(Pending minutes - awaiting formal approval)

Department of Administrative Services FY 2019 Internal Service Fund Rate Review Committee Meeting

Wednesday, September 12, 2018
9:00 a.m.
State Capitol Building, Room 445
350 North State Street, Salt Lake City, UT 84114

Committee Members:

Commissioner Todd Kiser – Chair, Department of Insurance
Commissioner Jaceson Maughan – Labor Commission
Mark Brasher – Deputy Director, Department of Human Services
Natalie Grange, Associate Superintendent, Utah State Board of Education
Becky Bradshaw – Comptroller, Department of Transportation
Joseph Brown – Division Director, Department of Public Safety
Richie Wilcox – Budget and Financial Operations Specialist, Governor's Office of Management and Budget

***Note: An audio recording of the meeting can be found on the Public Notice Website -- https://utah.gov/pmn/sitemap/notice/483889.html. Handouts and presentation slides are also attached to the meeting on the website. Referred times on the recorders are approximate.**

I. Committee Business:

a. Welcome – Ken Hansen, Deputy Executive Director, Department of Administrative Services (DAS). The meeting commenced at 9:05 a.m.

Ken Hansen welcomed everyone to the meeting and asked the members of the committee to introduce themselves.

b. Selection of a Committee Chairperson

Mr. Hansen asked the committee for nominations for the chair. Joseph Brown nominated Todd Kiser to be the Chairperson. There were no other nominees. Mark Brasher seconded the nomination of Todd Kiser. The committee voted unanimously to make Commissioner Kiser the Committee Chair.

c. Open and Public Meetings Act Training – Paul Tonks, Attorney General's Office

Mr. Paul Tonks from the Attorney General's Office presented the Open and Public Meetings Act Training that is required annually. Refer to .10 on recorder (1). The power point document is also attached to the meeting on the Public Notice Website.

d. Approval of minutes from the September 11, 2017, meeting.

Commissioner Kiser asked for a motion to approve the minutes from the September 11, 2017, meeting. Joseph Brown moved to approve the minutes, and Mark Brasher seconded the motion. A vote was taken and the motion passed unanimously.

Commissioner Kiser took a moment to welcome everyone to the meeting and thanked the Department of Administrative Services for their thoughtful preparation for the meeting today.

e. Overview of Rate committee Responsibilities – Ken Hansen, Deputy Executive Director, DAS

Ken Hansen thanked individuals from all the Internal Service Funds for their work to put together the information for the meeting today.

Mr. Hansen, the Deputy Executive Director for the Department of Administrative Services proceeded to review the responsibilities of the DAS Rate Committee and provided an overview of Administrative Services. Refer to 8:00 on recorder (1).

DAS has seven major programs they oversee. The internal service funds that will be discussed include: Risk Management, Finance, Facilities Construction and Management, Purchasing and General Services.

The Governor's Office of Management and Budget has seen the DAS rates proposals, but waits for the recommendation from the Rate Committee.

II. Presentation by DAS Internal Service Funds

a. **Risk Management** – Ken Hansen, DAS Deputy Executive Director and Brian Nelson, Division Director

Brian Nelson, Director of the Division of Risk Management, Brian Jensen, Support Services Manager, and Darin Dennis, Assistant Director, presented the Risk Management proposed rates. Rod Morris is an independent actuary that works with Risk Management, and is also present to answer questions. Please refer to 12:00 on recorder (1), slides 8-30.

Mr. Nelson said the Division of Risk Management manages the State's Risk Fund and procures excess property and liability insurance for Higher Education, school districts, state agencies, and half of the charter schools. Higher Education and state agencies are required to use the fund, School districts and charter schools are not required to use the fund.

The Division also procures workers compensation for all state agencies. The actuary provides an annual review of lost histories, and projects future losses. The actuary also recommends prospective premiums in the liability fund, and how the premiums are allocated.

There was a letter received from the actuary Rod Morris that was emailed to the committee that will be referred to later.

Risk Management has able to provide broad coverage for lower rates, with the capacity to absorb high cost claims. Risk Management is in the process to obtain an independent professional to evaluate the benefits. A report will be provided to the committee when it is received. Mr. Nelson explained that rates are impacted by the agency's 5-years history as well as the insurance market.

