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SEN. RICHARD SEARS, JR.  
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**STATE OF VERMONT**  
LEGISLATIVE JOINT FISCAL COMMITTEE

November 15, 2010

Minutes

Members present: Representatives Obuchowski, Branagan, Heath, Larson, and Senators Bartlett and Snelling.

Other attendees: Administration, Joint Fiscal Office staff, various media, lobbyists, and advocacy groups.

The Chair, Representative Obuchowski, called the meeting to order at 9:42 a.m., and Senator Snelling made a motion to approve the September 10, 2010 minutes with a technical correction vetted by email with Representative Heath. The Committee approved the minutes.

**1. Fiscal Office's Updates/Issues - Fiscal Officer Report**

Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office (JFO), referred to a written report sent to the Committee, and presented an opportunity for the members to raise questions or concerns, but none were noted. He further added that actuarial funded ratios for retirement increased from last year for the teachers' retirement system to 66.5% and state employee retirement system to 81.2%. He attributed the market decline as a major factor for the funded ratios remaining below those of recent years. The teachers' retirement system funding level is exacerbated by the funding for the retirement system being immediately reduced by using the contribution to meet the state's liability to pay for health care costs for retirees. This potentially could be an issue for the coming session.

Mr. Klein handed out a PowerPoint outline planned for new member orientation on Friday that reviewed the state's fiscal situation. He mentioned that the office planned to launch its new website sometime in early December and that JFO was encouraging members and others to give feedback on the site at [www.leg.state.vt.us/jfo/new](http://www.leg.state.vt.us/jfo/new). Also, issue briefs on health care, education, transportation, ENVY, the capital bill, and tax policy/revenue were available on the current JFO website and included in the members' package.

**2.a.I Fiscal Updates – Grants - #2464 - Prisoner Reentry Initiative**

Nathan Lavery, Fiscal Analyst, Joint Fiscal Office, explained that there were some concerns about a request by the Department of Corrections to accept a \$365,000 grant that the Corrections Oversight Committee investigated.

Representative Heath, a member from the Corrections Oversight Committee, explained that the committee lacked a quorum at its last meeting, but nonetheless, the members present recommended approval of the grant. The committee heard that protocols for reentry of domestic

violence offenders were well under way and that reentry of these types of offenders would not be included in this initiative until those protocols were completed. Expectations were that protocols would be completed by the first of the year. She then moved to approve acceptance of JFO #2464. Representative Branagan confirmed with Representative Heath that Representative Emmons was present for the Corrections Oversight Committee deliberations. The JFC approved the motion.

## **II. Grant #2468 – Health Insurance Exchange Development**

Mr. Lavery explained a request from the Agency of Administration to accept a \$1 million grant and introduced Betsy Forrest, Health Care Reform Affordability Project Director for the Department of Health Access, and Rebecca Heintz, Department of Banking, Insurance, Securities & Health Care Administration.

Ms. Forrest handed out information and highlighted the information. She stated that it was important to move forward with the grant expeditiously in order to gain additional enhanced federal match funds available for planning a health insurance exchange. Senator Bartlett inquired whether there was an additional round of grants to states that achieve substantial progress on these projects, and Ms. Forrest stated there were additional grants available in 2012, 2013, and 2014 for the actual building of the plan. Representative Larson stressed the importance of approving the grant for the purpose not only of planning for the Affordable Care Act but also of working toward achieving the goals of Act 128 of 2010. Representative Larson then moved to approve acceptance of JFO #2468, and the Committee approved the motion.

## **III. Grant #2469 – Superior Court Planning Project**

Mr. Lavery explained a request from the Judiciary Branch to accept a \$50,000 grant for strategic planning relating to a challenge for judicial restructuring savings. Representative Obuchowski pointed out a scheduled training seminar that hinged upon the acceptance of the grant. Representative Heath moved to approve acceptance of JFO #2469, and the Committee approved the motion.

