

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Tuesday, January 13, 2015

TIME: 8:00 A.M.

PLACE: Room C310

MEMBERS PRESENT: Senators Co-chairman Cameron, Keough, Mortimer, Bair, Nuxoll, Johnson, Thayn, Guthrie, Schmidt, Lacey

Representatives Co-chairman Bell, Gibbs, Miller, Youngblood, Burtenshaw, Horman, Malek, Monks, King, Gannon

ABSENT/ EXCUSED: None

CONVENED: Chairman Cameron called the meeting to order at 8:00 a.m.

WELCOME & PAGE INTRODUCTIONS: Chairman Cameron welcomed all Joint Finance-Appropriations Committee (JFAC) members to the First Regular Session of the Sixty-Third Legislature. After seat selection which was done according to seniority and set up of laptop computers, the Chairman introduced the high school Pages who will serve the Committee for the first six weeks of the session. Riley Ricks from Rexburg, Idaho who attends Madison High School will serve as the House Page. Brenton Kleopfer who lives in Rupert and attends Minico High School will serve as the Senate Page.

LSO STAFF INTRODUCTIONS: Holland-Smith, Headlee, Burns, Houston, Bybee, Lockett, Tatro, Hoskins, Winslow and Major

AGENCY PRESENTATION: **REVIEW OF GOVERNOR'S FY 2016 BUDGET RECOMMENDATIONS**

PRESENTER: **Jani Revier, Administrator, Division of Financial Management (DFM)**

Ms. Revier presented the Governor's budget recommendations for FY 2016. To view the presentation, please click on the following link [Governor's budget recommendation](#).

Revier introduced the following DFM staff members: David Fulkerson, Deputy Administrator/State Financial Officer and Acting Administrator of the Division of Human Resources; Shelby Kerns, Budget Bureau Chief; Financial Management Analysts David Hahn, Sara Stover, Anita Hamann, Adam Jarvis, Matt Warnick, and Nick Landry; and Nate Clayville, an economist from the Economic Bureau and Derek Santos, Chief Economist.

Revier gave a brief overview on the state of the economy and General Fund revenues since the Great Recession. Idaho is not experiencing the pace of employment growth seen before the recession but it is not experiencing the sluggish growth seen the first four years after the downturn. It appears that Idaho's housing market is on a more consistent and sustainable track. Housing growth will have a direct impact on construction employment which is still well below the high of FY 2007; however, construction employment began to rebound in 2012 but at a slower pace than housing starts and should continue to grow as housing starts increase. During the Great Recession and following recovery there was an excess of labor which put downward pressure on wages and income. Idaho's real personal income is expected to grow by 2.4% in 2015 and 3.1% in 2016. Idaho's unemployment rate has fallen and is currently at 4.1% while the national rate is 5.6%. One of the fastest growing categories recently has been farm proprietors' income which has grown steadily since 2009 and was nearly \$2 billion in 2013. General Fund revenues have been steadily recovering from the recession's low point in FY 2010 and Idaho is now experiencing more stabilized growth.

The General Fund's three largest revenue categories which account for over 90% of General Fund revenue are individual income tax, corporate income tax and sales tax. For FY 2015 the State Economist has a revised forecast projecting revenue of about \$2.9 billion or 5.3% growth over the previous year as well as \$3.1 billion or 5.5% growth for FY 2016. The forecast is for slow but steady growth over the next few years.

Governor Otter's budgeting principles for FY 2016 are: 1) the Government should not grow at the same rate as the economy, 2) reserve funds depleted during the recession must be restored, and 3) structural balance in the state budget must be maintained. His budget priorities are: 1) K-through-Career Education Funding, 2) income tax relief, and 3) strategic investments.

The Governor has crafted a responsible FY 2016 budget that includes a 7.4% increase (over \$100 million) in spending for K-12 to implement the Governor's Task Force for Improving Education recommendations, as well as funding for higher education and workforce development opportunities. It includes the first year of a five-year approach to reduce Idaho's top marginal income tax brackets from 7.4% to 6.9%. Further, the budget makes strategic investments to maintain core services while not losing efficiencies gained during the downturn.

In addition, the Governor recommended a 3% CEC to be based on merit with flexibility for directors to address agency needs. The CEC recommendation applies to Public School administration and operations but not to teachers because they will see an increase from the proposed career legislation.

