JOINT LEGISLATIVE FISCAL COMMITTEE
Legislative Office Building, Rooms 210-211
Concord, NH
Friday, April 25, 2014

MEMBERS PRESENT:

Rep. Mary Jane Wallner, Chair
Rep. Ken Weyler
Rep. Peter Leishman
Rep. Cindy Rosenwald
Rep. Dan Eaton
Sen. Jeanie Forrester
Sen. Bob Odell
Sen. Chuck Morse
Sen. Sylvia Larsen
Sen. Andy Sanborn

(Meeting convened at 10:08 a.m.)

(1) Acceptance of Minutes of the March 21, 2014 meeting.

CHAIRWOMAN WALLNER: Call the Fiscal Committee together for the meeting of whatever today is.

REP. EATON: 25th.

CHAIRWOMAN WALLNER: April 25th, 2014, and start right out with the minutes of our March 21st meeting.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval of the March 21st meeting. Do I hear a second?

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? Seeing no discussion. All in favor? Any opposed? The motion passes.

***** {MOTION ADOPTED}**

(2) Old Business:

CHAIRWOMAN WALLNER: And we move on to Old Business. Anything to come off Old Business?

(3) RSA 14:30-a, III Audit Topic Recommendation by Legislative Performance Audit and Oversight Committee:

CHAIRWOMAN WALLNER: Move right on to Tab 3, the Performance Audit Oversight Committee has voted and recommended Performance Audits to us. Do I hear a motion?

** REP. LEISHMAN: So moved.

SEN. FORRESTER: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves, and Senator Forrester seconds. Any discussion on any of these audits? All in favor? Any opposed? No opposed? The motion passes.

***** {MOTION ADOPTED}**

CONSENT CALENDAR

(4) RSA 9:16-a Transfers Authorized:

CHAIRWOMAN WALLNER: Moving on to Consent Calendar, Tab 4. Does anyone want to remove anything from Consent?

REP. ROSENWALD: Yes, Madam Chair.

CHAIRWOMAN WALLNER: Yes, Representative Rosenwald.

REP. ROSENWALD: Thank you, Madam Chair. I would like to remove Item 14-043 so I could ask the Department a question.

CHAIRWOMAN WALLNER: And on Item 14-054, are we ready to take a vote on that one? And then we can go back and discuss the other one.

** REP. EATON: Move to approve.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Representative Eaton moves to approve; Senator Larsen seconds. All in favor? Any opposed? That item passes.

*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: And if we could have someone from the Department of Revenue Administration come up to answer a question. Thank you. If you could just introduce yourself.

MINDY CYR, Tax Policy Analyst, Department of Revenue Administration: Good morning, Madam Chair, Members of the Committee. For the record, my name is Mindy Cyr. I'm Tax Policy Analyst at the Department of Revenue. And with me here today also is Amy Slattery. She is our Business Administrator. And I'd be happy to answer any questions.

CHAIRWOMAN WALLNER: Representative Rosenwald.

REP. ROSENWALD: Thank you, Madam Chair. Could you give us just a quick update of the status of the credit card payment system and what filing period you're expecting it to be available?

MS. CYR: Sure. As brief as I can be, and giving you the information, as you know, a number of years ago the statute was approved and then a state contract was put out to bid. It was awarded through Governor and Council. And the credit card payment process was actually something kind of piloted now by the Department of Revenue the way we're doing it. So it's taken a number of meetings with LexisNexis, who was awarded the contract, and we're to the point now where we're putting that process together. And in doing so, we have what you're seeing before you on the item today, is we had the situation where we need our existing E-File manager, which is First Data who manages our existing E-File, to communicate with this credit card company and that way if we have this contract approved or this amount approved they can speak to each other. And in doing so, we anticipate, I don't want to hold it for sure, but we anticipate in the next several months that credit card acceptance of payment would be available through the Department's website. And as you may recall in the past, what it was is the taxpayer would come to the website, would be able to make a credit card payment. They would click on that. It would go to the LexisNexis who would service that, and then they would accept or not accept a convenience fee to do that. Does not come to the Department. It goes to that. And then what we want through this acceptance of this money is for them when the taxpayer's done, they go back to the website. It's not that they would then be timed out or taken out from that third- party vendor. They would come back to our website. And that's why we need that communication between LexisNexis and First Data. And we anticipate with this approval in going forward that maybe in the next several months it will be available on our website for taxpayers.

REP. ROSENWALD: Thank you.

REP. WEYLER: Further question.

CHAIRWOMAN WALLNER: Yes.

REP. WEYLER: Thank you, Madam Chair. Who pays the credit card fee?

MS. CYR: The fee is a convenience fee that the consumer would pay. I'm not sure I know the amount of what that convenience fee. They have an option to say yes or no. You may have seen it on other ways that you buy credit card items on-line. You accept or decline if you want to pay that convenience fee to have the convenience of paying by credit card, but the consumer would pay that.

REP. WEYLER: Consumer has to pay.

MS. CYR: Yes.

REP. WEYLER: Thank you.

** REP. ROSENWALD: Move approval.

CHAIRWOMAN WALLNER: Further questions? Representative Rosenwald moves approval.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Eaton seconds. Any further discussion on this item? Seeing none. All in favor? Any opposed? The item passes.

MS. CYR: Thank you.

***** {MOTION ADOPTED}**

(5) RSA 9:16-c, I, Transfer of Federal Grant Funds:

CHAIRWOMAN WALLNER: We'll move to Tab 5, which is transfer of Federal funds. This is Department of Safety item.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: The only item in that Tab. Representative Eaton moves approval. Do I see a second?

REP. ROSENWALD: Second.

CHAIRWOMAN WALLNER: Representative Rosenwald seconds. Any discussion? Seeing no discussion. All in favor? Any opposed? The item passes.

*** **{MOTION ADOPTED)**

(6) RSA 14:30-a, VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over $100,000 from Any Non-State Source:

CHAIRWOMAN WALLNER: Moving on to Tab 6. This is several consent items. Would anyone like to take any item off?

SEN. SANBORN: Yes, Madam Chair. Can we take off 14-056, please?

CHAIRWOMAN WALLNER: Okay. Senator Sanborn asks to take off the item about the Public Utilities Commission. Any other items to come off? Seeing none.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Could I have a motion to accept the rest of the Consent Calendar? Representative Eaton moves.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. All in favor? Any opposed? Seeing no opposition, the motion passes.

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Now we'll go to the item that was taken off Consent and that's Item 14-056, and I would ask someone from the Public Utilities Commission to come up.

AMY IGNATIUS, Chairman, Public Utilities Commission: Good morning.

CHAIRWOMAN WALLNER: Good morning.

MS. IGNATIUS: My name is Amy Ignatius. I'm Chairman of the Public Utilities Commission and happy to be here this morning, and welcome any questions to explain the item. If you'd like, I can give you an overview of it first.

CHAIRWOMAN WALLNER: I think that would be good.

SEN. SANBORN: That would be great. Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Thank you.

MS. IGNATIUS: This is a request to accept additional funds into our budget and then have the authorization to expend them. It's not to change in any way what we're doing with the funds, and it doesn't increase in any way the money to be used by the PUC. It's only to accept and then get that money right back out again.

The reason for the request is that the funds received have come in higher than what we had budgeted for. We made our best guess at what we would receive and we turned out to be wrong and we received more. These are funds that are attained through auctions held on a regional basis from the Regional Greenhouse Gas Initiative, RGGI. And so that's done among the nine states that participate in RGGI and New Hampshire receives a portion of the proceeds. We never know exactly how many of the allowances that are auctioned will be purchased and at what price they'll be purchased. So we're always guessing at what we think we are going to receive.

We budgeted seven and a half million dollars for the year and we have -- I'm sorry. That's wrong. We budgeted $9.7 million, and we've already received 9.3 million from the first two auctions. So we significantly under budgeted. There has been -- there are four auctions a year. There is another one that has occurred in March and we haven't yet accepted that money because it would exceed our authority. At least another 4.3 million is waiting to be accepted. And then there will be one more auction in June during this Fiscal Year, and we think that will be a little less than that. But, clearly, we need the authorization to accept it into our budget in order to make use of the money by statute so that we've asked for $7.5 million. That would allow the acceptance of the money received from the March auction, the 4.3 million, and what we think will be somewhere in the low $3 million range in the June auction. That would allow us to accept all of that money in this Fiscal Year.

What we do with the funds is all prescribed by statute. If you remember, there's a change in the statute in the last couple of years. For any allowance that sold over $1, the amount over a dollar is rebated to customers. And so most of that money goes right back out to electric customers. Any amount under a dollar goes to pay for some fees that we have and DES as well. They're relatively small. And the rest of it is moved over to the Utility Energy Efficiency Program, what we call the Core Programs, and that goes to supplement the programs that they run for their customers for energy efficiency.

We no longer do a competitive grant program that you may remember from prior years. We used to do a grant program that gave out money. The Legislature two years ago changed that. So all of the money that we would receive of the 7.5 million that we would be authorized to accept and then expend would be used to provide rebates to customers for the amount over a dollar and to give the rest to the Core Programs. We are not asking for any increase in our budget line for administrative costs or anything else so it's really just those two uses of the fund.

CHAIRWOMAN WALLNER: Thank you very much for the explanation. Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Thanks so much for the explanation. I appreciate it. If I could drill down a little bit further. So if you're expecting about 7.5 million, how much of that is the over a dollar amount which will go back to rate payers? And then on the Core Programs, I thought my understanding is, and this is why I'm asking for some advice and information, was essentially broken down into two programs, the Energy Saver Programs provides rebates and then I thought there was another program. And can you tell me what the split is of that remaining balance if it's not being sent to the consumers? First thing, what's sent to consumers of the 7.5 and then of the remaining part what -- how much is the allocation to each program?

MS. IGNATIUS: I wish I could answer that and I don't have those numbers. I apologize. More of it goes to rebates than goes to the Core Programs, the Energy Efficiency Programs. But I just don't have those numbers with me. I can get those for you later if you're interested, but I'm sorry, I didn't bring it.

In terms of the programs that are funded by the Energy Efficiency Programs, there are numerous programs that the utilities run. Some of them are for -- they cover residential, commercial, and industrial customers. Different programs for different classes of customers. Some of them are for new construction. Some of them are for retrofitting of existing buildings. Some go to low -- specifically to low-income residential customers. There are probably ten different programs that are paid for through the -- run through the Core Programs which are overseen by the Public Utilities Commission, but really implemented by each of the utilities.

SEN. SANBORN: Thank you, ma'am. Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Do you have a question?

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: And Senator Larsen seconds. Any further discussion on the item? All in favor? Any opposed?

SEN. SANBORN: Nay.

REP. WEYLER: Nay.

SEN. PRESIDENT MORSE: Nay.

REP. WEYLER: Three.

CHAIRWOMAN WALLNER: Three. Let's have a show of hands. All in favor? And any opposed? So seven to three. This item passes.

MS. IGNATIUS: Thank you.

*** **{MOTION ADOPTED}**

(7) RSA 14:30-a, VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over $100,000 from Any Non-State Source and RSA 124:15 Positions Restricted:

CHAIRWOMAN WALLNER: Thank you. Let's move to Tab 7.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Tab 7, Representative Eaton moves approval. Do I have a second?

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? Seeing no discussion. All in favor? Any opposed? Item passes.

*** **{MOTION ADOPTED}**

(8) RSA 106-H:9, I.(e), Funding: Fund Established:

CHAIRWOMAN WALLNER: Moving on to Tab 8.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion of the item? Seeing no discussion, all in favor? Any opposed? Item passes.

***** {MOTION ADOPTED}**

(9) RSA 604-A:1-b Additional Funding:

CHAIRWOMAN WALLNER: Item 9.

REP. LEISHMAN: I have a question.

CHAIRWOMAN WALLNER: Yes.

REP. LEISHMAN: Just a question for the counsel, if I could.

CHAIRWOMAN WALLNER: For which item are you on at this point?

REP. LEISHMAN: Number nine.

CHAIRWOMAN WALLNER: Number nine. Okay. We could have someone from the Judicial Council come up. Thank you.

CHRIS KEATING, Executive Director, New Hampshire Judicial Council: Thank you, Madam Chair, Members of the Committee. My name is Chris Keating. I'm the Executive Director of the New Hampshire Judicial Council.

CHAIRWOMAN WALLNER: Thank you. Representative Leishman.

REP. LEISHMAN: Just a quick question. Do you anticipate an impact on 2015? I see this is your first request for '14. Do you anticipate an impact on this line in '15?

MR. KEATING: Yes. I imagine with the level of appropriation which is identical next year to this year's, the Judicial Council will be back here next year asking for a similar amount of funds.

REP. LEISHMAN: Okay. Thank you. Thank you, Madam Chair.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Further question? Thank you very much.

MR. KEATING: Thank you.

CHAIRWOMAN WALLNER: Representative Eaton moves approval. Senator Larsen seconds. Any discussion? All in favor? Any opposed? Item passes.

*** **{MOTION ADOPTED}**

(10) Chapter 144:31, Laws of 2013, Department of Administrative Services; Transfer Among Accounts And Classes:

CHAIRWOMAN WALLNER: Next is Tab 10. Do I have a motion on Tab 10?

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion on this item? Seeing no discussion. All in favor? Any opposed? Item passes.

***** {MOTION ADOPTED}**

(11) Chapter 144:56, Laws of 2013, Department of Corrections; Transfers:

CHAIRWOMAN WALLNER: Moving on to Tab 11.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Department of Corrections. Representative Eaton moves.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion of the item? Seeing no discussion. All in favor? Any opposed? Item passes.

***** {MOTION ADOPTED}**

(12) Chapter 144:95, Laws of 2013, Department of Transportation; Transfer of Funds:

CHAIRWOMAN WALLNER: Moving on to Tab 12. The first one is Item 051, the Department of Transportation.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds.

SEN. SANBORN: Madam.