## **IV. Grant #2470 – Donation from the Estate of Alice Hadley**

Mr. Lavery presented an incomplete request (awaiting the document with the Governor's signature) from the Department of Fish & Wildlife to accept a donation of land valued at \$345,000. Mr. Lavery explained that the State of Vermont would be purchasing 51 acres in Rockingham from the Estate of Alice Hadley. JFC approval is necessary because the purchase price of the land is significantly below the appraised value, and this price difference represents a donation subject to JFC approval. Mr. Lavery recommended that the Committee take the opportunity to hear testimony and ask questions but delay action on the grant until JFO had possession of the official paperwork. He handed out two documents and noted that the Town of Rockingham minutes documented its support for the land donation.

Sher Yacono, Financial Manager of the Department of Fish & Wildlife, responding to Representative Obuchowski's inquiry, explained that the intended land would be incorporated into the Missing Link Wildlife Management Area. Representative Obuchowski requested Ms. Yacono research the department's plan for the land and forward it to the Committee. He also asked that the department send a field representative to the land to review its condition, especially areas where demolition occurred. He further requested that an agricultural assessment be performed on the land to address whether a portion of the land could be leased for farmland.

Mr. Lavery confirmed this item would be subject to expedited review once the official documentation arrived at JFO.

**b. Summary Update on the Blue Ribbon Tax Structure Commission**

Michael Costa, Staff Director, Blue Ribbon Tax Structure Commission, handed out an outline of a PowerPoint presentation on “Tax Reform in Vermont: Perception and Reform,” and proceeded to explain its contents. In responding to Representative Larson’s question about public perceptions of a certain income range paying more in taxes than others, Mr. Costa stated that it was the Commission’s observations that there was much misinformation circulating in the private sector. Representative Branagan stated that by reducing the top two tax rates, public perception of taxes would alter. Mr. Costa, in responding to Representative Branagan’s comments, stated there was no consistency in tax rates with other states for a direct comparison of cost of living unless Vermont moved to an adjusted gross income tax calculation with caveats.

**c.I. FY2011 Budget Adjustment Update – Medicaid/Global Commitment Waiver**

Stephanie Barrett, Fiscal Analyst for JFO, gave a brief update on the process used in developing the consensus forecast on Medicaid for the January 2011 Emergency Board meeting. Preliminary estimates show an \$80 million gross increase from last year, creating a \$35 to \$40 million increase in state funding in Medicaid in the current FMAP. The Global Commitment Waiver ended October 1, and Vermont has requested a 3.25-year extension from CMS. Negotiations with CMS began last winter for the extension but the mechanics of drawing the funding are still unresolved. Vermont is operating under 30-day extensions until details of the full extension are resolved. The Chair inquired how much of the \$35-million Medicaid shortfall was included in the \$112-million state deficit, and Ms. Barrett responded that \$53 million of baseline growth included in the state deficit was in line with what current figures were showing.

**II. FY2011 Budget Adjustment Update – Education Fund**

Mark Perrault, Fiscal Analyst for JFO, explained that a consensus education fund outlook for FY2012 was under development and that then a tax rate would be announced for the 2011 tax year. Outstanding data include total tax adjustments, but preliminary data suggest a smaller amount than previously estimated. The FY2012 education budget will be complicated by the availability of \$19 million in federal aid, the \$23 million in targeted spending reductions from Challenges for Change legislation, and the restoration of the Education Fund statutory level estimated at \$57 million, which includes covering the gaps from depleted ARRA funds and reduced General Fund transfers in the previous two budget cycles. Representative Heath inquired whether the statutory inflationary growth of the General Fund transfer was included in the total. Mr. Perrault explained that there were a few million dollars that would be added to the \$57 million to include the growth amount. The new tally of approximately \$60 million is a part of the \$112 million state deficit.

In answering an earlier question, Mr. Perrault explained that the \$19 million in federal funds from the Jobs Bill would be disbursed to school districts in proportion to education spending. Challenges-for-Change reports from school districts on whether target savings can be met were due back to the commissioner of education by December 15, 2010. The commissioner of education will then report back to the legislature on those findings.

Mr. Perrault informed the Committee that for the first time since the implementation of Act 60 and Act 68, the grand list has decreased. This change will inevitably affect the tax rate. The commissioner of taxes is required by statute give a recommendation to the Governor by December 1 on the next year's education tax rate, but some savings may not be known, such as Challenges targets.

