep. Dunnigan, and Rep. King absent for the vote.

3. Fiscal Health Check-up

Mr. Hector Zumaeta Santiago, Fiscal Analyst, LFA, reviewed the Budgetary Reserves category and revenue dials on the [Fiscal Note Dashboard](#).

Mr. Ball responded to President Niederhauser’s question on how budgetary reserve targets are set.

Mr. Brian Wikle, Fiscal Analyst, LFA, commented on the Operating Reserves that include the General Fund Restricted Balance and Nonlapsing balances.

a. FY 2016 Financial Highlights

Mr. John Reidhead, Director, Division of Finance, presented “[State of Utah Financial Highlights](#).” He reported on the FY 2016 surplus/shortfall, budgeted reserves for FY 2017, major state revenue sources and program expenditures, transportation sources of funding and expenditures, appropriations limitation, general obligation bonds, and the status of selected funds.

b. FY 2016 Preliminary Nonlapsing and Fund Balances

Mr. Brian Wikle, Fiscal Analyst, LFA, discussed the Issue Brief, “[FY 2016 Preliminary Lapsing and Nonlapsing Balances](#).”

Mr. Wikle indicated that as of October 6, 2016, the Division of Finance calculates that state agencies will lapse \$14.8 million back to General and Education funds (\$10 million of this amount was used to finance H.B. 3002, 2016 3rd Special Session – State Fair Park) and \$116.9 million back to other funds at the end of FY 2016. In addition, preliminary numbers indicate that state agencies and public education will carry \$360.5 million from FY 2016 to FY 2017 as nonlapsing balances.

Mr. Wikle also presented the Issue Brief, “[FY 2016 Preliminary Fund Balances](#).”

As of October 1, 2016, preliminary fund balances in General Fund restricted accounts total \$394.7 million and preliminary fund balances in Education Fund restricted accounts total \$599.5 million including rainy day funds.

Mr. Wikle briefly discussed two LFA recommendations, which would require opening bill files: 1) to clarify the disposition of excess revenue to the Commerce Service Account, and 2) to create a separate account for public utility regulatory fees. The recommendations are shown on pages 1 and 2 of the issue brief.

MOTION: Sen. Hillyard moved to ask staff to open bill files to implement the recommendations as shown on pages 1 and 2 of the Issue Brief entitled, “FY 2016 Preliminary Fund Balances” as presented to us today. The motion passed unanimously.

c. Revenue Update

Dr. Andrea Wilko, Chief Economist, LFA, and Dr. Thomas Young, Economist, LFA, presented the “[Revenue Update](#)” for October 18, 2016 that included a PowerPoint presentation, “[Revenue & Economic Update October 2016](#).”

Dr. Wilko discussed the revenue surplus, expenditure side of adjustments, and statutorily required transfers, all of which resulted in a \$5.0 million budget surplus. She indicated that in looking ahead to FY 2017, the GF/EF is expected to end the year in a range of \$125 million below to \$115 million above the adopted FY 2017 estimates.

Dr. Wilko also discussed the economic indicators.

Dr. Young discussed Utah's revenue growth compared to other states, labor market expansion, global risks, and collections to date.

d. Sales Tax Revenue Set-asides and Transportation Funding Update

Dr. Young presented the Issue Brief, "[Sales Tax Revenue Set-Asides and H.B. 362 Revenue Growth](#)."

Dr. Young addressed sales tax revenue set-asides for transportation, water, and other purposes, revenue growth to the Transportation Fund from the gas tax increase contained in H.B. 362 (2015 General Session), and current consensus estimates for sales tax revenue set-asides as a percentage of all potential General Fund revenue.

Dr. Young responded to committee questions.

4. Tax Incentives Evaluation

Dr. Wilko presented the Issue Brief, "[Evaluating Tax Exceptions and Inducements](#)" along with an accompanying interactive dashboard, "[Evaluating Utah Tax Exemptions](#)," developed by Hector Zumaeta Santiago of LFA.

Dr. Wilko explained that the purpose of the study was to create a comprehensive inventory of Utah tax exceptions and inducements and to examine the data elements that are necessary to do an analysis of all tax exceptions and inducements. Such an analysis would allow legislators to determine the effectiveness of incentives and potential returns on investment. Dr. Wilko indicated that the study is the first step of a multi-year project.