In Fiscal Years (FY) 2015 -2018, there was a significantly higher level of losses than an occasional higher liability loss year. The average liability claim costs rose from $10M per year to an average of $15M per year. The high loss cost was not the result of an increase in claims, but the cost of the claims. Refer to the actuary letter in the packet (pages 129-131).

<u>Liability Insurance Program</u>

Brian Jensen presented the Liability Insurance Program. Refer to 19:00 on recorder (1).

Mr. Jensen reviewed the Liability Retained Earnings slide. He explained that in FY 2015 the claims costs started to outpace the collected premiums. The graph shows where the retained earnings have been and where they are going.

Brian Nelson reviewed the slide on Losses and Premiums. Refer to 20:42 on recorder (1). There are four groups that are looked at by the actuary. School Districts, Higher Education, Utah Department of Transportation (UDOT), and Other Agencies.

School Districts have experienced an unprecedented increase in liability and losses. The difference between premiums charged and losses incurred, is approximately $7.2 million. The graph shows a $2 million transfer from the Workers Compensation fund to offset the schools increase in premium costs for FY 2019.

Higher Ed. also experienced an increase in claims over the past 5 fiscal years. The Legislature also approved a $400,000 transfer from the Workers Compensation Fund to offset their increase premium costs for the FY 2019.

UDOT's losses have been up and down over the years. State agencies losses and premiums have been easier to work with, their premiums and losses have be more middle of the road.

Mr. Nelson stated that Risk Management has chosen to implement a less conservative rate approach because of the current trend in the last 4 years fiscal years. Because of the discrepancy between premiums charged and losses incurred, the fund needs to recapture the deficits that rose between FY 2012-2018 to be economically sound. Refer to last paragraph on the second page (pg. 130) in the letter from the actuary.

Please refer to 24:01 on recorder (1)

Risk Management is working with mitigation specialists to train bus drivers, and have collaborated with Ron Litchfield the transportation specialist with the Utah State Board of Education to provide training, and mitigate the bus accident losses. The Attorney General's Office has been brought in to consult. Risk Management has met with school districts superintendents, business administrators, and they have been in contact with Higher Ed. They plan on meeting with others as well to turn this trend around.

There were questions from the committee on the liability increases. Refer to 25:40 on recorder (3).

Richie Wilcox asked about the UDOT liability insurance that is going up approximately $1 million, and the lane miles are going down.

Brian Nelson said that the lane miles have not increased a lot, but there has been a significant number of wrongful death claims.

Commissioner Kiser asked if they were using outside resources for mitigation and training, or using in house staff.

Mr. Nelson said they have staff in-house that are lost control professionals, and plan to bring in other resources as well. It will be a combination of in-house, the Attorney General's Office, and other professionals, for training and mitigation.

Becky Bradshaw asked about the claims paid by UDOT and the Deloitte recommended 42% increase in premiums. Mr. Nelson said the premiums are from the 5 years history, and projections. Mr. Nelson will have the actuary Rod Morris address this issue for Ms. Bradshaw.

Mr. Nelson reviewed the Liability Reserve. Refer to 29:48 on recorder (3).

The actuary looks at the reserve annually and indicates what needs to be in the liability fund. As of June 30, 2018, the balance was just over $49 million, and actuary has recommended the balance to be $54,407,000. This fund is intended to allow the state to pay for all claims should they come due at once.

Richie Wilcox asked what the difference is between the reserve fund and the retained earnings.

Brian Jensen said the reserve fund is recommended by the actuary. It includes cost that are currently known and projects future costs. If all the claims came due, the reserve fund would pay the claims.

Mr. Nelson said they do draw out of these funds to pay liability claims where Risk Management has not received adequate premiums.

Natalie Grange asked if the $10 million loss is part of the premium increase and if they are trying to recover that amount and does it go to the liability reserve. She asked if they used retained earnings and the liability fund to cover costs in the years were the premiums weren't high enough to cover the costs.

Brian Nelson said it was a combination of both. Retained earnings affect this and we need to get the liability back to where it needs to be, but it is also to cover the higher claims. They use the retained earnings and the liability fund to cover claims.

Mr. Nelson explained how they got where they are. Please refer to 33:04 on recorder (1).

