



STATE OF VERMONT
LEGISLATIVE JOINT FISCAL COMMITTEE

Monday, August 11, 2014

Minutes

Members present: Representatives Ancel, Branagan, Heath, Johnson, and Sharpe, and Senators Ashe, Campbell, Kitchel, Sears, and Snelling.

Other Attendees: Administration, Joint Fiscal Office, and Legislative Council staff, and various media, lobbyists, advocacy groups, and members of the public.

The Chair, Representative Heath, called the meeting to order at 2:04 p.m. and explained the process for the next three days. She commented that it was critical that a rescission plan be adopted swiftly to avoid deeper reductions that would create more difficult choices.

A. Administration's Presentation on the Governor's Proposed FY 2015 Rescission Plan

Job Spaulding, Secretary of Administration; James Reardon, Commissioner, and Sara Clark, Deputy Commissioner, Department of Finance and Management, presented the Governor's Proposed FY 2015 Rescission Plan. Secretary Spaulding gave the broad parameters of the proposed plan to fill the \$31.28 million budget gap. He reiterated the Chair's comments earlier that it was critical that a rescission plan be adopted swiftly to avoid deeper reductions that would create more difficult choices. He summarized the statutory rescission language and compared the 2008 larger rescission exercise due to the downturn in the economy, and the current rescissions based solely on a revenue estimation downgrade. The proposal was roughly a 50/50 division of one-time and base spending. Some areas of the budget were level funded instead of reducing other budgets, such as how higher education and medical providers were reduced. Secretary Spaulding stated he felt the proposal was balanced and it had reduced spending in both programs and economic areas while still allowing the economy to grow. He reminded the Committee that the General Fund transfer to the Education Fund was protected by statute and using contributions to the State Retirement Fund or the stabilization reserve funds would cause greater harm.

James Reardon, Commissioner, Department of Finance and Management, distributed a packet of materials and explained the rescission proposal in depth to the Committee. The Chair asked the Commissioner to pause and take questions on the first page of the proposal. Senator Ashe asked what the rescissions meant to budget areas that were documented as having no programmatic impact even though they had a rescission. Commissioner Reardon responded that examples were the Division of Fire Safety and the Agency of Natural Resources where a longer term impact may occur if reserves were no longer available during times when revenues, within these entities, were low and insufficient to run themselves effectively. Senator Campbell inquired why the Department of Buildings and General Services had not researched its budget for overtime prior to the rescissions exercise, and were there other Departments that should be scrutinizing their budgets for the same

issue. Commissioner Reardon stated the Department would be taking a closer look at all departments for overtime. Senator Kitchel asked that with the overtime practices and the personnel workforce a major component of the budget, if there were any savings that came from the State employee contract. Commissioner Reardon stated there was no move on the part of the Vermont State Employee Association to suggest any savings or reopen its contract with the State for renegotiation to offset the rescissions. However, they did make some suggestions with possible longer-term savings.

Commissioner Reardon continued through page 2 of the rescission proposal and then opened it for questions. Senator Sears asked for clarification on the Challenges for Change contracts. Ms. Clarke explained the contracts were from the original legislative initiative. Senator Sears referenced a letter from Karen Larson of the Department of Corrections commenting on its concerns for rescissions to programs. Commissioner Reardon committed to following up with the Department on its concerns.

Commissioner Reardon continued through page 3 of the rescission proposal and then opened it for questions. Senator Kitchel inquired of the source of revenues for the trust fund dedicated to timber administration. Ms. Clarke responded that it was from the sale of timber on State lands.

Commissioner Reardon continued through the final page of the rescission proposal and then opened it up for questions. Senator Sears asked about out-of-state beds. Commissioner Reardon responded that the item was not part of this rescission and should be removed from the page.

The Chair reviewed information requests with the Administration that included clarification on the Challenges for Change grants and transitional housing. Senator Ashe asked if departments and agencies recognized that the FY 2016 budget would be a challenge. Commissioner Reardon responded that he was emphasizing that message to all of State government. He commented that even if all departments were adjusted to their base spending from pre-rescission, the State budget would exceed its current thresholds by \$16 million. Senator Ashe showed concern that there were no reductions to homeless programs within General Assistance. Senator Kitchel commented that this exercise of rescission was very difficult and there would ultimately be more in the FY2016 proposed budget. She added that with the State Performance Officer, there would be more focus on areas of the State budget for possible savings. Representative Sharpe showed concern over the elimination of the 1.6% rate increase in Medicaid and the possible cost shift associated with that reduction. He then asked if proposals from the VSEA were considered as possible solutions to the rescission plan. Commissioner Reardon explained there were possible savings ideas but they would require significant policy changes to implement.

The Chair explained the August 12, 2014 public hearing logistics and adjourned the meeting.



STATE OF VERMONT
LEGISLATIVE JOINT FISCAL COMMITTEE

Wednesday, August 13, 2014

Minutes subject to approval

Members present: Representatives Ancel, Branagan, Heath, Johnson, and Sharpe, and Senators Ashe, Campbell, Kitchel, Sears, and Snelling.

Other Attendees: Administration, Joint Fiscal Office, and Legislative Council staff, and various media, lobbyists, advocacy groups, and members of the public.

The Chair, Representative Heath, called the meeting to order at 12:48 p.m. and thanked the people that spoke in the public hearing the previous day. She then reviewed the rescission process, and opened the meeting for Committee discussion. Senator Kitchel moved to **not** accept the Governor's proposed rescission plan as presented. The Committee approved the motion unanimously.

