REVISED
MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS COMMITTEE
October 14, 2008 at 1:00 p.m.
Room C445, State Capitol, State Capitol Complex

Members Present:	Sen. Lyle W. Hillyard, Co-Chair Rep. Ron Bigelow, Co-Chair Sen. Peter C. Knudson, Vice Chair Rep. Rebecca D. Lockhart, Vice Chair Sen. Curtis S. Bramble Rep. David Clark Rep. Greg J. Curtis, Speaker Sen. Gene Davis Rep. Brad Dee Sen. Mike Dmitrich Rep. Dan R. Eastman Sen. Brent H. Goodfellow Sen. Patricia W. Jones Sen. Sheldon L. Killpack Rep. Brad King Rep. Phil Riesen Rep. Gordon E. Snow Sen. John L. Valentine, President
Members Excused:	Rep. David Litvack Rep. Carol Spackman Moss
Staff Present:	Jonathan Ball, Director, LFA Andrea Wilko, Chief Economist Greta Rodebush, Legislative Secretary
Speakers Present:	Tenielle Young, Governor's Office of Planning and Budget Danny Schoenfeld, LFA Jeanne Watanabe, Department of Technology Services John Nixon, Governor's Office of Planning and Budget Steve Allred, LFA Patrick Lee, LFA Rich Amon, LFA Gayle McKeachnie, Governor's Office

Note: A list of visitors, 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

Committee Co-chair Bigelow called the meeting to order at 1:20 p.m. He expressed his appreciation to Vice Chair Knudson, who would be sitting in briefly for Co-chair Hillyard who was called away on an urgent matter.

Co-chair Bigelow recognized Vice Chair Knudson for a motion on the minutes.

> **MOTION:** Vice Chair Knudson moved to approve the revised minutes from September 16, September 25, and September 26, 2008. The motion passed unanimously with Sen. Hillyard, Sen. Davis, and Speaker Curtis absent for the vote.

2. Federal Funds/Non-Federal Grants Report

Federal Funds Report

Tenielle Young, Governor's Office of Planning and Budget, presented the Federal Funds Report through September 30, 2008. There were four new grants and one reapplication of an existing grant requiring legislative action. Ms. Young noted that one new grant and two reapplications of existing grants had been approved by the Governor's Office.

Co-chair Bigelow inquired about the development of automated feature extraction tools for a structures name data set for the Department of Technology Services, USGS Non-competitive Assistance Grant Program. Jeanne Watanabe, Automated Geographic Reference Center (AGRC), Department of Technology Services, explained that this program is an automated extraction of buildings from aerial photography. This extraction tool will be used in rural counties for wild land fire planning without having to do this from the ground.

Sen. Bramble asked how this process differs from Google Earth. Ms. Watanbe explained that this feature separates out the buildings more clearly from other types of terrain.

Sen. Bramble asked how the Department of Agriculture's Specialty Crop Block Grant Program - Farm Bill, enhances the competitiveness of specialty crops. He also asked what are specialty crops. A representative from the Department of Agriculture was not available to respond.

Sen. Bramble stated that he would support this new grant application but indicated that he would like more information. Danny Schoenfeld, LFA, offered to read the program description which stated that the Utah Department of Agriculture is applying to partner with Thanksgiving Point and Utah State University Extension to create an exhibit to be known as "From Soil to Supermarket" in Farm Country at Thanksgiving Point.

Sen. Bramble stated he would like some additional information on specialty crops and how this program enhances competitiveness. Tenielle Young stated that she would provide the additional information.

> **MOTION:** Vice Chair Knudson moved to approve four new grants and one reapplication of an existing grant requiring legislative action through September 30, 2008 listed in the Federal Funds Report with the request that the Department of Agriculture provide the Executive Appropriations Committee with additional information on the Specialty Crop Block Grant Program-Farm Bill. The motion passed unanimously with Sen. Hillyard, Pres. Valentine, Sen. Davis, and Speaker Curtis absent for the vote.

Co-chair Bigelow clarified that a written explanation on specialty crops would be sufficient.

