

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Tuesday, January 12, 2021

TIME: 8:00 A.M.

PLACE: Room C310

MEMBERS PRESENT: Senators Co-Chairman Bair, Agenbroad, Crabtree, Grow, Woodward, Lent, Riggs, Cook, Ward-Engelking and Nye

Representatives Co-Chairman Youngblood, Troy, Horman, Amador, Syme, Bundy, Giddings, Nate, Green and Nash

**ABSENT/
EXCUSED:** None

CONVENED: **Co-Chairman Bair** called the Joint Finance-Appropriation Committee (Committee) (JFAC) to order at 8:01 a.m. He welcomed members, and introduced staff and pages.

LSO STAFF PRESENTATION: **Paul Headlee, Division Manager, Legislative Services Office (LSO), Budget Policy Analysis.**

Mr. Headlee described the JFAC Budget hearing process and with the members. He went over the Idaho Legislative Budget Book FY 2022 (LBB), the publication of the Legislative Service Office (LSO) Budget and Policy Analysis which is the primary reference document used by JFAC in setting the Idaho State Budget. This publication is also available on the Legislative website. The LBB contains LSO budget analysts' assignments, Statewide Reports and all the analysis for each agency for the past, present and upcoming fiscal years, and included the Governor's recommendations for each agency request.

Mr. Headlee explained in detail how the Decision Unit Budget Model is used in making budget decisions and requests for funding. He noted the different trends of the agencies over the years in the General Fund Appropriation history table, touched on the Budget Stabilization fund's growth from its 1984 balance of \$4.3 million to \$423 million. Last year the legislature increased the cap from 10 percent to 15 percent allowing for additional growth. The newest pages in the binder are related to the COVID Relief Fund, totaling \$7.86 billion, funds received from four different Federal Acts passed back in March and April 2020.

Representative Nate asked how much of the \$7.86 billion is tied to the Governor's Emergency Declaration.

Mr. Headlee deferred to Alex Adams, Administrator, Office of the Governor, Division of Financial Management to further explain.

Mr. Adams explained that Coronavirus Relief Fund, the Personal Protection Equipment (PPE) Loans, the Stimulus, etc. were not tied directly to an emergency declaration. There were some programs that ran through FEMA, specifically the Lost Wages Assistance program, National Guard costs and some of the PPE to Critical Access Hospitals and Rural Communities associated with the FEMA match under the Stafford Act, and those programs do require a Declaration of a State Emergency.

Representative Nate asked if there was a dollar amount of those funds received from FEMA.

Mr. Adams said he did not have that information with him but would be presenting to the committee tomorrow and would be addressing federal funding.

Mr. Headlee covered the Rules Governing JFAC and pointed out those most frequently used by the committee, reviewed the COVID safety protocols in LSO areas, and he provided committee members a copy of the State of Idaho Constitutional laws governing the State budget. He went over expenditure codes. He also detailed what to expect in the coming days as the committee heads into the hearings. February 19th is when the Budget Setting hearings begin. All members would be instructed to choose what budgets they will be working on.

Co-Chairman Bair let the members know they are free to choose any budget they would like to work on but suggested getting in touch with the analyst sooner than later.

Representative Nate, in referring to State of Idaho Constitution, Section 11, "Expenditure not to Exceed Appropriation", asked if using funds from the Stabilization Fund be considered unconstitutional.

Mr. Headlee said he would get back to him with an answer.

**AGENCY
PRESENTATION:**

Mr. Adams presented an overview of Governor Little's FY 2022 Budget Recommendations and outlined six important aspects:

Managing the Uncertainty of the Revenue Forecast. The FY 2021 General Fund's estimated ending balance at the end of Sine Die was \$54.9 million. Then COVID-19 hit. 90 percent of Idaho's general fund revenue comes from income tax and sales tax and is subject to economic conditions. One way they managed this was to forecast monthly. Mr. Adams showed the different scenarios using those monthly numbers.

FY 2021 Budget Recommendation. Mr. Adams explained options discussed in closing the revenue gap. a) Raise Taxes. Ruled out by the Governor b) Use Rainy Day Funds. Metered out multi-year 3-4 years c) Leverage Federal Funds. The \$1.2 billion for COVID could not be used to backfill revenue losses. Instead it was used for grants, public safety and property tax relief. d) Cut spending. Governor Little's recommendation of a .5 percent reduction.

When the July revenue forecast was done, it seemed the economy rebounded close to where the revenue target was. One key factor was due to the shutdown being brief. Key industries, like construction, continued and since the governor made significant investments in PPE for small businesses, this helped inspire consumer confidence. The federal package encouraged strong spending, and unemployment dropped to the five percent range. Idaho became attractive for remote workers, and the income tax withholding targets shattered previous forecasts. The relatively low cost of living and beautiful outdoors prompted a population growth even during the pandemic. Tourism rose as social distancing could be maintained in all outdoor activities

In December revenue numbers exceeded previous forecast numbers by \$36 million, 14 percent above income tax, 25 percent above corporate income and 7 percent above sales tax. There was no adjustment for the COVID Relief Act that passed in December. With another round of stimulus checks, extended unemployment benefits and another round of PPE funding, Mr. Adams said this will have a positive lift to the Idaho economy above and beyond what was forecasted.

FY 2022 Budget Recommendation. Mr. Adams did an overview of how they arrived at this budget recommendation. A more in-depth analysis will be presented in coming committee meetings and can be found online.

Building Idaho's Future Investment Package. This new plan came about by reinvesting spending cuts and efficiencies gained, to the extent possible, into infrastructure projects.

Tax Relief. a) Tax conformity: FY 21: (\$59,984,100) , FY 22 (\$55,175,300) b) One-time tax relief in FY 21 (\$180,000,000) and c) On-going tax relief in FY 22 (\$160,000,000) – paired with Governor Little's Transportation Plan.

Topline Summary.

- Education Remains Top Priority. Funding for K-12 grows 16% this year and 5.5% next year.
- Invests in Economic Stimulus Projects. The budget includes Governor Little's Building Idaho's Future \$332 million investment package.
- Provides Tax Relief. More that \$455 million in tax relief for Idaho families and small businesses.
- Leaves a Prudent Surplus. Leaves a projected ending balance of \$185 million this year and \$135 million next year, ensuring a cushion for economic uncertainty.
- Bolsters Rainy Day Funds. Bolsters state rainy day funds by \$230 million, augmenting the state's preparedness for economic uncertainty as federal funding tapers off.
- Strengthens Public Health Response. More that \$250 million to respond to COVID-19.

Senator Ward-Engleking asked for an explanation regarding sales tax and on-line purchasing and its affect on Tax Relief v. General Fund.

Mr. Adams explained that the revenue forecast that is projected for the current year actually exceeds the forecast projected on Sine die by \$125 million. There is more going to the tax relief fund, but the sales tax at brick and mortar is still exceeding the forecast.

Co-Chairman Bair asked if the tax conformity money, which typically is handled by legislature through a tax conformity bill at the beginning of the session and now listed as executive legislation is something new.

Mr. Adams it would still require legislation in order to conform.

ADJOURN: Having no further business before the Committee, **Co-Chairman Bair** adjourned the meeting at 10:35 a.m.

Senator Bair
Chair

Denise B. McNeil
Secretary