

MINUTES

Joint Fiscal Committee Meeting of July 18, 2006

Senator Bartlett, in her capacity as Vice Chair, called the meeting to order at 10:10 a.m. in Room 10, State House. She presided in the absence of Representative Heath, Committee Chair.

Also present: Senators Cummings and Sears
Representatives Obuchowski, Perry, Severance and Westman

Others attending meeting included Joint Fiscal Committee staff; Administration officials and staff; representatives of advocacy groups; and members of the news media.

APPROVAL OF MINUTES OF PRIOR MEETINGS:

1. On a motion from Senator Cummings, seconded by Representative Severance, the Committee approved the minutes of the meetings of November 17, 2005, December 13, 2005 and April 25, 2006, as submitted.

DEPARTMENT OF BANKING, INSURANCE, SECURITIES AND HEALTH CARE ADMINISTRATION (BISHCA) TRANSFERS:

2. Commissioner John Crowley submitted estimated final figures for fiscal year 2006 receipts available for transfer to the General Fund from the Insurance, Captive Insurance and Securities Regulatory and Supervision Funds, as follows:

<u>Fund name</u>	<u>Amount</u>
Insurance Regulatory and Supervision Fund	\$2,767,385.04
Captive Insurance Regulatory and Supervision Fund	406,879.02
Securities Regulatory and Supervision Fund	<u>2,618,636.89</u>
	\$5,792,901.55

[Note: This amount is \$1,848,978 more than the \$3,943,923 estimated to be available for transfer at the time Act 93 of 2005-06 was passed.]

As required in Sec. 65(a)(2) of Act 93 (fiscal year 2006 budget adjustments) of the 2006 legislative session, the Commissioner certified that the transfer of the unencumbered balances in these funds would not impair BISHCA's ability "...in fiscal year 2007 to provide thorough, competent, fair, and effective regulatory services, or maintain accreditation by the National Association of Insurance Commissioners...."

The Committee adopted a motion by Senator Cummings, seconded by Representative Obuchowski, to accept the Commissioner's certification relating

to the transfer of the balances, with the understanding that if the amounts presented at this time were to change slightly, the adjusted figures would be relayed to the Joint Fiscal Office after the meeting and reflected in the minutes. [Since the meeting, there has been no change in the figures submitted.]

DEPARTMENT OF LABOR (VDOL) SERVICE DELIVERY PLAN:

3. Acting Department of Labor Commissioner Thomas Douse was at the meeting to present a plan for modifying the way VDOL delivers workforce services in several of its districts, in order to provide those services in a more cost effective manner. Also present for the discussion were James Greenwood, VDOL Director of Workforce Services, and Patricia Moulton Powden, whom the Governor has appointed Commissioner of the department, effective at the end of July.

Section 50a. of Act 6 (fiscal year 2005 budget adjustments) of 2005 set forth specific requirements for the department to maintain offices in those districts, with certain conditions about staffing. Modifications in the plan as it was mandated in that legislation require Joint Fiscal Committee approval.

Prior to the meeting, the Acting Commissioner forwarded to the members a packet of information which included a summary of how VDOL proposes to change the way it delivers services in three of its districts: Brattleboro, Newport, and St. Albans. The new plan envisions providing access to the department's resources through the establishment of access points which could be located within existing local infrastructures as well as via the Internet.

Also included was a detailed description of the current and projected reductions in federal and state funding, starting on July 1, that are driving the need for reducing VDOL operating costs and increasing efficiency.

A June 26 memorandum to the Committee from the Acting Commissioner included the statements:

DOL's financial situation is fast approaching a crisis, and if we cannot substantially reduce our operating costs early in the fiscal year, our only option will be to cut personnel. This in turn would make it impossible to staff the office infrastructure mandated in the Budget Adjustment Act.

In his oral recap of the plan to replace the current physical space housing VDOL's , Mr. Douse made the point that the plan modification is the result of budget cuts which the department must absorb. Without approval of the new service delivery plan, it is likely DOL will be forced to make reductions in personnel. He reinforced the written arguments that vacating the current three fixed offices and moving to a new, more affordable service delivery model as a cost saving measure must not be construed as abandonment of any of VDOL's existing districts. Rather, the department is looking at ways other than in the

current physical structures by which it can provide services, through equipping staff with cellular phones and notebook computers and having them meet with clients in such locations as community colleges, libraries, or a variety of other existing local infrastructures.

