MINUTES OF THE
JOINT EXECUTIVE APPROPRIATIONS COMMITTEE

Tuesday, November 15, 2011 - 1:00 p.m. - Room 445 State Capitol

Members Present:
Sen. Lyle W. Hillyard, Co-Chair
Rep. Melvin R. Brown, Co-Chair
Sen. Kevin T. Van Tassell, Vice Chair
Rep. John Dougall, Vice Chair
Sen. Scott K. Jenkins
Sen. Patricia W. Jones
Sen. Peter C. Knudson
Sen. Karen W. Morgan
Sen. Wayne L. Niederhauser
Sen. Ross I. Romero
Sen. Michael G. Waddoups, President
Rep. Brad L. Dee
Rep. Gregory H. Hughes
Rep. David Litvack
Rep. Brian S. King
Rep. Rebecca D. Lockhart, Speaker
Rep. Ronda Rudd Menlove
Rep. Christine F. Watkins

Members Excused:
Sen. Benjamin M. McAdams
Rep. Jennifer M. Seelig

Staff Present:
Jonathan Ball, Legislative Fiscal Analyst
Steven Allred, Deputy Director
Greta Rodebush, Legislative Secretary

Note: A list of others present, 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 Brown called the meeting to order at 1:14 p.m. No action was taken on the minutes at this time.

2. GOPB In-depth Review: Treatment of Capital Expenditures in the Budget (Agenda Item 3)

Kimberlee Willette, Governor's Office of Planning and Budget (GOPB), presented the report.

GOPB distributed a memorandum to the Executive Appropriations Committee from Ron Bigelow, Executive Director, GOPB, subject title, "In-Depth Budget Review," dated November 15, 2011. The in-depth budget review included an executive summary, methodology, and recommendations.

Ms. Willette explained that the focus of the in-depth budget review was to analyze how to display full programmatic information, including bond proceeds, in capital budget areas. The GOPB looked at how the Utah Department of Transportation (UDOT) and the Division of Facilities Construction and Management (DFCM) currently track funding for capital projects and determined that these agencies have most of the programmatic data but do not maintain the information in a consolidated report.

GOPB recommended that the agencies use GOPB's Budget Prep to prepare a budget for all funds connected to capital projects. In addition, the agencies should provide a document showing project projections, such as: agency contributions, bond proceeds, and bond premiums per fiscal year, including non-state funded projects.

Ms. Willette reviewed some reporting examples for the UDOT in Appendix 1.

Sen. Morgan asked when the projects in the Centennial Highway Fund will be completed, given that there is an estimated FY 2013 closing fund balance of $43,986.

Carlos Braceras, Deputy Director, UDOT, reported that the last Centennial Highway Project located at 114th South is near completion. He indicated that maintaining a balance in the account is important because it takes a while to reach financially close out on projects. Sen. Morgan expressed her appreciation to the UDOT.

3. DHRM Compensation Study (Agenda Item 4)

Jeff Herring, Executive Director, Department of Human Resource Management (DHRM), offered some introductory remarks and introduced the Hay Group, an independent consulting firm that conducted a formal review of total compensation including salary and benefits for state employees.

Neville Kenning, Vice President Public Sector Consulting, Hay Group, and Malinda Riley, Benefits Consultant, Hay Group, reported on the study findings.

The committee viewed a slide presentation entitled, "Total Compensation Market Survey and Analysis Study Presentation to Legislative Committees."

Mr. Kenning reported that the main objective of the total compensation market survey and analysis was to establish a basis for determining the appropriate salary/benefit mix for current employees, current retirees, and future employees. The study also looked at paid time off (PTO), retiree health insurance benefits, and pay for performance.

The Hay Group conducted the study using 162 benchmark positions and multiple sources of compensation comparative data. The market analysis on salary showed that the current actual pay for state employees is approximately 10.5 percent behind the market average.

Ms. Riley reported that health care and retirement, the two primary drivers for overall market competitiveness are at or above market median relative to both the Utah and Central States market. Overall, the State's benefit program is at the 75th percentile for Utah companies and between the 50th and 75th percentile when compared to Central States. Death, disability and paid leave (holiday/vacation) are also competitive while other benefits such as tuition reimbursement, dependent care, or commuter subsidies, are below market value.

Mr. Kenning noted that Utah's market position of health care and retirement is driven primarily by low employee contributions and the new Tier 2 Hybrid retirement benefit.

