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GENERAL ASSEMBLY
STATE OF VERMONT
LEGISLATIVE JOINT FISCAL COMMITTEE

Thursday, November 8, 2018

Minutes

Room 10, State House

Members present: Representatives Ancel, Fagan, Lippert, and Toll, and Senators Cummings, Kitchel, Sears, and Westman.

Other Attendees: Administration, Joint Fiscal Office, and Legislative Council staff, and various media, lobbyists, and advocacy groups.

Representative Janet Ancel, Chair, convened the meeting at 10:04 a.m. Representative Fagan moved to approve the minutes as presented, and Senator Cummings seconded it. The Committee approved the motion.

B. Administration's Fiscal Updates – 1. FY 2019 Budget Adjustment Pressures

Adam Greshin, Commissioner, and Matt Riven, Deputy Commissioner, Department of Finance & Management, reviewed the fiscal updates for the Governor's FY 2019 Budget Adjustment proposal. Commissioner Greshin explained that the Department was currently meeting with all the State Agencies and Departments on their FY19 and FY20 budget requests. The biggest pressure for FY 2019 was in the Agency of Human Services, but the net effect to the budget did not appear to be significant.

Senator Kitchel commented that at the September Committee meeting the Department mentioned its preliminary budget adjustment pressures included an AHS grant reduction plan that it found unachievable as well as an increase in a collective bargaining agreement that would increase the costs associated with direct care workers' wages. The Senator asked if there were no identified FY 2019 budget adjustments that were significant. Mr. Riven responded that the Department did not expect a significant AHS downward pressure in FY 2019. The Agency was planning to manage the grant reduction and book savings in efficiencies. However, there would be some upward pressure in the FY19 BAA for the American Federation of State, County and Municipal Employees (AFSCME) settlement. Although difficult to predict, there could be some downward pressure in the revenue sources supporting the Medicaid enhanced match in areas such as mixed enrollees.

Mr. Riven, in responding to Representative Lippert, stated that the Department was striving for level-funded budgets in AHS, but it was too soon to predict. The Chair asked when the Department would have the final numbers on the FY19 BAA. Commissioner Greshin stated that the Department should have all the information needed for the FY19 BAA within the first two weeks of January.

Senator Kitchel showed concern for the Department oversimplifying the financial agility of AHS. Senator Westman cautioned that the State set the benefit levels in Medicaid, but the population levels were not known until the end of the calendar year. Mr. Riven agreed and stated that AHS' base request looked out over 18 months for its trend, further complicating forecasting.

<u>2. FY 2020 Budget Development Process, and Projected Revenue & Expenditures</u>

Commissioner Greshin explained that the Department was about 75% complete with the agencies and departments on budget submissions and he anticipated finishing the rest of the departments by the end of the following week with further refining afterward. The Commissioner reviewed the status of available General Funds for FY 2020. The base starting point from FY 2019 was about $1.3 million with an additional $18 million upgrade from the July 2018 Emergency Board consensus forecast, and another approximate $15 million of Direct Applications, totaling $32–$33 million of additional revenue to the FY 2020 General Fund. The additional revenue was about the same amount needed for the State's growth in liabilities such as teachers' and State Employees' pensions and accrued liability, along with Other Post-Employment Benefits (OPEB), which were predominately healthcare costs. In addition to these costs, there was an additional $7 million in debt service liability for the State's outstanding bonds. State liabilities for FY 2020 totaled about $40 million before factoring in additional pressures not yet identified.

Representative Toll asked that any proposed major programmatic or policy initiatives for FY 2020 be delivered to the Legislature early in the session. In responding to Senator Kitchel, the Commissioner explained that the Administration would hold off on finalizing its decisions for corporate tax revenue until after the Emergency Board adopts its January 2019 consensus forecast. Senator Kitchel requested that the Administration deliver the liabilities report (unfunded budget pressures) quickly to the Legislature, and Representative Toll added that it would be helpful to have the liabilities report ahead of the delivery of the budget or in tandem of the budget for a comparison with budget requests.

Commissioner Greshin inquired what the statutory authority was for the liabilities report deadline. Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office, responded that the liabilities report traveled as part of the budget report per Sec. E.100.9 of Act 172 of 2016 (cited budget report 32 V.S.A. § 306). The Chair suggested that the report was not widely distributed and may need to be included in the upcoming Friday afternoon session workshops.

