

**MINUTES OF THE INTERIM JOINT PUBLIC EDUCATION APPROPRIATIONS
SUBCOMMITTEE
TUESDAY, JANUARY 8, 2002, 9:00 A.M.
ROOM 129, STATE CAPITOL BUILDING**

Members Present: Sen. Howard Stephenson, Committee Co-Chair
Rep. Marda Dillree, Committee Co-Chair
Sen. Karen Hale
Sen. Bill Hickman
Sen. John Valentine
Rep. Doug Aagard
Rep. Duane Bourdeaux
Rep. Judy Ann Buffmire
Rep. Glenn Donnelson
Rep. James Ferrin
Rep. Tom Hatch
Rep. Brad King
Rep. Karen Morgan
Rep. J. Morgan Philpot
Rep. John Swallow
Rep. Glenn Way

Staff Present: R. Michael Kjar, Legislative Fiscal Analyst
Jonathan Ball, Legislative Fiscal Analyst
Ben Leishman, Legislative Fiscal Analyst
Sandra Maeser, Secretary

Public Speakers Present: Bruce Williams, Business Administrator, Davis School District
Steven H. Peterson, Assoc. and Exec. Director, USBA/USSA
Karen Derrick, Salt Lake City School Board, USBA, SLTAR
Darrell White, Superintendent, Davis School District

Visitor List on File

Committee Co-Chair Dillree called the meeting to order at 9:20 a.m.

Co-Chair. Dillree welcomed the committee members and visitors to the meeting, which is dealing with the 2002 supplemental budget. Tomorrow action will be taken on the budget that is discussed today. Action on the supplemental budget won't be taken on the floor until after the session starts, but we will be dealing with the supplemental budget during the next two weeks. The order of presentation this year is first going to be: (1) The analysts' recommendations which will take place tomorrow. (2) A presentation from the Governor's office. (3) The agency presentations from the State Office of Education. (4) Any scheduled presentations that have been asked to be placed on the agenda. (5) Public response will also be taken on each agenda item. Limits of five minutes or less will be imposed per respondent. It is important not to be repetitive. We are interested in new information.

As the recommendations of the analysts are gone through today, there is going to be pain. These are recommendations on suggested cuts, but we want the school districts to have the flexibility to deal with them in the way that best suits them. We are into the 2002 budget and expenditures have already been made. In many instances eight months of cuts are calculated vs a full year. Throughout all the additional cuts that we will be making, in the 2002 budget there will still be an actual increase in education funding of \$131,750,000.

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1. Approval of Minutes

MOTION: Sen. Hale moved to approve the Committee Meeting minutes of November 15, 2001 and October 15, 2001, and the Site Visit minutes of September 19, 2001 and September 18, 2001, with the amendment that those who were in attendance at the site visit meetings but not the business meeting portion of those meetings, will be allowed to put their names on a separate attendance list for those days.

The motion passed unanimously with Sen. Hickman absent at the time of voting.

2. Revenue Estimates Presentation -Michael Kjar, Fiscal Analyst, discussed the graph in the Public Education FY 2002 Supplemental Recommendations Binder under Tab 4, showing the actual 2001 revenue is just over \$3.6 billion for the state. The original forecast and the revised forecast shows a drop of 202.5 million dollars. If you project over to 2003 then, even with that reduction, and some of that being ongoing reductions, you are \$81.8 million short of being at the 2002 original level. In order for the Legislature to meet not only the 2002 year, but to come in at a zero base for 2003, it will require the \$81.8 million ongoing reductions. In order for this legislature to do anything to fund growth or essential programs in 2003, it will be important to either find another source of revenue or have ongoing reductions that would carry into 2003 to be able to free up any revenue for critical issues. In public education there is a little reprieve in that there is a basic contribution levy and that has growth in it, and that will bring in about \$12.7 million this year for revenue for this committee to apply towards public education. Much of that funds the voted and board leeways, but there is about \$7 million available to fund critical items in public education, regardless of what happens. This week and next week we will deal with the 2002 budget only. Depending on the outcome of that, we can determine what the legislature can do for 2003.

