JOINT FISCAL COMMITTEE
Legislative Office Building, Rooms 210-211
Concord, NH
Friday, January 10, 2014

PRESENT:

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

(Convened at 10:12 a.m.)

(1) Acceptance of Minutes of the November 22, 2013 meeting

CHAIRWOMAN WALLNER: Good morning, and welcome to the January Fiscal Committee meeting and Happy New Year to everyone. Senator Larsen is here. She'll be joining us shortly, but I think we will get started. We have a long -- a long agenda today as you all know. Let's start out by accepting the minutes of the November meeting.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves and --

REP. WEYLER: Second.

CHAIRWOMAN WALLNER: Representative Weyler seconds to accept the minutes of the November meeting. All in favor? Any opposed? The motion passes.

***** {MOTION ADOPTED}**

(2) Old Business:

CHAIRWOMAN WALLNER: Old Business. No -- I see no action on that.

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

CHAIRWOMAN WALLNER: And let's move into Item 3 which is audit topics recommended by the Legislative Performance Audit and Oversight Committee. They have recommended to us three audits: Department of Administrative Services; Department of Safety, Homeland Security; Department of Education, Charter School Approval Process. Any discussion on those? Yes. Senator Odell.

SEN. ODELL: Thank you, Madam Chair. Can somebody explain what statewide recycling means?

CHAIRWOMAN WALLNER: Could we -- is there someone here? Linda, would you mind coming up and -- thank you.

LINDA HODGDON, Commissioner, Department of Administrative Services: Sure.

(Senator Larsen enters the committee room.)

MS. HODGDON: I'm not going to sound terribly knowledgeable on this because my expert on this is Mike Connor. But Administrative Services does head up a recycling effort in the state. There are a couple of reports, I understand, that have been issued, but we need to distribute those for the last two years and we are presently working on the December 13th recycling report. So the State does have a recycling effort. You see the containers throughout the different State buildings. So we are doing recycling in the state. I don't know with this effort -- with this audit whether there will be an enhanced effort to do even more, which would be great.

SEN. ODELL: If I may?

CHAIRWOMAN WALLNER: Further question.

SEN. ODELL: This applies just to State activity?

MS. HODGDON: Correct, State Government.

SEN. ODELL: State facilities and things like that?

MS. HODGDON: Yes. And I will endeavor to get those two reports that have been completed issued to the Fiscal Committee so you can see from the prior two years the work effort that has been done.

SEN. ODELL: Thank you.

CHAIRWOMAN WALLNER: Yes, Senator Forrester.

SEN. FORRESTER: When you say State facilities, does that include the Veterans Home? We just had a site visit there yesterday and they said they don't do recycling.

MS. HODGDON: Tara can help me.

TARA MERRIFIELD, Senior Management Analyst, Bureau of Plant and Property, Department of Administrative Services: I believe they reported on this Report of Compliance that they do do recycling. I can go back and check that.

SEN. FORRESTER: I would ask -- I see her back there.

MARGARET LABRECQUE, Commandant, New Hampshire Veterans Home: We do do cardboard recycling and as well as tires we do on an annual basis or quarterly as needed.

SEN. FORRESTER: What they were talking was the plastic.

MS. LABRECQUE: We also are in a new program that they did where all of our food stuff before is cooked, put in 5-gallon buckets for people to pick up and feed to the pigs and their animals like that.

MS. HODGDON: Probably some good information coming out of this.

CHAIRWOMAN WALLNER: Could you identify yourself for the recorder?

MS. LABRECQUE: Margaret LaBrecque. I'm the Commandant of the Veterans Home.

CHAIRWOMAN WALLNER: Thank you. Thank you. Any further questions? Thank you very much. So do I have a motion to --

** REP. EATON: So moved.

CHAIRWOMAN WALLNER: Representative Eaton moves.

SEN. FORRESTER: Second.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Forrester seconds. All in favor? Any opposed?

*** **{MOTION ADOPTED}**

CONSENT CALENDAR

(4) <u>RSA 9:16-A Transfers Authorized and RSA 14:30-a, VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over $100,000 from any Non-State Source</u>.

<u>CHAIRWOMAN WALLNER</u>: Okay. Move into the Consent Calendar. Tab 4. Are there any items on Consent? I will mention that -- well, on this one any items? There are three items. Nothing to be removed? Do I see a motion to accept Item 4?

** <u>REP. ROSENWALD</u>: So moved.

<u>CHAIRWOMAN WALLNER</u>: Representative Rosenwald moves.

<u>REP. EATON</u>: Second.

<u>CHAIRWOMAN WALLNER</u>: And Representative Eaton seconds. All in favor? Any opposed?

*** **{MOTION ADOPTED}**

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

<u>CHAIRWOMAN WALLNER</u>: On Tab 5, Item 299. The last item in the group, Department of Education, has been withdrawn. So that one you should remove from the action on this item. Are there any items that you would like to have withdrawn, have taken off? Yes, Senator Sanborn.

<u>SEN. SANBORN</u>: 295, please.

<u>CHAIRWOMAN WALLNER</u>: 295, Department of Health and Human Services. Any other items that you would like to have taken off?

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval of the remaining items. Is there a second?

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Discussion? All in favor? Any opposed? Item pass. The item passes.

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Now we'll take up Item 13-295, and it's Department of Health and Human Services. Would you like -- Senator Sanborn, would you like someone to come up to answer some questions?

SEN. SANBORN: Yes, please.

CHAIRWOMAN WALLNER: Okay. Thank you. Thank you, Commissioner.

SEN. SANBORN: Thank you, Madam Chair. Commissioner, thank you so much for coming in? I appreciate it. Just a couple general questions. If I remember correctly, there have been parts of the Heights Program, I think there was a 400 -- either 400,000 or $4 million grant at one point relative to implementation of the ACA as part of that qualification eligibility. And my concern is, and the ACA, 'cause it's established law, but my concern is more -- I thought anything to do with that implementation should be covered 100% by the Federal Government and I see this is a 90/10 deal. So are they -- are we back billing the Feds if there's a portion of this being associated to ACA compliance issues?

MR. TOUMPAS: For the record, Nick Toumpas, Commissioner of Health and Human Services. No. The 100% for the first three years of the Affordable Care Act are for the services. It does not include the administrative cost associated with the program or the systems related cost -- systems related cost for anything related to either the ACA or any of the other Medicaid programs that are funded for the development at a 90/10 clip, 90% Federal, 10% State.

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

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Thank you, sir. I appreciate that. So going forward do you anticipate it's going to say 90/10, A and B? Do you anticipate any other significant expenditures that we are going to be looking at in order to stay in compliance?

MR. TOUMPAS: There are -- some of the dollars that we'll be accepting from the Federal Government with respect to the eligibility system are beyond the ACA. There are a number of things that we are doing where we took the approach with the New Heights System, rather than just an outright replacement of the system, we chose to rebuild it and modernize it in phases. All the things -- so we have gone to the Federal Government, and they have provided us with the 90/10 funding in order to do that with the Heights System. So there -- there are other things that we are doing right now so they're -- that's an ongoing project 'cause we are doing that in stages.

There are other things that we will be doing related to -- partly related to the ACA, partly related to the broader level issues that they have come back to all states and that is in the area of security, data security, especially given that a number of people will begin the New Heights System and some of our systems are portals to allow people to apply for either Medicaid or Medicaid Today, whatever we choose to do or not do going forward, as well as a number of people who may believe they're eligible for Medicaid Today and they're not, and then we would then send that application up to the Federal Government. So there's a lot of data that is going back and forth between our system and the Federal Government. And over the past couple years the Federal Government has asked us to do security reviews and security audits on that and then have come up with a set of requirements and criteria that all states need to comply with regarding security. So it's -- and that's funded at 90/10.

SEN. SANBORN: Last follow-up.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Thank you, ma'am. And I'm assuming later on in the presentation today you'll be talking about the Dash Board so we can talk a little about it, about Medicaid as it relates to kind of all this.

MR. TOUMPAS: Yes.

SEN. SANBORN: Sure. Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Any further questions? Yes, Senator Morse.

SEN. PRESIDENT MORSE: Commissioner, but the 58,000 people being considered for Medicaid, how does this $9 million fit into them being accounted for in the future?

MR. TOUMPAS: From a services standpoint, Senator, there are no services involved. We needed to make changes to the system because as whether the State chose to go or chooses to go with Medicaid Expansion or any variant thereof, what the Federal Government did change in anticipation of that was how we would calculate the eligibility. They simplified the eligibility and went to something called the Modified Adjusted Gross Income or it's called MAGI. And so with that, that required changes to our system. Whether or not we as a state chose to do that because that's how people would be deemed eligible or not for Medicaid going forward.

So what we needed to have though was a mechanism, again, for that number of people with all the, you know, the publicity associated with it. You had a number of people that would come in and apply either through our portal or they would come through the Federally Facilitated Exchange to say I believe I'm eligible for Medicaid. And so if they came and applied and they're not eligible for our current Medicaid Program, we would send that up to the Federally Facilitated Exchange and vice versa, if they went through the Federally Facilitated Exchange and were not eligible there, they thought they might be eligible for the current Medicaid Program, they would send that application back to us.

CHAIRWOMAN WALLNER: Yes.

SEN. PRESIDENT MORSE: Further question.

CHAIRWOMAN WALLNER: Hm-hum.

SEN. PRESIDENT MORSE: And we have that ability now?

MR. TOUMPAS: That's part of what -- yes. That ability -- we have the ability to exchange the data. We were one of the first states, as a matter of fact, to pass the requirements and get certified by the Federal Government to allow us to basically send and receive data from the Federally Facilitated Exchange.

SEN. PRESIDENT MORSE: So have we seen an increase in Medicaid patients that are beyond what the Lewin report said we were going to see?

MR. TOUMPAS: Therein lies part of the challenge. We've got half the equation. The Federal Government has the other half. We are able to successfully send the data up to the Federal Government. For the number of applications that have come in from the Federal Government side through the Federally Facilitated Marketplace they have yet to reliably send us the data and the applications associated with that. I don't have the exact number in terms of what they've got, but we're not able to with the data that we have got right now, Senator, to say whether or not the Lewin Group had projected 1600 that would be the so-called woodwork effect. We don't know what that -- what that is right now because we simply have not received the data files from the Federal Government. They're working on that and they have been telling us for awhile that they were going to get that information to us. But until they get that information to us, number one, in a form that is readable by us and then, secondly, that we then have our eligibility workers go through and review that to see are they eligible under today's program, would they be eligible under an expansion, or are they currently, 'cause we believe some of them are current -- current beneficiaries of the Medicaid Program that went off and applied again, thinking that that was what they were supposed to do. So -- so at this point I think it will be fair to say that, hopefully, at the next Fiscal meeting or before I would be able to come back with a much clearer answer on that. But at this point, I don't know, nor the Department does not know whether that -- those applications that have come in from the Federal side translate to anything in terms of the current Medicaid Program which would, again, anything above that 1600 which is what Lewin contemplated, would be -- would be an issue for us.

SEN. PRESIDENT MORSE: Thank you.

CHAIRWOMAN WALLNER: Further question?

SEN. SANBORN: Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Senator Sanborn.

SENATOR SANBORN: Follow-up on Senator Morse. We don't know what the Feds are sending down. Do we have a number we sent up?

MR. TOUMPAS: I don't have that right with me; but, again, we do that as a matter of course. If somebody comes in and applies on our system through -- we call it the New Hampshire EASY System. If they're not eligible for today's Medicaid, what we would do is we would send that up to the Federally Facilitated Exchange for them to follow-up to see if the individual would be eligible for a subsidy.

SEN. SANBORN: If you can get that number be great. Thank you, sir. Thank you, ma'am.

CHAIRWOMAN WALLNER: Further questions?

** REP. EATON: Move approval of 295.

CHAIRWOMAN WALLNER: Representative Eaton moves approval of 295.

REP. LEISHMAN: Second.

CHAIRWOMAN WALLNER: Representative Leishman seconds. Any further discussion on the item? 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 and RSA 124:15 Positions Restricted:

CHAIRWOMAN WALLNER: Let's move on to Tab 6.

REP. WEYLER: 299.

CHAIRWOMAN WALLNER: 299 has been withdrawn.

REP. WEYLER: Okay.

CHAIRWOMAN WALLNER: I think everyone have a letter from the Department of Education? They withdrew that item. Tab 6 is also consent.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Two items. Anyone want to take any off? No. Okay. Representative Eaton moves approval of Tab 6.

SEN. FORRESTER: Second.

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

***** {MOTION ADOPTED}**

(7) RSA 124:15 Positions Restricted:

CHAIRWOMAN WALLNER: And now moving on, still it's on consent. Tab 7.

** REP. LEISHMAN: Move approval.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves approval. Representative Eaton seconds. All in favor? Any opposed?

*** **{MOTION ADOPTED}**

(8) RSA 21-I:19-g, III, Use of State-Owned Vehicles:

CHAIRWOMAN WALLNER: Now moving into Tab 8. This is an item about State-owned vehicles. Do we have any questions? Yes, Senator Morse, would you like someone to come up to answer? Okay. Thank you, Commissioner. Identify yourself.

