

JOINT LEGISLATIVE FISCAL COMMITTEE

Legislative Office Building, Rooms 210-211

Concord, NH

Friday, February 14, 2014

MEMBERS PRESENT:

Rep. Mary Jane Wallner, Chair

Rep. Ken Weyler

Rep. Cindy Rosenwald

Rep. Peter Leishman

Rep. Dan Eaton (Alt.)

Sen. President Chuck Morse

Sen. Jeanie Forrester

Sen. Sylvia Larsen

Sen. Andy Sanborn

Sen. John Reagan (Alt.)

(Convened at 10:04 a.m.)

(1) Acceptance of Minutes of the January 10, 2014 meeting

CHAIRWOMAN WALLNER: I'll call to order the Valentine's meeting of the Fiscal Committee and welcome everyone. Is this on? Can you hear me? Okay. Thank you. And we are waiting still on a couple of members that I'm sure that because of the weather they'll be in soon. And our first order of business is the acceptance of the minutes of January 10th. Do I have a motion?

SEN. FORRESTER: So moved.

CHAIRWOMAN WALLNER: Senator Forrester moves and Representative Rosenwald seconds the acceptance of the January meeting. Any discussion? All in favor? Any opposed? The motion passes.

***** {MOTION ADOPTED}**

(2) Old Business:

CHAIRWOMAN WALLNER: Old Business. Is there anything on the calendar to come off of the calendar for Old Business? Seeing no recommendations for anything off the calendar, I'll move on to the Consent Calendar.

CONSENT CALENDAR

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

CHAIRWOMAN WALLNER: Our first item is under Tab (3), and this is a transfer from the Department of Safety.

** REP. LEISHMAN: Move.

CHAIRWOMAN WALLNER: Do I see a motion? Representative Leishman moves.

REP. WEYLER: Second.

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

*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: Our next - oh, I'm sorry. This is consent. Well, is there anything to come off consent? I'm sorry.

REP. WEYLER: Only one item.

CHAIRWOMAN WALLNER: I believe --

SEN. SANBORN: Madam Chair, under number (6) when you get there. 14-014.

(4) 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:

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CHAIRWOMAN WALLNER: Thank you. The next consent item is number (4).

** REP. ROSENWALD: Move the rest of the Consent Calendar.

CHAIRWOMAN WALLNER: Representative Rosenwald moves the rest of the Consent Calendar.

SEN. REAGAN: Second.

REP. WEYLER: Under Tab (4).

CHAIRWOMAN WALLNER: Under Tab (4). Any discussion? Did you get a second? We have a second on Tab (4).

REP. WEYLER: Who was --

CHAIRWOMAN WALLNER: Senator Reagan second. All in favor? Any Opposed?

*** {MOTION ADOPTED}

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

CHAIRWOMAN WALLNER: I know it's consent, but we'll just finish them up until we get down to (6), okay? Item (5). This is Police Standards and Training Council. Do I have a motion?

** REP. ROSENWALD: So moved.

CHAIRWOMAN WALLNER: Representative Rosenwald moves.

SEN. FORRESTER: Second.

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

*** {MOTION ADOPTED}

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(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: Now we're on (6) and Senator Sanborn has asked to have number 14-014 removed from the Consent Calendar. And there are one, two, three other items. Do I have a motion to pass the others?

** REP. ROSENWALD: So moved.

CHAIRWOMAN WALLNER: Representative Rosenwald moves the other three items.

SEN. FORRESTER: Second.

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

*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: Now let's go to 14-014, and this is the Insurance Department. And, Senator Sanborn, would you like the Insurance Department?

SEN. SANBORN: I appreciate it. Yes, ma'am.

(Senator Larsen enters the committee room.)

CHAIRWOMAN WALLNER: We are going to let our clerk catch-up and I'd like to ask if there's anyone here from the Insurance Department. Thank you. Welcome. Thank you. Thank you for coming on a very snowy Valentine's Day.

ROGER SEVIGNY, Commissioner, New Hampshire Insurance Department: And happy Valentine's Day to everybody.

CHAIRWOMAN WALLNER: Thank you.

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MR. SEVIGNY: Good morning, and thank you for having us here, Madam Chair, Members of the Committee. We are happy to talk to you about this item and what it does. It's a Planned Management Grant. It's a grant for continued planned management. I think as all of you know, New Hampshire is a partnership state which contemplates two things, the first of which is plan management. The partnership status in the plan management piece was approved by the Oversight Committee. I don't remember exactly when but it was. And this -- the grant that's before you is really a continuation of the grant that we had -- we've had in the past for planned management functions. It's the second and final year of the grant, and what it does is to implement plan management. It does a couple of things.

The first thing is it implements -- helps us implement plan management. We never could have done the plan management function that the State is expected to do last year, and we only had one carrier, only with our internal staff because we have, believe it or not, a lot more than health insurance that we review. Thankfully, the grant was there. We were able to hire PCG as the contractor that assisted us in reviewing all of the forms and all of the things that had to be complied with so that we could make recommendations to the Federal Government, to CMS. We are looking for the same thing.

It is even more critical this year. I'll tell you why it's more critical. We expect to have several more carriers. That's a really good thing to have more than one carrier on the exchange, but with it comes the additional work. And it's not just the work itself. Our folks are trained to do that kind of work. But it's the timeline that has to be followed to review that work, to review the forms, to develop the exchanges that have to go back and forth with the carriers that ultimately come to hopeful -- hopefully to an approval and make the recommendations to the Federal Government.

The second piece of this is for continuity of coverage and the best way to explain that is this would assist us in developing ways to ease the transition issues for people that

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move between different types of coverage; the employer, the individual market, the Medicaid to individual market, and back and forth and that sort of thing. There needs to be -- if the consumer is going to be able to do this in an effective way that doesn't cause unnecessary disruption, either for the consumer, for the State, or for the carrier, then there needs to be a plan that's developed and a program that's developed for this continuity of coverage. This is the other thing that's contemplated under this grant and Jenny is here in case you ask any hard questions.

CHAIRWOMAN WALLNER: Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Commissioner, you know I'd never ask a hard question. Thank you for coming. Happy Valentine's Day, Jenny.

JENNIFER PATTERSON, ESQ., Insurance Department: Thanks.

SEN. SANBORN: I have several questions. I start with when I look at RSA 420-N:5 that specifically says only with the prior approvals of the Oversight Committee as required under 420-N:4 shall the Commissioner apply for any public or private grants available under the Act.

Now, as a member of that Commission -- Committee, I haven't seen this come before that Committee. So I'm questioning where you have the authority to be here today for it?

MS. PATTERSON: Yes, and if I could, Commissioner, answer the question. Thank you, Senator Sanborn.

MR. SEVIGNY: That's a hard question.

CHAIRWOMAN WALLNER: For the record, you want to identify yourself.

MS. PATTERSON: I'm sorry. Thank you, Madam Chair. I'm Jennifer Patterson. I'm the Life, Accident, and Health legal counsel for the New Hampshire Insurance Department.

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CHAIRWOMAN WALLNER: Thank you.

MS. PATTERSON: And I also have RSA 420-N:5 before me. Again, as you read, that statute does require prior approvals, but it references a different section which is Section 4 of that statute.

SEN. SANBORN: Correct.

