



**GENERAL ASSEMBLY**  
**STATE OF VERMONT**  
LEGISLATIVE JOINT FISCAL COMMITTEE

Monday, July 29, 2019

Minutes

Room 5, State House

Members present: Representatives Ancel, Fagan, Hooper, Lippert, and Toll and Senators Ashe, Cummings, and Kitchel.

Other Attendees: Representative David Yacovone, Administration, Joint Fiscal Office staff, various lobbyists, and advocacy groups.

Senator Cummings, Chair, called the meeting to order 9:36 a.m. Representative Fagan moved to approve the minutes of November 8, 2018, and February 13, 2019, and Representative Hooper seconded the motion. The Committee approved the motion.

**B. Administrations Fiscal Updates – 1. Fund Transfers, Reversions, Reserves and FY 2019 Preliminary Close-Out**

Commissioner Greshin, Commissioner, and Matt Riven, Deputy Commissioner, Department of Finance and Management, referred to a memorandum that summarized the fund transfers, reversions and reserves (unencumbered balances) for FY 2019, and a document summarizing the preliminary distributions of reserve balances for FY 2019 closeout. The total preliminary surplus balance for FY 2019 was estimated at \$51.27 million. Act 72 of 2019 instructed that 50% of surplus amounts (approximately \$26 million) be transferred to pay down the Medical Benefits for retired State Employees known as Other Post-Employment Benefits (OPEB). Another \$9.4 million will transfer to the Agency of Human Services Federal Receipt Account known as the “Bluebook” for FY 2020 and the remainder \$16.24 million would transfer to the Rainy-Day Fund to bring reserves to a total of \$31.55 million. Commissioner Greshin agreed with Senator Ashe that the additional infusion of funds toward the retirement obligation that the Legislature intended was positive in moving from a pay-as-you-go status with the State’s retirement obligations to a pre-funding status.

Representative Toll queried whether the \$9.4 million transfer to the AHS Federal Holding Account was reflected in the General Fund (GF) reserves balances for the end of FY 2019, and the total amount in the fund. Commissioner Greshin stated the \$9.4 million was not reflected within the reserve totals. Sarah Clark, Chief Financial Officer, Agency of Human Services, responded that there was an approximately \$25 million in the Non-Budgeted Revenue (NBR) at the FY 2018 closeout. The FY 2019 estimated transfer amount of \$9.4 million would

be transferred to the NBR and then in FY 2020 would transfer as a direct application to Clean Water as directed by Act 72 of 2019.

Commissioner Greshin stated that the preliminary total for all reserves was \$224.24 million or 14.2% of the total GF portion of the State budget in FY 2019. The Commissioner responded to Representative Toll that the Administration did not have a specific target percentage they wished to achieve. Senator Cummings queried whether Vermont had enough reserves for an economic downturn that would cover the State's current spending plus the additional caseload that typically appears during these difficult fiscal times. Mr. Riven responded that it depended on what threshold amount. Vermont had a high reliance on federal funding for Medicaid which put it at an increased risk with fluctuations in those types of funds. The Commissioner added that Vermont also had a more unpredictable revenue stream than most states. Representative Lippert inquired what the estimated surplus was when the current budget passed. Commissioner Greshin responded that the last estimate before the current Consensus Revenue Forecast announcement was within the \$40-50 million range.

## 2. FY 2019 Preliminary Close-Out – a. Merging of General Fund & Health Care Resources Fund

Mr. Riven distributed a document and explained that Act 64 of 2019 instructed the merging of the Health Care Resources Funds (HCRF) with the General Fund (GF). Since the HCRF dollars were deposited into a special fund, rating agencies did not recognize the fund balance as a source of income for the GF, which made the States' GF seem artificially low and decreased the States' financial sustainability picture. With the merged funds, the revenue from the HCRF would be incorporated into the States' revenue forecasts in the future, but AHS would continue to do the actual forecasting of funds as in the past. The additional revenue would raise the GF balance by \$275 million a year. The Chair clarified that the revenue from the new e-cigarette tax policy implemented on July 1 of the current year was not included in the chart distributed earlier, and Mr. Riven agreed.