MS. HODGDON: Thank you. For the record, my name is Linda Hodgdon, Commissioner of Administrative Services. And joining me is Tara Merrifield who heads up our fleet program.

CHAIRWOMAN WALLNER: Senator Morse.

SEN. PRESIDENT MORSE: Commissioner, I just have a couple of questions. Obviously, we decided this a year or two ago, and we have made some headway. There's two vehicles, one at Fish and Game and one at DRED that we said we weren't going to keep. And now they're coming back to us saying they are keeping them, and they don't qualify.

MS. HODGDON: Which ones are those?

MS. MERRIFIELD: Do you have -- I'm sorry. After last year's break-even mileage, the only vehicles to be removed from the Department of Safety. Do you have the plate numbers for DRED and Fish and Game that you think were removed?

SEN. PRESIDENT MORSE: I believe a discussion last year was on the Director Normandeau's car and then on the vehicle at DRED that was at the ski resort. The one at the ski resort was the personal miles exceeded the 20% by far and DRED they weren't putting the mileage on.

MS. MERRIFIELD: The Fish and Game vehicle --

SEN. PRESIDENT MORSE: I mean, Fish and Game.

MS. MERRIFIELD: -- was reassigned within Fish and Game because it was purchased with dedicated funds and, therefore, we could re-allocate it within that Department. So we didn't have to -- we weren't changing funding sources.

SEN. PRESIDENT MORSE: It's still said it's being stored at the Director's house. So I don't understand how that works.

MS. MERRIFIELD: On my spreadsheet I see that it's a law enforcement vehicle garaged in Concord.

MS. HODGDON: Are you looking at the waiver? Where does it look like it's still with Director Normandeau?

SEN. PRESIDENT MORSE: Director Normandeau, I believe, said it was still -- it was being garaged at his house.

MS. MERRIFIELD: I think that's an error from the reporting system. I think when it was converted to a pool vehicle in Concord we forgot to change the garaging location to non--- not at a residence. So that's an error in the Fish and Game report.

MS. HODGDON: We can correct that, and my apologies.

CHAIRWOMAN WALLNER: Could you just point out which automobile we are talking about at this point?

MS. MERRIFIELD: That's the vehicle with plate F1. It's a Chevrolet Impala, 2006 Chevrolet Impala.

REP. EATON: Page 13 of 30.

REP. ROSENWALD: Is that Waiver 6?

REP. EATON: Yes.

MS. HODGDON: Yeah, garaged at the office overnight. On Page 13.

MS. MERRIFIELD: Yes.

CHAIRWOMAN WALLNER: Further questions.

MS. HODGDON: We'll make sure we will get that to be correctly reflected in all places; but it's our understanding that the Director's no longer driving that vehicle and it's not garaged at his House.

REP. EATON: On Page 13 of 30 it says garaged at the office overnight.

MS. HODGDON: Yeah, I think there's a couple of inconsistencies in that report.

SEN. PRESIDENT MORSE: I think the point was we have done a great job. We have saved over 1 million miles and we don't want the reporting system to in any way be wrong. So that does -- that million miles doesn't really exist because that 55-cents times a million miles, I mean, that's a great savings for the State of New Hampshire.

MS. HODGDON: Yeah, it's really 37-cents just because that's what it cost us to run a State vehicle. Fifty-six and a half is what the Feds reimburse. That's the Fed rate that we follow in the state for reimbursement for personal car mileage.

SEN. PRESIDENT MORSE: Still that times a million miles.

MS. HODGDON: It's still a lot of money, absolutely.

CHAIRWOMAN WALLNER: Further question? Yes, Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Commissioner, thank you so much. And the other car which we have it shows it's being used 75% of the time for private use out of Cannon.

MS. HODGDON: The Cannon Mountain vehicle.

SEN. SANBORN: Was that car supposed to be returned or they still using that car?

MS. HODGDON: I think that's the car that has all the advertising on it that's advertising Cannon Mountain. It is like a driving billboard.

SEN. SANBORN: Follow-up. Thank you. While I appreciate that, the Legislature made a decision. So, obviously, we are concerned about the Legislature making decisions on this waiver and then all of a sudden they are still being driven which seems contrary to the intent. So is it still being driven or used and not --

MS. HODGDON: I think it's still being driven. I think it's still being driven by the Cannon Mountain manager and it's, like I said, it's like a driving billboard. That was the reason that we felt that, you know, probably made sense for them to keep it, because of the advertising that they were doing. I don't -- I don't know, did the Fiscal Committee make a decision on taking that away?

MS. MERRIFIELD: The non-business use waivers are for the -- per the legislation are reported to the Vehicle Utilization Committee, and they determine yes or no on the waivers. And we submit a report to the Fiscal Committee and Governor and Council of which specific vehicles have over 20%. So the item that comes to you and the Governor and Council are informational items.

SEN. PRESIDENT MORSE: But the last -- excuse me.

MS. HODGDON: That's on the non-business use as opposed to break-even mileage so that is actually not even falling underneath this report. That's a non-business use. That there were a number of laws that passed in a short period of time. That falls underneath the non-business use as opposed to the break-even mileage. It actually doesn't fall out under the break-even mileage. It actually qualifies as appropriate.

SEN. SANBORN: So I apologize. Thank you.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: So even what's being driven 75 or 76% of the time for personal use, because there's a billboard on the side of it you're suggesting that's not personal use. So that's the justification to continue using the vehicle.

MS. HODGDON: That was the justification. That is a very rare exception. That's one of a kind, and I think the Vehicle Utilization Committee didn't feel we should be taking that vehicle away. That's the only one I can think of that is like that. That is very high personal use, yes.

SEN. SANBORN: One more follow-up.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: To go back to Senator Morse's earlier statement. It's, obviously, outstanding we have been able to cut a million miles of travel a year. You should be commended, absolutely; but kind of a check and balance on that. Are we seeing a dramatic decrease in the gallonage that's being used through the state? How could we kind of tie that, if we have a million miles less and we are filling up at State facilities, which I'm assuming we are.

MS. HODGDON: Yes.

SEN. SANBORN: Should be some significant reduction in fuel purchases. Does that seem to tie into you guys? Have you looked at that analysis?

MS. HODGDON: We have. Actually, I have a summary report that Tara has done that looks at all different aspects of the vehicle. So in addition to reducing or reassigning, I should say, reassigning 65 vehicles within agencies, in addition to that there were 89 vehicles that actually were removed from the fleet. So about 154 some odd vehicles.

As we all know, while the miles travelled were reduced, fuel costs have increased over time. So we still have fuel costs having decreased or field consumption decreased 5.2%, 91,000 gallons. What we want to be careful of we don't reduce the State fleet beyond the point of what's reasonable. Because at some point in time you're paying personal car mileage and you're paying 56-cents as opposed to paying 37-cents, and we certainly had a situation at Health and Human Services where they didn't have enough State vehicles and their personal car mileage was very, very high. So we put in place the lease program. So we are doing a lease purchase with vehicles at Health and Human Services and the lease cost is about halfway between the 37-cents and the 56-cents, and over time we'll own those vehicles. That's the smarter kind of financial decision going forward. We do look at all aspects of both gallonage and cost of the fuel.

SEN. SANBORN: Last one.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Gallonage basis we are down about 5%?

MS. HODGDON: Correct, 91,000 gallons.

SEN. SANBORN: To 91,000 gallons.

MS. HODGDON: Yes.

CHAIRWOMAN WALLNER: Representative Leishman.

REP. LEISHMAN: Thank you, Madam Chair. I had a couple of questions. I want to thank Miss Merrifield for answering those questions, one of which was a number of vehicles we are approaching the 200,000-mile mark; but my concerns were addressed and I want to thank you.

CHAIRWOMAN WALLNER: Thank you. Any further questions of the Commissioner?

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Thank you. Thank you very much. Representative Eaton moves approval. Senator Larsen seconds. Any discussion about the item? All in favor? Any opposed? The item passes.

***** {MOTION ADOPTED}**

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

CHAIRWOMAN WALLNER: Move to Tab 9. Tab 9 is also Department of Administrative Services. Do I have a motion?

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves.

SEN. FORRESTER: Second.

CHAIRWOMAN WALLNER: And Senator Forrester seconds.

REP. LEISHMAN: I did have a question.

REP. EATON: You'll have a question after our motion.

CHAIRWOMAN WALLNER: Any discussion of the item?

REP. LEISHMAN: Just a side comment. Commissioner, Representative Kurk is actually off and spoke to me about not paying enough attention when reviewing the budget and not adding up the numbers. His adding machine often subtracts and I add. I see the number on the cover sheet and they don't add up so I thought I'd bring that to your attention. First time I've actually done that. It's off by one dollar, but I figured that's within the margin.

CHAIRWOMAN WALLNER: Pretty darn close.

MS. HODGDON: It's probably rounding.

REP. LEISHMAN: Thank you.

CHAIRWOMAN WALLNER: Item 9. All in favor? Any opposed? The item passes.

***** {MOTION ADOPTED}**

(10) Chapter 144:56, Laws of 2013, Department of Correction; Transfers:

CHAIRWOMAN WALLNER: Now we move into Tab 10. This is Department of Corrections transfers, and the first item is Item 282. Any questions --

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: -- of the item? Representative Eaton moves.

SEN. LARSEN: Second.

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

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Item 284 is also a Department of Corrections item.

** REP. LEISHMAN: Move approval.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves approval, Representative Eaton seconds. All in favor? Any opposed? Item passes.

***** {MOTION ADOPTED}**

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

CHAIRWOMAN WALLNER: Moving into Tab 11. We have three Department of Transportation transfer funds, the first one being Item 265. Any discussion?

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: And Senator Larsen seconds. All in favor? Any opposed?

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Next Department of Transportation, Item 276.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves and Senator Larsen seconds. All in favor? Any opposed?

*** **{MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Department of Transportation, Item 289.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves and Senator Larsen seconds. All in favor? Any opposed?

*** **{MOTION ADOPTED}**

(12) Chapter 144:117, Laws of 2013, Department of Information Technology; Transfers Among Accounts:

CHAIRWOMAN WALLNER: Moving now to Tab 12. This is Department of Information Technology, Item 275.

** SEN. FORRESTER: Move approval.

CHAIRWOMAN WALLNER: Senator Forrester moves approval.

REP. EATON: Second.

CHAIRWOMAN WALLNER: And Representative Eaton seconds. Discussion? All in favor? Any opposed?

*** **{MOTION ADOPTED}**

(13) Chapter 144:117, Laws of 2013, Department of Information Technology; Transfers Among Accounts, and RSA 124:15 Positions Restricted:

CHAIRWOMAN WALLNER: Moving on to Item 13, Tab 13, Department of Information Technology. This is a transfer among accounts. This is Item 293.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. FORRESTER: Second.

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

***** {MOTION ADOPTED}**

(14) Miscellaneous:

(15) Informational Materials:

CHAIRWOMAN WALLNER: Now we have several informational items. And are there any that -- I know that I would -- I would like to ask Commissioner Toumpas to come up and talk about the Dash Board. That is using the November -- we have both the October and November on here but talking about the November Dash Board which is Item 283. So thank you, Commissioner.

MR. TOUMPAS: And there is an October and a November Dash Board. So it is Item FIS 13-283.

CHAIRWOMAN WALLNER: 283. Right. Does everybody -- everybody have it?

REP. EATON: Yep.

CHAIRWOMAN WALLNER: Okay. Thank you, Commissioner. Appreciate you coming up.

MR. TOUMPAS: Thank you.

CHAIRWOMAN WALLNER: Would you like to talk to us a little bit about the Dash Board?

MR. TOUMPAS: Thank you, Madam Chair, Members of the Committee. Again, Nick Toumpas, Commissioner of Health and Human Services. I'd ask to speak on the -- today on the Dash Board. As you know, the Dash Board is something that we put together on a monthly basis and we have been doing that over the past several years. It is a point in time view of the Department on our operations, our caseloads, trends, as well as on our budget, where we stand overall with respect to our budget. The Dash Board that you have before you on -- for the November item, since July of this Fiscal Year, we have been reporting and projecting a General Fund shortfall over the course of the biennium of somewhere in excess of $35 million in General Funds. The bulk of those shortfalls really emanate from four -- four areas. One is the back of the budget $7 million reduction that was -- that was part of our budget, and second was the -- that's about $7 million. The second is the statewide -- our share of the statewide back-of-the-budget which is about 4.4 million.

The DSH disallowance, this is the -- these are the last two payments, if you will, by the State back to the Federal Government to settle that $35 million disallowance that was done a couple years ago. The Federal Government gave us eight quarters in which to basically settle up on that, and the last two of those were -- were due in '13. That's about $8.9 million. And then the delays in the implementation of the Medicaid Care Management Program, the budget contemplated that we would get that up and operational on July 1^{st}. As you may know, we went live with that on December 1^{st}. And so, consequently, the efficiencies or the savings that we had projected, both in the first year and second year of the biennium, needed to be -- needed to be calibrated somewhat in order to reflect we had a 5-month delay. And those -- and, again, in Fiscal Year '14 and '15 that totaled about $10.5 million. So, overall, those four items make up just about 30 million out of the roughly $37 million that we -- that we were projecting.

