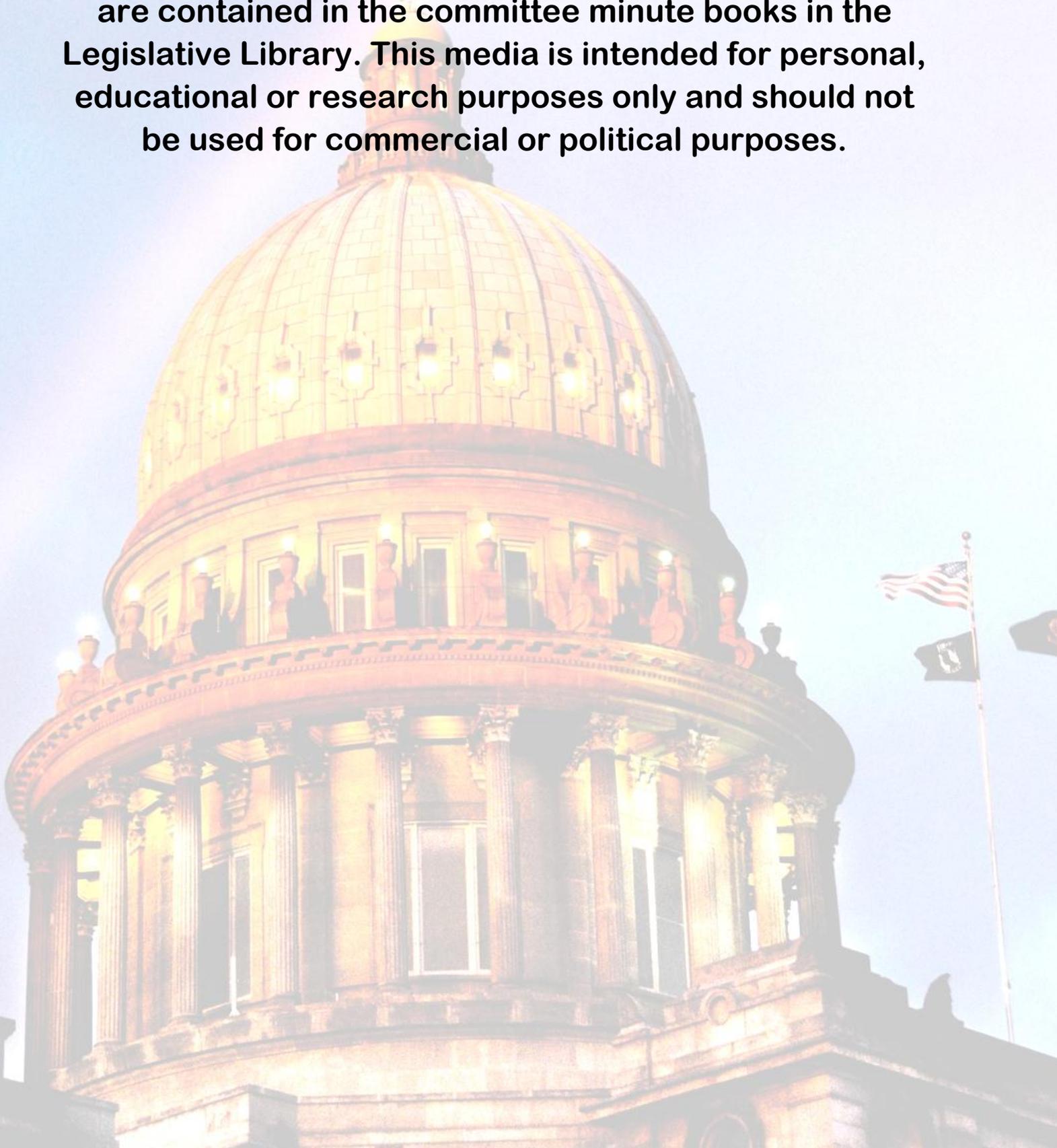


Please be advised that this is an electronic reproduction of Legislative proceedings and does not represent the official record of committee actions that are contained in the committee minute books in the Legislative Library. This media is intended for personal, educational or research purposes only and should not be used for commercial or political purposes.