Rep. Buffmire asked Mr. Kjar to repeat the information regarding additional revenue.

He responded that the local revenues for the minimum school program are not represented in the budget figures in the binder. That is over and above anything that is presented relating to the budget revenues. So it is something that this committee alone has available to it through the nature of the construction of the minimum school program and the contribution of local levies. It was about \$7.1 million in additional available revenue. That will be in the 2003 budget.

Mr. Kjar commented on Tab 4, Page 1. The Public Education Appropriations Subcommittee supplemental reduction allocation is \$51,686,900. To break out, last year the Legislature set aside \$20 million as an education protection fund. If you exclude the \$20 million, you are down to \$31 million. You are very familiar with the \$10 million in the capital outlay that the Governor had initially held back, so that will drop us down to talking primarily about \$21 million that the Executive Appropriation Committee has allocated as a share of reduction for the Public Education Appropriation Subcommittee. The \$51 million represents about a 2.9% reduction for public education. If you exclude the Education Protection Fund it is about 1.7%. Other state agencies are asked on average to have between 4-5% reduction in their budgets.

Rep. Swallow expressed concern that it will be difficult to provide quality education and still cut education. It will be critical to provide all the funds we can to public education. Even a 1.7% reduction will be tough with an increase in student population.

Co-Chair Dillree stressed the importance of coming up with suggestions or recommendations on saving or generating revenue.

Co-Chair Stephenson noted Tab 4, Page 3. Utah's corporate tax is volatile, depending on the economic situation. Over this coming session, he asked the Committee members to think about having the corporate

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tax revenues flowing into a sort of reservoir, so that we are not hitting these peaks and valleys, similar to the reservoirs we create in this desert state. Both the individual income tax and the corporate tax are dedicated for public education, but it seems we might want to re-think how we budget for the corporate tax, with a formula to count on that on a more stable fashion.

3. **Fiscal Year 2002 Supplemental Funding (Tab 5)** -Michael Kjar noted that the whole budget is open to modifications. As the Committee is aware, the Executive Appropriations Committee has recommended that you review the suggested reductions exclusive of Utilization or Rainy Day Funds, Cash Reserve, the Highway Funds, and the federal stimulus package.

Rep. King questioned whether that also includes unappropriated money from the 2001 budget.

Mr. Kjar responded that it would be taken into account. There are two types of carry-forth balances. One is unappropriated, that is the \$5 million you are talking about. Another carry-forth balance is money that has been appropriated to agencies and entities that they will not spend in the fiscal year and can therefore carry them forward to the next year. Assuming that we have \$202 million less this year than we thought we had, the reductions that were allocated were \$163 million. You can see there is an amount there that we filled with some of these things, so we won't have that money to fill our \$21 million gap.

Mr. Kjar referred the committee to Tab 5, Page 5, the Minimum School Program. We are looking at a reduction of \$18,473,500, exclusive of the Education Protection Fund. Of the total, \$8,900,000 is one-time funding in nature. The remainder is intended to be repeated, but that remains to be the decision of the Committee. There was just over \$29 million in one-time monies appropriated to public education for fiscal year 2002, so some of the issues on Page 6 deal with those one-time monies. Summary of the identified reductions or recalling for the minimum school program is:

Education Protection Fund	\$20,000,000
Teacher Supplies	200,000
Character Education	397,000 (total program reduction)
Library Media	2,500,000 (one time money)
Education Technology Initiative	5,500,000 (one time money)
FACT Restructuring	176,500
One Day Furlough	8,800,000
Applied Tech. Dist. Equipment	900,000
Re-allocation of ATE funding	1,062,500

Rep. Buffmire questioned that at a time we are losing money, how is needed technology education going to be funded.

