MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS COMMITTEE
July 18, 2006 at 1:00 p.m.
Room W135, House Building, State Capitol Complex

Members Present:	Sen. Lyle Hillyard, Co-chair Rep. Ron Bigelow, Co-chair Sen. Gene Davis Sen. Mike Dmitrich Sen. Dan Eastman Sen. Beverly Evans Sen. Karen Hale Sen. Peter Knudson Sen. Ed Mayne Pres. John Valentine Rep. Jeff Alexander Rep. Ralph Becker Speaker Greg Curtis Rep. Ben Ferry Rep. Patricia Jones Rep. Brad King Rep. Roz McGee Rep. Stephen Urquhart Rep. David Clark, Vice Chair
Members Excused:	Sen. Curtis Bramble, Vice Chair
Staff Present:	John Massey, Legislative Fiscal Analyst Michael Kjar, Deputy Director, Fiscal Analyst Greta Rodebush, Secretary
Others Present:	Juliette Tennert, LFA Katie Rogerson, Governor's Office of Planning & Budget Michael Kjar, LFA Ben Leishman, LFA Derek Byrne, LFA Morrell Martin, Utah State Office of Education Larry Newton, Utah State Office of Education Steve Peterson, Utah State Office of Education Mark Bleazard, LFA Marvin Dodge, Department of Workforce Services Mike Richardson, Department of Workforce Services

A list of visitors and a copy of handouts are filed with the committee minutes.

1. Call to Order - Approval of Minutes

Committee Co-Chairman Lyle Hillyard called the meeting to order at 1:20 p.m. Approval of minutes for the June 20, 2006 meeting was postponed until the next EAC meeting in September.

2. Federal Funds Report

Katie Rogerson, Governor's Office of Planning & Budget, briefly explained two new federal assistance grant applications requiring legislative approval this month, one from the Department of Community and Culture, and the other from the Department of Health. In addition, there were six re-applications for existing grants requiring legislative action. The Governor's Office has approved two new grants and six re-applications for federal assistance.

> **MOTION:** Rep. Bigelow moved to approve the two new federal assistance grant applications and the six re-applications requiring legislative approval. The motion passed unanimously with Sen. Davis, Pres. Valentine, Rep. Alexander, and Rep. Ferry absent for the vote.

3. Public Education Transportation Study

Mike Kjar, LFA, presented an overview of the Public Education Transportation Study which addresses two major issues: (1) the Transportation Finance Formula that distributes To and From School Program revenue; and (2) the standards, procedures, and efficiencies of school district bus routing practices.

Ben Leishman, LFA, reviewed the funding history of the To and From School Program. He pointed out that historically, the percent increase appropriated by the Legislature to support pupil transportation closely reflects the percent increase provided to the Weighted Pupil Unit (WPU).

Transportation Finance Formula

Mr. Leishman explained the Transportation Finance Formula which governs the distribution of transportation funds to the To and From School Program. The formula is divided into two schedules: Schedule A is comprised of (1) an allowance for mileage, (2) an allowance for time, and (3) an allowance for equipment (school bus depreciation) and administration (front office salaries and benefits). Schedule B is comprised of miscellaneous pupil transportation expenses that are not formula driven.

In addition to state revenue, school districts may use local property tax revenues to support the district's transportation program. There is, however, a wide disparity of state-fund support among the school districts, ranging from slightly over 90 percent to slightly under 27 percent.

The Transportation Study also assessed the over/under funding of pupil transportation programs. Mr. Leishman discussed two measures of comparison. The first comparison: Total District Expenditures Compared to State Fund Revenue, shows a general trend of decreasing state revenue as a percent of total pupil transportation expenditures. The second comparison: Total

Formula Cost Compared to Pro-Rata Distribution, shows the total cost of the transportation program based on the statutory formula and the level of pro-rata distribution among the school districts to meet the level of revenues available for the program.

