



**STATE OF VERMONT**  
LEGISLATIVE JOINT FISCAL COMMITTEE

Friday, September 5, 2014

Minutes

Members present: Representatives Ancel, Branagan, Heath, Johnson, and Sharpe, and Senators Ashe, Campbell, Kitchel, 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 9:38 a.m. Representative Sharpe moved to approve the minutes of July 24, 2014, and Senator Kitchel seconded the motion. The Committee approved the motion.

A. Fiscal Office Updates/Issues – 1. Fiscal Officer's Report

Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office, distributed and summarized the Fiscal Officer's Report. He mentioned that for the second month in a row, revenue, including withholding tax was lower than forecasted. Representative Ancel asked if the reduction in the forecasted amount of withholding was analyzed by number of people or total amount of revenue. Mr. Klein responded there had not been an analysis at that level but Jeff Carr, the Administration's Economist, was investigating. Senator Kitchel suggested receiving wage data from the Department of Labor that would show trends on wage rates and earnings. Mr. Klein committed to analyzing labor data if September continued to show a downward trend in revenue. Representative Branagan asked if other states were seeing a reduction in withholding tax. Mr. Klein agreed to ask the forecasters to research that data for the Committee.

2. Education Fund

Mark Perrault, Senior Analyst, Joint Fiscal Office, submitted a document on the current fiscal outlook of the Education Fund, and summarized the changes since the last update. He stated that starting in FY 2016, the fund was \$4 million higher than anticipated. The bad news was there had been no change in the underlying trends from the past two years. The fund growth would continue to be flat and enrollment would continue to decline. The Department of Taxes and the JFO would have more information on the fund for FY2016 in November. Senator Ashe asked what the projected student enrollment rate was in the next few years. Tom Kavet, Legislative Economist, informed the Committee that information showing positive growth in enrollment was in the far future.

3. Health Care – Economic Modeling

Mr. Kavet and Joyce Manchester, Senior Economist, Joint Fiscal Office, gave an update on the process of developing general economic modeling tools to analyze health care financing plans.

He explained that the goal was for the Fiscal Office and the Administration to have the same base information within the model for data consistency when analyzing different finance scenarios. There were three major modeling areas in development, a micro simulation model, a general economic model, and a fiscal model that would be an add-on to the general economic model from Regional Economic Models, Inc. (REMI). Ms. Manchester added that the overall economic and fiscal modeling had a three-step process to track revenue and spending effects. Proposals for health care reform would affect individuals and households, the Vermont economy, and then the State budget. and then the State budget. Representative Sharpe asked for more information on the add-on to the REMI model. Mr. Kavet explained that the tax add-on, Tax-PI, uses actual State revenue and spending data from Vermont that would allow for more accurate results than depending on Census data from other states that might not be appropriate for Vermont. As a follow-up to Representative Sharpe's question, Mr. Kavet stated that the estimated timeframe for the fiscal models was mid- to-end of October; development of policy models would follow.

Representative Ancel asked for examples of the assumptions that may differ among the Administration's and the Legislature's health care consultants and the various decision makers. Mr. Kavet explained that if there were limited data or research on an area in question, assumptions may be made that could have varied outcomes among the consultants, legislators or others because they may be based on a guess. Senator Kitchel referenced Act 48 of 2011, and stressed that the fiscal models being developed should ensure they could answer the inquiries and requirements within that legislation. Mr. Kavet responded that the legislative directives of Act 48 were included within the Response for Proposal (RFP) for the health care contractors; therefore, the models should include that capability.

Senator Snelling asked how long it would take to analyze the information once it was received from the Administration. Mr. Kavet responded that the timeframe to analyze any proposals from the Administration would depend on the questions asked. Representative Ancel commented that the Green Mountain Care Board (GMCB) was charged by Act 48 to answer some of the inquiries with the legislation, and she asked if that Board had started a similar process to that of the Legislature and the Administration. Stephen Klein, Chief Fiscal Officer, Joint Fiscal Office, responded his office offered to allow GMCB to participate with JFO in the economic modeling process, but GMCB was on a more wait-and-see approach. Senator Ashe expressed concern regarding the GMCB's response since it was the entity charged to be the arbitrator between the Administration and the Legislature that ultimately gave the final nod on a health care plan. He stated it seemed important for someone to reach out to the GMCB to ensure it understood how to respond to proposals put forth, and then he announced that the Co-Chairs of HROC would send a letter to GMCB requesting its plan to respond to any health care proposals sent to them.

