MINUTES OF THE
JOINT CAPITAL FACILITIES & GOVERNMENT OPERATIONS
APPROPRIATIONS SUBCOMMITTEE MEETING
MONDAY, JANUARY 22, 2007, 2:00 P.M.
RoomW025, West Office Building, State Capitol Complex

Members Present:	Sen. Scott K. Jenkins, Committee Co-Chair Rep. D. Gregg Buxton, Committee Co-Chair Sen. Darin Peterson Rep. DeMar "Bud" Bowman Rep. Stephen Clark Rep. Janice M. Fisher Rep. Fred R. Hunsaker Rep. Gordon Snow Rep. Mark Walker Rep. Richard Wheeler
Members Excused:	Sen. Mike Dmitrich Sen. Sheldon Killpack Rep. Ralph Becker
Staff Present:	Steve Allred, Fiscal Analyst Todd Wardrop, Fiscal Analyst Bonnie Brinton, Committee Secretary

Public Speakers Present:

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

Co-Chair Jenkins called the meeting to order at 2:05 p.m.

1. **Approve Minutes**

   MOTION: Rep. Bowman moved to approve the minutes of the meetings on January 10 and 17, 2007. The motion passed unanimously with Reps. S. Clark and Snow absent for the vote.

2. **Department of Administrative Services - Internal Service Funds**

   a. Governor's Analyst ISF Overview - Rich Amon

Mr. Amon distributed a handout listing FY 2008 Governor's Recommendation Highlights for this Subcommittee. The list included Internal Service Fund, Capital Facility, Statewide Compensation and Department of Administrative Services Recommendations. He explained the purpose of DAS ISF divisions and stated that they must receive legislative approval for rates charged to agencies, capital acquisitions, and FTEs. He further stated that for FY 2008, the Governor recommends the rate changes approved by the ISF rate committee. The Governor also recommends FTEs and capital outlay authorizations for DAS ISF agencies as listed on a table in the handout.

b. Purchasing and General Services

Mr. Allred referred to the Issue Brief - ISF Rate Change Impacts. The largest change will be in DFCM, the Capitol Preservation Board in the total amount of $1,171,200. The total impact of all rate changes will be $2,299,400.

The Fiscal Analyst, Mr. Allred, explained the programs in this line item. He stated that the Agency has agreed with the findings of a legislative audit conducted in the summer of 2006 concluding that the P-Card is an efficient tool, but lacked sufficient oversight to prevent fraud or abuse and has hired an employee to oversee P-Card administration. He further stated that one FTE was transferred from Central Mailing to the Electronic Purchasing program to oversee the P-Card program. The Analyst recommended two new FTE for Central Mailing. One FTE will replace the FTE transferred to Electronic Purchasing, and the other FTE will help manage increased mail volumes.

The Analyst recommends the Legislature adopt the rates as presented separately and two additional FTEs for Central Mailing.

Regarding General Services ISF, Mr. Allred discussed the revenue change in Mail Distribution of $89,000.

Doug Richins, Director, Division of Purchasing and General Services, stated that the Print Services Debt Elimination rate is presently .004. He responded to questions related to the self-service copy rate and stated that this amount allows the Division to be competitive with service and quality. Co-Chair Jenkins stated his opinion that the cost per copy should be raised to .005.

MOTION: Rep. Hunsaker moved to approve the Analyst's recommendations for the Division of Purchasing and General Services ISF and increase the Debt Elimination rate from .004 to .005. The motion passed unanimously with Reps. S. Clark and Snow absent for the vote.

c. Fleet Operations

Mr. Allred stated that the Governor's Office is now prepared to require DNR to fold their fleet management into DFO, close their departmental internal service fund, transfer all assets and liabilities to DFO, transfer/reassign personnel as necessary, and lease vehicles under the rate matrix. DNR is expected to transfer $2.3 million in negative retained earnings, $2.3 million in assets (contributed capital) and three of their five FTE to DFO. DFO has three vacancies in which to absorb the transfers. The Analyst supports the merger.

