

**MINUTES OF THE  
JOINT CAPITAL FACILITIES & ADMINISTRATIVE SERVICES  
APPROPRIATIONS SUBCOMMITTEE  
FIFTH SPECIAL SESSION  
WEDNESDAY, JUNE 26, 2002  
Room 131, State Capitol Building**

Members Present: Sen. Beverly Evans, Committee Co-Chair  
Rep. Gerry A. Adair, Committee Co-Chair  
Sen. Mike Dmitrich  
Sen. John Valentine  
Rep. Stuart Adams  
Rep. Jeff Alexander  
Rep. DeMar "Bud" Bowman  
Rep. David Clark  
Rep. Greg J. Curtis  
Rep. Brent H. Goodfellow  
Rep. Ty McCartney  
Rep. Loraine T. Pace

Members Absent: Rep. Roger Barrus  
Rep. Ralph Becker

Staff Present: Kevin Walthers, Fiscal Analyst  
Saundra Maeser, Committee Secretary

Public Speakers Present: Camille Anthony, Director, Administrative Services  
Kim Thorne, Director, Finance Division  
Joe Jenkins, Director, Dept. of Facilities Construction & Management  
David Hart, Director, Capital Preservation Board  
Carlton Christensen, Member, Quality Growth Commission  
Gordon Bissegger, Administrator, Courts Administration

List of others present on file.

Co-Chair Gerry Adair called the meeting to order at 9:28 a.m.

Chair Adair Introduced Rep. Stuart Adams, who is replacing Rep. Garn. He instructed the Committee that the purpose of the meeting is to gather information. No votes will be taken.

1. Committee Business

Kevin Walthers, Analyst, presented a slide overview of 2003 budget options, and distributed a handout of the presentation to Committee members. He discussed the following items on the handout:

- FY 2003 Budget Revisions Overview.

Mr. Walthers noted that the reason the 4.65% shortfall percentage of state funds looks different than the 4.75% you have seen, is that the 4.75% doesn't include debt service. Since the Committee oversees the debt service budget, he wanted to make this clear.

- FY 02/03 Budget Shortfall: Impact on CFAS

\$4.4 million of Capital improved monies in FY02 was redirected to other projects. That was the compromise reached to get Rep. Adair's bill passed that raised the capital improvement allocation from .9 to 1.1%. In the last special session \$90 million was converted from cash to bonds, so there is really a funding shift. The cash has gone to other parts of state government. The facilities are still going forward, but there will be debt service and in five years we will have a \$90 million principle payment on those projects.

- FY 2002 Appropriated: All Funds

Total state budget in fiscal year 2002, which ends this coming week, was \$7.4 billion. This Committee oversees a little over 4% in all funds.

- FY 2002 Appropriated: State Funds

- FY 2003 Appropriated: All Funds

The \$7.3 billion appropriated is already lower than it was in 2002, and the \$173 million in cuts will reduce that even more. Administrative Services, as an operating budget, is less than 1/3 of a percent of all of State government in all funds, and the Debt Service and Capital Facilities are about 3.6%. About 4% of all State funds are overseen by this Committee.

- FY 2003 Appropriated: State Funds

- Options for DAS

- CFAS Options

Mr. Walthers pointed out that where it shows FTE reduction (EDO), that is the Executive Director's Office. The FTE reductions actually will come across the whole department. He also mentioned the issues of concern. One of them is, if public education is held harmless, that there is an additional option of taking \$750,000 out of the Critical Land Fund. \$2.4 million has already been taken out of that over the last two fiscal years, and it is a fairly important program, but it could be postponed if necessary. Essentially, we think that DFCM could be funded out of its capital projects. If they start to be funded out of bond funds, it does add a little bit of cost but it provides extra flexibility for balancing the whole budget.

Rep. Adair asked for clarification on the statement regarding coming out of capital projects. Mr. Walthers responded that one of the things the Legislature has tried to do in the past, and has not been very successful in doing, is actually getting higher education to participate in the cost for DFCM for non-state funded projects. This would allow DFCM to charge some of those costs to higher education for non-state funded projects.