➢ The Analyst recommends that the Legislature approve an audit by the Legislative Auditor General to determine the cause and effect of the variations of state revenue to local revenue supporting pupil transportation programs in the school districts.

➢ The Analyst further recommends that the Public Education Appropriations Subcommittee study in more detail the mix of state revenue to local revenue and the emerging trend of declining state revenue compared to local revenue, and if an appropriate level of state revenue be established.

Mr. Leishman also discussed the annual review and adjustment of the individual components that comprise the Transportation Finance Formula. Supporting data indicates that a review of all transportation formula reimbursement rates has not occurred for the past several years.

➢ The Analyst recommends that the State Office of Education review those components and make adjustments to reflect current economic conditions.

➢ The Analyst recommends that the State Board of Education annually approve the Transportation Finance Formula rates and submit the rates and annual cost estimates for the To and From School Transportation Finance Formula to the Legislature for consideration in the annual budget process.

Mr. Leishman noted that economic trends associated with higher employee compensation costs and fuel costs appear to have impacted expenditures of transportation revenue in the school districts.

➢ The Analyst recommends that the Legislature direct the State Board of Education to examine and report to the Public Education Appropriations Subcommittee the specific economic variables driving pupil transportation expenditures in the school districts, how the Pupil Transportation Finance Formula adjusts for these economic variables, and any recommended alterations t the Pupil Transportation Finance Formula..

School Bus Depreciation Funding

Derek Byrne, LFA, addressed school bus depreciation funding along with school bus route standards and transportation oversight. Mr. Byrne indicated that school districts may be using depreciation funds to replace school buses, cover increased fuel costs, transportation maintenance and operation costs, or other district needs.

- ➢ The Analyst recommends that the USOE conduct a cost benefit analysis of using school buses with over 200,000 miles and report their findings to the Legislature. The USOE should consider the following options: (1) stop paying the depreciation rate per mile after a school bus has been fully amortized at 200,000 miles: (2) start paying a reduced per-mile depreciation rate after a school bus reaches 200,000 miles; and/or (3) use a tapering depreciation schedule after a school bus reaches 200,000 miles to reduce the financial incentive over time.

- ➢ The Analyst also recommends that Legislature consider approving an audit by the Office of the Legislative Auditor General to study how depreciation funds are spent by school districts.

School Bus Route Standards and Transportation Oversight

Mr. Byrne stated that a review of USOE transportation audits reveal that not all school districts have been audited. It is the opinion of the Analyst that the lack of a consistent transportation audit may create an incentive for school districts to over report both miles and minutes.

- ➢ The Analyst recommends that the USOE audit all school districts within the minimum of an 8-year period or at a rate of 5 school districts per year which may require hiring an additional auditor.

- ➢ Financial penalties could be instituted for school districts to reduce any incentives for over and under reporting in excess of 5 percent of allotted school bus miles and minutes - the primary drivers of the transportation formula.

Rep. Ferry asked if there was a correlation between the closing of schools and increased costs in transportation. Mr. Kjar indicated that the study did not address the specifics of school closings; however, there are school districts that have actively developed programs that are more cost efficient through bus rerouting and reorganizing the school day.

Rep. Jones observed that the table on page 10 “School District Reimbursement Formula - Schedule A” indicates that there are fewer riders, minutes, miles, and mileage allowance in FY2006 than in FY2005, but higher expenditures for administration and equipment.
Mr. Leishman said those components reflect salary and benefit increases for district personnel overseeing the program.

Sen Mayne cited UCA 53A-17a-127 which states that eligible students must reside 1 ½ miles from school (grades K-6) or 2 miles from school (grades 7-12) to qualify for state transportation funding. Last year, he sponsored legislation that would reduce the 1½ miles to 1 mile (grades K-6). Sen. Mayne asked if the study had looked at the fiscal impact of those types of changes.
Mr. Kjar mentioned that a bus driver is allowed one courtesy stop beyond the 1½ or 2 mile limit.

and that some districts are allowed to add additional stops as long as they can cover the costs. They did not look at how many more bus stops this would require or how many more riders might be eligible if the distance was reduced by ½ mile.