JFAC COMMITTEE MEETING MINUTES

2/13/13

The hearing was held in Room C310, Statehouse, commencing at 8:00 a.m. and concluding at 9:55 a.m. with Chairman Cameron presiding.

Roll Call:

Senators: Cameron, Keough, Mortimer, Vick, Nuxoll, Johnson, Bayer, Thayn, Schmidt, Lacey

Representatives: Bolz, Eskridge, Thompson, Gibbs, Stevenson, Miller, Youngblood, Ringo, King

Absent/Excused: Bell

Staff present: Bybee

Others Present:

DEPARTMENT OF FINANCE

Presenter: Gavin Gee, Director

- ❖ Introductions:
 - Lisa Baker, Administrative Assistant
 - Marilyn Chastain, Securities Bureau Chief
 - Mike Larsen, Consumer Finance Bureau Chief
 - Dave Jensen, Supporting Services Bureau Chief
 - Mary Hughes, Financial Institutions Bureau Chief (not present)
 - 62 FTP
- ❖ Background Information about the Department of Finance:
 - Administers 23 laws
 - Regulates the following industries
 - Commercial banks
 - Savings banks
 - Bank holding companies
 - Credit unions
 - Trust companies
 - Securities issuers and brokers
 - Residential mortgage originators, brokers and lenders
 - Investment advisers and sales personnel
 - Endowed care cemeteries
 - Business and industrial development corporations
 - Consumer finance companies

- Collection agencies
- Money transmitters
- Corporate take-overs
- Independent escrow companies
- ❖ 2011 Legislative Audit for Fiscal Years 2009-11
 - No findings, no recommendations
 - No findings or recommendations in prior audit
- ❖ FY 2012 transferred \$5,427,512 to the General Fund
- ❖ Financial Institutions Bureau is responsible for state chartered banks and credit unions
 - Choices about chartering
 - Can choose State or Federal
 - Since 1979
 - 20 new banks have chosen the state charter
 - 1 bank chose federal charter
 - Since 1997
 - 16 banks converted to state charter
 - 2 converted to federal charter
 - If a financial institution is healthy, the charter can be changed at any time
 - On-site examinations
 - Off-site monitoring and oversight
 - Bank failures from 2008 through 2012
 - Idaho has only had one failure of a federally chartered and regulated thrift institution during that time (First Bank of Idaho – in 2009)
 - Bank failures for western states, failures from 2008-12: 99
 - Total nationwide failures from 2008-12: 448
- ❖ Securities and Consumer Finance
 - Those holding licenses:
 - Broker dealers, investment advisors, and their agents
 - Mortgages and Escrow Industries
 - Collection agencies and their agents
 - Regulated lenders
 - 152,316 businesses, entities and professionals licensed by end of FY 2012 - 95% of licensees reside outside of Idaho
 - FY 2012 Restitution Statistics
 - Initiated/completed 40 to 45 actions
 - \$10 million in refunds and restitution
 - Robo-signing Settlement with nation's 5 largest mortgage servicers, for signing thousands of documents/affidavits without verifying information
 - \$1 million fine payable to the Department of Finance
 - \$14 million payable to Idaho Attorney General's Office
 - \$100 million to Idaho Homeowners (\$45 million distributed by August 2012)