CHAIRWOMAN WALLNER: And Senator Sanborn has a question. If someone could come up from the Department of Transportation.

PATRICK MCKENNA, Deputy Commissioner, Department of Transportation: Good morning, Madam Chair, Members of the Committee. My name is Patrick McKenna. I'm the Deputy Commissioner for the Department of Transportation. And with me is Dave Rodrigue, our Assistant Division Director for the Division of Operations.

CHAIRWOMAN WALLNER: Welcome. Yes, Senator Sanborn.

SEN. SANBORN: Madam Chairman. Thank you, Gentlemen. Thank you for coming in. And I apologize, this isn't specifically on this unit but I couldn't find a more diplomatic way to get you up here. My question, honestly, has to do with the fact that now, hopefully, thank God, the winter might finally be over. Senator Odell's finally fishing so the ice is out. You've come the past couple months looking for additional support for overtime on plowing and salt and we all know how difficult the winter has been. Do you anticipate that what you have approved is going to be sufficient or you looking to come back for some more appropriations? So kind of generally where are you guys at this point in wrapping up the end of the winter?

MR. MCKENNA: Senator Sanborn, thank you for the question. We did go through some degree of debate internally as to whether or not to bring forward additional requests to purchase additional salt, if you will, as a buffer to the winter coming because we did draw down a considerable amount of our salt. We decided to go with the requests that have already been submitted and because that brings us to a reasonable average availability of salt rather than trying to, you know, hedge the salt markets.

The winter maintenance, unfortunately, in a few spots it still continues and maybe a little bit this weekend up in the North Country but primarily it's over. Our crews are -- they're tired. They worked a considerable amount of overtime. But we do believe that we'll be able to handle all remaining expenses within the two transfers that the Committee was good enough to approve in the last couple months.

SEN. SANBORN: Thank you, ma'am. Now I have a question on 51, if I might?

CHAIRWOMAN WALLNER: Okay.

SEN. SANBORN: If I might? Thanks so much.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: If you can remind, again, I apologize. My age is showing and retention capacity. When we talked about the fleet management over at DOT, three or four months ago when the Commissioner was in we had a conversation where I think you're allocating about $2 million a year towards fleet replenishment. And I thought we had a conversation that 60 or $70 million of money in that asset basis should be about 10 million a year. And I had this general concern that you're not allocating sufficiently to keep up with the operating obsolescence of your product. So can you remind me of what happened and in reference to how -- what your plan is?

MR. MCKENNA: Thank you, again, for the question. And you're correct. We feel we're not and that's, you know, partly on the Department's side for not communicating the issue appropriately through the budget process, and it's one that we're trying to get better at. But correct. With a purchase cost on our heavy fleet of about $75 million, the investment in the service life is typically about ten years. So the investment on a depreciable basis should be around seven and a half million dollars a year would stay at an average life.

We feel that about half the service life is appropriate for the fleet. So around five-year average is reasonable as vehicles come in and out. And then we're not spending an exorbitant amount on maintenance with the older vehicles. And for several budget cycles we've been under-investing there so that our fleet average age is growing by between a third and two-thirds of a year each year so that the fleet is getting older. It's an expense that is coming due as the vehicles wear out.

In this particular request we had in the budget, we had prioritized heavy equipment with a lower than anticipated amount in our budget available for purchases of new vehicles. We focused our efforts on the things that are highest priority which are the heavy equipment, the plow trucks really. And so this is a class of vehicles that has been pushed aside quite a while.

We anticipated -- we anticipated that several of these vehicles would actually not be inspected or pass inspection this year and had in the budget actually increased our in-state travel reimbursement for our construction inspectors. Our maintenance folks in Mechanical Services have been doing a good job keeping these running, but their average -- average mileage on these vehicles that we're attempting to replace are just under 180,000 miles. And they're -- they're on average almost eight years old, which is a little bit beyond the life expectancy of these vehicles.

We had worked to secure some potential leases. We worked with Administrative Services and they came back and said it was actually almost double the price on this class of vehicle to lease these vehicles over a five-year window than it was to purchase and they really preferred that we bring forward a request to purchase these.

The mileage reimbursement, just so you're aware, the mileage reimbursement on this class if we were to do that for the year run over a five-year window comparing with leases is about $600,000. The lease is about 400,000 and the purchase is just under $200,000. So this is the smarter and least costly way to go. But it hasn't always worked out in the budget that's why we are asking for this request. We actually were able to cut down on some of the overtime requests and otherwise the Bureau really feels it's important to have these vehicles in place.

SEN. SANBORN: Follow-up, if I may?

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: And can I ask what's your proportion these days to leasing versus buying as an agency? Are you looking more towards leasing in general? Obviously, what you just said was that, at least specifically for the light duty pickup trucks, it's not cost effective; but in general, I know there's been some conversation makes a nice off-balance sheet acquisition. What's your philosophy and how you looking at it?

MR. MCKENNA: I think what we are really trying to do is look at the class of equipment that we are working with. With our -- with our heavy fleet, our orange fleet, if you will, the plow trucks primarily and the larger vehicles, we feel that purchase is still probably the most appropriate and cost-effective means. We feel probably on the lower, the lighter duty sedans and one ton pickup type area, we feel that also the purchase is appropriate.

We have been looking at those types of pieces of equipment where we might not need them every single day and where there may actually be a reasonable salvage value at the end of the lease period, and we are calling kind of our yellow fleet. So we actually just executed a lease program working with Administrative Services on some backhoes that are available for use in our sheds, and we executed a five-year lease there. And we think there's some decent salvage value and so the lease actually looks pretty good from that perspective. So it's really on a class of vehicle that we're approaching that. But we're really doing the return on investment calculations for each time we look at this.

SEN. SANBORN: And follow-up?

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: And I thank you for the answer. I appreciate that. And I think you'll find there are several Senators, some maybe even in this room, if you could convince Washington to get rid of those stupid orange signs on the side of the road and take that money for vehicle acquisition or fixing the roads, you'd find some support there.

MR. MCKENNA: Thank you.

CHAIRWOMAN WALLNER: Further question.

REP. LEISHMAN: I have a question, Madam Chair.

CHAIRWOMAN WALLNER: Yes, Representative Leishman.

REP. LEISHMAN: Thanks, Madam Chair. And thank you, Deputy Commissioner. We just received your supported documentation this morning and so I guess I'll refresh --

REP. EATON: It's the next item.

REP. LEISHMAN: I'm sorry. Senator Sanborn's talking about trucks.

REP. EATON: Oh, I'm sorry. It is this.

REP. LEISHMAN: I thought I might be getting old, too, like Representative Sanborn -- Senator Sanborn.

SEN. SANBORN: Thank you for that, Representative.

REP. LEISHMAN: But just getting this item this morning to follow-up. You just mentioned in your testimony that the average service life is ten years. So I don't think I'm confused. But these items all -- the number of trucks here that you gave us in the last sheet all show from 7.1 to 8.8 years. Are you saying it's a mileage issue and not so much the service life?

MR. MCKENNA: With these vehicles, yes. That's, you know, we're up in the, I believe -- Dave, am I correct about 177,000 mileage average on these vehicles? So we're actually running these beyond -- we have construction inspectors and field inspectors that travel across the state to manage the particular projects. So we're actually putting a lot more mileage on these per year than we anticipated.

REP. LEISHMAN: Okay. Thanks. Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Representative Eaton.

REP. EATON: Patrick, wouldn't it be fair to say with vehicles you have listed you're at a point where it's costing more to maintain them than it is to replace them?

MR. MCKENNA: That's really where we are. And to be honest, you know, as we looked at and we built budget dollars in for mileage reimbursement, we anticipated these vehicles actually not passing inspection during this budget.

** REP. EATON: Move the item.

CHAIRWOMAN WALLNER: Further question? Representative Eaton moves.

REP. WEYLER: We already have it.

CHAIRWOMAN WALLNER: Thank you. And Senator Larsen second. All in favor? Any opposed? The item passes.

*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Now we move to Item 14-060, also Department of Transportation.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves and --

REP. ROSENWALD: Second.

CHAIRWOMAN WALLNER: Representative Rosenwald seconds. Any discussion on this item? Seeing no discussion. All in favor? Any opposed? Item passes.

*** **{MOTION ADOPTED}**

(13) Chapter 144:117, Laws of 2013, Department of

Information Technology; Transfers Among Accounts:

CHAIRWOMAN WALLNER: Moving to Tab 13. The first item is Item 14-061, Department of Information Technology.

** REP. LEISHMAN: Move approval.

CHAIRWOMAN WALLNER: Representative Leishman moves.

REP. EATON: Second.

CHAIRWOMAN WALLNER: And Representative Eaton seconds. Any discussion of this item? All in favor? Item passes. Oh, any opposed? Sorry. Seeing no opposition, the item passes.

*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Department of Information Technology, Item 062. Do I have a motion?

** SEN. LARSEN: Move approval.

CHAIRWOMAN WALLNER: Senator Larsen moves approval.

SEN. FORRESTER: Second.

CHAIRWOMAN WALLNER: And Senator Forrester seconds. All in favor? Any opposed? The item passes.

*** **{MOTION ADOPTED}**

(14) Miscellaneous:

CHAIRWOMAN WALLNER: Now we go into Miscellaneous and we actually have a couple Miscellaneous items today. Mr. Pattison, would you like to come up and go through this?

JEFFRY PATTISON, Legislative Budget Assistant, Office of Legislative Budget Assistant: This is going to be a little bit of a customary action it seems, but I'm coming before you this morning to ask for your authority to allow me to fill another vacancy in our Audit Division. We have another employee who's leaving. She's actually going out-of-state. So I need your permission to be able to fill that position.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. FORRESTER: Second.

CHAIRWOMAN WALLNER: Senator Forrester seconds. Any discussion? Seeing none. All in favor? Any opposed? Thank you.

MR. PATTISON: Thank you.

*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: And I'll move now to Jeff Meyers, and he's going to review with us the Concept Paper on the Medicaid Waiver. I think you'll all -- I hope you all have it in your packet of materials, and I will hand it over to Mr. Meyers.

JEFFREY MEYERS, Director, Intergovernmental Affairs, Department of Health and Human Services: Good morning, everyone. I'm going to turn the microphone over to the Commissioner who'd like to make a few remarks at the outset.

NICHOLAS TOUMPAS, Commissioner, Department of Health and Human Services: Good morning, Madam Chair.

For the record, again, Nick Toumpas, Commissioner of Health and Human Services. I'm joined here by Jeff Meyers, Director of Intergovernmental Affairs, and one of our key partners on this endeavor from the Deloitte organization, his name is Jeff Hardy.

Over the past couple years, DHHS has been embarked on a number of significant strategic initiatives within the Department to transform the Department and, in particular, the largest program in the Department by far as well as one of the largest programs in all of State Government, Medicaid.

For a number of months we have been in discussions regarding a transformation waiver, a so-called 1115 Waiver. With the passage of Senate Bill 413, we were directed to develop that waiver and given a specific timeline to do that particular waiver today. Both Jeff and Jim are going to walk you through the Concept Paper that we have -- we have submitted.

The Legislature's directed us to submit the waiver to CMS by June 1st of this year. And prior to doing that we need to do a couple of public outreach and public hearings on this to be able to get input, and we clearly need to have the Concept Paper reviewed and approved by the Fiscal Committee before we do so. So with that, I'm going to turn it back over to Jeff, and then Jim as well. Thank you.

MR. MEYERS: There are three items in the packet that were submitted to the Committee. There's a cover letter that the Commissioner and I signed. In addition to that, there's the seven-page Concept Paper. There is a copy of the public notice which is about a page and a half. Two pages actually. Excuse me. And then at the end of the package is a PowerPoint deck. I'm going to -- Jim and I are going to go through the slide deck, the PowerPoint deck as a means of presenting the waiver concept, and I'll start that in just a moment. I think at the outset I'd like to do -- do you need copies?

SEN. FORRESTER: Yeah.

MR. MEYERS: The Commissioner a moment ago alluded to the public process. Every 1115 Waiver under the Social Security Act is required to undergo a public process, including notice and comment and two public hearings that are undertaken in two different locations, no greater than 20 days prior to the submission of the full waiver application to the Centers for Medicare and Medicaid Services. The public notice included in your packet outlines the public process the Department is undertaking with respect to this waiver. There is a website that has been set up on the Department's web page. All the materials related to the waiver are posted on that website, a copy of the public notice, a copy of the Concept Paper. The Department and Deloitte are working now to finalize the full waiver application which will come before the Fiscal Committee for approval prior to June 1st. That waiver application should be finalized by Monday, this coming Monday. It will be posted on the Department's website on Monday we anticipate and it will be submitted to the Fiscal Committee in advance of the meeting in which the full waiver application will be taken up for review and action by the Committee.

There are two public hearings that will be held on the waiver application. The first of those two hearings will be held on May 8th. That will be at the Department of Health and Human Services Public Health Auditorium at 29 Hazen Drive. That hearing will occur from 4:30 to 6:30 in the afternoon. The second public hearing will be held on May 12th. That will be held from 1 to 3 in the afternoon at 125 Airport Road which is the location of the New Hampshire Hospital Association offices. The Department's Medical Care Advisory Committee, which is the statutory committee that every state is required to set up under the Federal Medicaid law in order to review any changes to a state's Medicaid Program, the Medical Care Advisory Committee meets at the New Hampshire Hospital Association offices up on Airport Road. And the Medical Care Advisory Committee is an acceptable venue under Federal regulations for a public hearing for an 1115 Waiver. So the second public hearing will be, as I said, on May 12th at the MCAC regularly scheduled meeting, which is at the Hospital Association offices.

In addition, public comment is now open on the waiver concept and public comment can be made on the waiver application itself beginning on Monday. The public notice that's on our website and that's in your packet identifies the mailing address, both for hard copies and for any e-mail notices.