Several Committee members had reservations about the plan. Representative Perry, for example, was concerned about how, in the absence of a physical location for the district office, clients would know whom to contact for services, and how to make that contact. He pointed out that many of his Franklin County constituents do not own a computer or subscribe to a daily newspaper. Mr. Douse assured him that DOL intends to make significant outreach efforts through various partners, such as Agency of Human Services offices and learning communities and that it will do everything possible to inform people where and when they can go for DOL services.

Commissioner of State Buildings and General Services Tasha Wallis was asked to join the Committee to talk about how the State intends to address the shortfall in fee-for-space revenues that will result from DOL's vacating office space. She reported that her department has been working with other State tenants to ascertain if they would be interested in the space being vacated by DOL. As yet there is not a prospective tenant for the Newport space. She said her department will continue to look for a State entity and will also consider other alternatives for the vacant premises, such as conversion to condominiums.

The Chair asked that the Department of Labor provide the Committee with updates as it goes through the process of converting to the new service delivery plan.

At the invitation of the Chair, Anne Noonan, Director of the Vermont State Employees Association (VSEA), introduced two employees from the Department of Labor's Newport office: Marylou Jacobs and Laurie Cook. They described their concerns over the new plan, including transportation problems, confidentiality issues for clients meeting with DOL personnel in public places, more difficult access to those employees, and unfamiliarity with and lack of access to technology on the part of clients. They also stressed the importance for people who have just lost their jobs to be able to meet with someone in person. Another fear is that because federal support for the Department in part relates to the amount of services provided, less accessibility to personnel will lead to dwindling numbers of clients and thus a continuing cycle of federal reductions and ever-diminishing ability to serve them.

Asked by Representative Obuchowski for their suggestions as to the best way to reach DOL clients to inform them of the changes in the way services will be provided, the two employees from Newport suggested the Internet, public service announcements on local radio stations, mass mailings, and person-to-person contact.

The Chair, after expressing consternation over the federal government's reductions in support for employment training services to people who most need them, remarked that Vermont must continue to work on ways to cobble together these services, including improving contact between employees of DOL and the Agency of Human Services.

In view of recently reported instances where laptop computers storing very private, personal information have been stolen, Senator Sears was interested in what steps the Department is taking to protect clients' private information that will be stored on employees' laptops. After an explanation from the Acting Commissioner, the Senator said he would find it helpful to have a written report on this subject.

In addition, there was a consensus that updates on DOL's service delivery outreach efforts should be presented at future meetings of this Committee.

Senator Sears moved that the Committee accept the service delivery plan modification as described in the June 26, 2006 submission to it from the Department of Labor. The motion was adopted on a voice vote, with Representative Perry voting against it.

Representative Perry opposed the motion because he thinks the State already is on what he termed a "slippery slope" of decreasing the kinds of services offered to clients of the Department of Labor, and he would favor increasing State funding before taking this step.

CLEAN ENERGY FUND APPROPRIATIONS:

4. Rob Ide, Director of Energy Efficiency, Department of Public Service, sought Joint Fiscal Committee concurrence in the award of a total of \$1,300,000 from the Clean Energy Development Fund for six different uses, as follows:

Solar and Small Wind Incentive Grant Program	\$ 500,000
3-Phase Power Line Extensions for Farm Methane Systems	485,000
Agency of Agriculture	100,000
Energy Efficient Building Project	100,000
Combined Heat and Power Projects	50,000
Department of Public Service Administrative fees	<u>65,000</u>
TOTAL	\$1,300,000

Committee approval of grants totaling up to \$1,300,000 is required by the provisions of Sec. 90a. of Act 215 of 2006, establishing a process for the Department of Public Service to make initial commitments from the Clean Energy Development Fund.

Mr. Ide recapped a memorandum distributed to the members, describing the six uses of the funds. *[That memorandum is on file in the Joint Fiscal Office.]* He answered questions about the proposal and informed the members that, if a required seven-person subcommittee is in place by December 1, he will not need to seek Joint Fiscal Committee for approval of additional allocations. On the other hand, if there are further allocations before that time, he will return for Committee action.

The Committee adopted a motion from Representative Perry, seconded by Representative Severance, to concur with the Public Service Department's award of the six grants totaling \$1,300,000 from the Clean Energy Development Fund, as described in Mr. Ide's dated July 18, 2006 from Rob Ide.