- ❖ Technology – financial institutions are heavily dependent upon technology
 - Information is highly sensitive and confidential
 - Requires constant adaptation because of new products, technology, and problems that emerge
 - Department operates over 60 unique databases, programs and applications
 - Secure Encoded Email
 - Remote Users
 - NMLS/CRD/IARD Reconciliation
 - Full SharePoint Services
 - Licensing
 - Offer NMLS licensing to money transmitter licensees
 - Department wants to expand licensing to other areas, such as:
 - Collection agencies
 - Consumer lenders
 - Escrow companies
- ❖ FY 2014 Governor’s budget recommendation
 - Department is a dedicated fund agency and receives no General Funds or Federal Funds
 - Funding comes from fees paid by the industries the Department regulates
 - Department of Finance does contribute to the General Fund
 - Since 1994 Department has transferred over \$66.3 million
 - FY 2013 is expected to be a record year
 - Governor recommends two new FTPs
 - A money transmitter examiner in the Securities Bureau
 - Examinations have increased in frequency, complexity and importance
 - Money transmission averages over \$3.1 billion per year in Idaho
 - A clerical FTP in the Financial Institutions Bureau
- ❖ Strategic Workforce Development
 - Staff succession planning
 - Interviewing
 - Training
 - Testing
 - Grade Increase
 - Retention

SELF-GOVERNING AGENCIES: State Lottery Commission

Presenter: Jeff Anderson, Director

- ❖ Mission: to responsibly provide entertaining games with a high degree of integrity, to maximize the dividend for Idaho Public Schools and the Permanent Building Fund

- ❖ Vision: to become the highest performing jurisdiction in North America (not the biggest, just the best)
- ❖ Lottery Commission Organization
 - Self-governing, dedicated fund agency
 - Receives no General Funds
 - Five-member commission provides oversight and sets policy
 - Commission members are appointed by the Governor with the consent of the Senate
 - Executive team is made up of the Director and four deputies
 - Security division has law enforcement authority
- ❖ Dividend Beneficiaries:
 - Idaho Public Schools and Permanent Building Fund each receive 50%
 - Proceeds above \$34 million are distributed to the Bond Levy Equalization Fund per a formula as outlined in Idaho Code, Section 67-7434
 - This provision will have generated \$23.5 million when the provision sunsets in September 2014
 - During the first 24 years the Idaho Lottery is projected to return almost \$600 million in dividends to the citizens of Idaho
 - The Idaho Lottery Commission provides oversight to protect the integrity of charitable gaming in Idaho
 - Financial benefits beyond the dividend – almost \$43 million, such as:
 - Interest on deposits, income taxes from high tier winners, etc.
- ❖ Spending Authorization
 - Unused spending authorization resulting from rigorous cost management is returned to the dividend
- ❖ Current state of the Lottery
 - FY 2013 through January 31, 2013
 - Adjusted game portfolio sales are up 22%
 - Forecast FY 2013 final: \$188,100,000, up 7.0%
 - Challenge
 - Wyoming legislature set to approve the establishment of a lottery which could impact Idaho by as much as \$3,000,000 in border sales
- ❖ Other information
 - History of key vendors
 - 1990 – GTECH contract
 - 2005 – GTECH contract
 - 2012 – Intralot contract
 - 1990 – Dittler Brothers contract (scratch ticket printing vendor)
 - 2012 – Scientific Games Intl. contract (scratch ticket printing vendor)
 - Mandated limits – Limits set in Idaho Code apply to both continuously appropriated and regularly appropriated funds
 - Section 67-7449 - \$15% cap administrative costs
 - 1989 – 2012 average = 8.82%
 - Section 67-7414 – 6% cap retailer commissions
 - 1989-2012 average = \$5.85%

- Section 67-7449 – 3.5% cap advertising/promotion
 - 1989-2012 average costs = 2.65%
- ❖ FY 2014 Governor's budget recommendation totals \$5,425,000

OFFICE OF THE GOVERNOR: State Liquor Division (ISLD)

