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STATE OF VERMONT
LEGISLATIVE JOINT FISCAL COMMITTEE

MINUTES

Tuesday, November 18, 2008

Members Present: Senators Bartlett, Shumlin, and Snelling. Representatives Bostic, Heath, Obuchowski, Smith, and Westman.

Other attendees: Legislative Joint Fiscal Committee staff, Administration officials, various advocacy groups, and members of the media.

1. CONVENE MEETING AND APPROVE MINUTES:

Senator Bartlett, Chair, called the meeting to order at 10:32 a.m. The Committee approved the October 3, 2008 minutes with a motion by Senator Snelling and a second by Representative Heath.

The Chair shared that several advocacy groups had communicated concerns over further reductions. It was made clear that the Committee would not be acting upon any reductions at this time, but a current economic analysis of Vermont would be presented by the legislative economist, Tom Kavet, later in the meeting. After the Committee meeting, the Emergency Board would officially be presented forecasts by both the legislature's and the Administration's economists to agree officially upon a revised forecast.

The Chair added that in light of the magnitude of the recent numbers and anticipated impacts, time would need to be given to all to digest those numbers. A process will allow advocacy groups to voice concerns over reductions offered at a later date.

2. FISCAL OFFICER'S REPORT:

Stephen Klein, Chief Fiscal Officer of the Joint Fiscal Office, gave a summary of a fiscal report submitted. It was noted that the Commissioner of Taxes was expected to deliver an updated report on the tax rate for education property tax on December 1st. Preliminary estimates show those tax revenues to be stable, and no increase is expected.

Upon Representative Smith's question, Mr. Klein acknowledged that there would be sufficient funds to ensure a reserve of 5% in the education fund. Representative Obuchowski queried whether there was any information on the components of the

proposed federal stimulus package. Mr. Klein stated that federal legislation was anticipated in January 2009, but aggressive communications between the Vermont Delegation, the Joint Fiscal Office, and the Committee have been ongoing. Mr. Klein agreed with Representative Obuchowski that federal legislation and funding is key to Vermont's ability to better weather the economic downturn. He further added that the Fiscal Office, the Chair and other legislator leaders were working closely with the National Conference of State Legislators (NCSL) to build a strong presence for Vermont in national discussions.

The Chair informed the Committee that last week the first of a series of communications through NCSL, along with other states' fiscal leaders, showed that 37 states were seeing deterioration in their revenue, the smallest decrease in revenue being 4 percent and the largest at 20 percent. It was expected that a rapid deterioration in state revenues would occur over the next six months. Advice from U.S. Senator Sanders was for Vermont to get its laundry list to Congress by the middle of January, and, to create a very organized front so as not to be overshadowed by the many large advocacy groups lobbying at the federal level. The Chair reiterated further comments by Senator Sanders that Vermont could best design specific elements in the stimulus package by taking a leadership role at the national level.

The Chair explained that Senator Shumlin within his capacity as President Pro Tempore, along with the next Speaker of the House, has offered to take a leadership role at the national level during discussions on the federal stimulus components. It was emphasized that Congress' ability to fix all of Vermont's financial needs was unrealistic, and therefore, some tough structural decisions at the state level will need to be made.

3. BASIC NEEDS ADJUSTMENT:

Senator Bill Carris and Sara Teachout of the Joint Fiscal Office provided background and an overview of the Basic Needs Budget Technical Advisory Council's recommendations. Senator Bartlett asked whether the new methodology for cost of living brought Vermont more inline with other states. Ms. Teachout explained that the biggest change in the report was adding the definition for a livable wage. The new definition included a computation for a two-person household without children as being in the high \$13-an-hour range. Data will be released soon for final numbers, and the Council's final report will be published by January 15, 2009. Mr. Klein clarified that having the numbers for livable wages does help to bring Vermont more inline with other states.

Senator Bartlett stressed that it was important to have honest numbers that will be reflected in the report, to help explain the demands on food shelves and state services. Senator Carris agreed and added accuracy of numbers was the most important objective, since many groups use the data for their reports.

Representative Obuchowski asked that the Council notify the Department of Public Service and the Public Service Board of the regulatory impacts on Vermonters stated in the Telecommunications Expense section of the report. Senator Carris agreed.

