

**MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS
COMMITTEE MEETING
June 16, 2009 at 1:00 P. M.
Room 445, Capitol Building, State Capitol Complex**

Members Present: Rep. Ron Bigelow, Co-Chair
 Sen. Lyle W. Hillyard, Co-Chair
 Sen. Peter C. Knudson, Vice Chair
 Rep. Bradley G. Last, Vice Chair
 Sen. Gregory S. Bell
 Rep. David Clark, Speaker
 Rep. Brad L. Dee
 Rep. Kevin S. Garn
 Rep. James R. Gowans
 Sen. Scott K. Jenkins
 Sen. Patricia W. Jones
 Sen. Sheldon L. Killpack
 Rep. David Litvack
 Rep. Rebecca D. Lockhart
 Sen. Karen Mayne
 Rep. Carol Spackman Moss
 Sen. Luz Robles
 Sen. Ross I. Romero
 Sen. Michael G. Waddoups, President

Members Excused: Rep. Jennifer M. Seelig

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

Speakers Present: Tenielle Young, Governor's Office of Planning and Budget
 Danny Schoenfeld, Legislative Fiscal Analyst
 R. Benjamin Leishman, Legislative Fiscal Analyst
 Jonathan Ball, Legislative Fiscal Analyst
 Dr. Andrea Wilko, Legislative Fiscal Analyst
 Dr. Thomas Young, Legislative Fiscal Analyst
 Ivan Djamboy, Legislative Fiscal Analyst
 Rich Amon, Legislative Fiscal Analyst
 Senator Wayne L. Niederhauser
 Steven Allred, Legislative Fiscal Analyst

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

Committee Co-Chair Hillyard called the meeting to order at 1:00 p.m.

2. Federal Funds/Non-Federal Grants Reports and Follow-up Reports from May Meeting

Tenielle Young, Governor's Office of Planning and Budget, presented the Federal Funds/Non-Federal Grants Reports through May 31, 2009. There were two new grants requiring legislative action, one ARRA grant and one non-federal grant. There were four federal reapplications of existing grants requiring legislative action. Ms. Young also noted that five new federal grants and six ARRA grants had been approved by the Governor's Office. Finally, there were three federal reapplications of existing grants approved by the Governor's Office.

Ms. Young informed the committee that representatives from the agencies were available to answer questions.

Speaker Clark commented that a large number of grants on the Federal Funds/Non-Federal Grants Reports show a significant percentage share of funding going to administrative costs rather than to local agencies. He referred to the grants with the Department of Health, in particular, and indicated that he would like to discuss this further with the Department.

Co-Chair Hillyard asked the Department of Health to follow up on Speaker Clark's request. Co-Chair Hillyard offered to place this issue on next month's agenda if Speaker Clark had additional concerns.

Co-Chair Hillyard elected to hear Agenda Item 7 at this time.

3. Streamlining Public Education Appropriations Mechanics (Agenda Item 7)

Ben Leishman, LFA, discussed the slide presentation, "Public Education: Streamlining Appropriations Mechanics," also available behind Tab 7 in the committee binders. The initial proposal to streamline the public education appropriations process will reduce the overall complexity of the budget and enhance understanding. The proposal addresses the technical aspect of appropriation.

The three major sources of complexity in the public education budget include the process of appropriation, multiple programs and formulas, and public interest.

Mr. Leishman reviewed a flow chart of the Public Education Budget which shows how state appropriated monies are distributed through the Minimum School Program, School Building Program, and Education state agencies. Appropriations for the Minimum School Program and the School Building Program are found in the Minimum School Program Act, while appropriations for education state agencies are found in the general appropriations acts.

Mr. Leishman stated that the Minimum School Program (MSP) is the only budget not fully managed in the Legislature's budget database. He gave some examples of recent complications associated with

multiple points of manual data entry. The proposed streamlined approach mirrors the appropriations process for state agencies by reducing the multiple points of data entry to one.

Mr. Leishman presented an example of the current appropriations format of the Minimum School Program Act (Appendix A). He followed up with an example of a sample bill format for the MSP - Basic School Program patterned after the current bill format for public education agencies (Appendix B). The proposed change ties revenues to expenditures and makes it easier to see what was appropriated.