And as you see, if you open up the Dash Board to the -- it's really the third -- third page in, it's the spreadsheet that shows -- it's right after the cover page after the narrative, Table A as we label it. These estimates are over and above what our lapse expectation is of roughly $24 million a year. So the Department has been vigilant in managing the budget, but a number of issues as outlined creates some challenges and that's why I wanted the opportunity to basically brief you because this is the first Dash Board for the -- over the current Fiscal Year where we've actually shown the offsets projected -- the things that we're doing in order to offset that $35 million -- roughly the $35 million General Fund shortfall. I'm focused and the Department has been very focused on State Fiscal Year 14 and closing the gap of State Fiscal Year 14. We have a little bit more time to deal with State Fiscal Year 15, but our focus has really been on '14.

There were in the -- in the budget that was passed, there were several areas where there were some limited spending increases in our budget. They were around Uncompensated Care for hospitals, funding to address the DD Wait List, increased funding for nursing homes, mental health, the Children in Need of Services, and a couple of additional appropriations for Family Planning, Community Health Centers, and drug and alcohol services. We've taken a number of steps already to close the gap. So, again, '14, that's where the focus is on '14. And we have worked very closely with the Governor and her staff for any of the items that we are bringing forward here. Thus far, we have been able to identify a number of ways in which to be able to bring that shortfall down to around 8 million from the

10 million that you see on the document before you.

If you look at the bottom -- the bottom line, which would be Line 52, Column E, it shows $10.2 million General Fund shortfall. Subsequent to our providing this in mid-December, we have continued to scour and look for areas and we have identified roughly another $2½ million to apply to that $10 million. That will be reported in the January -- January Dash Board. Excuse me, the December -- will be the December Dash Board.

So the challenge that we face is how do we deal with the remaining roughly 7 to $8 million that we have. Closing that gap is dependent upon a number of variables, and I'd like to just discuss a couple of those variables.

The first one are the caseloads. You will note if you go into the Dash Board on the next to the last page of the Dash Board there will be Page 13 of 14. And I would draw your attention to Column E which is the Medicaid caseload, actual caseload.

Now, this is a point in time. This reflects the caseload to the Medicaid Program as of the end of the month that we are reporting here; in this case happens to be November. Caseloads will fluctuate over the course of the year and over the course of the month. But -- so this shows a point in time at the end of -- end of the month in terms of the number of people we actually had on the Medicaid caseload. You will note on Line 72 that that number was 127,359. I'm pointing that out because the budget that was -- that was passed assumed a zero percent caseload growth in the Medicaid Program. And the baseline, when that was established, was in the House Budget.

So I draw your attention to Line 64, Column E, the caseloads at that time were 129,413. So we are roughly

2,000 lower in terms of our Medicaid caseloads from where we were when the budget was being constructed. If the caseloads continue to fall, right now in the past what we would be able to do with some degree of certainty would we'd be able to translate that reduction or increase in caseload in terms of what that would translate to additional spending in the area of provider payments or reduced spending in provider payments. Where we're in a bit of unchartered territory right now is because of the impact of the Care Management Program. What we need -- we simply don't have the data yet because we are literally six months -- excuse me -- six weeks into the program. So what we would need to do is need to take a look of this fewer number of cases that are there, how many of those are within the Managed Care, how many are those within the fee-for-service. So it's a little difficult for us to project. It will clearly be less spending. But what we don't know is how that's going to translate and whether how much that would offset that, at least for State Fiscal Year 14, the roughly $2 million that you see on the Dash Board.

So we have looked very hard at other areas. So, again, caseload is a variable. It's a very significant variable. And I suspect as each month when I come back with our information item that we will be able to shed a little bit further light, especially after the first month of the program where now we'll -- we will have data that we'll be able to look at that and say how does that translate in terms of the number of members that we had projected to be paying for in the Care Management Program but now we are not, because they're not on the program. Or whether these folks will in the fee-for-service program that would drive lower utilization in that part of the program.

Second area that we needed to take a very hard look at was in our area of personnel and our operations. We don't believe that either one of those is an area that will allow us to basically close the gap because we are already using some of those dollars in personnel as a way in which to be able to do this. The Dash Board has consistently shown over the past year that we have roughly 450 positions fewer than what we did two and a half years ago in terms of the authorized positions. Moreover, we have been maintaining over roughly a hundred vacant positions in order to basically generate savings to achieve back-of-the-budget savings or offsets in other areas or our lapse obligation. Each position, roughly, within the Department on average is roughly $40,000 in General Funds; on average, salary and benefits, for each position. So for every -- assume that $40,000 for 100 positions by holding 100 positions vacant that will generate $4 million in General Funds savings.

Additional reductions in operations are also somewhat challenging for us because, in fact, in the budget that was passed there were a couple of other programs that were added. Specifically, we added the restart of the CHINS program, Children in Need of Services. And then we also had the -- it's known by various names, but the therapeutic use of cannabis for medicinal purposes, something along those lines, and that's a very significant undertaking on the part of the Department. And while the legislation and the law contemplates that that would be self-funded moving forward it's, in a sense, in order for us to get that program in place I'm needing, for lack of a better term, working capital in order to basically do all the due diligence that we need to do in order to get the program set up so that such when we go live with the program that we would be able to generate fees that would then offset whatever the cost would be to the Department in order to do that. So if it goes beyond the Fiscal Year, beyond the current biennium, and it was really pegged to go live toward the end of the biennium, then there may be some additional dollars that would be required there. So that's -- that's an area that we continue to monitor very closely.

For the positions that we do fill when they become vacant, the majority of the positions that we fill and when they become vacant are those that are on the front line positions at the New Hampshire Hospital, the Sununu Youth Services Center, the Glencliff Home, the Adult Protective Service Workers, the Child Protective Service Workers, the front line eligibility workers. Those are positions that we simply need to keep, maintain those. So the area we tend to look at for holding positions vacant are on our administrative operations.

The third area that I wanted to highlight that we continue to monitor and monitor very closely is -- is the point that we were talking about a little bit earlier with respect to the Affordable Care Act that we continue to monitor because, again, when that took effect on January 1st, we are looking very closely on how that impacts our Medicaid enrollment under the current eligibility standards. If you recall, for -- irrespective of whether the State chooses to do anything with respect to the Medicaid Expansion, for anybody that applies through the Federally Facilitated Exchange or otherwise, if they are deemed eligible for the Medicaid Program as it exists today, we do not get the 100% FFP, Federal Financial Participation on that. That is done at the normal 50/50 rate. So this is the so-called woodwork effect.

As I referenced earlier, we are trying to get that number. I don't have the number that we have -- we have sent. But, hopefully, in the time that I'm here, as well as the follow-up questions, that we might be able to get that information for you, but I don't have that at this point. But we'll continue to monitor that. Because, again, anything above that 1600 number which is in the Lewin Report, and for those of you who have seen that pretty significant spreadsheet that we put together, it really contemplated that we would have 1600 people in State Fiscal Year 14 that would be applied through the Exchange or other ways and they would be deemed eligible for the Medicaid Program today. That's what we had called the woodwork effect. But, again, we simply don't have that data at this point. Again, I suspect each month I come back I will do that.

So the staff continues to be vigilant in terms of looking at every reasonable opportunity in order to basically close that gap but -- and these variables I talked about, the ACA, the caseloads, and the trajectory on the caseloads as well as on personnel, those areas we'll continue to monitor. But at this point in time I look at what I need to do in order to close that gap of the $8 million. The options are few.

If I look at programmatic reductions, additional programmatic reductions, invariably I will need to come back here for the full Legislature in order to seek authority to make any changes there. That will take time and effort in order to basically do that and time is not our ally on this. And, consequently, if we get -- as we get closer to the end of the Fiscal Year, if I don't have any of the other options, programmatic or other administrative reductions, the only area that would -- the area that I would have to turn to would be on the lapse, in terms of the lapse obligation that the Department has.

Again, we will be working very closely with the Governor's Office, with our staff, in order to come back to you and other areas within the Legislature in order to basically layout here's what our plan is in order to try to address this. But, again, I felt it was important at this point because this is the first Dash Board that we're actually showing what the potential offsets are to the projected shortfalls that we have, and I just wanted to make sure that I had the opportunity to address the Committee directly on this. And with that, I will open it up for any type of questions that you may have.

CHAIRWOMAN WALLNER: Thank you, Commissioner. And I appreciate your willingness to come and talk to us about this. And I think it's really helpful for us to be up-to-date with what's going on. Representative Rosenwald.

REP. ROSENWALD: Thank you, Madam Chair. I have two questions, actually, if I could? When you get the report about the number of people, you know, the welcome mat or the woodwork, will we also know who they are? Because my understanding is that there is three years of a higher match rate for children and I know that in the Lewin Report it was projected that approximately two-thirds of that woodwork population would be children. So they would be coming in an 88% match rate other than 50/50. So will we know?

MR. TOUMPAS: I'm not sure that takes effect in the current biennium. I think -- that may be -- have my --

REP. ROSENWALD: I think it is in the current plan.

MR. TOUMPAS: I believe that that -- there is the enhanced CHIP. So if the child is in the Children's Health Insurance Program, this is an enhanced match. I believe. However, that takes effect outside of -- clearly outside of State Fiscal Year 14.

REP. ROSENWALD: Yes.

MR. TOUMPAS: But stepping back on that, it goes to the point that Senator Sanborn and Senator Morse were asking a little bit earlier and that is we simply don't know. I mean, once that data does come in, in a form that's going to be readable to us, we then are going to take that data and we will provide that to our eligibility workers. They will then go through and do the review of that information to make an ultimate determination — are they eligible for the Medicaid Program today — in which case that classifies as the woodwork. Are they not eligible for the Medicaid Program today or are they -- are they at that level of income that they would qualify for the Medicaid Expansion under the Federal -- Federal definition? But, again, having not -- the State having not finalized what we will do in that particular area, we would then just hold onto those particular applications.

So -- so at this point, we simply don't have the data and they are -- I'm being told that this week and early next week we will get a couple hundred applications. And the first step is going to say can we actually read those and bring them into our eligibility system, such that our frontline eligibility workers can then do the due diligence and follow-up to see what action can we take on that. At this point, I simply don't have that data and I don't have any insights into how many of them would fall into any of the eligibility categories.

REP. ROSENWALD: Thank you. And my second question, if I could, is on Table H, Page 9, I see that nursing clients are running below budget, the number of nursing clients. So are you going to be projecting a savings on that?

MR. TOUMPAS: Again, these are areas that generally with, as we look at these, we will be looking at -- 'cause these -- the area on the long-term care side of it is -- is outside of the Managed Care component of it today. So we will be looking at -- at all this. Again, this is a point in time and I just want to be able to provide -- provide that particular snapshot. But yes, we are taking a look at anything that if there are lower caseloads and see how those translate to potentially lower spending that we can then use as a way in which to be able to offset this.

REP. ROSENWALD: Thank you.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you, Madam Chair. Commissioner, how's it going on the Managed Care Program now that we are six weeks into it?

MR. TOUMPAS: The Managed Care Program – thank you for asking – is -- is going very well, I believe. It is really a testament to the staff at the Department that did an incredible amount of due diligence in terms of reaching out to providers, reaching out to clients to do education sessions. We set up a Call Center. We went to small meetings. We held meetings at night in order to brief everybody in terms of what to expect. We have had daily calls up until last week with each one of the Managed Care Organizations. We have a team that meets on a daily basis to review any issues that come in from our Call Center. And we have been able to quickly deal with issues when they do come up. The -- I'm happy that at this point that there really have been no disruptions in terms of the services to the client. And, again, we are going through the first cycle so now to see whether the providers are being paid as well which those are the two key criteria.

I will not say that the program is without issues. I mean, this was a massive undertaking. We did a whole lot of due diligence and work in order to prepare ourselves for it, working very closely with those in the Department, with the Managed Care Organizations, and with many stakeholders, very helpful for us. The areas that -- was just a meeting last night where a couple of the issues that have come up related to prior authorizations. Because, again, when we cut over to the program on December 1st, somebody may have been prior authorized for either prescription drugs or some other type of services by the Department. The Managed Care Organization has got to take -- they may have a different way in which they're going to manage that.

So what we wanted was a transition so that the Managed Care Organizations would honor the prior authorizations in the first 30 to 90 days. Again, if it was only authorized for 30 days, that would run its course and then the Managed Care Organizations would take a look at that individual and determine whether that was the appropriate level of services that they should be receiving or that was the appropriate drug that they should be receiving and so forth. So there have been issues there. And then the other -- but we are nothing -- not a -- not a wave of things but just isolating.

What we try to do is take a look at those and where one of them may be a leading indicator, if you will. That said, there may be a systemic issue. For example, we did have a couple of the MCOs that misinterpreted what we meant in terms of the prior authorization with respect to prescription drugs. When we got several calls, all on the same theme on that, we went immediately back, wrote a letter and got back in touch with each one of the MCOs and said no, this is the way it needs to be interpreted at this point. So we have stayed on top of that. And then the other area that there have been some challenges and that's in the area of transportation which was a challenge before we went care management and it's a challenge now. And we will continue to try to work that. I don't know, be meeting with some people on what we could possibly do to change that dealing with that issue. Because we can talk about all the services, all the capabilities in the world, but if we can't get somebody from Point A to Point B, we are not going to get the results that we wanted.