Senator Snelling moved the recommendations of the Council's preliminary report. Representative Heath praised the hard work of the Council and for helping to get to a more logical place for cost of living numbers. The Committee adopted the recommendations.

4.a. UPDATE ON REDUCTION OF TRAVEL EXPENSES WITHIN THE EXECUTIVE BRANCH:

James Reardon, Commissioner of the Department of Finance & Management, gave an overview of a previously sent document. It was emphasized that the Sheriff and Commission on Women's transportation budgets were held harmless. Commissioner Reardon stated that in order to give some departments more flexibility with their budgets, the Administration would be recommending, in the budget adjustment act, that reductions not be limited to travel but be limited to operating expenses. It was highlighted that an increase in request for fleet vehicles was reported by the Department of Buildings & General Services after reduction amounts were communicated to departments.

4.b.1. BUDGET ADJUSTMENT UPDATE:

Commissioner Reardon gave an update on the FY 2009 upward budget pressures, to be included in the Administration's budget adjustment proposal, through a handout. David Dill, Secretary of the Agency of Transportation, submitted an additional handout on transportation shortfalls. Commissioner Reardon pointed out that Department of Buildings & General Services' numbers were dependent on heating costs of vacant spaces and reasonable costs for snow removal.

Representative Heath questioned the large budget amount for rest areas. Commissioner Reardon explained that many rest areas were in need of repairs, and that reductions in this area were becoming difficult to accomplish, especially since the new Bennington rest area was due for completion soon.

Commissioner Reardon offered to research adding the sarcoidosis expense fund to the Workers' Compensation budget. The Chair then changed the order of the agenda as follows:

4.f. STATUS OF FY 2009 PUBLIC SAFETY BUDGET:

Thomas Tremblay, Commissioner of the Department of Public Safety, joined the other Administration staff to give the overview on his department's budget pressures. A line item was included in Commissioner Reardon's handout. Commissioner Tremblay explained that the vast amount of the \$3 million projected shortfall was due to gasoline for vehicles and overtime costs. Despite a \$13,000-a-gallon reduction in fuel usage, a budget pressure of \$300,000 is still foreseen. Strategies to reduce costs discussed during the last Committee meeting are working, but additional costs from a larger-than-normal amount of labor intensive cases, with significant travel and inclement weather problems causing early season accidents, has created additional pressures on the budget. Projections for overtime are at \$389,000.

Representative Obuchowski asked for details on the public safety pay act amounts. Commissioner Reardon stated he would provide those numbers to the Committee and then explained that there was a \$400,000 shortfall in the public safety pay act amount. Pressures in absorbing costs are within departments that have 'round-the-clock services. In an attempt to minimize impacts of pay act pressures, a plan to reallocate savings from medical and EAP dental, along with available pay act funds, has been implemented to specific departments needing financial assistance (public safety, children and family services, "Woodside," and corrections). After allocations from savings, budget shortfalls are still apparent in public safety (\$400,000) and human services' corrections division (\$700,000).

Commissioner Tremblay explained that further budget pressures in his department included dispatcher upgrades from an employee reclassification of \$200,000. A federal Cop Methamphetamine grant finding of \$1.1 million has been reduced to \$144,000 and has been paid (discussed during October meeting). There are vacancy savings from state police of \$2.3 million and \$300,000 in the criminal justice council, but pressures from services have been noted in the latter area and may need to be readdressed.

Commissioner Tremblay pointed out that his department has spent \$700,000 of the budgeted \$1.9 million for fleet replacement. Larger unmarked police vehicles have been replaced with smaller four cylinder vehicles for fuel savings. Vehicle replacement has been suspended due to budget pressures, which will result in a significant budget pressure next year.

Representative Heath reflected on the proposed Administration's budget presented during the 2008 session and commented it did not seem like a realistic budget at the time and the department is currently looking at a \$4 million shortfall. She asked the new Administration staff working on the department's budget if they would present a more accurate budget for the 2009 session that would cover the costs associated with public safety. Commissioner Reardon agreed that was the expectation. Representative Heath praised the Commissioners for the current progress made toward clarifying that budget area.