Rep. Hatch noted that under Tab 5, 2.4, 2.5 and 2.8, how is the balance of that money dispersed to the district, or has it already been dispersed?

Mr. Kjar responded that it has been dispersed. Based on a survey of some of the districts, there were funds available to accommodate the reductions. It is unknown about all of the districts.

Rep. Philpot asked about the recommendation for a one day furlough, if constitutionally there is a requirement for a minimum number of days.

Mr. Kjar answered that these issues have been gone over with Superintendent Laing and his associates. There is a statute for a requirement for so many days of education, but it is not in the constitution.

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Co-Chair Stephenson stated that even though as a committee we may adopt these items as the method by which we send this negative supplemental to the Education Budget, it is our hope that we can have language in the statute enacting these cuts, which will be in the spirit of block grants, and will give the local school boards the flexibility they need to address the education of the students in their district in administering the cuts.

Rep. Ferrin agreed with the concept of block cutting the same as block granting, and asked what is gained by going through each of the line items.

Co-Chair Stephenson responded that it is a mechanism for distributing the cuts.

Rep. Philpot asked, regarding the one day furlough, if any consideration is given to possibility of granting one day furlough in relation to the Olympics and not having to make it up. Are there are statistics on paying the teachers and not having school?

Co-Chair Dillree answered that the issue of contracts has to be considered. It is up to individual school districts to best meet that.

Michael Kjar reviewed Tab 5, Page 10, 1.1, School Building Program. There is a \$10 million hold back in the Capital Improvement Program. There is also \$462,000 that was held out initially by the Governor in the Capital Outlay Loan Repayment Program that the State Office of Education maintains. He went over the chart on Page 12, which details how the \$10 million reduction to the Capital Outlay Program will impact school districts.

Co-Chair Stephenson commented that the first thing to be pulled back is the \$20 million Education Protection Fund, which was visionary. The second most instant thing to be pulled back was the increase in the capital outlay equalization fund. We were budgeted to increase that from the historical amount of \$28 million to \$38 million. And that is proposed to be held back. It is interesting that if you were to look at the dollar amounts in those columns, the hardest hit is Jordan at \$2.4 million, then second is Davis at \$1.9 million, third is Alpine at \$1.5 million and fourth is Weber at \$943,000. However, when you look at this proportionate to their building needs, capital outlay and debt service expenditures, the hardest hit is Box Elder at 5.4%, second is North Sanpete at 5.47 %, third is Cache at 4.9%, fourth is Duchesne at 4.45%, and then finally we get to Davis which was second highest in the dollar amount but fifth highest in the percentage impact on their capital outlay and debt service program. It would be my hope, as the economy turns around, that we would refocus on this equalization program.

Jonathan Ball, Fiscal Analyst, reviewed the Public Education Agency budgets, which include the Utah State Office of Education, Schools for Deaf and Blind, and vocational rehabilitation and arts groups. He commented that the reason for the detail is to decide what could be realistically absorbed.

Rep. Donnelson noted that on page 12, No. 37, Ogden District, showed (\$425,427), and wondered if that information was inadvertently left out on page 13. The analyst responded that that was the case.

Ben Leishman, Fiscal Analyst, discussed Charter School Funding under Tab 5, 2.5, Page 17. The \$210,000 funding was not needed.

Jonathan Ball discussed the history of public education agencies, and on Page 19 reviewed the impact for the entire committee over five years. Note that the last column on page 19 shows the difference between 2001 actual and 2002 as it would be revised, given our recommendations. It still shows a \$131,552,210 increase in 2002 over 2001.

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Co-Chair Stephenson asked, regarding the first round hold backs, what the percent on the POPS program is. Ben Leishman responded that it is a 3.5% reductions.

4. **Supplemental Appendix (Tab 6)** -Michael Kjar discussed the information under Tab 6, which are the balance sheets for FY 2000 by district. The only district in the negative is Davis School District.