CHAIRWOMAN WALLNER: Yes. Senator Sanborn.

SEN. SANBORN: Please. Thank you, Madam Chair. Two subject matters, Commissioner. The first is you may have said it and I missed it. Of the 127,000, how many have actually moved to the MCOs numerically versus off? Are you keeping track of that? And if it's a big disparity, I don't know, you want to put it in the Dash Board so we can see it?

MR. TOUMPAS: Actually, that's not a bad idea. We can add that as an element on our Dash Board. Let me -- I have -- I have that data. So as of December 31st, we had 106,099 individuals in the Managed Care Program, enrolled into the program. We had roughly -- had roughly 10,000 who were voluntary who opted out, because there were three populations broadly: Those we could mandate, those that were voluntary, and they had the option to go into the program or to opt out, and those that we simply could not put into the program at this point because we don't have the authorization from the Federal Government.

The number that we are most -- and that number of voluntary population chose to opt out was a little bit less than 11,000. All right. So of the -- of that point in time, roughly 127,000 Medicaid recipients, you have roughly 117,000 that are -- that have been accounted for either in the program or they voluntary opted -- voluntarily opted out. The number that we're very pleased about when we looked at the goals of our program was the number of people who actually self-selected a plan. When we've talked with other states, invariably they indicated that at best you would get 10 to 15% of the Medicaid clients that would actually select a plan, and the rest of them you would have to auto assign into the plan. We achieved better than a 60% grade. We had almost 64,000 people who voluntarily chose a plan, which is the first step towards improving their overall health. Because now they're looking and they're saying where's my primary care physician or what type of programs do they have that would be suitable for me and my family.

We had 42,000, again, that were -- who were auto enrolled. And when people were auto enrolled or when they self-selected, all the clients have 90 days from the time that they sign up in order to change their mind for whatever reason. And we had, as of the end of December, we had roughly 42,000 -- excuse me -- almost 1400 of the people who signed up for Plan A, and for whatever reason over the first five to six weeks decided I want to move to another plan. So those are the numbers from the enrollment standpoint. And I will -- I will talk to our team to see if we can give a point in time for the program so that we report it going forward on the Dash Board.

SEN. SANBORN: Thank you very much. Follow-up.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Going back to provider payments, could you update the Committee, part of the ACA suggested for the first two years that provider payments would increase and go up significantly on the existing population for Medicaid or only potential expansion of it. And did you account for that when you're working your budget in considering where your -- on your shortfalls?

MR. TOUMPAS: This may be -- this may be an issue, Senator, that I may need to come back to on. The only area where there was an increase from the provider's standpoint was the 1% increase for certain procedures in the area of primary care.

SEN. SANBORN: Correct.

MR. TOUMPAS: The rates that we negotiated with the MCOs were what we had done, our work in conjunction with the actuary in order to basically provide them with the rates. But there were no -- again, I will follow-up with the Committee next week. Excuse me. It will be next week we can send out a note. But I'm not aware of any other significant rate increases that we were doing.

SEN. SANBORN: Thank you, sir.

CHAIRWOMAN WALLNER: Yes, Senator Forrester.

SEN. FORRESTER: Thank you, Commissioner. I thought we talked about this before, but could you remind me how the "opt out" happens, how they're able to opt out?

MR. TOUMPAS: The -- that really speaks to -- really when we start talking about the second step of the program, again there are some materials. I don't have them memorized or right in front of me, Senator, but there were certain populations; for example, some of the dual eligible populations that we could not mandate into the program. There were certain populations that had -- that could be voluntary. They could look at it and say -- they could look at it and say I'm kind of intrigued with this. And I want -- want to go into it. So they can voluntarily go in and they can voluntarily go out at any time. Again, that's where that roughly 11,000, 10,879, that voluntarily opted out.

Now it is our intent with the second step or second phase of the program to mandate all the Medicaid population into the program. I need a waiver in order to do that.

SEN. FORRESTER: Follow-up.

CHAIRWOMAN WALLNER: Yes.

SEN. FORRESTER: So those 10,000 plus that opted out, they're still in fee-for-service?

MR. TOUMPAS: Yes.

SEN. FORRESTER: Okay.

MR. TOUMPAS: If they chose to opt out -- that's actually a good way to remind everybody. If somebody chose to opt out or they're not part of the program, everything stays the same for those folks. And, again, that's where when we take a look at that -- that lower number, that's where -- lower number in terms of the caseloads, it's doing the -- getting into a little bit more detail. Were they in the fee-for-service? Were they part of Managed Care? Where are they?

CHAIRWOMAN WALLNER: Yes. Representative Leishman.

REP. LEISHMAN: Thanks, Madam Chair. First, I'd like to say how incredibly fortunate I think we are to have you as Commissioner of DHHS. So with that being said, but I did have a question.

MR. TOUMPAS: I always get setup with that one.

REP. LEISHMAN: This is an easy setup.

MR. TOUMPAS: Let me say thank you first.

REP. LEISHMAN: I did have a very, perhaps, easy question. You're serving about one hundred fifty-two plus thousand people a month. Do you know how we compare with other states in a percentage of population served around us?

MR. TOUMPAS: Our Medicaid Annual Report, Representative Leishman, has that information, but I don't think that we're a real aberration. Again, roughly when you look at that 150,000 people that we serve at some point during the year, we don't have -- as you can see from the number, you'll have people that kind of go through -- go through the program for whatever -- whatever reasons. That's roughly 15% of the population. And I think that's pretty comparable from what I've talked with with other New England states and others. I don't think it's widely different from what I've seen or heard in other of the states, but we will look into that and make that -- provide that information to you as well.

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

CHAIRWOMAN WALLNER: Further questions? Commissioner, I have a couple of questions I'd like to ask. When we were on the Table A, I did notice that we were already doing some service reduction. I'd like to know a little bit more about this. They're not huge amounts, but I do see you have reduced funding for Community Health Centers, reduced funding for Family Planning, funding for Family Support, Respite Care has been reduced, and I do see that there's lower utilization for DD Services. I just wondered if you could speak just for a minute about those. And then something else that you said was that you would need to come back to us with programmatic reductions, and I wondered if you could tell us what kinds of programmatic reductions we are talking about that you may be back to talk to us further about?

MR. TOUMPAS: A couple of these -- I'm not sure I can speak to the details on each one of these, Representative Wallner -- Madam Chair, but on the Items 42 and 43, for example, those are not reductions to the actual program itself. Those are reductions to the increases that were provided in the budget. So we did not reduce the level of Family Planning. We did not reduce the level of Community Health Center funding. What we did was we took a portion of the increase that was granted in the budget. These were all vetted extensively with the Governor and her staff before we went through this. We had -- we provided details in terms of what the -- what the implications of these were. But I -- I don't -- I don't have those -- all those details right in front of me. But I could -- we could provide a narrative back to -- back to you so you can distribute to the Committee as we go forward.

CHAIRWOMAN WALLNER: Thank you. And if you could just maybe give us sort of a general idea of where we might be going if we have to do -- if we have to do programmatic reductions, how devastating would this be?

MR. TOUMPAS: Again, that's the -- that's the challenging part of this is that I would have to look at all areas. Again, because it is -- it is general -- it is the General Fund part of it that I have to look at. And I would need to look at areas, whether it's in the nursing homes, whether it's the mental health, problematical given the other issues there. Whether it's on DD, whether it is in the other -- other programmatic areas that we as a Department operate, there simply aren't a whole lot of easy choices. We put some things down. And as I've done repeatedly when -- before Division III or Senate Finance when we go through the budget is here's -- here's the action. Here is what the implication of that would be in terms of the number of people served or where the cost may shift and so forth. But at this point we're -- what -- what is challenging for us is that making a reduction is challenging in and of itself. But when you're trying to do it with less than six months in order to do it, it magnifies anything that we would look to do. And that's even more so because, again, on a number of those I would at least -- we'd have to check the law and so forth. There may be rule changes. There may be -- may need to come back to, again, the Fiscal Committee for some type of approval in order to do that and that simply takes more time and doesn't give us the amount of time to do that. So there really aren't a whole lot of areas.

The areas that, you know, I would want to look at kind of first would be the areas where we got the increases so that we don't go back and impact the services that are already being provided right now.

CHAIRWOMAN WALLNER: Thank you. I appreciate that. Senator Morse.

SEN. PRESIDENT MORSE: The second half of your suggestion, though, was to look towards your lapses, which you've always outperformed on your lapses. And then -- I mean, this is -- really comes down to management. I mean, the whole budget. I mean, 10.8 million. The reality is, if you look in the Department of Education, their numbers were wrong, and they didn't use $5 million when they sent money back to our communities in one year. I don't know what that means in year two. So to the extent we can work through this, I think there's opportunities in your lapses to be able to fill those holes. I don't want to be talking about taking money away from mental health and disabled children. So if that's where this is headed, and we have to spend to get there, I'm not supporting that. I think there's room in the budget in other departments that we can move things around. And if you're the shortfall, it's truly because we had to put the wage increases in at the very end. So I think we have to be careful there. I understand what you've done and to be down to 7.8 million or 7.7 million, you've done a fantastic job. I'll echo Representative Leishman's comments on that, but the reality is there's other places in government we should be going to than HHS to get lapses. And I think we can do it so --

MR. TOUMPAS: Won't be any argument from here. Again, our folks do a remarkable job. They're very, very creative. You know, we look to maximize every dollar that we do get. We look to try to maximize every Federal dollar that we can get. And, again, when you -- we did -- we did return an additional $7 million in lapse last year beyond what was expected. So, again, we will continue to monitor this. But it is, again, going back to the, you know, the fluidity in terms of the caseloads, it's great that they are coming down, but it doesn't take much in an uncertain economy at times to, and could be something outside of the State of New Hampshire, where a company says I'm going to move elsewhere. So we -- we will continue to monitor that. But I certainly don't want to, as I've done each time I've come in where I've needed to, put forward program reductions saying I'm not really supporting these; but my obligation as the -- as the Commissioner of the Department is to stay within the budget appropriations that I've been provided. And that's -- and hence I have to take these types of actions in order to achieve that.

CHAIRWOMAN WALLNER: Thank you, Commissioner. We appreciate your report and look forward to working with you as we work through this. Thank you. Unless there are other informational items that people would like to hear more about, we'll move on to the audits.

Audits:

CHAIRWOMAN WALLNER: We do have several audits today in front of us, and the first one we'll work on is the Comprehensive Financial Annual Report. And I see -- thank you, Mr. Mahoney. Thank you. We are going to introduce --

RICHARD MAHONEY, Director, Audit Division, Office of Legislative Budget Assistant: Yes, Madam Chairman. Thank you very much.

For the record, I'm Richard Mahoney, Director of Audits for the Office of Legislative Budget Assistant. Joining us this morning to present the State Comprehensive Financial Annual Report is Greg Driscoll. Greg is a partner with KPMG. KPMG is under contract with our office, as you know, to conduct this audit and Greg is joined by Scott Warnetski. Scott is a Senior Manager with KPMG. My understanding also the Commissioner of Administrative Services will be joining us. So Linda Hodgdon and the Comptroller, Karen Benincasa.

CHAIRWOMAN WALLNER: Thank you and welcome.

GREG DRISCOLL, Partner, KPMG, LLP: Thank you for having us. It's our pleasure to present to you this morning today. We'll start from the audit side and present you the results of our audit of the State's Financial Statements for the Fiscal Year ended June 30th, 2013, and then we'll hand it over to Karen and the Commissioner to talk through and provide some comments on the financial statements themselves.

So without taking too much time, we have completed the audit for the Fiscal Year ended June 30th, 2013. And so as not to be lead, I'll go ahead and say we issued unmodified opinions on the various opinion units incorporated within the State's Financial Statements. That's the highest level of assurance you can receive. You may not only know it as a clean opinion, if you will, on the financial statements essentially stating that in our opinion in all material respects those financial statements are in conformity with Generally Accepted Accounting Principles which are promulgated by the Governmental Standards Accounting Board.

With your packet, hopefully, you received a letter we issued to the Committee comprising our required communications to those in charge with governance. So I'm going to turn it over to Scott now and he'll walk you through that letter. Should have been with the back of your CAFR separate -- as a separate attachment.

CHAIRWOMAN WALLNER: Would you please identify yourself for the reporter?

SCOTT WARTNETSKI, Senior Manager, KPMG, LLP: Sure.

For the record, Scott Warnetski -- excuse me -- with KPMG. I'll be talking about this letter and I'll try to point out the different paragraphs that I'll be speaking about. But starting out the beginning, just to talk about our responsibility under professional standards, KPMG as the auditors were responsible for performing and expressing an opinion on the State's Financial Statements based on our audit. It is Management's responsibility to prepare the financial statements and to compile these financial statements, you know, based on the results of the financial results of the State for the Fiscal Year.

We perform our audit in accordance with two sets of standards. They were the general accepted auditing standards as promulgated by the AICPA and also Government Auditing Standards put forth by GAO. For all intents and purposes, they're the same standards. Government Auditing Standards does put some additional independence and continuing professional education requirements on the auditors, but that is the primary difference between the two sets of audit standards.

