

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Friday, February 06, 2015
TIME: 8:00 A.M.
PLACE: Room C310
MEMBERS PRESENT: Senators Co-chairman Cameron, Keough, Mortimer, Bair, Nuxoll, Johnson, Thayne, Guthrie, Schmidt, Lacey
Representatives Co-chairman Bell, Gibbs, Miller, Youngblood, Burtenshaw, Horman, Malek, Monks, King, Gannon
ABSENT/ EXCUSED: None
CONVENED: Senator Cameron called the meeting to order at 8:00 A.M.
STAFF PRESENT: Lockett, Bybee

PRESENTATION: **DEPARTMENT OF ADMINISTRATION**
Idaho Capitol Commission

PRESENTER: **Eric Milstead, Director, Legislative Services Office**

To view the presentation, please click on the following link: [Idaho Capitol Commission](#)

The Capitol Commission is chaired by Andy Erstad; other members are Mary Symms-Pollot, Joe Stegner, Lt. Governor Brad Little, Joy Richards, Rep. Linden Bateman, Eric Milstead, Janet Gallimore, and Teresa Luna. The responsibilities of the Commission are 1) to review the Capitol Building Master Plan and modify it when necessary, 2) review and approve all proposals to reconstruct, remodel or restore the Capitol Building, 3) review and approve all proposals involving art, memorials, statues in the Capitol Building, and 4) work cooperatively with the State Idaho Historical Society to preserve and protect the Capitol Building's furnishings, historic collections and exhibits.

Funding sources for the Commission are: 1) Capitol Permanent Endowment, current estimated balance is \$27.6 million, 2) Capitol Maintenance Reserve Fund, current estimated balance is \$3.0 million, and 3) Capitol Commission Operating Fund, current estimated balance is \$200,000. Milstead reviewed the Commission's funding history as follows: 1) in 2005 there was a 28 cent per pack tax on cigarettes to renovate the State Capitol Building and related Capitol Mall improvements, 2) in 2006 bonds were authorized to restore and construct two, 2-story wings — bonds issued totaled \$130 million, 3) in 2007 scope of project was revised to include restoration and construction of two one-story wings to the State Capitol Building totaling \$120 million with an additional \$5 million for furnishings and equipment, and 4) in 2008-09 the Capitol Restoration and Expansion project was completed on time and \$1 million under budget. Annual payments of \$20.1 million from the cigarette tax will end in FY 15 after seven years of payments.

The total budget request for FY 2016 is \$2,642,000 which will include: 1) \$142,000 in operating expenses for Capitol Building special projects, publications and administrative support, and 2) spending authority of \$2.5 million from the Capitol Maintenance Reserve Fund for possible major remodel and facility improvement projects and for management fees.

PRESENTATION: INDUSTRIAL COMMISSION

PRESENTER: Tom Limbaugh, Commissioner

To view the presentation, please click on the following link: [Industrial Commission](#)

The defined functions of the Commission as set forth under Title 72, Idaho Code, to administer worker's compensation law are to: decide contested cases, administer insurance requirements, approve settlement agreements, mediate worker's compensation disputes, provide no cost return-to-work services, decide unemployment insurance appeals, and administer the Crime Victims Compensation Program.

With the exception of the Crime Victims program, the primary source of funding for the Commission is the Worker's Compensation Premium Tax which is collected semi-annually; no General Funds are involved. This is the fourth year of a 20% temporary reduction in the premium tax. The Industrial Commission is sometimes mistaken for the State Insurance Fund; the Commission regulates worker's compensation issues but does not pay benefits. In FY 2014 34,042 accidents were reported with 33 fatalities; in calendar year 2013 sureties reported \$209 million paid in total benefits including \$128 million in medical and \$81 million in lost wages.

Limbaugh briefly explained each division's responsibilities. The Adjudication Division acts as an Administrative Court with exclusive jurisdiction over worker's compensation law; it decides disputed cases, resolves medical fee disputes, and provides final decisions on unemployment appeals from the Department of Labor. Last year 925 complaints were received, 81 hearings were held, and 1,078 settlements were approved. The Employer Compliance Division with 19 full-time employees including 7 compliance officers works to educate employers on Idaho's worker's compensation insurance requirements; last year the Division corresponded with 14,243 employers regarding their insurance coverage status; staff receives notice of registrations as well as insurance cancellations from the National Council of Compensation Insurance (NCCI). The Claims and Benefits Division collects and maintains status information on over 34,000 claims filed each year to ensure benefits are paid, conducts audits to ensure compliance, reviews and makes approval recommendations on lump sum settlement agreements, and provides training courses for industry professionals. The Rehabilitation Division works closely with employers, medical providers and sureties to facilitate medical recovery so injured workers return to gainful employment; in FY 2014 the Division received 2,369 referrals and returned 1,442 injured workers to the workforce.

The Industrial Commission has a 16-member Advisory Committee which provides assistance and advice on the worker's compensation system; subcommittees work on a variety of projects to discuss issues and generate recommendations.

