MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS COMMITTEE MEETING
June 22, 2010 at 1:00 P. M.
Room 445, State Capitol, State Capitol Complex

Members Present:	Sen. Lyle W. Hillyard, Co-Chair Rep. Bradley G. Last, Vice Chair Sen. Daniel R. Liljenquist, Vice Chair Rep. David Clark, Speaker Rep. Douglas C. Aagard Rep. Brad L. Dee Rep. James R. Gowans Sen. Scott K. Jenkins Sen. Patricia W. Jones Rep. David Litvack Sen. Peter C. Knudson Rep. Rebecca D. Lockhart Sen. Karen Mayne Rep. Carol Spackman Moss Sen. Wayne L. Niederhauser Sen. Luz Robles Sen. Ross I. Romero Rep. Jennifer M. Seelig Sen. Michael G. Waddoups, President
Members Excused:	Rep. Ron Bigelow, Co-Chair
Staff Present:	Jonathan Ball, Legislative Fiscal Analyst Steven Allred, Deputy Director Greta Rodebush, Committee Secretary
Speakers Present:	Tenielle Young, Governor's Office of Planning and Budget Sal Petilos, Department of Administrative Services Gary Robertson, Division of Fleet Operations Rick Schwermer, Administrative Office of the Courts Patrick Lee, Office of the Legislative Fiscal Analyst Evan Curtis, Governor's Office of Planning and Budget Dr. Andrea Wilko, Office of the Legislative Fiscal Analyst Dr. Thomas Young, Office of the Legislative Fiscal Analyst Stan Eckersley, Office of the Legislative Fiscal Analyst Sen. Wayne L. Niederhauser

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

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

1. Call to Order/Approval of Minutes

Vice Chair Last called the meeting to order at 1:16 p.m. Co-Chair Bigelow was excused from the meeting.

Vice Chair Last called attention to a "pocket edition" of the 2010-2011 Appropriations Report placed in the committee binders. This edition is more portable and contains the major budget changes minus the detail tables and program descriptions found in the original report.

> **MOTION:** Co-Chair Hillyard moved to approve the minutes of the Joint Executive Appropriations Committee meeting on May 18, 2010. The motion passed unanimously with Sen. Jenkins and Sen. Robles absent for the vote.

2. Federal Funds/ARRA/Non-Federal Grants Reports

Tenielle Young, Governor's Office of Planning and Budget, presented the Federal Funds Report through May 31, 2010. There were seven new grants and four reapplications of existing federal grants requiring legislative action. In addition, the Governor's Office approved seven new federal grants and eight reapplications of existing grants.

Ms. Young presented the ARRA Federal Funds Report. There were no new ARRA grants and no reapplications of existing grants requiring legislative action. There were no new ARRA grants or reapplications approved by the Governor's Office.

Ms. Young presented the Non-Federal Grants Report. There were no new grants and one reapplication of an existing grant requiring legislative action. The Governor's Office approved one new grant and no reapplications of existing grants.

President Waddoups inquired about the previously approved non-federal grant, Item 1 in Appendix C, Department of Administrative Services, Clean Cities Petroleum Reduction Technologies Projects for the Transportation Sector. The annual non-federal grant award is $1,149,460 with a state match of $3,870,000.

Sal Petilos, Deputy Director, DAS, introduced Gary Robertson, Acting Assistant Director, Division of Fleet Operations. Mr. Robertson explained that the Division would be purchasing Compressed Natural Gas (CNG) vehicles and upgrading six fueling stations with new technology. The Division had originally planned to build two new fueling stations but decided not to because of cost.

Jonathan Ball, LFA, commented that the state match for this grant was not correct. Mr. Robertson confirmed that the state portion should be adjusted to about $2.7 million, making the grant total, with state match, $3.87 million. Ms. Young stated that she would get the exact numbers and update the report.

President Waddoups inquired about the 25 percent in-kind match provided contractually by the Utah Division of Substance Abuse and Mental Health (DSAMH) to the Third District Dependency Drug Court

Program. Rick Schwermer, Assistant Court Administrator, Administrative Office of the Courts, stated that the Courts had just coordinated the contractual arrangement with DSAMH. Courts needed to determine DSAMH's source of funds, in this case, Tobacco Settlement Funds, before it authorized the purchase of services.

Rep. Lockhart asked about the purchase of state fleet CNG vehicles in relation to the number of fueling stations. President Waddoups explained that while there are a number of fueling stations along the Wasatch Front and in other locations, increasing the number of stations will expand the distances these vehicles can travel. In addition, upgrading the compressors at each site will reduce the wait time for refueling.