SEYON LODGE REPORT:

5. Jonathan Wood, Commissioner of Forests, Parks and Recreation, reported on the status of Seyon Lodge, a State-owned property in a remote area in Groton that has been used essentially as a fishing lodge. Senator Bartlett had asked that an update on the facility be added to the meeting agenda.

Mr. Wood described the difficulty of trying to meet the expenses of staffing and operating the lodge on a year-round basis. Requests for proposals to privatize operation of the lodge were solicited, with one response. There was significant resistance from neighbors concerned about protecting their privacy, and who mounted a fairly aggressive campaign against increased activity there. Language included in the capital bill required the Commissioner to hold a public hearing on the matter, but prior to holding that meeting the people who had submitted the proposal to operate the lodge backed out, apparently due to pressure from the neighbors, the media and others.

Operation of the lodge has reverted to the previous status of being operated by part-time employees. The Commissioner did hold the required public meeting, and he has told the neighbors and legislative delegation from the area that in the fall, the department will rethink the future of the facility, taking into consideration the neighbors' issues.

The Chair observed that the Seyon Lodge is an example of what the State faces more and more as resources to support parks and facilities dwindle.

VERMONT STATE HOSPITAL FUTURES PLAN UPDATE:

6. Agency of Human Services (AHS) Secretary Cynthia LaWare brought the Committee up to date on developments with respect to progress in implementing replacement services for those which currently are provided at the Vermont State Hospital.

On the subject of required bed capacity she reminded the Committee that an actuarial study as well as Agency of Human Services projections indicate a need for roughly forty beds at a new major inpatient facility, with another ten beds in two different satellite facilities. She suggested the mix in the smaller units might be six beds in the Rutland area and four in Brattleboro.

Four and one-half people, including Futures Project Director Beth Tanzman, are dedicated solely to the project at the present time.

AHS has contracted with an expert who has a background in the Certificate of Need (CON) process to help the project move through that process as expeditiously as possible, and Secretary LaWare outlined the steps the agency has taken to formally begin that process.

She also talked about the planned Williamstown residential recovery center, pointing out that it represents the first time that a number of designated agencies have come together to operate a specialized service for individuals to access almost on a statewide basis. The consortium includes the Howard Center, Washington County Mental Health, and Clara Martin Center. They have been working together with the developer to acquire property and complete the renovations. The developer will acquire the property and perform the renovations and then lease the property back to the consortium. The Secretary noted that the local community has been extremely welcoming.

Ms. LaWare described the efforts to solicit and seriously consider public comment in the certificate of application process for the Williamstown center. She told the Committee that the agency will not move forward on the Williamstown application until the process has been finalized and the Agency ensures that the application which the town has submitted is in compliance with that process. There will be a public comment process on the completed application.

The budget for the Williamstown center is higher than AHS estimated in 2005, the estimate on which fiscal year 2006 and 2007 appropriations were based. At this point, updated estimates are that the project will cost an estimated \$3.7 million for sixteen beds, or \$3.0 million for twelve.

Although the goal is to have one of the residential recovery center operating by fall, a lot of work remains to be done before that can occur.

Finally, Secretary LaWare brought the Committee up to date on progress in locating a site for the major new inpatient mental health facility in Burlington, including meetings to solicit public input. AHS has worked closely with the City of Burlington and has developed an outreach plan, along with assembling what amounts to an advisory group from the Burlington and Chittenden county human services community to help the agency what they believe siting the new facility on the Fletcher Allen Health Care (FAHC) campus will mean in terms of impact on local systems. Finally, the Secretary talked about the process of collaboration on the Futures Project with FAHC.

After hearing from the Secretary, several Committee members commented on the information presented. Senator Sears said that he remains concerned that the State is going in the right direction in terms of meeting human needs while initiating projects that are affordable. The Chair expressed concern over the significant increase in beds, and correspondingly higher costs, since the Joint Fiscal Committee at its April meeting approved a plan envisioning thirty-two beds. She was worried about what she perceived as a lack of control over the Futures project and the possibility that building a new facility in Burlington may result in very high debt and unmanageably high per-patient costs.

Senator Sears suggested that in view of the huge long-term treatment and fiscal implications and issues of the Futures project, a long Committee discussion of this subject should be scheduled. There was support for this suggestion, and Secretary LaWare indicated she would welcome an opportunity for such a dialogue.