Mr. Leishman informed the committee that the Legislative Fiscal Analyst Office has started the process to bring the MSP into the budget database. LFA is also working with the Office of Legislative Research and General Counsel (LRGC) on a proposal to further streamline public education appropriations.

Co-Chair Hillyard asked if there had been any consideration in regards to the intent of the Minimum School Program which has the ability to amend statute and appropriate funding. Mr. Leishman stated that there has been some preliminary discussion with LRGC on this topic. He pointed out that it is important that education appropriations tied to the governing statutes and formulas for programs remain in one bill. This will eliminate the possibility of a formula change passing but not the funding or the other way around.

Co-Chair Hillyard recognized Co-Chair Bigelow for a motion on the minutes.

MOTION: Co-Chair Bigelow moved to approve the minutes of May 19, 2009. The motion passed unanimously with Sen. Bell absent for the vote.

Federal Funds/Non-Federal Grants Report and Follow-up Reports from May Meeting (continued)

Co-Chair Hillyard requested that Ms. Young, GOPB, and Mr. Schoenfeld, LFA, return to the speaker's table to respond to any further questions regarding the Federal Funds/Non-Federal Grant Reports, and to proceed with the presentation on the Follow-up Reports from the May 19, 2009 meeting.

Co-Chair Hillyard noted that Rep. Seelig asked to be excused from today's committee meeting.

Mr. Schoenfeld explained that during the May 19, 2009 Executive Appropriations Meeting, committee members raised a number of questions relating to the Federal Funds/Non-Federal Grants Reports through March 31, 2009 and April 30, 2009. Included in the packet behind Tab 2 are responses from the Departments of Environmental Quality, Natural Resources, Community and Culture, and Administrative Services. In addition there was a separate response from the Department of Health on Gold Medal Schools and a report on ARRA grants administered by the Utah Commission on Criminal and Juvenile Justice.

Pres. Waddoups expressed his appreciation to the departments that contacted him throughout the month. He mentioned that he had inquired about the Utah Department of Corrections' Vocational Opportunity Training Education (VOTE) Grant that establishes strategies to have a post secondary education program

at the Draper site. He did not see a response in the packet. Mr. Schoenfeld responded that he would follow up on this request and provide Pres. Waddoups with that information in the next couple of days.

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

MOTION: Co-Chair Bigelow moved to approve the two new grants and four reapplications of existing grants requiring legislative action through May 31, 2009 listed in the Federal Funds/Non-Federal Grants Reports. The motion passed with Sen. Bell and Rep. Moss absent for the vote.

4. Adoption of Final Revenue Estimate for 2009 General Session (Agenda Item 3)

Jonathan Ball, LFA, referred to the document on page 1, behind Tab 3: "Revenue Estimates - June 2009." He explained that the final revenue estimates were used to balance the budget in FY 2009 and FY 2010 as of the May Special Session. The Budgetary Procedures Act requires that the Executive Appropriations Committee adopt final revenue estimates for a fiscal year in order to allow the Division of Finance to calculate any revenue surplus for the purpose of making deposits to the Rainy Day Funds.

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

MOTION: Co-Chair Bigelow moved to adopt the final revenue estimates for FY 2009 and FY 2010 as indicated on page 1 of the sheet behind tab three titled "Revenue Estimates - June 2009" and dated today, June 16, 2009. The motion passed unanimously.

5. Revenue Update (Agenda Item 4)

Dr. Andrea Wilko, LFA, Chief Economist, and Dr. Thomas Young, LFA, Staff Economist, presented the "Revenue & Economic Update, June 2009," behind Tab 4. They reported on tax collections, wages and employment, business investment, federal tax changes, and construction.

Dr. Wilko stated that the Revenue Update is a range forecast for FY 2009.

Based on current collection rates, the General Fund/Education Fund revenues are expected to be +/- \$40 million of February estimates. The General Fund is currently on target with an expected +/- \$10 million, while Education Fund collections are expected to be within a range of +/- \$30 million. The largest risk to the Education Fund is in the Corporate Tax.

Dr. Wilko stated that employment and wages are having the greatest impact on collections. There has been a rapid deceleration in employment, but this should moderate in the coming years.

