MINUTES OF THE
HIGHER EDUCATION APPROPRIATIONS SUBCOMMITTEE
MONDAY, JANUARY 23, 2006, 2:00 P.M.
Room W020, West Office Building, State Capitol Complex

Members Present:	Sen. Greg Bell, Co-Chair Rep. Kory M. Holdaway, Co-Chair Sen. Peter Knudson Sen. Dan Eastman Sen. Carlene Walker Sen. Patrice Arent Rep. Sheryl Allen Rep. David Clark Rep. Bradley Daw Rep. Margaret Dayton Rep. John Dougall Rep. Susan Lawrence Rep. Scott L. Wyatt Rep. Patricia W. Jones Rep. Carol Spackman Moss Rep. LaWanna "Lou" Shurtliff
Staff Present:	Spencer Pratt, Senior Legislative Fiscal Analyst Juliette Tennert, Legislative Fiscal Analyst Rolayne Day, Secretary
Public Speakers Present:	Tim Osterstock, Audit Manager, Legislative Auditor General's Office Janice Coleman, Audit Supervisor, Legislative Auditor General's Office Commissioner Richard Kendell Arnie Combe, VP for Administrative Services, UU Dr. Norm Tarbox, VP for Administrative Services, WSU John Schaff, Legislative Auditor General Lou Callister, USTAR Steve Mecham, USTAR Pres. Stan Albrecht, USU Pres. Michael Young, UU Dr. Noelle Cockett, VP for Extension & Ag. & Dean, College of Ag.

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

1. Call to Order—Committee Co-Chair Holdaway called the meeting to order at 2:14 p.m.

2. Committee Discussion of USHE Post-Retirement Benefits—Tim Osterstock, Audit Manager, and Janice Coleman, Audit Supervisor, from the Legislative Auditor General's Office discussed the report on post-retirement benefits in higher education. Legislative Leadership asked the Auditor's Office to estimate the accrued and future liabilities in higher education and to make recommendations to resolve concerns. The report includes health insurance, incentives, stipends, and termination benefits with estimated costs at $978,948,000 for the institutions compared to $875,153,000 for the State.

   The Auditors recommend that the Legislature (1) require institutions to assess liability by conducting an actuarial study on post-retirement benefits including stipends and insurance to age 65 and after age 65; (2) require institutions to standardize key actuarial assumptions and report them during the 2006 interim;

(3) require the Board of Regents to report the actuarial study results during the 2007 General Session; (4) require institutions to evaluate post-retirement liabilities and make necessary modifications that are affordable, sustainable, and comparable to the State's costs; (5) require institutions to develop plans to fund post-retirement obligations by modifying or eliminating benefits instead of requesting additional funding from taxpayers or students and without negatively impacting educational services and to report plans during the 2007 General Session; and (6) consider fiscal sanctions or other appropriate measures if the progress report is not satisfactory.

Rep. Clark asked how the liability was calculated. Ms. Coleman said the auditors tried to fit institutions with an existing actuarial study. A public education study was conducted in Fall 2004 that looked at stipends and insurance costs, so the auditors used some of those estimates and modified others based on size and the richness and leanness of benefits.

Ms. Coleman said there are differences between the policies higher education practices and those of public education. Rep. Holdaway said some institutions defend the practices as termination benefits. Ms. Coleman explained that the State could solve the problem by not paying termination benefits past age 65.

Mr. Osterstock said the auditors looked at policies rather than practices because that is what determines liability. Rep. Clark said that no matter what you call it—stipend, retirement benefit, termination benefit—there are fundamental costs. The audit is valuable in finding out what the costs are and how they are going to be met. Rep. Holdaway asked why there is a problem if early retirement payments are made with existing budgets. Mr. Osterstock said it makes sense to find out what the cost is and how to pay for it. You can't tell what the medical insurance will be in five years for a 58 year-old professor who wants to retire early.

Sen. Arent declared a conflict of interest because her husband is employed by higher education. She also doesn't want to give higher education a directive without the funding to complete it.

Commissioner Richard Kendell said that, although they disagree with some parts of the audit, higher education will work with the Auditor to agree on common terms and will conduct an actuarial study to make sure their assumptions are correct. Higher education doesn't feel that using a public education actuarial study provides valid comparison. Most of the higher educational institutions have defined health benefits contributions; state government and public education do not. Commissioner Kendell said early retirement is not an entitlement in higher education. Managers determine whether someone who applies can take early retirement. It is managed differently across the system, but in all cases it is for a limited period of time (usually three to five years). Managers can only proceed if there is enough money in the budget to cover the agreement. The University of Utah is conducting an actuarial study that higher education hopes to apply to the other institutions. Commissioner Kendell said most are on a fixed contribution system; the rest are on the State retirement system. Rep. Moss said using school districts as a comparison doesn't fairly assess higher education.

Arnie Combe, Vice President for Administrative Services, UU, discussed GASB (Government Accounting Standards Board) 45 and 47 regulations. The important difference is that 45 refers to pensions, and that implies a contract with employees. GASB 47 applies to voluntary benefits (what higher education does); if an agreement is approved it becomes a contract for a specific time period (usually five years in higher education). Early retirement is seen as a management tool where individual managers can decide what is good for the institution when someone requests early retirement. Mr. Combe said institutions know what the salary cost would be for an early retiree; the actuarial study will determine the health care cost. That study should be completed by March or April. Mr. Combe noted that retirees at the University of Utah pay 100% of their health care premium.