FISCAL OVERSIGHT ITEMS:

7. Finance and Management Commissioner James Reardon reported on fiscal year 2006 closeout. He told the Committee that closing the state's financial books has proceeded relatively well, and he gave credit to Joint Fiscal Office and Agency of Human Services staff for their good work in the process, especially on Global Commitment.

Although figures for the year still are tentative, he expected General Fund receipts to close out at \$26.8 million higher than the revenue estimate. He attributed the strong showing to very strong personal income tax receipts as well as accelerated corporate income tax revenues. Of these additional receipts, \$5.2 million from the estate tax will be transferred to the higher education trust fund, as stipulated in statute. Transportation Fund receipts were approximately \$5.8 million below expectations, due primarily to shortfalls in Purchase and Use receipts and in motor vehicle fees. The Education Fund will close slightly above projections.

Mr. Reardon gave the Committee positive FY 2006 closeout news on the state's Medicaid program: the Administration now anticipates about \$11 million more carryforward funds than earlier expected to apply toward balancing the FY

2007 Medicaid budget. Although the program will be subject to continual analysis, Mr. Reardon thought that due to FY 2006 spending being lower than projected, it is possible that funds budgeted for Medicaid for the following fiscal year may be more than adequate. He added that at this point the projected deficit in the program for FY 2008 may be more manageable than earlier thought would be the case.

On the subject of current fiscal year spending pressures, Mr. Reardon first talked about the fuel assistance program for low-income Vermonters. Vermont will carry forward approximately \$8 million in funding, over and above the expected base federal grant, to begin to address the next fuel season. The main reason for the excess funds was that additional federal funds became available and there was an unusually mild 2005-06 winter, and thus the demand for fuel assistance was less than expected. In addition to those carryforward funds, the state will need an additional \$4 million from the federal government for the forthcoming season, assuming 3 percent caseload growth and normal winter temperatures.

There are upward pressures in the transportation area, with unusually heavy spring rainfalls causing damage to town highways that require about \$1.2 million more than the appropriation for this program. Mr. Reardon observed that that problem will be addressed at today's meeting of the Emergency Board, but a budget adjustment will be required. He also pointed out that although carryforward funds will be used to help address the overall shortfall in the Transportation Fund, he expected the consensus revenue estimate in that fund to be downgraded at the Emergency Board meeting.

Commissioner Reardon's presentation was interspersed with and followed by questions and comments by Committee members.

At 12:15 p.m. Representative Perry assumed the Chair for a period of approximately 15 minutes during the absence of Senator Bartlett. She returned to the meeting during the revenue and economic outlook and chaired the remainder of the meeting.

REVENUES AND ECONOMIC OUTLOOK:

8. Tom Kavet, the Committee's economic consultant and revenue analyst, presented updated information on revenues and the state's economic outlook. His oral presentation consisted of highlighting and occasionally expanding upon information contained in a July 18 document prepared for the Committee and the Emergency Board entitled "July 2006 Economic Review and Revenue Forecast Update,"

His report included an overview commenting on the surprising strength of U. S. Treasury and Vermont General Fund revenues, primarily due to large gains in the personal income and corporate tax categories as well as, in Vermont, of

estate taxes; and more detailed sections on the U.S. economy, Vermont's economy, and State revenues.

Rising oil prices and the impact of higher energy costs on the U.S. population was among the topics on which Mr. Kavet particularly focused. Among other topics he highlighted were the corporate profits, unemployment, and Vermont's strong construction and real estate markets. Despite recent reports to the contrary, he said that housing prices in Vermont have not been dropping, although he added that unquestionably there will be a dramatic slowdown in real estate sales and a drop in prices.

Noting that Mr. Kavet's report referred to "darkening economic signals in the second quarter of this year," Representative Westman suggested it might be a good idea to meet in October to hear more on this subject. The Chair agreed that the Committee needs to be kept up to date on the economy.

FISCAL YEAR 2006 "WATERFALL":

9. Associate Fiscal Officer Stephanie Barrett distributed a sheet listing the items which will be funded by approximately \$27 million in fiscal year 2006 surplus funds under the so-called "waterfall" provision of the fiscal year 2007 appropriations act (Act 215, Sec. 70).

FUTURE MEETING DATES:

10. The Committee decided to meet on the following dates:

Tuesday, September 19
Thursday, November 9

The meeting was adjourned at 1:00 p.m.

Respectfully submitted:

Virginia F. Catone
Joint Fiscal Office