#### 4. Chainbridge

Sara Teachout, Senior Fiscal Analyst, Joint Fiscal Office, updated the Committee on the Chainbridge models. She explained there were two models that would enable the Office to analyze Vermont sales tax and [personal] income tax data. The sales tax model included three sections, the consumer section, the intermediate section, and the investment section. The sales tax model would be completed next week and both models would be used to update the tax expenditure report due in January 2015. The income tax model was ready but was being tested for current and past comparison data runs to train staff on the use of the model. Representative Ancel asked, in regard to the sales tax expenditures, if there was new information from the models that changed previous

reports, and if so, what those differences were. Ms. Teachout responded that the models were a tool to help the Office more finely tune what had been done before, and that she was not anticipating large differences from past projections. Representative Sharpe inquired what changes the Office made to the Chainbridge sales tax model. Ms. Teachout explained that the Office was not comfortable with the tobacco tax data and has enlisted the Legislature's economist, Mr. Kavet, to assist in addressing the issue. Senator Kitchel asked for examples of the benefits and implications for the new capacity to analyze tax data from the models. Ms. Teachout explained that the income tax model would be an independent model from the Administration that would allow the Legislature [Office] to analyze tax data without making requests from the Department of Taxes. This would enable the Office to do more confidential draft proposals within its own timeline. The sales tax model added new available data as the base information to both the Office and the Department when analyzing proposals or issues. Representative Sharpe queried if there would be the ability for analyzing sales tax on services and cross border issues. Ms. Teachout confirmed there would be a whole section on services that would allow for the analysis on sales tax for services, but that the model would not help with State border sales tax issues.

#### B. Administration Updates – 1. Funds Status Closeout and 2. General and Transportation Fund Reserve Balances

Commissioner Reardon distributed two documents and summarized the balancing of the budget and its three major funds, General, Education, and Transportation Funds, for closeout of FY 2014 and the balance reserves for those funds.

#### 3. Report on FY2015 Budget Adjustment Pressures

Commissioner Reardon referred to the second page of his previous handout and explained the possible General Fund FY 2015 Budget Adjustment (BAA) pressures. Senator Kitchel asked where the increased Medicaid caseload had come from. Commissioner Reardon stated it was the Aged, Blind and Disabled (ABD) program that had an increased caseload. Stephanie Barrett clarified that it was the new adults under the Affordable Care Act (ACA) causing the increase in the caseload.

Commissioner Reardon stated that the Veterans' Home (VH) was below its census target and may need additional funds for the FY2015 budget cycle. Senator Kitchel asked how much below was the VH from achieving its census target. Commissioner Reardon stated it was significantly below its target but a Department of Finance and Management team was scheduled to visit the VH to assess the situation. Representative Heath commented that the VH hired a marketing coordinator, and the Legislature had hoped that would have helped it to increase census. Senator Kitchel requested information from the Commissioner's team of analysts on the new marketing positions' efforts to get information out to Vermont veterans, including work accomplished and additional identified strategies to increase census. Commissioner Reardon noted that the VH had been bringing in new people to fill beds but there were many more that had passed away.

Representative Branagan commented that it seemed improbable to estimate the Corrections out-of-state beds, and she asked how many new beds had been added above estimates for FY2015. Commissioner Reardon stated the actual number was not known but it was well above the target. Representative Heath added that FY2014 was well below target and that was the reason for the increase as FY2015's target was very aggressive. She then asked if there were any areas in the FY2015 Budget that had estimates significantly below targets to make up the shortfall. Commissioner Reardon responded that there may be additional funds in the Reach-Up program but

cautioned that there were no known areas outside the proposed areas from the FY2015 rescission plan to fill the budget gap. Representative Johnson explained the complexity for determining the estimate of out-of-state beds and how other Corrections pressures influenced that already complicated process. Senator Kitchel added that there was a drug released into the market for the treatment of Hepatitis C patients that had a price of \$84k annually per patient. States as a whole have expressed concern for the unknown costs associated with those types of high price treatments. She suggested that possible cost be included on the FY2015 BAA list of possible pressures. Representative Heath offered to ask the questions about the possible ramifications to the State at the Corrections Oversight Committee meeting the following week.