Rep. Adair asked how much is in the Critical Land Fund. Mr. Walthers answered that is all that is left. The DFCM funding shift is not a budget cut and is not really a revenue enhancement.

- Funds By Source

The Revenue Enhancement is just taking money out of the Internal Service funds that are available, and putting that into the general appropriation. It is money that would have been rebated through the rate structure, but given our need, we want to show it as a revenue source this year. The funding shifts are essentially DFCM amounts.

- Funds By Agency

Finance-Mandated would include the LeRay McAllister Fund. The DAS operating budget in real dollars is lower this year than it was in 1993. \$1.3 million is Finance-Mandated, which would be the Critical Land Fund, and a program called Annual Leave Conversion, which has not been utilized by state employees as was expected, and Capital improvements, so the number looks bigger on DAS.

Rep. Pace asked if the \$14 Million represents 17% of the State funds deficit. Mr. Walthers answered that it does, including debt service.

- Other Options: Extending Debt Service.

Currently, building bonds are issued for six years, and the bonds could be extended to 10 or 15 years. Our interest rate would probably go up to nearly a point. Some of the bonds that are not issued yet could be issued on longer term so that the future impact wouldn't be as big. We do have highway debt that is longer term, and the State Treasurer is looking at finding ways to refund that debt and get a lower interest rate.

- Other Options: Using Cash From Capital Budget

In the past, we have bonded for some capital improvement projects. Capital improvements can be used for any project that does not add new square footage up to \$1.5 million. On Capital Developments, money could be transferred back into the capital budget through a couple of options. The Canyonlands project is already underway so it cannot be cancelled. You could get about \$16.3 million if you cancelled the rest of the projects on the list. You could bond for developments and free up \$19 Million. You could actually bond for the Canyonlands project, as well. The bonding rate is

now around 4%. If you go to 10 years on future projects it would add ½ a percentage point. There is also \$46.4 Million in bonds authorized but not issued for other projects. The option would be there, but this is not a recommendation, to cancel projects on the bond, which would reduce the bond amount, and then bond for projects which are on the cash list if they are a higher priority. The projects which are authorized for bonds are:

Dixie State College Eccles-Graft Center  
The rest of the UU Health Sciences Building  
Utah Valley State Wasatch Campus

Rep. Adair suggested that it may be better to defer than eliminate them. They have gone through the process and it would be harmful to those institutions to have to start over.

Rep. Clark asked for clarification on which projects have cash included or are partnered with bonding or federal funds. Mr. Walthers answered that the Youth Corrections Facilities is partnered with federal funds, the UU Health Science Building is partnered with bonds.

Rep. Pace asked how projects on the 2003 budget are already underway. Mr. Walthers answered that DFCM has the ability that once the appropriations act or the bond bill has passed, they can go ahead and get projects started in advance.

Mr. Walthers continued that there is one final amount of money that is available, the Salt Lake Courts project has \$475,000 that could be used for other options.

- Facts and Figures

Mr. Walthers distributed a blue handout for the Committee's consideration, "Options for Balancing the Budget Including Cuts in Public Educations," and a yellow handout, "Incremental Options for Balancing the Budget Holding Public Education Harmless." He directed attention to "105. Change in AR&I Formula." He said the idea was to allow employees to convert excess vacation into deferred compensation.

Kim Thorne, Director, Division of Finance spoke regarding converting employee vacation hours. She thinks there have been approximately 2000 employees who have utilized that program. \$600,000 was appropriated and there has only been around \$500,000 used. The money has been appropriated again for this year, as it is ongoing money.

Mr. Walthers added that the Governor's office approves of this as a reduction that can go back to General Appropriation on an ongoing cut. Legislative Research is currently drafting a bill that would

allow this to take place.