There was an unprecedented increase in liability claims. There is also a lag time between actuarial projections and loss experience. They were conservative in with projections to keep the rates low and stable to minimize the retained earnings.

The high cost claims have increased. There were a number of different types of cost claims, like wrongful deaths some involving school busses, head injuries, wrongful termination claims, civil rights claims, etc. If the Legislature changes the tort caps and government immunity, there will be a bigger increase in these claims and costs.

Based on loss experience and projections, they are proposing that liability premiums increase by $6,895,101 in FY 2020, the premiums will be allocated between the funds four groups, and respected entities based on their loss history and risk exposure.

Brian Jensen review the Liability Retained Earnings slide. Refer to 38:05 on recorder (1).

The slide shows the history of retained earnings. Risk Management is requesting a rate increase because of the shift in liability premiums and retained earnings.

Natalie Grange asked if the entities would be reevaluated each year, and if it possible the rates could go up or down next year?

Brian Nelson said Risk Management will be asking for another rate increase next year. Because of the current cycle or trend. Mr. Jensen explained that the claim costs have outpaced the income collected. Risk Management is requesting a rate increase for FY 2020, it's projected that it will have to ask for another rate increase in FY 2021.

Mr. Jensen proceeded with the slide showing the breakout of the percentage changes to the Liability Premiums for the Risk Pool. Please refer to 43:00 on recorder (1).

The actuary recommended an increase of at least of almost $4.4 million for FY 2020 premiums. The recommendation only took into consideration future claim amounts. The actuary did not take into account what the rates needed to be to recapture the losses.

Risk Management plan to recapture the losses by adding amounts onto the different entities and pools, over a three year period, so the entities and pools will not be burdened in one fiscal year period. The additional amounts added in the past that were transferred out of Workman's Comp was used to reduce the premiums. The money transferred out of Workman's Comp this year will be transferred to the liability fund.

Mark Brasher asked about the contributions agencies provide in a settlement. Agencies that only have to pay the premium may be less likely to do something about the problem that caused the claim.

Brian Nelson explained for general liability claims, there is no deductible. Mr. Nelson can't say that agencies that are fully funded for the proposed premiums have less incentive to fix things regarding claims. There are entities in the Risk fund that are not fully funded, and may be impacted in different ways. Higher Educations tuition could be impacted.

Risk Management has created an Employment Practices Liability policy that was amended and became effective July 1, 2018. The form creates a deductible and a co-pay, with an incentive to waive the appropriate deductible if the entity has worked with Risk Management, the AG's Office, or private counsel, through the process of the adverse employment action.

Mr. Nelson explained questions from the committee. Please refer to 46:22 on recorder (2)

Jaceson Maughan asked where the financial impact on the high cost claims came from.

Mr. Nelson explained there have been more tort cap claims and civil rights claims, and attorney fees are costly.

Natalie Grange asked about the mitigation that has been discussed on employment claims that have been going through DHRM.

Mr. Nelson explained that Risk Management decided to extend the employment practices liability, and provide early Attorney General (AG) intervention for all the insurers. Which also includes defense costs for administrative proceedings for the Career Service Review Office (CSRO), is now covered. Early intervention from the AG's office has reduced CSRO hearings, and defense costs. The AG's office reviews any purposed termination or adverse employment action and then advises state agencies if the claim is defensible. As of July 1, 2018 the insured entities have access to this service. Not all charter schools are insured through Risk Management.

Property Program

Brian Nelson presented the Property premiums. Please refer to 53:00 on recorder (2).

Property rates are largely dependent on the characteristics of a building, its location, use, square footage, and other characteristic of the building. Risk Management subscribes to an annual service called Marshall and Swift that looks at the buildings, and what the costs would be by square footage to repair these buildings. This is how the rates are calculated

The $961,400 premium increase for FY 2020 is largely due to the $2 million increase in the excess property program.

Brian Jensen reviewed the Property Retained Earnings. Please refer to 55:23 on recorder (2).

The increase in retained earnings for FY 2018 was because reserve balances were too high. They had estimated a $1 million loss for FY 2018. Risk Management adjusted the reserves by $3.9 million when they saw the increase in the net income and the retained earnings. As they move forward they are reducing the retained earnings to get it back to the 60-day operating capital. They will watch what happens in FY 2020, and will adjust the rates accordingly in FY 2021.