As the Commissioner indicated, with us today is Jim Hardy from Deloitte. Deloitte has worked with the Department now for several years and Jim specifically with respect to our Managed Care Program, with respect to other departmental initiatives in terms of how we are looking at the redesign of our Department in light of the move into Managed Care and now on the 1115 Waiver.

Jim is the former Medicaid Director of the State of Pennsylvania several years ago. He has worked very closely with Medicaid programs and with 1115 Waivers. Jim is leading the team of Deloitte professionals that are assisting the Department with respect to this waiver. That team includes Russ Peterson, who is the former -- I believe it's Finance Director in the State of Wisconsin for Medicaid. And both Jim and Russ together at Deloitte and at other times in their careers have been very involved in applying for and obtaining 1115 Waivers from the Centers of Medicare and Medicaid Services.

I'm going to now turn to the slide deck. I'm going to go through the first part of the slide deck myself starting the context for how this waiver fits into the Department's health reform strategy, and then Jim is going to take you through the second half of the slide deck to talk specifically about the individual programs that we are proposing.

I'll also say just at the outset that this is the concept and the proposal that's going forward as part of the public process. We anticipate that we'll receive comments from the public, from interested stakeholders, from providers, and we are able throughout the public process and until the Fiscal Committee approves the final waiver application to amend and improve what you have before you today.

As I said, once the final full application is finalized the beginning of the week, that will be submitted to you as well. So you'll be able to see in total all of the aspects of the waiver, including all of the financial calculations, to determine how we propose to determine budget neutrality and so forth. And Jim and I will address those issues in our presentation.

You can see from the cover page of the slide deck that we have entitled our waiver the building capacity for transformation waiver. We've done so because we feel we need to address capacity issues with respect to very important public health issues in the State of New Hampshire right now. As everyone knows, we have not been immune to the heroin epidemic that has been evidenced here and across the nation. As you also know, as part of the essential health benefits and as part of the New Hampshire Health Protection Act, the State will be introducing a new Substance Use Disorder benefit for the new adult group when that program begins in a couple of months.

You know, there are issues -- there are concerns, there are issues with respect to the capacity for bringing on those services to an existing fifty to 60,000 people. There are, in addition to that, mental health issues as everyone knows, in terms of capacity for handling those that are in our emergency departments in all the hospitals across the state. And so we are looking to this waiver as part of our overall health reform strategy and specifically to address some of the pressing public health issues that we are facing. And those issues involve the need to build capacity for Mental Health Services, for Population Health Services, and for Substance Use Disorder Services.

Turning to Slide 3 of the deck, this slide really describes the context of how we are framing our waiver application with CMS in Washington. New Hampshire, as each of you know, is ranked consistently as one of the healthiest states in the country. However, we have our challenges. And you can see on the slide we make reference to the fact of opioid and heroin abuse disorders and how those are rising. There has been a decrease in the voluntary inpatient beds and involuntary beds as well over the last number of years.

We had a second Designated Receiving Facility start to be stood up in the state at Franklin Hospital beginning in October so we have now increased the number of DRF beds beyond what existed before prior to the opening of the Franklin facility. The only Designated Receiving Facility in the state, other than New Hampshire Hospital, was at the Elliott Hospital in Manchester. So we're starting to build some capacity with DRF.

And, lastly, we note some of the population health challenges that we have on this slide with respect to low birth weight babies and the linkages that we have identified between maternal periodontal disease, particularly in non-pregnant women who smoke, and pre-term birth or low birth weight babies that become very expensive for any Medicaid Program. As you will see, one of the programs that Jim will talk about is an initiative to provide an adult dental benefit for pregnant women and to keep their children on dental benefits as well.

Slide 4 describes some of the current challenges within our health care delivery system. We have a system that is still somewhat fragmented and that lacks alignment. We have a tendency, and it's not just New Hampshire, but it's present here as well, we have a tendency to treat sickness. We feel that we need to start aligning our system so we put more resources into keeping people well before they become sick and to stand up resources that will help with wellness and preventative care as well.

As I mentioned, you know, our network for Mental Health and Substance Use Disorder benefits, you know, needs to be more robust given the trends in the population and giving our intention initially to stand up a new SUD benefit for the new adult group and, hopefully, later on in the next -- in the context of the next budget process to look at Substance Use Disorder benefits for the current Medicaid population as well.

We also feel that our system lacks certain financial incentives. You know, we need to align our financial incentives across all payers in the state and to introduce, you know, important quality outcome aspects. So that what we're paying for is not just treatment, but we're paying for outcomes and we are paying for quality, and that's a pressing need not only in New Hampshire, elsewhere, but it's very much in our minds in terms of how we are designing our health reform strategy.

At the bottom of that slide you'll see a reference to some of the transformation initiatives. The Triple-Aim refers to a concept that has taken hold in health reform across the country, starting in late 2008, when Don Berwick, the former Administrator of CMS, wrote a very important article that was published in the *Journal of Health Affairs* to talk about the need to improve health, to improve health outcomes, and to help lower costs. That that really were the three central tenets of health reform as -- as we look at our health care system in the United States. That concept of the Triple-Aim has taken hold at CMS and a lot of the health reform initiatives that CMS has pursued, including through their Center for Innovation in the State Innovation Model Program and other initiatives they have done are aimed at accomplishing Triple-Aim, of investing in programs and initiatives that will improve health, that will improve health outcomes, and that will help lower costs in the health care system.

As you all know, we are in the process of transforming from a fee-for-service system to a Medicaid Care Management System. We went live with our Care Management System in December. There are now as of the end of March approximately 116,000 of our Medicaid population in the Care Management System. Eventually, as the Commissioner has talked about publicly, as the Governor has talked about publicly, we will mandate the rest of the population in. So that the waivered services eventually will come in, the nursing services will come in, and so forth. So we're, obviously, in the process of a transformation of which the Medicare Care Management Program is a part, the New Hampshire Health Protection Program is a part, and this waiver is a part.

If you look on Slide 4, it's just a very quick pictorial representation of the four major components of the Department's health care strategy: Population Health, to improve the treatment, to improve preventative care and wellness, and to address some of the pressing population health issues that have been identified by our Public Health Department.

The Expanded Health Coverage representing the New Hampshire Health Protection Program in Senate Bill 413, the Medicaid transformation aspect of which this waiver is a part. And, obviously, the Mental Health System in terms of the initiatives that the Governor and the Commissioner have taken and now -- and the Legislature as well in funding the Ten-Year Mental Health Plan, and in resolving our issues with the Federal Government and making very significant investments in the mental health system over the next several biennia under the DOJ settlement.

On Slide 6 and 7, we outline our goals and our specific strategies. In our conversations with CMS around what it is we want to accomplish with this 1115 Waiver, CMS has said to us we need to understand how your system operates today. Where you want to get to, how you want to reform your health care system, and what are the steps you want to pursue within the Waiver that will help you achieve those goals? That's the charge that CMS has given to the State. And they are looking for us to identify as a justification for our 1115 Waiver, you know, where are we now, where do we need to get to, what problems are we trying to address?

Slide 6 and 7 touch on those issues. You know, our goals are, as I said, to improve quality, to improve the patient experience of accessing and receiving care in New Hampshire.

Secondly: To improve health outcomes, to improve population health, and to do that we need to increase wellness and preventative care in the state. And, lastly, to undertake initiatives that will help address the cost issue. The specific strategies that we are pursuing are on Slide 7.

You know, in terms of improving and expanding access to health care and community-based supports, that's really the cornerstone of what we are trying to accomplish with the Medicare Management Program. To put people into high- quality coordinated care, patient-centered medical home settings. That's really the goal of our Care Management Program.

The second bullet there addressing cross-systemic needs, developmental disabilities, mental health, long-term supports and services, Substance Use Disorder through enhanced care coordination, the point of that is that we need to breakdown the silos between these various services and to coordinate care across the system and to treat the whole person and not just treat one thing over here and one thing over there, where the services are not aligned and the payment for those services are not aligned. So the goal, as I said at the outset, is to align payment, to align services, to align coordinated care across the system.

I'm not going to walk through every single one of these, but they really talk about and underscore the need for whole person approach to deliver cost-effective community-based services. That's really the central goal.

If you turn to Slide -- I'm going to spend a little -- just a couple of minutes on Slides 9 and 10, and then I'm going to turn it over to Jim. Nine describes very broadly the four aspects of our health care reform strategy that I mentioned and what the goals of each strategy are. Medicaid Transformation, including Care Management and the Waiver, Expanded Health Coverage being represented by Senate Bill 413. Population Health, to look at the Public Health Strategic Plan that our

Department of Public Health released recently that looks at tobacco and obesity and diabetes and cardiovascular treatments and so forth, and the Mental Health System.

The specific programs appear on Slide 10. So if you look under each of the four areas, you'll see that under Medicaid Transformation there are several components. Step 1 of Care Management; Step 2 that I referred to that we will be implementing in the future; the long-term care reform. As you know, we got a planning grant from CMS under the State Innovation Model Program to look at how we can reform the delivery and payment of services to -- for long-term supports and services. Jim and his Deloitte team were very involved in that process. Jim personally ran the stakeholder aspect of the process, was very involved in putting together the final report which was filed with CMS in December. CMS is now considering a second stage to that program. We are anticipating the issuance of a Federal funding opportunity announcement. Supposed to be a few months ago. CMS has delayed that, but we'll look very carefully at that when it comes out to see if there are additional funding opportunities for how we can implement some of the reforms for the provision of long-term supports and services in the future. And then the Substance Use Disorder benefit is mentioned there. Obviously, under Expanded Health Coverage we've referenced the Senate Bill 413 programs.

Under Population Health, I made a mention a moment ago of the fact that the Public Health Department issued a State Health Improvement Plan a few months ago that identified the ten most central areas of public health that we needed to address in the near term in New Hampshire; tobacco, obesity, heart disease, asthma, and so forth. We hope that the Waiver, which is listed under that category that will focus on Mental Health, Substance Use Disorder and Population Health and Oral Health that this Waiver will serve not only to improve population health but will address our health reform strategies across these four areas.

I want to then skip ahead to Slide 16, 'cause I want to transition now into the actual proposed programs under the Waiver.

As Jim will describe in just a moment, there are five specific programs that we've identified for submission to CMS. This waiver will identify designated state health care spending that we hope that CMS will approve, that we are proposing CMS will approve, so that there's additional funding in these five program areas in order to build capacity, in order to continue to transform our Medicaid Program and to make our Medicaid Program more financially sustainable throughout the five-year of the waiver period.

I should have said at the outset the type of waiver we are applying for is called the Comprehensive Medicaid Waiver. It will be for funding for five years. So that when CMS approves the waiver, as we hope, there will be designated funding in year one, two, three, four and five of the Waiver.

Now, there will be conditions and limitations in the Waiver that may influence how much funding is available in any particular year, but we are applying for funding over a five-year period.

The funding sources are identified on 17. The proposal we are advancing is that CMS match health care related spending in New Hampshire that is now being undertaken by the State, by the Counties, and by the Local Government that is not now matched by CMS; in other words, health care spending for which the Federal Government is not contributing any portion of.

We have a general match rate in New Hampshire of 50% so that our Medicaid expenses, as a general matter, there are exceptions to this, but as a general matter for every dollar we spend on the program CMS matches a dollar. And so we have identified sources of funds that are listed here on 17 that are now not matched. I'm going to walk through them very quickly.

I will tell you at the outset that we continue to work on this. This is a work in progress. We anticipate that we will identify additional spending as well so that when the final Waiver application is submitted to you for review and approval that the numbers on this will be more firm, and I anticipate that they will increase to some extent.

We are looking at, obviously, maximizing the request that we would like to make to CMS. So, for example, with respect to State funding, there are State General Funds that are now identified in the Fiscal 15 budget, the current biennial budget, that are not being matched by CMS. There's about 7.5 million in Glencliff General Funds. There are 24.6 million in New Hampshire Hospital General Funds, there's 14 and a half million roughly at the Sununu Center. There's 3.2 million that are -- General Funds that are appropriated under the ten-year plan and/or the DOJ settlement that are not earmarked for CMS match. There are 10.7 million in Department of Corrections' funds for medical and dental services that are now not matched. So for State funding we've identified roughly 60, almost $61 million.

There are County Correctional expenditures that are not matched for health care services to those in the custody of the Counties. We've been working with the Counties to identify that spend. We've -- the Counties have identified to us to date a little over $6 million that's not matched. That is money that we will seek a match for that can be then placed in the various programs that Jim will describe in a moment. And that there's municipal expenditures with respect to their health care spending, welfare spending, that is health related. We've identified a total of about 11.6 million in municipal expenditures for a grand total at the current point of about $78 million. So these are funds that are health care related that are now not matched by CMS, they're not used for maintenance of effort in any program, and that we can use as a basis of a request to CMS to match for the various programs that we are proposing in this Waiver. And so I'll stop for a minute and ask if there are any questions, address any questions. And, if not, then I'll turn it over to Jim to talk about the specific programs.

CHAIRWOMAN WALLNER: Any questions of Mr. Meyers?

REP. LEISHMAN: Just a comment. Thanks, Madam Chair.

CHAIRWOMAN WALLNER: Representative Leishman.

REP. LEISHMAN: I'd just like to say, Mr. Meyers, that I'm very glad the Commissioner has dragged you into the Department.

MR. MEYERS: Thank you.

REP. LEISHMAN: Your guidance on this whole new matter is very helpful. Thank you.

CHAIRWOMAN WALLNER: Yes, Senator Larsen.

SEN. LARSEN: Is there evidence that this list is similar to other states are getting matched for similar spends?

MR. MEYERS: Yeah. Jim --

SEN. LARSEN: We seem to be missing --

MR. MEYERS: I'll let Jim address that. He's had personal experience with it. The short answer to your question is yes, but I'll let him go into the details.

CHAIRWOMAN WALLNER: Further question? Senator Sanborn.