Non-Federal Grants Report

Ms. Young presented the Non-Federal Grants Report through September 30, 2008. There were no new grants and no reapplications of existing grants requiring legislation through September 30, 2008. In addition, there were no new grants and no reapplications of existing grants approved by the Governor.

3. In-Depth Study: Comprehensive Approach to Turnover Savings for Inclusion in the Governor's Budget Recommendations

John Nixon, Executive Director, Governor's Office of Planning and Budget, presented the findings on the in-depth study: "Comprehensive Approach to Turnover Savings for Inclusion in the Governor's Budget Recommendations." The report analyzes turnover savings from all state agencies and other groups that submit budgets to the Governor's Office of Planning and Budget, including Higher Education, Elected Officials, and Courts.

Mr. Nixon explained that the in-depth budget review took into account the reporting requirement set forth in H.B. 378, *State Accounting and Budgetary Procedures Amendments,* (2008 General Session) which states: "the governor shall report, for each line item, the average annual dollar amount of staff funding associated with all positions that were vacant during the last fiscal year."

Mr. Nixon's presentation included a variety of topics: (1) the definition of turnover savings; (2) current Executive Branch policies and guidelines regarding turnover savings for inclusion in annual budget documents; (3) FY 2009 agency practices with regard to the Governor's Office turnover savings guidelines; (4) the relationship between turnover rates and dollar savings in state budgets; (5) costs associated with turnover savings; (6) turnover savings and inflationary costs; (7) how agencies use turnover savings; (8) how turnover savings are handled in selected other states; and (9) how the turnover savings component is viewed by individual agencies.

Mr. Nixon reported that in FY 2009 budget submissions, only 17 of 42 agencies included turnover savings. Of the 17 agencies including a turnover savings factor, varied approaches were used to calculate the amount.

Mr. Nixon stated that there is a limited relationship between state calculated turnover rates and dollar savings to agencies. In examining the Department of Human Resource Management's (DHRM) *Turnover by Agency Report*, GOPB calculated that an 11.4 percent external turnover rate is equal to only a 3.2 percent annualized turnover savings, assuming equal distribution of salaries across all state agencies and vacated position.

Agency responses to a survey indicate that the primary costs associated with a turnover event include training costs for new employees and overtime costs incurred while positions are vacant. When costs are not directly related to the turnover, agencies use turnover savings for administratively appropriate purposes, such as one-time expenditures, staff-related items, and inflationary costs. Some agencies will lapse savings back to the General Fund or carry them forward over to the next year.

Mr. Nixon drew attention to the fact that there exists a relationship between ongoing turnover savings and unfunded inflationary increases that agencies absorb from within existing budgets.

A survey of surrounding states, raises two questions regarding turnover savings: 1) should Utah factor turnover savings into the calculation of compensation increases; and 2) should Utah have its budget office calculate turnover savings as opposed to having agencies make that calculation?

Overall, agencies view the current working definition of turnover savings as adequate. Some agencies offered minor technical changes and 13 qualified their response by stating that the definition should also take into account costs associated with turnover.

Finally, the report concludes the following: (1) Utah's definition of turnover savings is adequate; (2) agencies should continue to follow the Governor's Guidelines to calculate turnover savings and include an explanation of how their reported turnover savings are calculated and how those savings will be used; (3) long-term vacancies in agency budgets should receive further analysis and monitoring; (4) there exists a relationship between ongoing turnover savings and unfunded inflationary costs that agencies are to absorb within existing budgets; and (4) there are costs associated with turnover that may reduce or eliminate turnover savings.

In his concluding remarks, Mr. Nixon pointed out that it is important that agencies maintain flexibility in calculating turnover savings; however, he also stressed the importance of having transparency throughout the budget review process.

Mr. Nixon responded to committee member questions.

Sen. Jones asked if more people will be staying on the job longer given current economic conditions and if this will impact turnover savings. Mr. Nixon responded that in difficult economic times, turnover rates will go down, which in turn, impacts turnover savings.