## b. 5-Year Spending Analysis

Commissioner Greshin explained that the Administration has attempted a longer-term budgeting and revenue expenditures exercise over the summer (5-Year Spending Analysis) that incorporates two broad goals. The first goal was to adopt a new vision of reviewing the State's budget and revenue over the course of a 5-year period rather than the one fiscal year at-a-time strategy. This would allow for a budget and revenue plan to be in place for two Gubernatorial and Legislative terms and enable longer-term projections for budget and revenue differences as shown in the Joint Fiscal Offices' alligator mouth diagram. The State Departments included in the Spending Analysis were offices that reported to Cabinet Agencies and Departments, and exclusions included the Education Fund, Judiciary and Legislature's budgets, and the state-wide elected offices such as, the Auditor. Even with the exclusions, the analysis included over 90% of State budgeted items.

The Commissioner stated that the assumptions from the Spending Analysis included growth in GF and the Internal Service Fund (ISF) department receipts by 2%. Federal and special funds, along with areas such as salaries and fringe benefits were analyzed using broad assumptions through historical and known data fluctuations. Due to the complexity of these

budget areas, they were analyzed by each department and included in current changes such as, the phase out of the Children's Health Insurance Program (CHIP) grant.

Commissioner Greshin stated that the Administration hoped to have cabinet and commissioner recommendations by the end of the summer. The intent of the exercise was to compile small but significant changes to the State budget that could add up to a larger impact in totality on how, who and why services are delivered to State government. Senator Ashe stated that he welcomed better ways to deliver services, but voiced concern of agencies workload being bogged down, and cautioned the Commissioner to keep an eye toward positive changes in programs that were realistic and supported by its staff. Representative Lippert asked what the timeframe and budget reduction percentage that departments were asked to achieve. The Commissioner responded that departments were asked to review their programs budgets and close, at a minimum, 20% of their individual budget gap over the next 5 years.

Senator Kitchel stated that budget exercises are positive because they challenge what exists and asks for the State government's role and top priorities. The Senator asked if the exercise included the two decision points of whether we do a program better or do we reassess if the program was a priority. Commissioner Greshin added that those questions were central to the decisions of the departments in this exercise, including the decision of what programs were the most important to State government. He added that the vast majority of the \$6 billion spent in State and federal funds were on program costs (\$4 billion).

Representative Toll informed the Committee that there was similar language for a 5-10-year spending analysis for the Agency of Human Services included in Act 72 of 2019. Senator Kitchel added that the AHS budget language required a larger analysis that included trends. Representative Hooper suggested the Administration include service delivery workers in its 5-year internal budget exercise at some point in its process.

c. – FY 2019 Transportation Fund Close-out

Commissioner Greshin summarized the report and the Committee had no questions.

3. – Human Services FY 2019 Preliminary Close-out – a. Year End Medicaid

Sarah Clark, Chief Financial Officer, Agency of Human Services, and Nolan Langweil, Senior Fiscal Analyst, Joint Fiscal Office, provided a handout and summarized that the report reflected the latest actuals and that there were no actions required by the Legislature until January 2020. Mr. Langweil highlighted that Medicaid expenditures totaled \$1.82 billion, about 1% below what was budgeted for FY 2019. Overall spending grew by 4% over FY 2018. The data also showed that Medicaid caseload had stabilized in FY 2019. Total Medicaid enrollment showed modest declines with the largest decreases in childless new adult at 6.7% and state cost share reductions (CSRs) at 20%

Mr. Langweil suggested that the Administration will likely seek authority to begin the initial work for the next version of the Global Commitment Waiver in the next legislative session. He also said there is an anticipated negative fiscal impact on the State's budget for the Children's Health Insurance Program (CHIP) of \$6 million in FY 2021 and \$12.3 million in

FY 2022 (fully annualized). The Federal Medicaid Assistance Model (FMAP) for New Adults is estimated to have a \$4 million negative impact. In answering Senator Kitchel's question, Mr. Langweil clarified that the \$4 million would be included in the FY 2021 budget impacts. Senator Kitchel expressed concern that Agencies were working to reduce costs over 5 years through the Administration's internal budget exercise and adjust to a federal loss of \$10 million simultaneously.