Brian Jensen continued with the Property Premiums by Risk Pool. Please refer to 58:00 on recorder (3). He reviewed the break out for the property premiums.

The increase is part of the $2.0 million increase in excess property premiums. It has been allocated based on loss experience.

Commissioner Kiser asked what the total value of properties, and how much earthquake insurance is there.

Mr. Nelson said there is $34 billion in properties that Risk insures, and there is $525 million earthquake insurance in the traditional program, another $50 million in a parametric program.

Richie Wilcox asked for an explanation of excess property and why so much was added.

Brian Nelson explained excess property is how the risks are financed. Please refer to 1:01.00 on recorder (2).

The state self-insures losses up to $1 million. The total insured property value is $34 billion. The outside carrier covers the excess amount, the limit on that policy is $1 billion. If there is a loss the state pays $1 million plus $1,000 deductible, the excess carrier covers the anything above the $1 million. If the state has paid $3.5 million out of Risk's fund, they pay the balance of any claims above that amount.

Joseph Brown ask if the $1 million was the threshold or if there could be a higher threshold.

Mr. Nelson said they have looked at various thresholds, and feel that the $1 million is the appropriate threshold.

Automobile Property Program

Brian Nelson presented the Auto Premiums. Refer to 1:04.35 on recorder (1). They are proposing a slight increase in rates and a change in the way the rates are determined.

Mr. Nelson explained the change for the annual premiums for auto property damage. Most of the vehicles used by entities are similar, excluding Public Safety, but are charged different premiums per vehicle. The actuary proposed to assign a weight to each type of vehicle based on the cost of the repairing the type vehicle, the number of those types of vehicles, and the losses they were incurring. It was decided to allocate the premiums base on vehicle. Refer to slide #23 in the packet.

Brian Jensen said Risk Management will continue to have minimal rate increases in order to keep up with the repair costs for the vehicles. The cost to repair vehicles is increasing.

Workers Compensation Program

Brian Nelson continued with the Workers Compensation fund. Refer to 1:09 on recorder (1).

There has been significant reductions in Workers Compensation claims and costs over the last few years, and the retained earnings are high even after the transfer of funds in FY 2018 to the Liability Fund and Auto.

They are proposing a $1.2 million decrease in the Worker's Compensation fund to state agencies. This will help reduce the retain earnings that and bring the fund to an acceptable level for the 60-day operating expense. Refer to slide 27 in the packet.

Learning Management System

Brian Jensen explained the Learning Management System (LMS). Refer to 1:12 on recorder (1). LMS is a fairly new system Risk Management has in place. A Risk Management employee provides the assistance to other departments with implementation issues and oversees the system. There are two rates associated with the LMS. The garage rate and the enterprise rate, both rates are $55 per hour. The enterprise rate has a 500 hour bank. The bank is used for updates and maintaining the system. A garage rate is billed when an agency needs help or has questions.

Risk Management proposes to include 50 hours of the garage rate in the enterprise rate, which is a total of $2,750 rate impact per entity that participates in the LMS system. This would allow the agencies to ask for assistance, without the hourly cost. This will benefit the user and the system.

That concluded the presentation for Risk Management.

Commissioner Kiser referred back to a question from Becky Bradshaw.

Ms. Bradshaw restated her question and referred to UDOT claims history, and the liability column. Refer to 1:14 on recorder (1).

Ms. Bradshaw stated that UDOT claims have been decreasing since FY 2015, but their rate was increasing 42%. She asked about the fact that the claims are decreasing and if it was because they did not pay enough in premiums for the claims that were paid.

Brian Nelson explained that Ms. Bradshaw may be looking at the claims paid instead of the total value of the claims. He said the total value of the claims has not decreased in the last few years. Many of the claims may still be going on, and they get more costly the longer they take.

Rod Morris explained that UDOT may be paying less in the current year, to cover claims in the previous year. The value of claim amounts in the last couple of years has not been lower. An adjuster sets claims on an individual claim basis. Generally claims grows over time.

Natalie Grange asked about the auto rate impact. Refer to page 5 “DAS FY 2020 Rate Impacts” in the packet, where DAS has a negative impact of $782,800.