Rep. Dee asked about turnover savings when newly authorized positions remain vacant until filled. Mr. Nixon indicated that those unfilled positions are calculated as one-time turnover savings. Reporting requirements for H.B. 378 will however, help the analysts get a better handle on where and what those turnover savings are.

Rep. Clark asked about cumulative dollar amount totals on turnover savings. Mr. Nixon stated that those numbers will be made available in the Governor's budget release in December. The in-depth study examined the methodologies used in calculating those numbers internally.

President Valentine asked Mr. Nixon to comment on the reporting process.

Vice-Chair Knudson relinquished the Co-chair to Sen. Hillyard at 1:55 pm.

4. <u>Propriety and Other Governmental Fund Types</u>

Steve Allred, LFA, reviewed the findings and recommendations for Internal Service Funds (ISF's) and the Capital Projects Fund, and Patrick Lee, LFA reviewed the Debt Service Fund and Enterprise Funds.

Internal Service Funds

Mr. Allred explained that Internal service funds are funds created by the state to account for services provided by one state agency to another on a fee-for-service basis. There are six statewide internal service funds that operate as divisions within the Departments of Administrative Services (DAS), Human Resource Management (DHRM), and Technology Services (DTS).

Three rate committees, one for each department (DAS, DHRM, and DTS) oversee the internal service fund rates. A rate committee composed of a least six members: three user agencies, the director of Finance, the director of the Governor's Office of Planning and Budget, and the director of the department that manages the internal service fund, meets annually to approve rates. The Legislature gives final approval of rates and fees in an appropriations act.

Legislative oversight includes statutory controls that require ISF's to respond to the legislative budget process.

Based on the report findings, Mr. Allred commented on the following recommendations:

- *Consider formalizing the policy that internal service funds may reduce rates in the interim between legislative general sessions and require notification to the Legislature of any rate changes and potential cost savings to agencies.*

- *Consider requiring ISFs to report contractor positions in their annual budget submissions and/or change statute to include contractor positions in the annual FTE appropriation by the Legislature.*

- *Consider changing the make-up of each of the three internal service fund rate committees.*

- *Consider changing the policy from "acquisition" to "encumbrance" when describing the requirement for lapsing capital outlay authority.*

Capital Projects Fund

The Capital Projects Fund's revenue sources include legislative appropriations and institution or agency funding for capital facilities. The Division of Facilities Construction and Management (DFCM) is responsible for fund accounting, with oversight from the Division of Finance.

The Capital Projects Fund accounts for three broad categories of capital facilities projects: state funded capital developments, non-state funded capital developments, and state-funded capital improvements.

For the most part, interest earned on the Capital Projects Fund flows to the General Fund. The only exception is when a project is funded by revenue bonds. In that case, interest stays in the Capital Projects Fund to be applied to the revenue bond funded project.

Mr. Allred explained the difference between the Project Reserve Fund and the Contingency Reserve Fund, two sub-funds of the Capital Projects Fund. Project Reserve Funds are savings realized on a project when construction has been fully bid and at the end of a project. The Contingency Reserve Fund consists of a percentage of the construction budget included in each project budget for contingencies.

Mr. Allred noted that as recently as the 2008 Second Special Session, the Legislature appropriated $1 million from the Contingency Reserve Fund to replace General Funds in the DFCM administrative budget.

Mr. Allred explained that most higher education capital projects are funded with appropriations from the Education Fund. Once education fund dollars are transferred to the Capital Projects Fund, they begin generating interest for the General Fund. Mr. Allred concluded his remarks with the following recommendation:

- *The Analyst recommends that interest on former Education Fund dollars in the Capital Projects Fund be returned to the Education Fund.*

Debt Service Fund

Patrick Lee, LFA, explained that Debt Service is made up of interest and principal due on the state's bonded indebtedness. The state issues two main types of debt instruments: General Obligation (GO) bonds and State Building Ownership Authority (SBOA) revenue bonds.

General Fund (GF) and Education Funds (EF) are typically used to pay the debt service on the building portions of the GO bonds. Centennial Highway Funds (CHF) and other transportation restricted funds are used to pay the debt service on the highway portions of the bonds.