Representative Obuchowski asked why the numbers were not available at the October Committee meeting. Commissioner Reardon explained that the reason the department was not ready was that it was still wrestling with a high amount of serious criminal activity and was unsure of costs associated with those. Other areas of uncertainty were the cost of fuel and how many new recruits were going to enter classes at the Vermont State Police Academy.

Senator Snelling commented that there seemed to be no good methodology in accurately projecting the resources and costs associated for more serious crimes and more especially during economic downturns when trends show a generally higher activity of crimes. Commissioner Tremblay agreed it was hard to predict criminal trends but they certainly had a profound affect on the department's budget.

(4.b.1 continued – AHS, page 2 of handout)

Commissioner Reardon continued with his update on the FY 2009 budget pressures. In answering Representative Heath's question, the Commissioner explained that there was an upward pressure of \$4.8 million in the Global Commitment fund plus another \$4.2 million in the general fund. Also there is a \$7 million shortfall for the Vermont State Hospital.

The Chair asked whether the projected amount for the TANF caseload was the final number for FY 2009. Commissioner Reardon explained the figure would be revisited as it was predicted that there would be some return on investment from Reach-Up activities. He offered that there were some increases in areas due to a prior estimate process that did not include upward trends of Agency of Human Services' (AHS) caseload. Representative Heath offered that the new Commissioner of Corrections informed her that a new contract in corrections for out-of-state beds would save \$200,000 in the AHS budget. Commissioner Reardon agreed.

Commissioner Reardon commented that there was an expectation that, during the Emergency Board hearing, the economic forecast would show further revenue downgrades. It was stressed that with fewer revenues and higher upward pressures in the budget that the Committee work as quickly as possible with the Administration to bring spending for FY 2009 in line. Currently, anticipated budget pressures show \$27 million in upward pressures to the budget, and a larger number is expected in December.

Representative Smith asked what "time was of the essence" meant and why the Administration felt it needed to rush to decide what reductions were appropriate in light of the large policy issues Vermont faces. It was stressed that a new leadership and newly organized committees would need time to react to the magnitude of the situation.

Commissioner Reardon suggested that the Committee meet in December and agree on a package of reductions. Representative Heath commented that making cuts on such a large scale with it being so close to the session and having many new members that need to be brought up to speed is just bad timing. It was suggested that Joint Fiscal and Administration staff, along with the Committee and legislative leadership, should agree on a process for the reductions.

Senator Shumlin offered that Speaker Symington and he had sent a joint letter to the Governor this morning on the economic pain of Vermont and the need for the Legislature and the Administration to work together in a bipartisan manner (copy of letter presented). It was suggested that both the Committee's staff and the Administration's staff work on some figures to come up with a possible list of reductions.

(4.b.1 continued – Transportation, additional handout)

Secretary Dill explained the handout submitted earlier. Representative Smith queried whether the money for town highway projects was already committed and if any reductions would delay or stop projects from moving forward. Secretary Dill explained that most municipal operating budgets worked by calendar year rather than a fiscal year,

therefore municipalities have already received at least two payments for current projects. It was stressed that the sooner reductions were agreed to; the sooner municipalities could adjust budgets for the coming fiscal year. Out of the \$1.85 million, the largest cut to a town is \$20,000 and the average is \$7,000.

Secretary Dill agreed with Representative Smith that a tentative budget adjustment plan of \$12 million would be presented to the Legislature based on fees for revenue early in the session. Representative Heath commented there has been a big move from towns to go to a fiscal year budget mirroring the state over the past 10 years. Secretary Dill agreed there has been some changing in that direction.

Representative Smith queried how much transportation rainy day funds were available. Commissioner Reardon responded that there was about \$11 million. Representative Smith further inquired whether the \$4 million reduction before the Committee on Transportation would come from those stabilization funds. Commissioner Reardon agreed that would occur if the Committee did not take action soon, but the Administration was not advocating taking that direction.