Under current statute when General Fund Revenue grows by more than 4% over the previous year, revenue above 4% (up to a maximum of 1% of total General Fund collections) is transferred to the Budget Stabilization Fund (BSF). The recommendation is to transfer \$29.6 million to that fund. There could be an additional \$4.1 million transferred to the BSF fund under some proposed legislation. It is also recommended that \$20 million be transferred to the Economic Recovery Reserve Fund to cover an extra week's payroll costs in FY 2017. Normally there are 26 two-week pay periods each year, but every eleventh year there are 27 pay periods.

The Governor recommends important investments in health and human services to provide better outcomes for Idahoans including 1) funding for one additional community crisis center, 2) a one-time purchase of vaccines for TRICARE children (the federal government does not participate in the state immunization assessment that funds childhood vaccines for privately insured families), 3) federal spending authority for the State Healthcare Innovation Plan (SHIP) to redesign the current healthcare system in Idaho in order to improve health outcomes, 4) spending authority to support a shared eligibility system, and 3% General Fund growth in Medicaid.

The Executive Budget also recommends additional funding for public safety including \$1.5 million and additional staff for the Sexual Offender Management Board to implement a risk-based sexual offender registration system; more patrol officers for the Idaho State Police as well as funding for Fusion Center analysts; and two additional operators for the ILETS technology system. The Governor is also recommending additional funding for the Behavioral Health Unit at the Pocatello Women's Correctional Center, and additional funding for security staff, service coordinators and instructors at the Department of Juvenile Correction.

Revier also briefly discussed the following areas where the Governor recommended funding: 1) the Sage Grouse Initiative, 2) additional staff and an economic study of the Pend Oreille Basin in the Department of Environmental Quality, 3) additional staff for the Forest Stewardship Program and the Oil and Gas Resource Protection program in the Department of Lands, 4) additional funding for the Department of Parks and Recreation, 5) additional personnel for the Rangeland Management Program and the Dairy Program at the Department of Agriculture, 6) spending authority for continued support of the Idaho Suicide Hotline in the Division of Veterans Services, 7) funding to reinstate the tuition assistance program within the Military Division, and 8) funding to reduce fraud and identity theft.

The DFM Administrator reminded the Committee that the above was only an overview of the Governor's FY 2016 budget recommendations, not a comprehensive list of everything included in his budget.

PRESENTER: **Cathy Holland-Smith, Manager, Budget & Policy Analysis Division, Legislative Services Office**

To view the presentation, please click on the following link: [General Fund Review](#)

The Budget and Policy Analysis Division assists legislators with the state's budget and appropriations process. Analysts provide professional, nonpartisan fiscal and policy analysis for the Joint Finance-Appropriations Committee, individual legislators and other legislative committees.

The following information was discussed with the Committee 1) a review of the Governor's FY 2015 recommendation for a revenue estimate of 5.3% and recommended supplemental appropriations and rescissions leaving an estimated FY 2015 General Fund ending balance of \$62,795,600, 2) an FY 2016 Comparison showing the Governor's estimated ending balance of \$3,157,900, 3) the Governor's FY 2016 recommended budget breaking out public schools from other state agencies, and 4) information on the Governor's recommendation for the State's stabilization funds (savings accounts).

Special Hearings for the following issues are scheduled to be heard by the Joint Finance-Appropriations Committee (JFAC) this legislative session: 1) System Modernization—Business Case Analysis (State Controller and Information Services Group), 2) Service Audits of Idaho Education Network Services in Public Schools (LSO Audit Division), 3) Use of Salary Savings in State Government (Office of Performance Evaluations), 4) Lessons Learned from Zero-Base Budgeting (Division of Financial Management), 5) Forecast Model for Public School Enrollment Growth (Division of Financial Management), 6) Higher Education Research Council (HERC) and IGEMS (College and Universities and Department of Commerce), 7) Proposal to Prepay Lease Costs of Mountain Top Locations on Endowment Lands for State and Federal Communication Systems/Equipment (Department of Lands and Military Division), and 8) Justice Reinvestment—Implementation, Status, Cost Savings, and Use of FY 2015 Appropriations (Department of Correction and Commission for Pardons and Parole).

ADJOURNED: There being no further business, Senator Cameron adjourned the meeting at 10:55 A.M.

Senator Cameron
Chair

Peggy Moyer
Secretary