Mr. Lee referenced Figure 1, "FY 2009 Debt Service Budget," which shows the funding mix of General and Education Funds, Dedicated Credits and other funds that go into servicing the state's debt of obligations.

Mr. Lee explained that currently, debt service on SBOA revenue bonds and general obligation bonds is combined into one line item. He stated that difficulties have arisen because the service on GO bonds comes from appropriations while the debt service on lease revenue bonds comes from lease payments paid by user agencies. Mr. Lee stated that the transparency of the debt service for each bond type would improve if they had their own line item. The Analyst therefore recommends:

- *Consider dividing the debt service line item into two line items: one for General Obligation (GO) bond debt service, the other for State Building Ownership Authority (SBOA) lease revenue bond debt service.*

Enterprise Funds

Mr. Lee, LFA, reported on the most prevalent classification of enterprise funds, revolving loan funds, which have been established by the Legislature to assist public programs through lower interest loans. Some of these funds include: water management, clean fuel vehicle uses, healthcare workforces, transportation programs, agriculture, and petroleum storage. The report includes a list of current state sponsored loan funds and appendices (Appendices A and B) that show the sources of funding and outstanding balances in each of those funds.

Mr. Lee stated that an unaudited examination of the loan programs by the Legislative Fiscal Analyst showed that they are being managed properly and are serving statutory purposes. He noted that after reviewing the Enterprise Funds currently in place, the Analyst had no significant recommendations regarding the funds.

Pres. Valentine asked Mr. Allred to comment further on the recommendation to consider changing the make-up of each of the three internal service fund rate committees. Mr. Allred explained that it is important that ISF department directors remain on the rate committees, but in cases where the ISF director actually chairs the committee, this may create the perception that he or she is voting for and encouraging other committee members to vote for his or her own agency rates. One option would be to make the ISF department director an ex-officio member of the committee that can neither chair the committee nor vote on the rates.

Pres. Valentine acknowledged that the Department of Technical Services (DTS) has a similar arrangement.

Mr. Ball explained that when the Department of Technology Services (DTS) rate committee was created, the director of Finance was chosen to chair the committee to avoid any conflict of interest.

Rep. Clark asked about fluctuations in the payment structure on State Building Ownership Authority (SBOA) revenue bonds. Rich Amon stated that DCFM structures the lease payments on these bonds so that agencies have a level lease payment schedule over the life of the bonds, even though debt payments of principal and interest on the bonds fluctuate from year to year.

Co-chair Bigelow suggested that a written report be prepared that illustrates how the lease payments for SBOA bonds compare to the debt service.

5. <u>Bonding Update</u>

Rich Amon, LFA, presented the report. He commented that current market environment is deferring the short-term ability of the state to issue bonds. The State has $387 million of General Obligation bonds for critical highway needs that were scheduled to be issued on October 7. The state has canceled that issuance. As of October 3, there was approximately a $20 billion supply of unissued municipal bonds on the national market.

Mr. Amon remarked that the issuance of highway General Obligation bonds, or any other bonds, will be postponed until market conditions stabilize, which could be as late as the first quarter of calendar year 2009. On a positive note, Standard & Poor and Moody's have reaffirmed the state's AAA bond rating status.

Mr. Amon reported on outstanding General Obligation bonds, bond authorizations, debt service budgets and appropriations, the constitutional debt limit and statutory limit.

The State of Utah currently has $1.028 billion of general obligation debt outstanding and an additional $1.432 billion of authorized general obligation debt not yet issued. If all of the currently authorized bonds were issued in the next three years, there should be at least $2 billion of debt -incurring capacity remaining under the constitutional debt limit. Actual numbers will depend on the growth of the fair value of property.

The state budget for debt service in FY 2009 was $247 million - $62 million for buildings, $155 million for highways, and $30 million for lease revenue bonded buildings.

Co-chair Hillyard inquired about the high number of appeals on property tax values. Mr. Amon referenced Table 3, Constitutional Debt Limits, which shows a 20% jump in the fair market values of homes from the 2006 to the 2007 tax year. The 2008 tax year numbers have not been finalized but there is the potential that property values have decreased, which could lower the constitutional debt limit.