#### 4. FY 2016 Budget Development Process

Commissioner Reardon referred to the bottom of page 2 of the same document as previously distributed and declared that the FY2016 Budget development process would begin soon. It was the Administration's goal to have the FY2015 BAA to the Legislature in early January 2015 to begin discussions while waiting for the FY2016 Budget to be completed. Representative Heath asked if the Administration had given the departments their budget targets. Commissioner Reardon stated the targets for FY2016 were extremely challenging and still under development. Senator Ashe requested the Administration to investigate reports and find alternatives relating to how the Agency of Human Services (AHS) program for homeless was putting people in less than adequate temporary housing at a high cost to taxpayers. Commissioner Reardon stated he would review the issue.

#### C. FY 2015 Transportation Fund Rescission Plan

Commissioner Reardon stated that no action was required by the Committee, and the testimony was just informational. Brian Searles, Secretary, Sue Minter, Deputy Secretary, Faith Brown, Director of Finance and Administration, and Lenny LeBlanc, Chief Financial Director, Agency of Transportation, distributed two documents, one on the gas tax consumption prepared by JFO, and explained the FY2015 Transportation Fund Rescission Plan. Secretary Searles explained that the decrease in revenue [gas tax] was due to factors such as people driving less and more economical vehicles being produced. He suggested that there should be a national rather than a state-by-state conversation on raising sustainable revenue for transportation infrastructure.

Secretary Searles explained the rescission plan as using a 2% "Slippage" in project delivery that included items such as utility work, permitting with related appeals, and weather-related issues and engineering anomalies. Senator Snelling asked what the percentage rate was for roads in need of repair. Secretary Searles responded that the numbers were being updated but last year, 21% of roads were in very poor condition, which was an improvement from 2009. The Agency was anticipating further improvement in 2014 with 145 miles added to the work list for paving. Senator Snelling asked when the Agency would have the updated road condition numbers. Ms. Minter responded that the revised road conditions numbers, the condition of bridges and ridership of transit data, as well as performance measures would be included in the Agency's FY 2016 Budget.

Senator Kitchel asked for clarification on whether scheduled projects would be impacted by the rescission plan. Secretary Searles responded that scheduled projects would go ahead as planned but there were further budgetary complications that could change because the assumptions in the plan were based on historical data.

Ms. Minter reviewed the plan document with the Committee and stated the Agency was confident the reduction would not delay any existing projects. Senator Kitchel asked if the

transportation standing committee Chairs had been appraised of the rescission plan. Ms. Minter responded that she had met with both Representative Brennan and Senator Mazza prior to the JFC meeting.

The Chair reminded the Committee that the next issue, the laboratory proposal, was an actionable item.

D. Agencies of Natural Resources and Energy, and Agriculture – Laboratory Proposal – House and Senate Institutions Committees Recommendations

Michael J. Obuchowski, Commissioner, Mike Kuhn, Engineer, and Sandra Vitzthum, Engineer, Department of Buildings and General Services (BGS), and Chuck Ross, Secretary, and Jolinda LaClair, Deputy of Administration, Agency of Agriculture, Food & Markets, and Justin Johnson, Deputy Secretary, and Trey Martin, Governmental Affairs Policy Director, Agency of Natural Resources (ANR), distributed various documents. Commissioner Obuchowski gave an overview of the laboratory (lab) site search and vetting process. He announced that the site proposal was within the Vermont Technical College (VTC) campus in Randolph. Mr. Kuhn and Ms. Vitzthum explained the details of the site proposal and process.