<u>3. Caseload Reserve and Global Commitment Fund</u>

Mr. Riven reviewed the reserves included in Act 11 of Special Session 2018 (budget) and the language created to transfer $80 million to the Caseload Reserve to cover the States obligation from Medicaid known as the "tail." However, the payment to the obligation would not be documented in the Comprehensive Annual Financial Report (CAFR) until 2019, but the Department had notified the rating agency of the positive movement from the State in paying its obligations. Although it did not change the outcome of Moody's downgrade to Vermont's bond rating, it should be a positive attribute for future bond ratings.

4. General Fund and Education Fund Reserves

Commissioner Greshin explained that in Act 11 of Special Session 2018 the Administration was asked to review the statutory requirements for General Fund and Education Fund reserves and submit recommendations to the Committee for changes, including a possible reserve for the Health Care Resources Fund. The Education Fund reserves were full at the 5% statutory amount, and the General Fund was at 6%, which was a bit higher than the statutory amount. The Administration recommendation was to merge the State Health Care Resources Fund into the General Fund instead of adding another reserve. A challenge in the past with creating new reserves had been finding the funds to cover the statutory 5%. The General Fund has traditionally been a backup to the State Health Care Resources Fund when it ran low or completely out of assets. It seemed logical to combine the State Health Care Resources Fund with the General Fund. Commissioner Greshin stated that the combining of the two funds would give more information to the rating agency [Moody's] as to the resources the State had to offset its debt. The Commissioner clarified, per Senator Kitchel's request, that building General Fund reserves would paint a better picture of the State's debt versus discretionary funds.

Senator Westman commented that the State's Stabilization Reserve [Rainy Day Fund] of 5% seemed low in relation to other states' reserve funds. He requested the Administration gather further data from the National Conference of State Legislature's (NCSL) on what percentage all other states legislated for reserves. He further added that since the Administration anticipated additional one-time funds in 2019, it would be an appropriate time to add to reserves.

The Chair requested a sheet of all the various State reserves with the statutory citations and the amounts currently in each reserve fund. Senator Westman added that it should include a comparison of Vermont to other states. Representative Ancel and Senator Kitchel asked that since the Education Funds' statutory amount for reserves could drop to as low as 3.5%, whether that amount was realistic or if it should be increased to 5%. Commissioner Greshin stated that the Administration's recommendation was to set the statutory reserve for the Education Fund at a flat 5%. Senator Cummings commented that if the Legislature planned to move from a property tax to an income tax for education spending, there should be a tandem conversation of the increased volatility for the Education Fund and its reserves.

5. Movement of Staff Employees (National Life, Dill Building-Berlin, and Barre City Place)

Chris Cole, Commissioner, Department of Buildings & General Services, explained that National Life Group requested that the State reduce its footprint within the Montpelier building over a year ago. Since then, there has been a lot of shuffling of departments to accommodate the request, but a fire on June 2 of this year contaminated the fourth floor with smoke and water damage along with water damage on the second and third floor of the building. This caused further shuffling of about 400 State employees. The Agency of Transportation housed all its staff within current workspaces throughout central Vermont but because those spaces were temporary, those staff were then moved to a more permanent location in Barre City on an empty leased floor of the Barre City Place building where the Department for Children and Families' (DCF) Family Services Division had once resided in 2016. The lease on the space was signed in 2012 for ten years for the Agency of Education and DCF.

The National Life second and third floors of the East wing were back online, with some of the previous furniture being moved back, but additional furniture had to be purchased after water and soot damage from the fire. The National Life Group oversaw the fire remediation and had discovered challenges with finding laborers in the areas to recover the office spaces. The Agency of Transportation (AOT) has requested to move to the Barre City Place permanently, and to accomplish this, the Agency of Education would swap its space from the Barre City Place to the 5th floor of National Life, which was unaffected by the fire and where AOT is now located. AOE would also share the 4th floor of National Life with the Department of Environmental Conservation (DEC), and DEC would occupy all the 3rd floor of National Life.

Senator Kitchel added that the intent of the employee and office moves was to co-locate agencies and departments to better facilitate work, but AOT would now be in two different locations. Representative Toll showed concern for the exorbitant amount of cost for furniture in FY19 due to department moves. She then inquired if BGS could use existing furniture instead of buying new. The Chair asked what the fiscal impact would be with the moves. Commissioner Cole responded that the furniture destroyed by the water, smoke, and fire would be covered through the insurance from the State's furniture lease payment to the National Life Group. The Commissioner was not able to provide a fiscal review of the project but would have further information in a couple of weeks. The goal was to have no additional costs to the State budget by using some accrued savings from previous move budgets.