John Schaff, Legislative Auditor General, said the consultant on the study said using a public education actuarial study was a sound method under the circumstances. They knew this was a weakness, but that was the only way they could get an estimate.

3. Approval of Minutes

MOTION: Rep. Moss moved to approve minutes of the January 19, 2006, meeting.

The motion passed unanimously with Rep. Dougall absent for the vote.

MOTION: Rep. Clark moved that Commissioner Kendell and other representatives from higher educational institutions report results and progress of the actuarial study and post-retirement issues during the summer interim meeting.

The motion passed unanimously with Sens. Eastman and Knudson absent for the vote.

4. O & M of New Facilities—Analyst Spencer Pratt distributed handouts requested by the Committee at previous meetings. They include a prioritization list and funding scenarios for the USHE.

Mr. Pratt explained a policy change made last year that when a building is approved, the O & M is also approved. Some buildings were in the pipeline at the time of the policy change and did not receive O&M funding when they were approved. The Analyst recommends funding for ten new facilities on four campuses (Tab 3, Issue Brief 1).

O & M for five buildings at the University of Utah is recommended as follows: the Emma Eccles Jones Medical Research Building ($646,200 for seven months), the Chemistry Glauss Building ($187,900 with a one-time reduction of $15,600 because the building will only be occupied for 11 months), the Warnock Engineering Building ($639,100 with a one-time $106,500 reduction), the Moran Eye Center II ($665,300), and the Marriott Library Facility Adaptation ($322,900 with a one-time reduction of $215,400 for partial-year use).

The Analyst also recommends funding O & M for the remodeled Reed K. Swenson Building at WSU (an additional $75,400); the Library and Health Sciences Building ($131,700) and the Quad building ($20,300) on the San Juan Campus of CEU; and the Health Sciences Building at Salt Lake Community College ($762,000 with a one-time partial-year reduction of $698,500).

5. USTAR Report—Fiscal Analyst Juliette Tennert distributed Issue Brief USTAR-06-01 and noted that it does not address Sen. Mansell's 2006 USTAR bill (SB 75). A table at the bottom of the first page shows last year's appropriations and the status of expenditures. The planning from SB 192 (last year's USTAR bill) was completed under budget last October. The report was presented to the Executive Appropriations Committee who passed a motion that USTAR would present a semi-annual report to them. The objective of the USTAR Initiative is to invest in areas of research where Utah has a competitive advantage in order to create new technology-based businesses and jobs to bolster the State's economy.

Rep. Shurtliff asked if funding will continue for the regional centers. Rep. Holdaway said that funding is under regional partnerships and institutional initiatives at non-research institutions; it isn’t USTAR. Sen. Arent is concerned that the Committee is mixing up what is informational and what is requested funding for the Higher Education Subcommittee. Sen. Bell agreed and said that funding for the regional centers will be moved to the Economic Development Subcommittee.

Sen. Walker said the new bill will come to the standing committee she chairs in the Senate. She suggested that the new bill be presented to this Committee. Rep. Jones said it would be helpful for every member of the Legislature to understand how all the parts fit together.

Lou Callister, USTAR, reminded the Committee that USTAR is an initiative of the business community that is working together for economic development in Utah, and it will bring high-paying jobs to the State. Sen. Mansell's bill creates a governing authority to ensure accountability and to make sure everything is done correctly, efficiently, and with economic soundness. Steve Mecham, USTAR, said money was divided last year between the U of U and USU, with an additional $3 million going for equipment.

Pres. Stan Albrecht, USU, said the U of U and USU are going after "superstars" that will lead to outstanding research programs. It won't happen overnight because it is a big undertaking. Right now both institutions are recruiting world-class research teams and building labs to attract them.

Pres. Michael Young, U of U, said the professor who does research on aging discussed in a previous meeting is now in place. Another team is very interested and they hope to close a deal soon. Pres. Young said this type of recruitment isn't new to the U; they have done it for 30 years with their Research Park.

Rep. Dougall asked about the criteria for success. Pres. Young said the success can be measured by the number of companies created and the success in hiring the research teams. It will take time to see results because the teams have to be hired, the research has to be conducted, and then companies will be developed. USU has already seen an increase in the number of patent applications.

6. USU $5 Million Relocation Request—Pres. Albrecht discussed the request to expand the Innovation Campus at USU and move agriculture facilities to a new location. The Legislature appropriated $5 million in FY 2006 to begin the process; the current request is for the remaining $5 million to finish the project.

   Dr. Noelle Cockett, Vice President for Administrative Services and Dean of the College of Agriculture, said architectural firm Jacoby and Son was hired in June 2005. Faculty and staff gave input on the needs, and research was done on similar projects around the region. Jacoby and Son has created a master plan for the new Ag Complex, a research/teaching facility. Programming and design is complete and the building site has been selected. Architectural and construction drawings are being completed and groundbreaking will occur in the spring. Pres. Albrecht said a funding delay would prevent USU from meeting the time line and would significantly increase the budget. Mr. Pratt said funding for the Agriculture Relocation will go through the Capital Facilities Subcommittee.

   MOTION: Rep. Lawrence moved to adjourn.

   Committee Co-Chair Holdaway adjourned the meeting at 4:15 p.m.

   Minutes were reported by Rolayne Day, Secretary.

Sen. Greg Bell, Committee Co-Chair

Rep. Kory M. Holdaway, Committee Co-Chair