Regarding the pilot privatization of Capitol Hill daily pool, the Analyst recommends this not be continued because of excessive expense.

The Analyst recommends the Legislature adopt estimated revenues of $61,208,800 for the Division of Fleet Operations ISF, rates as presented, 43.0 FTE and an authorized Capital Outlay of $16,300,000 for FY 2008 and increase of $2,921,500 for FY 2007.

Margaret Chambers, Director, Division of Fleet Operations, responded to questions.

MOTION: Rep. Bowman moved to approve the Analyst's recommendations for the Division of Fleet Operations. The motion passed unanimously with Reps. S. Clark and Snow absent for the vote.

d. Risk Management

Mr. Allred presented a summary of Risk Management ISF. He stated that the liability insurance and auto physical damage programs are entirely self funded, while the property insurance program is self-insured up to a $3.5 million aggregate yearly deductible (increased from $2.5 million last year) with private insurance being purchased for amounts in excess of the deductible.

Regarding liability rate decrease and property rate increase, the Analyst stated that liability insurance rates will decrease by four to five percent in FY 2008. These rates are recommended by an actuary based on claims information sent by the Division at the end of each fiscal year. Each year the actuary determines whether the fund is actuarially sound and whether reserves need to be increased or decreased. Because of the State's excellent record, rates can come down in FY 2008 for the third consecutive year.

However, Mr. Allred stated that property insurance rates will increase by 15 percent in FY 2008. When the Division renewed its excess insurance policies this year, the rates increased significantly. The increase results from higher national rates, a rising dollar amount of claims made and increasing the self-insurance cap to $3.5 million. The Division requests authorization to transfer some reserves internally to the property program, otherwise the rate increase could be 30-

35 percent.

The Analyst explained that in order to keep the property rate increase to 15 percent rather than 30-35 percent, he recommends the Legislature approve the Division's request to make the following program transfers in FY 2007--$1,000,000 in contributed capital from the Workers Compensation program to the Property program; $1,800,000 in retained earnings from the Liability program to the Property Program; $400,000 in retained earnings from the Automobile physical damage program to the Property program.

Roger Livingston, Director, Division of Risk Management ISF, responded to questions.

Rep. Wheeler commended Mr. Livingston and the Division on their request for the transfer of funds within the different programs, rather than a higher rate request.

The Analyst recommends the Legislature adopt FY 2008 estimated revenues of $38,601,000 for the Division of Risk Management ISF, FY 2007 internal transfers as explained, rates as presented, 25 FTE, and Capital Outlay Authority of $100,000.

MOTION: Rep. Wheeler moved to approve the Analyst's recommendations for the Division of Risk Management ISF. The motion passed unanimously with Rep. Walker absent for the vote.

e. DFCM Facilities Management

Mr. Allred explained that the services of the DFCM ISF are optional. Currently DFCM contracts with agencies to provide services in about 145 owned and leased facilities throughout the State. He noted the need for rate adjustments for utility increases. He stated that this ISF experienced unbudgeted electrical rate increases in FY 2006 of six percent as well as rate increases in natural gas of 32-50 percent. In FY 2007, Rocky Mountain Power is expected to raise rates another 10 percent. Questar is expected to request a seven percent rate reduction, which leaves a projected increase for natural gas of at least 25 percent. Total state agency impact of these utility increases is $817,500. The Analyst recommends the Legislature authorize rate adjustments as presented.

Analyst Todd Wardrop referred to the Issue Brief on Facilities Management ISF regarding the Capitol Hill Complex and responded to questions.

Bruce Whittington, Assistant Director, Division of Facilities Construction and Management, ISF, explained revenues and expenses, actual and projected regarding O&M for the Capitol Hill Complex.