Senator Ashe asked for the reasons for reduction in the employer assessment amounts. Mr. Langweil speculated that employers appear to be paying the assessment on fewer full-time equivalents (FTEs), possibly because more employers were sponsoring health insurance coverage for its workers. He added that it was difficult to fully measure but the data showed a reduction in the number of FTE's for which employers were assessed. Representative Lippert requested that the FTE data be provided to the Committee, and Mr. Langweil agreed to send a spreadsheet of the historical information.

#### b. Agency in Total

Martha Maksym the acting Secretary of Agency of Human Services (AHS), and Sarah Clark, presented the AHS' FY 2019 closeout. Ms. Clark explained the Agency closed near their budget but relied on \$2.4 million from the federal receipt account to balance overall AHS State fund position. This was mostly driven in two programs, a deficit in the Family Services Division within the Department for Children and Families (DCF) due to increased caseload for children in custody substitute care and staffing levels; and over spending in the General Assistance program due to increased demand in emergency housing. The deficits were partially offset by underspending in the Child Development Division. These two areas will likely require additional discussion in the budget adjustment and FY 2021 budget.

Ms. Clark explained that the Choices of Care transfer status from the Department of Vermont Health Access to the Department of Disabilities, Aging, and Independent Living was accomplished on July 1, 2019, which would be reflected in FY20 BAA and FY21 Budget proposals. Representative Hooper suggested that there should be a broader view of issues within AHS that also affect the court system, State's Attorney's and other local interventions. Senator Kitchel informed the Committee that the first report of the State's child welfare system was due in January 2020.

#### C. Proposed plan for an electronic medical/health records system for the State's Designated Agency's

Sarah Squirrell, Commissioner, Department of Mental Health; Jenney Samuelson, Deputy Commissioner, Dept. of Vermont Health Access; Simone Rueschemeyer, Executive Director, and Ken Gingras, Health Information Technology Director, Vermont Care Network/Vermont Care Partners; summarized the proposed plan.

Senator Kitchel expressed concern for the terminology "meaningful use" after issue with the Vermont Information Technology Leaders (VITL) issues around cost effectiveness and quality of data with the Health Information Exchange. The Senator inquired that since the project for the DA's medical/health records system was funded mostly by State funds, and viewed as a State IT project, how should the concerns raised by Dan Smith be addressed. Commissioner

Squirrell responded that AHS had similar anxieties for good outcomes of public funding for the project, and was striving for a cost effective, and efficient product with a shared partnership, accountability and responsibility.

Senator Kitchel asked for clarification on how electronic medical records would be available to the two types of agencies of DAs and DSs and if medical records would be bifurcated for agencies with both health and mental health services. Ms. Rueschemeyer responded that there was funding for nine of the comprehensive agencies that would have one system. The five single-service agencies for developmental services only, implemented a different system previously under a different vendor. Representative Toll asked if the two systems could interact or communicate with one another. Ms. Rueschemeyer responded that the two systems should be able to talk to each other and allow for the aggregating of data.

Dan Smith, Contractor, Joint Fiscal Office, referred to his memo submitted to the Committee on concerns of the system plan and explained that currently there was no other Independent Review of the plan or third-party oversight other than the Committee, which has been an ongoing issue with State IT projects. There was additional concern that no one person was responsible for the oversight of the project along with the constant change in the financial costs. Smith advised that the Committee should receive more clarity with the costs of the project and a single project manager.

Representative Toll moved to approve the plan as presented for the development of an electronic medical/health records system for the State's Designated Agency (DA) System as required in Sec. C.100(a)(10) of Act 72 (H.542) of 2019, and request that the DA's continue to work with AHS and JFO to allow continued project review regarding the change in estimates/true costs and the single point of accountability. Senator Kitchel seconded the motion and the Committee approved it.