Co-Chair. Stephenson stated that it needs to be noted that these balances in each district occur in different budgets. For instance, if you look at Alpine, they have a significant balance, but most of that is in capital projects funds which can't be used for M&O purposes, so we need to be careful about the assumptions we make regarding the transfer of funds.

Rep. Buffmire commented that she represents one district that self funds insurance. They have to have a reserve which they keep untouchable, in case they need it for health costs. She felt there are others things that don't make this as clear a picture as it might be, and would appreciate it if each district could inform us of the additional things.

5. **Block Granting Supplemental (Tab 7)** -Michael Kjar noted that there is another issue under Tab 7 regarding the hold harmless issue. During the interim meetings, the proposal came forward to adjust the formulas for hold harmless. He said that at this time he is only discussing the supplemental that was requested to beef up the hold harmless amount. He is not discussing at all the changes to the formulas and how they are being distributed. That will be held for the 2003 budget discussions. We are only dealing with a 2002 funding issue in terms of supplemental appropriation in this discussion. The request was to have a supplemental of some \$365,000 to fill in the gap for those districts that didn't get what they should have, and have the others keep what they had anticipated in terms of budgeting. He noted that he indicated the Governor has not recommended a hold harmless supplemental amount. At this point in time, we have not recommended a supplemental appropriation for those purposes either. He brought attention to Attachments A and B and the bottom paragraph on page 1 of Tab 7.

Sen. Hickman questioned if those districts that received more than they should have, will be required to repay that amount.

Mr. Kjar replied that there is not really a return. The State Office has monthly allocations to school districts so they would just adjust the final year end allocation.

Sen. Hickman, asked why, if as indicated, you are going to allow them to do that by rule, why would we not just include it in the legislation.

Mr. Kjar answered that it gives the State Office flexibility to make the appropriate adjustments, based on the parameters.

6. **Public Speakers:**

Bruce Williams, Business Administrator, Davis School District stated that his concern with the proposal is that if at this time of year we reallocate all of these funds that are within the block grants according to the new formula, there will be some districts who have budgeted within their current year budget a significant amount more than they are going to receive.

Mr. Kjar responded that we are really doing nothing with the block grant formulas. We are not reallocating any block grants or adjusting any of the formulas at this point. This just deals with the one piece of the supplemental.

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Co-Chair Dillree stated that Chad Harris from the Governor's Office has prepared a public education comparison sheet, where, as you proceed with the budget you can fill in what the Executive Appropriations target was.

Rep. Ferrin noted that all of the discussion today has been predicated upon a cut of about \$52 million from the prior appropriation. We are using that as a starting point because that is what Executive Appropriations came to us with. Should we be using the \$51,684,000 as a starting point, or would there be grounds to going back to the percentage increase or decrease in general fund revenues vs uniform school fund revenues and letting that be the guiding point. Mainly, if we use the 2001 budget as a baseline for 2002, we see that there is actually an increase in uniform school fund monies, but a small decrease in general fund monies. Would it be appropriate for us to start our budget process not with the \$51,684,000 but with the 2001 increase by that same percentage allocations, which would actually create more than a \$51,684,000 reductions vs the projection. While the Committee members have a particular interest in holding education harmless to the extent we can, we also have a responsibility to the rest of the areas of state government. Or should we increase the appropriation for public education to the same degree that uniform school fund revenues are increased.

Sen Hickman responded that within state government there are certain functions and services that we assign higher priorities than others. Public education, higher education and health and human services have been elevated to a higher priority than other services of state government. Also, there would be chaos if each subcommittee of Executive Appropriations determined their own means of budgeting.

Co-Chair Stephenson explained that a lot of this cutting has been done with the idea that it is temporary, even though we are not using the existing Rainy Day Funds. Rep. Ferrin's comments have illustrated that the Executive Appropriations Committee is attempting to hold education more harmless than other kinds of expenditure areas.