The Chair explained that the Legislature needed to act quickly on a decision regarding accepting the \$4 million reduction or the stabilization funds would offset shortfalls. Senator Shumlin commented that information was important to consider. Secretary Dill responded to Representative Westman that all spending has been suspended. Representative Westman stated that the Committee would not be making any decisions on town highway aid, and that decision would have to be discussed early in the session.

Representative Smith commented that there was still the same dynamic as the last few years of building a transportation revenue bill that is set up to fail in a year. This dynamic continues a path of deteriorating infrastructure using an unsustainable fee structure.

Representative Heath stated that transportation was the best possible place to get federal assistance. Secretary Dill agreed and offered that the Agency was working with the American Association of State Highway Officials (AASHO) and the Vermont Congressional Delegation. A list of projects that could be achieved quickly was sent by request to AASHO that totaled \$92 million. A caveat strongly recommended by the Secretary to AASHO was any funding needed to be completely funded federally with no state match. There are still many questions of what the ground rules will be for funding but it is hoped the state would have a lot of flexibility.

Secretary Dill explained that federal funding is high on the agenda for January but does not foresee any immediate relief. Also, since funding would come in the form of a stimulus package, it would be short-term relief. Representative Westman asked whether there will be flexibility to use federal money for current projects to help with the current budget shortfall. Secretary Dill responded that he would like to see such flexible outcome but is unsure of how criteria will be drafted in Congress.

Senator Bartlett commented that there were some good possibilities for financial aid to state transportation projects and Representative Heath agreed it was likely. Representative Westman stated he was confident Vermont would receive some short-term funds but warned they would not be long-term revenue fixes.

4.e. 2008 VERMONT NEIGHBORHOOD STABILIZATION GRANT – PROGRAM:

James Saudade, Commissioner of the Department of Housing & Community Affairs, referred to a packet of information to explain the grant program. It was emphasized that the department would try to do a broad distribution of funds.

Senator Shumlin complimented the Vermont Senatorial Delegation for securing the funds and suggested a couple of adjustments to the plan. Suggestions were: reduce the municipal grants to \$3.2 million, give Burlington \$2 million and leave \$14.5 million to split among the Vermont Housing Finance Agency (VHFA) and the Vermont Housing & Conservation Board (VHCB); then the Committee would require that the Agency of Commerce & Community Development, and Department of Housing & Community Affairs to discuss with the housing stakeholders, including VHFA, VHCB, Housing Vermont, the Vermont Affordable Housing Coalition, homeless advocates, other interested parties, and nonprofit developers to work details of a revised plan and report to the chair and vice chair of the Committee on the progress.

Senator Bartlett suggested that Senator Shumlin and she craft a joint letter detailing suggested changes to the plan and send it to the Administration. It was offered for other Committee members to sign the letter as well. (See submitted letter.)

5. Grant Review Threshold:

Mr. Klein explained a handout on a proposed change to the grant review threshold. Otto Trautz, Director of Budget Operations, Department of Finance & Management; Rebecca Buck, Staff Associate of the Joint Fiscal Office; and Commissioner Reardon joined the discussion. Ms. Buck commented that it has been a smooth transition and no issues have arisen. Mr. Klein clarified for Representative Obuchowski that the sunset would be removed but current law would still exist and reports of grants below the \$5,000 would still be formally submitted. Mr. Trautz gave historical background on the rule process for grants.

Representative Heath moved that the Committee recommend to the Legislature to change permanently the language to establish the \$5,000 threshold and grants over that would need acceptance from the Committee. The Committee agreed.

4.b.2. BUDGET ADJUSTMENT UPDATE – MEDICAID BUDGET:

Stephanie Barrett, Associate Fiscal Officer of the Joint Fiscal Office, explained a handout on the intersections between budget adjustment and the Medicaid rates. In responding to Senator Snelling's question, Ms. Barrett clarified that rates should not be set too low and instead be set as high as needed to cover the costs of the program, yet no

higher than what the state can afford to match. Representative Obuchowski asked in light of Vermont's rates not being set on time as federal law requires, what repercussions would there be if Vermont's waiver was not reinstated in 2010. Ms. Barrett explained that Vermont would have tremendous problems trying to make VHAP and other programs work without the federal waiver funding. In answering Senator Snelling's question, Ms. Barrett stated that Vermont is the only state with a Global Commitment waiver program but Rhode Island is currently working toward acquiring one.