MS. PATTERSON: So, basically, there was, you know, we did last year when the State decided to go as a partnership route for the marketplace, we did take that to the Oversight Committee and the Oversight Committee, as the Commissioner said, voted to approve that. Now for grants, those aren't required to go to the Oversight Committee. That's not one of the prior approvals that's listed in Section 4. Section 5 references Section 4. So while Section 5 does give the Commissioner authority to apply for grants, that authority does not need to go prior to the Oversight Committee, because those grants come here to this Committee.

So last year, again, we did get that approval from the Oversight Committee to do the plan management partnership. And, again, as the Commissioner has said, basically, the plan management partnership is exactly the type of function that the Insurance Department has always done. We review all of the insurance plans that are offered on the marketplace. We make a recommendation to the Federal agency that's operating the exchange as to whether or not they should be certified. So that's really what our function is. It's entirely consistent with 420-N and with the traditional function of the Department. So we did get this grant, kind of the equivalent of this grant last year for the first year of operation and that only went to the Fiscal Committee. It did not go to the Oversight Committee. This is the second and final year of this grant, and as the Commissioner had said, we're expecting to have more carriers. There is some additional issues of complexity, and particularly where there is the final year of these particular grants, it's important for us to have all the infrastructure in place so that

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we can retain our regulatory goal as the marketplace goes forward and have that all set up.

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

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Okay. Thanks so much. I appreciate it, although, I have to respectfully disagree with about everything that you just said. We don't have a partnership exchange and we have references in our statute to a prohibition on a state-based exchange.

MS. PATTERSON: Right.

SEN. SANBORN: There's also references in our statute relative to New Hampshire has decided to run with a federally facilitated exchange. Again, as a member of the Oversight Committee, we never specifically approved a partnership exchange; but we did approve, admittedly so, moving forward of getting a Memorandum of Understanding as Representative Hunt was very specific in his specific vote to move forward to that Memorandum of Understanding so the Committee could consider a partnership exchange which has never happened. And I can't seem to find that anyone has ever come back for Memorandum of Understanding. So I don't think we have done that. And, also, when I look in 420-N, it talks about the Committee -- the Committee shall determine all policies within the State of New Hampshire regarding recommendation of the Act. So I would submit to you that this grant and the policies it's looking to fund would be required to first start at the Health Care Oversight Committee to see if those are the types of policies. And Commissioner just referenced the fact that there's several things within this grant which would be new; therefore, they would be new policies that this request first should go to the Health Care Oversight Committee.

MS. PATTERSON: Again, I don't want to get into a legal argument with you, Senator Sanborn, right now; but just to point out briefly that I think that the core of RSA 420-N is that the

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Department should retain its existing regulatory authority and Section 8 of that statute is very specific about that.

There was some debate about the other potential partnership task which was consumer assistance. And I would agree there was another grant that was awarded for consumer assistance that never did gain approval of the Fiscal Committee, and the State is not involved with that aspect of the partnership. But the plan management aspect, clearly, that was approved. We had extensive discussions with the Oversight Committee on that issue. And it is really critically important not just to retaining our regulatory authority but to ensuring consistency with RSA 420-N as it's written because having the ability to review these plans and make recommendations means that consumers in New Hampshire come to the Insurance Department rather than having every aspect of the exchange be regulated by Washington.

****** SEN. SANBORN: Thanks for the answer. I do appreciate it. Madam Chair, I move we table this item until we hear back from the Health Oversight Committee.

REP. WEYLER: Second.

CHAIRWOMAN WALLNER: Senator Sanborn moves that we table this item and Representative Weyler seconds.

REP. ROSENWALD: Roll call.

CHAIRWOMAN WALLNER: Representative Rosenwald has asked for a roll call. Ask the clerk to call the roll.

REP. WEYLER: The motion is to table on Item 14-014. Representative Rosenwald.

REP. ROSENWALD: No.

REP. WEYLER: Representative Eaton. Not present. Representative Leishman.

REP. LEISHMAN: No.

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REP. WEYLER: Representative Weyler yes. Representative Nordgren not here. Representative Benn not here. Senator Forrester.

SEN. FORRESTER: Yes.

REP. WEYLER: Senator Odell.

CHAIRWOMAN WALLNER: Senator Reagan is here.

REP. WEYLER: Senator Reagan.

SEN. REAGAN: Yes.

REP. WEYLER: Senate President Morse.

SEN. MORSE: Yes.

REP. WEYLER: Senator Larsen.

SEN. LARSEN: No.

REP. WEYLER: Senator Sanborn.

SEN. SANBORN: Yes.

REP. WEYLER: Representative Wallner.

CHAIRWOMAN WALLNER: No.

REP. WEYLER: The vote is 5 to 4.

CHAIRWOMAN WALLNER: Vote is 5 to 4. Item is laid on the table.

*** {MOTION TO TABLE ADOPTED}

(7) RSA 228:12 Transfers from Highway Surplus Account:

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CHAIRWOMAN WALLNER: Go on to Tab (7). This was the transfer from the Highway Surplus Fund. And I believe that I would like to ask the folks from Department of Transportation to come up. Since they came so well prepared today with a little chart to show us, I thought we should hear from them on this item. Thank you. Introduce yourself.

CHRISTOPHER CLEMENT, Commissioner, Department of Transportation: Sure. Good morning, Chairman Wallner, Members of the Committee. My name is Chris Clement, Commissioner of New Hampshire Department of Transportation. And with me is Patrick McKenna, our Director of Finance. Good morning.

CHAIRWOMAN WALLNER: Well, I saw you in the audience with your chart and I thought it was very interesting. I thought it was something that maybe we all needed to have a little --

MR. CLEMENT: Sure.

CHAIRWOMAN WALLNER: -- information about. Thank you for bringing it.

MR. CLEMENT: You're welcome. You're okay to go through now?

CHAIRWOMAN WALLNER: Tell us what's going on. Tell us what a hard winter it is.

MR. CLEMENT: I thought based on the transfer amount that we're asking for you probably want to know where we are today in terms of what the statistics are. If you're looking -- this is really a New Hampshire winter. If you look along the bottom we have about 25 weeks that we measure winter in New Hampshire. Starts within November 7th and then it ends at April 24. And we track every week what our burn rate is for salt and for hired trucks, for example, based on what our budget is.

If you look at the blue vertical lines, the light blue vertical lines, that's based on 2013-2014. Excuse me, that's a three-year average. I stand corrected. That's a three-year

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average. Okay. The yellow -- the yellow bar graph, that's a ten-year average. And you look at the brown line, for example, that was 2012-2013. We used about 160,000 tons that year. So if you go across on the line it's about 160,000 tons. The three-year average, again, the blue, that's 140,000 tons and that's how we budgeted this year. And then if you look at the red line that goes up towards the top, that was what we say a real severe winter. That was in the winter of '07 and '08 when we had a lot of storms like this year and we used about 250,000 tons of salt that year.

So if you take the blue line right here and you trend that line upward, which is this guy right here, this is this winter. So if you take the line as I did and drew with the pen and trend upward and things all remain the same between now and the end of April, we'll probably be around the 200,000-ton mark in terms of how much salt that we used and that's a big part of the transfer. That's a big part of the reason why we're here. We are -- as of before this storm from an expenditure perspective we were 58% of our way through winter and 75% expended. We've used 129,000 tons to date.