Mr. Robertson stated that cost and the current availability of retail and state-owned sites were factors in deciding not to build two new sites. President Waddoups pointed out that state fleet can also use GasCards to purchase fuel at public stations.

Rep. Seelig asked if there were other numbers that needed correcting. Ms. Young stated that she was not aware of any other corrections.

Co-Chair Hillyard said that it would be helpful to receive the Federal Funds Reports by Wednesday in the week preceding an Executive Appropriations Committee meeting. This would give the agencies operating on a four-day workweek, time to respond to legislators' questions.

> **MOTION:** Co-Chair Hillyard moved to recommend acceptance of the federal and non-federal grants as outlined on page 1, "Federal Funds Review and Approval" under the heading, "Grants Requiring EAC Review and Recommendation" and dated today, June 22, 2010. The motion passed unanimously.

3. Update on Federal Funds Received through ARRA - Tracking Appropriations and Expenditures

Patrick Lee, LFA, introduced three reports from the Governor's Office of Planning and Budget: "Agency Statistics through 3/31/2010," "Expenditures through 3/31/2010," and "Recovery Act Funds Awarded to Utah."

Evan Curtis, GOPB, distributed a revised copy of the "Agency Statistics through 3/31/2010," and gave an update on the Recovery Act Funds in Utah.

Mr. Curtis stated that the management of these funds is a case in point of why Utah is the best-managed state in the nation. Unlike other states that have had to set up recovery offices and change bureaucracies, Utah is using existing infrastructure and management systems, including the state transparency website to manage ARRA funds. Throughout this process, the Governor's Office has received positive feedback from the State Auditor's Office, the federal government, and the White House.

Mr. Curtis discussed the "Agency Statistics through 3/31/2010" report. The federal government awarded Utah more than $1.5 billion in ARRA funds. Of that amount, Utah has spent a little more than $1 billion, including funds for Federal Medical Assistance Percentages (FMAP) and Food Stamps. The agencies reported 4,382 jobs created or saved for the quarter ending 3/31/2010.

Mr. Curtis stated that the "Expenditures through 3/31/2010" report lists the ARRA awards by project name, agency, funds awarded/expended, and jobs created. Finally, the "Recovery Act Funds Awarded to Utah" report breaks out each grant award by program title and program description. All three reports will be updated and submitted to the federal government by July 14, 2010.

Committee discussion

Co-Chair Hillyard asked about the "Agency Statistics" report that shows some state agencies spending more than they had received. Mr. Curtis explained that most of the Recovery Act Funds come in on a reimbursement basis. The agencies spend the money, and then ask to be reimbursed.

Co-Chair Hillyard asked what kinds of jobs have been created. Mr. Curtis stated that the State Fiscal Stabilization Fund for Education preserved more than 3,000 teaching jobs within the universities and local school districts. The Department of Community and Culture created more than 233 jobs in weatherization, community development, and the arts.

Mr. Curtis went on to explain that jobs "created or saved" could be described as jobs "funded"- full time equivalent hours funded by Recovery Act dollars.

President Waddoups asked how many of these jobs were "new" jobs. Mr. Curtis stated that he did not have a specific number, but suggested that most of the jobs in transportation are new, while those in education are preserved.

President Waddoups commented that the $392 million award to the State Fiscal Stabilization Fund for Education may not have been what the Legislature had appropriated. Mr. Ball indicated that the amount awarded by the federal government was about $8 million more than what the Legislature had appropriated.

Sen. Robles inquired about the two listings on the "Agency Statistics" report for the Department of Human Services, and if the funding pays for direct services. Mr. Curtis explained that the database generated two different reports because the Department was listed with slightly different names. He clarified that in most instances, the combined funding will pay for direct services.

Rep. Seelig asked for more information on the criteria used to determine which jobs were maintained and which were not. Mr. Curtis stated that the agencies primarily make those decisions based on the requirements set forth in the grant agreements. In the case of education, the funding was budgeted into salaries and benefits. Mr. Curtis said that he would look into providing that information.

Speaker Clark asked about the formula for job creation. Mr. Curtis stated that the White House uses a formula based on the number of ARRA-Funded hours worked divided by the number of hours in a full time schedule for the quarter. Speaker Clark was not certain that the formula had value to what was going on in Utah. Mr. Curtis indicated that other states are discussing the relevancy of this formula as well.

4. <u>Revenue Update</u>

Dr. Andrea Wilko, LFA, and Dr. Thomas Young, LFA, presented the "June 2010 Revenue Update," that included a two-part discussion on tax collections and economic indicators.

Collections

Based on current estimates, Dr. Wilko stated that General/Education Fund revenues for FY 2010 will be $50 to $150 million below February targets. The Legislature addressed the potential shortfall in the 2010 General Session to ensure that the budget could be balanced between FY 2010 - 2011.