Rep. Clark asked how long the state can support a delay in issuing bonds before transportation projects are impacted.

John Njord, Department of Transportation, stated that delaying the issuance of transportation bonds until January, 2009, should not impact projects; however, going beyond January could impact projects and delay schedules. He thought that it would wise and prudent to wait to avoid high interest rates. If the delay continues, then the department would have to prepare a list of projects that will be delayed until the market changes.

Rep. Clark requested that the Department of Transportation prepare a list of projects to be delayed that can be presented to the Executive Appropriations Committee in November. Mr. Njord indicated that he would be happy to come back and talk about those projects.

6. <u>21st Century Workforce Initiative</u>

Gayle McKeachnie, Governor's Office, presented the report on the Governor's 21st Century Workforce Initiative. The Initiative addresses the increasingly important need to connect education in Utah with workforce needs, particularly in a globally competitive environment.

A Globally Competitive Workforce Steering Committee has met regularly since May 7, 2008 to provide ongoing planning, feedback and guidance for initiative activities.

Smart Sessions comprised of individuals nominated by the Steering Committee convened to discuss the topics of governance, finance, education management systems, teaching, early childhood education, and curriculum.

Mr. McKeachnie highlighted a number of Smart Session findings and recommendations.

- There needs to be better coordination and communication between governing bodies.

- Many entities are competing for the same dollar and there is a need to more fully understand the legislative approval process.

- In regards to education management systems, the dissemination of information needs to be streamlined using a "common language."

- One-half of all new teachers leave the profession within the first five years, and many do not survive the first year. This raises questions about recruitment and training. Possible reasons for leaving include the lack of classroom mentors and underestimating the leadership role principals play in retaining teachers.

- Experts in the field of early childhood education lack public and political support to implement the things they already know they need to do.

- While Utah has a higher graduation rate compared to other states, approximately 5,500 students drop out of the 10th, 11th, and 12th grades each year. Less than half of high school graduates enroll in some type of post secondary training. Of those that do enroll, many have difficulty completing their first year or showing up the second year. They become a part of the workforce often times needing the assistance of Department of Workforce Services or rehabilitation, or in the criminal justice system. There is a need to bridge the "canyon" between high school and post secondary education.

- Curriculum changes in public education, including testing, can take from 5-7 years to implement.

Mr. McKeachie noted that the 21st Century Workforce did not include the topic of assessment because it was addressed by the Governor's Blue Ribbon Task Force. He did point out the Blue Ribbon Task Force focused on how students are tested. He felt that it would be important to evaluate the use of testing throughout the entire learning process and transition into the workforce.

Mr. McKeachnie stated the Steering Committee will report Smart Session findings and recommendations to the Governor.

Co-chair Hillyard inquired about the level of commitment of participating parties. Mr. McKeachnie pointed out that a variety of disciplines are represented in the Smart Sessions and that consensus thinking has been achieved. Overall, the interest level has been enthusiastic.

Mr. McKeachnie commented further that many improvements can be made without much money and new legislation. He suggested that there needs to be better coordination and a shared common language among entities with vested interests in education and economic development.

7. <u>Other Business</u>

Co-chair Bigelow informed the committee that five written reports have been included in the committee binders for consideration. They are as follows: (1) USTAR Annual Report including Bonding Update; (2) Department of Health Report on Grant Program for Bleeding Disorders; (3) Report on State Daily Incarceration Rate; (4) Quality Growth Commission Annual Report on Disbursement from the LeRay McAllister Fund; and (5) Commission on Aging Annual Report.

If committee members have any questions or concerns regarding these reports, they may contact the EAC chairs or the departments directly.

Co-chair Bigelow recognized Co-chair Hillyard for a motion.

> **MOTION:** Co-chair Hillyard moved to adjourn. The motion passed unanimously with Pres. Valentine and Speaker Curtis absent for the vote.

Co-chair Bigelow adjourned the meeting at 2:50 p.m.