Rep. Adams asked if the employee expenses on the DFCM funding shift will be added to the project and the bond as that is shifted onto a job cost basis. Mr. Walthers answered that in the first year the funds would come from a variety of sources, including the money that rolls into a project reserve fund when a bid comes in under budget. He mentioned that in the roofing and paving program, there is 3 or 4 FTE and they are actually paid out of capital improvement dollars. The actual paving work is contracted out, but the managers of the paving projects are paid from capital improvement dollars. We also have two employees whose job is to essentially travel the state and do assessments on the management buildings. It is about \$150,000 a year that comes out of capital improvement money. One of the down sides that you have discussed and the Executive Director's Office has come up with is that if we stop paying for building with cash, then we are going to bond for buildings, and we are essentially paying interest that gets transferred back for the cost of those employees. Mr. Walthers also mentioned that recently bids have come in much lower than expected.

Mr. Walthers went through each item on the blue and yellow handouts. He said the blue sheet shows \$12.4 million in cuts and \$420,000 in revenue enhancements, and then the other \$750,000 to get you to the \$14.4 million amount is on the yellow sheet.

Camille Anthony, Director, Dept. of Administrative Services introduced herself. She stated that as her department went through the identification process, they took the high number, 9% cut to the department. Referring to the blue handout, she walked through the line items:

99. Capitol Preservation Board-Reduction: Assuming this were to go through, this may result in a reduction to the DFCM-ISF, because some of these funds maintain the Capitol area. This was not included in her 9% figure.

100. Administrative Service Executive Director: In reviewing all of the divisions, Ms. Anthony believes that through attrition or automation, she can come up with the two or three positions that would be represented in this \$127,900.

101. DFCM Funding Shift. Her department does not think this is good financial planning, as it is basically paying interest on salaries. Rep. Adair asked her if her position would be different if we were in a cash position. Ms. Anthony invited Joe Jenkins to comment.

Joe Jenkins, Director, Division of Facilities Construction and Management, said that he would still oppose this if we had a lot of cash because we would not only be paying interest on salaries but would be bonding for salaries. Even though there is a little money in project reserve for the first year,

eventually it would be bonding for salaries. When we overburden a capital project, it can also have a deleterious effect on the state's bond rating.

Sen. Valentine asked if it is a matter of degree of over burdening. Mr. Jenkins answered that short term lived items should not be included in long term debt.

Rep. Clark pointed out that historically, we have put a lot of different items into the cost that we bond for. He also felt that this is a degree factor, not a principle factor, because we currently do that. Mr. Jenkins answered that by law the savings have to be put back into construction projects out of Project Reserve. He felt that was a different thing that what Sen. Valentine brought up, which was a situation where there was no capital reserve. Rep. Clark stated that now, when there are favorable costs and interest rates, the climate is right to move forward with these projects.

Rep. Adams asked for clarification on the \$2.7 million DFCM Funding shift that has been suggested. Mr. Jenkins responded that we have the responsibility for all of the new capital development projects. We also have the responsibility for all capital improvement projects, which is the AR&I alterations, repair and improvement dollars. On top of that, we do all of the leasing for all state agencies except for higher ed and courts. If we take dollars out of projects to fund all of those things, for example leasing, we are then taking dollars out of capital projects to help agencies fund their operational budgets in their leases.

Rep. Adams asked, regarding the \$2.7 million, if DFCM currently job costs those funds now onto projects. Mr. Jenkins answered that no leasing or personal costs are put on any project. Issues such as attorney fees, insurance, and CAD services, are put into the soft costs.

Mr. Walthers showed a final table and said that in determining how much the budget cut is, it is true that the Administrative Services came in with 9%. Their general fund appropriation as revised right now is about \$12.9 million dollars in their operating budget. So, if you look at the cuts, they come out to about \$1.3 million. The actual operating cut for the Department of Administrative Services as proposed, is 2.57% on their operating budget.

Ms. Anthony responded that the list that totals \$1.3 million is the area that she agrees on. As a manager, she needs to "allocate the pain" department wide regardless of how a particular division is funded. That is the reason she needs to include all sources of funding in the way she approaches whatever percentage she needs to come up with.

Mr. Walthers said that he personally is concerned about the \$21,000 coming out of State Archives. They just lost \$58,000 last year.

Sen. Evans said that if Ms. Anthony would indicate the items on the handout that she agreed with, it would give the Committee direction. Ms. Anthony identified by line item, as agreeing with Items 100, 102, 103 and 104, 106 and 107. She disagreed with Items 101 and 105.

