

MINUTES

Joint Fiscal Committee Meeting of July 29, 2008

Senator Bartlett, Chair, called the meeting to order at 9:40 a.m. in Room 11, State House.

Also present: Senators Cummings, Sears and Snelling
Representatives Bostic, Heath, Obuchowski, Smith and Westman

Others attending the meeting included Representatives Branagan and Klein; State Treasurer Jeb Spaulding; staff of the Joint Fiscal Office and the Legislative Council; Administration officials and staff; representatives of the Vermont State Employee Association and various advocacy groups; and members of the news media.

APPROVAL OF MINUTES:

1. The Committee accepted the minutes of the meetings of November 13, 2007; of May 21, 2008 (two sets), and of June 26, 2008, as submitted. *(Note: Two typographical errors that appeared in the November minutes were noted prior to the meeting and have been made in the Joint Fiscal Office official record copy of the minutes.)*

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

2. Commissioner Paulette Thabault presented final figures for Fiscal Year 2008 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	\$2,262,363.02
Securities Regulatory and Supervision Fund	3,507,187.87
Captive Insurance Regulatory and Supervision Fund	<u>140,938.55</u>
Total	\$5,910,489.44

As required by Sec.79(a)(2) of Act 90 (FY 2008 budget adjustments) of 2008, the BISHCA Commissioner certified in writing that the transfer of the unencumbered balances in these funds "...will not impair the ability of [the] Department in Fiscal Year 2009 to provide thorough, competent, fair, and effective regulation of insurance companies, banking and other financial services companies, and securities companies, or impair the ability of the Department to maintain accreditation by the National Association of Insurance Commissioners."

After Ms. Thabault answered questions regarding the fact that the receipts were approximately \$1.8 million lower than projected, the Committee adopted a motion by

Representative Smith, seconded by Senator Cummings, to accept the Commissioner's certification.

FISCAL OFFICE REPORT:

3. In the absence of Stephen Klein, Associate Fiscal Officer Stephanie Barrett presented his written report which was mailed to the members prior to the meeting.

After highlighting the information about legislators' recent evaluations of the Joint Fiscal Office, she responded to questions about the Global Commitment update. Representative Obuchowski cited the statement reading, "CMS is insisting that the actuary rates for the Global Commitment be set prospectively consistent with waiver requirements." He inquired as the State's potential exposure, to which Ms. Barrett replied that there is a higher risk than in the past and explained the reason.

FISCAL REPORTS – ADMINISTRATION:

4. a. **Fiscal Year 2008 closeout and General Fund "waterfall":** Although the closeout of the just-completed fiscal year is still in progress, Commissioner of Finance and Management James Reardon told the Committee he was confident that the closeout process is near completion. He advised that after factoring in direct applications, approximately \$7.4 million in surplus General Funds remained in the just-ended fiscal year. In accordance with the stipulations set forth in Section 5.803(a)(3) of Act 192 for programs to be funded up to a total of \$11,850,000 on the FY 2008 "waterfall" contingent spending list, that \$7.4 million in General Funds will cover the first seven items on the list. Those projects were set forth in a handout which Mr. Reardon provided to the members. He observed that there were insufficient revenues to cover fuel assistance to Vermonters under the aegis of the Department for Children and Families.

The Commissioner pointed out that all three major State funds – General, Transportation, and Education – have their statutorily required 5 percent amount in the stabilization reserve accounts.

Mr. Reardon commented briefly on the FY 2008 performance of some of the components of the three funds.

b. Upcoming budget pressures: The Commissioner advised that funding for the Low Income Home Energy Assistance Program (LIHEAP) is paramount among the pressures which Vermont faces in the near future. To maintain a 60 percent benefit level would require what he described as a "huge" infusion of funds, which he believed the federal government has an obligation to meet. He noted that Vermont's Congressional delegation is working hard on this issue.

Another expected downgrade in the consensus revenue forecast, expected at today's Emergency Board meeting, will add to the negative fiscal outlook, along with very significant continuing increases in energy prices.

Mr. Reardon pledged that at the September meeting he will try to provide updated information on the impact on State budgets of high heating and gasoline costs along with other spending pressures.

Members expressed interest in the impact of the recent sales tax holiday, but Mr. Reardon did not have that information.

c. Position reductions: Deputy Administration Secretary Linda McIntire and Molly Paulger, the State's Human Resources Director, presented a progress report on the Administration's progress in implementing its goal of reducing State government positions by 250 by the end of the current fiscal year, in addition to the 150 eliminated during FY 2008. They distributed a written document containing:

- FY 2009 targets which were assigned to departments in May;
- an updated 2009 position reduction question and answer list that was distributed in June; and
- a submission from the Department of Libraries proposing the elimination of a custodial position

Representative Heath asked why, if the goal is to save money, positions totally funded with federal dollars are being eliminated. Since there is a lot more flexibility than there used to be in application of federal funds and they might be used in a budget area other than that to which they initially are allocated, she wondered if the Committee could have information on how federal money has been redirected if positions at least partially federally funded are eliminated.