Senator Kitchel asked if the State had been paying for empty leased space, and the Commissioner confirmed an annual cost of $242k a year for 3 years. Senator Cummings added that there would be fewer State employees and less leased space because the National Life Group requested the State reduce its footprint in the building to allow for National Life Group to expand. The Commissioner agreed.

6. Tax Computer System Modernization Fund Report

Craig Bolio, Deputy Commissioner, Department of Taxes, referred to the Tax Computer System Modernization Fund Report and suggested that the Fund be scaled back now that the project was near completion. The Tax Computer Modernization Fund (CMF) was created in 2007 to provide a funding mechanism for the new Vtax system. The system has generated a total of $24 million in benefits to the General Fund, Education Fund, and other Special Funds. Currently, the CMF was producing more benefits than needed to offset project maintenance and support.

Mr. Bolio announced that the $26 million contract to the vendor, FAST Enterprises, had been paid off. He suggested the benefits to the CMF could be scaled back from 80% to 40% retention rate. The Department would continue to pay the vendor for maintenance costs through the 40% revenue to the fund and continue to invest in additional projects. One project being considered is a Grand List system that would organize and streamline education property tax information and payments between the Department and the local governments. Mr. Bolio stated that, by reducing the percentage of benefits to the CMF prior to Sec. E.111.1 of Act 11 of Special Session 2018 July 1, 2024 sunset, more funds would be available to other State funding areas with enough for the Vtax maintenance contract and future projects.

C. Grants – 1. – JFO #2933 – Centers for Disease Control & Prevention to the Vermont Department of Health

Julie Arel, Director of Health Promotion and Disease Prevention, and Brad O'Connor, Grants Manager, Department of Health, gave their backgrounds, and Ms. Arel summarized the grant. The 5-year grant focuses on diabetes and cardiovascular disease. There was a previous 5-year grant that was similar with $1 million annual funding that included obesity prevention and school health. The new grant had increased funding of $1.5 million annually over the 5 years that was mostly subgranted out through community partner efforts. Representative Fagan inquired of the funds held aside for personnel and operating costs. Ms. Arel responded that a good amount of staff time was required for contracting with the multiple community partners. The grants manager worked with OneCare, Blueprint, and DVHA to coordinate work and ensure there was no duplication of grants. There were two content specialists managing all 22 of the awards that evaluated the effectiveness of the program. The $300k in salaries noted in the grant was for the grant manager and the two content specialists.

Senator Kitchel asked if the Department was targeting any of the prevention grant toward tobacco cessation. Ms. Arel stated the Department would do its best to leverage funds toward tobacco prevention while supporting people in nutrition. Senator Kitchel then stated that it was alarming that Vermont had the highest number of pregnant women who smoked in the nation. The Legislature will be very interested to hear in the FY20 department budget testimony of how the FY18 and FY19 appropriated funds were targeted toward this very high-risk population. Ms. Arel responded that the Department implemented a pilot program in Rutland County where the highest population of pregnant women who smoked lived. Due to the positive results from the pilot, the Department has since expanded the program.

Representative Fagan moved the approval of the grant, and Senator Kitchel seconded the motion. The Committee approved the motion and grant.

2. JFO #2934 – Substance Abuse and Mental Health Services Administration (SAMHSA) to the Agency of Education

Jennifer Gresham, Division Director of Federal Education and Support Services, Agency of Education, and Tracy Mongeon, Children's Mental Health Care Manager, Department of Mental Health, summarized the grant. Ms. Gresham explained it was a new coordinated service grant that embedded within schools mental health clinicians who would provide additional training to teachers on how to support their students. The clinicians would also assist in developing protocols for student screening and build off currently provided services. Representative Toll asked if the Department identified the three supervisory unions where coordinated services would be located. Ms. Gresham stated Orleans Southwest, greater Rutland County, and Addison [sic] Supervisory Unions. Representative Fagan asked for clarification on the Rutland Supervisory Union. Ms. Gresham explained that the grant did not include the Rutland City public schools.

The Chair inquired of the rational for choosing those specific supervisory unions to pilot for the grant program. Ms. Gresham responded the grant was limited to three Supervisory Unions because of a capacity issue for funding and staffing. Therefore, the Agency went to the Supervisory Unions that had identified themselves in need and already had Designated Agencies with the proper supports in place for coordination with the schools. The Chair asked when a report would be available to other school districts on lessons learned from the pilot program. Ms. Gresham stated the Agency would be collecting a significant amount of data in the first year and planned to add schools each year and then additional Supervisory Unions in later years if the pilot was successful.