There are several reasons for the possible shortfalls including labor market conditions, credit constraints, and construction issues. The deficit is primarily centered on individual income tax. Since individual income tax affects the consumer, below trend General Fund growth is expected in the coming fiscal years. However, the employment picture is improving, and Utah should emerge from negative growth by calendar year 2011.

Dr. Young stated that General Fund collections are expected to be $0 to $50 million below February targets. Slow wage growth and lack of consumer confidence have led to sales tax declines. Insurance premiums are below target due to a shift in the demand for insurance products. And finally, severance taxes are above target but will not reach the level where money is transferred to the permanent state trust fund.

Dr. Wilko stated that Education Fund collections are expected to be below targets by $50 to $100 million in FY 2010. A higher than expected drop in final income tax payments is largely responsible for the Education Fund deficit. Although wages appear to be moderating, non wage sources of revenue are still declining. Corporate tax collections are coming in above target due in part to improvements in productivity brought about by decreasing labor costs.

Sen. Jones asked what percentage of the income tax is corporate income tax. Dr. Wilko stated that about 10 percent of the Education Fund is corporate tax.

Economic Indicators

Dr. Wilko stated that the major factor driving the revenue shortfall is the labor market. At the peak of unemployment there were significant job losses. The employment growth rate hit bottom at a lower rate than anticipated, -5.1 percent as compared to -4.9 percent. While there are signs of a modest recovery in employment, progress is slow and U shaped.

Many of the jobs showing up in the national labor report are temporary Census workers. This masks the actual strength of the recovery. In Utah, an estimated 2,100 monthly jobs are necessary to prevent a further eroding of the unemployment rate.

Dr. Wilko also discussed productivity and unit labor costs. Companies are enhancing employee productivity and profits by cutting costs and decreasing employee pay and hours.

Committee discussion

Sen. Jones asked if there was any qualitative data to show that employers are using the economy as an excuse to let a less productive worker go. Dr. Wilko said that she hasn't seen or looked for any studies of that nature, but will see what is available.

Sen. Jones commented that education and training are extremely important to retain and maintain a high quality work force.

Sen. Jenkins asked about the unemployment rate. Dr. Wilko said the unemployment rate is 7.2 percent.

Sen. Mayne commented that companies are taking advantage of the recession by downsizing and taking away benefits.

Economic Indicators (continued)

Dr. Young discussed business and consumer credit conditions. He stated that tight credit markets continue to constrain consumer and business spending, particularly small businesses. Revolving debt, which includes credit card borrowing, has been declining for 19 consecutive months.

Dr. Wilko stated that the construction sector remains under pressure. Nonresidential markets looking to refinance are faced with significantly lower valuations and tighter credit. Builders are having difficulty getting land and construction financing. Home prices have depreciated and 21 percent of homeowners have negative equity in their home. However, residential construction is beginning to show growth, and dwelling permits show improvement.

Dr. Young reviewed four factors affecting national and international economic growth: government and consumer debt, slow growth, income and employment rigidities, and lack of confidence and uncertainty. He discussed general deficit reductions needed to bring national government debt closer to sustainable ranges.

Committee discussion

Co-Chair Hillyard asked how the economic climate in Europe is impacting Utah. Dr. Young stated that Europe is likely headed for a "double dip" recession. European problems could decrease the U.S. Gross Domestic Product (GDP) growth rate by one to 1.5 percent. Co-Chair Hillyard thought it would be important to look at Utah businesses that export to Europe.

Rep. Moss asked how contract employment will affect the unemployment rate. Dr. Wilko stated that employment numbers will go up when individuals who have lost their jobs opt for contract work. Employed workers generate revenue. On the other hand, loss of benefits becomes an issue because many of these people are self employed.

Sen. Jenkins asked if the United States could follow Europe into a "double dip" recession. Dr. Young reiterated that the U.S. may see a drop in the GDP from one to 1.5 percent as Europe "double dips." The United States like Europe represents about one-fifth of the world's economic output, and will be affected. Dr. Wilko stated that Europe's "double dip" will slow the pace of the recovery in the U.S.

Sen. Liljenquist asked if there is any reason to believe that our debt crisis is any different from Europe's sovereign debt crisis. Dr. Young said that the U.S. needs to reduce its debt level by 8.8 percent of GDP or about $1.5 trillion by 2020, which would bring the U.S. debt down to 60 percent of GDP. He suggested a number of ways the debt crisis could play out.

Sen. Niederhauser quoted a statement made by Alan Greenspan in the June 18, 2010 issue of Wall Street Opinion, which says that "perceptions of a large U.S. borrowing capacity are misleading." Sen. Niederhauser stated that further borrowing would put the U.S. in a tight situation and in jeopardy of default at some point.