Again, we went out and purchased 140,000 tons. That was based in that three-year average if you look at that chart. Part of the transfer is the \$2.1 million so we can order salt. We have 21,000 tons on order, because we are starting to get to a point where we're being -- we're concerned about that. On any given -- on any given week, like a week like this week, for example, in a one and a half, two-week period of time, we could consume all that 21,000 tons of salt. I mean, I could keep going or do you want to ask questions?

CHAIRWOMAN WALLNER: Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. Commissioner, thanks so much for coming up. Gentlemen, I appreciate it.

MR. CLEMENT: Pleasure.

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SEN. SANBORN: I see or maybe have saw some sort of a move to go towards a more viscid level of salt that you had in one of the State trucks putting down more of a liquid type brine. What's your movement to that? Is there a cost savings towards it or is this more effective? Can you explain if it's going to help or hurt your salt acquisition by the end of the year?

MR. CLEMENT: That's a great question. So we are using more brine. We are using it more on the southern tier to put that down ahead of time so we don't get ice pack or snow pack on the road. We have a lot of that mid storm. This is a really funky storm. Every storm, by the way, as you know, we all are born and raised and grew up in New Hampshire, is different and this one is different. We had snow first, then rain, then freezing rain, then snow again. Brine only works within a certain bandwidth of temperature, too. It can't be too cold or it won't work. We are trying to use more and more brine, certainly on the Turnpikes, to lower our consumption of salt. Not only from a budget perspective but from an environmental perspective as well, certainly, as we look at widening of I-93 and the corridor issues that we have there.

Also, we have these pre-wetting devices. If you look at the back of our truck, we have these water jackets in there, if you will. So we are trying to pre-wet the salt as it's coming down to the spinner before it hits the road so it's like -- has an almost like a consistency of oatmeal. So when the salt hits the road it sticks versus when it was dry in years' past when it hit the road if you're going at a certain rate of speed it would go off into the ditch. So we are trying to be more scientific and more -- certainly more cost effective on how we use salt.

We also calibrate our spreaders every year. We didn't do that every year. So now we have been doing that for the last four years. So trying to put down, you know, 250 pounds of salt per lane mile. Trying to stay right at that. Because you heard me say the difference between 250 pounds of salt per lane mile or 300 pounds, just 50 pounds more in our budget is \$2 million a year. So we are very mindful of that. And we work with our

contractors as well to make sure that they have the most modern equipment possible.

CHAIRWOMAN WALLNER: Thank you. Representative Weyler.

MR. CLEMENT: We fully understand the budget implications. That's all we deal with every day is the budget. The budget's tight and we are trying to use more and more technology and be smarter. We are very, very sensitive about that.

CHAIRWOMAN WALLNER: Representative Weyler. Oh, I'm sorry.

SEN. SANBORN: One more follow-up. Thank you, Madam. And so I'm not sure today if we have enough time today to have this conversation, but I was led to believe you have like a \$35 million surplus. You're looking to take \$2 million out to buy salt. But I continue to hear the struggles with what your vision is of how much money the Department has. So at some point, and if not today, I'd love to have that conversation on trying to better understand \$35 million surplus on one hand, but -- and you want to spend some of it today, obviously, but yet calls that the Department is really short on funds.

MR. CLEMENT: That's right. If the winter -- I'll let you jump in. I know you're chomping at the bit. If the winter keeps trending the way it is, we're going to burn up all that. What we don't want is the fact is we used up that whole budget during the winter and then when spring comes we can't do -- and we are going to have massive issues on the road. We all drive the roads. We see it. We need to buy cold patch. We need to repair the potholes. We need to be out there cleaning the ditches out, mowing, tree trimming, all that. That's where if we took this out of 30, 31, Senator, if we didn't take it out of savings, if you will, then we wouldn't be able to perform any spring and summer tasks. You don't want to do that. What happens is when you let the maintenance go, when we don't maintain our assets, it costs exponentially more to repair. That's where we are system-wide with our transportation infrastructure 'cause we didn't maintain. We never have the money to maintain it, but then we go and spend four times more to replace it. We are

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trying to get away from that. We are trying to get to the point where we are only maintaining our infrastructure. Other than building out I-93, which we have to do, and I'm very passionate about finishing 93, we have to do. We want to get to a point where we are less engineering and more maintaining. That's the future, I believe, of the New Hampshire Department of Transportation in our state.

SEN. SANBORN: Thank you, sir.

MR. CLEMENT: I know you didn't ask for that, but I give you that piece any way. Did I miss anything?

MR. MCKENNA: If I might add just briefly on that. That's a great question. The Highway Fund balance, it's no secret, we've been discussing the implications and projections going forward. And we do see deficits out into 2016 and '17. Coming out of 2013 there was a \$46.3 million surplus in the account. You have, as part of your package here, projection out of the surplus statement, including potential lapses, legislatively adopted lapses in the budget, if you will, that bring us down in spending for '14. As you said, in that \$35 million range.

Drawing from the surplus we take quite seriously because we know it compounds the problem going forward. Our issue is that, typically, in the budget process, your spending is viewed based on the even number year. So a lot of our spending in Fiscal Year 12 was based on a very light winter. We actually had about a \$32 million spend. We average closer to 40 million. We can have a 10 to \$15 million swing in terms of winter severity. The salt is a great indicator of additional expenses. It's really we look at it as the leading indicator of all of our expenses, because it requires labor and fuel to apply that salt. So our budget this year in '14 and '15 effectively is budgeted for a below average or a light winter. Our testimony in the budget process was that that's fine, as long as it's a light winter. And if it isn't, then we would have to come back and seek more resources.

We did reach out to some Committee Members about three weeks ago when we first came across this as a need. And this is

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absolutely at the low end of the need. As a matter of fact, our operation folks are ready to strangle me because we constrained this request as tightly as we did. What we did was we constrained this request down to that which we pay externally. So purchasing salt, which we've made a purchase of 21,000 tons, we have to keep that pipeline going because this year we're actually competing with southern states. We are competing with the City of Atlanta for salt right now. So it's a supply issue as well. And then also for our rented equipment, those contracted plowed drivers that are out there. Almost 60% of the folks out this past evening were contracted hired folks that augment our staff. So that's really just keeping us rolling. The -- there is a substantial need for additional funds. We anticipate, just so the Committee is aware, that we will be back for more funds next month in Fiscal for this very same issue. And what we're doing right now is we're depleting an inventory of salt. Normally, we carry 85 to 100,000 tons over from one year to the next. That's at \$60 a ton. It's a multi-million dollar issue. When we get down below 50,000 tons, we actually have to start trucking it from larger sheds to smaller sheds, and it substantially increases our costs.

So we're -- we're very concerned about that at the moment because it's taking us upwards of six to eight weeks to receive salt that we order. If -- this winter is tracking very similarly, as the Commissioner said, back to 2007 and '08. What happened after that winter, we lock in our prices for the year. So through the Fiscal Year we have a set rate. We saw almost a 25% jump in price per ton the following year. So if we draw our salt budget down and our salt inventories down, you know, deplete it, 100,000 tons at \$60 a ton is \$6 million. It might cost us 8 to 8½ million to replace that in the summer months getting ready for the winter. So if we have an opportunity to purchase at our fixed rate now, it's probably going to be a good idea to do.