Ms. McIntire offered to look into the matter. She went on to say that the State will save money by eliminating the positions because the State pays for benefits including retirement, and she stated that state government cannot keep growing. When Representative Heath remarked that she had not previously heard the explanation about the retirement advantage, the Deputy Secretary said that has always been part of the position reduction initiative.

In the course of the discussion, Ms. McIntire also confirmed that nearly all the employee terminations have been voluntary. She agreed to review the list of reductions and indicate whether they are voluntary or not.

Representative Smith, upon learning that the Administration left up to individual agency secretaries and commissioners decisions on how to meet reduction targets, expressed surprise over the absence of a strategic plan, especially if the goal is long-term structural change.

Ms. McIntire and Ms. Paulger stressed the Administration's sense of the importance of leaving decisions on specific position cuts up to the managers who understand the ramifications. The former also advised, in answer to questions from Senator Cummings about replacing employees when such jobs as probation officers and

State Police become vacant, that about 1,200 positions have been held harmless from the reduction initiative. The Senator said she is concerned about the non-monetary costs of reductions in service; for instance, if an Agency of Natural Resources permitting position is eliminated, will the permit process become more difficult for applicants? Deputy Secretary McIntire replied that the Administration shares these concerns, and she did not believe any administrator would engage in the reduction process with the intention of diminishing services. Senator Sears remarked that he did not know how positions and spending could be reduced without a negative impact on services.

In response to the Chair's inquiry about what recourse legislators have if constituents raise concerns about the position cuts, Ms. McIntire indicated that she and Ms. Paulger will welcome discussing the issues with the individual members.

Senator Snelling asked for information about the percentage of employees in the total position elimination effort who are promoted rather than terminated.

In response to a request from Representative Westman for a brief summary of the policy goals in the position reduction effort, Deputy Secretary McIntire said she would provide the Committee with the Administration's November and December 2008 memoranda which outlined the plan.

MEDICAID UPDATE:

5. Stephanie Barrett and Joint Fiscal Office health care analyst Nolan Langweil gave an update on Medicaid enrollment and projections. All the data they presented is contained in the Joint Fiscal Office (JFO) issue brief of July 29 titled "July Emergency Board: Medicaid Update." *(That document is available on the JFO web site.)*

In response to Representative Obuchowski's inquiry as to how much has been spent on trying to attract people to the Catamount program, which has seen a lower than expected enrollment, Mr. Langweil thought the marketing budget was \$500,000. He did not know the amount per enrollee directly attributable to that effort, and Ms. Barrett said she would relay that question to Susan Besio in the Administration. Given that enrollment fell below estimates, Representative Obuchowski wondered if the marketing money might better be applied to help pay the cost of providing insurance. Representative Heath pointed out that the projections were simply guesses, due to the fact that Catamount is a new program. She further observed that a lot of enrollees were attracted to the Vermont Health Access Plan (VHAP) due to a strong marketing effort. Finally, she said she thought that the Health Care Commission should be asked to look carefully at advertising in the future and to analyze what marketing endeavors were the most useful. Told that the Administration may not track how people heard about the program, she asked that these questions be relayed to the Commission.

A final point made by Ms. Barrett was that there apparently are sufficient "waterfall" funds to cover the additional estimated amount needed this year for the Medicaid program.

EDUCATION FUND:

6. Although a balance sheet for the Education Fund was not available, Ms. Barrett believed that the lowered consensus revenue estimated expected at the afternoon meeting of the Emergency Board would result in reducing the unallocated balance to the 5 percent level. She did not think it would fall below that percentage.

Representative Heath suggested that the Education Fund might be added to the agenda for the expected August meeting.

NUCLEAR ENERGY ANALYSIS – UPDATE:

7. At this point Representative Klein joined the Committee for a brief update on the status of responses to the Request for Proposal (RFP) for consultant services to assist in the legislative process of making a future decision pertaining to relicensing of the Vermont Yankee nuclear power plant. *(Note: Rep. Klein participated at this point in his capacity as Chair of the House Energy and Nuclear Resources Committee. He and the Senate Chair of the Natural Resources and Energy Committee and the Joint Fiscal Committee thereupon constituted a special committee in accordance with authorization contained in Sec. 5.0122.2 of Act 192 of 2008.)*

After hearing that interviews will be conducted on August 5 with parties who responded to the RFP, the members decided to wait until an August meeting to consider and act on the recommendations of the RFP working group which was authorized at the May 21 special committee meeting

AUGUST MEETING DATE:

8. In view of the Emergency Board's expected approval on this date of the consensus revenue estimate for the current fiscal year, the Committee was told that under the provisions of 32 VSA Chapter 9 §704, an August meeting will be necessary to consider a plan by the Administration to reduce appropriations. After the Chair's brief description of the statutory requirement and the process that will begin immediately upon the Emergency Board's action, the members agreed to meet at 9:30 a.m. on Tuesday, August 19. The Chair suggested they plan on the possibility of a full day meeting, in view of the fact that hiring of the energy consultant (Item 8 above) may also entail a lengthy discussion.

The Chair called for a recess at 11:20 a.m.

The Committee reconvened at 12:25 p.m.