The Analyst recommends the Legislature adopt rates as presented, one additional authorized FTE for a janitorial supervisor on Capitol Hill, and the following intent language:

> *It is the intent of the Legislature that DFCM's internal service fund may add up to three FTEs and up to two vehicles beyond the authorized level if new facilities come on line or maintenance agreements are requested. Any added FTEs or vehicles will be reviewed and may be approved by the Legislature in the next legislative session.*

MOTION: Co-Chair Buxton moved to approve the Analyst's recommendations for Facilities Management ISF. The motion passed unanimously.

3. Department of Human Resource Management

a. Appropriated Budget

Jeff Herring, Executive Director, explained the Department's position on the Flex Benefits program and the consolidation of all human resource employees statewide and responded to questions.

Mr. Allred explained that during the 2006 General Session the Legislature passed HB 269, *Human Resource Management Amendments*, which allowed DHRM to remain an independent department rather than become a division within DAS as previously planned. The bill also allowed DHRM to operate an internal service fund for field services provided to other state agencies.

Regarding the Flex Benefits program funding elimination, the Analyst stated that this program was adopted by the State under federal legislation to authorize employees to deduct a portion of their paycheck to establish a pool of money which can be used to pay out-of-pocket day care, medical and dental expenses. This money is deducted on a pre-tax basis and is free from FICA and other employment taxes. In the past, DHRM collected the money from payroll withholdings, passed it through to PEHP, and processed employee claims. Now, however, the Division of Finance remits the funds directly to PEHP, and PEHP processes claims.

The Analyst recommends no appropriation to the Flex Benefits program and further recommends the Legislature either spend or allow to lapse to the General Fund $10,200 in one-time funds remaining in the program. These funds were deducted from employees' pay but not used by them during the eligible time frame, and are now lost to them.

Mr. Allred stated that the number of state employees declined in 2003 and rose at a slower rate than the State population in 2004 through 2006. The increase in State employees in 1998 was caused by employees from Employment Security, who were not on the state's payroll system, transferring to the new Department of Workforce Services. The ratio of state employees to state population was 0.80 percent in FY 2006, the lowest number of state employees per capita in at least fifteen years.

Further, the Analyst stated that as part of workforce planning, the Division monitors the number of retirees and terminations in order to plan for future workforce needs. Terminations include all individuals leaving state employment. It is still unclear whether the spike in retirees in FY 2006 was simply an acceleration of retirements that would have occurred later.

Rep. S. Clark asked how Utah compares with neighboring states regarding retirees and terminations. Mr. Herring will provide an updated report to all Subcommittee members.

The Analyst recommends the Legislature adopt a total base appropriation of $3,596,500 for the Division of Human Resource Management and the following intent language:

Under terms of UCA 63-38-8.1(3), the Legislature intends not to lapse Item 39, Chapter 367, Laws of Utah 2006. Expenditure of these funds is limited to: Information Technology - $325,000; Consulting Services - $100,000.

MOTION: Sen. Peterson moved to approve the Analyst's recommendation for Human Resource Management. The motion passed unanimously with Rep. Hunsaker absent for the vote.

b. Internal Service Fund

Mr. Allred explained that this current year, FY 2007, is the first year of operation for the DHRM ISF. The rates for FY 2007 were calculated and approved by the 2006 Legislature by dividing the total budgets for HR services and payroll services by the total number of customer agency FTE. This resulted in a Field Services annual rate of $520 per FTE and a Payroll annual rate of $130 per FTE.

Further, the Analyst stated that rates were calculated based on the best information available at the time; however, the COLA salary increase and benefit adjustments for FY 2007 were set by the Legislature after the DHRM rates were calculated, so the impact of the compensation package wasn't added to the rates. This is expected to result in a net loss of $811,300 to DHRM in FY 2007. The funding for these pay and benefit increases was given by the Legislature to the customer agencies because, at that time, these positions remained agency position. Therefore, the customer agencies have the funding but don't have the expense, since they no longer have the people.