Representative Heath explained there were public hearing comments on the Administration's proposed FY2015 State Budget Rescission Plan that had raised concern for other Committee members and her. Senator Kitchel stated that even though she held reservations on the Administration's proposal for the providers to forgo the \$1.6 million increase, she agreed with the proposal. She added that the Legislature could address the issue during the 2015 session. Representative Heath agreed with Senator Kitchel and added that in order to accomplish the goals of the rescission and thereby address the current revenue shortfall, it would not have been fiscally responsible to include the provider increase. Representative Ancel reiterated the concern for the provider rescission, and asked the Administration to put this issue at the forefront of budget discussions and she would look to other possible revenue sources to fill the gap.

Representative Heath reviewed the Administration's rescission proposal that included one-time funding to Developmental Services and Choices for Care. She asked to have one-half of the rescission proposal restored in each of those budget areas. Senator Kitchel explained a potential revenue source for restoring those reductions could be taking funds from the Enterprise Fund since these were one-time expenditures. She added that currently there were no applications or proposals before the Emergency Board for Enterprise funds but if there was one submitted, the General Fund could advance the money to the Fund in the interim of Legislative session.

Representative Heath explained another area of concern within the Administration rescission proposal was the Youth in Transition reduction. She suggested that since the program had past issues finding an ongoing source of funding, it should be funded through the current fiscal year and be notified to find a new source of revenue for the FY2016 budget. She added that a temporary source of funding could be from the one-time Medicaid savings close-out. James Reardon,

Commissioner, Department of Finance and Management, asked if the entire \$310k would need to be restored. Representative Heath confirmed that amount, and then asked the Administration to respond to the Area Health Education Centers (AHEC) testimony from the previous day's public hearing that included a proposal to restore \$175k of the General Fund portion of the gross cut to the program by using a different source of revenue from the General Fund. Commissioner Reardon stated that he had reviewed all the testimony submitted to the Committee from the public hearing, and its response to the AHEC proposal for an alternative funding source was that it did not work financially because the special fund proposed to be used would not allow this as a permissible use.

Senator Ashe asked about the competitive bidding process that saved the Department of Vermont Health Access funds and whether there were other areas of competitive bidding in State government that could be assessed for savings. Commissioner Reardon responded that he did not have a specific answer today but the Administration would examine those areas for the proposed FY2015 Budget Adjustment and FY2016 Budget. Senator Ashe asked for a response on the retraction of \$2 million in the Reach Up program. Commissioner Reardon explained that Act 198 of 2014 increased the income disregard and allowed for an additional year of child care, which the Administration would be able to better quantify as it developed the FY2016 State budget. The Administration shared the concern of the Legislature on the benefit cliff of Reach Up, and anticipated further savings in the program to address that issue. Senator Kitchel asked for clarification on whether Act 198 included the expansion of substance abuse services within Reach Up, and the savings used to fund that initiative was still in the base budget. Commissioner Reardon confirmed that the funding was in place and most services were moving forward but there were a delay in one of the services that created some savings for the FY2015 BAA.

Senator Ashe queried about the Special Investigative Units and creating a more equitable system for the State and communities. Senator Campbell mentioned that an interim committee was formed to address some of those related issues in the 2014 session.

Senator Ashe commented on the individual department's method of finding ways to meet budget directives through small cuts such as meals and other necessities instead of reviewing the use of bigger programs, such as the use of funds by the Working Lands non-grant purposes. He then inquired what the consistency was across agencies to find savings, and asked Commissioner Reardon to provide an answer to the so-called agreement with the Vermont Nurses Association on the "savings" from Vermont HITEC. Commissioner Reardon responded that the Administration insists that each department work within the operating budget it produces, which is generally level funded or reduced. This means that departments are not micromanaged and that the Administration willingly takes what those entities submit for savings.

Commissioner Reardon expressed concern over the use of the Enterprise Fund for rescissions.

The Chair recessed the committee until 2:00 p.m. for the Administration to submit another proposed rescission plan to the Committee.

The Chair reconvened the Committee at 2:16 p.m., and asked Commissioner Reardon to explain the Administration's response to the rejected rescission plan. Commissioner Reardon distributed two documents, and explained that the Administration concurred with the Committees'

counter proposal to the Administration's original proposed rescission plan of the following: restoration of one-half of the proposed rescission to Developmental Services, restoration of one-half of the proposed rescission to Choices for Care carryforward savings for reinvestment, and restoration of the Youth in Transition funding for FY2015. The Commissioner added that the Committee suggested that if needed, General Funds could be substituted for Enterprise Funds through action by the Emergency Board, and with reluctance the Administration concurred with that proposal. He covered all the adjustments to the different funds to show the agreed-upon changes. Commissioner Reardon pointed out a mistake in one of the handouts on Youth in Transition that should have been deleted.

Senator Campbell moved to approve the revised rescission plan before the Committee, and the Committee approved the motion with Senators Snelling and Ashe voting no. Commissioner Reardon made a statement on the positive cooperation between the Administration and the Joint Fiscal Office staff, and he stated that the Administration appreciated the Committee's timeliness of response and approval of a plan.

The Chair thanked the Committee and the Administration and adjourned the Committee meeting at 2:28 p.m.

Respectfully Submitted

Theresa Utton-Jerman
Legislative Joint Fiscal Office