

MINUTES OF THE MEETING
OF THE
ARKANSAS LEGISLATIVE COUNCIL

Friday, August 8, 2014

The Arkansas Legislative Council met at 9:00 a.m., Friday, August 8, 2014 in Committee Room A of the Big Mac Building, Little Rock, Arkansas. Vice Co-Chair Terry Rice called the meeting to order and recognized a quorum of members present.

Minutes of the Last Meeting

Vice Co-Chair Rice referred the members to the minutes of the last Legislative Council meeting on June 20, 2014 (Exhibit C) and asked if there was a motion to approve the minutes. **Senator Bill Sample moved the adoption of the minutes of the Legislative Council meeting on June 20, 2014. The motion was seconded and passed by voice vote.**

Presentation of Monthly Revenue Reports

Vice Co-Chair Rice recognized Richard Wilson, Assistant Director for Research Services with the Bureau of Legislative Research, to present the monthly revenue reports. Mr. Wilson stated that since the Legislative Council did not meet during July 2014, he is presenting both the June 2014 and the July 2014 monthly revenue reports.

Monthly Revenue Report for June 2014

Mr. Wilson reported that the June 2014 revenue report (Exhibit D.1) reflects that at the end of fiscal year 2014, the gross general revenue collections were \$28.6 million dollars ahead of collections for the same period last year for a growth rate of one half of one percent (0.5%). Mr. Wilson reported that the net revenue collections for the end of fiscal year 2014 is a negative four point five million dollars (-\$4.5 million) for a growth rate of a negative one-tenth of one percent (-0.1%). Mr. Wilson explained that the report shows net general revenues at one half percent (0.5%), but the previous year collections in January and April were impacted positively by income shifting which is paid back this year. Mr. Wilson stated that the collections for the year appear flat because of the income shifting, but the previous year the growth rate was excessive in a positive way. Mr. Wilson stated that the collections have grown at about five and one half percent (5.5%) over the two-year period.

Mr. Wilson stated the graph shows that collections were about \$ 79 million dollars ahead of the official forecast. Mr. Wilson explained that the surplus of \$79 million when growth is flat is due to the official forecast being a negative \$80 million. Mr. Wilson reported that the spreadsheet reflects that gross receipts for sales and use tax is at two point four percent (2.4%) for the year and income tax receipts appear flat. This concluded Mr. Wilson's report and he answered questions from the committee members.

Monthly Revenue Report for July 2014

Mr. Wilson reported that the July 2014 revenue report (Exhibit D.2) for the first month of fiscal year 2015 shows that collections are \$3.2 million ahead of the same one-month period for last year, but net revenue decreased by \$7 million. Mr. Wilson stated this is due in part to the increase in desegregation money from \$3 million for last year to \$12 million for this year as determined by the schedule of payments in the settlement agreement. Mr. Wilson stated that the graph shows net general revenues at about \$10 million below the forecast, with most of this due to corporate income tax collection being below expectations. Mr. Wilson stated the spreadsheet shows that gross receipts are flat and the income tax collections are slightly negative. Mr. Wilson concluded his report for July 2014 and answered questions from the members.

Vice Co-Chair Rice also recognized Richard Weiss, Director of the Department of Finance and Administration, at the request from Senator Dismang. Mr. Weiss came forward and responded to questions concerning the funding for the COLA. There were no further questions.

Executive Subcommittee Report

Vice Co-Chair Rice reminded the members that the motion passed during the last meeting was that actions of Legislative Council subcommittees that meet before July 18, 2014 are final, with specific items to be reviewed by the full Legislative Council if requested by the subcommittee, and those actions were to be reported to the Legislative Council at the next meeting.