Sen. Hillyard inquired as to why Logan School District shows an 84.1 percent of total for state funding while Cache School District shows a 53.9 percent of total for state funding, particularly since Logan does not have its own transportation system and contracts with Cache School District. He also asked about contracting with private providers, the safety of using buses that have exceeded 200,000 miles, and the selection and training of bus drivers.

Morrell Martin, USOE, Director of Transportation, commented on two projects that he was involved with in the Cache School District. In order to accommodate more students when the district went off year round education, the school district opted for a staggered school schedule rather than purchasing 12 additional buses and hiring 12 additional drivers. This approach improved the efficiency of operations there. A second project, creating a transportation partnership with Logan and Cache School Districts has also created more efficiency. As to the percentage differences in total state funding for those two districts, Mr. Martin stated that they may be closer than was reflected in the report. There may be some difficulty in separating out the administrative costs for both districts.

Mr. Morrell stated that there is a disparity in the age of buses across the state and this could be attributed to the various ways the districts use capital outlay for bus depreciation. In considering the mileage issue, he pointed out that urban buses may not put on as many miles as rural buses that have greater distances to cover. He supports a study that would clarify these issues. As to the issue of safety, highway patrol inspects buses twice a year to insure safety and school districts must adhere to federal bus safety regulations. He pointed out that there is a threshold when buses need to be off the road and suggested that incentives be created to encourage districts to do so.

Sen. Hillyard mentioned that the purpose of this study was to help clarify the funding needs of pupil transportation and to determine if districts were efficiently using public funds.

Mike Kjar, LFA, indicated that during the last general session, USOE requested that the Legislature fully fund this program which would have required an additional $20-$30 million. The other option was to provide a supplemental to pick up the cost of fuel. The Legislature did appropriate a $5 million supplemental to support pupil transportation in FY06 and FY07. Mr. Kjar suggested that a policy decision by the Legislature could in effect determine the ratio of state funding to local funding in this area.

Sen Hillyard commented that the Public Education Appropriations Subcommittee will need to address this issue in January.

Rep. King, in regards to the table on page 11 that delineates State & Local Funds Contributing to District Transportation Funds, indicated that he would also like to see the percentage of total local school budget represented. There are differences between the varying school districts when it comes to transportation issues and meeting requirements under the No Child Left Behind Act.

Sen Hillyard referenced Rep. Ferry's comments made earlier about school closures that likely increase transportation costs for districts that are trying to make better use of educational funds by centralizing elementary schools.

Larry Newton, USOE, School Finance Director, concurs with the Analyst's recommendations. He feels that it is extremely critical to increase the number of transportation audits of school districts. He noted that these audits can be very time consuming. He likes the suggestion of completing five school district audits a year and supports consistent yet random audits. He indicated that there are no penalties in place when districts make blatant errors but this would be something to consider.

Steve Peterson, USOE, commented that the report is very comprehensive. He suggested that members of the education community be given an opportunity to look at the report and respond.

Sen. Hillyard suggested that this group work with the Office of the Legislative Fiscal Analyst and present their response at the next Executive Appropriations Committee meeting in September.

The Committee did not take formal action on the recommendations made in the report.

Sen. Hillyard recognized Mike Kjar, Deputy Director of LFA who announced his retirement after thirty three years. On behalf of the Executive Appropriations Subcommittee, he expressed his appreciation for his integrity and his expertise and knowledge of education issues and budgets.

4. Turnover Savings Study

Mark Bleazard, LFA, presented the findings of this study, the purpose of which was to determine whether the surge in retirements in FY 2006 created turnover savings. Data for this study was provided by the Department of Human Resources and the Division of Finance. The Analyst studied 460 executive branch retirees during the period of November 2005 - April 2006 as a representative sample. The five main questions and findings are as follows:

1) What are the ongoing savings as positions are filled - accumulated through the "domino effect" up to the final hire or unfilled vacancy related to the retirement? Findings suggest that savings based on positions that have be refilled to date total about $3.9 million annually, of which $1.8 million is state funds.