Ms. Barrett was asked to give information on the Medicaid deficit. FY 2009 has a \$4 to \$10 million deficit and FY 2010 is projected to have a \$40 to \$60 million deficit but those are preliminary numbers.

4.c. POSITION REPORT:

Molly Paulger, Human Resource Director for the Agency of Administration, pointed toward a handout sent earlier and asked if the Committee had any questions. Representative Heath reiterated a request from the September Committee meeting for an update on where federal funds had been moved during the reductions in force (R.I.F.) process. Ms. Paulger stated it was being put into a manageable format for the Department of Finance to display the figures. Representative Heath remarked that the information would help answer questions and alleviate concerns by many individuals. It was strongly recommended that the report come very soon and that it was very hard at this late date to achieve the savings the Legislature intended.

Ms. Paulger explained that departments were asked to send information on proposed position changes. Real data for an estimated 208 positions were currently being analyzed. A preliminary proposed list of positions with funding sources was promised soon. Senator Bartlett shared concerns from some legislators of the plan or lack of plan for downsizing state government. The Administration's consolidation plan was not acceptable at the beginning and is apparently an unorganized process for consolidating state government. The goal of the Legislature was to get a jump on the vast amount of retiring baby boomers and attrition by changing position roles and moving to a smaller government that was more efficient.

The Chair stated that in light of the fiscal downturn, a greater demand on state services and state employees working past retirement, there needs to be a conversation and mutual agreement on what are the consequences of any position changes. Ms. Paulger agreed that the world is a different place since they started position reduction and that a larger conversation on more planning to deal with future fiscal problems was important. Senator Bartlett said the goal of the Legislature especially during tough times is to lead and provide stability and security to Vermonters.

6. LIHEAP UPDATE:

Stephen Dale, Commissioner, and Richard Moffi, Fuel Assistance Program Chief for the Department for Children & Family Services, handed out information on seasonal fuel assistance statistics for 2008-2009. Commissioner Dale commended Mr. Moffi for the tremendous accomplishment of implementing all programs within all the established time lines. Mr. Moffi gave an overview of the handout.

Mr. Moffi explained that the Crisis Fuel program that includes the five community action partners starts Monday, November 24th. Representative Bostic asked what fuel price was negotiated with the dealers. Mr. Moffi explained that a fixed priced was not negotiated but a 3% discount in savings was overwhelmingly agreed to by the fuel dealers, leveraging \$1 million in savings. The price that the benefit was based upon, for the entire heating season, was \$3.89 a gallon for #2 heating oil. Senator Bartlett expressed her thankfulness to the Vermont delegation and especially Senator Sanders, for securing LIHEAP funds for Vermont and for the good communication with the Vermont Fuel and Food Partnership. If actual fuel prices are lower than \$3.89 a gallon, recipients will see more of their fuel bill covered.

7. APPROVAL OF DUXBURY LAND DEAL:

Gerald Myers, Commissioner for the Department of Buildings & General Services, gave a summary of a previous document and some additional handouts. The Committee mentioned that a Duxbury land proposal had been presented three times previously. Representative Obuchowski queried for the current appraisal value of the land. Commissioner Myers explained the appraisal was 10-15-years-old but using anecdotal information it was about \$270,000.

Representative Heath moved that the Department of Buildings & General Services accept the contract for the potential purchase of the Duxbury land (see official motion). Representative Westman seconded the motion, Senator Shumlin stated he was opposed, and the motion passed.

8. PRELIMINARY REPORT ON VERMONT ENERGY EFFICIENCY AND AFFORDABILITY ACT PROGRAM:

Stephen Wark, Director of Consumer Affairs for the Department of Public Service, explained a document handed out to the Committee. Representative Smith commented that narrowing the scope of what population is served by the program, was not consistent with the statutory language. Mr. Wark explained that the intent of the Department was to utilize limited funds by narrowing the scope. Representative Smith explained that in his community, some people did not meet the requirements for the current weatherization program but with the new statutory language, a program could be designed to include many income levels. It was asked that the Department follow up with a revised plan that worked within the confines of the statute.

