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REP. MARTHA HEATH
REP. RICHARD HUBE
REP. MARK LARSON
SEN. RICHARD SEARS, JR.
SEN. PETER SHUMLIN

STATE OF VERMONT
LEGISLATIVE JOINT FISCAL COMMITTEE

Wednesday, August 5, 2009

Minutes

Members Present: Representatives Obuchowski, Ancel, Heath, Hube, and Larson and Senators Bartlett, Cummings, Sears, and Snelling.

Other Attendees: Representatives Branagan, Davis, S. Smith, and Senator Campbell. Joint Fiscal, Legislative Council, administration, and VSEA staff, various media, lobbyists, and advocacy groups, and members of the public.

1. Convene and Approve Minutes of July 16, 2009 Meeting

The Chair, Representative Obuchowski, called the meeting to order at 11:03 a.m. and welcomed Representative Hube as the newest member of the Committee, as a replacement for Representative Westman, who was thanked for his years of service and dedication to the legislature. The Chair asked for a motion to approve the minutes of July 16, 2009. Representative Heath made the motion, Senator Bartlett seconded, and the minutes were approved.

2. Fiscal Officer's Update

Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office (JFO), informed the Committee it would receive a \$28 million proposed rescission plan from the administration later in the day. In response to the proposed rescission package, the Committee scheduled a public hearing for Tuesday, August 18 from 1:00 p.m. to 3:00 p.m. in room 11 of the State House. Testimony at the hearing would be limited to 2 minutes and prescheduled if possible. The public is encouraged to submit suggestions to the Committee on areas, within state government, to save money. Information on how to sign-up, submit comments, or give budget reduction ideas would be displayed on both the legislative and the JFO websites.

Mr. Klein commented that JFO has been involved in producing analysis of the impact from the federal health care reform effort on Vermont and has worked closely with U.S. Congressman Peter Welch and House staffers to ensure there were no conflicts with Vermont's health care programs. A delegation of Vermont legislators and staff and other states' legislators will work with the U.S. Senate in the weeks ahead. Senator Sears suggested that JFO communicate with the Council on State Governments (CSG), since it was mentioned at the CSG Burlington Eastern Regional Conference that the proposed Senate finance plan for the federal health care initiative may impact Maine, New Hampshire, and Vermont.

Mr. Klein announced that JFO would schedule an American Recovery and Reinvestment Act (ARRA) briefing for legislators within the next few weeks and invite Tom Evslin, the Chief Recovery Officer of the Office of Economic Stimulus and Recovery Office, to answer questions. Representative Ancel, one of the appointed legislative liaisons to the ARRA subgroup, explained that the briefing would be coordinated through one or more conference calls. Legislators would be asked to forward questions prior to the call.

Representative Larson highlighted what JFO and Legislative Counsel staff have accomplished in taking the lead in a national conversation of health care and the tremendous work of coordinating an effective Vermont coalition. Representative Heath stated that a JFO memorandum on the effects of the federal health care initiative on Vermont was presented to the participants at the CSG conference as a good example that balanced the pros and cons of what the federal initiative meant to Vermont.

3. Grant #2388 from Commonwealth Fund to Health Care Reform Commission for Accountable Care Organization Pilot

Jim Hester, Director of the Health Care Reform Commission, explained the grant. Representative Heath inquired who was involved in the pilot. Mr. Hester responded that the organizers of the pilot were the Brookings Institute and the Dartmouth Institute, which are setting up a national learning collaborative with four to five pilot organizations scheduled for operation in 2010. The intent of Act 49 of the 2009 session was to develop a strong application for Vermont to be a strong candidate for the Accountable Care Organization Pilot. Senator Snelling moved to approve the grant, and the Committee accepted the grant favorably.

4. Benchmark Targets to Reduce Rates of Expenditure Growth for Retirement and Retiree Health Benefits

Beth Pearce, Deputy State Treasurer, listed the members of the Retirement Funding Commission, its 2009 itinerary, and charge. Due to the rapid growth in the aging population and an unprecedented economic decline, the commission was faced with difficult discussions on its recommendations for a fair, equitable, and sustainable way to fund state retirement. A plan was due by December 18.

Mr. Klein explained the benchmark memorandum and a table on relevant inflation and other economic measures. In answering Representative Ancel's question of whether the benchmark should be a general overall percentage, Mr. Klein stated the statute did not specifically define the amount but rather left it to the Committee to decide. Representative Heath inquired if the general cost of retirement and the accrued actuarial cost were growing and the context of how the initial percentage range of a 3.5% to 4% growth was determined. Ms. Pearce stated that the normal cost was based on actuarial analysis, taking in account certain factors. If current assumptions are held, the rate would grow about 4 ½% per year. One assumption is interest rates, of which some impairment has occurred over the last few years. Another assumption is longevity of the working population. The unfunded accrued actuarial liability currently grows annually at a rate of 5%.