SEN. SANBORN: And, Jeff, just asking if we want to wait for the second part of the presentation or talk about the policy questions upfront or you think it's going to be answered? If you're going directly into the specific programs versus policy questions, I do have questions, I'm happy to wait. I'm happy --

MR. MEYERS: Whatever the Chair would like to do is fine with me.

CHAIRWOMAN WALLNER: Why don't we do a couple questions now and see.

SEN. SANBORN: Okay. Help me understand this, 'cause I may have forgotten. So part of the presentation you've just made and what the 1115 Waiver will be allocated towards, let's first start with mental health. I thought -- I guess my first question is what was the mental health settlement? I thought it was a $30 million spend, but I don't know what it is. Now I see three and other parts of this report I see 30. In other parts of this report I see 65 over five. So I guess I'm trying to understand first the mental health.

MR. MEYERS: Hm-hum.

SEN. SANBORN: What did the settlement say we were supposed to do and what was the expense to the State and then how does this overlay on that?

MR. MEYERS: The -- I don't have the settlement document right with me. In terms of General Fund spending under the DO -- under the Federal Consent Decree that was agreed to by the State of New Hampshire and now entered into by the court with both DRC and the Federal Government, there is approximately 65 million in General Funds that will be spent under the settlement over five Fiscal Years, beginning in Fiscal Year 14. The Fiscal 14's General Fund spend is very minimal. It's roughly 360 or $380,000, I recall. There's about 6 million General Funds for Fiscal 15. As you know, there's legislation that's currently pending in this session with respect to the current biennium obligation under the settlement. In addition to that, there are legal fees, about $1.8 million, I believe, that are called for to be paid as well. Starting in the next biennium, there are additional General Fund spends as the programs ramp up over Fiscal 16, 17 and 18.

SEN. MORSE: Follow-up.

CHAIRWOMAN WALLNER: Yes, Senator Morse.

SEN. PRESIDENT MORSE: Can we clarify something on that? There's $6 million in '15 and $10 million in '16, and there's $14 million in '17. Well, how did -- I think his question was leading towards how does this plan tie to those dollars?

MR. MEYERS: Well, we've identified -- on that -- on the slide listing the money on Slide 17, we've identified some funds in the settlement that are now not matched. So part of our proposal, and Jim's going to go into this in more detail, but part of our proposal is to seek a match for those funds under this settlement that are now not matched by CMS. As there are additional -- our Waiver application will also identify the additional General Funds that are obligated under the settlement for '16 and '17 and '18 for that matter, and we will seek a match of those funds as well. So we are asking -- we're asking CMS to be able to match the monies that we are spending towards the settlement.

SEN. SANBORN: So even though -- even though the settlement has come back, you essentially said you need to allocate some money and spend it. We agree we have to spend it, and are asking the Feds to come in and pay for half of what we're required to spend. Is there some proportion we're required to spend?

MR. MEYERS: We are going to look. We are discussing with CMS. We are going to look to see how this Waiver can be used in terms of satisfying some of the obligations under the DOJ settlement.

SEN. SANBORN: Thank you, sir. Madam Chair, next question?

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: So I see a dental benefit on here. When I see the dental benefit on here --

MR. MEYERS: Yeah.

SEN. SANBORN: -- if you can remind me, because I thought when we were debating Senate Bill 413 there was conversation at that point about including a dental benefit which I don't think was either brought -- either not brought forward or brought forward and voted down. But now I see a dental benefit in the 1115 Waiver. So I guess I'm trying to understand the policy consideration that if the State Legislature has essentially said it's not a path we want to walk at this point.

MR. MEYERS: Hm-hum.

SEN. SANBORN: It looks like now we are walking it without policy.

MR. MEYERS: This is -- the dental benefit, Jim will describe it in some detail, but the dental benefit we are proposing under the Waiver is not an adult dental benefit for the current Medicaid population across the board. What we are proposing is a pilot program that would be funded with money that is matched under this Waiver request for pregnant women for a five-year period as a demonstration to see how this benefit will impact the health, oral health, obviously, the wellness of the people who participate in the overall population health in New Hampshire. The Department is not implementing an adult dental benefit right now for our current population. We don't have authorization to do so. And to the extent we wish to proceed we would, obviously, come back to the Legislature, perhaps in the context of the next budget request, and have that conversation with the Legislature. But the program that Jim is going to describe in a little bit of detail in a moment is really just a pilot program for a five-year period because of the strong connection that we feel there is between periodontal disease in women, particularly women who smoke, and the incidence of low birth weight babies in New Hampshire that have a very significant cost impact on our Medicaid budget.

I also want to go back, if I could, and just emphasize that with respect to the DOJ settlement monies that the number, the $3.2 million number that's on Slide 17 is just a Fiscal 15 number. As I said a moment ago when I emphasized that when we bring forward the Waiver application, we will be adjusting the request to reflect in the next several years the additional General Funds that are obligated under that settlement.

SEN. SANBORN: Two more questions, if I may?

CHAIRWOMAN WALLNER: Very quick ones and then we'll move on to Mr. Hardy's presentation. He might answer some of our questions.

SEN. SANBORN: Thank you. Accountability, the end of the day measuring outcomes.

MR. MEYERS: Yeah.

SEN. SANBORN: Maybe this is for the Commissioner. Before this whole thing kicks off where we are about to spend 400 to $700 million a year trying to make people healthier, are we going to create a very comprehensive baseline about where our health is, acknowledging we are supposed to be one of the healthiest states in America today, and now we are about to spend a fair amount of money. So we can look back at this a year or two or three years from now and say is the money well spent or not.

I guess I'm still missing kind of that on one here you yourself said how healthy our state is. We always talk about how healthy our state is, and then we talk about how we need to make it so much more healthier and spend a lot of money. So what's that accountability to the taxpayer we add at the end of the day that is really going to be able to say, hey, we just spent a bunch of money and people are actually really healthy?

MR. TOUMPAS: That may be a broader question but there are a couple things. Number one, Jeff has mentioned our Division of Public Health Services that identified ten key areas and they identified those key areas in terms of what the cost drivers are, what costs are being borne there right now so that as we implement these various programs, we have a baseline or a benchmark that we can look at so are we moving the needle around, whether it's tobacco, whether it's obesity, diabetes and so forth. So they've established a baseline so that any initiatives we move forward here we're able to measure that and then be able to go back and take a look at that against the -- that baseline that they had set. That's related to the broad population.

For the Medicaid Program itself, as we implement Care Management, there is a very rigorous quality component to that in terms of gathering the data from all the different visits, encounters, and so forth that have happened so that we have put a significant, significant emphasis on capturing the data in order to be able to measure the quality. That certainly relates to the Medicaid Program. Ultimately, the two of them come together to basically look and say have we moved the needle at all on population health. It's a good question, but I think it's beyond some of the detail that we are going to go through here.

SEN. SANBORN: I appreciate that. My final question is of everything we are talking about so far tends to deal with health. And so I guess my question that if we are looking to match Sununu Youth Services General Funds, I guess traditionally I thought that more rehabilitative or educational than not dental, obesity, drug use, health types of issues. So my question is I'm not sure what we are looking to match there. Is it just an allowable GL account that the Feds have allowed us to match on or is there some sort of specific program concept or policy that you're trying to match?

JAMES HARDY, Specialist Leader, Deloitte Consulting: So, Senator, I can probably answer that question and Senator Larsen's question at the same time.

We tried to identify potential sources of funds where there's at least a compelling argument or the beginnings of a compelling argument for CMS to waive its current rules to match those expenditures that we are making with own State funds. So what we have done in the Waiver concept is try to align the uses of those funds in a general way to the sources, but also align them to the general reform strategies within the Department of Health. So you don't have to have a one-to-one relationship or direct relationship to the sources and the uses. But they, obviously, look for, boy, if we are going to grant you this waiver authority to match this, we want to see what it's for and we want to see -- they want to see some relationship. So that's what we have tried to do in the program.

SEN. SANBORN: Thank you, sir. Thank you, ma'am.

CHAIRWOMAN WALLNER: Mr. Hardy, would you like to start your presentation?

MR. HARDY: Sure.

CHAIRWOMAN WALLNER: Thank you.

MR. HARDY: Actually, I also want to before I start talking about the program, I just want to add one more thing on one of Senator Sanborn's questions about the evaluation. There's a stringent evaluation requirement in the 1115 where we have to develop and CMS monitors the outcomes that both the financial, as well as programmatic outcomes that we expect to see from the Waiver, and those are evaluated at the end of the five-year. So it's a very robust program and it's laid out at the very beginning.

We also have to convince CMS that there is a return on the investment that they're making with these funds. And, again, that's part of the evaluation process. So it's actually quite rigorous in the evaluation of did we use these funds appropriately and generate the kind of outcome that we are looking for.

SEN. SANBORN: Thank you, sir. Thank you, ma'am.

CHAIRWOMAN WALLNER: Hm-hum.

MR. HARDY: I want to turn to Slide 18 to begin to talk about the programs that we are proposing to use the 1115 Waiver authority for. The first group of programs are under mental health and the creation of a Mental Health Community Reform Pool. We have five components to this pool.

The first pool -- first component is to make Capacity- retention Payments to health systems that if they pledge to maintain their current level of mental health and SUD related services within their health systems. One of the things that Jeff talked about in the beginning of the presentation is that the Health Care Delivery System and the Mental Health Delivery System in New Hampshire has elements of fragility in it. So the first thing we wanted to do is try to shore up the system and generate some additional payments and to maintain the current access.

The second component is a Capacity-expansion Payment, and this would encourage hospitals and health systems and other providers from a bricks and mortar perspective if they want to open a needed new unit, they need to -- we're not in the investment business per se, but what we want to be able to do with these payments is to improve the return on investment for that health system by for a period of time enhancing the payments associated with the services that get delivered in that new unit. Again, to try to help the -- that health system finance the expansion of needed services.

Similarly, the third program is an enhanced payment for a three-year period for New Services. So the second one is more bricks and mortar. The third one is more for services. So if they bring new needed services on-line for a period of time for that three-year period, we'll enhance the payment rate. And, again, it's to try to influence the return on investment calculation for those providers. Boy, if I'm going to make the investment to stand up a new program and new service, I want to have a quicker path to getting a return on that investment that I'm making. So, again, trying to approach it from a return on investment perspective.

The fourth element of the pool is a Pilot Program Pool. One of the things that the Department was very interested in was encouraging the development of community solutions to the mental health issues and physical health issues and the comorbidities that exist between those issues. And I'm now on Slide 19.

So in this component, we would receive basically grant applications from health systems, from Community Mental Health Centers, from Federally-qualified health centers and from other provider types about their approaches to try to improve the management and delivery of services, particularly services for individuals who have a physical and behavioral health co-morbidities.

We heard a lot -- the Department has met with the health systems about the -- about the Concept Paper and one of the things that we heard in those meetings was that they're doing a lot of things to try to align with the Department's Managed Care -- Care Management initiative and making investments in developing new programs. And we wanted to create a vehicle that could support them as they make those transitions within their own delivery system.

It also aligns with there's a component in the Care Management Program beginning in 2014, 1% of the Managed Care premiums are being withheld for the MCOs to come bring forward a payment reform plan, which is -- the Department is looking for those MCOs to say this is how we want to help transform the payment and delivery system. And then they're measured against the performance of that plan and they can earn back that 1%. This is really a companion to that to help the providers respond to the initiatives that Manage Cared Organizations and the Department want to engage them in.

The fifth component is labeled an Incentive Pool, and it actually is more in keeping with Senator Sanborn's comment about accountability and outcomes. What the intention is that beginning in the second year of the pool is that the anticipated amounts of expenditures in the four other pools that we have a 20% holdback on those. And that those -- that 20% holdback is then paid back out to the providers assuming that they meet outcomes and outcomes that were called for in the various initiatives. So, again, trying to get some skin in the game of the providers around the outcomes, not just making the payments. So that's one set of initiatives that we have in the -- in the current waiver concept.

The next one more relates to support of the ten-year plan and the DOJ settlement. And just, although we have talked about this previously, one point of clarification on this. What we have identified on this chart are the portions of those services that the Federal Government is not currently matching. So you've got State funds in the current plan as well as Federal funds, and so they're matching some of it but not all of it. So what we're asking for is have them match all the services that are called for in the ten-year plan and the DOJ settlement. And for State Fiscal 15, there are $3.2 million worth of funds that have no Federal match associated with them and requesting that those funds be matched under the Waiver for it.

The next program is about a training and education program related to Substance Use Disorder. Jeff indicated that this Substance Use Disorder benefit will be available to the new population through the Health Protection Program. And one of the things that the Department has heard from the SUD stakeholders is that there's a real lack of awareness and understanding of the disorder, as well as the treatment options and the ability to screen for those options. So this portion of the fund really encourages grant applications from providers for training and workforce development to raise the awareness, to increase the ability to screen for individuals who are in need of those services. This is really a prevention strategy to be one of the areas of potential focus of this would be for increased training of emergency room staff and professionals to identify the potential of an SUD issue and to be able to screen and provide treatment options. Be an example of one of the training programs that we would look to see funded underneath this initiative.

The next one Jeff had described as the oral health initiative. There are really two components to the oral health initiative. One point I do want to make is that the pregnant women under the age of 21 currently get benefits because they're covered under the waiver -- under the dental benefit for non-adults. About half of the births that take place in the Department are under 21. So this is looking to extend a modest dental benefit with over 21 pregnant women and extending the coverage for the mom up through five years of the birth of the child. And there are two -- there are two elements to this that I think are important. One is that the literature is, I think, reasonably compelling that for pregnant women that smoke or had smoked, the combination of smoking cessation and periodontal treatment during pregnancy can have a significant impact on reducing the incident rate of low birth weight and premature birth.

So if you think about the cost of, you know, that premature baby, that low-birth weight baby who ends up in the NICU and costs the State a million dollars, the relatively cheap intervention by providing the dental coverage reduces the incident of those and a real opportunity, we think, to demonstrate a, you know, significant return, not only financially but also for the health of the baby.