2) What is the expected impact of positions still vacant? The Analyst found that if the currently vacant positions left by the retirees under study were to remain vacant, an additional savings of $3.5 million ($1.8 million state funds) would accrue.

3) What are the savings (costs) in insurance premiums for replacement employees? Data provided by DHRM showed that 33 percent of the retirees had family medical coverage, compared to 62 percent for their direct replacements. Assuming that current vacancies will be filled, the ongoing annual medical and dental insurance benefit costs of replacement employees exceed costs of former employees by $214,000.

4) What costs were borne by the state's termination pools? These costs would include one-time leave pay outs and health insurance premiums as long as employees are eligible. The 460 employees who retired between November 1, 2005 and April 30, 2006 received one-time payouts for accrued annual leave, converted sick leave, and 25% of sick leave totaling $5.5 million. Payouts for the large number of retirees in this study sample and other retirees in FY 2006 will deplete the termination pool with a cumulative shortfall of $7.6 million. The Division of Finance will work with the Governor's Office and the Office of the Legislative Analyst to work out the best way to recoup termination pool losses.

5) What other non-quantifiable financial impacts exists? Due to the lack of data or unknown future employee performance, the non-quantifiable impacts include productivity changes, recruiting and training costs, and the duration of savings.

Mr. Bleazard outlined the following recommendations and responded to committee member questions:

- ➢ The Analyst recommends that the Executive Appropriations Committee direct the Legislative Fiscal Analyst to continue to examine the fiscal impact of the increased numbers of retirees by appropriations subcommittee. Also the individual subcommittee analyst should make recommendations of what proportion of the identified savings could be removed from ongoing budgets for both FY 2007 and FY 2008.

- ➢ An alternate recommendation would be to direct all or part of those ongoing savings to be used to reduce the one-time depletion of the termination pool balances as identified in Table 5 of the Report.

Rep. Jones inquired as to the number of employees who retire and are hired to other departments. Mr. Bleazard indicated that this type of information could be tracked but was not currently available.

Rep Clark observed that the termination pool was reduced dramatically by $2 million in FY 2003. Besides the accelerated retirement in FY 2005, he asked if there was some other trend that could be contributing to this loss in revenue. Mr. Bleazard suggested that there is the possibility that the termination pool may adjust itself. Employees who retired in 2005 may very well represent those who would have naturally retired in the next 3 - 5 years thereby creating a savings. Mr. Bleazard indicated that the analysts will be tracking those numbers to see if there is indeed a trend.

Rep Clark also inquired about efforts to recapture federal funds. Mr. Bleazard indicated that the analysts are tracking those funds and will be making recommendations to the individual appropriations subcommittees as well as Executive Appropriations on how to maximize federal funds.

> MOTION: Rep. Bigelow moved to accept the alternative recommendation as noted on page 9, and that is, as each subcommittee meets and identifies savings, that all or part of those ongoing savings be used to reduce the one-time depletion of the termination pool balances as identified in Table 5 of the Turnover Savings Report.

Rep. King requested that the analysts be directed to take into account the recovery of funds for those retirees who may have retired naturally in the next few years.

Sen Hillyard asked for any questions or comments. Seeing none, he called for question on the motion.

> A vote was taken on the motion. The motion passed unanimously with Sen. Davis, Pres. Valentine, Rep. Alexander, and Speaker Curtis absent for the vote.

5. Tax Commission Auditors and Collector Report

Sen. Hillyard postponed the Tax Commission Auditors and Collector Report until the September 19, 2006 meeting.