Senator Westman asked if the Agency's goal from the pilot was to be able to recommend a standardized model of statewide shared mental health services within designated agencies and school districts. Senator Kitchel added that the State was investing millions of dollars into the school-based health services and through Designated Agencies. She suggested that the Agency review the current baseline for investment of services, what were the expectations for outcomes to improve services, and how does the State address mental health services for students in a more uniform way that includes suicide and drug and alcohol use. Ms. Gresham responded that the grant had two components. One component enabled the Agency to partner with the Vermont Suicide Prevention Center's *Umatter* program to subcontract services in schools, as well as youth mental health [sic] in those areas that would train staff in the schools and community members about mental health. Another component of the grant would integrate specific framework, in the three pilot regions, for an improved and enhanced version of the current Agency's Multi-tiered System of Supports (MTSS) in Vermont Public Schools model.

Representative Lippert inquired if high-risk students such as LGBQ youth were actively included in the grant. Ms. Gresham agreed with the member's concerns, and explained it was important for the schools to make decisions on how to use the grant funds in the best manner for their own schools. Representative Toll inquired if the Agency/schools would need additional funding later after the grant ended in 5 years to continue the work. Ms. Gresham responded that the Agency planned to reuse current funds from Success by Six or other funds already available in the State budget.

Senator Kitchel asked if the Legislature would receive annual outcome and performance measures from the grant program. Mr. Gresham stated yes. Senator Kitchel made a motion to accept the grant. Representative Fagan seconded the motion, and the Committee approved the motion and grant.

<u>D. Fiscal Officers Report – 1. Legislature's Budget Update</u>

Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office, highlighted areas of the <u>Fiscal Officer's Report</u>. He explained that the Legislature's budget would not be ready until January because the Office was awaiting recommendations from the National Council of State Legislature's (NCSL) on staffing capacity, possible salary adjustments, and/or cost shifts from modernizing the Legislature's human resources capacity. Representative Lippert asked if the Office anticipated salary increase recommendation from the NCSL study for legislative staff. Mr. Klein responded that the Legislative Council Office had already built in some funding for salary increases in lieu of the NCSL recommendations, but that amount may need to be adjusted once the final report was released. The larger question was whether NCSL would recommend structural changes that could centralize the Information Technology team or add a human resources director. Those larger changes would need to be included in the Legislature's budget for approval if the Legislature agrees with the report recommendations.

2. Decarbonization Study Update

Mr. Klein informed the Committee that the Office added Michael Dworkin and Richard Cowart of the Regulatory Assistance Project (RAP) in a very limited capacity to broaden the scope of nonpricing strategies of the Decarbonization Study. Catherine Benham, Associate Fiscal Officer, Joint Fiscal Office, added that RAP and Resources for the Future (RFF) would collaborate on the study to broaden the report recommendations.

3. Tax Deductibility for Legislators

Mr. Klein explained that the federal government eliminated the tax deductibility for travel expenses for legislators traveling over 50 miles. There may be a more in-depth memo sent to Legislators from the Legislative Council. The Chair inquired if the new federal tax policy was for just travel expenses and if so, how were travel expenses defined. Mr. Klein stated that Legislative Council was currently doing the research on the policy and were best to answer questions on the federal tax changes. Ms. Benham added that the law affected the current 2018 expenses. The Chair directed the Council, through the JFO, to send the memo as soon as possible to clarify questions from members.

4. State Employees and Teachers' Retirement.

Mr. Klein informed the Committee that the State Treasurer recommended a higher contribution to the State Teachers' Retirement System than the actuarial request. One-time or ongoing funds in the FY19 budget may be needed to cover these costs.

5. Basic Needs Budgets and Livable Wage Report

Dan Dickerson, Fiscal Analyst, Joint Fiscal Office, referred to a memo attached to the Fiscal Officers' Report and sent earlier to the Committee regarding proposed methodology changes to the 2019 Basic Needs Budgets and Livable Wage report. With the report turning 20 years old in 2021, the Office recommended a comprehensive review for possible updates to the report through a technical advisory council. An example would be to consider including college debt in the methodology. Representative Ancel handed out the relevant statutory language for the report.

Nolan Langweil, Senior Fiscal Analyst, Joint Fiscal Office, explained a proposed methodology change on how out-of-pocket (OOP) dental costs are calculated in the Basic Needs Report. Recently, the Office received better data from Northeast Delta Dental. These costs increase OOP costs to individuals and families significantly. Mr. Langweil cautioned the Committee that even though it was better data, there were still some outliers within the data that could slightly inflate some areas of coverage. Senator Kitchel asked if the new data would be more reflective of children in families with income over the 300% poverty level and not covered under Dr. Dynasaur. Mr. Langweil responded that the coverage was somewhat captured in the estimates, but not completely. He suggested that there could be additional reflection in the narrative of the report. Mr. Klein suggested that in reviewing the report and its methodology there may be additional fine-tuning moving forward.