But those are some of the -- those are some of the implications and we well take seriously the surplus issues and the projections that we have made that show deficits moving out into the future. And for that reason, this is the first time

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we've drawn from the highway surplus in well over a year. We've -- all other transfers you see are moving and shifting funds around from within existing resources. We certainly know we have to do that as well in a future transfer request. But we do believe we'll have to draw from the surplus again before the winter is out.

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

SEN. PRESIDENT MORSE: Do we know what that number -- do we know what that number is going to be?

MR. MCKENNA: We anticipate that it could be when we factor in we'll probably have fuel in the -- probably around \$2 million in fuel. We'll have additional rented equipment, and we have another substantial salt -- salt we can move up or down to some degree based on the working with the Committee and the desire of how much inventory we should carry into the next year. It could easily -- it could easily be another 6 to \$8 million before this -- before this winter is out. We'll have, again, I think what we did is we tried to moderate the request right now because we could have 60-degree weather in two weeks and if that's the case, then we can -- we can certainly minimize that. We're looking at that every day.

MR. CLEMENT: Senator Morse, we are trying not to get below that 50,000-ton limit of stored salt in our sheds. If that happens, then we have to cross all across the state and as Patrick said, it's very expensive. So we are trying to keep that buffer at a minimum, only going out and getting 21,000 tons. That's about a two-week burn if we have storms like this. We don't want to get below 50,000. Then we are really getting into margins and we are vulnerable if we have back-to-back storms if we were unable to have the salt.

MR. MCKENNA: We actually had a two-week period this year already where we reached 30,000 tons of salt. That's as much as, you know, that was the most severe two weeks that we had this winter. To give you a sense of proportion, an eight-hour storm for us, just -- and this is not Turnpikes, this is just the

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Highway Fund side -- runs about \$500,000 in total cost across all class lines. So we're -- by the time this storm's done, we'll have people that have been out for 32 to 36 hours. So this storm alone will cost the State on the Highway Fund side approximately \$2 million. We're anticipating another storm, not as severe, on Saturday and we're hearing that maybe Tuesday it's bringing some weather again. So we're hoping for, you know, I saw robins in my yard last weekend, but I don't think they got the memo on the current weather. So we're really trying to -- you know, we will work directly with the Committee, the Committee members. We can bring more information in as we see it happening --

(Representative Eaton enters the committee room.)

MR. MCKENNA: -- prior to the next Fiscal Committee meeting, whatever the Committee desires. We're happy to provide it.

CHAIRWOMAN WALLNER: Representative Weyler.

SEN. PRESIDENT MORSE: Further question.

CHAIRWOMAN WALLNER: Follow-up.

SEN. PRESIDENT MORSE: And I'm not afraid of reality. I mean, so I think these are facts. So I don't have a problem with that. My question of the Commissioner because Massachusetts has made comments in the past two weeks that bills aren't being paid down there until the Legislature comes back. That's not happening in New Hampshire, is it?

MR. MCKENNA: No, we're paying our bills. This transfer gave us the buffer that we needed currently for our rented equipment contractors. They're being paid. Absent this transfer, we would -- we would go negative and would not be able to pay the contractors. Moving forward, we -- we will -- we anticipate we'll need additional resources in order to do that. Our overtime account and our winter maintenance may well be spent fully as a result of this next week. So we're very tight there. And we are monitoring that daily. So -- but -- but that was the

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primary -- we tapered this request down to our salt contractors and our rented equipment contractors so the external payments that we need to make so that we're able to make those. But, again, resources are very, very tight.

MR. CLEMENT: Have you heard something, Senator Morse?

SEN. PRESIDENT MORSE: No. As we talk about maintenance and New Hampshire and things like that, I don't want us to be like Massachusetts.

MR. CLEMENT: Okay.

SEN. PRESIDENT MORSE: Having been here since 1998, I think the State has performed satisfactorily to the Legislature. So I think we have to be very careful, and I want to make sure that New Hampshire's paying its bills. If this \$2 million covers it, that's fine. I mean, this is a reality check.

MR. CLEMENT: Right.

SEN. PRESIDENT MORSE: We want to be able to make sure our roads are in good shape for people to drive them. So I heard a number of \$6 million earlier this morning, questioned why we aren't there yet, so. And if it's because we are praying for a good month, I'm praying against you, because I'm in the same industry, so.

MR. CLEMENT: Yeah, right.

CHAIRWOMAN WALLNER: Representative Weyler has a question.

REP. WEYLER: Thank you, Madam Chair. And I want to compliment the Department on keeping the roads clear and appreciate everything in the surplus statement on this item. My question was going to be the price of salt which you partially answered it. I bet you can give me a very short answer. Mr. McKenna, what was the price of salt in that 2007-2008 record?

MR. MCKENNA: I believe we were in the -- we were closer to \$50.

REP. WEYLER: Five zero?

MR. MCKENNA: And we have -- actually, if -- I know it's not quite form. We actually have a New Hampshire Rock Salt Total Usage and Cost since 2000. Be happy to make this available. I may have copies in my binder here. I know we don't normally hand things out that we haven't discussed, but --

REP. WEYLER: And, lastly, someone asked me a question the other day, where does our salt come from?

MR. CLEMENT: It comes from Peru, comes from all over, Upstate New York, depending on where our, you know, what Districts 1 -- you want to hand these out, Jeff?

MR. MCKENNA: It's really an international market and we -- we source from five or six different suppliers. And they source, also, from all over the world. It comes --

MR. CLEMENT: Supply and demand based on price and based on the type of salt that we're using in what District.

REP. WEYLER: Thank you very much.

MR. CLEMENT: Right.

REP. WEYLER: Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Do we have further questions? Oh, yes, Senator Forrester.

SEN. FORRESTER: Thank you. You mentioned -- I just want to be clear that you're going to have to come back to Fiscal again.

MR. CLEMENT: Yes.

SEN. FORRESTER: Would it be for the same item, salt and equipment?

MR. CLEMENT: Salt, equipment, overtime.

MR. MCKENNA: Overtime.

MR. CLEMENT: Most likely overtime which is Class 18.

SEN. FORRESTER: Follow-up.

MR. MCKENNA: It'll -- it'll span the spectrum of all the class lines that we have in this -- in our budget itself. You know, our salary and benefit figures are holding. Those are fine. We have -- we have overtime. We have our consumable supplies, Class 20. Our rented equipment, Class 22. We may need some minor amounts and adjustments within our temporary folks that augment and some of our utility bills and some of the other class lines. But it's primarily -- the winter maintenance budget is primarily -- the primary factors there are our consumable supplies, salt and sand and our rented equipment.

SEN. FORRESTER: Do you anticipate when you come back again it's going to be around the same amount?

MR. MCKENNA: I believe it's going to be substantially higher.

SEN. FORRESTER: Higher. Is that the 6 million you're talking about?

MR. MCKENNA: Yeah. We need to -- we need to look at our Mechanical Services group and their fuel usage. We are looking at that. We anticipate potentially upwards of 2 million in that area. We anticipate additional -- again, I think what we can do is work with the Committee to make the determination on how much salt we want to retain at today's prices or build back into our sheds. Fortunately, supply is not -- even though it's difficult for many that don't have the established relationship set up, we do seem to be receiving our orders. They're just taking longer

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to get. But, again, I think we could be in a position where if we deplete down another 4 or \$5 million worth of salt, we would probably most likely want to replace that and carry it into next year because the prices we anticipate could be as much as 20% higher, 15 to 20% higher next year, just based on our experience with 2007 and '08.