Continuing the benefit for the mom through age five of the child is based on pretty significant literature that the existence of dental coverage for the mom leads for the use of the dental benefit of the kids. So one of the things that we're actually developing an analysis of now of the use of an emergency room and sort of a procedure unit expenditure for children under the age of five which really indicates in those situations for dental issues that those issues have gone untreated, then become more significant and require the treatment in the emergency room. So by providing this benefit, we hope to encourage more preventative use of dental services for their children up to the age of five and not use -- and reduce the use of emergency room inpatient services related to significant dental issues.

The last initiative that's included in the Concept Paper relates to a program called InShape which was established several years ago, the grant to the Community Mental Health Systems and the Dartmouth Health System which focuses on trying to deal with obesity-related issues for individuals with significant and chronic mental health disease. The program has shown strong initial results, and there's an interest in expanding the program to include children as well as to include the individuals who are enrolled in our 1915(c) Waiver for developmentally disabled, as well as to add a smoking cessation class, the mechanism for -- classes for the people in the program.

The mechanism for this is to create a grant opportunity for health systems and Community Mental Health Systems to bring forth proposals, to expand the use of the InShape Program. I think when you look at these five programs, the Department has really tried to focus on addressing community need, not putting forth, you know, a series of programs that, you know, are required to be implemented but looking for proposals from communities and from health systems and the Community Mental Health Centers that address community need. So very much of a community focus as we developed the programs within the Waiver.

That's a description of the Waiver. I think, Jeff, you already talked about the timeline.

MR. MEYERS: Yeah. Before we go to the timeline, maybe a couple more points that Jim may want to elaborate on. These are the types of programs that CMS has seen before in other states, and they're the type of programs that have appeared in Waivers from Texas and California and other states that Deloitte is familiar with. We feel that we want to put something forward that CMS is familiar with to some extent and is open to considering, and that has funded in other states in a similar basis so that we can really maximize the opportunity with the Federal Government at this time, given the time frame that was established in the bill, submitting a Waiver in June, wanting to get a response from the Federal Government no later than December. So we feel in order to meet that time frame we want to put forward in advance programs that they've seen before in other states in other context.

MR. HARDY: I think that's a really important point, Jeff. It's important to recognize that CMS is not required to match those funds. So we have to convince them that there's a good reason and that it's aligned with their goals and objectives for them to match those funds and to allow us to have access to those funds. So that CMS's willingness to approve that Waiver authority and, frankly, the size of the amount of money that's available, really has a direct relationship to their support of the goals and the alignment of New Hampshire's goals with CMS's goals. And that's been -- definitely been an eye that we have taken as we developed the concept.

MR. MEYERS: Talk about budget and travel for a second.

MR. HARDY: Sure. The one other component that we haven't addressed on the slides is the other thing that we have to convince the Federal Government on is that at the end of the day when we look at these expenditures, as well as the expenditures related to Care Management and other reform initiatives, that at the end of the day we have to convince CMS that they would have -- that they're not spending more than they would have if we hadn't done these initiatives. So we have to demonstrate, in essence, that there are savings associated with these programs, these programs specifically, as well as we'll include in our budget neutrality conversations the savings associated with Managed Care, because at the end of the day it has to be budget neutral for CMS. So if they give us that money at the end of that five-year period, their overall expenditures can't exceed what they would have been if they hadn't given us the money. So there's another check on the accountability from that perspective with CMS.

Those negotiations with CMS are influenced by their interest in support of the program, because it's -- it's not a simple and easy math equation what those negotiations look like.

CHAIRWOMAN WALLNER: Senator Morse, did you have a question?

SEN. PRESIDENT MORSE: Sure. Jim, thank you once again for presenting to us. My question goes back to Page 17 and I know it's not an easy and simple equation. But based on your experience with other states, we're submitting a number now that Jeff alluded is going to be greater than 78 million. What are we looking at as a state when we go to Washington? You obviously had communication with them. You know, is this a 75%, you know, success rate or greater or less?

MR. HARDY: So the real -- the real connection between the numbers here is really with budget neutrality. So we have got to get the -- and we are still working on the budget neutrality calculation in terms of how much room we have to keep within. Yes, it wouldn't have cost you more if you hadn't done that.

Now, if I had to guess right now, I think it's going to be underneath that number. We're still working with Milliman to kind of crunch the numbers. So it's somewhere less but I can't -- as soon as we get a better handle on budget neutrality, be happy to come and talk with you and walk you through the numbers, just haven't got them done yet.

SEN. PRESIDENT MORSE: Follow-up.

CHAIRWOMAN WALLNER: Yes.

SEN. PRESIDENT MORSE: These two questions are probably for the Department. On Slide 20 there's a $3 million match to what I believe is that $6 million spend you're talking about. Has that been accounted for in any document that I've read so far or is this just a new --

MR. MEYERS: No, no. If I understand your question, no, we haven't accounted for it in any other document at this point.

SEN. PRESIDENT MORSE: All right. And then from all these pages that come after that Page 17 with all these ideas of what we are going to create in New Hampshire, is there a financial page that kind of looks at, you know, 10 million is going to this --

MR. MEYERS: Yeah.

SEN. PRESIDENT MORSE: -- 10 million is going to that.

MR. MEYERS: That's what we're developing now and will be part of the final Waiver application in terms of a proposal in terms of how we are going to allocate the spend in each of the categories.

SEN. PRESIDENT MORSE: And when will we see that?

MR. MEYERS: Milliman is still crunching some numbers for us. So that won't be Monday. There will be some placeholders in the application for that Senator on Monday but when it goes in --

MR. HARDY: I think as part of the final application we'll see that. And I think we'll get a little -- we're setting up regular meetings with CMS to -- to talk about the budget neutrality issues. Because one of the things is it's kind of accordion. So, you know, the pots of money look different if they give us $70 million a year as opposed to giving us $30 million a year. So, you know, and some of these things we developed some math around about how to size them. And then we are going to have to accordion them and we are probably a couple weeks away from being able to have that level of detail to kind of show you where the, you know, where we have hard numbers about, yeah, we can price out the Capacity-retention Payment and we are doing that. And the other ones are a little more speculative and probably a little more accordion, we can put more money into the community pilot program if we get a larger amount of money. But we can walk you through the construct of those of where we have hard numbers how we generated the math.

SEN. PRESIDENT MORSE: Madam Chair.

CHAIRWOMAN WALLNER: Yes.

SEN. PRESIDENT MORSE: Just a comment. I do think we need to see that before we vote on this document. I think my concern is this mental health settlement that we did, how does it tie along the way. You know, Jeff mentioned something earlier and there's $24 million of new spending based on the way you commented in the next budget. I'm not sure we see it the same way you see it. So we would like to see something at this point to cover that cost.

MR. MEYERS: Yeah, yeah.

CHAIRWOMAN WALLNER: Further question. Yes, Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Thank you so much for the great presentation and kind of along where Senator Morse is. You know, as we know what we approved with Senate Bill 413 that if the Feds take a walk on reimbursement for services, the program technically ends. In here you're setting up a scheme of a number of different programs. And even if the Feds come back and say, look, we are going to commit you to $350 million over five years or whatever that number turns to be, what's the obligation to the State if one or two years into it they say, well, we were there, but now we might not be there. Is the State still obligated to carry the program on what's left to get what's left? So they going to be held at the hundred percent of all the services and products knowing that amount might -- that reimbursement amount might come back? How's that negotiation work?

MR. HARDY: Well --

SEN. SANBORN: Or how the priority works if the Feds decide to lower the reimbursement coming down?

MR. HARDY: These are all Federal funds. So Federal funds aren't there or get reduced, the State doesn't have any obligation to fill in those funds. So those programs end. The incentive program, the enhanced payment rates would go away. The grant funds would terminate. We'd have to write the language in the grant agreements to make sure that there's a clear understanding that there's no State obligation to continue this program if the Federal funding is not available.

SEN. SANBORN: Thank you, sir.

MR. MEYERS: Right.

CHAIRWOMAN WALLNER: Yes, Senator Odell.

SEN. ODELL: Thank you, Madam Chair. I'm looking at Page 17, also, and I see the $6 million allocation for County, for the Correctional medical and health spending.

MR. MEYERS: Yes, sir.

SEN. ODELL: If I was a County that's spending substantial amount on drug programs and particularly after people are out of the correctional facility --

MR. MEYERS: Hm-hum.

SEN. ODELL: -- and where you're matching that money, what is the benefit for the County from that match? In other words, how do they benefit? 'Cause I assume they can apply for a whole series of additional allocations, but there's no actual relief for them from the cost that they currently are incurring.

MR. MEYERS: I'll start and then Jim may want to comment as well. I mean, I'm having conversations with the Counties now, including on that very issue. And my perception of it is that to the extent that we address mental health and Substance Use Disorder in particular, SUD issues, those are folks that won't come back into the system again. And so there's an impact on the overall system, the County system, for folks that get the treatment that they need and then don't come back and increase the recidivism rate. So there really can be a positive impact on a County from introducing some of these benefits. That's, I think, the first point to make.

MR. HARDY: And then I think the second point is that, you know, County government, I can't see any reason why we wouldn't allow participation in them applying for grant funding --

MR. MEYERS: Absolutely.

MR. HARDY: -- for -- to doing a county-based initiative along the lines of the pilot programs.

CHAIRWOMAN WALLNER: Yes.

SEN. ODELL: I think, Jeff, you know the County I'm talking about here and as an example, where they have already driven down their recidivism rate. This heroin problem is huge and substantial. So they have already invested and are investing in the same things you're going to try to do.

MR. MEYERS: Yeah.

SEN. ODELL: But from the standpoint so let's say they're at 90% efficiency.

MR. MEYERS: Okay.

SEN. ODELL: And you think you're going to get it up to 100%, but in the meantime there's no relief for them from the standpoint of their current commitment to --

MR. MEYERS: Yeah.

SEN. ODELL: -- this program, which is pioneering in terms of being recognized around the country the way they're doing it.

MR. MEYERS: Right; although as Jim said, if they applied to access some of these funds, it may be a source of funds for the County. It could -- and I don't want to jump too far ahead. I'm not sure whether it could supplant some of those monies or not. But that's the idea I'm starting to think about, obviously.

SEN. ODELL: Okay. Great; thank you very much.

CHAIRWOMAN WALLNER: Further questions. Thank you very much for the presentation. And I -- I do want to say that we did come to an agreement, Senator Forrester, and Mr. Meyers, and myself came to an agreement this morning that we will meet on May 22nd, which is unusual for us because it's a Thursday in the afternoon at 1 o'clock. And that will be a special fiscal meeting just to approve the Medicaid Waiver application. And also --

MR. MEYERS: Also the State Plan. We would like to bring to that meeting, Madam Chair, the final Waiver application which you'll receive in advance of the 22nd, obviously, and as well receive an advance on the 22nd copies of the remaining three State Plan Amendments that we need to have approved, that we are asking for your approval for for submission to CMS, the alternative benefit plan, the F-MAP draw down, and the cost-sharing spot.

CHAIRWOMAN WALLNER: Yes, Senator Morse.

SEN. PRESIDENT MORSE: That session for us is very short. It's just the morning. Jeff, I just want to understand one thing though 'cause I don't know with all these discussions with the Chiefs of Staff and everything, we are going to need presentations like you did --

MR. MEYERS: Yes.

SEN. PRESIDENT MORSE: -- in the last two weeks for us.

MR. MEYERS: Yes, yes.

SEN. PRESIDENT MORSE: I don't know how the House wants to handle it.

MR. MEYERS: We will make ourselves available in advance of that date, however you like us to, and we'll work with you to make sure that that gets scheduled soon to ensure that those sessions are and we'll do the same thing for the House.

CHAIRWOMAN WALLNER: Thank you. So the next meeting of Special Fiscal Meeting will be Thursday, May 22nd, at 1 o'clock and we'll go over those approvals that we need to do.

MR. MEYERS: Thank you.

CHAIRWOMAN WALLNER: Thank you very much for your presentation. It was really helpful.

(15) Information Materials:

CHAIRWOMAN WALLNER: Next we move into informational items. I know I'm going to ask the Commissioner if he will stay up right there and go through the Dash Board.

I've asked Senator Forrester if she would take over for me at this point. I have to go back to work. This is fun, but work is calling. I will mention though that we have also agreed that we will have our last Fiscal meeting for this Fiscal Year on June 9th. It's a Monday; again, a little out of the ordinary, and it will be our regular meeting. And it will be at 10 o'clock, and that will probably be our last meeting for the year. And, thank you, Senator Forrester. I appreciate it.

SEN. FORRESTER: Thank you.

CHAIRWOMAN WALLNER: Work appreciates it, too.

VICE-CHAIRWOMAN FORRESTER: Commissioner.

MR. TOUMPAS: Thank you, Madam Chair, Members of the Committee. The Department has submitted the Dash Board for the period ending March 31st of 2014. I want to walk you through at a high level just a couple of the key takeaways on this, specifically as it relates to the caseloads in the Medicaid Program area. Do you have the item before you?

MR. PATTISON: It should be your last item in the -- in your binder.

SEN. SANBORN: Under Tab 15.

MR. PATTISION: Under Tab 15, that's correct.

SEN. FORRESTER: Okay.

MR. PATTISON: It's 14-069.

SEN. FORRESTER: Got it.

MR. TOUMPAS: I'll speak at a high level first and then I'll draw your attention to two components of the document. The first I want to really draw your attention to is that our -- from the period from October 1st of 2014 until December 31st of 2013, this is on the very next to the last slide. It would be called Table K. That was showing that our Medicaid caseloads were declining again. This is on -- do you have that? Again, it's Table K and it's Line 73, Column E, showed that those caseloads were declining and then in January the caseloads jumped significantly and then through the 31st of March we'd seen the caseloads go up by better than 9,000 and roughly at 6%.