Presenter: Jeff Anderson, Director

- ❖ Introductions
 - Tony Faraca, Chief Deputy and CFO
- ❖ Mission – to provide control over the importation, distribution, sale and consumption of distilled spirits; curtail intemperate use of beverage alcohol; and responsibly optimize the net revenues to the citizens of Idaho
 - ISLD is citizen owned for the benefit of all
 - Focus is on responsible customer service, continuous process improvement, efficiency and cost management
 - Authority comes from Article III, Sections 24 and 26 of the Idaho Constitution
 - Beer and wine are not under ISLD authority nor is on-premise licensing
- ❖ Vision – to be the most respected and highest performing purveyor of distilled spirits in the USA
- ❖ Organization
 - Director and three deputies
 - 164 retail liquor store locations
 - 31 of 44 counties with Sunday sales
 - Headquartered in Boise
 - Currently 96 stores (36 state and 60 contractors)
- ❖ Overview
 - Dedicated Fund agency
 - 66 State retail stores, 98 contract stores
 - Full-service distribution center receives and ships one million cases annually
 - \$153,600,000 in sales in FY 2012
 - Forecast \$165,900,000 in FY 2013
 - 205 FTPs plus up to 150 temporary associates
 - 21% of total sales are to licensees (bars, restaurants)
 - 83% of total ISLD sales occur at 66 state-operated stores
 - 98 contractors serve smaller communities where a state store isn't feasible. Product is provided on consignment and contractors are paid a commission based on sales (\$2.5 million in FY 2012)
- ❖ Additional information
 - Liquor Distribution Funds
 - For fiscal year ending June 30, 2012: \$63,052,921
 - Total distribution for the last ten years: \$403,000,000
 - Consumption of distilled spirits

- Per capita consumption remains low (well below the national average)
- Idaho remains below both license states and control states in outlet density
- Hours remain convenient but limited, with no state stores open past 9:00 p.m.
- Steady and predictable growth
 - Growth in FTPs over the last decade was related to opening 18 additional state stores since 1995
 - OPE recommended ISLD get more out of existing stores rather than adding more stores
 - One store did open in October 2012 in State Line to address the increased volume due to changes in the state of Washington
- ❖ FY 2014 Governor's recommended budget
 - Decision units
 - Capital outlay – remodeling of 5 stores \$197,700
 - Labor to prepare for stores opening 11,100
 - Enhanced hours of operation in 6 stores 102,000
 - Network security gateway 20,000
 - Battery Backup System 65,900
 - Website Development 15,000
 - Request totals \$16,949,000

DEPARTMENT OF LABOR (IDOL)

Presenter: Keith Bybee, Principal Budget and Policy Analyst

- ❖ Brief history of the Department of Labor
 - On July 1, 1996 the Department of Employment became the Department of Labor (Chapter 13, Title 72, Idaho Code) and now houses the following programs:
 - Wage and Hour (1996)
 - Administers laws regarding the payment of minimum wage and claims for unpaid wages
 - Disability Determinations Service (DDS) (added in 2007)
 - Funded by Social Security and performs the medical adjudication for SSA of Social Security Disability Insurance and Supplemental Security Income disability claims
 - Career Information Systems (added in 2008)
 - Purpose is to provide current occupational, educational and related career information to help citizens understand the link between education preparation and work, explore education and career alternatives and successfully seek work.
 - Human Rights Commission (added in 2010)
 - A stand-alone program

- Receives services, shares in overhead cost and is supported by the Department of Labor
- Handles complaints under federal law deferred to them by the Equal Employment Opportunity Commission
- Established to help protect persons in Idaho from illegal discrimination
- Serve Idaho (2009) (Governor's Commission on Service and Volunteerism)
- ❖ List of all funds at the Department of Labor
 - Appropriated Funds
 - General Fund
 - Unemployment Penalty and Interest
 - Employment Security Special Admin.
 - Miscellaneous Revenue
 - Federal Grant
 - Continuous Funds
 - Unemployment Penalty and Interest
 - Employment Security Special Admin.
 - Workforce Development Training
 - Miscellaneous Revenue
 - Unemployment Compensation
 - This fund receipts and disburses unemployment benefits
 - Large increase in expenditures for FY 11 and FY 12 is partially because of payments made for principal and interest on bonds sold for the repayment of federal advances
 - Labor Federal Funds
 - The formula for distribution of funds is inversely related to the strength of the economy. In a weak economy or recession, the Department receives additional funds to help disburse benefits; when the economy grows or strengthens, less funding is available.
 - Labor Federal Funds are grants for the administration of the unemployment insurance program from the U.S. Department of Labor
 - There was a \$12 million expenditure reduction between FY 2011 and FY 2012
 - Idaho has two mechanisms to help with the loss of federal dollars for a more seamless transition from a weak economy to a growing economy
 - Penalties and Interest Fund – receipts are from penalties and interest on judgments or accounts secured by liens. Funds are used at the director's discretion to pay costs of administration, for the purchase of real estate and construction of buildings, or to cover expenditures for federal funds that have been requested but not yet