#### D. Fitch Rating for Vermont

Beth Pearce, State Treasurer, reviewed the downgrade in Fitch Ratings to Vermont, and explained that it was directly related to the issue of debt and Vermont's demographics. Senator Ashe commented that a one-size-fits-all approach to state credit ratings puts Vermont at a disadvantage. He used the fact that, unlike many states the credit agencies applaud, Vermont is investing to clean up our waters and has done much to meet the needs of the poor, children, and the elderly. He also said that the rating agencies are creating a paradox - they say we need more housing to boost the economy and were downgraded partially for lack of more housing activity, but they won't permit bonding which would be the best tool to create substantial new housing units and increase economic activity. Senator Ashe asked the Treasurer if she and the state's team could work with the rating agencies to better understand Vermont's unique situation. The Treasurer said the Legislature sets the policy. Senator Ashe asked the Treasurer for her recommendation as to what the Legislature should do then, if anything. Treasurer Pearce said there was exploration in other states for a pay-as-you-go system for capital projects. Several committee members commented on how that is not feasible for anything but extremely incremental investments at this time in Vermont.

#### E. July 2019 Revenue Forecast

Tom Kavet, the Legislature's Economist, summarized that the economy continued to be positive in terms of Vermont's revenue with an overage in personal income in April. There were three volatile revenue sources, Corporate, Estate Tax, and personal income and they bear watching. Even though personal income came in high, the Estate Tax came in well below estimates at about 34%. These areas are more volatile because there is a narrower base of payers—higher income—that were paying a higher percentage.

Senator Kitchel asked what non-volatile revenue sources Vermont collected. Kavet responded that meals and rooms tax was a very steady revenue source, but Vermont's tax base was very progressive. Senator Kitchel inquired if other states have found more steady revenue sources. Kavet commented that not all states had income taxes, but property tax was another more stable source of revenue.

Kavet explained that Vermont had the lowest employment rate in May and June with the highest unemployment rate at 4% in Orleans County which typically had the highest rate. Senator Cummings asked if Vermont was experiencing wage growth. Kavet responded that Vermont was not only experiencing wage growth but real wage growth.

#### F. – Cost-Effectiveness of Lake Champlain Cleanup Effort

Doug Hoffer, State Auditor, distributed a chart as a companion to the report and summarized its concerns. In responding to Senator Ashe, the Auditor suggested that the Legislature request that the Agency include reporting of the Clean water funding in its annual report.

The Auditor raised an additional area of concern regarding a performance audit of the St. Albans Tax Incremental Finance (TIF) district and potential changes to the TIF rule; and recommended a memo be sent by the Committee to the Vermont Economic Progress Council (VEPC). Senator Ashe suggested the Chair send a memo on behalf of the Committee to VEPC requesting that VEPC delay further action on rule changes and guidance to municipalities on TIF until the Legislature had time to consider them fully, which was agreed upon by the Committee.

Emily Boedecker, Commissioner, Department of Environmental Conservation, responded to the Auditor's report on Clean Water.

#### G. Correctional Facility Assessment

Representative Hooper gave a summary of the correctional facility assessment study and the Joint Justice Oversight Committee (JJOC) discussions. A Committee discussion ensued on the shortage of correctional beds, structural issues of facilities, and siting costs for designing a new facility.

The Chair suggested the Committee table the discussion and action on the Correctional Facility Assessment issue until its next meeting. Representative Fagan moved to release the funds for the assessment of a correctional facility, and then withdrew his motion after further discussion. Senator Kitchel moved to defer action on the issue until the Committees next meeting

in September in order to get further clarity. Representative Ancel seconded the motion. The committee approved it.

H. Fiscal Officers Report

Stephen Klein, Chief Fiscal Officer, reviewed his report to the Committee for July 2019.

The Committee adjourned at 1:25 p.m.

Respectfully Submitted,

Theresa Utton-Jerman  
Legislative Joint Fiscal Office