Ms. Pearce asked the Committee for its recommendation to the commission on considering the range of options for determining its spending growth benchmarks.

Representative Heath offered that she was comfortable with a recommendation of 3 ½% to 4%. Mr. Klein clarified for Senator Snelling that the consensus projections from the Legislative Economist and the Governor's Economist were over an entire length of time (10 years) that considers the fluctuations of the rates. Representative Hube commented that the general retirement and health care costs after retirement should be separated as two different discussions, since general retirement is more of a known amount rather than the ever-increasing rates of health care. Mr. Klein, as requested by Representative Hube, indicated that there were no CPI-related data to support a benchmark for determining health care costs. Representative Hube queried whether from a policy standpoint, it made sense to separate the two retirement issues. Mr. Klein answered that it was a reasonable theory. The commission was responding to a statutory directive, which left that discussion up to the Committee. Ms. Pearce offered to check on possible CPI-related data for health care.

Representative Ancel stated the question to ask is what the state can afford rather than what are its needs. She offered that she was comfortable with a 3 ½% to 4% benchmark but would like a caveat that the growth rates not exceed the overall state revenues. Senator Bartlett stated she was comfortable with 3 ½% and stressed the importance of a reasonable benchmark because it required a financial obligation for the state. Senator Sears made a motion to approve a 3 ¾% benchmark. Representative Ancel commented that 3 ¾% seemed too high in light of declining revenues. Representative Heath stated an advantage to setting the benchmark at 3 ½% was lower expectations, and she moved to amend the motion to 3 ½%. Senator Sears accepted the amendment, and the Committee approved the amended motion.

5. Other Fiscal Issues – a. Retirement Incentive Plan – Eligibility Change Request.

Ms. Pearce mentioned two memorandums, one from Secretary Lunderville, and one from State Treasurer Spaulding. She then provided an additional handout listing the number of applicants by department. Representative Heath asked for a listing that showed the percentage of applicants by department, which was handed out later in the meeting by JFO.

Ms. Pearce, in answering Representative Heath's question, replied that seven applicants from a total of 337 had declined the retirement incentive package; it was anticipated that others may follow. Representative Hube asked for conclusions on why no one younger than 48 years of age applied for the incentive, and Ms. Pearce responded that years of service dictated the amount of benefits received. Ms. Pearce offered to get information on the overall state employee age population. Representative Ancel inquired how the 300 applicant amount was originally decided. Senator Bartlett offered that the number was picked through a means of how much money was needed for reducing future budget deficits and conversations with the state employees' union. Senator Bartlett made a motion to increase the retirement incentive cap to 330 and acknowledged the authorization from the administration. The Committee approved the motion.

b. Web Portal Board Proposal for Fee Increases

1. Motor Vehicle Record (MVR) Online Search

2. Over-the-Counter (OTC) Credit Card Processing

Tom Murray, Chief Information Officer for the Department of Information and Innovation, and Casey Faiman, General Manager of the Vermont Information Consortium, explained the MVR fee increase. Representative Hube asked who, beside the insurance

companies, would pay the fee for the MVR. Mr. Casey responded that typically it was large data aggregators that then sent that information to insurance companies, but others may include background checks conducted by companies such as trucking companies. Linda Snyder of the Agency of Transportation offered that parking or speeding tickets would not show up on a criminal records check.

Mr. Murray outlined the OTC fee proposal. Senator Sears asked whether state statute allowed merchants to charge a fee when conducting OTC transactions, and he showed concern for the state charging a fee when merchants were disallowed. Senator Cummings offered that there were fees already allowed for some state government entities for credit card transactions. Mr. Murray explained that the Department of Taxes had statutory authority for particular programs to charge fees but the Department of Motor Vehicles did not.

Representative Ancel commented that electronic transactions should be encouraged as a cost-saving method of payment, but charging fees for those activities was counterproductive in encouraging the public to utilize those methods of payment. Mr. Murray debated that the fee-based services financially assisted the non-fee-based services. Representative Larson asked why the fee was being proposed to JFC and not during the previous legislative session. Mr. Murray stated the Web Portal Board was following statutory procedure by allowing JFC authorization.

Mr. Murray explained that the \$1.00 increase from fees would generate an additional \$300,000 in revenue. Mr. Faiman further explained that the increase in revenue would enable the Board to expand the non-fee-based services. Representative Ancel pointed out that Vermont's motor vehicle rates seemed higher than other New England states. Mr. Murray offered that Vermont's rates have always been on the high side. Senator Sears requested that the newly appointed commissioner of the department of motor vehicles, Rob Ide, testify at a JFC meeting to give comments on the proposal before a decision is made. Representative Heath commented that it would be hard to offer the ability for the credit card convenience and still afford the credit card fees.

