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Utah State Legislature

Senate • Utah State Capitol Complex • 320 State Capitol
PO Box 145115 • Salt Lake City, Utah 84114-5115
(801) 538-1035 • fax (801) 538-1414

House of Representatives • Utah State Capitol Complex • 350 State Capitol
PO Box 145030 • Salt Lake City, Utah 84114-5030
(801) 538-1029 • fax (801) 538-1908

November 7, 2017

President Wayne L. Niederhauser
Speaker Gregory H. Hughes
Utah State Legislature
Salt Lake City, UT 84114

Dear President Niederhauser and Speaker Hughes:

The Infrastructure and General Government Appropriations Subcommittee is pleased to report our actions during the 2017 Interim. You asked us to reach a conclusion and be prepared to report on the following topics:

1. Base Budgets
2. Capital Development Process Review (Follow-up on EAC Memo from 2/16/17)
3. Dixie Applied Technology College (DXATC) Capital Project Follow-up
4. S.B. 277, "Highway General Obligation Bonds Authorization"
5. Debt Affordability
6. Review of Internal Service Fund Rates and Impacts for FY 2018
7. Review of Department of Technology Services Rates
8. Building Block Follow-up Reporting
9. Review of Performance Measures Included in FY 2018 Base Budgets

You also asked us to do some budget "deep dives" as appropriate under item 1, Base Budgets.

Following is our report on the items you asked us to study.

1. *Base Budgets*. The committee reviewed the FY 2018 base budgets for the Departments of Administrative Services, Technology Services, and Transportation, and for capital budgets and debt service. The committee discussed new appropriations for FY 2018 that will be included in the FY 2019 base budget and agencies reported on the use of those appropriations. Following are new appropriations that we discussed along with our actions regarding these items:
 - *Department of Transportation – property database and legal descriptions*. In the 2017 General Session the Legislature appropriated \$300,000 ongoing to the department to gather property information into a central database and \$200,000 ongoing to create legal descriptions for existing and new surplus properties. The committee considered whether to reduce or eliminate the ongoing funding once a substantial portion of properties have been entered in the database and legal descriptions have been created, and to put the ongoing funding in a construction line item.
 - *ACTION*: The committee moved that by October 31, 2018 the department report to the committee (1a) the number and percent of properties that have been entered into the central database; (1b) the estimated time until at least 95 percent of properties have

been entered into the central database; (1c) whether the department would recommend reducing or eliminating the \$300,000 ongoing appropriation once a substantial portion of the properties have been entered into the central database; (2a) the number and percent of surplus properties for which legal descriptions have been created; (2b) the estimated time until legal descriptions have been created for at least 95 percent of surplus properties; and (2c) whether the department would recommend reducing or eliminating the \$200,000 ongoing appropriation once legal descriptions have been created for a substantial portion of existing surplus properties.

- *Capital improvement funding.* In the 2017 General Session the Legislature appropriated \$119 million for capital improvements to state buildings. The State Building Board identified \$1.2 billion in 10-year capital improvement expenditure needs for buildings broken down as \$112 million – Priority 1 (life safety / code compliance / ADA); \$336 million – Priority 2 (currently critical); and \$763 million – Priority 3 (necessary / not critical). The committee considered whether the 1.1 percent capital improvement funding level provided in statute is too little, sufficient, or excessive to address the State’s capital improvement needs.
 - *ACTION:* The committee moved that by October 31, 2018 the board report to the committee the amount of capital improvement funding expended on Priority 1, Priority 2, and Priority 3 projects in FY 2018; provide an update of the estimated 10-year expenditure needs for each priority level; and state whether the board believes that capital improvement funding is sufficient to meet the needs.

Deep dives. The committee undertook a number of deep dives – some that are addressed immediately below and others that are addressed under other headings of this report.

- *Division of Facilities Construction and Management – project management.* The committee and the division discussed the workload for project managers, steps that the division is taking to improve work flow and quality, and the need for additional managers. The division will request funding for additional managers in the 2018 General Session.
 - *ACTION:* The committee will prioritize the funding request along with other requests it hears during the upcoming general session.
- *Department of Technology Services – security services.* The committee and department discussed the increasing number of threats to the State’s information assets and resources, and the department’s responsibility to maintain security for an ever-increasing number of devices.
 - *ACTION:* The committee will continue to monitor the department’s performance, vulnerabilities, funding needs, and rates.
- *Department of Transportation – Transportation Technician Level I (snow plow drivers).* The committee and the division discussed turnover for entry level transportation technicians and steps that the department is taking to reduce turnover. Turnover in FY 2017 was over 17 percent. The department estimates that each new hire requires about \$17,500 in hard costs and additional soft costs.
 - *ACTION:* The committee moved that by October 31, 2018 the department report to the committee what steps the department has taken to reduce turnover for Transportation Technicians Level 1, and what legislative actions may be necessary to help reduce turnover.
- *Department of Transportation – region management.* The committee and department discussed funding for region management programs within the region management line item.