Dr. Wilko discussed the most recent EARL Report. The Revenue Assumptions Committee in February forecasted a decline of 7.5 percent in total revenues. As of June 14, revenues were down 9.4 percent. The consensus group decided on a deficit range of $50 million to $150 million, with 9.4 percent about midpoint of that range.

5. <u>Follow-up Reports - Fiscal Notes and Building Blocks</u>

Stan Eckersley, LFA, presented the "Fiscal Note and Building Block Follow-Up Report." He noted that one benefit to the follow-up report is that state agencies are more responsive and more accurate on their fiscal notes.

Mr. Eckersley stated that the improved report includes both fiscal notes and building blocks, the analyst's name, a money line, and a performance measure section. The report is organized by session, bill number, and building block, and includes follow-up descriptions on implementation and accuracy.

Mr. Eckersley also discussed the criteria used to determine compliance as red, yellow, or green.

Mr. Eckersley stated that LFA does not follow up on every bill and building block. If legislators want other bills included in the report, they can contact LFA.

Rep. Seelig wanted to know how LFA got around the agency self-reporting. Mr. Eckersley responded that it is a difficult problem and that regular staff visits to the agencies seemed to be the best solution.

6. <u>Performance Review Notes on Bills</u>

Sen. Niederhauser discussed outcome-based accountability within the context of the "21st Century Governance" presentation.

Sen. Niederhauser explained that good governance for the 21st century encompasses long-term based policy, collaboration between entities, transparency, and outcome-based accountability. The objective of outcome-based accountability is to create a process that measures and focuses on results, fits within current systems, and uses existing resources.

Sen. Niederhauser has been working on some proposed legislation that would require a "Performance Review Note" on bills that create new agencies or programs. The performance review note would include short and long-term outcomes and measurements provided by the sponsor or organization. The Legislative Auditor General would be tasked to compare actual measurements with expected outcomes and recommend sunset dates if needed.

Ultimately, performance review would affect the existing/base budget process as well. Using the present appropriations subcommittee system, the committee chairs would work with staff to select programs for a four-year review. Programs would have to justify their existence using objective, reliable data to substantiate outcomes and results. The subcommittees could view the progress of the programs in real time as information is posted to the transparency website.

Sen. Niederhauser stated that outcome-based accountability will help legislators effectively appropriate precious tax dollars, increase their ability to prioritize, efficiently use revenue, and reduce the need to micro-manage.

Steven Allred, Deputy Director, LFA, explained the "Performance Review Note" in greater detail and reviewed the information packet behind Tab 6. He summarized how performance measurement is being done in Utah; how it can be used to strengthen the budget process in general; how questions can be asked to strengthen accountability; and how New Mexico has implemented performance measurement in its budget process.

Committee discussion

Rep. Seelig underscored the importance of using qualitative and quantitative measurements.

Sen. Niederhauser stated that performance review puts the accountability back onto the programs. He gave the example of Washington State where the legislature budgets are based on results and outcomes.

Sen. Mayne spoke in favor of outcome-based accountability.

Sen. Robles stressed the importance of having measurable outcomes. She pointed out that there will be a learning curve associated with the development of this process.

Rep. Moss stated that it would be important for the minority party to have some input in determining which programs will be reviewed. Sen. Niederhauser commented that the subcommittee chairs would be making those decisions based on the advice and consent of the committee.

Rep. Moss commented on the challenge of finding a balance between micro-managing and the ability to innovate. Sen. Niederhauser stated that a performance review will not be any more difficult than reviewing line items. In fact, this approach will free up some time to focus on outcomes and results. He would be in favor of more appropriations subcommittees meetings to address the budget. Rep. Moss concurred with Sen. Niederhauser on this issue.

Sen. Liljenquist thanked Sen. Niederhauser for his work on this legislation. He stated that having an in-depth, clear process that sets forth goals and expectations, will transform the way we do business. The real trick will be to end some of the programs that do not work.

Sen. Niederhauser asked if he had the support of the Executive Appropriations Committee to continue working on this bill.

Vice Chair Last stated that Sen. Niederhauser had the support of the Committee.

7. <u>Other Business</u>

Vice Chair Last called attention to the memorandum, "Follow up to Legislative Questions on May 2010 EAC Presentation on Federal Health Care Reform."

Vice Chair Last reminded the committee that the next meeting will be August. He recognized Co-Chair Hillyard for a motion.

> **MOTION:** Co-Chair Hillyard moved to adjourn. The motion passed unanimously.

Vice Chair Last adjourned the meeting at 3:00 p.m.