Brian Nelson explained Risk has worked with Fleet to change the way they charge for auto property damage. They charge the premiums directly to the agencies. They used to charge the premiums to DAS and then to Fleet, and they would allocate the premiums. The amount in the column for DAS explains how the rates will be billed out.

There were no other questions from the committee, and no public comments.

Action Items – Vote on FY 2020 Rates and Rate Changes

Commissioner Kiser asked the committee to take action on the Risk rates. Refer to 1:21 on recorder 3.

Natalie Grange would like to understand what the options are. She suggested they draft a statement or letter to GOMB and the Fiscal Analyst’s Office to address the committee’s recommendation on the premium rate increases that will continue over the next couple of years.

Commissioner Kiser asked Ken Hansen to explain how DAS is working with GOMB and the Governor’s Office.

Ken Hansen said they would make sure it was communicated with GOMB and the Governor's Office, so they are aware the circumstances. He suggested they make that part of the motion on the rates that they specifically communicate what they anticipate on future years Risk Management rates.

Richie Wilcox has communicated with Kristen Cox the Executive Director of GOMB. She is aware of the large increases and the proposed increases in the future. He will make sure Ms. Cox is aware of it.

Natalie Grange asked that this recommendation be sent it to all of the Appropriation Committee.

Mark Brasher suggested that other alternatives be looked at to reduce some of the costs for all entities. Including those who pay a deductible and those that are fully funded. Commissioner Kiser would like to have Risk Management get have the agencies engage in training to mitigate losses.

Natalie Grange asked if the committee has the authority to request some kind of a work group or a report back from Risk Management about the impacts of the mitigation, and a study about Mr. Brasher's suggestions. Everyone on the committee is concerned about how these rate impacts will affect their budgets. She would like a more detailed packet of this information to show how Risk Management has mitigated this issue and what options are available. Possibly a policy change or to practice changes help mitigate this further.

Commissioner Kiser likes this recommendation and asks DAS to work on these suggestions.

Richie Wilcox has asked for Risk Management to provide a report for GOMB about their mitigation efforts. He would like them to add the issue with agencies who pay deductibles, and those fully funded.

Ms. Grange asked if phase one of the study is something the Governor's Office has already asked for, and if an in depth study could be done and ready for this committee next year.

Brian Nelson explained a lot of the entities are doing everything to reduce costs, but things do happen. Risk Management has people that do consulting, training, and inspecting their insureds. With all of their efforts they are reducing the frequency, but the claims have been more severe. Mr. Nelson is happy to show the committee the independent analyst that will be taking place in the next several months. The mitigation efforts are due to the Governor's Office next September 18, 2019. They are hoping the independent study will be completed by the end of the calendar year.

Commission Kiser asked for a motion to approve Risk Managements rates. Please refer to 1:38 on recorder 3, for the motion.

Natalie Grange moved that the committee approve the rates as proposed by Risk Management for FY 2020. They expect the information to be provided to GOMB, the Fiscal Analyst Office, as well as Higher Ed. and Public Education Operations committees about the potential for increase for FY 2021, and that Risk Management make available the information they are providing to GOMB, and the studies they are commissioning by the next Committee Meeting for 2020.

Ken Hansen would like to clarify that Ms. Grange is referring to page 42, slide 30 of the rate packet. That would approve the rate changes discussed and other existing rates.

Mark Brasher seconded the motion. A vote was taken and the motion passed unanimously, with the exception of Becky Bradshaw who was absent. She had stepped out of the meeting.

b. **Finance** – Ken Hansen, DAS Deputy Executive Director and John Reidhead Division Director. Refer to 1:40 on recorder (3), slides 31-35.

John Reidhead presented the Purchasing Card program

Finance handles the purchasing card program. There are approximately 2,800 cardholders in the program. Last year the purchasing card usage was $31.77 million. The rebate for 2018, was processed in August 2018, and the net rebate to State agencies and local governments was $344,802.

By holding the FY 2018 rebate until the New Year, Finance shows excessive retained earnings at the end of FY 2018. Next year, the projected ending retained earnings will be back in line.

There is no rate charged to agencies, but there is a "rate" that goes into the bill so it is approved by the Legislature.