Mr. Dickerson explained the Office suggested continuing the use of 2009 National Household Travel Survey (NHTS) data instead of the 2017 information because the newer data had some large fluctuations that the Office questioned. The Office suggested the new advisory council review various data and recommend the best information for future reports. The Office proposed a methodology change to merge travel data to include respondents from urban clusters. An urban cluster, per the census bureau, was an area of 2,500k to 50k inhabitants, such as Montpelier. Senator Westman asked why the merging of data was beneficial to the report. Mr. Dickerson responded that having the additional data samples would make the report more reflective and accurate of actual travel costs.

Senator Westman moved to accept the basic needs budget methodology changes proposed by the Joint Fiscal Office in its memo dated November 6, 2018, and to support the creation of a technical advisory council during the upcoming biennium, either through legislation or another means, to collaborate with the Joint Fiscal Office on a thorough review of the basic needs budget and livable wage study to recommend potential changes. Representative Fagan seconded the motion, and the Committee approved it.

6. Grant Approval Process Statute Issues

Mr. Dickerson summarized a memo attached to Fiscal Officer's report on statute issues with the grant approval process. Senator Kitchel added that the issue was raised during a previous grant review that showed the process was not clear.

Rebecca Wasserman, Legislative Counsel, referred to a list of possible scenarios in which some grants may prove to be problematic with the current grant process. Mr. Dickerson reviewed some of the examples for problematic grants that the Office encountered. Ms. Wasserman added that there is only one instance in statute that allows for the Joint Fiscal Committee to have the authority to adopt policies within the expedited approval process, and she suggested adding language to allow more flexibility for adopting policies.

The Chair asked that a drafting request be prepared and given to the Committee members for review, and the Committee agreed.

E. Moody's Downgrade to Vermont's Bond Rating

Beth Pearce, Vermont State Treasurer, distributed a packet of information on Vermont's bond rating and explained that Vermont was rated AAA by the FitchRatings Corporation and AA+ with Standard and Poor, but Moody's recently downgraded Vermont's bond rating from AAA to Aa1. Issues raised in Moody's rating action, included Vermont's demographics and aging workforce. In addition, the National Association of State Treasurers revised the U.S. States Rating Methodology for the States governance criteria. The revision changed the weightings and factors of the economy, pensions, and governance of states, which affected smaller states such as Vermont.

The Treasurer explained that Vermont historically has used $150 million as its capacity bond amount. Scott Baker, Director of Financial Reporting, Office of the State Treasurer, added that in 2019 the State could issue as much as $108 million in bonds. Representative Ancel suggested a more realistic bond amount be used in future analysis and there be a common understanding of how to present information on the fiscal impact of bond ratings; the Treasurer agreed.

Treasurer Pearce explained that Moody's was concerned about Vermont's slower-than-average economic growth relative to Growth Domestic Product (GDP) and the impact of paying down long-term liabilities. The Treasurer commended the Legislature for investing additional funds for paying down the retirement debt in FY 2019, then referred to a presentation with historical data of the State underfunding the Actuarially Required Contribution (ARC), and its progress for moving forward with a 30-year plan. Vermont was working toward paying off its long-term debt with the coordination of its teachers and State employees, but Moody's rating action was a wake-up call to the State to deal with its workforce and demographic issues or risk losing AAA ratings with Standard and Poor and FitchRatings.

Representative Ancel asked for the dollar amount associated with $100 million capacity bond for 20 years. Catherine Benham, Associate Fiscal Officer, Joint Fiscal Office, responded the State was at 2/3 of the $150 million bond cap which cost the State $650k a year for 20 years. Treasurer Pearce stated her Office would send the Committee a one-page description of the fiscal implications of the bond rating downgrade. Representative Toll commented that even though Vermont was the best-rated State in New England, it could not afford to have another downgrade and put its bond rating at risk. Representative Lippert asked if the Treasurer could include a clarification in the All Legislative Briefing later in the month on the downgrade and its fiscal impacts to dispel the incorrect information in the media.

The Committee adjourned at 12:25 p.m.

Respectfully Submitted,

Theresa Utton-Jerman
Legislative Joint Fiscal Office