- *ACTION*: The committee moved that by October 31, 2018 the department report to the committee recommendations for shifting funding across region management programs, and recommendations, if any, for shifting funding out of the region management line item and into a construction line item.
 - *Capital budgets – project and contingency reserves*. The committee looked at historic inflows and outflows for the reserve funds and in light of current and upcoming capital development projects, considered whether to recommend transferring reserve funds to the General Fund or another area.
 - *ACTION*: The committee moved to recommend to the 2018 Legislature that the body approve the following intent language: “The Legislature intends that any excess DFCM Project Reserve Funds or Contingency Reserve Funds, as determined by DFCM’s analysis of current balances and projected needs, will be transferred to the Utah State Correctional Facility project before any other uses of these funds.”
2. *Capital Development Process Review (Follow-up on EAC Memo from 2/16/17)*. The committee, Division of Facilities Construction and Management, and State Building Board discussed capital development funding issues that arose with a public safety and driver license building in Brigham City and a building at Dixie Technology College. In particular, the Brigham City project did not go through the normal building approval process—programming needs and seismic issue that would have been identified earlier in the process were discovered only after the Legislature appropriated funding, and that funding was not sufficient given requirements for the building. Primary issues regarding the Dixie project involved verification of outside funding and scope of project. The division and board have reviewed the sequence, coordination, and responsibility of decision making to ensure projects proceed in accordance with legislative intent.
 - *ACTION*: The committee will continue to study the capital development approval process and to work with the division and the board to ensure that the capital development projects proceed in accordance with legislative intent.
 3. *Dixie Applied Technology College (DXATC) Capital Project Follow-up*. Kelle Stephens, President of Dixie Technical College, reported on progress of the building project and on the bond agreement with Washington County to assist in funding construction.
 - *ACTION*: The committee does not intend to study this issue further.
 4. *S.B. 277, “Highway General Obligation Bonds Authorization”*. The Legislature authorized general obligation bond issuance of up to \$1.047 billion for transportation projects in S.B. 277, 2017 General Session. The Legislature capped issuance of transportation bonds so that the State’s total debt that is subject to the constitutional debt limit may not exceed 50 percent of the limit. The committee reviewed the first issuance of bonds under the authorization that occurred in July 2017, and the committee studied projected issuance of the remaining authorization.
 - *ACTION*: The committee will continue to monitor issuance of transportation bonds and to study the State’s overall debt load and its credit health.
 5. *Debt Affordability*. The committee reviewed the State’s current debt and authorized but not yet issued debt for the prison and transportation projects. The State Treasurer and fiscal analyst discussed the constitutional debt limit and ratios of that limit along with measures of debt affordability—for example, debt as a ratio of personal income—that are more pertinent to the State’s credit rating and to investors’ decisions.