Mr. Allred stated that in order to correct the imbalance, the Analyst recommends the Legislature authorized rate increase for DHRM in FY 2008 without providing additional funding to the customer agencies.

The Analyst continued explaining that a rate increase in FY 2008 will help recoup losses from the compensation package in FY 2007, but will not necessarily cover compensation package increases in FY 2008. At some point the agency will have to adjust sufficiently so their future rate is sufficient to cover future estimated costs. However, the Analyst recommends waiting at least one year before making more rate adjustments. Having one or two years of net operating results should be helpful in calculating rates because results will be actual, not estimated. Further, it gives the agency time to implement efficiencies which may help recoup first year losses.

In addition, Mr. Allred stated that the ratio of HR field staff to agency employees should be kept as low as possible while still delivering quality service. The current ratio is 1:145. This and other performance measures will be developed and tracked as the program matures.

The Analyst explained that the Legislature approved creation of the ISF but wanted to ensure it would be revenue neutral and wouldn't increase the size of state government. Therefore, in allowing DHRM to consolidate all HR employees statewide under its organization, the 2006 Legislature adopted the following intent language:

> *It is the intent of the Legislature that for each full-time equivalent position filled in the Department of Human Resource Management internal service fund at least one position will be vacated and eliminated elsewhere in state government.*

Mr. Allred stated that DHRM reports that all of the personnel in the DHRM ISF were transferred from other state agencies.

The Analyst recommends the Legislature adopt estimated revenues of $12,091,700, rates as presented, base FTE of 165.6 and an other 0.5 FTE for FY 2008 and 0.25 FTE for FY 2007.

MOTION: Rep. S. Clark moved to approve the Analyst's recommendation for the Department of Human Resource Management ISF. The motion passed unanimously with Rep. Hunsaker absent for the vote.

4. Career Service Review Board

Mr. Allred reported that during the 2006 General Session the Legislature approved a budget increase of $15,000 for the Board. Additional funds were to be used to cover increased hearing costs, primarily due to two factors: 1. Approximately one quarter of all grievances result in a hearing; and 2. Hearings are becoming more complex and time consuming due to more employees hiring counsel and more pre-hearings motions to resolve, thus requiring more time for the hearing officer.

Robert Thompson, Director, responded to questions.

The Analyst recommends the Legislature adopt a total base appropriation of $218,300 for the Career Service Review Board, all from the General Fund; and the following supplemental intent language for FY 2007:

> *Under terms of UCA 63-38-8.1(3), the Legislature intends not to lapse Item 44, Chapter 1, or Item 46, Chapter 366, Laws of Utah 2006. Expenditure of these funds is limited to: Grievance Resolution - $5,000.*

MOTION: Sen. Peterson moved to approve the Analyst's recommendation for the Career Service Review Board. The motion passed unanimously with Rep. Snow absent for the vote.

5. Request for Appropriation - Archives Regional Repository

Rep. Wayne Harper presented a request for one-time funding of $200,000 with non-lapsing authority for three years for Regional Repository Training and Development in the Division of Archives. He reported that $66,000 will be used annually to assist local communities in the identification and preservation of their historical records; $16,000 for regional training and preservation efforts and $50,000 as pass-through funds to assist local agencies.

Rep. S. Clark asked for a further breakdown of how the funds will be used. Rep. Harper agreed to provide that information.

Patricia Smith-Mansfield, Director, Division of Archives, responded to questions.

Rep. Wheeler spoke in favor of this funding, stating that there is a critical need for this training and development in the local communities.

MOTION: Rep. Hunsaker moved to adjourn. The motion passed unanimously with Rep. Gordon absent for the vote.

The meeting was adjourned at 4:05 p.m. by Co-Chair Jenkins.

The minutes were reported by Bonnie Brinton.

Sen. Scott K. Jenkins	Rep. David G. Buxton
Committee Co-Chair	Committee Co-Chair