Vice Co-Chair Rice referred the members to the report of the Executive Subcommittee (Exhibit E) and recognized Co-Chair Bill Sample to present the report. Co-Chair Sample reported that the Executive Subcommittee met on August 7, 2014 and heard an update from Marty Garrity, Director of the Bureau of Legislative Research, concerning the security measures in the Big Mac Building and the State Capitol grounds. The subcommittee also heard a proposal from Representative Jeremy Gillam for a consultant contract to provide a review of the statewide networking services for the K-12 school districts. The subcommittee passed a motion to authorize Representative Gillam to proceed with the Request for Proposal to obtain pricing and services to support and manage the statewide K-12 networking. As the final order of business, Marty Garrity briefed the subcommittee on the Legislative Council Rules regarding the filing of interim study proposals, which state that interim study proposals must be filed at least six (6) days before the meeting at which they are to be considered and that new proposals cannot be accepted by the Legislative council after the August meeting of the second year of the biennium.

Senator Bill Sample moved that the report of the Executive Subcommittee be adopted.

Vice Co-Chair Rice recognized Representative Jeremy Gillam to answer questions regarding the contract for consultant services. There were no further questions.

Vice Co-Chair Rice called for a vote on the motion to adopt the report of the Executive Subcommittee. The motion was seconded and passed by voice vote.

Standing Subcommittees

Administrative Rules and Regulations Subcommittee

Vice Co-Chair Rice referred members to the report from the Administrative Rules and Regulations Subcommittee. Vice Co-Chair Rice recognized Representative Kelley Linck to present the report of the Administrative Rules and Regulations Subcommittee (Exhibit F.1).

Representative Linck reported that the Administrative Rules and Regulations Subcommittee met on July 9, 2014 and again on August 6, 2014. Representative Linck stated that during the meeting on July 9, 2014 a few agency representatives were not present and those agency rules were rescheduled for hearing on August 6, 2014. The subcommittee also referred rules to other interim committees for their recommendation. Some of those referred are as follows: the Department of Education rule on Arkansas Comprehensive Testing Assessment and Accountability Program (ACTAAP) referred to the Senate and House Committees on Education; the Department of Finance and Administration rule on alternative fuels referred to the Senate and House Committees on Revenue and Taxation; and Arkansas Psychology Board rule on psychology intern supervision referred to the Senate and House Committees on Public Health. There were no questions on this report and there was no action by the Legislative Council required for this report.

Representative Linck reported that the subcommittee also met on August 6, 2014 and heard the recommendations on the rules referred to other committees at the last meeting. The subcommittee reviewed and adopted those committee recommendations and those rules. The subcommittee also heard all other rules on the agenda and reviewed all rules. There were no questions regarding the report.

Representative Kelley Linck moved that the report of the August 6, 2014 meeting of the Subcommittee on Administrative Rules and Regulations be adopted. The motion was seconded and was passed by voice vote.

Claims Review Subcommittee

Vice Co-Chair Rice referred members to the report of the Claims Review Subcommittee (Exhibit F.3) and recognized Representative Jon Eubanks to present the report. Representative Eubanks reported that the Claims Review Subcommittee met on July 8, 2014 and reviewed all items on the agenda and that the actions of the subcommittee are final pursuant to the motion passed at the last meeting. There were no questions.

Higher Education Subcommittee

Vice Co-Chair Rice referred members to the report of the Higher Education Subcommittee (Exhibit F.5) and stated the subcommittee actions for this meeting are final pursuant to the motion passed at the last meeting. Vice Co-Chair Rice recognized Senator Joyce Elliott to present the report. Senator Elliott reported that the Higher Education Subcommittee met on July 17, 2014 and discussed the following: information from the Southern Regional Education Board (SREB) meetings; the upcoming budget hearings for institutions of higher education and the subcommittee requested that the institutions of higher education make the connections between their budget and their discreet and indispensable contributions to the state and community; the policy pertaining to higher education positions that will continue to be discussed at the next subcommittee meeting; and a report from the

director of the Higher Education Department on scholarship programs available in the state. There were no questions.