The card program is handled through US Bank. Based on what is spent on the cards the state gets back rebates. When the rebates are received from US Bank, Finance covers its costs to administer the program and the remainder is rebated back to the agencies based on what they spend on their card. Finance also remits to the federal government its share of the rebates before the money is rebated back to the agencies.

That concluded the presentation from the Division of Finance.

There were no questions from the committee or the public.

Action Items – Vote on FY 2020 Rates and Rate Changes

Richie Wilcox moved to approve the existing rates for Finance on the Purchasing Card slide 36. Joseph Brown seconded the motion. A vote was taken and the motion passed unanimously. Note: Becky Bradshaw had returned to the meeting.

c. **Facilities Construction and Management –** Ken Hansen, DAS Deputy Executive Director and Jim Russell, Division Director, Refer to 1:44 on recorder (3), slides 37-46

Nick Radulovich, Assistant Director, presented the rates for Facilities Construction and Management.

The Division of Facilities Construction and Management (DFCM) provides building management services to state agencies. They currently have 143.5 FTE's. They provide maintenance and management services to over 200 state-owned and leased buildings. They have $35 million adjusted revenue for FY 2019, and manage over 7.5 million square feet of space statewide.

DFCM focuses on efficient building operations. Their maintenance costs are lower than local and national averages. They do this through their statewide complex regional maintenance groups. They contract out on areas they cannot provide service.

Mr. Radulovich reviewed the cost per square foot graph (slide 40). The graph shows the cost on maintenance per square foot in the US Private, US Government, SLC Private, DFCM FY 2018, and the projected DFCM FY 2020 rates. They provide full service maintenance. DFCM's employees who are licensed electricians, and HVAC specialists, provide the service and maintenance.

Mr. Radulovich continued with DFCM's retained earnings (slide 40 & 41).

DFCM's retained earnings have increased since FY 2018, and are projected to increase through FY 2021. The plan is to get with agencies and discuss the retained earnings and look into areas where this money can be spent.

Richie Wilcox ask about the rate increase projected retained earnings rate increase in FY 2020, of around $300,000, and a net income of $1 million dollars.

Mr. Radulovich, explained there are seven programs that they are asking for rate adjustments for. Refer to (slide 43, page 70). They will look at the rates over the next year to decide if there could be some rate reductions.

Ken Hansen stated there are 200 programs that DFCM is administering, and it monitors each program separately. DFCM watches these programs and if they are in deficit over three years, they make a rate adjustment. They also do this if there is a surplus, and then there is a rate reduction for that program. There is not a specific target they look at because they are managing these programs individually and are trying to come close to breaking even.

Mark Brasher asked if it would be possible to use some of the retained earnings to assist with other buildings that need funding to convert to "VOIP". Mr. Radulovich said they would need to look in to this.

Mr. Radulovich continued and reviewed the rate recommendations for the new programs or scope changes (see slide 44). Refer to recorder (1) 1:59.

Mr. Hansen said they are not asking for a rate increase for these new programs or scope changes. This amount does not show on the rate impact. Funding for these facilities in slide 44 already exists, they were funded through legislative process.

It is not a rate, going forward the rate shown is what they will pay for the new buildings. It has been included on the motion recommendation. It does need the approval for the rates to go forward.

Mr. Radulovich reviewed the Facilities Management Labor (Garage) rates (see slide 45). These rates are above and beyond the scope of work under the contract. The propose rate increases on this slide are the rates they are asking to be approved. They are hourly rates.

Richie Wilcox asked about the hourly rates and why the rates for temporary groundskeeper are going up 24%, and what the estimate of the total cost will be.

Mr. Radulovich said they had to increase wages to retain qualified groundskeepers.

These rates would be charges outside of the normal scope of work. This is what would be charged to the agencies for work outside of their agreement.

Jim Russell, Director of DFCM explained that this is an internal service fund and they bill every hour to a project, if the work is within their O&M, if it's outside the O&M, the agency would be billed at the garage rate.

That concluded the Facilities Construction and Management presentation. There were no questions from the committee or the public.

Action Items – Vote on FY 2020 Rates and Rate Changes

Commissioner Kiser asked the committee for action to approve the rates and rate changes.

Please refer to 2:10 on recorder (1), page 71, and slide 46 (the slide provided today, not the one in the packet).