SEN. FORRESTER: That next time you come to Fiscal, the 6 million, do you anticipate you'll come after that again or do you think that will be it?

MR. CLEMENT: Depends on what the winter does. It really depends on what the winter does.

SEN. FORRESTER: The reason I ask because two or three weeks ago when we talked it was 6 million and then you were going to come in 2.2 which is what you did. Now I'm hearing 6 million. So I'm just wondering where we're going.

MR. MCKENNA: It's a good question. We had -- the way that we calculated that, the 6 million originally was from that point three weeks ago. If we had an average winter from that point forward, historically, then our need would be 6 million. And we're kind of gauging to see what the next several weeks ahead. We actually had a little bit more than average here in the last couple weeks. So it's actually got our numbers are growing. Again, this storm alone is approximately a \$2 million event for the state.

CHAIRWOMAN WALLNER: Yes.

** REP. WEYLER: Move to approve the item.

CHAIRWOMAN WALLNER: Representative Weyler moves to approve.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Eaton seconds. Any further discussion? All in favor? Any opposed?

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*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: Thank you very much for coming. Thank you for all the great information you provided us. We appreciate it.

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

CHAIRWOMAN WALLNER: Move on to Tab (8) which is the Department of Corrections transfer.

** REP. LEISHMAN: Move approval.

SEN. REAGAN: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves and Senator Reagan seconds. Any discussion? All in favor? Any opposed? Motion passes.

*** {MOTION ADOPTED}

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

CHAIRWOMAN WALLNER: Tab (9).

REP. LEISHMAN: I had a quick question, Madam Chairman.

CHAIRWOMAN WALLNER: Yes, Representative Leishman.

REP. LEISHMAN: I don't know if Mr. McKenna or --

CHAIRWOMAN WALLNER: Okay. On Item 14-002.

REP. LEISHMAN: Well, it's in the package. It's 14-011.

CHAIRWOMAN WALLNER: Okay.

SEN. SANBORN: I have a question on 002.

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CHAIRWOMAN WALLNER: We've got lots of questions. So why don't we start with questions on 14-002.

SEN. SANBORN: Thank you so much for coming up. I don't mean to be a stickler, but we just talked about how the winter maintenance budget's darn near depleted. You need a bunch more money for winter maintenance, yet you're pulling money out of the rest of that account for something else. So I'm -- look, it's \$20,000. I don't think the State would go broke on 20 grand, but it's just a concept to me. If that fund is that broke, why we pulling money out of that?

MR. MCKENNA: Great question, Senator Sanborn. Thank you. Actually, it's the expense that we're proposing here is actually related, in fact, to winter maintenance. We -- we have a -- it's a MATS System. It's a system that's been developed jointly between New Hampshire, Maine, and Vermont. It's Managing Assets for Transportation Systems, and that system was developed several years ago. It's actually where we do all of our cost and project tracking at a very detailed level. We actually have that system approved by Federal Highways, in fact, and FEMA for when there are emergency events. We can actually pull out really next day for all of the activity all over the state that's going on, the hours, the materials used, the inventory we track. And what we -- and, quite frankly, Maine and Vermont have been providing the lion's share of maintenance on that system for the last almost five years. We are at a point where some of the upgrades that they have developed are critical elements for us in the state. And in order to access them, we have to establish a maintenance agreement again. And so what we did here is we went back through and pulled money from all across the Department, if you will, to be able to fund this activity. We would not have the numbers we just described without that system. I don't think we really maintained our responsibility toward that system over that period of time, and it's a critical system for us in our daily operations. Winter maintenance actually is a substantial component of our tracking in that system and that's the reason, although I readily admit it is inconsistent with item number one that we discussed.

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SEN. SANBORN: Thank you, sir. I appreciate it. Thank you, Madam.

CHAIRWOMAN WALLNER: Have a motion on this item.

** SEN. LARSEN: Move approval.

SEN. REAGAN: Second.

CHAIRWOMAN WALLNER: Senator Larsen moves approval, Senator Reagan seconds. All in favor? 14-002 passes.

*** {MOTION ADOPTED}

REP. LEISHMAN: Thank you, Madam Chair.

CHAIRWOMAN WALLNER: You have a question on 14-011?

REP. LEISHMAN: I do. We heard in the past that the Department of Corrections has had a problem in filling positions and that's what jacked their overtime expense up. I noted here that you have an increase in overtime to fill vacant positions or positions that have not been filled. Are those positions that are vacant and funded or positions that are vacant and not funded and has caused your overtime line to increase?

MR. MCKENNA: Thank you, Representative Leishman. It's a little bit of a combination. We had some of the overtime we're referencing is actually in the Bureau of Finance. We've actually brought some temporary folks in as a backstop in our accounts payable group. We -- we do have issues really throughout the Department on -- on loss of employees through either retirement or seeking other employment, and then there's a duration that it takes to fill those positions.

Currently, department-wide we have approximately 150 vacancies and that's not -- we are not managing that vacancy itself. It's literally even in our maintenance areas where it's really heavy, some of the jobs are actually pretty favorable

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jobs that further north you get in the state, but it's very competitive. We pay the same rates essentially all across the state so it's very difficult to hire into some of those.

The finance position, really, we had substantial turnover in our accounts payable area and we had to backstop some of that activity. So it's a combination. We have actually stabilized now, but this is -- this is essentially filling those budget gaps.

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

CHAIRWOMAN WALLNER: Thank you. Any further questions on this item? Do I have a motion?

** REP. WEYLER: Move to approve.

REP. ROSENWALD: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves and Representative Rosenwald seconds to approve Item 14-011. All in favor? Any opposed?

*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: Move on to 012. Any questions about 012? Do I have a motion?

** REP. LEISHMAN: Move approval.

CHAIRWOMAN WALLNER: Representative Leishman moves approval.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Eaton seconds. Any discussion? All in favor? Any opposed? None opposed.

*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: Our final item in this area is Item 016. Any discussion? Any questions?

** REP. EATON: Move it.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. REAGAN: Second.

CHAIRWOMAN WALLNER: Senator Reagan seconds. All in favor? Any opposed? Thank you very much for coming.

*** {MOTION ADOPTED}

(10) Chapter 144:97, Laws of 2013, Judicial Branch;
Transfers:

CHAIRWOMAN WALLNER: Don't forget your chart. Thank you. And let's move on to Judicial Branch. This is Tab (10). Do we have questions?

** REP. LEISHMAN: Move approval.

CHAIRWOMAN WALLNER: Representative Leishman moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed? None opposed. The item passes.

*** {MOTION ADOPTED}

(11) Miscellaneous:

(12) Informational Materials:

CHAIRWOMAN WALLNER: Now I think we are down to informational items. Is there anything on the informational items that -- any further clarification about? I think at a

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future meeting I would like to ask someone from the Sununu Youth Center to come and discuss the Sununu Youth Center report that we have in our folder. But I think it would give us a chance to read that and then have questions about the -- about this particular report they've provided us. So I will ask the LBA to line that up for maybe next time to put that on the agenda. Any other items? Yes, Senator Morse.

SEN. PRESIDENT MORSE: Madam Chair, I have a question. I'm -- not a question. Let me rephrase that. It's a statement.