Now, the makeup of that number of people is 65% of those are children and another 27 or 28% of those are parent caregivers, parent of children, low-income parents and their children. The -- these are the lowest -- lowest costs of the Medicaid population and these are not -- when we were going through the Senate Bill 413, we were right here in this room when we were talking in the Medicaid Commission. This is not the woodwork. The woodwork would have been defined as those people that prior if they had applied after January 1st of 2014, and we had looked at their eligibility calculation the way we have traditionally done the eligibility, and I'll get to that in a second, they would have been -- we would have looked at it and said if they had applied prior to December 31st, they would have been eligible for the Medicaid Program. That was the woodwork effect.

Of the roughly 9,000 here, roughly around a thousand of those would be what we would call woodwork. If you recall, the Lewin analysis had projected that woodwork would be around 1600. So we are well below what was projected there. So why are the numbers that much higher? The numbers are higher due almost exclusively to a change in the way in which eligibility is to be calculated. This is -- it's called the MAGI, the Modified Adjusted Gross Income that was put in by the Affordable Care Act. What this essentially does is that it allows people to self-attest, meaning that they -- they will say I make X amount of dollars and then they get enrolled and then they have a certain amount of time in order to come back and provide the documentation.

The second key component is that there is no asset test when they apply, and then the third component is when we look at how to calculate the number of people in the household, it is based on the number of people that is on the tax form, not on the number of people actually in the household.

All states that adopted the Modified Adjusted Gross Income, which is required under the Affordable Care Act, whether or not we went through Medicaid Expansion or not, these are -- these are people because they wanted to streamline and ease how people would come in and apply for the Medicaid Program, it effectively raised the eligibility standard so that it made more people eligible for the program. So that the dramatic jump that we saw that you see in January actually reflects four months' worth of data, because it is showing the applications that were received through the Federally facilitated marketplace for the periods October, November, and December and the month of January. You'll see then in the document that in the month of February, and then in the month of March, the number of applications came down significantly on a month-by-month basis.

I will also tell you that in the month of -- the first week of the month of April that we saw a reduction in the caseload of that run-up that we saw by over a thousand were then disenrolled because for a number of different reasons. If they came in and said I make X amount of dollars and then when we were going to do the evaluation either, A, they were over that amount and, therefore, not eligible, we would close the case. Or when we asked for additional information, and they didn't come forward with the information, then we would close the case. So we saw that number decline by a thousand. I don't have what the data is for the balance of April. We will know that probably in the middle of next month to see whether that was a one-time issue or whether that was a -- whether that's part of a broader trend.

The -- the issue that -- this has a -- in terms of bringing that number of people on board, again, they are children and they are low-income adults with children. It really gives us an opportunity to basically putting them into a Managed Care Model will allow us to basically provide better care for those individuals, and I believe for the State it will be a lower cost over the long-term. In the short-term, that does have an impact on us because now for that additional number of people there is cost associated to providing care for those individuals once they get into a Managed Care Plan. This gets a little bit involved but if -- when somebody -- when we determine somebody eligible, they have 60 days in which to be able to go into one of the Managed Care Plan. So for that period they're deemed eligible, and that 60-day period and that before they go into one of the plans we're paying on a fee-for-service basis for whatever services that they incur. If there are no services, it doesn't cost us anything. Once they go into the Care Management Program, then we're paying a per member per month for those individuals.

Just so that you have some sense of the amount per month that we are talking about, for the -- for the children they are reimbursed at a 65% Federal financial participation, 35% are General Funds. We are looking at roughly $146 per member per month for those -- for the kids. For the parent caregivers it's $332 per member per month. And for the pregnant women, which is the third category, $371 per member per month. The concern or the issue that I raised after I looked at the caseloads, then going into the next part of it saying how does that impact our budget?

Let me, again, turn to Table K in the document that you have, the Dash Board. And if you look at Line 64, Column E, that shows what our Medicaid caseload was in March of 2013. I draw your attention to that because when our budget was created we had -- the budget was created for the biennium for the Medicaid Program and a zero percent caseload growth and it was pegged when we were in the House phase of the budget which is that $129,413. If you go down to Line 76 and showing in March at 136,815, that's a difference of 7200 people over what it is that we were budgeted for. So if all those people retain -- stay in the program, for the -- for the balance of the Fiscal Year and going forward, that creates a potential gap for us in the -- in the funding.

So now let me go to Table A, which is the one right after the narrative and the cover page which is the summary of the budget; comes right after this page here.

What this is showing that as of the end of March, we were projecting a $7.7 million General Fund shortfall for the current year, State Fiscal Year 14. That is when we were here back in December for this, we were showing $8.6 million General Fund shortfall, and we added some obligations having to do with Senate Bill 413 for the operational cost of that, as well as some things that we needed to do for systems work that were required by the Federal Government. We offset that with some funds that we had identified elsewhere within the Department. We continually scrub our budget to look for areas that we could come up with ways in which to be able to offset projected shortfalls and that brings us down to that $7.7 million on Line 54.

State Fiscal Year 15 we are now showing an $18 million General Fund shortfall and there are two -- two key variables that we have to monitor and we have to monitor very closely. Number one is on Line 18 it shows the anticipated delay in Care Management, which we had planned on. We said when we went live with Care Management in December of last year, we said the Step 2 would follow one year later. As you know, the Governor and I basically announced back a couple weeks ago that we were going to extend out the timeline for Step 2. So any delay for each month of a delay beyond December of 2014 will add anywhere from 700 to 900,000 General Fund additional shortfall in State Fiscal Year 15.

There's no impact in State Fiscal Year 14. It is only State Fiscal Year 15. And, again, we'll -- there are a number of things that we are doing in order to try to mitigate that by looking at phasing of Step 2, but I just wanted to give you the worst case scenario, which is basically looking at that anywhere from 700 to 900,000 General Fund impact per month beyond December of 2014. Let me stop there and entertain any questions you have either on the caseload side of it or on the budget impact.

SEN. PRESIDENT MORSE: Commissioner, you had two points. You only said one of them. What was the second point?

MR. TOUMPAS: On the Dash Board side of it?

SEN. PRESIDENT MORSE: On the Dash Board side you said there were two concerns on '15. You cited one of them.

MR. TOUMPAS: Yeah, one was on the Step 2 of the Care Management, Senator, and then the second one had to do with that additional caseload that we're looking at. If that gets maintained through into the next Fiscal Year that roughly when I take for the number of children and I just took a point in time, the number of children, the number of caregivers, parent caregivers, as well as the pregnant women, and I just took that as a point in time from March. It would be roughly $800,000 a month General Funds if all of them stayed on the program and if all of them went into Care Management.

SEN. FORRESTER: Senator Sanborn.

SEN. SANBORN: Thank you, ma'am. Commissioner, thanks. I'm not sure if my math is coming up backwards; but, again, on Table A, Fiscal Year 14, Line 42, you've got the expense in here to stand up 413 but didn't we just appropriate a couple million bucks for that? Shouldn't there be an offset there for that? So go down to Line 43. I'm sorry. You've got, obviously, the implementation of SB 413 for 2.6 million. But I thought we just appropriated a couple million dollars in last Fiscal? Wouldn't that bring it down or is that a different type of spend?

MR. TOUMPAS: No. Again, as we indicated, the cost for the services associated with the newly eligible of the expansion side of it is covered at 100% by the Federal Government. These are the costs associated, either the one-time cost for system changes, staffing, and so forth, the administrative side that are only reimbursed by the Federal Government at 50/50. The

Senate Bill 413 appropriated a certain amount of money, but it did not appropriate the full amount that we needed. We were clear with the Legislature that without -- without any additional appropriation it was going to come out of lapse and that's really where -- why I'm highlighting this that it's going to have an impact on lapse.

SEN. SANBORN: I apologize if I wasn't clear. I got that part that we talked about it last week in Fiscal.

MR. TOUMPAS: Yes.

SEN. SANBORN: The $2 million we appropriated out of General Funds of what the Feds were not paying for you to initiate the program. Doesn't that offset this 2.6 or is there an additional $2.6 in addition to $2 million we appropriated last week? Wouldn't that decrease?

MR. TOUMPAS: No. Those -- Jeff just reminded me. I think I understand where you're going. It was -- what we dealt with last week in Fiscal was transfers within the Department. As part of Senate Bill 413 --

SEN. SANBORN: Right.

MR. TOUMPAS: -- gave the Department authority to move monies around so that we -- where we had -- where we had surpluses in one area and I believe you asked about or I know I got asked a couple times about if we were -- where we were taking money from.

SEN. SANBORN: Yes.

MR. TOUMPAS: It was really because we had surpluses in those areas. We were not impacting existing programs.

SEN. SANBORN: Okay. Thank you.

VICE-CHAIRWOMAN FORRESTER: Senator Morse.

SEN. PRESIDENT MORSE: Commissioner, there's a couple of concerns. I mean, number one, 2015 could look like a $30 million deficit overnight with Step 2 and the people in the equation. Is there a document anywhere that explains in English to the Legislature what MAGI means? It seems to me, and I contacted you every other week to talk about the woodwork effect, you're assuring me in this document, we are still under the Lewin Report, that this MAGI was not discussed as something that was going to come and hit the budget. And now from what I'm understanding, you know, quite possibly you could have a young person that's pregnant, you know, that just lost their job, you know, go in. They could have an inheritance in the bank and they don't have to touch that. They automatically go onto our Medicaid system. Is there something that says what the rules mean, because you're basically saying no asset test? So listening to that I'm saying they can have ten grand in the bank and they don't have to touch it and we have to put them on Medicaid in New Hampshire.

MR. TOUMPAS: That issue, you had asked that when we had our conversation whether that pertained to cash and the answer is yes, it does. So there is no asset test on that. Now if they have money in the bank and it is generating income, interest, and so forth that would count as income, that's going to -- that's going to account as income that we would need to compute. But if somebody has, I don't want to be flip about it, somebody has a million dollars sitting in a pillow someplace that's not going to count.

SEN. PRESIDENT MORSE: But at 1% interest it wouldn't matter anyways. Is there something that the Legislature can have that would explain whatever is being said from Washington? Public needs to understand this -- this insanity.

MR. TOUMPAS: I understand.

SEN. PRESIDENT MORSE: It's insanity we are being forced to do this. I know we lucked out. There's children on there. And, you know, that's probably the only reason you're talking about an $800,000 number. Otherwise, this could have been a three or $4 million per month number.

MR. TOUMPAS: Let me just emphasize, Senator, I will provide you with that information. We had done some presentations for the Legislature when we were going through the budget process. I can get those. But then there are other things that we have that one or two-pager I can provide some information. MAGI only -- only pertains to the children, the parent caregivers, and the pregnant women. It does not pertain to the elderly, the disabled, the mentally ill. It does not -- it does not pertain to the complex populations. Eligibility calculations there, the asset test, all the things that we have in place right now will not change. So the only -- the only population or eligibility groups that the MAGI pertains to are the three populations that I've talked about right now; children, parent caregivers, and pregnant women.

VICE-CHAIRWOMAN FORRESTER: Senator Sanborn.

SEN. SANBORN: My apologies. I thought that MAGI was appropriated to the entire expansion population of adults?

MR. TOUMPAS: Well, the MAGI -- again, I'm talking for the existing Medicaid Programs.

SEN. SANBORN: You're talking existing Medicaid. I'm talking expansion population.

MR. TOUMPAS: Yeah, the MAGI will apply.

SEN. SANBORN: To all adults.

MR. TOUMPAS: That's the 100%.

SEN. SANBORN: As well as the asset test or lack thereof.

SEN. FORRESTER: Okay.

SEN. SANBORN: Sorry.

SEN. FORRESTER: Commissioner, thanks for coming in. So the number that we've been talking about, that increase, that is because of the Affordable Care Act and applies to those three populations you just mentioned and has nothing to do with woodwork. So could we see that continue to increase?

MR. TOUMPAS: That's -- that's a good question. That's a question that we are asking ourselves. And, you know, we are doing some work right now in terms of our -- in terms of our systems. There's a number of things that we're looking at to find out. What we know that we did some analysis that we could look back and see over the past several years where the ups and downs in the Medicaid Program over the course of a month would be. And as we looked at this particular data, it is not impacting. We did not see any -- any change in the complex populations and so forth. This is the -- the increases here are -- due almost exclusively to the impacts of the change in the eligibility calculation using the MAGI. That's what it pertains to.

VICE-CHAIRWOMAN FORRESTER: Did we know this was coming? Did we know that this was coming?

MR. TOUMPAS: We knew -- we knew that this was coming. But as we -- we put so much of an emphasis -- in my mind we put so much of an emphasis to the making sure that we had the -- our systems and all the -- all our capabilities in order to be able to implement it, I don't think that -- there were -- there were documents that we had produced that basically indicated that we were going to see a bump on this, but I believe we underestimated what that bump was going to be.

SEN. PRESIDENT MORSE: Won't you be able to produce the documents shortly based on your 60-day MCO process? The MCOs must be showing growth at this point.

MR. TOUMPAS: Yeah, they are. But what -- what we're looking at, Senator, is -- is the number that will -- that will fall out of this because they didn't provide the appropriate level of information and so forth. Their -- we are working with the MCOs. We are working with our -- basically our eligibility system that we need to go back and look at that -- look at that data. That's what we are doing right now. And we are in the -- basically, all of our -- the Dash Board numbers are always pegged at the end of the month. We take a point in time at the end of the month and so likely what we'll be doing is really looking at it in this first two weeks of May to get a real run-down on that.

SEN. FORRESTER: Senator Morse.

SEN. PRESIDENT MORSE: Let me understand the MCO part because I think we discussed this and I don't know that I got an answer. The MCOs must bill the State of New Hampshire. I know it's a quarterly type payment thing, but they must give you an account every month from the three MCOs.