received and are subject to reimbursement. Expenditures from this fund are subject to approval by the Board of Examiners.

- Employment Security Special Administration Fund (or Special Admin Fund) - receipts are from interest earned from investment of the Employment Security Reserve Fund. This fund is used for costs related to Department programs administered under employment security law and approved by the Workforce Development Council
 - There are also smaller grants issued by the U.S. Department of Labor which pay for specialized employment-related services
- ❖ Request to appropriate funds
 - Penalties and Interest Fund and Employment Security Special Administration Fund per Idaho Code have perpetual appropriations
 - Human Rights Commission received appropriations from the two funds when General Funds were phased out
 - Fund money is also used for other programs
 - Board of Examiners request
 - DFM and IDOL to bring all spending on budget
 - Total on budget appropriation is \$14.4 million, of which \$2.8 million is already appropriated.

Presenter: Roger Madsen, Director

- ❖ Idaho's economy is improving
 - Nonfarm Growth – running about 1.2% higher than one year ago
 - U.S. vs. Idaho growth comparison – nation has recovered about half the jobs lost while Idaho has recovered only one-fifth of its losses
 - Unemployment rate in Idaho peaked at 8.9% in August 2010
 - Idaho's unemployment rate has dropped faster than most states
 - Rate as of December 2012 was 6.6%
 - Still have 50,000 workers without jobs
 - Custer County is the only county where the unemployment rate rose in 2012
- ❖ Workforce
 - With declining unemployment rate, have experienced a contraction in the labor force
 - About 7,400 workers dropped out of the workforce between May and November 2012
 - Three hundred workers came back in December 2012, but it is the smallest November-December increase in three decades
 - Two cautions:
 - Last time there was a decline in the workforce to this extent was in 2008-09
 - A workforce decline may create problems for employers trying to expand

- New hires for both new jobs and to fill vacancies rebounded to near 2008 levels in 2012
- Employers – stable last year at about 53,500
 - Employment covered by unemployment insurance was up about 10,000 in June 2012 from the two previous Junes
 - Idahoans per job opening
 - Jobless workers available for every posted job opening dropped to less than half the number at the peak of the downturn
 - Still an Idaho employer's market, with about two unemployed workers for every job listed
 - Does not count the estimated 10,000 Idahoans who have given up looking for work and the 50,000 working part-time because they cannot find full-time work
 - As of February 1, 2013, there were almost 96,000 people registered as job seekers
- Wages are still short of regaining pre-recession peak
- Business profits have rebounded after falling 24% during the recession
 - Over last 10 years, business profits have been responsible for an increasing share of the gross state product
 - Since 2003 business profits have grown from 36.5% of gross state product to over 42% in 2010
 - With limited wage growth and profits rising significantly, a shift will likely come
 - State's training fund is a successful business incentive
 - Average hourly wage has risen to nearly \$17 plus benefits
- ❖ Unemployment payments/benefits
 - Drain on the Unemployment Insurance Trust Fund has been reduced
 - Payments from the trust fund in 2012 dropped under \$200 million for the first time since 2007, down 9 percent from 2011 and less than half the record payout of over \$400 million in 2009
 - Federal extended benefit payments were down 40 percent from 2011
 - Number of unemployed workers receiving benefits has declined significantly
 - 19,000 people received regular benefits in January 2013, down from around 22,000 in January 2011 and half the number in 2010
 - Average benefit is \$252 per week (maximum benefit is \$357 and minimum is \$72 per week)
 - Over 16,000 did not find a job before payments ceased
 - Over 100,000 Idaho workers have received \$916 million in federal extended benefits over the last 4.5 years
 - Benefit period (federal and state combined) has declined
 - From 99 weeks during worst of recession, to 93 weeks last spring
 - Then to 86 weeks in June 2012, and 73 weeks in August
 - Then to 63 weeks in September to 54 weeks in February 2013