In responding to Representative Heath's query on the projection of the FY2012 base education rate, Mr. Perrault stated the current year amount is \$8,544 and under current law is proposed to grow to \$8,618 in FY2012.

### **III. General Fund**

James Reardon, Commissioner, Department of Finance & Management, handed out and explained a potential Budget Adjustment Act items list. There are some possible audit costs from ARRA funds, but this is dependent on entire state government audit costs and allocated funds. He explained that the Criminal Justice Training Council (CJTC) was at the verge of solvency, but he recommended that the CJTC be included as a line item for General Funds in the FY2012 budget instead of relying on fluctuating revenue from training funds. It is estimated that there will be a minimal amount of funds needed for the Sarcoidosis Fund and the Emergency Relief Assistance Fund.

Commissioner Reardon explained that he included the Low Income Home Energy Assistance Program (LIHEAP) on the list because of the reduced amount of federal funds from last year and the decreased benefit of the fuel liability to individuals. The Challenges-for-Change savings targets, if there are some not met, will need to be included in the FY2011 BAA.

The Commissioner informed the Committee that the administration's budget development system would need replacement within a year because support for the older system would begin lapsing. The new system would need the ability to communicate with the PeopleSoft VISION accounting system. This will allow for a more efficient way of generating budget reports and communication between the legislature and the administration. Commissioner Reardon suggested that a one-time appropriation from the capital bill would be discussed to cover the estimated \$1 million cost of the new system.

The Commissioner suggested that the surplus of \$250,000 from the rest areas-budget be used as one-time money to Federal Surplus Property to begin to reduce the deficit of the estimated \$1 million. This could also serve as a placeholder for policy discussions on how to address this deficit.

### **IV. Challenges for Change**

Commissioner Reardon handed out information on the current Challenges-for-Change savings estimates. Unallocated bridge funds still remain in the Charter-Unit challenges. He moved through a spreadsheet explaining the areas of Challenges savings and allocations.

Representative Heath inquired about the waiting list that has developed from a shortage of funds from attempts at meeting the Challenges in developmental services (DS). Commissioner Reardon stated the shortfall occurred when DS of the Department of Aging and Independent Living (DAIL) used \$400,000 from FY2011 funds to close out FY2010 causing a FY2011 budget gap. The

other area of shortfall occurred when the Challenges initiative to save \$850,000 in reduced paperwork was not met, and instead utilization of \$800,000 of Equity Fund resources was used in FY2011 to meet the goal. Representative Heath expressed concern for the negative outcomes of the waiting list and strongly suggested that the Commissioner investigate further. Commissioner Reardon assured the Committee that discussions were ensuing. Representative Heath further requested that either Commissioner Reardon or the DAIL keep the Committee informed as communications progress.

Representative Larson suggested that Challenges for Change move forward with an expected savings of \$32 million. Representative Branagan asked for an update on the corrections Challenges. Commissioner Reardon stated that some of the infrastructure was still being implemented, such as transitional housing, and that caseload numbers have not declined as anticipated. This has slowed the realization of targeted savings.

The Committee adjourned briefly and then reconvened. The Chair called up the next agenda item.

### **3. Administration**

#### **a. Transition Team Update**

Senator Bartlett, a member of Governor-elect Shumlin's transition team, informed the Committee that the transition of the two administrations was proceeding well and that the current administration's staff has been very accommodating. The two areas in which this have been helpful has been in preparing for the FY2011 Budget Adjustment Act and in building the FY2012 budget. She stated she was very optimistic for long-term budgeting savings because it appeared that many agencies and departments had embraced the concepts behind Challenges for Change.

Senator Bartlett explained that the transition team was taking the issues of DAIL's budget problems and the DS waiting list seriously and that it has begun discussions on how to address them. She also explained that it was important to replace the current antiquated state budget system because it was not able to communicate with the more recent bill-paying system "VISION."

#### **b. FY2012 Budget Issues**

Commissioner Reardon updated the Committee that FY2012 budget discussions with agency and department heads were ongoing but still in their early stages. He stated that he would update the Committee when more information was known. The consensus budget gap analysis between the Department of Finance and the Joint Fiscal Office appears to be in line with estimates, but there are possibly some areas that could aggravate the deficit projections.

