

Minutes of the Joint Legislative Oversight Committee  
June 12, 2013  
Lincoln Auditorium  
Boise, Idaho

Cochair Representative Shirley Ringo called the meeting to order at 9:35 a.m. Attending the meeting were Senators Dean Mortimer (cochair), Cliff Bayer, and Les Bock and Representative Gayle Batt. Senator Werk and Representatives Maxine Bell and Elaine Smith were excused. Also present were Rakesh Mohan, director, Margaret Campbell, administrative coordinator, and other OPE staff. Audience members included the following:

Dan Goicoechea, Chief Deputy Controller, Office of the State Controller  
Rich Jackson, Chair, Tax Commission  
Jeff Anderson, Director, Lottery  
Derek Santos, Economist, Division of Financial Management  
Brad Foltman, former administrator, Division of Financial Management  
Mike Ferguson, former economist, Division of Financial Management  
Matt Freeman, Chief Fiscal Officer, State Board of Education  
Tracie Bent, Chief Planning Officer, State Board of Education

**REPORT RELEASE: *GUIDE TO COMPARING BUSINESS TAX POLICIES***

**Senator Mortimer moved to receive the report *Guide to Comparing Business Tax Policies*.  
Senator Bock seconded the motion, and it passed unanimously by voice vote.**

Mr. Mohan said this report was assigned during the 2012 session and was delayed because of workload and report complexities. Even though the report had taken longer to release, he thought JLOC would be pleased with the results. In its request, the Senate Revenue and Taxation committee wanted to know the best ways to compare business tax policies of Idaho with other states. Without context, however, state rankings are difficult to assess. The report and its accompanying tool will help the Legislature, stakeholders, and anyone in the public evaluate a tax policy hypothesis. Mr. Mohan thanked the Tax Commission and the Department of Commerce, as well as several individuals who reviewed the report for technical accuracy: Derek Santos, Mike Ferguson, Randy Nelson, and Brad Foltman.

Lance McCleve, senior evaluator, summarized the report and demonstrated the tax tool. He said that various organizations have published national studies that rank states according to the attractiveness or friendliness of their business tax rates and policies. However, none of these studies tell the complete story because they are unable to provide a clear link between individual tax policy changes and positive or negative impacts on state economic growth. Mr. McCleve showed how the tax tool can help policymakers navigate through complex policy issues. The tool generates information from user-input assumptions that will help legislators asks the right kinds of questions early in the legislative process and to more thoroughly understand how nontax factors play a part in determining appropriate tax policy alternatives.

Representative Batt asked whether the office had talked to Idaho businesses. Mr. McCleve said he had worked with the Department of Commerce and considered surveying businesses, but

decided against it because the study was not intended to look at specific policies. As business issues come up, however, JLOC may want to assign OPE to study them.

Senator Mortimer asked Mr. McCleve to explain why Idaho ranked well on *Total State and Local Business Taxes* comparison. Mr. McCleve said the measure looked at taxes paid by businesses and gross state product (economic output). The advantage of this measure was that it applied taxes to outputs; however, the disadvantage was that it included factors that had nothing to do with taxes. For example, Wyoming's primary industry was oil and it ranked well on most studies. Because Wyoming did not have high economic output from a wide range of industries, however, it ranked low on *Total State and Local Business Taxes*.

On page 13 of the report, Cochair Ringo said the *State Business Climate Index* ranked Idaho's property taxes second in the nation. She asked how recent the statistic was in light of school districts' approval of overrides to sustain education. Mr. McCleve said the ranking was made in 2012. The measure did not look at dollars; it only looked at statute for structure and exemptions when collecting property tax.

Senator Bock, referring to the table on multistate comparisons, asked why Oregon and Utah had some of the best rankings. Mr. McCleve said the question illustrated the message of the report. Studies throw out rankings for states but do not always explain why one state ranks better than another. Occasionally they may list the top ten states and explain the differences but not describe what those differences imply for state tax policies.

Senator Bock asked about the methodology of the aggregate comparison of all states. Mr. McCleve said he standardized the raw scores for each state based on every other state's score. He then used the standard deviation of those scores to determine the size of each state's marker. Senator Bock confirmed that Wyoming, which was in lower left of the graph, scored better than most other states.

Cochair Ringo, clarifying a demonstration of the tax tool, said a predicted change in tax policy with an anticipated recoup of tax dollars would have an immediate loss of revenue—recoup of taxes from another source would not happen right away but over time. She asked whether the tax tool considered the length of time that recoup would take. Mr. McCleve said the tool looked at simple annual change and generated numbers directly from the change. The tool did not predict ongoing change.

Senator Bock said changes in tax policy can be intended to change behavior, but policymakers don't want to change any policy that will tank the economy. He asked what guidelines exist for determining which kinds of tax policy changes will change human behavior. Mr. McCleve said he had researched that question and would briefly summarize. In general, taxes played only a small role overall in businesses' decisions. The kinds of tax policy changes with some effect were those that provided direct-cost savings to businesses; for example, lower statutory tax rates and other factors that lead to lower effective tax rates. Another important factor was the cost of compliance, which comparison studies did not rank.