Jaceson Maughan made a motion to approve DFCM's rates as proposed by DAS on the updated slide. Natalie Grange seconded the motion. A vote was taken and passed unanimously.

d. **d. Fleet Operations** – Ken Hansen, DAS Deputy Executive Director and

Jeff Mottishaw, Division Director, refer to 2:12 on recorder (1), slides 47-63.

Jeff Mottishaw presented the rates for Fleet Operations. Fleet Operations is made up of four ISF programs. Motor Pool, Fuel Network, State Travel Office, and Transactions team.

Motor Pool Program

There are 7,817 total motor pool vehicles in the State fleet. There are 4,621 cars that are maintained and owned by Fleet Operations. The remaining vehicles are delegated to agencies to maintain. Most of these vehicles are delegated to UDOT and Higher Education.

Maintenance that Fleet provides on the vehicles is done by private sector companies. There are 367 contracts for maintenance.

They are working on some new programs and pilots. They have automated kiosks for dispatching keys, and there are about 1,300 agency vehicles with telematics.

Mr. Mottishaw explained the motor pool debt to the general fund. Since 2014 when the debt to the general fund was at its highest Fleet Operations has taken on many cost saving measures and management strategies to lower this debt. Refer to Slide 49.

To calculate the monthly lease rate for vehicles, refer to slide 50. They start with the contract price of the vehicle, then subtract estimated salvage value, divide it by the number of years the vehicle is expected to be in service, then that becomes the monthly lease rate. There are some administrative fees added on to the monthly rate. There are now higher salvage values, all new vehicles starting in July will receive a 25% salvage value.

Mr. Mottishaw said they would like to recalculate the lease payments for all the existing vehicles, and bring them up to the 25% salvage rate. This would lower the monthly lease payment on existing vehicles.

Mr. Mottishaw reviewed the Retained Earnings slide. Refer to 2:19 on recorder (1), and slide 52. As Fleet Operations has been reducing their costs, they have also be reducing their rate to get their net income close to zero. As they have been repaying the general fund and reducing costs they had a positive net income that is accumulating retained earnings. Their retained earnings is above the 60-day operating line. Fleet Operations will be rebating some of the retained earnings to the Federal Government.

Fleet Operations proposed rate impact recommendation for the Motor Pool Rates, is to bring all vehicles that have a salvage rate less than 25%, up to the 25% salvage rate. That is about a 5.8% reduction for monthly lease costs for their customers.

<u>Fuel Network Program</u>

The Fuel Network program provides fueling services for their customers. They service about 37,000 participating vehicles.

The Fuel Network retained earnings is well within the 60-day operating capital. Refer to Slide 55. There are no proposed rate changes for this program.

<u>State Travel Office Program</u>

The State Travel Office provides services to required users in the state as well as voluntary users.

Mr. Mottishaw reviewed the retained earnings for the State Travel program. Refer to slide 58. There were some changes in programs from the travel card to the p-card which resulted in extra revenue which spiked the retained earnings. The calculated overage is $18,776. They will work to reduce this amount over the next couple of years.

There are no proposed rate recommendations for the State Travel Office.

Transactions Team

The Transactions Team is what is left from the previous Consolidated Budget and Accounting Office (CBA). Refer to slide 60.

Mr. Mottishaw reviewed the retained earnings for the Transactions Team. Refer to slide 61. The costs of the program is billed back to the agencies that are served through this program. There is no net income so there is not any retained earnings.

There are no proposed rate recommendations for the Transactions Team.

Action Items – Vote on FY 2020 Rates and Rate Changes

This concluded Fleet Operations review of their rates. There were no other questions from the committee or the public.

Commissioner Kiser asked for a motion to approve Fleet Operations rates Page 91, slide 63.

Richie Wilcox moved to approve Fleet Operations rate modifications and all existing rates. Becky Bradshaw seconded the motion, a vote was taken and passed unanimously.

e. **Purchasing and General Services** - Ken Hansen, DAS Deputy Executive Director and Christopher Hughes, Division Director

Christopher Hughes, Director, presented the rates for Purchasing and General Services. Refer to 2:27 on recorder (1), Page 105, slide 64-84.

Within the Division on Purchasing and General Services there are for programs that have rates. Cooperative Contracts, State and Federal Surplus Property, Print Services, and State Mail and Distribution Services.