Our audit is designed to obtain reasonable, not absolute assurance. We sample transactions. We don't re-perform all the transactions. As part of our audit we do consider internal control over financial reporting as a basis for designing our audit procedures. And as it says in the letter. It's not for purposes of expressing an opinion on internal control over financial reporting. However, during the course of the audit we will identify or we have identified deficiencies that would be required to report to the Fiscal Committee. These will be presented to the Fiscal Committee at a later date as part of our Management Letter presentation, and as well as the results of our Federal Compliance Audit or the A-133 Audit.

Moving along, there is some other -- what we consider other information in the financial statements. This is information other than the financial statements. This includes the introductory section of the CAFR, some of the combining schedules, as well as statistical sections of the CAFR. Our responsibility for these sections are to read them and understand them and note any material differences to the financial statements, and we report that there are no differences that should be reported to the Committee.

Moving along to Page 2, the significant accounting policies are described in Note 1 to the State's Financial Statements. We did have one, what we considered, an unusual transaction this year. Unusual being it's not common and, you know, something that was out of the ordinary for this particular Fiscal Year.

As you might be aware, the State executed settlement with a number of oil companies related to the drinking water contamination, the MtBE settlement, if you will. The settlement resulted in approximately $90 million in revenue to the State that's recorded in the governmental activities and in the State's General Fund. Because this is unusual in nature, this has been reported as a special item in those two sets of financial statements, and I venture to say

Karen may point it out to you when she walks through the financial statements to show you where that is. But it's important to point out that a majority of these proceeds are restricted to be used for environmental remediation. So, accordingly, in the fund balance and net assets these are listed as restricted funds. And then that's also discussed in the litigation Note 13. There are some details about that particular item. So some of the qualitative aspects of the accounting practices.

We have discussed with Management are judgments about the quality of the accounting practices and those are limited to matters of consistency and application of accounting practices. We are also required to report to the Committee some of the Management judgments and estimates that go into financial statements. These are areas that require quite a bit of judgment and are estimates and, you know, not as concrete as a cash-based transaction. So I'll walk through a few of those with you to talk about how they're estimated and, also, what we do to audit those estimates.

First, taxes receivable. This estimate is based on the understanding of taxes and the history and timing of collections and refunds and credits over the past year. So as part of our audit we will evaluate the methodology, as well as the accuracy and completeness of the data that goes into the State's analysis.

There is the other post-employment benefit liability. The State hires a third-party actuary to calculate this liability. We evaluate the independent -- we evaluate the actuary with the help of an independent KPMG actuary, look at the assumptions that are used in evaluation, make sure they're reasonable and they are in line with our expectations for similar entities and -- and for OPEB valuation, and we also test some of the data that goes into that valuation, the completeness and accuracy of that data.

There's the Medicaid claims. This is based on analysis of Medicaid claims incurred and paid to estimate what is owed as of year-end. We evaluate the methodology or estimating and test the accuracy and completeness of the data that goes into the State's analysis.

Turning over to Page 3. There's also the workers' compensation estimate. This is, again, based on an analysis performed by a third-party actuary that's hired by the State. We read the actuarial valuations and agreed to the report.

There's pollution remediation liability. This is based on an analysis of individual cases and their estimated impact or fiscal impact on the State, and we evaluated reasonableness of the liability that are reported for each of the individual cases.

Finally, there's litigation that the State's exposed to and this is an estimate that what's recorded in the State's Financial Statements is an estimate of what they may pay in the future. This is based on analysis of the existing cases by the Attorney General's Office, as well as state financial managers, including the Comptroller's Office. We receive written representations, communications from the Attorney General and evaluate the liabilities recorded and cases disclosed and those contingencies and litigation related items are in Notes 13 and -- I'm sorry, 11 and 13 of the financial statements.

Moving along, we are also required to report to the Committee any uncorrected and corrected audit misstatements. So we had two uncorrected misstatements in this year's audit. The first relates to the State Revolving Fund. This is a current year correction of a prior year error; in effect, $2 million understatement of State Revolving Fund expenses. The second is related to the Highway Fund. This relates to the State reported investments at amortized cost instead of fair value. The effect is approximately $900,000 over statement of investments. These have been reported to Management and KPMG, the effects of these to be immaterial to the financial statements, which is why we're able to pass on them and, ultimately, issue an unmodified opinion. A copy of these -- summary of these adjustments is also attached to the Management representation letter which is signed off by Management of the State and, incidentally, is attached to the letter you have and is sort of the last page. You can see a summary of those particular entries.

And, finally, there was one corrected entry related to unemployment fund. This particular entry decreased accrued benefits by approximately $810,000. We're required to report any disagreements we have with the Management throughout the course of our audit, and we are -- we can report there are no disagreements or there were no disagreements with Management. We are also required to report any consultations with other accountants. This would be any instances where Management may disagree with our conclusions and go and get a second opinion. To the best of our knowledge, there were no such consultations.

Moving along to Page 4, some major issues discussed prior to retention. Prior to retention there are generally discussed a variety of matters with the LBA, as well as Management, prior to retention. These are -- these are discussions that would occur within the normal course of our professional relationship.

Material written communications between KPMG and Management. Attached to the letter you will find the Management representation letter signed off by Management of the State, including the Governor. We'd also be required to report significant difficulties encountered, of which there were none. And then, finally, we confirm with the Committee that we are independent with the State in accordance with AICPA, as well as Government Auditing Standards.

With that, that's the conclusion of our required communications. If there are any questions, we could field those or turn it over to Karen and Linda to talk about the CAFR.

CHAIRWOMAN WALLNER: Thank you very much. Any questions? At this point, we'll turn it over to Commissioner and --

KAREN BENINCASA, State Comptroller, Division of Accounting Services, Department of Administrative Services: For the record, my name is Karen Benincasa, and I'm the State Comptroller. Thank you for the opportunity to speak briefly about the State's Financial Statements for 2013.

First of all, I'd like to thank everyone who has assisted with developing what is being presented to you today, as this is a tremendous effort performed by many people throughout the state. I would like to extend a special thank you to Steve Smith as the Administrator of the Bureau of Financial Reporting who's behind me for leading this effort, as well as to the LBA and KPMG team members for all of their work.

Of the 146 pages presented in this document, we'd like to draw your attention to the Commissioner's transmittal letter which begins on Page 5. It is within this letter we have presented information that we think is important to understand. Most importantly, this letter includes sections on the Fiscal 13 operations, as well as major initiatives that are expected to affect the future financial position of the State.

Starting with the State's Fiscal 13 operations, the General and Education Fund ended Fiscal Year 13 with a surplus of $72 million and $9 million in the Rainy Day Fund. As compared to the surplus projected during the Committee of Conference in June of 2013 when the '14 and '15 budget was adopted, the surplus of $72 million was $15 million higher than the $57 million surplus projected during that Committee of Conference. This $15 million variance is comprised of the following:

There was a small and favorable variance in revenues which was more than offset by a slight increase in net appropriations so the primary variance was within the GAAP adjustments reported at year end which was favorable by 14 million. The most significant favorable GAAP adjustment was approximately $11 million of additional abandoned property escheat revenue which was recognized in 2013. Approximately half of that was a one-time adjustment. There was a refinement in the calculation in 2013 and the other half is related to the value of the assets.

The original Fiscal 13 budget was adopted -- as adopted was projected to generate approximately $15 million of surplus during the year to allow the State to end the biennium with a small transfer to the Rainy Day Fund. However, Fiscal 13 began with approximately $28 million more in surplus than originally projected and we also generated an additional $44 million of surplus during the year to end the year with 72 million. The additional $44 million of surplus generated during Fiscal 13 was the result of the following:

Revenues were 46 million or 2% higher, net appropriations were approximately 10 million higher or .5%, and GAAP and other adjustments were approximately $8 million higher. I would like to note that of the $46 million increase in revenues, approximately $30 million were essentially one-time revenues received in 2013 and that was the additional 21 million on the tobacco settlement and $9 million of the MtBE revenue that was reported in the General Fund, and the variances in the other revenue categories are outlined on Page 9.

Just quickly mentioning, the Highway Fund ended the year with a $46 million surplus which was approximately 10 million higher than the Committee of Conference estimates in June of 2013. The Highway Fund Surplus statement can be found on Page 127 and the statements found on Pages 91 through 93 versus -- excuse me -- versus the Committee of Conference those -- the favorable variances were in revenues, lapses were higher, there were various adjustments throughout, and the original budget surplus I believe was $8 million. So this was an increase of $38 million versus the original budget as adopted.

The Fish and Game Fund ended the year with a surplus of approximately $1.6 million. That can be found on Page 128. And the original budgeted surplus was approximately $2 million. So it was a bit lower than the original budget as passed in 2011.

The last item I will talk about before turning it over to the Commissioner is the government-wide unrestricted net position as of June 30th. The State's governmental activities unrestricted net position, which includes the General Fund, Highway Fund, Education Fund and other state funds, ended Fiscal 13 with a deficit of approximately $716 million. This is actually shown on the bottom of the Table on Page 21 and also on Page 29. Although this deficit was lower than the $742 million reported in 2012, this means that as of June 30th the unrestricted net assets are

$716 million less than the liabilities that we were obligated to fund on a GAAP basis. The most significant reason for this deficit appears to be the result of the State's unfunded other post-employment benefits liability which was approximately $766 million as of year-end. And with that, I'll turn it over to the Commissioner who will briefly cover some of the major initiatives expected to affect the future financial position of the State.

MS. HODGDON: Thank you. And for the record, my name is Linda Hodgdon, Commissioner of Administrative Services. I just want to briefly cover some of the major initiatives that we expect to affect the future financial position of the State which can be found on Pages 10 and 11 of your document. The initiative to increase the Revenue Stabilization Fund balance, currently the State has only $9 million as of June 30th, 2013. It's about a third of 1%. We believe that this is not only less than the ideal from our perspective, but it is also the perspective of what the rating agencies would look at. I know when we talked to the rating agencies they talk about a minimum of 5%. To put that in dollar terms, if we looked at both the General Fund and the Education Trust Fund, we'd be talking about $113 million. If you look at those two funds and you subtract the Statewide Property Tax, because there's some thought that maybe that shouldn't be included, then you'd be talking about a minimum of $95 million. So that's really what we should be working toward.

Folks that know me well have heard me state when we try to close the State's books it's like trying to land a 747 on the head of a pin. It truly is. There are so many moving parts and one GAAP adjustment. I mean, 9 million is really nothing.

The Workforce Development challenge as of June 30th, 2013, approximately 33% of our full-time workforce was eligible to retire this past June. So within five years an additional 21% are eligible to retire. That's a concern that all of the Commissioners have and I note that Governor Hassan, and I know training is always one of the first things that gets cut when we look at a budget and when we are tight, but that is a real concern when you're losing that knowledgeable workforce to not have an adequately trained workforce coming along behind them. So it's really critical that the State continue to develop experienced and capable employees that are prepared to assume those roles as they become available in the future.

OPEB Karen mentioned on Page 89. The State currently funds post-employment benefits which is really retirees' health on a pay-as-you-go basis. As of December 31st, 2012, the date the most recent actuarial valuation was done, the estimated unfunded liability of the State for OPEB was approximately $1.9 billion. The unfunded liability estimated as of December 31st, 2010, was 2.3 billion. So that's actually good news that it went down. Part of the reason that went down because some of the changes in the laws that have occurred where you now need to be 65 years old to participate in the -- in Group I to participate in the State's Retiree Health Program, so you're really talking about a Medicare wrap plan. So that's a much less costly plan than that for folks that are under 65. And about 40% of the workforce falls underneath those later laws. So that actually helps us to have reduced that liability. So thank you for that -- for that help. And with that, we'd be happy to answer any questions.

REP. WEYLER: Question.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you. Back on Page 9 where we go to the unrestricted net position and now it's a deficit by 700 plus million. Will that affect our bond rating?

MS. BENINCASA: As I know, I don't believe it has. At this level I wouldn't expect that it would. I mean, we have certainly been at this level for -- we were there last year, and I don't believe it affected the bond rating this year.

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

MS. HODGDON: One of the other pieces that's in that negative net liability is when we moved the assets of the Community College System over to the Community College System and we kept about -- was it 44 --

MS. BENINCASA: I think it's about $42 million of debt as of June 30th that we retained that's part of that number, but we don't have the assets so it's reported as a unrestricted.

REP. WEYLER: Thank you.

MS. HODGDON: That's how those decisions ended up showing up on the book.

CHAIRWOMAN WALLNER: Any other questions of the Commissioner? Thank you very much. Thank you for your presentation.

MR. WARNETSKI: Thank you.

MR. DRISCOLL: Thank you.

CHAIRWOMAN WALLNER: And we already released this audit at our November meeting so there's no further action we need to take at this time. Thank you.

Let's move to the Turnpike System and the financial report. Thank you, Mr. Mahoney. Okay.

MR. MAHONEY: Thank you, Madam Chairman. I'll be joined by Jean Mitchell. Jean is a Senior Audit Manager with our office who was responsible for managing the audit at the Department of Transportation for the Turnpike System. We are also joined by the Department of Transportation's Director of Finance, Patrick McKenna.