Senator Bayer said one of the things he drew from the report was the high number of variables in tax policy. The report's home analogy demonstrated the limitations of rankings because of home and property sizes and prices. The same held true with businesses and their variables of service, distribution, and manufacturing. In his experience, many businesses concur with the report conclusions about tax policy and nontax factors. From a general business perspective, given all the variables, he asked whether Mr. McCleve could comment on stability and predictability.

Mr. McCleve said stability and predictability were important measures in academic studies. Academic studies surveyed businesses about factors. Better studies compare those survey results and have found that stability was important to businesses. Most studies, however, do not judge stability well. The Tax Foundation considers stability somewhat important—Idaho scored 31 on one of its studies and 28 on the other.

Cochair Ringo asked about the feasibility of applying a recent tax cut to the tool and compare the tool's expectation with actual results. Mr. McCleve said the nature of policy generally doesn't lend itself to a baseline of measurement. Additionally, the challenge of isolating which revenue came from which source would be hard to determine. Some revenue might have happened anyway from economic growth or may have changed because of other policy revisions.

Cochair Ringo invited the Governor's office to respond to the report. Mr. Derek Santos, Division of Financial Management, referred to the Governor's formal response in the report. When invited by the cochair, Mr. Rich Jackson, Tax Commission, also referred to his formal response in the report. Cochair Ringo invited the Department of Commerce to respond, but no one was available.

#### **FOLLOW-UP REPORT RELEASE: *LOTTERY OPERATIONS AND CHARITABLE GAMING***

**Senator Bayer moved to receive the report *Lottery Operations and Charitable Gaming*. Senator Mortimer seconded the motion, and it passed unanimously by voice vote.**

Ms. Hannah Crumrine, senior evaluator, summarized the agency's implementation efforts of recommendations. Senate Bill 1127, passed during the 2013 legislative session, clarified statutory language pertaining to the operations of the Lottery. She said that although other recommendations had not been implemented, the Lottery had considered the feasibility of each.

Senator Mortimer asked for clarification of what work was done to define advertising, marketing, and promotional costs in Idaho Code and who made the decision not to proceed further. Ms. Crumrine said the Lottery initially supported the recommendation but rather than defining which costs should be included, the Lottery proposed to define which costs would not be included so future technologies could be used without further amendments. She said the Lottery presented these statutory changes to the Governor's office, but the governor's staff did not support making a change.

Cochair Ringo called on Jeff Anderson, Idaho Lottery, to respond to Senator Mortimer's question. Mr. Anderson explained his proposed statute changes but said he could not speak to the specificities of why the governor's staff did not advance the changes. Senator Mortimer indicated the Legislature was tasked with ensuring that marketing costs stayed under the statutory limit.

Without defining which costs were included, the Legislature would not know whether it had fulfilled its responsibility. He thanked the Lottery for its response and asked the Lottery to recognize the Legislature's concern. Mr. Anderson pointed out his formal response in the follow-up report that outlined the costs included in the calculation of advertising, marketing, and promotion. In answer to Senator Mortimer's question whether all outside services of marketing were included in the list, Mr. Anderson responded yes.

**Senator Bock moved to close the report *Lottery Operations and Charitable Gaming*, given that all recommendations had been considered and decisions had been made one way or the other. Senator Bayer seconded the motion, and it passed unanimously by voice vote.**

**FOLLOW-UP REPORT RELEASE: *GOVERNANCE OF EMS AGENCIES IN IDAHO***

**Senator Mortimer moved to receive the report *Governance of EMS Agencies in Idaho*. Representative Batt seconded the motion, and it passed unanimously by voice vote.**

Ms. Crumrine summarized agency efforts to create local systems. She indicated that although new partnerships and collaborative efforts had occurred among local systems, stakeholders had unresolved concerns about the long-term stability of the local systems and regional coverage of services. The report had recommended statute changes that would have addressed stakeholders' concerns.

Representative Batt asked whether OPE had spoken with each jurisdiction. Ms. Crumrine said she spoke to a representative from each county organization represented in the report but did not speak with every jurisdiction within each organization.

Senator Mortimer asked whether OPE considered tying the systems with the regional health facilities. Ms. Crumrine said OPE had not considered this type of organization.

Senator Bock said that committee members had dealt with EMS issues every session. He was reluctant to close the report because of these unresolved issues. Mr. Mohan said many of the recommendations called for statutory change, and because the Legislature had informally decided not to take action, he did not know what more OPE could do. Senator Bock said he did not want to pretend the issue had gone away.

**Senator Mortimer moved to close the report *Governance of EMS Agencies in Idaho* and issue a letter to the germane committees, Senate and House leadership, and possibly the Governor, that expressed JLOC's concern that regional coverage and stability of local EMS systems needed major consideration. Senator Bock seconded the motion, and it passed unanimously by voice vote.**

Cochair Ringo asked for committee action on the report *Guide to Comparing Business Tax Policies*, released at the beginning of the meeting. Mr. Mohan said he needed approval to update the tax tool annually. Representative Batt asked about costs to keep the tool updated and whether this decision should be made by the germane committees. Mr. Mohan said updates and minor modifications would take minimal effort with annual information from the Tax Commission.