Dr. Young discussed tax collections within the General Fund. Sales and use tax collections account for 81 percent of General Fund revenues. Currently, higher consumer savings rates, financial markets, and housing prices are resulting in lower sales and use tax collections. Dr. Young referred to a "household deleveraging" effect that continues to have an impact on consumer spending.

Rep. Moss asked about household deleveraging. Dr. Wilko explained that easy credit combined with appreciating asset values (homes, stocks, etc.) has led to consumers spending beyond their means. With the recession, credit has dried up, asset values have plummeted, and consumers can no longer spend more than they make. This has forced consumers to save in order to reduce their debt load.

Dr. Wilko discussed wages and employment and corporate profits within the Education Fund. For the calendar year 2009, total wages are expected to be down by 3.4 percent and employment is expected to decrease by 4.4 percent. Dr. Wilko pointed out that wage and employment decreases were accounted for and factored into the revenue forecasts.

Another source of revenue to the Education Fund is corporate tax collections which are more volatile than individual income tax and sales tax. Corporate tax collections are below expectations in FY 2009.

Dr. Young stated that Transportation Fund revenues appear to be coming in on target for FY 2009. He noted that decreases in vehicle miles traveled as a result of vehicle efficiencies has caused a structural shift in transportation revenues. Wage and employment declines are also adding downward pressure on Transportation Fund revenues.

Sen. Robles asked if projections show an increase in oil and gas prices. Dr. Young stated that based on current indicators, oil and gas prices will remain flat. Dr. Wilko added that revenue estimates are based on quarterly forecasts, so by August or September, the assumptions may have to be adjusted.

Dr. Wilko and Dr. Young gave an overview of the economic indicators with the following highlights:

- *Unemployed individuals represent about 2.5 percent of the population or 71,000 individuals;*
- *Employment declines in most major categories with the exception of government (federal and local entities), education and health, and natural resources;*
- *Job losses will begin to moderate throughout the second half of calendar year 2009 but positive year after year job growth will likely not resume until 2010;*
- *Severe contractions in financial markets continue to impact stocks, pensions, and borrowing;*
- *Federal tax changes designed to spur economic growth will impact state revenue;*
- *Both nonresidential and residential construction continue to decline.*

Sen. Jones asked about the cuts in personal income tax and sales tax on food and the impact they have had on the General and Education Funds. Dr. Wilko stated that personal income tax cuts were incremental, but when fully implemented, those cuts equated to a \$200 million loss in revenue to the Education Fund. Sales tax on food equated to a \$160 million loss in revenue to the General Fund.

Jonathan Ball explained that when revenues were forecasted and the budget was calculated, the loss in the tax cut revenues was taken into account.

Co-Chair Hillard noted that the market is complicated and it is difficult to determine the impact of economic decisions when there are so many factors at play.

President Waddoups asked whether federal stimulus money and state efforts have had any impact on job growth. Dr. Wilko stated that no specific analysis has been done just yet because it is too early to draw any conclusions. However, an evaluation will be forthcoming. She noted that the Governor's Office of Economic Development reports on state stimulus proposals, but again, no analysis has been done.

Dr. Wilko stated that both residential and non residential construction continue to decline. She discussed federal and state incentives to reduce housing inventory. Progress is being made but due to a tight credit market, long term recovery is expected.

Dr. Wilko reviewed the TC-23 Revenue Collections to Date (11 Months). The growth that was anticipated in February 2009, -12.3 percent has come in at -11.7 percent. She noted two anomalies. The TC-23 shows Severance Taxes at full collection, but those monies have been capped so not all that money will accrue to the General Fund. There is also weakness in the Corporate Franchise Tax which may not be reflected in the TC-23 numbers. June collections should be very telling.

Sen. Jones asked if the economy or less businesses incorporating is playing a role in the decrease in corporate taxes. Dr. Wilko stated that both issues are contributing to the decrease but there have also been a large number of capital losses. Corporate tax revenues are at \$233.79 million (FY 2009 as of June 2009) down from \$418.32 (FY 2008 Final).

Speaker Clark expressed concern about the corporate tax earnings. He stated that a lot of the federal stimulus money was used to backfill existing programs rather than to create new stimulus programs. As far as new road construction is concerned, there is significantly more stimulus money flowing in from the State of Utah rather than from the federal government. Due to timing issues, we may not be able to see a positive impact on employment until spring or the middle of next year.