MR. TOUMPAS: Yeah, they will bill and that's some of the data that we are looking at. They bill us on a monthly basis. And then there's a -- right now there's a three-month lag factor. So somebody -- if somebody submits payment for services or payment for the population that they had in their program on February 1st, it would be three months later that we would make that payment to them. So we need to go back and look at, you know, what we've received from the MCOs and then take a look at what the makeup of that -- of the members that they have in there and see how did that -- how is that changing over the last couple months, the information.

SEN. PRESIDENT MORSE: We won't be looking at this till this summer.

MR. TOUMPAS: Excuse me?

SEN. PRESIDENT MORSE: We won't have data on this until this summer.

MR. TOUMPAS: We are going to continuing to monitor. There are some things we are asking our systems group to do in order to come up with some different type of reports and so forth in order to dive down deeper into this data to see is it -- we know where it's coming from. What we need to do is we need to see how is that going to -- how is that going to track going forward. Whether they're going to stay in the program or whether they will fall out of the program. I can't -- in the past I could tell you with a high degree of certainty, Senator, where, you know, what the trend lines were going to be, and we could monitor that and we could monitor that closely. With this change, we -- we've got some work to do in order to basically go in and be able to come up with that type of analysis.

VICE-CHAIRWOMAN FORRESTER: Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Commissioner, thank you. Kind of along where Senator Morse is, our concern -- a big part of our concern at this point is you continue to suggest there's 10% of the population of New Hampshire -- 10% of the population of New Hampshire had no insurance. And so we have got the implementation of the ACA. We have got, obviously, the MAGI potential population for new traditional Medicaid. We have got Medicaid Expansion. We continue to hear that Medicaid Expansion is going to suck up 50,000 of that 120,000. So there's still roughly 70,000 people that is this potential universe that either may qualify under the MAGI requirements, that may qualify for something that might still remain just uninsured forever.

Have you done an analysis of that or can you guys kind of look and see where we are? Because when Senator Morse talks about this potential exposure, I think that's where that potential pool is going to come from. And our concern it's 9,000 today, but it's a universe of 70,000. Acknowledging that I heard somewhere that the navigators and consumer assisters I heard a rumor, I'm not sure it's true, they have continued to be given a grant to continue advocacy efforts to get people signed up, which would lead me to believe that that 70,000 population could be going up. So how do we understand what that exposure is?

MR. TOUMPAS: Again, the number of -- the one part of it is when we're ready to move on the New Hampshire Health Protection Program, the newly eligible adult population, so forth, those are the ones that are reimbursable at, again, 100% of the Federal dollars. Again, we still have the employer-sponsored insurance people that are in there. What the issue that -- that I'm really trying to focus in on is the -- is the MAGI piece of it or the population right now that has become eligible as a result of the change in the eligibility calculation using that -- that Modified Adjusted Gross Income.

SEN. SANBORN: Which could be upwards of 70,000 people.

MR. TOUMPAS: I'm not sure it's that high. We are talking primarily -- we are talking -- well, on that one we are talking, again, the children. Those are the ones that we're -- that's where the -- that's where the jump came in.

SEN. SANBORN: Thank you, sir.

VICE-CHAIRWOMAN FORRESTER: Other questions? All set, Senator Morse?

SEN. PRESIDENT MORSE: Yeah, I'm thinking.

REP. WEYLER: We won't have a quorum.

SEN. SANBORN: What?

REP. WEYLER: We won't have a quorum.

SEN. SANBORN: I don't think we are voting on anything else though.

MR. TOUMPAS: Thank you.

VICE-CHAIRWOMAN FORRESTER: Thank you, Commissioner. We have two audits left. We have two audits and, Mr. Mahoney, could come up and do the introductions?

Audits:

RICHARD MAHONEY, Director, Audit Division, Office of Legislative Budget Assistant: Good afternoon, Madam Chair. Thank you very much. For the record, I'm Richard Mahoney, Director of Audits for the Office of Legislative Budget Assistant. We have two audits on our agenda this morning. Two audit reports. One is the Management Letter for the State and the second audit report is the Single Audit of Federal Financial Assistance Programs.

Here to present the Management Letter to you is Greg Driscoll. Greg is a partner with KPMG and he's joined by Scott Warnetski, a Senior Audit Manager, and they're joined by Karen Benincasa, the Comptroller for the State and Joseph Bouchard, Assistant Commissioner for Department of Administrative Services.

GREG DRISCOLL, Partner, KPMG: Good morning -- afternoon, I guess, at this point. You've had a long meeting so we'll try to keep our prepared remarks brief and leave it more to answering questions because we understand you have been provided with the Management Letter, should be a loose -- a loosely stapled document.

We'll walk through, if you happen to have the letter, we'll walk through the cover letter before we get into comments first and point out some things. And some of this we discussed when we presented the financial statements back in January but just to set some scope. This letter relates to the financial statement audit that we debriefed with you back in January. The single audit around thorough compliance is completely separate engagement and document and Jayme will talk about that momentarily.

So these comments are items that we identified as part of the Financial Statement Audit, and it's around internal control. And our responsibility for testing the State's internal control is to -- to the extent that we make risks or determine our control risk, what you will, which then informs the amount of substantive testing that we need to do around the State's financial statement accounts. So the upshot of this is that we do not express any kind of opinion on the effectiveness of the State's internal controls. But to the extent that we identify any deficiencies through that audit work, we are required to evaluate their severity and then depending on the severity level we have communication requirements to you all and to management.

So, quickly, there's three types of severity classifications, if you will. The first is a material weakness which is a deficiency or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented or detected and corrected on a timely basis. Next down the level of severity is a significant deficiency which is a deficiency or combination of internal control that's less severe than a material weakness but rises to a level that it merits the attention of those in charge with governance. If the deficiency is not determined to be a material weakness or significant deficiency, it is just a control deficiency and we move along with the required communications for those.

So to summarize, we have five comments in the letter, two of which relate to control deficiencies. One was determined to be a significant deficiency around the State's lack of obtaining what we call a report on internal control over their MMIS System provider, and Scott will go into a little bit more detail around that. We had one that was just a regular control deficiency around some approvals of investment transactions, fairly isolated occurrence that we found. And then the last three comments relate to what we refer to as more best practice or industry information.

We had one on the new pension standards that the State will be implementing in June 30, '15, those sets of financial statements. We have one on succession planning which is an issue that governments across the country are experiencing as some of its top management are retiring and moving on to other things. Who is going to fill that drain of institutional knowledge up along the ranks to be sure that the State continues to operate as effectively as it always has? And then, lastly, we had a comment just pointing out to the State this option or alternative for providing retiree health care benefits or a component of retiree health care benefits referred to as an Employer Group Waiver Plan, largely around the Medicare Part D subsidy and provision of drug benefits that the Federal Government provides. It's had an alternative develop with the new health care laws that have gone along.

So I think what we'd like to do is just take maybe five minutes or so and focus on the significant deficiency over the MMIS System, and then we'll talk a little bit about the new pension standards and then the other comments. If you have questions, we'll take them at the end of the presentation. Scott, I'll turn to you.

SCOTT WARNETSKI, KPMG: For the record, my name is Scott Warnetski with KPMG. So as the letter states, the State's MMIS System or Medicaid Management Information Systems processes over a billion dollars in claims a year. These expenditures are reported as expenditures in the State's General Fund. The State does outsource the processing of these claims to a third-party service organization. However, the State is not absolved from its responsibility for ensuring that controls, internal controls over financial reporting do exist at the external service organization. Oftentimes, you know, what entities do and I would say most commonly, to ensure that the service organization does have controls in place, the State or other entities would require the service organization to undergo an audit of its internal controls. I think what we commonly refer to as SOC 1 or a Service Organization Audit. And the State has routinely obtained these audits through Fiscal Year 2012.

In 2013, the State did change service providers for the MMIS System roughly through the middle of the year. The old provider did not have an audit from 7/1/12 to the end of its contract. And the new provider is not anticipated to have its first audit until the period beginning 7/1/2013. As a result, the State has -- as a result there's no assurance available that the Service Organization Controls are operating effectively during Fiscal Year 2013. You know, however, and we note in the letter, there were other controls at a higher level at the State that we did note that were operating effectively that did help to mitigate the severity of this finding as Greg mentioned, the most severe being a material weakness. Those controls did help to bring this down to what we call a significant deficiency. And it's our understanding that, you know, in Fiscal 14, a Service Organization Control Report would be obtained by the State to sort of provide assurance in Fiscal Year 14. With that, I'll turn it over to Greg to talk about the pension comment.

MR. DRISCOLL: Any questions on that -- that item before we move onto the new pension standards?

So quickly on the pension standards, I mean, sometimes we do trainings on these things and they take two hours. So I'll try to give you the two-minute version of what the State will be looking at for its June 30, '15 financial statements and maybe the level set.

The State participates in two retirement plans. They have -- they participate in the state-wide cost-sharing plan in New Hampshire Retirement System, as well as the single employer New Hampshire Judicial Retirement Plan where the State is the only employer providing benefits. So those are the two plans that would be evaluated under these new pension standards. And, currently, in the State's financial statements, as long as the State makes its required communication to the Retirement System or it makes a contribution to the Judicial Retirement Plan in the amount that's called the Annual Required Contribution, as long as it makes those contributions in full, the State does not record a liability in its financial statements. So there is an actuarially unfunded liability at the plan, but GASB had up till now been on what they called a funding approach. As long as I make my required contribution, I do not report a liability in my financial statements. With these new standards, again, which the State will apply in the June 30, '15 financial statements, the paradigm is shifting from a funding approach to an earnings approach, where now the State will have to report in its financial statements a liability to best reflect the cost or the unfunded liability for benefits earned. So, essentially, the plans have always calculated the total actuarial liability, they have their assets in the plan used to finance that, and then there's an unfunded piece.

For the statewide Retirement System, the State would record in its government-wide financial statements, so those ones that are full accrual on the top, the State would record its proportion of that unfunded liability as a liability in its financial statements. Again, it's a cost-sharing plan so there will be an allocation divvied up amongst all the participating employers and the State would bring on its piece of the underfunded amount.

The Judicial Plan, since the State is the only employer, whatever actuarial unfunded liability there is, the State would also record that amount in its government-wide financial statements as a liability.

To level set those amounts for you, at the June 30, '13 measurement mark that unfunded amount at New Hampshire Retirement System was $4.6 billion. And I think Karen has some data that she's anecdotally shared that for participant information it's estimated that the State is anywhere in the 20 to 25% range of the plan depending on the metrics. So, again, not that -- that may change, the unfunded actuarial liability will be updated, obviously, as we get out. But just to give you a frame of size, you're looking at a quarter of a 4.6 billion-ish dollar liability as it sits at June 30th. That would come on to the State's government-wide balance sheet.

The Judicial Retirement Plan as of June 30th, the unfunded amount was 29 million so smaller number; but, again, would come on the face of the government-wide statement. It is just a government-wide matter for the liability. The governmental funds, the General Fund, if you will, will continue to go on on a pay-as-you-go approach for recording expenditure and liability so this is more of those long-term view financial statements that would be impacted by this new GASB standard.

The one other thing that I will throw out that is further down the road, pension is the first wave. GASB also has a project to re-examine its OPEB accounting standards. And tentative decisions to date indicate that the mechanism in place for pension with the new standards will be put in place for OPEB. So that when these standards go, it obviously has to go through rounds of due diligence and due process. But if it does follow the same pension sort of accounting, that unfunded OPEB liability, which as of June 30, 2013, for the State set at $1.8 billion that would also come onto the government-wide financial statements as a liability;

so things that, again, there's no requirement to fund these liabilities in any sort of accelerated manner. GASB only controls the financial reporting of these obligations. It does not have any -- any jurisdiction to mandate that they be funded. But, again, you know, that liability that sits up on the top, ultimately, it's going to come to roost to be funded at some point. So this just makes -- brings these liabilities more to light in an impactful way on the face of the State's financial statements, rather than through disclosure only.

So, Karen, I don't know if you had anything else to add to that at this point.

KAREN BENINCASA, State Comptroller, Department of Administrative Services: No. I want -- I want to be mindful of the time. So we had -- we were going to reiterate some of what Greg has just spoken about. For the record, my name is Karen Benincasa. I'm the Director of Accounting Services, the State Comptroller. I would just like to thank KPMG for their work and the recommendations. We certainly had a lot of discussions about these items that are in this report, and we'll work and continue to work on implementing recommendations and evaluating the items that they have outlined here in section two; but the -- certainly, the pension and the OPEB liabilities are significant liabilities that are currently out there today and will be soon, it looks like, coming onto our balance sheet. And we'd be happy to answer any questions.

VICE-CHAIRWOMAN FORRESTER: Thank you. Questions?

REP. LEISHMAN: I guess I would just like to ask a question maybe of Scott, was it?

MR. WARNETSKI: Sure.

REP. LEISHMAN: Comparing ourselves with other states, how serious is our pension liability?

MR. WARNETSKI: Let Greg --

MR. DRISCOLL: The pension liability? The funded status of the plan, I think, if I remember correctly, is about 56% or high fifties, low sixties. That's probably median to be quite honest. Some of the other local states, New York is one that comes to mind that I'm familiar with, their plans are in the mid-ninety to high 80%. You get to the test cases of Illinois and they're in the twenty and thirties.

I don't know that measuring yourself against other states is the right way to go because, ultimately, it's your obligation. But I think -- I think it's fair to say that New Hampshire is probably in the median.

REP. LEISHMAN: So if I was somebody from the outside and I'm taking my question looking at surrounding states, but as a small state, such as ourselves, if you were sitting here would you be very concerned or slightly concerned or not concerned at all?

MR. DRISCOLL: It certainly would be in the concerned realm; the concerned to very concerned.

REP. LEISHMAN: Very concerned.