CHAIRWOMAN WALLNER: Thank you. And welcome.

MR. MAHONEY: I should mention before Jean gets started the numbers Jean is going to report are included in the State's CAFR that was just presented to you. Our report was relied upon -- our opinion was relied upon by KPMG in forming their own opinion on the State's Financial Statements as a whole.

CHAIRWOMAN WALLNER: Thank you.

JEAN MITCHELL, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, and Members of the Committee. My name is Jean Mitchell, and we are here today to present to you our audit -- the results of our audit of the financial statements contained in the annual financial report of the Turnpike System for the Fiscal Year ended June 30th, 2013.

The report, including the financial statements, is the responsibility of Turnpike System management. None of our audit work relieves management of that responsibility.

The auditor's responsibility is to conduct an audit in accordance with professional auditing standards to obtain reasonable assurance about whether the financial statements are free from fraud or error. Our auditor's report and opinion can be found on Pages 8 and 9 of the report. In the paragraph captioned Opinion, we have issued an unmodified opinion on the financial statements which is the best opinion that can be given.

As noted in the other paragraphs of the report, Management has omitted the Management discussion and analysis information that Generally Accepted Accounting Principles requires to be presented to supplement the basic financial statements. While the exclusion of this information does not affect our auditor's opinion, the information is deemed to be an essential part of financial reporting for placing the basic financial statements in context. The financial statements can be found on Pages 11 through 13 of the report.

The auditor's opinion covers the financial statements and the related notes. The introductory section of the report, again, is the responsibility of Management and was not audited. In accordance with governmental auditing standards, we have issued a report on our consideration of the Turnpike System's internal control over financial reporting, compliance and other matters. That report is included in the Management letter that we will present to the Committee at a later date.

As Scott Warnetski had previously noted, auditing standards require we make certain additional disclosures to you and they include the following:

The significant accounting policies used by the Turnpike System are described as noted in Note 1. We are satisfied with the qualitative aspects of Management's accounting practices, including accounting policies and estimates and financial disclosures and no material uncertainties were noted. There were no disagreements with Management on financial accounting and reporting matters that would have caused a modification to our auditor's report if not satisfactorily resolved.

We had the full cooperation of the Turnpike System Management and staff during the audit. To our knowledge, Management did not consult with other independent accountants during Fiscal Year 2013 on issues related to the audit.

I'd now like to call your attention to the two letters that can be found in the back of your report. The first one I will speak to is a two-page letter. This letter identifies certain misstatements to the financial statements that we identified and discussed with Turnpike System's Management. As noted in the letter, Turnpike's Management made two material adjustments to the statement of net position proposed by our audit work.

In No. 1, Turnpike's corrected the presentation of net position required by a new accounting standard implemented during Fiscal Year 2013, and in No. 2 corrected the current and non-current portions of the note payable to the State Highway Fund. There are also two significant or material adjustments affecting the Statement of Revenue Expenses and Changes in Net Position. Item No. 1 eliminated the reporting of revenue for issued but uncollected administrative fees on toll violations, and Item No. 2 corrected the presentation of contributed assets received from the Highway Fund.

The final significant adjustment affecting the Statement of Cash Flows corrected cash flows incorrectly reported as investment activity.

The second letter is the one-page letter. This is generally referred to as the Bond Covenant letter. There are a number of financial conditions in the Turnpike

Revenue Bond Resolution imposed upon the operations of the Turnpike System. This letter conveys that we identified no reportable instances of non-compliance during our audit of the financial statements for the period ending June 30th, 2013.

This concludes my presentation. And I'd like to take -- thank the Turnpike System Management and staff for their assistance during our audit and with your permission, Madam Chair, I'd like to turn the presentation over to Patrick who will go through the report.

CHAIRWOMAN WALLNER: Thank you. Thank you, Patrick.

MS. MITCHELL: Hopefully, you'll hear him better.

PATRICK MCKENNA, Director of Finance, Department of Transportation: Good morning, Madam Chair, Members of the Committee. Happy New Year. My name is Patrick McKenna. I'm the Director of Finance at the Department of Transportation. Pleased to be here today to discuss the annual results of the Turnpike System for 2013.

In opening, I'd like to recognize the hard work and dedication of the staff, both at the Turnpike System and within the Department of Transportation, that have worked diligently to prepare this information for you; namely, Len Russell, our Financial Reporting Administrator, Marie Mullen, Mary Ellen Emmerling, Financial Analysts with the Department, Margaret Blacker works directly as Turnpike's Business Administrator, and Elizabeth Yanco who's an Accountant IV in the Department of Transportation, Finance Division.

In addition to that, I'd like to recognize both Management and Turnpike's Chris Waszczuk, who's our Turnpike Administrator, and David Smith, an engineer and

Administrator within Turnpikes. It's really their management and stewardship of the system itself that I believe really executes the program and puts capital projects out for the benefit of the -- for the benefit of the rate payers of the system and the safety of our citizens and visitors.

I'd also like to thank LBA for their assistance during the audit, as well as State Comptroller Karen Benincasa. We worked together throughout several months. We executed a new capital asset policy and procedure and we worked very closely with Comptroller Benincasa during that time. She was a great help to us and we appreciate that assistance.

Just a couple quick highlights for the system, and then certainly available to answer any questions you might have. In Fiscal 13, over 108 million toll transactions were processed which generated approximately $115 million in toll revenue. This amount was down by about half a percent from previous years. We attribute that primarily to the negative impact of the Manchester Airport Access Road opening, which diverted some traffic and has for a number of years. That seems to have stabilized. And we -- we've worked with independent engineers to assess that impact going forward, operating expenses to staff the Bureau, maintain the infrastructure, operate the toll collection systems, both cash and E-ZPass, and pay Safety for enforcement and DRED for Welcome Centers were $40.8 million in Fiscal 13, which is roughly the same as 2012.
$9.6 million was expended in 2013 for the Renewal and Replacement Program. That's a program that's actually the amount of funding for that is determined by an independent engineer that is based on some of the bond covenants that we have in place to make sure that we maintain the system satisfactorily.

The Turnpike Capital Program work is funded through a combination of bond proceeds and cash from the General Reserve Account. In Fiscal Year 2013, approximately $75 million was spent on construction work associated with the currently authorized Turnpike Capital Program. To date, in that program approximately 20 construction contracts totaling $348 million or 80% of the total authorized program have been either completed or underway. Three projects remain to this totaling of approximately $50 million which will require an additional approximately $35 million in bonding coming up in either 2015 or '16. We are working on the details of that.

Over the next 10 years, Fiscal Year 2015 to 2024, if we were to keep the same toll rate structure in place, approximately 230 to 250 million dollars will accumulate in the General Reserve Account for capital improvements which can fund certainly a portion of the proposed Capital Improvement Program. As part of the current Turnpike Capital Program work, 19 "Red List" bridges were addressed bringing Turnpike "Red List" bridges to zero in that period of time. So we are very pleased with that. That's active management of the administrators there.

As I mentioned, I felt we took great strides in addressing fixed assets, both from a policy and procedure standpoint, from a financial standpoint, that working in conjunction with Comptroller Benincasa enabled us to detail compensating controls necessary for adequate management and stewardship of those assets in the absence of integrated system statewide. So we're pleased with those results. And that concludes my summary, and I'd be happy to answer any questions of any of the Committee Members. Thank you. Does the Committee have questions?

REP. LEISHMAN: Just one.

CHAIRWOMAN WALLNER: Yes, Representative Leishman.

REP. LEISHMAN: I think maybe the LBA reached out to you yesterday concerning my question on the increase in receivables. It's showing like $500,000. I was just curious what that is. Is that significant? Is that more than past years?

MR. MCKENNA: Yes, thank you, Representative Leishman, for the question. It's approximately a 9% increase over 2012. And in the report that you have in front of you on Page 15 there is a table that -- that provides, I believe, greater disclosure on receivables than we have done in the past, is an enhanced disclosure that we place in the notes to the financial statements. And the primary two components of that total figure of $5.9 million in receivables, the two-thirds of that figure is the E-ZPass reciprocity figure. That number is essentially -- what we do, we put an entry on the books at year end. That represents -- that represents receipts due to the system for users of our tolls from out-of-state accounts. So we've received funds from Xerox, they transfer those funds over to us. And as a matter of fact, on July 19th we received that payment. So this is -- it's a timing issue. It's a receivable. We do get a little seasonality in that compared to last year. That was up. Approximately half of the variances attributed to a little bit higher amount that we were due from other out-of-state account holders. And, again, that's just they have moved through our Turnpike during the Fiscal Year and we haven't collected the cash yet. That's the receivable component there.

Also, E-ZPass violations compared year to year, there was an uptick there of about half of that variance as well. Approximately $100,000 was an uptick in E-ZPass violations. Again, we are -- we are working both with the Comptroller's Office and within the system itself and we're looking at policies and procedures, rulemaking and other things, to make sure that we're appropriately dealing with monitoring those types of violation revenues. So that's the primary component there. And, as a matter of fact, when we look at the current financial statements, which I might add we've just recently posted on the Turnpike web site, one of kind of a multi-year effort that we have gone under in terms of enhancing transparency in financial reporting discipline on ourselves is to move to a monthly financial reporting mode rather than just on an annual basis. And the Turnpike System website has October and November's monthly statements posted already as we speak. December will be shortly thereafter. In that receivable figure we are talking about is actually down from that $5.9 million, down to about 3.8 million at this point.

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

CHAIRWOMAN WALLNER: Thank you. Any further questions? Thank you very much. This audit -- also, we need no further action on it because we acted on it in November. So we'll move on to the Liquor Commission audit.

MR. MAHONEY: Thank you, Madam Chairman.

CHAIRWOMAN WALLNER: Thank you, Mr. Mahoney.

MR. MAHONEY: Jean Mitchell was the Senior Manager -- - Senior Audit Manager also on this audit, and Jean will present our audit results of this report as well. We are joined by Steven Kiander. Steve's the CFO, Chief Financial Officer for the Liquor Commission. And we are joined by Craig Buckley as well who's the Chief of Operations.

CHAIRWOMAN WALLNER: Thank you very much.

MS. MITCHELL: Good afternoon. Now the next report we are here to present, as Dick had just said, is our results of our audit of the financial statements of the Comprehensive Financial Annual Report of the Liquor Commission for the Fiscal Year ended June 30, 2013. Again, this report, including the financial statements, is the responsibility of the Liquor Commission Management. None of our audit work relieves Management of that responsibility. The auditor's responsibility is to conduct an audit in accordance with professional standards to reasonably assure that the financial statements are free from material misstatements. Our auditor's report and opinion can be found on Pages 5 and 6.

As noted in the opinion paragraph, we've issued an unqualified opinion on the financial statements which is the best opinion that can be given. The financial statements can be found on Pages 15 through 16 of the report. The auditor's opinion covers the financial statements and related notes. The Introductory and Statistical sections of the report are, again, the responsibility of Management and these sections are not audited. The Management discussion and analysis was subject to limited audit procedures by our office, largely for consistency of information in relation to the financial statements and notes. In accordance with Government Auditing Standards, we have issued a report on our consideration of the Liquor Commission's control over financial reporting, compliance, and other matters. And this report also will be included in our Management Letter for the Liquor Commission that will be presented to the Committee at a future meeting.

All of the general disclosures we have previously made for Turnpikes, based on the results of our audit, also apply to the Liquor Commission. They include the following:

The significant accounting principles used by the

Liquor Commission are described accounting policies -- excuse me -- are as described in Note 1 of the notes. We are satisfied with the qualitative aspects of Management's accounting practices, including accounting policies and estimates and financial disclosures, and no material uncertainties were noted. There were no disagreements with Management on financial accounting and reporting matters that would have caused modification to our auditor's report if not satisfactorily resolved. We had the full cooperation of the Commission and its staff during our conducting of the audit. To our knowledge, Management did not consult with other independent accountants during Fiscal Year 2013 on issues related to the audit.

I'd like to now call your attention to the letter that can be found in the back of the report. This is a two-page letter. It identifies certain corrected and uncorrected misstatements in the financial statements identified by the auditors and discussed with Management.

As identified in the two bulleted items, the Commissioner made -- the Commission made one significant adjustment and one material adjustment as a result of our audit work. The adjustment to the Statement of Net Position reclassified and corrected the presentation of net position required by new accounting standards. That was implemented in 2013. The material adjustment to the Statement of Cash Flow corrected the reporting of cash flow from bonds payable.

The letter also identifies a significant yet immaterial unadjusted error in the bulleted paragraph that's located on Page 2. During Fiscal Year 2013, the Commission chose to correct a prior year reporting error related to contributions from the capital fund in the current year and in lieu of restating the prior year's reported balance.

This concludes my presentation, and I would like to thank the Liquor Commission Management and staff for their assistance during the audit. And, Madam Chair, with your permission I'd now like to turn the presentation over to Craig and Steve who will speak to the report.

CHAIRWOMAN WALLNER: Thank you.