- ❖ IDOL Workload – federally funded budget is based on a counter-cyclical funding formula (funding increases in a troubled economy and funding falls when the economy improves)
 - Department staffing is down six percent from FY 2011's 716 employees
 - Currently has 670 FTP's (unchanged from 2012)
 - Still a demand for employment services and Social Security disability determinations
 - Phone volume averaged 25,000/day in December 2012
 - Currently increased to over 30,000/day in 2013
 - Experiencing staff turnover
 - Disability Determinations Service (DDS)
 - Cases spiked in 2010
 - Number of cases still running above pre-recession levels
 - About \$56 million per month in Social Security disability benefits is being paid to 78,000 Idahoans
 - Innovations and Enhancements
 - Continuing partnerships with libraries, Adult Basic Education, Professional-Technical Education, veterans, the health care sector, and special populations (disabled and inmates)
 - IDOL's new unemployment insurance computer system, iUS, is on schedule and on budget, to come online in October 2014
- ❖ Trust Funds
 - Unemployment Insurance Trust Fund
 - Trust fund revenue exceeded payout by \$120 million in 2012
 - Fund balance is sufficient to reduce 2013 employer tax rates 18%
 - Initial \$50 million bond repayment made in August 2012
 - Money is already set aside for next bond payment
 - Reserve Fund, Admin Fund, P & I Fund
 - Idaho Human Rights Commission
 - Over 90% of complaints involve employment discrimination
 - Labor is picking up the final 25% of Commission funding in the FY 2014 budget
 - Total yearly commitment is \$833,400
 - Idaho Career Information System
 - FY 2014 budget request: \$475,100 from dedicated funds
 - Revenue from Special Services: \$145,600
 - Sites (primarily schools) grown from 537 a year ago to 607 now
 - Users grown to more than 250,000
 - Logins to exceed 500,000 in 2013
 - Idaho Career Information is free to the public
 - Idaho Wage and Hour
 - \$302,400 requested in General Funds (down from \$596,300 appropriated in FY 2009)
 - IDOL subsidy continued at \$219,800
 - Bureau is down two FTE's from seven to five

- Over 58,000 phone calls in 2012
- 3,000 walk-in customers
- 59 employer presentations made
- 1,200 wage claims filed
- Collected \$525,000 in back wages
- Serve Idaho
 - Federal funding remains stable
 - Idaho ranks second nationally in the percent of Idahoans who volunteer (38.8%)
 - Idaho is second nationally in the amount of time its citizens volunteer (58.4 hours) – estimated value: \$1.4 billion last year
 - Employment Services subsidies to offset declining federal support
- ❖ FY 2014 Governor’s recommended budget request is \$17,273,800
- ❖ Department of Administration FY 2014 budget request of \$4,389,500
 - IDOL supports the Department of Administration’s request for upgrades to the Idaho State Network
 - Failure to fund Dept. of Administration’s initiative puts IDOL services in jeopardy and could force IDOL to make unplanned expenditures for information technology support or equipment
 - IDOL also supports the Dept. of Administration’s proposal to change the name of the Idaho Technology Resource Management Council to the “Idaho Technology Authority” and to revamp its membership to include most state agency directors
- ❖ Audit finding
 - IDOL had one audit exception involving the reporting of federally financed extended benefits paid during the fiscal year
- ❖ Those benefits are now being reported as the new policy requires

ADJOURNED

Senator Dean L. Cameron, Chairman

Peggy Moyer, Secretary