Ms. Anthony expressed concern over the change in AR&I funding, noting that she and DFCM would oppose efforts to make the cut ongoing.

Sen. Evans expressed concern over AR&I. That is a temporary fix for something that the Committee has worked so hard to keep in place. She wants to keep the integrity of that.

Rep. Clark pointed out that one thing that impressed him as the 2002 budget was being put in place, was that every element of state government seems to have a "cookie jar" reserve account. He wondered where these reserves are. Ms. Anthony responded that a fund that became apparent to her was the Contributed Capital from Risk Management. There has been a fund sitting there for 10 years and she is offering that up. Mr. Walthers said that a report will be coming out in October on internal service funds that would include how they set their rates, how the rates are adjusted, how costs are accounted for and this idea of the different jars of money.

Carlton Christensen, Quality Growth Commission, testified regarding the LeRay McAllister Fund, and distributed a handout, "Farm Bill." He said the one time cut to the LeRay McAllister Fund that has already occurred, was very substantial. The remaining amount may not go very far, but it is a savings that could have dramatic cost to it in the years to come, if not immediately. So far, 30,000 acres have involved water shed protection and those funds have been matched on a 4 to 1 basis by local government and private entities. That has provided critical water shed areas. Also, in the federal farm bill there is an ongoing estimate that would come to Utah for agricultural preservation. These funds must be matched at a 50% ratio. and the items done through the LeRay McAllister Fund would meet that 50% ratio. On the handout, it is the line item that has the initials FPP, which is for Farmland Preservation Program. This year it is limited at \$50,000, but the money in subsequent years, 2003-2007 are fairly substantial.

Mr. Walthers added that over the last two years, \$2.4 million has been taken out of that budget. There is \$750,000 left in it right now.

Sen. Dmitrich stated that he is in favor of putting a new bond out for \$19 million and not using the DFCM Account.

Mr. Walthers distributed a handout of recommendations of the majority leadership. He said that while we can't extend the facilities bonds we currently have, line 7, page 1 of the handout shows \$16.3 million titled capital facilities project delays, which could be changed to bonding or canceled.

Sen. Dmitrich asked how the economists misjudge the situation so much. Mr. Walthers answered that in the last few years we received a lot of state revenue from capital gains on the stock market. That pot of money is now gone. There is also more unemployment. Even though the economy will come back, we cannot count on the huge jumps returning.

Sen. Dmitrich asked what our bonding cap is. Rep. Adair asked Mr. Walthers to get that report for the Committee. Mr. Walthers said we could safely bond for another \$19 Million.

Kim Thorne, Division Director, State Finance, commented that Sept. 11 has had a ripple effect that has adversely affected every state. Utah has moved from a fairly low bond indebted state to moderate to moderately high with the bonds that we have out right now.

Rep. Goodfellow stated that he thought a representative from the Governor's Office should be invited to address the Committee to help with the decisions.

Rep. McCartney said that all the revenue sources have not been identified or explored.

Chair Adair answered Rep. McCartney that he would instruct staff to give him any information that he requests.

Mr. Walthers showed a slide from Finance, pointing out the line showing the constitutional bonding amount available, \$1.08 billion, and that there is \$425 million statutory capacity as our estimate for 2003. However, this is a measure of market value of property, not of our ability to pay that debt. The rating agencies are not so much concerned about our limits as they are about our ability to pay the debt.

Chair Adair instructed the Committee members that they will be receiving a handout of possible scenarios in their caucuses.

Gordon Bissegger, Court Administrator's Office, stated that on the Salt Lake courts project, a contract has been put out on the programming part of that. What is pending is the design part, which must be approved by the Committee.

MOTION: Sen. Evans moved to adjourn the meeting.

The meeting was adjourned at 11:32 a.m. by Rep. Gerry Adair..

The minutes were reported by Sandra Maeser

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Sen. Beverly Evans  
Committee Co-Chair

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Rep. Gerry A. Adair  
Committee Co-Chair