Representative Dougall asked for more information on the 63 public and private organizations surveyed by the Hay Group.

Ms. Riley discussed total compensation comparisons at $30,000, $45,000, and $70,000 salary levels. Findings show that the State's total compensation program is market competitive when compared to both the Hay Group market and the Central States market.

Ms. Riley also addressed paid time off (PTO), sick leave accrual, and post retirement medical (PRM). Utah's traditional paid leave system reflects current market practice. Only 16 percent of surveyed organizations have a PTO program in place. The Hay Group did not recommend changes to the state's vacation and holiday policy.

Ms. Riley noted that any changes to the state's sick leave policy must be considered in conjunction with the post-retirement medical benefit (PRM) due to its linkage to the subsidy of PRM. Overall, Utah's retiree health care program is in line with the Central States market practice, as 92 percent offer some type of retiree coverage. However, only 48 percent of the Utah market provides retiree coverage. With regard to eligibility determination for PRM, the state is not aligned with market practice. Age and service are the most prevalent eligibility determinants in the market, not accumulation of sick leave as the state does.

The Hay Group raised a number of key questions on the state's sick leave/post retirement program and proposed five options for change the Legislature may want to consider.

Mr. Kenning concluded his remarks by discussing the prevalence of pay for performance in state government. He indicated that the percentage of states that will move to a performance based pay plan will likely increase due to the increased focus on accountability and measurable outcomes for government.

Mr. Kenning, Ms. Riley, and Mr. Herring responded to committee questions on the suggested changes to the sick leave/post retirement medical plan.

Senator Jones asked if educators were included in the pay for performance analysis. Mr. Kenning indicated that they were not.

Co-Chair Brown recognized Co-Chair Hillyard for a motion.

MOTION: Co-Chair Hillyard moved to refer the DHRM compensation study to the Retirement and Independent Entities Appropriations Subcommittee for further consideration. The motion passed unanimously with Rep. Dougall absent for the vote.

MOTION: Co-Chair Hillyard moved to approve the minutes of the October 18, 2011 meeting. The motion passed unanimously with Rep. Dougall absent for the vote.

4. Federal/Non-federal Grants Reports (Agenda Item 2)

Jill Flygare, Governor's Office of Planning and Budget (GOPB), presented the Federal/Non-Federal Grants Reports dated November 15, 2011. There were no new federal grants and one continuation of an existing federal grant requiring legislative action. The Governor's Office approved two new federal grants.

Ms. Flygare noted that there was one reapplication on an existing non-federal grant requiring legislative action with the Department of Human Services, Systems Improvement to Promote Permanency and Wellbeing Grant. She indicated that this grant was listed as a new grant on the Federal/Non-Federal Grants Reports, but the department had notified the GOPB that the grant was a reapplication.

Gary Syphus, LFA, reported that the Judicial Council had submitted one new federal grant request and approved one continuation of an existing non-federal grant request.

MOTION: Co-Chair 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, November 15, 2011. The motion passed with Rep. Dougall and Rep. Hughes absent for the vote.

5. Employee Leave Liability

John Reidhead, Executive Director, Division of Finance, and Marcie Handy, Assistant Comptroller, Division of Finance, presented the report.

Mr. Reidhead stated that intent language directed the Division of Finance to consult with DHRM to consider ways to pay down or address the long term liability for state employee sick leave. The division was to report back to the Retirement and Independent Entities Appropriations Subcommittee by November 2011.

Mr. Reidhead discussed three types of sick leave liability: Program I (75 percent), Program I (25 percent) and Program II, which were created by H.B. 213 in the 2005 General Session. The Legislature is funding Program I (75 percent) liabilities, and assets are accumulating in the Post-Retirement Benefits Trust Fund to pay for future benefits. As of 12/31/2010, the liability was approximately 22 percent funded.

Program I (25%) and Program II are paid out of the vacation/sick leave termination pool on a pay-as-you-go basis. Program II's liabilities are growing by $10.5 million per year. However, the rate of growth in the number of hours employees are accumulating under Program II is slowing. The estimated annual cost to fund Program I (25 percent) and Program II is $26.2 million or 3.07 percent of payroll.

The division suggested alternatives such as using the Post-Retirement Benefits Trust Fund to pay for sick leave liabilities, capping the number of sick leave hours that can be paid out at retirement, de-linking the benefit from sick leave hours, and avoiding changes that would limit federal participation or impact taxability of programs.

Sen. Niederhauser asked for a clarification on the value of Program I and Program II sick leave hours.