DEPARTMENT OF PUBLIC SERVICE GRANT ACCEPTANCE REQUEST (JFO # 2331):

9. The Committee agreed to consider the Administration's request for action at this meeting on a request from the Vermont Department of Public Service to accept a grant from the U. S. Department of Transportation. The \$99,400 grant, which will end on December 31, 2008, will enable the Public Service Department to assess the scope and effectiveness of its current Dig Safe program against the federal Pipeline Safety Law.

Hans Mertens, Director of Engineering Services and Chief Engineer in the Public Service Department, explained what the grant funds will enable the state to accomplish.

The Committee voted to approve the request.

REVENUES AND ECONOMIC OUTLOOK:

10. The Committee's economic and revenue consultant, Tom Kavet, distributed the "July 2008 Economic Review and Revenue Forecast Update" which he planned to present to the Emergency Board today in conjunction with a recommended downward revision in the State's official consensus revenue forecast. In the current fiscal year, General Fund receipts are now expected to be approximately \$17 million less than anticipated, while the Transportation Fund probably will experience an \$8 million decline compared to the most recent revenue estimate.

Mr. Kavet opened his presentation with the statement that rarely in a three-month period has there been as much deterioration in economic indicators used to gauge the economy as has been the case during the past three months. A major factor in the decline is the housing market, where tremendous losses in net worth for both consumers and lenders have occurred, with plunging housing prices and frozen real estate markets. This has impacted credit availability generally. Rapidly escalating home energy and oil prices is also a very significant factor. Mr. Kavet was not optimistic about a speedy turnaround in the next few months.

The majority of his remarks consisted in a recap of his written report, which is on file in the Joint Fiscal Office and on their web site.

The Chair asked that Mr. Kavet alert the Committee before the November meeting if there are alarming signs of an even worsening economic situation.

In the course of discussion with the revenue consultant, the Chair said it would be helpful to gain some perspective by reviewing the State's experience in the early 1990's in the percentage of revenue downgrades and to compare that to the current situation. Representative Heath observed that forecasting then was not at the level it is today, and she also pointed out that very large deficits are averted by periodic review and revision of the revenue estimates.

HOME HEATING ASSISTANCE:

11. After introductory remarks from the Chair about the importance of a concerted, cooperative effort to find solutions to help Vermonters with escalating heating costs during the upcoming heating season, Associate Fiscal Officer Maria Belliveau distributed a status report on Vermont state energy/fuel/food initiatives. The report, which is on file in the Joint Fiscal Office, included the following explanation:

This document is a compilation of specific actions, initiatives and ideas that have come forth in response to concern over the price of fuel and food. These ideas

came from a variety of sources, including programs and proposals from the Legislature, Administration, non-profit organizations, private companies and concerned Vermonters. Administration officials and legislative leaders are working to combine their efforts to create an effective plan to meet the needs of Vermonters. It is important to stress that the initiatives herein only begin to address the serious challenges looming for Vermonters this winter; the most effective response will be to harness all energies and resources across our state to solve these problems together. The Legislature and Administration will continue to work aggressively and across party aisles and branches of government to help families struggling to make ends meet.

The report went on to list actions under consideration, the current status of each, and the next steps to be taken.

After a Joint Fiscal Office oral recap of highlights of the document and the efforts of different segments to work together to develop programs, the Committee heard from Matt Cota, Executive Director of the Vermont Fuel Dealers Association; Christopher D'Elia, President of the Vermont Bankers Association; and Tim Searles from the Champlain Valley Office of Economic Opportunity.

Mr. Cota reported that within the past week there has been a key victory for the heating oil and propane industry. Previously a heating oil company with gross receipts over \$11.5 million was not classified as a small business and therefore was ineligible for loans from the Small Business Administration. In the future, however, if a company has less than fifty employees it will be able to access loans from the Small Business Administration. Among other subjects he touched on was the difficulty of obtaining from Congress additional funding for LIHEAP.

Mr. D'Elia affirmed the banking community's readiness to work with various interested parties to address the heating challenges facing Vermonters, and he described efforts of the banking industry to help fuel dealers as the next heating season approaches. A meeting on the subject was organized among commercial and mortgage lenders, and he described highlights of that discussion. For example, he told of bankers communicating with fire departments in order to address fire safety concerns in dwellings switching to alternative fuel sources. He described the banking community's interest in addressing the needs of elderly customers on fixed incomes and middle-income people who may fall just one or two percent over the threshold of qualifying for LIHEAP assistance. His position was that accessing home equity funds and adding to consumer credit card debt are not viable options for homeowners looking for ways to pay their heating bills.

Tim Searles handed out a sheet reflecting projected heating costs for low-income Vermont households for the upcoming heating season. He suggested that the Legislature and the Administration look at increasing household eligibility ceilings for the seasonal fuel assistance and crisis fuel assistance programs from their current levels of 125 percent and 150 percent, respectively, of federal poverty levels. His recommendation was to

expand eligibility for seasonal fuel assistance to 150 percent and for the crisis fuel assistance program to 185 percent.

The meeting was adjourned at 2:05 p.m.

Respectfully submitted:

Virginia F. Catone
Joint Fiscal Office