The -- I think on item number 14-014, the Insurance Department, I think the Senate's position is what Senator Sanborn stated is that the 420-N group does apply. I know the Commissioner has concerns at this point. I think it's important that that issue be worked out and if it's needed to come back to Fiscal before a month, then I think the Senate could do that upon the 420 approval. That's our belief that it needs to go there. So I don't want the Commissioner thinking that we just outright voted no on him; but the reality is, we believe there's a process. And I'd be more than willing, and I know the Finance Chair will work with you to come back to an earlier Fiscal meeting, but I still think there's a process that needs to happen.

SEN. LARSEN: Question.

CHAIRWOMAN WALLNER: I appreciate that. Yes, Senator Larsen.

SEN. LARSEN: Question in regard to this issue. Because it was a non-debatable motion, and we couldn't debate the issue of tabling it and its effect on the Department, I am concerned and looks like they left. But we didn't hear, and maybe I don't know if we can -- if there's anyone -- if Mr. Pattison can update us on the effect of tabling it for a month and what happens to the required oversight that we know needs to happen in the partnership?

CHAIRWOMAN WALLNER: When I was looking at the item myself I was wondering, we are already in February. It looked like the

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end of the period was for December of '14. So we've already spent two months and they still -- do they still have to go to the Executive Council?

JEFFRY A. PATTISON, Legislative Budget Assistant, Office of Legislative Budget Assistant: Yes.

CHAIRWOMAN WALLNER: So we are putting them out several months. So if we could do something, I would like to see us work on something and then maybe get back together for that item.

SEN. SANBORN: Madam Chair, I just remind the Committee, again, as Senate President indicated, I think we have a process and I think it's exceptionally clear. And I also want to recognize the fact that any new plan with a number of implications with the ACA doesn't start until January 1st of 2015. Potential plans aren't due until May 1st. We will have an approval August 31st. CMS has approval by -- I'm sorry -- CMS has approval by August 31st. Things don't open till October 1st. I think there's more than ample time to have an adequate review of this acknowledging that, again, it's February. We are still a long way from May.

CHAIRWOMAN WALLNER: What's the pleasure of the Committee?

SEN. FORRESTER: I think Senator Morse's comment is that we try to get back before a month.

CHAIRWOMAN WALLNER: So Senator Morse has suggested that we get back sometime in the next few weeks before a month from now to try to take a look at that issue again.

SEN. PRESIDENT MORSE: It would be my suggestion that if there's such a concern, and I don't think we can work that out today.

CHAIRWOMAN WALLNER: No.

SEN. PRESIDENT MORSE: That they get to that Committee and then I don't think the Senate would be objectionable to setting

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it on the fly. But to -- we have a very important hearing coming up next week in the Senate, and to suggest that this is going to affect that hearing is wrong. I mean, that -- that hearing has nothing to do with this item at this point. Senator Sanborn is exactly right. Those insurance companies are going to be looked at a year from now, not this year. So I don't -- I wouldn't agree with that. But I understand the Commissioner's, you know, concern; but, I mean, I think there's a process. If we're wrong about that, then I'd love somebody to point it out to us.

CHAIRWOMAN WALLNER: So we will take a look at this and be back in touch with the Commissioner about the possibility of getting to the other Committee sooner and we will bring back to Fiscal Committee.

SEN. SANBORN: Since I'm a member of the Committee, I'd be happy to let the Chair know as soon as they all vote at the meeting 'cause I think can be done relatively quickly.

CHAIRWOMAN WALLNER: Thank you. I think it's important that we try to move along as quick as we can. Thank you. Any other items? Our next meeting --

REP. WEYLER: Audits.

AUDITS:

CHAIRWOMAN WALLNER: Oh, that's right. We did all the informational. Now we'll go to the audits. I'm sorry, trying to rush along here, get out there in the snow.

Our first audit will be the -- we're first doing the Unique College.

RICHARD MAHONEY, Director, Audit Division, Office of Legislative Budget Assistant: Yes, Madam Chair. For the record, I'm Richard Mahoney, the Director of Audits for the Office of Legislative Budget Assistant. Our office is responsible to audit the records of the State Treasurer on an annual basis. And the State Treasurer is the sole trustee of the College

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Tuition Savings Plan in the state. And we have retained PricewaterhouseCoopers to conduct that audit. And here from PricewaterhouseCoopers to present the audit results is Rachel Bradley. Rachel is a partner with PricewaterhouseCoopers and she's joined by William Dwyer, who's the Deputy State Treasurer, who would like to say a few things about the plan before Rachel gets into the audit results.

CHAIRWOMAN WALLNER: Thank you. And welcome.

RACHEL BRADLEY, PricewaterhouseCoopers: Thank you.

CHAIRWOMAN WALLNER: Yes.

WILLIAM DWYER, Deputy Treasurer, Treasury Department: Good morning. For the record, my name is Bill Dwyer. I'm Deputy State Treasurer. The audit you'll be -- or, actually, two audits you'll be hearing about this morning are audits of the State's two college savings plans. They're also referred to as 529 Plans which refers to the section of the Internal Revenue Code that authorized states to sponsor these college savings plans that are tax deferred.

The State Treasurer by statute serves as trustee of the two plans. At this point the plans on a combined basis rank as the third largest in the country with just over \$13 billion in assets. Since their inception, the plans have been administered by Fidelity Investments. And as part of its contractual arrangement with Fidelity, the State has arranged to be the National College Savings Plan brand for Fidelity.

There are over 700,000 participant accounts all over the country. Of that number of accounts, only about 27,000 come from New Hampshire residents. So the lion share of accounts in the plan come from throughout the U.S. And with that, I'll turn it over to Rachel to present the audit results, unless there are any questions.

CHAIRWOMAN WALLNER: Thank you. Thank you very much.

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MS. BRADLEY: As mentioned, My name is Rachel Bradley. I'm the partner responsible for these two audits and I'll quickly take you through the results.

As Bill mentioned, we did complete the audits of two -- the two plans, the Unique College Investing Plan and the Fidelity Advisor 529 Plan, both of which pay fees to the State of New Hampshire which is one of the benefits that comes to New Hampshire. We completed these audits as of September 30th and so the information that's included in these reports are assets under management as of September.

The two plans issue or offer multiple portfolios to participants. The College Investing Plan is comprised of 36 different portfolios, and the Fidelity Advisor 529 Plan is -- includes 27 portfolios, including four portfolios that were launched in December 2012. And so we completed the audits for those for the first time this September.

Each portfolio maintains its own books and records and so as a participant purchasing, and they would purchase in and buy a share at the portfolio level, and I, in turn, issue an opinion at the portfolio level. So I've issued the 36 opinions for the College Investing Plan and 27 opinions for the Advisor 529 Plan.

The following six pages in this -- in your -- in the materials I included give you a highlight of the net assets in each of the plans. So Page 3 gives you the net assets of the Unique College Investing Plan in total, and then if you look at Pages 4, 5 and 6, it gives you the net assets of the underlying portfolios and a glimpse at the break-out or the investment strategy of those underlying portfolios. For example, the aggressive growth portfolio invests primarily in domestic equity funds, but also has some exposure to international equity funds. Gives you some perspective on how those makeup or how the underlying portfolio investment strategies are aligned and then which ones are most attractive, if you will, to underlying investors because of the dollar value of the net assets along the top of the chart.