Jonathan Ball, LFA, asked if the reported savings in the Annual Required Contribution for Program I (75 percent) could be used to address the unfunded liabilities in Program I (25 percent) and Program II. Mr. Reidhead stated that this would help offset any new expenditures.

MOTION: Co-Chair Hillyard moved to refer the Employee Leave Liability study to the Retirement and Independent Entities Appropriations Subcommittee for further consideration. The motion passed unanimously with Rep. Dougall and Rep. Dee absent for the vote.

6. Policy on Property Valuation in the Constitutional Debt Limit

Richard Ellis, State Treasurer, followed up on EAC July discussions about the constitutional debt limit and priority of debt service payments. In the Issue Brief, "Update on State Debt," the Analyst recommended clarifying how to calculate the constitutional debt limit, and codifying the priority of payment on debt service.

Mr. Ellis discussed the priority of payments supported by a handout entitled, "Priority of Debt Service

Payment." He explained that many large investors have asked if Utah has any priority of debt service payments in its laws. While the state has practices in place, they are not codified. Mr. Ellis suggested that the state could make priority of payments a constitutional priority or a statutory priority by designating debt service as the first item for which funds are appropriated. In regards to a statutory priority, if direct annual property tax is abated, and funds are insufficient to pay debt service, another option would be to provide a continuing appropriation and continuing authority to the State Treasurer and Director of Finance to make necessary transfers out of or disbursements from the revenues and funds of the state.

Mr. Ellis indicated that certain investors would appreciate some of these changes and might even buy more bonds. However, the value is only marginal.

Mr. Ellis went on to discuss the development of a debt management policy. He stated that bond rating agencies look to see if states have a debt management policy, and that all AAA rated states have a debt management policy with the exception of Utah. He noted that Utah has institutional practices going back many years, but the state does not have a policy in place.

Mr. Ellis presented a draft policy entitled, "Debt Management and Debt Affordability Policy." The draft policy includes detail on how to calculate the constitutional debt limit and sets targets for state debt levels.

Mr. Ellis stated that Utah's outstanding debt is running at about 87% of the constitutional debt limit. He pointed out that while the rating agencies may look at the constitutional debt limit, they are more concerned about outstanding debt as a percentage of personal income or per capita. Within the last few years, Utah has added about $2 billion worth of debt. When compared to other AAA rated states, Utah's per capita debt service is very high. He recommended that the state move forward with caution, suggesting that we set the debt per capita around $750.

In response to committee questions, Mr. Ellis discussed the status of callable bonds, how land values impact bond issuance, paying for Utah's contingent liabilities, recommended debt levels and implied future bond issuance, and the prevalence of debt management policies.

Speaker Lockhart asked for a clarification on Recommended Debt Levels and Implied Future Issuance charts. Mr. Ellis stated that the bond rating agencies are comfortable in seeing large authorizations for infrastructure, just as long as those obligations are paid down to more normal levels.

Jonathan Ball, LFA inquired about the calculation of the constitutional debt limit and the timing of the State Tax Commission's report on taxable value property. He also asked if green belt is included in the assessment. Mr. Ellis stated that green belt is included in the assessment at taxable value and not fair market value. Co-Chair Brown commented that local county assessors attach a fair market value to green belt property and that it might be reasonable for the State Tax Commission to do the same.

7. Revenue Volatility Report

Co-Chair Brown stated that the Revenue Volatility Report would be heard in the December EAC meeting.

8. Funds Expended on Services to Low Income Individuals and Families

Mark Bleazard, LFA, reported that the state provided more than $2.7 billion in financial assistance or services to low-income individuals and families in FY 2011. This amount included $402.3 million from the General Fund and the Education Fund, and $1.95 billion from federal funds.

Mr. Bleazard pointed out that the various agencies throughout the state have different standards by which they define low-income. To ensure future reports to the Executive Appropriations Committee are consistent, the Analyst recommends that the Legislature may want to amend statute to define low-income.

Mr. Bleazard also noted that the Analyst's Office has produced two additional reports that examine services available to low-income individuals, "Social Services Review" and "Safety Net Services for Low Income Populations."

9. Other Business

There were no other items of business.

MOTION: Co-Chair Hillyard moved to adjourn. The motion passed unanimously with Sen. Knudson, Sen. Morgan, Rep. Dougall, and Rep. Dee absent for the vote.

Co-Chair Brown adjourned the meeting at 3:03 p.m.