Secretary Ross commented that the joint lab site proposal was based on a response to the previous lab destroyed by Tropical Storm Irene. The current temporary lab was based at the University of Vermont (UVM) with the lease expiring September 2017, and the size is inadequate for the amount of work performed. Mr. Johnson thanked BGS for the collaboration in determining the new lab site location, and added that the shared lab would give the State the opportunity to gain efficiency and keep costs down over time.

Senator Kitchel asked that since two agencies would be sharing the lab, which one was responsible for the oversight of the quality of the lab operation. Mr. Johnson responded that within the FY2016 proposed budget, the current lab components and the General Fund budget would be transferred from the Department of Environmental Conservation (DEC) to the Agency of Agriculture, Food and Markets. The two agencies would propose to the Legislature a joint governance board to oversee the quality of work and the prioritization of the projects.

Senator Kitchel expressed concern for the State lab location on non-state land, and under the umbrella of an academic institution because of another State program that was administered through an academic institution that grew a surprising overhead cost of 55%. She then asked what the financial arrangement for the site location was to the State. Mr. Kuhn explained that there was a vision for a ground lease with VTC for \$1.00 a year and \$50.00 over a 50-year period. Mr. Johnson added that the State would own the building and lease the land for \$1.00 a year. The bonus to the marriage between VTC and the State for the lab was the possible integration of the program with the college studies that would enable a work experience for students. Senator Ashe inquired when the VTC site became part of the selection process, and why UVM was chosen as a potential site location, and would there be issues with employees commuting to Randolph versus the current Chittenden location or the previous Waterbury location or even finding new qualified workers in the Randolph area to supplement the new lab's workforce. Ms. Vitzthum responded that UVM provided two potential site locations but both locations had limited space for all the lab programs and no potential for expansion. Mr. Kuhn responded to Senator Ashe's first question that both UVM and VTC sent proposals after the Department sent out a second notice of the site location

search. Secretary Ross added that there would be challenges for some employees with the change in commute but other current employees would have less of a commute.

Representative Sharpe commented that the most important feature of choosing VTC was the student collaboration opportunity. Secretary Ross stated that the student learning collaboration between VTC and the State had been important to the process of choosing the VTC site. Representative Ancel asked if the fees from work performed in the lab financially supported it. Mr. Johnson responded that a small part of the lab's budget was from fees but a larger part of its budget came from general funds and federal funds. Federal Funds were dedicated because of the mandated work required of the lab. Representative Kitchel asked if operational costs were taken into account when selecting the site. Ms. Vitzthum stated the operational costs were part of the site vetting process, including fuel, custodial and maintenance, and any other possible shared costs. Ms. LeClair added that as part of the business model for the new lab, the Agencies would reassess the fees that had not been recently reviewed.

Representative Branagan asked what other labs in the State were separate from the current lab proposal. Mr. Kuhn responded that the new Health lab in Colchester and the Forensics lab in Waterbury that was only 4-5 years old were separate from the joint ANR and Agriculture lab. Representative Branagan inquired if the soil samples tested out-of-state would be performed in-state with the new lab. Secretary Ross responded that it was a possibility but would need to be discussed and undergo a business evaluation for costs.

Dan Smith, Interim President, VTC, explained that the vision of VTC was for a strong partnership between the State lab and the faculty at the college. Senator Kitchel commented that the design of the new State Hospital had added significant staffing costs to its budget. She then cautioned BGS and others involved in the lab business model to be cautious of additional costs to the next phase of the lab design. Senator Kitchel commented that if the JFC approved the site location, then the Legislature would be reliant on the standing committees of jurisdiction to vet the next phases of the lab design. Senator Snelling asked for a decision or organizational chart outlining the next steps and timelines of the lab process and the potential decision makers for those next steps. Secretary Ross responded that the two agencies and BGS would work to develop the chart.

Representative Heath asked what were the barriers and solutions to the lab in its distance away from the Agency of Administration as documented. Secretary Ross responded that the disadvantage of travel distance for some State employees was not unique to just the VTC site as the other proposed sites posed the same challenge. The issues the Agencies would need to address with the site were recruiting a lab director and transportation challenges with sample deliveries.