Cochair Ringo said the tool provided a way to gather information for policy decisions. She asked whether the germane committees would use the tool in their analysis of legislation put forward to the Senate and House floors. Mr. Mohan said this was his hope—that the tool would be useful to the Legislature and the public and would save staff time at the Tax Commission and the Department of Commerce in answering questions.

**Senator Bock moved to close the report *Guide to Comparing Business Tax Policies with the understanding that OPE will update the tax tool with 2013 figures*. JLOC recommended the germane committees' use of the tool and will wait for instructions from the germane committee chairs for any further updates. Senator Mortimer seconded the motion, and it passed unanimously by voice vote.**

*The committee took a short break.*

**FOLLOW-UP REPORT RELEASE: *EQUITY IN HIGHER EDUCATION FUNDING***

**Senator Bock moved to receive the report *Equity in Higher Education Funding*. Representative Batt seconded the motion, and it passed unanimously by voice vote.**

Mr. McCleve said the State Board of Education and the institutions had made significant progress implementing the report's two recommendations: (1) to establish a standard for equity and (2) to develop a plan to meet that standard. The board, with input and agreement from the institutions, had defined a standard for equity but still needed to determine an acceptable level of variance from the standard. He said that OPE still cautioned that the board's plan to achieve equity should not rely too heavily on new funds from the Legislature.

Mr. Matt Freeman, chief fiscal officer, Board of Education, said the board's next step in establishing a standard for equity was to update the funding equity model spreadsheet, which was driven by enrollment. The board will then determine a new instructional cost per student credit hour and establish a variance range, although absolute equality was not the goal. For the recommendation to define a standard for equity, the board had not discussed how to maintain equity when the economy was not strong—the board had been reluctant to reduce the base allocation. Mr. Freeman said the report had been helpful in bringing all stakeholders together to define and quantify what equity means.

Cochair Ringo asked if someone from the Governor's office and institutions wanted to respond to the report. The offices did not have a representative present. In response to a question about committee action, Mr. Mohan said the board was making efforts to address the recommendations. OPE could update JLOC next year but could not do much else.

**Senator Mortimer moved to close the report *Equity in Higher Education Funding with the understanding that the board will continue to make progress on the two recommendations*. Senator Bayer seconded the motion, and it passed unanimously by voice vote.**

**FOLLOW-UP REPORT RELEASE: *REDUCING BARRIERS TO POSTSECONDARY EDUCATION***

**Senator Bock moved to receive the report *Reducing Barriers to Postsecondary Education*. Senator Bayer seconded the motion, and it passed unanimously by voice vote.**

Ms. Amy Lorenzo, principal evaluator, highlighted the steps agencies had taken to implement report recommendations. Most notably, the Department of Labor had created the Educational Attainment Task Force and charged the task force with recommending policies and strategies to the Governor and the Board of Education to strengthen the link between education and the workforce. The task force presented their final recommendations to the Governor last month and planned to present them to the board in June. Further, legislation passed during the 2013 session significantly reorganized the state's scholarship program to better direct scholarship money.

Cochair Ringo, referring to the department's position that the entire school staff should foster a college-going climate and recommended they wear their college sweatshirt on Fridays, asked about national research on the effectiveness of counselors to address concerns as opposed to the effectiveness of wearing college sweatshirts to school. Ms. Lorenzo said she had looked at the types of interventions that encourage college attendance. Research shows these interventions should begin as early as elementary school. She said she would provide the cochair with these sources and what was recommended nationally.

Cochair Ringo asked if anyone from the Governor's office, the Board of Education, or the Department of Education wished to respond to the report. Ms. Tracie Bent, chief planning officer, State Board of Education, said the guiding principles of establishing the board's goal recognized Idaho's workforce needs and where it wanted to be. Idaho was first in minimum wage jobs and the board wanted to build a culture to bring employers to Idaho.

In discussing committee action, Senator Mortimer commended the board; it had made a great progress. Mr. Mohan also noted the board's progress and its work with the Department of Labor to change Idaho's culture of education.

**Senator Mortimer, saying he believed progress and emphasis on education was being made, moved to close the report *Reducing Barriers to Postsecondary Education*. Senator Bock seconded the motion, and it passed unanimously by voice vote.**

#### **PROJECT SCOPES**

Mr. Mohan said the office was developing scopes for projects assigned in March. All five studies were complex and most involved many stakeholders who were being interviewed before the scopes were finalized. He invited members to comment and provide input. Once the scopes were completed, he would send them to members for review.

Representative Batt asked about the study for a taxpayer advocacy program and whether the study would look at the number of complaints and how those complaints correlated with the increase in auditors at the Tax Commission. Mr. Mohan said the office intended to look at those two items and how collections have changed over the past few years with the new auditors. Representative Batt said she wanted to know the cause of the complaints before establishing a new office. Mr. Mohan agreed that a needs assessment must be done.

**Senator Bock moved to adjourn the meeting. Senator Mortimer seconded the motion, and it passed unanimously by voice vote.**

*The meeting adjourned at 12:10 p.m.*