If you flip to Page 9, this highlights the approach that we do when we audit these portfolios. The first thing we do is a risk-based analysis of the controls that we would need and that we would expect to have in place at Fidelity to protect the assets and to result in accurate accounting numbers. The areas that we highlight or focus on are the daily unit value and so that's the price the portfolio transactions are executed at if someone were buying into or redeeming out of the plans or the portfolios, that's the price that we would expect them to see.

We also focus on the participant transactions so making sure there are appropriate controls as people are setting up accounts or redeeming their money. And then for the Advisor Plan, the Advisor Plan offers multiple classes within each portfolio and so making sure that those allocations are happening appropriately.

The final area we focus on for controls is management override of controls and for all audits there's a presumption of fraud risk. And so we make sure that we focus and making sure that there are controls in place to make sure that the assets are appropriately accounted for. With a financial statement focus, the areas that we really focus on are the valuation of the underlying funds held in the portfolios to make sure that they're accounted for correctly.

The fees and expenses which, as I mentioned earlier, a portion of the fees get paid to Fidelity and the other portion get paid to the State of New Hampshire and so we make sure those are charged accurately at the participant level. And then we focus on participant subscriptions and redemptions.

The other area that we have focused here or we have listed here is the reclassification of capital gain distributions and that's a financial statement only reclassification; but it's a manual reclassification so we spent some additional time on that area just because it's a human being doing it and so the chances of errors increase. So we focused on that.

If you flip to Page 10, it gives you a quick view of we did successfully issue unqualified opinions for each of the -- for each of the portfolios and noted no adjustments, either adjustments that were actually made or adjusted differences that we would need to report to you.

If you flip to Page 11, I'm not going to take you through each of these items, but the next few pages take you through communications that we are required to provide to you if anything were to come to our attention. The few things that I would highlight is from an accounting principles' perspective, we do the accounting records for these plans are maintained under FASB, rather than GASB. So they don't follow Government Accounting Standards. In the 529 world and in the industry, there's no prescription on having to do FASB or GASB, and we do see about 50% of the plans offered are under FASB, 50% are under GASB. But I wanted to make sure that you're aware that we are doing it under a FASB perspective. But along those lines, though, there were no deviations from GAAP or industry practice associated with the accounting for these plans.

If we flip to Page 12, the item here I would highlight is the audit adjustments and uncorrected misstatements. As I stated, we did not note any during these audits. For uncorrected misstatements, the threshold that we use for reporting to you is five basis points or .05% of the net assets. So if there were a \$20 error, we don't report it. If it were above that five-basis point, we would report it to you.

Flipping to Page 13, the item I highlight here is, and it's not necessarily worth highlighting, but difficulties encountered in performing the audit which I would say would be the exact opposite of what we experienced. Fidelity was very methodical in supporting our audits and making sure that we had all the appropriate information to complete that.

And then the final item, if we flip to Page 14, is that I would highlight that we did not become aware of any fraud or illegal acts encountered in our audits or impacting the plans. And we did not note any significant deficiencies in the design

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or operation of any of the internal controls during our audit. So that is what I wanted to highlight.

CHAIRWOMAN WALLNER: Thank you. Any questions? Yes. Representative Weyler.

REP. WEYLER: I see substantial growth. Any feel for how much of that is growth in investments and how much of that is new entries buying into the program?

MR. DWYER: There's an Advisory Commission appointed by statute that meets each quarter to review the performance of the plans, and it does report on the growth each month, but Fidelity doesn't provide a breakdown of how much is added specifically as a result of capital appreciation, whether it's from equities or fixed income. They do provide new account openings and new dollars contributed. And one trend that we -- actually, the Advisory Commission just met this past Monday. And this past December, in particular, there was a significant amount of growth through contributions and new accounts that were opened. Fidelity does a lot of marketing around the holidays and gifting through college savings and so we believe a lot of that growth most recently is attributed to that type of new account increase.

REP. WEYLER: Thank you. Another question?

CHAIRWOMAN WALLNER: Yes, Senator Sanborn.

SEN. SANBORN: Thank you, Madam Chair. I apologize, I may have been distracted. State of New Hampshire gets its payment on the total size of the fund or the growth in returns or both?

MS. BRADLEY: It gets a percentage of the total net assets.

SEN. SANBORN: Total net assets irrespective of returns.

MS. BRADLEY: Correct.

SEN. SANBORN: Okay. Thank you very much.

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CHAIRWOMAN WALLNER: Any further questions?

** REP. WEYLER: I move we accept the report, place it on file, and release in the usual manner. I'm referring to the Unique College Investing Plan and after that I'll go to the 529 since we seem to have two separate reports here.

CHAIRWOMAN WALLNER: Okay.

REP. EATON: Second.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves and Representative Eaton seconds. Any discussion? All in favor? Any opposed?

*** {MOTION ADOPTED}

** REP. WEYLER: I move we accept the report on Fidelity Advisor 529 Plan, place it on file, and release in the usual manner.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves, Representative Eaton seconds. All in favor? Any opposed?

*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: None opposed so we'll put them on file and release them. Thank you.

MS. BRADLEY: Thank you.

MR. DWYER: Thanks very much.

CHAIRWOMAN WALLNER: We have one more audit and this one is of the New Hampshire Veterans Home.

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MR. MAHONEY: Thank you, Madam Chairman. I'll be joined by John Clinch. John was the auditor-in-charge of the audit at the Veterans Home. We'll also be joined by Margaret --

MARGARET LABRECQUE, Commandant, New Hampshire Veterans Home: LaBrecque.

MR. MAHONEY: Had a brain cramp, I'm sorry. Margaret LaBrecque who's the Commandant.

CHAIRWOMAN WALLNER: Welcome. Good to see you.

MS. LABRECQUE: Good morning. Happy Valentine's Day everybody.

JOHN CLINCH, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair. Can you hear me all right?

CHAIRWOMAN WALLNER: Yes, I can.

MR. CLINCH: Good. Good morning, Madam Chair, Members of the Committee. My name is John Clinch. I'm a Senior Audit Manager with the Office of Legislative Budget Assistant. I'm here this morning to present our results of the Veterans Home Performance Audit.

Our objective was to determine whether the internal controls over the New Hampshire Veterans Home budget, development, and monitoring processes were efficient and effective. Our Executive Summary is found on Page 1.

Overall, we found a few opportunities for improving internal controls over the Home's budget, development, and monitoring processes. We found the Board of Managers needs to be more involved in the Home's financial operations. We found the Home lacked written policies and procedures guiding its budget process, and also found the Board did not approve the operating or capital budgets prior to submission to the Governor.

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Finally, we found the Board did not receive complete financial reports to monitor the Home's financial operations.

Our Recommendation Summary can be found on Page 3. Our report contains four Observations with recommendations. The Veterans Home concurred with all four and none require legislative action.

Our background begins on Page 5. The New Hampshire Veterans Home is a State Agency with its operations located in Tilton. It's the only long-term care facility in the state dedicated solely to military veterans. The Legislature established the Home in the 1889 to support, care for, and treat honorably discharged veterans of active duty service. A Board of Managers oversees the Home which appoints a Commandant who's responsible for the day-to-day operations of the Home. Statute gives the Board broad powers to have custody and care of the property of the institution, make needed bylaws and adopt administrative rules, and do all things necessary to carry into -- into effect the purposes for which the Home was established.