Representative Obuchowski suggested that the two fee proposals be split for voting purposes, and that the second proposal for the OTC fee be delayed to the next regularly scheduled JFC meeting in September, at which time the commissioner of the Department of Motor Vehicles and the chairs of the House and Senate Committees on Transportation respond to the OTC fee. Representative Larson inquired whether the administration was in support of the fees and Mr. Murray answered in the affirmative. Representative Ancel commented that she would feel more comfortable with a smaller fee of 50 cents. Senator Sears moved to approve the MVR fee, and that action be postponed on the OTC fee until the September JFC meeting. The Committee approved the motion.

c. Update on Rutland Regional Medical Center (RRMC) Process

Beth Tanzman for the Department of Mental Health (DMH), Stephen Wisloski, Director of Investment and Debt Management, and Beth Pearce for the State Treasurers Office introduced themselves to the Committee. Ms. Tanzman gave a refresher of the proposed process for the RRMC. Ms. Pearce detailed the financial process and commended the DMH project team for creating a comprehensive and strong economic model. The proposed RRMC economic model suggests the creation of a 501(c)3, temporarily named New Corp, to administer funding and

facilitate the lease to RRMC. The treasurer's office has been assisting DMH in identifying appropriate financial mechanisms and facilitating discussions with rating agencies before going out to the market. A joint report from the treasurer's office and JFO is due by Oct. 1 to JFC, and will identify the risks associated with the financial options.

Mr. Wisloski explained the best financial option is a variable rate financing that would be backed by a bank letter of credit. An alternative option that was introduced in the federal stimulus package would be through a bank for private placement financing which a larger financial institute would vet, rather than having the rating agencies approve the plan. The third and least favorable option is to go directly to a rating agency such as, Standard and Poor's for backing of the proposal and then to the public market.

Ms. Tanzman concluded that if the JFC and the Mental Health Oversight Committee found the financial plan to be sound, then DMH would apply for a Certificate of Need (CON) and move forward finalizing the funding. Representative Hube inquired whether the land for the facility would be leased to the New Corp. Ms. Pearce offered that the treasurer's office was currently working on the mechanics of the lease with RRMC and would include the information in the October report.

The Committee recessed at 12:50 p.m. and reconvened at 1:20 p.m.

The Chair called the Committee to order and asked for a moment of silence for Sheri Burch of Legislative Council, and recognized her contributions and years of service to the Legislature.

6. Presentation of the Administration's Proposed FY2010 Expenditure Reduction Plan

Neale Lunderville, Secretary of the Agency of Administration, and James Reardon, Commissioner of the Department of Finance and Management, introduced themselves. Secretary Lunderville relayed the Governor's message on the proposed rescissions. Commissioner Reardon gave the overview of the proposed reduction plan.

Senator Sears expressed concerns for the reductions in public safety with a scheduled increase of additional sex offender registrants, October 1, and asked that the commissioner of the department explain any impacts to the Committee. Secretary Lunderville responded the administration would supply that information to the Committee. Senator Sears inquired whether reductions in the department of health would impact the response to the H1N1 immunization plan. Secretary Lunderville offered to respond to the Committee on any impacts.

Representative Larson requested information on the number of individuals waiting for care by category and county in the Vermont Health Access Program (VHAP). Secretary Lunderville agreed to include the information at the next JFC meeting. Commissioner Reardon offered that due to some technical errors in the rescission package, an additional document would be handed out to the Committee. Representative Larson inquired why only 3 out-of-the-4 investigative positions in the labor budget were filled, since the positions generated revenue. Commissioner Reardon agreed the positions would generate revenue, but the theory was to pilot three positions first and then reevaluate whether more were needed.

Representative Heath asked if the reduction from the \$1.5 million decrease in costs for state-placed students put the Education Reserve Fund at the 3.5% amount. Mr. Klein responded that JFO would double check the figures and report back to the Committee. Representative Ancel asked for the results of the reevaluation of the investigative positions in labor when known.

Representative Obuchowski explained the public hearing process for August 18, and that prior to the hearing, at 12:30 p.m., the administration would answer questions posed by the Committee on the proposed rescission package. Representative Heath asked that comments on the rescission package be forwarded to JFO prior to the hearing. Representative Obuchowski commented that a committee vote on the proposed rescission package would depend on the response from the public, but the Committee had 21 days to respond to the administration's proposal and an additional 14 days if an amendment were proposed. If the plan required an amendment the Committee would allow for additional public comment.

The Chair reiterated that the public was encouraged to submit comments to JFO on budget savings ideas, and Mr. Klein offered that JFO would include an e-mail for the public to submit comments on its website.

The Committee adjourned with a motion by Representative Larson at 3:13 p.m.

Respectfully Submitted,

Theresa Utton-Jerman, Joint Fiscal Office