Mr. Smith commented that VTC would appoint a single point of contact with the State on the lab partnership. Senator Ashe expressed concern that the new VTC president may have different expectations with the lab negotiations, and asked when a new VTC president would be appointed by the VSC board. Mr. Smith distributed a letter from the Chancellor of the VSC and explained that the VSC was committed to the collaboration of the lab.

Representative Alice Emmons, Chair, House Committee on Corrections and Institutions, and Senator Peg Flory, Chair, Senate Committee on Institutions, each distributed a letter from their Committees responding to the lab site proposal, and then explained their respective Committee

recommendations. Representative Emmons stated that her Committee voted 9-0-2 in favor of the VTC site location.

Representative Ancel asked Senator Flory what the statement in her Committee letter meant by “recommendation is conditioned” and whether that statement was still in effect. Senator Flory stated that her Committee was being cautious after the incident on the academic institution charging a high overhead cost to a State program, mentioned by Senator Kitchel earlier. A discussion ensued on the subject of the Senate Committee on Institutions’ conditions to its recommendations and JFCs subsequent vote on the site location.

Senator Kitchel moved to accept the recommendation of the VTC site location with the understanding that there are many considerations and issues that have been raised that have to be addressed before we allocate capital money. Representative Ancel stated that she would support the motion with that understanding because she felt it was important to note the reservations of some of the members of how the relationship between VTC and the State develops. Senator Snelling seconded the motion and asked what had been spent so far on siting the lab location. Mr. Kuhn stated \$50k had been spent from the original \$300k of capital funds. Senator Ashe asked if voting to approve the motion would be consistent with both the Institution Committees’ recommendations. Both Institution Committee Chairs agreed that the motion would be inline with their Committee recommendations. The Committee approved the motion.

The Committee recessed for lunch at 1:00 p.m. and reconvened at 1:30 p.m.

#### F. Administration’s Updates – 1. Mental Health System Update

Paul Dupre, Commissioner, and Frank Reed, Deputy Commissioner, Department of Mental Health (DMH), and Jeff Rothenberg VPCH, CEO, Vermont State Hospital, referred to the August 2014 Monthly DMH Report. Commissioner Dupre reviewed the DMH update and Mr. Rothenberg gave an update on the Vermont State Hospital opening. He explained that as anticipated, the VSH was struggling to find enough qualified nurses but were close to being fully staffed by utilizing traveling nurses. A discussion ensued on staffing.

#### 2. LIHEAP Update

Sean Brown, Deputy Commissioner, and Richard Moffi, Fuel Assistance Program (FAP) Chief, Department for Children and Families, distributed an update on the Low Income Heating, Energy and Assistance Program (LIHEAP), and summarized its contents. Representative Sharpe asked if there were some savings from the work of the weatherization program, and if so, whether there is data showing those savings. Mr. Moffi noted that legislation from the previous session directed the Office of Economic Opportunity (OEO) Fuel Assistance Program and the Economic Services Division (ESD) Weatherization Program to begin cross-referencing data for savings to the State and then submit a report in January 2015 to the Legislature. Senator Kitchel asked if there were a goal to track the State’s investment of weatherizing its housing stock and fuel consumption from the FAP. Mr. Moffi stated that capability was on the DCF wish list for when the new computer software was implemented in AHS.

#### 3. Initial Report on Indicators and Implementation

Sue Zeller, Chief Performance Officer, Agency of Administration, distributed three documents and summarized the contents. Senator Snelling stated that the Government

Accountability Committee (GAC) has been working closely with the Administration with its development of the vantage system's ability to include performance measures and outcomes in its budget reports. Representative Sharpe commented that the new budget reports could bring about positive but difficult conversations around issues such as recidivism. Ms. Zeller stated that the goal of Results Based Accountability (RBA) was to ask "is anybody better off" because of a particular State investment. A discussion ensued on budget accountability and how to decide on the best measures for the best outcomes.

The Committee adjourned at 2:43 p.m.

Respectfully Submitted,

Theresa Utton-Jerman, Joint Fiscal Office