STEVE KIANDER, Chief Financial Officer, New Hampshire Liquor Commission: Thank you, Jean. For the record, my name is Steve Kiander, and I'm the CFO and just want to thank the LBA and also I want to thank the finance staff at the Liquor Commission who during the course of the audit put in great effort towards this. I want to mention also that I am -- I am new, and I was not present at the Liquor Commission at the June 30th and came on Board September of this past year.

CHAIRWOMAN WALLNER: Welcome.

MR. KIANDER: Thank you. I would like to make two financial highlights here for the Committee. The Liquor Commission distributed $145 million to the State's General Fund during Fiscal Year 2013. Our net sales increased by 6.4% over the previous Fiscal Year, which was 35 million to net sale figure 588 million. I would also like to point out the net position per RSA 176 the – essentially the result. The net position of the Liquor Commission consists wholly of capital assets unrelated debt because during the year we contributed all the revenues to the General Fund after expenses. The net position of 2013 is $9.7 million. I'd be happy to answer any other questions of the Committee. And, Craig, would you like to add anything?

CRAIG BULKLEY, Chief Operating Officer, Financial Management Division, New Hampshire Liquor Commission:

Yeah, I would.

CHAIRWOMAN WALLNER: Thank you.

MR. BULKLEY: I just want to take an opportunity to let you all know how professional I feel Jean and her team were in working with us. We've worked with Jean before in previous years, but she's always very professional and I'm very impressed with the work she does. And we enjoy cooperating and, you know, getting the job done. But I did want to bring you up-to-date on a couple of things somewhat related to this, certainly from the standpoint of revenue. As you probably know, we opened a brand new store in West Chesterfield back in June. We anticipate that that will have a significant increase in revenue. We typically see when we open or renovate a store a double digit increase in revenues from previous periods. We are seeing that in Chesterfield. We just opened a brand new store in Bedford to replace the store that was on Second Street and somewhat hidden from view. This one is pretty obvious, and I think we are going to see some significant increases in revenue from this store. Judging from the Christmas holiday sales, it will be significant.

I think you're all aware of what's going on on 93 north of the tolls. We expect to open a brand new 20,000-square foot store to replace the existing 8,000-square foot store. That's supposed to be handed over to us somewhere in the September/October time frame on the Northbound side, Southbound side to follow probably in 2015. But that will be -- we anticipate that will be a significant draw for tourists and certainly increase fairly dramatically the sales that we see from both the Northbound and Southbound stores. Those stores are in our top 10 of revenue-producing stores, Northbound being, I want to say I think that's 19 million and -- I'm sorry. Yeah, Northbound is 19 million and Southbound is 16 million, and I would expect that we'll see a significant bump with those. So we are always looking to increase the revenues coming to the General Fund. And I think we are going to see some significant increases as a result of these efforts with the new stores that have opened and will be opening over the course of the next year or year and a half.

CHAIRWOMAN WALLNER: Thank you. Yes, Representative Weyler.

REP. WEYLER: Thank you, Chief Bulkley, but I also think the additional hours, I guess it's been more than just this past year you had the additional hours. I think they have been a big contributor in the increase in sales. I appreciate the fact that you're open weekends and so on.

MR. BULKLEY: We have increased, Representative, the hours, increasing particularly into the evenings and on Sundays. And yes, that has contributed to additional revenue. I did fail to mention, of course, something that we just released a few weeks ago and that was our commemorative bottle that's going to generate about $85,000 for the Hall of Flags' restoration effort. We have sold all but -- I think we are probably under 3,000 bottles at this point from a total of 9,000. So those are going fast and if you haven't gotten your bottle yet, you probably need to get to a store, because they're not going to last long and they will be a collector's item.

CHAIRWOMAN WALLNER: Thank you. Any further questions? Thank you very much for the thorough report. Thank you.

MR. BULKLEY: Thank you.

REP. WEYLER: Madam Chair.

CHAIRWOMAN WALLNER: This one we need a motion.

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

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves we place the report on file and release in the usual manner and Representative Eaton seconds. All in favor? Any opposed? We will place that on file and release in the usual way.

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Moving ahead we'll go now to the Lottery Commission report. Thank you, Mr. Mahoney.

MR. MAHONEY: Thank you, Madam Chairman. Our final Financial Audit Report at today's meeting is the audit of the New Hampshire Lottery Commission. I'm joined this morning by Jim LaRiviere. Jim is a Senior Audit Manager with our office, took over management of this audit at the Lottery Commission after field work was mostly done because we lost one of our former Senior Financial Auditors to the Department of Safety. We are also joined by Executive Director McIntyre and Kassie Strong who is the Chief Financial Officer of the Lottery Commission.

CHAIRWOMAN WALLNER: Thank you. Welcome.

JAMES LARIVIERE, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good afternoon, Madam Chair, and Members of the Committee. Again, for the record, my name is Jim LaRiviere. We are here this afternoon to present the results of the audit of financial statements contained in the Comprehensive Annual Financial Report or CAFR of the Lottery Commission for Fiscal Year

2013. I apologize in advance as a lot of what I'm going to say will be repetitive to what you heard from both KPMG as well as Jean Mitchell in their presentations.

The report, including the financial statements, is the responsibility of the Lottery Commission's Management. Our audit work does not relieve Lottery Management of that responsibility.

As independent auditors, our responsibility is to perform the audits in accordance with professional standards to obtain reasonable but not absolute assurance that the financial statements are free of material misstatements whether caused by error or fraud. Our auditor's report and opinion can be found on Page 15. We issued an unmodified opinion on the Lottery Commission financial statements which includes the notes to the financial statements. An unmodified opinion, also known as an unqualified opinion, is the highest level opinion an auditor can provide.

The information in the Introductory and Statistical sections of the report was not audited and is the responsibility of management and analysis in the financial section of the report was subject to limited auditing procedures. As a result, we expressed no opinion on any information other than the basic financial statements contained in the report. However, no matters came to our attention in our reading and consideration of the other information that caused us to believe the information was inconsistent with the basic financial statements.

With regards to required disclosures, we were satisfied with qualitative aspects of Management's accounting practices, including accounting policies summarized in Note 1 of the report, the estimates used and financial statements disclosures. No material uncertainties were noted, and we had no disagreements with Management. We also received full cooperation of the Lottery Commission and its staff during the audit. To our knowledge, Management did not consult with other independent accountants during Fiscal Year 2013 on issues related to the audit. And lastly, and importantly, we did not propose any audit adjustments to the Lottery Commission's financial statements as a result of our audit work.

There is a multi-page letter inside the back cover of the report. The letter presents results of certain audit procedures, certain agreed upon procedures we performed on the Lottery Commission's operation of the Lucky For Life game. All states offering the Lucky For Life game are required to have these procedures performed as a condition of game participation. No reportable exceptions were identified during the performance of these procedures.

Finally, in accordance with Government Auditing Standards, we have also issued a report on the Lottery's internal control over financial reporting on compliance and other matters as a byproduct of our audit of the financial statements. That report will be included in Management's letter which will be presented to the Committee at a future meeting.

In closing, I'd like to thank the Executive Director, Charles McIntyre, and Chief Financial Officer, Kassie Strong, and the Lottery and staff of the Lottery Commission for their assistance during the audit. I would also like to thank our audit team for their effort. And with your permission, Madam Chair, I'd like to turn the presentation over to Mr. McIntyre for his comments.

CHAIRWOMAN WALLNER: Thank you.

CHARLES MCINTYRE, Executive Director, New Hampshire

Lottery Commission: Good morning, Madam Chair. Charlie McIntyre, Executive Director of the Lottery Commission, and with me is Kassie Strong, our Chief Financial Officer as noted before. Initially, I'd like to thank the LBA for their time and effort in the presentation here this morning, as well as their efforts in our building; and further, to the rest of the financial staff at the Lottery Commission who worked very hard on this document. It will be the fifteenth time this CAFR will be presented for certification with the Government Finance Officers Association.

Very briefly, for us 2013 was an exceptional year. It is the second year in a row that we were top lottery in New England in terms of growth, both gross and net. Prior year we were number six in the U.S. This past year we were number third in the U.S. in terms of growth. The next closest lottery in New England is 23rd. So for us, very successful year and certainly welcome any questions you have, Members of the Committee.

REP. WEYLER: Congratulations.

MR. MCINTYRE: Thank you.

CHAIRWOMAN WALLNER: Questions. Yes, Senator Odell.

SEN. ODELL: Thank you. Good afternoon. On Page 21 you have the instant sales by price point, and I don't see anything for the $30 tickets. Just so de minimus it doesn't show up?

MR. MCINTYRE: Senator Odell, sir, a decision was made early on during my tenure here that we remove the $30 ticket from the sale. It was, for my mind, it was doing nothing other than occupying dead space on a shelf. So we concentrated on $20 tickets which shows the growth of that price point. We certainly would like to reserve the rights to go above it but -- and not exceed, obviously, $30 the Legislature has authorized us to do. But at the time it was just wasted space so we took it away.

SEN. ODELL: Thank you.

CHAIRWOMAN WALLNER: Thank you. Any further questions or comments? Okay. Thank you very much. We appreciate you coming in. Thank you for your work on the audit. We do -- we have already done our motion on the 20th of November so there's no further action we need to take. And we'll move on to the Community Development Finance Authority audit. Mr. Mahoney.

MR. MAHONEY: Thank you, Madam Chairman. Our final audit report is a performance audit of the Community Development Finance Authority. Joining me this morning to present the report to the Committee from our office is Steven Grady. Steven is a Senior Audit Manager with our office. We are also joined by Janet Ackerman. Janet is the Chairman of the Board of Directors from the CDFA and Kathy Bogle Shields who's the Executive Director.

STEVEN GRADY, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good afternoon. For the record, I am Steve Grady. Our objective for this performance audit was to determine whether the CDFA management controls were adequate to provide reasonable assurance awards were made or denied consistent with statute and rule during State Fiscal Year 2013. Our recommendation summary begins on Page 3.

Of the 15 Observations and Recommendations, the CDFA concurred with six, concurred in part with seven, and did not concur with two. While none of our Observations make recommendations which might require Legislative action, several issues, including the CDFA's relationship to State Government and the scope of and limits on the CDFA's authority, manifested themselves throughout our audit work and may require Legislative action to address.

During my presentation today, I will be summarizing most of our Observations and only focus on a few key findings. Our background begins on Page 5.

The Legislature created CDFA in 1983. Since 1991, the CDFA's purpose has been to increase the number of development projects, provide capital to business ventures, and stimulate private investment in areas where primary employment is threatened and housing is inadequate.

The CDFA is governed by an 11-member Board of Directors and its two major programs are the Community Development Investment Program or CDIP, also known as the tax credit program which allows the CDFA to accept up to $5 million in state tax credit donations from businesses annually and businesses may deduct 75% of their donations from state taxes. And two, the Federal Community Development Block Grant or CDBG Program which the CDFA has administered from 2003 and which is to benefit low- and moderate-income households, help prevent or eliminate slums or blight and help and eliminate threats to community health and welfare. The section entitled Meeting Purpose and Intent starts on Page 11.

The CDFA was established as a "body corporate and politic," as a "public instrumentality of the State," and a "non-profit corporation." The CDFA's exercise of its statutory powers is deemed to be the performance of essential governmental functions. It's statute is to be liberally interpreted and construed. The statute grants CDFA the convenient powers, rights, or responsibilities necessary to carry out its purpose. Interpreting its authority, the CDFA has asserted unless statutorily prohibited it could act as it deemed fit. This approach requires the Legislature to anticipate everything the CDFA might do and explicitly prohibit each act it did not want the CDFA to undertake. This approach also appears to have led CDFA to deviate from its purpose in several instances.

In Observation No. 1, also starting on Page 11, we detail how the CDFA's management control needed improvement to assure awards were consistently made or denied according to statute and rule. The CDFA purpose was not included in the Board's governing *Manual* or in its mission statement. Several key terms were undefined and subject to ongoing reinterpretation.

Most Board members reported the CDFA's purpose was vague and variable, and they took a wide view of its purpose. One member also noted no effort was undertaken to limit the CDFA's mission. Some Board members did indicate that some approved projects were questionable when it came to fitting within the CDFA's purpose.

Since the CDFA did not establish target areas or target populations, we utilized federal data as a surrogate to establish such areas in the state that suffered from underemployment and inadequate housing. We found 78% of the $6.5 million awarded for CDIP projects during the audit period was granted to recipients and municipalities that were eligible for certain federal aid programs related to underemployment and inadequate housing. Twenty-one percent was awarded to recipients and municipalities ineligible for those federal programs. Thirteen of the 28 CDIP projects we examined appeared to fit within the CDFA statutory purpose, while 15 projects did not.

Appendix C tabulates our analysis. Without suggesting approved projects are without value, projects where we questioned whether they fit within the CDFA's purpose include upgrading non-profit corporation movie projector to digital standard, renovating a non-profit corporation swimming pool, constructing housing for seasonable employees of a non-profit theater corporation, and the salary of an Executive Director for a non-profit services corporation. We also found none of the 10 project files we examined clearly demonstrated all applicable statutory provisions required for an award were met. For example, seven did not meet the statutory definitions of a project.