Sen. Mayne questioned whether or not the incentives for first time home buyers are being cancelled out by rising interest rates. Dr. Wilko stated the interest rate for 30 year mortgages should hold at 5.1 percent for 2009. In 2010, the rates should move up to 6 percent.

Sen. Bell asked about the state's ability to sell bonds. Mr. Ball responded that the state is able to sell bonds at favorable interest rates, particularly since Utah has an AAA bond rating.

Sen. Bell asked what tax collections for FY 2009 will look like in spring of 2010. Dr. Wilko stated that the TC-23 revenue collection figures for both FY 2008 and FY 2009 are realistic.

Pres. Waddoups inquired about the number of corporate filings in 2009 as compared to those in 2008, especially since corporate taxes were lowered to draw business into the state. Dr. Wilko said that she would provide him with this information.

Speaker Clark commented that housing interest rates are very good compared to rates in previous years.

Co-Chair Bigelow stated that the TC-23 revenue collections reflect the original projections. Therefore, existing cuts in the state budget for FY 2011 are still valid. He encouraged state agencies to prepare for those reductions.

Co-Chair Hillyard asked about input from the Governor's Office of Planning and Budget. Dr. Wilko stated that the Revenue Assumptions Committee developed the economic indicators and then worked with GOPB to come up with a consensus range.

5. Severance Tax Holding Account and Estimated Trust Fund Deposits

Ivan Djambov, LFA, called attention to the memorandum behind Tab 5, "Severance Tax Holding Account and Estimated Permanent State Trust Fund Deposits," dated June 16, 2009.

Mr. Djambov explained that on June 30, 2009, the Division of Finance will transfer \$7.2 million from the Severance Tax Holding Account to the permanent state trust fund. During the 2007 General Session, the Legislature intended to preserve a portion of the funding generated from limited natural resources for future generations. Senate Bill 18 created the Severance Tax Restricted Account and appropriated \$20 million in one-time FY 2008 General Funds to the account. The purpose of the account was temporary - to hold funds until June 30, 2009, at which time, monies would be transferred to the permanent state trust fund.

While this account never directly received any severance tax funds, \$693,200 in interest accrued on the appropriated \$20 million. The 2009 Legislature used \$13.5 million from the holding account to balance the state budget, leaving a current balance of \$7.2 million for transfer to the permanent state trust fund.

The permanent state trust fund also receives revenues from oil and gas and mining severance taxes. During the 2008 General Session the Legislature passed House Bill 58 which directed the Division of Finance to credit oil and gas and mining severance taxes in excess of specified amounts directly into the permanent state trust fund. In FY 2009, those severance taxes will generate approximately \$20 million.

From July 1, 2009 forward, the Division of Finance will credit severance tax collections directly to the permanent state trust fund. As such, the Analyst recommended that the Legislature eliminate the Severance Tax Holding Account in the 2010 General Session.

6. Online Access to Audits and Budgets

Rich Amon, LFA, introduced Master Study Resolution 182, "Online Access to Audits and Budgets - to study whether to require that budgets and audits of government entities be posted online." The state

currently has two websites that provide public access to government financial information, the State Auditor's website and the New Transparency website.

Mr. Amon demonstrated the State Auditor's website: <http://www.sao.state.ut.us.lgReports.html>. The committee viewed how local government reports are arranged by county, municipality, school districts, and local (special) districts and include Comprehensive Annual Financial Reports (CAFR's), budgets, and surveys.

Mr. Amon also showed how to access audit reports sorted by agency and by year via the link: <http://www.sao.state.ut.us/auditReports.html>. In addition to state agencies, there are state audits conducted on colleges and universities, cities and towns.

Sen. Niederhauser discussed the New Transparency website: <http://www.utah.gov/transparency/html>. The website was established by law during the 2008 General Session. The Utah Transparency Advisory Board and the Department of Administrative Services, Division of Finance oversee the operations of this website. Unveiled on May 19, 2009, the website offers an online searchable database of detailed state expenditures and revenues that allows the public to see how taxpayer monies are being spent.