In Observation No. 1 on Page 11, while we found the Department of Administrative Services provides all State Agencies guidance in its Budget Manual, we found the Home lacked management controls designed to guide and enforce management directives related to the Home's budget. We recommend the Home develop and adopt its own written policies and procedures which define and describe the Home's budget, development, approval, and monitoring processes.

In Observation No. 2 on Page 12, we recommend the Board of Managers be provided the complete proposed budget request for their review and approval before the budget is submitted to the Governor's Office.

In Observation No. 3 on Page 13, we recommend the Board improve its monitoring of the Home's financial condition by regularly reviewing the Home's monthly financial reports. The Home's operating budget consisted of five accounting units totaling \$31 million in State Fiscal Year 2014; yet, the Board

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did not review financial reports for those accounts. Instead, the Board focused on the quarterly financial activity of two trust funds in the custody of State Treasurer with an approximate value of \$1 million. The Board relied on the Home's Commandant and Business Office to monitor the Home's operating budget.

Observation No. 4 on Page 14 discusses the delinquent utility bills that accumulated during State Fiscal Year 2013 which exceeded \$330,000. We found overdue utility invoices at the Home were not entered into the NHFirst Accounting System within three days of receipt as required by the Department of Administrative Services Manual of procedures. Had the invoices been entered into the system on a timely basis, the automated controls with the NHFirst would have notified accounts payable personnel at the Department of Administrative Services. In this case, however, the automated controls were bypassed when the Home did not enter the invoices into the system.

Despite statutory authority which allowed it to seek additional appropriations, the Commandant at the time did not request a supplemental appropriation for these utility expenses. We recommend the Home seek its supplemental appropriations through the legislative process when facing budget deficits which cannot be resolved through transfers, from other applicable class lines, or through control of its spending.

Madam Chair, this concludes my prepared remarks. I'd like to thank the Veterans Board and Board of Managers and their staff for the assistance they provided during this audit; and with that, I'd be happy to take any questions.

CHAIRWOMAN WALLNER: Thank you. Any questions?

REP. LEISHMAN: Just a quick -

CHAIRWOMAN WALLNER: Yes, Representative Leishman.

REP. LEISHMAN: Sorry, Madam Chair. I guess just a follow-up that your utility bills are all current now?

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MS. LABRECQUE: Yes, they are.

REP. LEISHMAN: They're current. Thanks. Thanks, Madam Chair.

SEN. LARSEN: Quick question.

CHAIRWOMAN WALLNER: Yes.

SEN. LARSEN: You've installed geothermal heat and it's anticipated it's already showing some savings. Is there -- have you calculated out how long the geothermal will take to pay off the capital expense of that?

MS. LABRECQUE: Yes. Unfortunately -- excuse me. Can you hear me okay? For the record, Margaret LaBrecque. I'm the Commandant.

With the geothermal system, although we are saving on the utilities line, the actual fossil fuels that we are purchasing, the cost of those fossil fuels have -- I think the last \$8,000 delivery I had was \$21,000. So when we had originally done, I thought it was 40 years before the geothermal paid for itself. And I believe that due to the cost of fuel that would extrapolate out even further to 50 or 65 years before the geothermal system would pay for itself.

REP. WEYLER: Doesn't make sense.

SEN. SANBORN: You think it would go the other way. The math would say rock energy oil is higher, geothermal was less. It be less. But what's the effective life of the equipment on geothermal, because I only thought it was --

MS. LABRECQUE: Twenty years. I believe it's 20 years. I could be wrong. I'd have to check and get back to you on exactly how long the geothermal system itself before the parts and pieces need to be replaced or updated.

SEN. SANBORN: Follow-up.

CHAIRWOMAN WALLNER: Yes.

SEN. SANBORN: Would imply if you think the payback is 40 or 50 years and has a useful life of 20 that is actually going to cost the State money to have installed geothermal into the facilities. So I'd love to hear some more on that.

CHAIRWOMAN WALLNER: Yes. Representative Weyler.

REP. WEYLER: What percentage does it provide of the utility cost from the geothermal? I mean, is it half the cost of heat or half the heating comes from geothermal?

MS. LABRECQUE: I would have to get back to you on the exact percentage of how much it does, because although it was saving on fossil fuels, to run the geothermal system increased our use of electricity, so.

REP. WEYLER: So it's the cost of electricity. But you would think it would be counter-balanced. If the price of fuel doubles that you're supplanting, then the payoff should be shorter.

SEN. SANBORN: Unless electricity goes up.

REP. WEYLER: Must be a lot of electric use.

MS. LABRECQUE: Yes.

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

CHAIRWOMAN WALLNER: Oh, Senator Forrester has one more question.

SEN. FORRESTER: Thank you. Thank you, Commandant. I've been to the Home several times and you do a wonderful job. I have a question about the capacity of the Board because -- and I see in the recommendations that what you're saying is that the Board

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needs to look at the budget. And I wonder when you look up -- look at the makeup of the Board, do they have that capacity when you appoint people to that Board, do they have the background that they would be able to address these issues?

MS. LABRECQUE: Currently, I know of two of the Board members that the Chairman Robert Wyman -- I'm saying his name wrong, I apologize -- who is from the American Legion has a background in business. He actually, I believe, was the Business Administrator over in Keene, City of Keene. So he has an extensive background in that. And I believe one of our other Board of Managers who's here with us today, Paul Lloyd from the VFW, also has a business background and is more than willing to step up and assist us with this. And again, the five-year ones, there's five that have five-year terms, I believe that they would be the core. And then the one year turnarounds would add their opinions as we go along. But I would really rely on those five who have the five-year terms. And I believe that each of them has some makeup of some business and maybe accounting or I know that they were -- I've contacted them. They're all more than willing to receive monthly reports, to give feedback, and to be available when they're needed to make sure that we get the budget to the Governor in a timely manner.

SEN. FORRESTER: Thank you. Thanks.

CHAIRWOMAN WALLNER: Now, Representative Weyler, we are ready.

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

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moved and Representative Eaton seconds. Any more discussion? All in favor? Any opposed?

*** {MOTION ADOPTED}

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CHAIRWOMAN WALLNER: I'm going to call the Fiscal -- I will call the Fiscal Committee back to the call of the chair after we have a little further discussion about the insurance concern. Okay. And yes.

MR. PATTISON: Did you want to set the next regular scheduled meeting?

CHAIRWOMAN WALLNER: We could do that if people feel comfortable with that. But I will be calling -- I will be calling another meeting before the regular. Okay.

MR. PATTISON: If you stay with Fridays, five weeks would be March 21st; six weeks would be March 28th.

CHAIRWOMAN WALLNER: Do we have any --

SEN. PRESIDENT MORSE: When's crossover?

MR. PATTISON: I think it's the 27th.

SEN. SANBORN: That might be a pretty busy time for --

CHAIRWOMAN WALLNER: You more comfortable with the 21st?

SEN. SANBORN: Yes.

CHAIRWOMAN WALLNER: Okay. That will be our regular meeting.

MR. PATTISON: Yes.

CHAIRWOMAN WALLNER: The Chair will call the group back together before that in order to deal with the insurance issue. Okay. Thank you.

(Meeting concluded at 11:17 a.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
License No. 47