Performance Evaluation and Expenditure Review (PEER) Subcommittee

Vice Co-Chair Rice recognized Representative Stephen Meeks to present the report of the Performance Evaluation and Expenditure Review (PEER) Subcommittee (Exhibit F.8). Representative Meeks reported that the PEER Subcommittee met on July 23, 2014 and noted that this report will require adoption by the Legislative Council. Representative Meeks reported that the subcommittee reviewed several items approved on an emergency basis by the Chief Fiscal Officer of the State and that all items were reviewed. There were no questions.

Representative Stephen Meeks moved that the report of the July 23, 2014 meeting of the Performance Evaluation and Expenditure Review (PEER) Subcommittee be adopted. The motion was seconded and passed by voice vote.

Policy-Making Subcommittee

Vice Co-Chair Rice referred members to the report of the Policy-Making Subcommittee (Exhibit F.9) and stated the subcommittee actions for this meeting are final pursuant to the motion passed at the last meeting. Vice Co-Chair Rice recognized Senator Linda Chesterfield to present the report of the Policy-Making Subcommittee.

Senator Chesterfield reported that the Policy-Making Subcommittee met on July 7, 2014 and discussed the proposed contract between the Bureau of Legislative Research and Picus Odden and Associates, which was requested by the Committee on Education. The subcommittee passed a motion to approve the contract between the Bureau of Legislative Research and Picus Odden and Associates. There were no questions.

Review Subcommittee

Vice Co-Chair Rice referred members to the report of the Review Subcommittee (Exhibit F.10) and recognized Representative Wardlaw to present the report. Representative Jeff Wardlaw reported that the Review Subcommittee met on July 23, 2014 and reviewed all items on the agenda. Representative Wardlaw also reported the emergency review of a contract for the Department of Human Services, Division of Youth Services (Exhibit I.1) in accordance with the Rules of the Legislative Council. There were no questions.

Representative Wardlaw moved that the report of the July 23, 2014 meeting of the Review Subcommittee be adopted. The motion was seconded and passed by voice vote.

Personnel Subcommittee

Vice Co-Chair Rice recognized Senator Uvalde Lindsey to present the report of the Uniform Personnel Classification and Compensation Plan Subcommittee (Exhibit F.11). Senator Lindsey reported that the Uniform Personnel Classification and Compensation Plan Subcommittee met on August 6, 2014 and reviewed the following: the quarterly employment report for the fourth quarter of fiscal year 2014; reports of grid movements and usage by multiple agencies; the provisional positions reports for higher education institutions; special entry rates for exceptionally well-qualified

candidates; a request from the Insurance Department for an exceptionally well-qualified candidate; and a request from the Department of Career Education for one swap pool position; a request from the Social Work Licensing Board for a central growth pool position; and a request for continuation of a previously reviewed labor market special entry rate for the Northwest Technical Institute for the industry training program. There were no questions.

Senator Uvalde Lindsey moved that the report of the August 6, 2014 meeting of the Uniform Personnel Classification and Compensation Plan Subcommittee be adopted. The motion was seconded and passed by voice vote.

Review of Communications

Vice Co-Chair Rice referred members to the communications listed as Exhibits H.1 through H.23 and stated that only Exhibit H.9a and Exhibit H.9b require action by the Legislative Council. Vice Co-Chair Rice asked the members to indicate if they wished to discuss those items that do not require action. There was no discussion of the communications that did not require action by the committee.

Arkansas Teacher Retirement System

Vice Co-Chair Rice recognized George Hopkins, Executive Director of the Arkansas Teacher Retirement System, to explain the requests. Mr. Hopkins explained that before the Legislative Council today are two private equity investments by the Arkansas Teacher Retirement System.