Sen. Niederhauser noted that during the 2009 General Session, the Legislature passed an amendment to the Transparency Act that now requires cities and towns, counties, special districts, school districts, and transit districts to have budgetary transparency similar to that of the state.

The Division of Finance in conjunction with Utah Interactive and the Department of Technology Services created the website. Sen. Niederhauser stated that transparent.utah.gov is the best website of its kind in the nation.

Sen. Niederhauser demonstrated the website showing how to access expense and revenue information by organization, fund, category, transaction, and vendor/payee/customer search. The website has a powerful search engine that uses a common database structure that can upload the financial information for any state agency, school district, and local government entity. There are a number of resources and links on the website as well.

Sen. Niederhauser highlighted two pieces of legislation that complement transparency in government: H.B. 426 - Government Procurement - Private Proposals (2008 General Session) creates an initiative process whereby citizens can submit proposals to provide certain products or services to the Department of Technology or the Board of Education. S.J.R. 18 - Joint Resolution on Fiscal Note Process (2009 General Session) requires that legislation creating a new program or agency contain a legislative performance review note along with recourse if a new state program or agency fails to meet performance standards.

Sen. Robles asked if payments to contracted vendors can be viewed on line. Sen. Niederhauser confirmed that those payments can be viewed on line.

Sen. Jones asked how often the Transparency Website is updated. Sen. Niederhauser responded that the Website is updated quarterly at this point in time, as per the direction of the Transparency Board.

Sen. Niederhauser completed his remarks by pointing out that transactions data can be downloaded to an EXCEL spreadsheet and manipulated as needed. Currently, there is a one thousand records' limit per download with the expectation of ten thousand records per download sometime in the future.

Sen. Jones was interested in knowing how many hits this website receives, and where those hits are being made.

8. Assignment of Interim Studies

Steve Allred, LFA, referred to the one page memorandum behind Tab 8, "Assignment of Interim Studies," dated June 9, 2009. He presented the two recommended interim studies for Executive Appropriations Committee approval.

The first recommendation directs the Office of the Legislative Fiscal Analyst to conduct an in-depth budget review of the Department of Workforce Services and report back to the Executive Appropriations Committee in November 2009.

Mr. Allred explained that many issues have arisen in the Department of Workforce Services - ERep, Medicaid Eligibility Consolidation, General Assistance, Food Stamp Enrollment Growth, and Unemployment Insurance, that would warrant a closer look at the budget. Agency managers have expressed an interest in breaking down their budget on almost a zero-based level as well.

The second recommendation requests that the Executive Appropriations Committee ask the Legislative Management Committee to request the Governor's Office of Planning and Budget for a study on planning-for and transitioning state agency budgets to FY 2011 base budget allocations defined by ongoing appropriations contained in FY 2010 Appropriations Act.

MOTION: Co-Chair Bigelow moved that the Executive Appropriations Committee recommends a study of the Department of Workforce Services to be conducted by the Commerce and Workforce Services Appropriations Subcommittee and Legislative Fiscal Analyst staff; and, recommend to the Legislative Management Committee that they request the Governor's Office to study the planning-for and transitioning state agency budgets to FY 2011 resource levels by November 2009.

Pres. Waddoups asked why the Department of Workforce Services was selected for the interim in-depth budget review. Mr. Allred stated that the decision to select the Department of Workforce Services came as a result of issues arising out of the department itself.

Mr. Ball stated that before last year, the Department of Workforce Services was one program, a single line item without much budget detail. In this year's Appropriations Act, the line item was broken out into programs. LFA would like to provide more accountability particularly as it relates to EREP, General

Assistance, Medicaid Eligibility Consolidation. For this reason as well as strong public interest, the Department of Workforce Services was selected.

A vote was taken on the motion. The motion passed unanimously.

9. Other Business

Co-Chair Hillyard encouraged committee members to read the Governor's Office on Economic Development (GOED) report behind Tab 9, "Report to the Utah State Legislature Regarding Military Installation Partnerships," dated June 16, 2009. If further discussion is needed, the chairs will place the item on next month's agenda.

Co-Chair Hillyard recognized Pres. Waddoups for a motion.

MOTION: Pres. Waddoups moved to adjourn. The motion passed unanimously.

Co-Chair Hillyard adjourned the meeting at 2:40 p.m.