- *ACTION*: The committee moved that by October 31, 2018 the State Treasurer report to the committee principles that the Treasurer believes should guide the Legislature when the body considers whether and in what maximum amounts to authorize debt issuance.
6. *Review of Internal Service Fund Rates and Impacts for FY 2018*. The Departments of Administrative Services and Technology Services compared FY 2018 rates and impacts to proposed FY 2019 rates and impacts. The departments noted those rates for which they have proposed changes. As part of the “deep dive” assignment, the departments also explained the general process they use to calculate proposed rates.
 - *ACTION*: The committee will review specific proposed FY 2019 rates during the 2018 General Session and it will make a recommendation to the Legislature regarding the fees and rates for the agencies under its purview.
 7. *Review of Department of Technology Services Rates*. See item 6 above.
 8. *Building Block Follow-up Reporting*. The fiscal analyst presented the “Fiscal Note and Budget Item Follow-up Report” and pointed out items that pertain to the committee. As part of the “deep dive” assignment, and due to information in the report the committee examined the items below to determine whether funding for specific projects could be reduced with savings being used for other priorities.
 - *Department of Transportation – S.B. 246, 2016 General Session, “Funding for Infrastructure Revisions”*. The Legislature deposited \$26 million in the Throughput Infrastructure Fund in FY 2017 and statute directs that another \$27 million be deposited in the fund in FY 2018. The fiscal analyst understands that the combined \$53 million was originally intended for investment in a port facility in California’s Bay Area, but that project did not come to fruition. The analyst pointed out that absent legislative action, the fund will have \$53 million unencumbered as of FY 2018.
 - *ACTION*: The committee does not intend to study this issue further.
 - *Capital budgets – Snow College science building*. The Legislature appropriated \$24,661,600 for the project. In May 2017 the Division of Facilities Construction and Management (DFCM) reported that construction was 93 percent complete and in the finishing stages, and the building was on schedule to be completed by July 2017. DFCM anticipated expending \$20.5 million by the end of FY 2017. DFCM reported to the committee that most of the remaining funding will be used to pay contractors’ final invoices; to purchase furniture, fixtures, and equipment (FF&E); and to demolish and relocate associated buildings. DFCM projected that excess funding would be less than \$100,000 and that the excess will transfer to the project reserve account.
 - *ACTION*: The committee does not intend to study this issue further.
 - *Capital budgets – Tooele Applied Technology College (TATC) land bank*. The Legislature appropriated \$525,000 to purchase 3.5 acres to provide a business resource center for Tooele Technology College. In May 2017 DFCM reported that the purchase was on hold pending negotiations between TATC and Tooele County. DFCM reported to the committee that it anticipates closing on a land purchase in December 2017, and the division does not anticipate any excess.
 - *ACTION*: The committee does not intend to study this issue further.
 9. *Review of Performance Measures Included in FY 2018 Base Budgets*. The committee reviewed the FY 2018 performance measures that were included in H.B. 6, 2017 General Session,

“Infrastructure and General Government Base Budget”, for the Departments of Administrative Services, Technology Services, and Transportation.

- *ACTION*: The committee will continue to review the departments’ performance measures to ensure that (1) it is within the departments’ control to achieve performance targets, (2) the departments are achieving targets or making adequate progress, and (3) measures provide meaningful information regarding the departments’ performance.

In addition to the items discussed above, the committee studied and took action on the Division of Fleet Operations’ “Fleet Cost Efficiency Report”. While the report contains valuable information, the division and the fiscal analyst recommended certain changes in statute designed to promote state agencies’ efficient use of vehicles, and the committee considered the recommendations.

- *ACTION*: The committee moved to open a bill file that will make the following changes and clarifications to the Fleet Efficiency Report produced by the Division of Fleet Operations under Utah Code 63A-9-401.5:
 - Each reporting agency shall be required to report at least three initiatives related to fleet administration that they will implement in the coming year and the stated goal of each initiative;
 - In each subsequent year, the reporting agency shall report the following to the Division of Fleet Operations:
 - The outcomes of each initiative;
 - The savings, if any, derived from each initiative;
 - If the initiative was unsuccessful, the reasons why.

The committee also studied, discussed, or heard presentations on the following items, but the committee did not take action on the items:

- the Division of Fleet Operations’ (DFO) debt to the General Fund;
- DFO’s use of telematics to improve efficiency and safety of the fleet;
- operations and maintenance expenditures for state-owned buildings;
- State Treasurer’s plan to issue debt in January or February rather than in July;
- construction and operation of the State Fair Park Arena;
- notice of a proposal for a non-profit land transfer in Washington County;
- existing and projected debt and debt service for the Utah Transit Authority;
- disposal procedures for surplus state lands; and
- requests for appropriations: safe sidewalks in Salt Lake County and single sign-on business database.

We request that legislative leadership include the following intent language in the Infrastructure and General Government Base Budget or in the New Fiscal Year Supplemental Appropriations Act:

- The Legislature intends that any excess DFCM Project Reserve Funds or Contingency Reserve Funds, as determined by DFCM’s analysis of current balances and projected needs, will be transferred to the Utah State Correctional Facility project before any other uses of these funds.

Our committee has worked hard to understand and address significant issues for the budgets under our purview. As explained in this report, some of these issues will have a direct impact on the FY 2019 budget and the committee looks forward to considering the budget in totality and presenting our funding prioritizations to the Legislature. As demonstrated by the actions above, the committee will continue to study and agencies will follow up on several topics by the end of the 2018 Interim.

Sincerely,

Chairs of the Infrastructure and General Government Appropriations Subcommittee.

Sen. Wayne A. Harper, Co-Chair

Rep. Gage Froerer, Co-Chair

Rep. Walt Brooks, Vice Chair