Mr. Hopkins explained the first investment is with Big River Steel (Exhibit H.9a) with a total commitment by the Arkansas Teacher Retirement System in the amount of \$125 million, which consisted essentially of an investment by ATRS to maintain the twenty percent (20%) interest in Big River Steel as an equity owner, as well as an investment of \$31.91 million in the debt structure of Big River Steel. Mr. Hopkins explained the initial investment by the ATRS was in the amount of \$60 million and after this initial investment there was litigation on environmental issues with the mill.

Mr. Hopkins explained that the funding came from KFW, a German bank that committed \$700 million dollars of which \$600 million was guaranteed by the German government because the Germans were building the equipment for the mill. Mr. Hopkins explained that because of the delays, the bank requested the equity owners to contribute another \$100 million of contingent equity that would not be spent unless there are construction cost overruns and the ATRS contributed an additional \$20 million to the construction overrun contingency fund. Mr. Hopkins explained the bank also requested the establishment of a debt service reserve fund to provide for six (6) months of interest paid in case there are issues of cash flow while the mill becomes operational.

Mr. Hopkins explained that the ATRS agreed to pre-close money paid into a pre-development fund of \$1,090,000.00. The ATRS invested in two debt-funds; the first being the senior secured debt of Big River Steel in the amount of \$26.91 with twelve percent (12%) interest on the funds going to ATRS. Mr. Hopkins explained that this investment "picks" for thirty (30) months, which means that every quarter the interest for the quarter is added to the principle balance and the ATRS gets interest on the interest that was not paid for the first thirty (30) months then it begins amortizing. Mr. Hopkins explained that the ATRS received a payment of over \$1 million because of a four percent (4%) fee on the money loaned by the ATRS. The ATRS made a smaller loan in the mezzanine debt of Big River Steel in the amount of \$5 million with thirteen percent (13%) interest and the interest "picks" for thirty (30) months. The ATRS received a two percent (2%) pre-funding payment on this investment,

which meant that the ATRS has already received back approximately \$1.1 million. Mr. Hopkins stated the mill is in the construction phase now, the equipment has been ordered, and the expectation is the mill will be operational by July 2016. Following the conclusion of his explanation, Mr. Hopkins responded to several questions from the members.

Vice Co-Chair Rice stated that he saw no further questions and asked if there was a motion on this request. **Senator Linda Chesterfield moved that the Arkansas Teacher Retirement System investment with Big River Steel be filed as reviewed. The motion was seconded and passed by voice vote.**

Vice Co-Chair Rice asked if there was a motion on the request by the Arkansas Teacher Retirement System for review of the partial equity ownership investment with KKR Global Infrastructure Investors II, L.P. (Exhibit H.9b), submitted pursuant to A.C.A. § 19-11-1302.

Senator Bill Sample moved that the Arkansas Teacher Retirement System investment with KKR Global Infrastructure Investors, II, L.P. be filed as reviewed. The motion was seconded and passed by a voice vote.

Supplemental Agenda

New Proposals and Resolutions

Vice Co-Chair Rice referred the members to the Supplemental Agenda in their packets and to Interim Study Proposal 2013-198. Vice Co-Chair Rice noted that Interim Study Proposal 2013-198, by Representative Fielding, is the last interim study proposal that the Legislative Council will be allowed to accept and he asked if there was a motion to suspend the rules in order to consider it.

Representative Greg Leding moved that the rules of the Legislative Council be suspended to allow consideration of Interim Study Proposal 2013-198. The motion was seconded and passed by a voice vote.

Vice Co-Chair Rice asked if there was a motion to refer Interim Study Proposal 2013-198 to the House Committee on Revenue and Taxation. **Senator Linda Chesterfield moved that Interim Study Proposal 2013-198 be referred to the House Committee on Revenue and Taxation. The motion was seconded and passed by voice.**

Adjournment

At 10:15 a.m., Vice Co-Chair Rice stated that as there is no further business before the Legislative Council the meeting is adjourned.

Respectfully submitted,

ATTEST:

Representative Terry Rice
Vice Co-Chair, House

Marty Garrity
Executive Secretary