6. Other Business

In a July 13, 2006 letter addressed to the Co-chairs of the Joint Executive Appropriations Committee, Senator Lyle Hillyard and Representative Ron Bigelow, the Senate and House Democratic Leadership requested that the Executive Appropriations Committee discuss the current funding challenges faced by the Department of Workforce Services (DWS) in its administration of the General Assistance Program.

Sen. Hale explained that there is a shortfall within the General Assistance Program that has prompted a Department of Workforce Services (DWS) proposal to decrease the number of months a person can receive General Assistance (GA) from 24 to 15 within a 60 month period. She referenced presentations held in the Medicaid Interim and Workforce Services Committees and a recent public hearing. She explained that this is a pivotal program in that the monthly GA allowance helps clients access other necessary services and shelter. With Social Security Disability Income (SSDI) approval taking more than 24-months, the DWS proposal could pose some serious challenges for recipients, as well as service providers. It was recommended that DWS continue to administer the program and in the 2007 General Session ask for a supplemental appropriation to make up for the shortfall.

Rep. Wallace, Co-Chair of the Commerce and Revenue Appropriations Subcommittee, clarified that the supplemental appropriation request would be $2 million. She indicated that the Department of Workforce Services is working to see if they could handle this through some additional funding sources and this will be looked at in the upcoming appropriations subcommittee meeting.

Sen Hale recognized the efforts being made by Workforce Services to manage this program to have the least negative impact on these recipients. She also reported that there has been a request to the Audit Subcommittee that the Office of Disability Determination Services be audited to determine if there was a way to expedite the approval process for SSDI.

Rep. Becker commented that those individuals who are on General Assistance receive $261 a month. They are either people who are on permanent disability and trying to get federal assistance or those who are needing some temporary assistance. Testimonies indicate that it takes up to 2 years to qualify for federal assistance and that it is the state agency review process that is causing the delays. Rep. Becker supports an audit to determine what can be done to improve that process. He also recommended that DWS postpone implementing a rule that reduces the number of months a person can receive General Assistance on September 1st until the Legislature has had a chance to look at this.

Sen Hale clarified that General Assistance is state money and that when someone qualifies for SSDI, the money they received while on GA is refunded by the federal government to the state and goes directly into the General Fund.

Rep. Ferry asked about the cause of this shortfall. Rep. Becker attributed the shortfall to an increase in poverty and growth in the population.

Marvin Dodge, DWS, Director of Administrative Services and Chief Financial Officer, commented on the funding challenges to the General Assistance Program. This is a state program, funded completely with state funds. The program cost about $12.5 million to operate and has depended on an ongoing appropriation of $5.5 million. In the last General Session, DWS received $5 million in one-time funds for this program. Over the last few years, DWS has supplemented this program with other federal resources but these are drying up. Mr. Dodge indicated that DWS would like to operate their programs within the finances provided.

Rep. Ferry asked of those who use the GA program, what percentage actually qualify for SSDI.

Mike Richardson, DWS, Director of Communications, did not know the percentage but indicated that they collect about $2 million in SSDI funds that go back into the General Fund.

Rep. King suggested that the $2 million be used as a revolving fund that could go back into the program instead of the General Fund. Mr. Richardson agreed.

Pres. Valentine referred to a number of allegations that the processing of the people who are going through GA moving towards SSDI has taken an inordinate amount of time.

Rep. Becker elaborated on the lengthy process most applicants go through to qualify for SSDI. He referred to a letter had been sent to the Audit Subcommittee requesting that between now and the General Session, they look at this issue and try to see if there is a way to improve the application, review, and appeal process for these applicants. This could cut back on the number of months that an individual would be using General Assistance funds and save the state a lot of money.

Rep Bigelow commented on EAC's schedule for the rest of the year. EAC will not be meeting in August. Based upon proposed Master Study items there is a full agenda up to and including December. Approving revenue estimates will probably require two hours. He encouraged the members to review all materials sent to them in advance of the meetings. and come prepared.

MOTION: Rep. Bigelow moved to adjourn. The motion passed unanimously.

The meeting adjourned at 3:05 p.m.