MR. DRISCOLL: This is -- this is a big obligation. And it's, you know, you can do certain things legislatively to try to manage it; but it's, ultimately, these benefits are going to be funded at some point. And it would certainly get the attention of the raters, the bond raters when they look at these longer term views. So I would be at least concerned.

REP. LEISHMAN: Thank you.

VICE-CHAIRWOMAN FORRESTER: Thank you.

MR. DRISCOLL: Thank you.

MR. WARNETSKI: Thank you.

VICE-CHAIRWOMAN FORRESTER: Representative Weyler.

** REP. WEYLER: I move we accept the report, place it on file, and release in the usual manner.

REP. EATON: Second.

VICE-CHAIRWOMAN FORRESTER: All in favor?

*** **{MOTION ADOPTED}**

MR. MAHONEY: Madam Chair, the next audit is the single audit of the Federal Financial Assistance Programs. To present that audit report is Jayme Silva. Jayme is the partner from KPMG responsible for that aspect.

JAYME SILVA, Audit Partner, KPMG: Thank you. Good afternoon. My name is Jayme Silva, for the record. I'm an Audit Partner with KPMG. So, you know, due to time, but I do want to spend a little bit of time, but taking time into consideration, we are here to talk about the Federal Single Audit for the year ended June 30th, 2013. So I'm going to hold the green book up. Everyone has the green bound book? I promise you I will not go through 300 pages of this. This would take hours and hours. But I'm going to highlight just a few key features of, I think, what's interesting, you know, to the group or the Committee today that will hold some interest. Excuse me.

So I'm going to flip by -- the first half is the financial statements which actually Greg and Scott back in January had gone through. This is the CAFR. So this actually just gets lodged or actually, if I take a step back, this entire bound report actually gets lodged with the Federal Government which is their clearinghouse. And that is due -- that was due back on March 31st, 2014. That was timely submitted. So the reason for all the reports are they have to get lodged with the Federal Government. So there's really no reason to talk about today since in January the financial statements were already previously discussed. So we'll go over the first tab, about 50 pages or so, or 70.

So we go to Tab 2, which is the report on compliance and internal control. Greg Driscoll and Scott Warnetski, they've already discussed D-1 and D-2. This actually talks about the significant deficiency they talked about, the MMIS.

So we are going to turn the page to D-3. So D-3 to D-7, I believe, D-7, this is the report for the A-133. So for Federal funds it's actually broken out into three sections. One is the report on compliance for each major Federal program, the second is report of internal control over compliance, and then finally the third item in here is the Schedule of Expenditures of Federal awards to make sure they're fairly stated.

So if you flip the page to D-4, 'cause D-3 actually talks about management's responsibility and what the KPMG responsibility is and has not changed year to year. If we get into the compliance piece on the bottom of D-4, we actually qualified our opinion for ten programs. And so what I mean by qualification is that there was a significant non-compliance item in the certain agency or program that we noted. So if you look at the bottom of D-4, you can see there's ten programs. So the finding references in the E section or, I'm sorry, the F section, there's a CFDA number that refers to a Federal program, a program name, and then the compliance requirement that actually had the State in non-compliance. As you can see, and I'll summarize just briefly, is we had two reporting findings in certain agencies. We had two cash management and that's really the drawing of Federal funds on a timely basis. We had one sub recipient monitoring, we had one period availability, one earmarking, and one eligibility. And so if I take a step back, so each program has the compliance supplement is really regulated by the Federal Government. So they sort of tell us how and what to test from the standpoint and there's 14 compliance supplement items that we -- that could be subject to testing. So reporting is one area, period availability is another, so for each of these programs there was a significant finding that qualified the opinion for that program.

So to put it in perspective, I think we had eight qualifications or so last year just year on year. And, again, every audit stands on their own and some agencies come in and out based on risk assessments that we do, but just to put it in perspective of qualifications.

So the other matter in compliance is if you go down to D-5, we actually had 41 findings for non-compliance issues. So they weren't so significant that they qualified the opinion, but they were significant enough to note in the report. So that's where it says other matters. And so those other matters did not qualify the report. I'm sorry. They actually would be -- those reports are considered unmodified. What I mean by that is that they're clean reports. So we had 41 findings and that were -- that kept the opinion clean and then the ten qualifications.

So if we move to the next step in the report, the report on internal control, the compliance, that sort of feeds into the compliance findings and when I refer to D-6, there's actually two items to talk about. One is material weaknesses which Greg defined previously. We actually had from a material weakness standpoint, we had

34 material weaknesses noted in this report. That actually compares to 33 material weaknesses in the prior year. And a material weakness is something that's significant. You know, I put it in three categories. There's material weakness, significant deficiency, and control deficiency. And so if we kind of put that to the side we had 40 -- I'm sorry -- 34 material weaknesses in '13. Significant deficiencies which follow the material weaknesses we had 21 last year -- sorry -- this year compared to 27 in the year before, '13 to '12 is the comparison.

So from the standpoint as I want to level set is we have findings from a compliance standpoint, and we have internal control deficiencies, you know, there's actually $1.76 billion of Federal money that or Federal expenditures in '13 that was spent. And those -- those vary to different programs, but we looked at 35 programs out of the $1.7 billion. And so these findings or internal control deficiencies relate to those 35 programs. So we audit, actually, I think close to 90% of the Federal expenditures that sit out there, the 1.7, but we looked at 35 programs this year that were considered major programs to us. Again, to put it in perspective, it just happened we looked at 35 programs last year. That doesn't always mean the same. Again, those 35 are not the same. We looked at some every year based on quantitative and qualitative metrics. But, again, some come in and some come out but just to give you an idea how many programs we looked at year on year.

So the last piece of the report on D-7 is the report on Schedule of Expenditures of Federal awards. Again, that is the $1.7 billion that we look at. And what we are looking at there is to make sure that it's fairly stated. So there's three pieces of the report. That's the last piece of the report that we look at. And, again, that was clean from our perspective from the CEFA perspective.

The CEFA actually refers to E-1. So E-1 to E-57 in that section, these are all the scheduled expenditures of Federal awards, as I call them the CEFA. As you can see in E-57, 1.76 billion is what the State of New Hampshire spent as in cash expenditures for the 12 months ended June 30th, 2013.

So if we flip again to F, go sort of near the end of the reporting, there's a lot of pages here, so the F series actually does a few things. One is it summarizes the audit results. One at the top of F-1 it summarizes, you know, the financial statements that have been previously discussed back in January and the bottom of the page of F-1 refers to the Federal awards. It says, you know, it tells the reader, you know, was there a material weakness and it's yes. Are there significant deficiencies? Yes, which we had gone over, and also the types of auditors' reports. So we have the ten qualifications, and for all other major programs they're unmodified, again, which is clean. So it gives a pretty good synopsis or summary of the A-133 report. Sort of a one-page layout.

So if we flip to F-2, F-3, F-4, these are actually the 35 programs that are referred to earlier that we audit. You can go to any year, ‘12, ‘11, to see what was subject to audit. Again, some of the same programs come in. Some come in, some come out. There's free reference of what we audit. So there's some clusters on F-2 and F-3 which is a combined that we call one program and if you go to F-4, those are individual programs that we actually audit.

So then the rest of F -- actually, if we go to F-7, this is the significant deficiency that Scott Warnetski talked about. But from F-9 until F-147, those are actually all findings related to the A-133. And they're in a prescribed method which makes it easier to a reviewer to read. There's a criteria that we look at, there's a condition, there's cause and effect, question cost, a recommendation, and then Management of the agency has a chance to respond to the actual finding, the auditee corrective action plan.

So, again, putting in perspective, we had 57 comments, I believe, this year. Fifty-seven this year, and we had 63 in the prior year. Just to put it in perspective. Again, those breakdown in compliance and internal control findings but put some perspective on '13 to '12.

And then the final Appendix which is G-1, those are summary of prior year findings. So in the G series, from G-1 to about G -- G-20 or so -- I'm sorry -- 21, this is a summary of prior year findings. So if it was resolved, it sort of ends here. So if the finding's resolved, it stops here from previous year. If it's unresolved, it makes reference back to the current year finding and then it repeats the findings from G-23 to G-128.

So that's sort of in a brief summary the A-133. It's a pretty lengthy green bound book. There's a lot of information from findings, from facts; but, certainly, before I turn over to Karen for a second, if there's any questions to the report itself.

VICE-CHAIRWOMAN FORRESTER: Questions. Representative Weyler.

REP. WEYLER: Thank you very much. There's very extensive information. I hope to use it as a reference book. But one of the things that would have helped as I read through it, I would have loved to have an acronym page that I could separate and put aside as I'm reading these things so I don't have to search back to find out what that acronym was. In Appendix G or Appendix F, rather, there's no real summary and enumeration of all those 57 you spoke of as there is in G. G lists them all, 2012-2 and so on through so that you can look and see the ones that have been unresolved and so on. I would love to have seen a similar summary in the front of F so I have an idea. And I did look back and see there was 62 in 2012 and 55 in 2011 and so on that are unresolved. So it tells us that some of these things keep recurring. So that's something we'll look at again when we do the budget and hope we can straighten these things out. Thank you very much.

MR. SILVA: Okay.

SEN. FORRESTER: Representative Leishman.

REP. LEISHMAN: Thanks, Madam Chair. It may be a totally unfair question, but in my business if someone came in and said there were significant deficiencies, I would be shutdown. Now the Federal Railroad Administration comes in and audits our books or recordkeeping or equipment maintenance. So I guess from a business standpoint, when I look at these, and I continue to see audits that are presented from the LBA and listening to reports from you folks, see all the deficiencies that keep coming up, I don't know, it concerns me. I rather see that we are not finding these deficiencies. But when you say significant deficiencies, I guess I'd just like you --

REP. WEYLER: Or material weakness.

REP. LEISHMAN: Or material weaknesses.

MR. SILVA: From our standpoint, from the audit side, if you look at the -- I think it's a valid comment, both are good comments, but if you look at the 57 comments I can categorize some of the comments where there's a cash management comment. So Treasury. So that has been a comment for the last few years, and maybe the last four or five years. And so what happens in my viewpoint there's a disconnect between the agency and Treasury that that type of comment. I know we have worked with DAS is maybe that's probably 10 or 11 comments that sit in here that if they were resolved they would go away, right. So I know, Representative Leishman, you're not talking about the amount of comments.

REP. LEISHMAN: Right.

MR. SILVA: But the material weakness to significant deficiency. But that was sort of maybe they would be less comments. But really to your point, I believe -- so when we look at from an A-133 standpoint, when we find a finding, so let's say we test 65 individuals and we find three items that were exceptions. You know, we don't have a materiality setting in the A-133 world. In the financial statement, we have a great thing called materiality. That's my words, it's not the standard. But for here we have to look at what could go wrong from a control standpoint because if there was an exception, a control broke down, then we categorize it, material weakness, significant deficiency to control deficiency, but as you can see, and I didn't match them up, but we had very few compliance findings that didn't result in an MW or SD, right? So from that standpoint when something hits and we are testing a small sample of the population, the assumption, and maybe that's the wrong word to use, but we're looking at that as something great that could have gone wrong and that's why we categorized it into that material weakness SD. But I agree, in other facets or industry organizations outside of government if you had 57 findings or material weaknesses or significant deficiencies, we'd be having a different conversation potentially in the FTC world, right.

REP. LEISHMAN: Thank you. Thank you, Madam Chair.

VICE-CHAIRWOMAN FORRESTER: Further questions. Thank you. Okay. Thank you.

** REP. WEYLER: All right. Move we accept the report, place it on file, and release in the usual manner.

REP. EATON: Second.

VICE-CHAIRWOMAN FORRESTER: Excuse me. We have got one more person would like to speak.

MS. BENINCASA: Thank you. For the record, my name is Karen Benincasa. I just wanted to take a minute to mention that when I started in this position a year ago, I certainly recognized this was an area that we needed to spend more time and focus on. And I have prepared some other remarks, but I'll just mention that we have reclassified a position within Administrative Services to be an administrator of the Federal programs and cost allocation for the state. I think a lot of the -- I'm hoping that we can address a lot of these comments that are in here. Jayme talked about the Treasury State Agreement. I think there's been some disconnects between our agreement and the agency. So I'm hoping this position will help bridge some of that gap, start to look at some of these findings and, hopefully, resolve as many as we can and administer this from a statewide perspective because, ultimately, the concern is, is that where we -- we have increased our number of material weaknesses. When I look back in 2010 we have 11. In 2013 we had 34. So it's not getting better.

The number of findings in total might have declined a little bit, but certainly the severity of the comments are getting worse. So, certainly, we are paying attention to that. And also with these comments and the findings are going to be questioned costs and questioned costs where somebody expended something and received Federal recovery for and a disallowed expenditure or something like that that continues to happen can create an obligation for the General Fund. As of this report here, I think there's about $9 million sitting out there as questioned costs. And depending on that resolution, ultimately, if we don't manage the compliance can result in questioned costs or General Fund obligations down the road.

So, again, I just wanted to mention that we are working on this, looking at it, trying to dedicate some resources to it; and, hopefully, we'll see some improvements in this area. Thank you.

SEN. FORRESTER: Questions. Thank you.

REP. EATON: Get the motion?

REP. WEYLER: Got the motion.

REP. EATON: Second.

SEN. FORRESTER: All in favor? Opposed?

***** {MOTION ADOPTED}**

** SEN. PRESIDENT MORSE: Motion to adjourn.

VICE-CHAIRWOMAN FORRESTER: Second. Is there a second?

REP. LEISHMAN: Second.

VICE-CHAIRWOMAN FORRESTER: All in favor? Opposed? Adjourned.

***** {MOTION ADOPTED}**

(The meeting adjourned at 12:45 p.m.)

CERTIFICATION

I, Cecelia A. Trask, a Licensed Court Reporter-Shorthand, do hereby certify that the foregoing transcript is a true and accurate transcript from my shorthand notes taken on said date to the best of my ability, skill, knowledge and judgment.

Cecelia A. Trask

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