Additionally, we reviewed 32 CDBG projects active during State Fiscal Year 2013 and valued over $10.3 million. We examined 10 of the files and found that the CDBG more closely followed the applicable statutory provisions required for an award. However, no CDBG project clearly complied with every provision. We recommended that the CDFA focus awards on projects conforming to its purpose and ensure key statutory provisions are explicitly met and clearly documented for each approved project to demonstrate conformity with Legislative intent.

In Observations No. 2 and 3 starting on Page 14, we detailed how the CDFA created a limited liability company to operate commercial property and created a separate non-profit corporation. Observation No. 2 describes how the CDFA financed the LLC's operation and the LLC owed the CDFA over $400,000 at the end of State Fiscal Year 2013. Resources committed to the LLC and the purchase and owning of commercial property represent opportunity costs or resources which could have been used for community development projects consistent with the CDFA's purpose.

Observation No. 3 starting on Page 16 describes how the separate non-profit corporation the CDFA formed was intended to become independent from State Government. Monies to fund the separate non-profit corporation activities were derived from the income of other CDFA programs and totaled $1.2 million. Opportunity for public and legislative oversight of both entities were limited and the applicability of General State Statute, such as the State Right-No-Know Law were unclear exacerbating oversight and accountability concerns. Also, statute did not provide the CDFA explicit authority to form either entity. The Legislature has traditionally been responsible for creating organizational components of State Government.

The CDFA's creation of separate entities may represent a usurpation of Legislative prerogative. However, the CDFA reported it has unfettered authority to create additional entities at its sole discretion. The CDFA has authority to purchase property without limitation. However, the Legislature limited property ownership to instances such acquisition is necessary or appropriate to protect or secure any investment in which the CDFA has interest.

Finally, owning real property and operating separate commercial companies and non-profit corporation do not appear to conform to the CDFA's purpose of increasing the number of development projects, providing capital to business ventures, and stimulating private investment in areas where primary employment is threatened and housing is inadequate. We also note the Legislature expressly eliminated for-profit aspects of the CDFA in 1991 as there were concerns that competed with the private sector, an act the CDFA as effectively undone.

We recommend the CDFA consider divesting itself of ownership from commercial property and dissolving the LLC and separate corporation.

In Observations No. 4, 5 and 6 starting on Page 18, we describe how key terms, such as target area, target population, and community development were not defined; the lack of a comprehensive, coherent approach to measuring outcomes which limited the CDFA's ability to show the projects approved had the intended effect, and potential structural barriers to accessing CDFA programs due to program complexity, potential bias against smaller projects and other factors.

We recommend the CDFA define key terms in administrative rules, develop a formal comprehensive approach to measuring outcomes, and further limit barriers to accessing its programs.

In the section entitled Management Control starting on Page 23, we detail in Observations No. 7 through 15 the CDFA's inconsistent adherence to statute, such as Right-to-Know, financial disclosure, rulemaking and annual reporting, and we illustrate weaknesses in the CDFA management controls including no formal approach to risk management, a lack of written contracts for several services, insufficient control over information technology, and eight CDFA programs valued at over $12.5 million which were without codified policies or procedures, adequate public disclosure or adequate world awareness. We recommend the CDFA fully conform to various statutes and then its management controls.

This concludes my remarks. I'd like to thank the CDFA Board of Directors, its Advisory Committee, and CDFA staff for their assistance they provided during this audit. Like to provide an opportunity for the Chairwoman to provide any comments she may have.

CHAIRWOMAN WALLNER: Yes.

JANET ACKERMAN, Chair, Board of Directors, Community Development Finance Authority: Thank you for the opportunity to address the items.

CHAIRWOMAN WALLNER: Can you just identify yourself for us.

MS. ACKERMAN: Janet Ackerman. As a point of background, I'm a commercial lender at Optima Bank and Trust for my day job. I appreciate the opportunity to address this and I think that we are probably best off if I just answer questions as you pose them.

REP. WEYLER: Question.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you, Madam Chair. Thank you, Director. I didn't see a great deal of detail of the source of funds that you're dealing with. Do they all -- I'm assuming some of them come from Federal funds but some of them may also come from your earnings in your leases and so on. Could you detail a little bit more where your source of funds are?

MS. ACKERMAN: Sure.

KATHY BOGLE SHIELDS, Executive Director, Community Development Finance Authority: Want me to take it? My name is Kathy Bogle Shields, and I'm Executive Director of CDFA. Our primary source of funds are the proceeds, the fees from our State Tax Credit Program, and we also manage the Community Development Block Grant Program which is a Federal program that essentially we are accepting and approving awards and then monitoring compliance for. We do have other funds that over the years have come back. Just as a point when we do make an investment, we put a lien on the project for 10 years. So they have got performance obligations. On occasion we have had that money come back to us and we have created loan funds, such as the job retention loan fund as an example, and the venture fund and a couple of others; but that's essentially the source of our funds.

In recent years we did, what I believe, was some very good work, with a program that has since ended and that came through the Department of Energy, the Better Buildings Program where we worked with the State's financial institutions to essentially partner to get lending done for both commercial and residential energy retrofit. Just finished up and we are going to look at data soon, but it was very successful, Berlin, Plymouth, Nashua.

REP. WEYLER: I read in the report you have very limited distribution for your financial reports that you send out. I wish you would send one to this Committee as well.

MS. BOGLE SHIELDS: Absolutely.

REP. WEYLER: 'Cause I haven't seen one in quite awhile. Going to Page 34, if I may ask a question?

CHAIRWOMAN WALLNER: Yes, of course.

REP. WEYLER: Your 12,584,044 that's listed Program Balance, are these cash available or does this include assets?

MS. BOGLE SHIELDS: My CFO is here, and I'm happy to take a stab at it, but I would be happy -- Ted. This is Ted Kuchinski and this is his table so I'm going to let him own it.

REP. WEYLER: All right. Thank you.

TED KUCHINSKI, Chief Financial Officer, Community

Development Finance Authority: Good morning. For the record, I'm Ted Kuchinski, CFO of CDFA.

CHAIRWOMAN WALLNER: Thank you.

MR. KUCHINSKI: Apologize. Would you repeat your question?

REP. WEYLER: I'm looking at the table, Table 1, and it's showing in the Program Balance as of June 30, 2013, 12,584,000 and so -- and I'm wondering is this cash that's available for all your programs? Does it include assets? Does it include revolving funds, restricted funds, or is this relatively available cash?

MR. KUCHINSKI: A portion of it is cash, but there are available -- there are loans out there, revolving loan funds. The Enterprise Energy Fund, the Better Buildings and Municipal Energy Reduction Fund are all the revolving loan funds for energy loans. So the majority of those are right now out as loans, whereas the CDBG Bridge Loan Program, as of right now that is cash in our reserves that we have available to assist CDBG projects that need cash to get going while they're waiting for Federal funds to become available. And that's cash right now that we have just designated to be available for that purpose.

REP. WEYLER: How much of it is really cash available?

MR. KUCHINSKI: The 900,000 -- the -- I'd say out of -- let's see. I'd probably say $4 million is cash available. The rest is out in loans and project activities.

REP. WEYLER: Thank you very much. Thank you, Madam Chair.

CHAIRWOMAN WALLNER: You're welcome. Further question?

Yes, Senator Odell.

SEN. ODELL: Thank you, Madam Chair. I've seen the good work that the organization's done, but I was sort of setback by reading through this particular report. And having spent most of my life working for not-for-profits and fundraising area, whether you agree, the detail and specifics in these kinds of things I would have questions, such as who do you really feel responsible to? Sort of as if we are not going to comply to the rules section here, we are not going to do this, we are not going to do this. We concur in part, whatever. So where is this from a broad perspective? What do you see the role of the Legislature in this? And then what is the Board doing, you know, with their project? An organization in the North Country that basically got out of control and the State of New Hampshire had to bail it out. We have had other not-for-profits have their own struggles and things. What does the Board of Trustees -- the Board of Directors plan to address these issues? They're obviously of concern to the audit process, but certainly of concern to a Senator like myself.

MS. ACKERMAN: Well, I think that the basic premise of our disagreement with the parts that we don't concur with is we have our legal counsel advising us that we are a non-for-profit and so as such we have the flexibility for those sorts of things. It puts greater reliance on the Board of Directors for being responsible for those particular oversight issues. And the way our Board is appointed, it requires a number of representatives from different sectors and different geographic locations so that we have an understanding of areas of need and -- and some actual on-the-ground information about those organizations. So the Board is very -- very aware of when we're looking at granting funds and taking actions in our community. We have somewhat inside information to support those decisions.

SEN. ODELL: If I may?

CHAIRWOMAN WALLNER: Yes.

SEN. ODELL: You're not planning to put together a subgroup of the Board to say we want to address this. We are going to take this audit very, very seriously. I mean, the fact you have some disparity in terms of where people come from and the businesses they're in, lots of boards do that. That doesn't keep them from getting into trouble and I think that -- I would assume the Board is somewhat self-perpetuating. I would assume boards have to be able to do that to be able to recruit people. I understand that. But I'm really concerned about some of the flavor of the non-concurrence here that I think is concerning. We are being asked to increase the amount that the State is paying to the organization. We are going to take that bill up in Executive Session in the Ways and Means Committee in the Senate on Tuesday and combine that request with this report, may weigh in terms of how people look at that now and longer term.

MS. BOGLE SHIELDS: May I respond?

CHAIRWOMAN WALLNER: Yes, please.

MS. BOGLE SHIELDS: Senator, one of the things I'd like to point out is that we -- the Board has just completed a fairly intensive strategic planning process. And in that there were a number of things that -- that actually we were pleased to see that we were on the same page in terms of audit. And what we have done and from the staff side of it, working very closely with the Board, is we have set up committees that are already meeting and have on their plate items that we haven't addressed that's on this list. We already moved on a number of these things because we had them on our own plate. And I, from a manager's point of view, I've built an infrastructure that's going to keep that moving with monthly reporting and all of that. So I think what may not have come through is that we have a real ethic about welcoming information about best practices. And we built this into our process going forward and we are going to be working very closely, Board and staff, to get it done.

CHAIRWOMAN WALLNER: Further question? Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Thank you all for coming and I second the comments of Senator Odell. Some -- and I appreciate it, the organization has a long history of doing great things, although you can obviously hear from us today that we've grave concerns, not just in the intent of what you feel your vision is going forward, but how you're operating your entity today.

If you look you might notice there's another entity that's been in the press a lot in the past 18 months from taking funds from one part of its operations and starting another operation and taking funds from another part and big real estate and they're, truly, people believe have grown beyond the original intent of the organization and its mission. And as a result of that, there's a fair amount of conflict going on today from both the organization to the State, and we would hate to see that happen, although we seem to have a feeling today amongst some of us that things are challenging at a minimum. And so for us it's, you know, as legislators we don't want to have to be heavy handed. We don't want to come in and dictate everything, but you guys were incorporated with the premise what you were supposed to do and seems to me, anyway, and by the way, 22 years in commercial banking so I understand the math pretty well, that there's been a dramatic divergence from the intent of what the organization and where's the money going, not just the project and cash on hand. But if you're intent to give money to build projects to help communities, but you're using it to start new corporations and entities and buy real estate, even though you might feel today you have that authority, authority some suggest you might not, so there's a high level of concern here that we feel might need to be addressed expediently.

MS. BOGLE SHIELDS: Yep, and we are happy to do that. I do want to underscore that given the kind of funding we have got, we -- we -- we get external audits every year, financial audits, and I'll make sure you get them. Housing and Urban Development watches very closely on what we do. The Department of Energy has been in. We asked our consultant to do an internal governance and management audit and we have gotten pretty good grades on all of those. So I have a level of confidence that I'd like to be able to convey to you that we have the infrastructure and the capacity to do this right. If we need to communicate it more effectively, we are going to figure that out. Because I think if you look at the list of projects starting in D-1, we made an awful lot of positive difference in the state, and we want to make sure that still happens so we will address ourselves to it.

CHAIRWOMAN WALLNER: Thank you.

MS. ACKERMAN: If I might, too. Our -- our two sort of separate entities aren't really separate. They are part of the CDFA audited financials, and it really wasn't diverting funds somewhere. It was classifying funds that we already had revolving loan fund and whatever. And back to that Table 1. A number of these programs are federally funded programs that we set up to receive federal funding to loan out under the Stimulus Program. So it wasn't that we suddenly dreamt these up and diverted funds to loan out. It was federal funds that we took in specific to loan out for these programs.

CHAIRWOMAN WALLNER: Thank you. And thank you for coming. I appreciate your responding to the audit and telling us about the work that the -- that you're doing. Thank you.

I believe we need to have a motion on this one.

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

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves and Representative Eaton seconds that we accept the report and place on file and release in the usual manner the audit of the Community Development Finance Authority. All in favor? Any opposed? We will place that on file.

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: I would like to propose we all meet again on Valentine's Day. How's that? February 14^{th}. So if that works. It's a Friday, February 14^{th}, and we'll meet at 10 o'clock. Does that work for everybody?

SEN. FORRESTER: All right.

CHAIRWOMAN WALLNER: Thank you very much. Meeting's adjourned. Thank you.

(The meeting adjourned at 12:41 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

Cecelia A. Trask, LSR, RMR, CRR
State of New Hampshire
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