Cooperative Contracts Program

The Division of Purchasing has two major functions for the State of Utah to serve as the central procurement office for state executive branch agencies. They ran 1,773 requisitions through these executive branch agencies, and they serve all public entities in the state who may need help with their individual procurements, they helped post 137 solicitations for public entities.

The Division of Purchasing manages the state's cooperative contract program. There are over 1,000 state cooperative contracts. These contracts are renegotiated and have contract terms. There was over $568.2 million spent in cooperative contract in FY 2018. Refer to slide 67.

More public entities are using the cooperative contracts, they are up to 547 entities using the cooperative for FY 2018.

The committee approved the Division of Purchasing to be allowed up to a 1% administrative fee paid by the vendors on the contracts. The administrative fee they are charging is 0.35%. That is below the national average.

The cooperative contracts retained earnings is above the 60-day operating capital. They reserve enough retained earnings to support the program. There was $1 million transferred from Cooperative Contracts to State Mail and Print services to help lower the debt.

There are no proposed rate recommendation for Cooperative Contracts.

State and Federal Surplus Property programs

State Surplus is divided into two programs the State and Federal Surplus Propter programs. Refer to 2:36 on recorder (1) slide 73.

In FY 2018, State Surplus returned over $6 million to agencies through the surplus program. The surplus program saved over $500,000 to law enforcement agencies through the 1033 program. The Federal Surplus program saved Utah governmental agencies $785.650.

The state surplus program has a large retained earnings balance. In FY 2018 there was a larger than normal increase in net income as more vehicles were surplused, the vehicles are now surplused at a higher than normal rate. In addition some buildings were consolidated with a lot of office equipment surplused.

The Federal Surplus program that put in requests to the federal government for what they are looking for that the federal government may be surplusing. The usually have to only pay shipping costs for these items.

State Surplus will need to relocate in the next few years. They will need to look for a new facility to purchase or lease. That is the retained earnings will help with that.

There are no proposed rate recommendation for the State/Federal Surplus Property.

Print Services Program

There are two Print Services programs. Digital Print Services and State Copy Center.

The Digital Print Services has 1,222 copiers in the program and 59,337,848 impressions made on the leased copiers each year. The copier's lifecycle is two years longer than the national average.

The State Copy Center (Xerox Contract), has 100% accuracy and 100% on-time delivery. There were over 1,200 print jobs in FY 2018, and 5,571,188 impressions.

The net income is higher than normal because $300,000 was transferred from cooperative contracts, to help pay off debt for print services. They will continue to review and monitor the earnings to keep it with in the 60-day operating capital.

There are no proposed rate recommendations for print services.

State Mail and Distribution Services program

Refer to 2:38 on recorder (1) Slides 81-84.

State Mail and Distribution Services Program processed 21,742,737 pieces of mail. That has declined 3% from FY 2017, more people are using digital means, but State Mail services is still a needed program for the State.

Through the mail distribution program the state saved $1,323.626, by helping the United States Postal Service with the processing of the mail. They receive a discount when the mail is processed through state mail. Instead of the USPS charging $.50 per stamp, state mail is charged $.37 per stamp.

State Mail also offers distribution services, and they completed 68,386,506 billable tasks this year, with 99% production completed on time.

State Mail's net income is high for FY 2018, because $700,000 was transferred from cooperative contracts to help with their debt. They beginning to see a positive net income, which will result in a positive retained earnings moving forward.

There is no proposed rate recommendation for State Mail.

That concludes State Purchasing's presentation. There were not questions from the committee or public.

<u>Action Items – Vote on FY 2020 Rates</u>

Commissioner Kiser asked for a motion to approve the rates for Purchasing and General Services. Refer to page 115, slide 84.

Joseph Brown moved to approved all existing rates on slide 84, for Purchasing and General Services. Natalie Grange seconded the motion, a vote was taken and passed unanimously.

III. Adjourn

Commission Kiser thanked the committee for their representation and thanked Tani Downing, Ken Hansen, and Marilee Richins, for a job well done, and for the materials the committee received in advance for the meeting.

Mark Brasher made a motion to adjourn, the motion passed. The meeting adjourned at 12:04 p.m.