Dr. Wilko stressed the importance of articulating clear purposes and goals for each tax exception and inducement; establishing common definitions for key measures; setting baseline and targets for each measure and collection observations; addressing data limitations that hamper evaluation; and creating a three to five-year review cycle for exceptions/inducements not currently reviewed.

Dr. Wilko responded to committee questions and comments.

MOTION: Sen. Hillyard moved to refer the Issue Brief entitled, "[Evaluating Tax Exceptions and Inducements](#)" to the Revenue and Taxation Interim Committee for their further evaluation and action.

Sen. Davis suggested that the motion include a letter to the Legislative Management Committee requesting that the report be looked at by other committees for further evaluation and review. Sen. Hillyard agreed that a follow-up letter to the Legislative Management Committee would be important.

MOTION: Sen. Hillyard revised his motion as follows: refer the Issue Brief entitled, "[Evaluating Tax Exceptions and Inducements](#)" to the Revenue and Taxation Interim Committee for their further evaluation and action and to have staff prepare a letter to the Legislative Management Committee requesting that some of these issues be assigned out to other committees. The motion passed unanimously with Sen. Mayne absent for the vote.

5. Attorney General Report on Options to Obtain Repayment of Funds Spent by the State to Keep National Parks Open

Mr. Ball introduced Mr. Alex Wilson, LFA's newest staff member, who will help staff the Executive Offices and Criminal Justice Appropriations Subcommittee and the Natural Resources, Agriculture, and Environmental Quality Appropriations Subcommittee.

Mr. Alex Wilson, Fiscal Analyst, LFA, provided some background information on the impact that the October 1-16, 2013 federal government shutdown had on Utah's national parks, monuments, and recreational areas, and the measures the state took to fund and keep those areas open. To date, the federal government has made a partial repayment of \$666,300 to Utah, which leaves an outstanding balance of \$999,400. The Legislature passed [H.C.R. 11](#) during the 2016 General Session, which "strongly urges Utah's federal delegation to exert their utmost legislative efforts to secure the full repayment" of the outstanding funds.

Mr. Parker Douglas, Attorney General's Office, reported his office's and Congress' efforts to repay Utah. The Attorney General will continue to work with the Legislature and Congress on this issue.

The committee discussed Utah's negotiations with the Secretary of the Interior and the federal government to seek reassurances that the funding would be paid in full.

In response to Sen. Escamilla's inquiry, Mr. Douglas discussed Utah's legal options in this matter. Sen. Davis, along with suggestions from Sen. Adams, Sen. Hillyard, and the Attorney General's Office, placed the following motion:

MOTION: Sen. Davis moved to have staff prepare a letter that will go to our congressional delegation that will be joined with another letter from the Attorney General's Office with encouragement from the Executive Office and sent to the House Rules Committee urging Congress to move forward with the passage of the bill. The motion passed unanimously with Sen. Okerlund, Sen. Mayne, Rep. Briscoe, and Rep. Gibson absent for the vote.

6. Corrections Offender Population and Daily Incarceration Rate

Mr. Gary Syphus, Fiscal Analyst, LFA, introduced Mr. Mike Haddon, Deputy Director, Utah Department of Corrections, who discussed the prison and Adult Probation and Parole populations and the daily incarceration rate.

Mr. Mike Haddon presented "[Utah Department of Corrections Presentation on Population and Jail Contracting Rate](#)." He discussed Utah's decreasing incarcerated and felony probation populations as well as Utah's increasing parole population and the number of Class A misdemeanor probationers.

Mr. Haddon attributed the changing patterns to the Justice Reinvestment Initiative. He also noted that the Jail Contracting population has been leveling off since 2014.

Mr. Haddon reported that the average state daily incarceration rate for FY 2018 is \$86.16. The rate paid for contract beds that do not provide programming would be \$62.90 per bed day (73 percent of the average state daily incarceration rate) and the rate paid for contract beds with programming services would be \$74.10 per bed day (86 percent of the average state daily incarceration rate).

Mr. Haddon responded to committee questions.

7. Justice Reinvestment Initiative Progress Report

This agenda will be heard in November's EAC meeting.

8. Higher Education Funding – Tuition Correlation to State Spending

This agenda item will be heard in November's EAC meeting.

9. Other Business/Adjourn

MOTION: Sen. Hillyard moved to adjourn. The motion passed unanimously with Sen. Okerlund, Sen. Mayne, and Rep. Briscoe absent for the vote.

Co-Chair Sanpei adjourned the meeting at 3:56 p.m.