#### **c. Low Income Home Energy Assistance Program Update**

Steve Dale, Commissioner, and Richard Moffi, Fuel Assistance Program Chief, Department for Children and Families (DCF), handed out information on LIHEAP benefits for the FFY2011 heating season. Commissioner Dale explained that 4,000 more households have been approved for benefits this year over last year due to legislative eligibility changes in Act 1 of SS2009. Mr. Moffi added that the modernization of DCF's systems has allowed for a more efficient and smoother transfer of payments to fuel dealers. In addition, benefits are available to households within a week to 10 days upon approval of eligibility.

Commissioner Dale explained that the federal LIHEAP funds are down 41% from last year. A resolution with \$3.3 billion to states (\$15 million to Vermont) was before Congress for debate but it was unclear if and when that legislation would pass. Mr. Moffi added that Vermont had a \$2.5-million set-aside for crisis fuel, which should fill benefit gaps until the end of January of 2011.

Commissioner Dale explained the benefit expansion added in Act 1 of SS2009 calculates an average \$265 benefit amount for the new group eligible for LIHEAP in FY2010. Representative Heath inquired whether other organizations assisting with heating costs for low-income Vermonters were aware of and/or have increased fundraising as a result of the anticipated reduced federal funds. Mr. Moffi stated that Central Vermont Office of Economic Opportunity had stepped up its efforts to cover some of the gap, but whether community-based organizations were aware of the reduced funding was not known. In answering Senator Snelling's question of whether recipients were informed of types of assistance, Mr. Moffi explained that DCF referred people eligible for fuel assistance to other programs, such as 3SquaresVT.

Representative Larson inquired of the Chair as to whether the Committee should send a follow-up letter to the Vermont Congressional Delegation on the state's need for additional LIHEAP funds. The Chair agreed that a letter would be drafted by the Joint Fiscal Office and sent to the delegation.

**d. Update on Preferred Provider Network Implementation Plan**

Barbara Cimaglio, Deputy Commissioner, Department of Health distributed to committee members an update on the implementation of Act 156, Sec. E313(b) of 2010 and summarized it. Senator Snelling referred to the graph and questioned the length of the waiting period upon referral. Ms. Cimaglio stated it should not take more than 24 hours. Representative Larson asked whether resources could be adjusted according to where they were needed. Ms. Cimaglio explained that the issue was how many and where counselors were to provide services and that was the area the department was focusing on if realignment was needed.

**4. Health Care Commission – Dr. Hsiao Update**

Representative Larson, Acting Co-Chair of the Health Care Commission, highlighted a joint issue brief from the Joint Fiscal Office and the Executive Branch staff that included a comprehensive list of issues relating to Vermont's health care system. He then explained that Dr. Hsiao's work is ongoing and that it is anticipated that Dr. Hsiao will produce three health plan proposals in 2011. Representative Larson informed the Committee that due to a delay in transferring data, a 15-day statutory review period for BISHCA to review the data in the report, and an additional grant applied for to develop a Macro Economic Impact Study, the report may be delayed.

Representative Obuchowski inquired if the Commission or the legislature found an alternative plan that required additional research, would additional funds be needed for Dr. Hsiao. Representative Larson answered that if it was a small change to a current proposal then no, but if it were a substantial change with additional research then yes.

The Committee previously had scheduled the commissioner of Education to give an update on school savings: supervisory union targets and federal grants and technical assistance for school districts; but due to a conflict, the Committee instead scheduled a conference call. Department of Education participants included: Armando Vilaseca, Commissioner, William Talbott, Deputy

Commissioner, and Vaughn Altemus, Consultant, Department of Education. Others participating in the call were representatives of the Superintendents, the Principals and the School Board Association.

The Commissioner informed the Committee that Mr. Altemus had been moved from another position within the department to consultant for the schools who were in need of assistance to navigate Challenges savings targets. Mr. Altemus was paid through the allowable 2% administrative fee portion of the \$19 million federal grant. The Commissioner and Mr. Talbott explained how the distribution of the federal grant was calculated by state funding formula.

The Committee adjourned at 12:30 p.m.

Respectively Submitted,

Theresa Utton-Jerman, Joint Fiscal Office