Rep. Ferrin responded that we are not really talking about cuts in the education budget, we are talking about cuts vs what had been exceedingly optimistic projections, particularly in the Uniform School Fund. This is only a shortfall from what had been projected and not a crisis.

Co-Chair Dillree pointed out that the decisions made on the Rainy Day Fund, the Centennial Fund, and some of the other decisions to make education a priority, are not just decisions made by Executive Appropriation or leadership. These were positions that were taken by the majority caucus, and all of us in the majority assume that position. We do not see this as an emergency to dip into the Rainy Day Fund.

Rep. King compared the shortfall to people's individual 401K plans.

Co-Chair Dillree asked for comments from the audience.

Bruce Williams, Business Administrator, Davis School District, spoke. On Tab 5, Page 5 under 1.0, Minimum School Program, it addresses the \$18,473,500 cut and then indicates that \$8,900,000 is one-time in nature, which would leave as ongoing reductions \$9,573,500. That needs to be clarified if it is one-time only or ongoing. As a budget officer of a school district, he either has to make a cut in something nonrecurring or needs to make permanent cuts, such as staffing.

Mr. Kjar responded that that is going to have to be a decision of this legislature. He considers everything one-time. All of these changes are incremental.

Steven Peterson, Utah School Board Association and Utah School Superintendents Association,

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shared recommendations of the Utah School Board Association and Utah School Superintendents Association. He prioritized his ideas: (1) There may still be the possibility to look at ways to not have further cuts in public education. (2) In making additional cuts, he recommended that up to \$10 million be taken from Senate Bill 61 out of the 2001 Legislative session, which provides additional funding for technology and science advancement awards for teachers. This is new money and even though it is a worthy goal, funding should be taken from that. (3) If additional funds are needed, they be taken from the Rainy Day Fund. (4) If budget cuts are imposed on locally elected school boards, leave it up to their discretion to determine where the cuts should be made.

Karen Derrick, Board member, Salt Lake School District, Salt Lake-Tooele Applied Technology Board of Trustees, expressed concern about the reallocation of ATC funding for secondary students on Page 8, Tab 5. This would be detrimental to the school districts.

Co-Chair Dillree clarified that concern. This would be accumulative of a full time student. For instance, eight students at one hour would equal one full time equivalent. She suggested that Ms. Derrick make her plea to Work Force Services where it would be addressed more extensively.

Darrel White, Superintendent, Davis School District, expressed appreciation to the Committee co-chairs for the recommendation that flexibility be given to local school districts, which will be less disruptive.

Co-Chair Stephenson asked Superintendent White about the \$10 million cut in capitol equalization meant for the citizens of his district.

Superintendent White answered that it means a serious hardship. To accommodate that is to defer some projects in the hopes that money will come back. If that doesn't happen, programs will have to be cut.

Co-Chair Stephenson commented that some school superintendents have suggested that even more important than the capital outlay equalization is insuring that we continue to expand the voted leeway and board leeway equalization. He asked Mr. White if he had to choose between whether we kept expanding the voted and board leeway as it is contained in the statute for expansion or whether we were restoring the \$10 million, what counsel would he have for the Committee in that regard.

Superintendent White replied that the continued increase in level of guarantee for the vote and board leeway would be a slightly higher priority for him than a capital outlay equalization. Both are extremely important.

Sen. Hickman asked Superintendent White if Davis County is at the maximum as far as bonding ability.

Superintendent White answered yes, in terms of authorized bonding. There is a bond election scheduled for \$190 million, and if that passes, they would have additional capacity.

Co-Chair Stephenson directed the staff to prepare language for Sen. Hickman's request to give more intent in the language on the hold harmless rule.

Sen. Hale moved to adjourn the meeting.

Co-Chair Dillree adjourned the meeting at 11:35 a.m.

Minutes reported by Sandra Maeser, Secretary

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Sen. Howard Stephenson, Co-Chair

Rep. Marda Dillree, Co-Chair