Senator Shumlin echoed Representative Smith's comments and further stated that by narrowing the scope of the program, middle income Vermonters would not qualify for the program. It was added that the RFP for the program should be pulled and further dialogue with stakeholders ensue before submitting a revised plan.

Mr. Wark offered that there was room for more discussion on the scope of the program. Representative Smith asked Mr. Wark to reformulate the RFP according to the statutory language. Mr. Wark stated that the Department would take the opportunity to talk to any stakeholders.

Senator Bartlett suggested that Mr. Wark should discuss the intent of the law with the legislators who created it. In answering Senator Shumlin's question, Mr. Wark informed the Committee that R.F.P.s were due by November 25 for PSB approval, and a finalized plan could be ready for signature by March 2009. Senator Shumlin asked that the Department submit proposals to the Legislature for approval before the PSB makes its decisions. The Chair designated Senator Shumlin and Representative Smith as the legislative liaisons to work with the Department.

6. LIHEAP - ADDITIONAL ITEM – MOTION FOR HOMELESS INITIATIVE:

Senator Bartlett explained how helpful Elizabeth Ready had been on the homeless issues and proposed to the Committee that \$250,000 be distributed to the Agency of Human Services now, to further assist the homeless into permanent housing. In January, the Legislature will view the results of the efforts.

Elizabeth Ready, Vermont Homeless Advocate, clarified the motion as: the Committee approves \$250,000 to be available to the Office of Economic Opportunity within the Agency of Human Services for the purpose of providing emergency overflow funding to homeless shelters. The Chair identified a source of funds from the Weatherization Program that would be backfilled with other funds and proposed in the budget adjustment act. Representative Heath moved the proposal as stated by Elizabeth Ready. Senator Shumlin stated that in his community, people of varying income levels were utilizing homeless shelters. Representative Obuchowski pointed out that the Administration was in agreement with the proposal. The Committee approved the motion.

9. REVENUE UPDATE AND DISCUSSION:

Tom Kavet, Legislative Economist, explained two handouts. The Chair handed out a chart prepared by Joint Fiscal Office simplifying information showing less money available in FY 2010 for the transportation general fund than seven years ago.

Representative Heath asked how much the general fund declined in FY 2009 and summarized the reductions (\$14 million in January, \$25 million in April, \$24 million in August, and currently \$29 to \$36 million). Mr. Kavet agreed with the list that the amount of reductions for FY 2009 could total \$100 million. Representative Smith offered that the conclusion was a 10% downgrade for FY 2009. He queried for unemployment data and Mr. Kavet stated nationally there had been an increase of 6 ½ percent by October. Current Vermont unemployment data were scheduled to be released Friday.

Mr. Kavet offered that there were opportunities on a global scale to rationalize the banking and finance structures and how they function. An emerging benefit is that the entire world is making attempts to shift away from fossil fuels. There will probably be some state aid from a federal stimulus package but it would only prop up the states for a year or two.

In answering Representative Obuchowski's question, Mr. Kavet stated that the risk for the January forecast is on the downside of the current forecast, and since the economy is still in flux, there are no numbers to quantify those projections. It is within the realm of possibilities that if revenue is sustained in some areas (personal income and consumer tax), there could be some upward adjustments, but more downgrades are projected. Another area that could have a positive effect on Vermont's revenue is if the stock market ends the year in a favorable way.

Senator Bartlett stressed that within Vermont's billion-dollar budget, \$100 million in revenues to the general fund budget is gone. That loss of revenue is actually greater due to a lack of funds for federal matches. Representative Heath further explained that within the FY 2009 budget adjustment, \$64 million was needed to fill the general fund budget, and in FY 2010, a downgrade of \$70 to \$80 million was projected, along with a \$40 to \$60 million shortfall in Medicaid. It was suggested that the Committee err on the side of caution and work simultaneously with the Administration to address the downgrades.

Senator Bartlett adjourned the meeting and reiterated that Vermont needed to make some tough choices. Congressional support in long-term infrastructure would be the most helpful to Vermont by creating jobs.

Respectfully Submitted,

Theresa Utton-Jerman, Legislative Joint Fiscal Staff