The Crime Victims Compensation Program provides financial assistance to innocent victims of crime by helping to pay for medical, psychological, sexual assault forensic examinations, wage loss, death benefits and funeral expenses. Currently, 7,577 victims are actively receiving services from the program. Funding for the program comes from fines imposed on offenders convicted of crimes and the Victims of Crime Act of 1984 (VOCA) federal grant award. In FY 2014, \$2,052,458 was paid to innocent victims of crime.

The Division of Building Safety implements the Logging and Industrial Safety Bureaus all funded through the workers compensation premium tax. Since 1917 the Commission has had authority over workplace safety; however, Idaho Code does not conform to OSHA because the statute is unclear about safety inspections of state and local governments. Since FY 1989 the Industrial Commission has provided funding for safety inspection of buildings and the logging training program through fund shifts without statutory authority. Senate Bill 1001, introduced this legislative session, should clarify the scope of State safety inspections and programs as well as transfer all related responsibilities from the Industrial Commission to the Division of Building Safety.

The Governor's recommended budget for FY 2016 is \$15,968,500 which is a 1.7% increase in spending authority in dedicated funds.

PRESENTATION: DEPARTMENT OF INSURANCE

PRESENTER: Tom Donovan, Acting Director

To view the presentation, please click on the following link: [Department of Insurance](#)

Idaho has regulated insurance since 1901 and the Department of Insurance was recognized as one of the 20 executive departments in 1974. The Department is organized into two primary divisions: the State Fire Marshall and the Insurance Regulation Division which has three regulatory bureaus consisting of the Company Activities Bureau, Consumer Services Bureau, and the Product Review Bureau. The State Fire Marshall Division provides assistance to local fire agencies statewide focusing on fire prevention education and investigation and helps manage consistent reporting of fire incidents.

The Department of Insurance is a dedicated fund agency whose operations are funded by premium taxes, fines and penalties (73.9%), regulatory fees and licenses and interest (25.7%) and a small federal grant (0.4%) used in the Senior Health Insurance Benefit Advisors (SHIBA) program. SHIBA provides 1) impartial advice to Medicare beneficiaries throughout Idaho, 2) focuses on recruiting volunteers, and 3) partners with other entities throughout the state. The premium tax that insurers pay on premiums written in Idaho does not fund the operations of the Department, the majority of those proceeds is transferred to the General Fund.

In FY 2014, DOI authorized or licensed 2,261 entities as insurance carriers or other registered entities, such as purchasing groups, surplus lines insurers, self-funded health plans, rating organizations, and advisory groups. DOI also received 20,813 new producer licensing applications, an increase of about 15% of which approximately 3,200 were Idaho residents. During that time there were 30,894 policy forms and rates filed, an increase of 35%. In addition, there were 791 new consumer complaints received in FY 2014.

Every five years the Department of Insurance undergoes an in-depth review of its laws, procedures, and issues involving solvency regulation of insurance companies. The review is done by the National Association of Insurance Commissioners, and that review is underway at this time. The review helps insure a predictable and more uniform system of insurance regulation throughout the United States and it also reduces regulatory burdens on companies transacting insurance in more than one state.

Donovan commented two anticipated changes: 1) the provision in Idaho Code providing for a portion of the premium tax revenue being allocated to the Individual High Risk Pool and the CHIP access card is scheduled to sunset on October 1, 2015, so the transfer at the end of FY 2015 is expected to be the last, and 2) the Immunization Dedicated Vaccine Fund and related provisions is scheduled to sunset on July 1, 2015; there is discussion about extending the sunset regarding the immunizations issue.

Recently the Legislative Audits Division of the Legislative Services Office recently issued a management report with two findings, both of which have been addressed. The first finding concerned receivables for vaccine assessments not being submitted to the Controller's Office for FY 11, 12, and 13. The issue occurred because some carriers had authorized extensions so they paid after the June 15 deadline. DOI emphasized that funds were properly collected and transferred. The second finding related to documentation of adherence to internal policies and IDAPA rules not being available for the procurement of a contract for marketing services. The policy has been revised by awarding examiner contracts via an RFP.

DOI'S staff consists of 73.5 full-time positions and 4 seasonal positions (during Medicare open enrollment). There has been significant turnover in 2014 with five retirements and difficulty in recruiting, particularly with financial positions; salary has been an issue.

The Governor's recommended budget for FY 2016 is \$9,028,500. There is an increase in benefit costs of \$47,000, replacement items totaling \$159,400, \$15,200 increase in statewide cost allocation, and \$128,700 for Change in Employee Compensation (CEC). Also included is an object transfer from operating to personnel cost in the amount of \$42,600.

PRESENTATION: SELF-GOVERNING AGENCIES
Division of Building Safety

PRESENTER: Kelly Pearce, Administrator

To view the presentation, please click on the following link: [Division of Building Safety](#)

The mission of the Division is to safeguard the citizens of Idaho through responsible administration of building and construction-related safety and licensure standards while promoting a positive business climate. The Division has the following seven boards under its direction: Building Code Board, Electrical Board, Heating, Ventilation and Air Condition Board, Plumbing Board, Manufactured Housing Board, and the Public Works Contractors License Board. In 2014 the Division issued 38,767 licenses, 37,500 permits and completed 62,689 inspections.

Pearce gave a brief oral/power point tour of what his Division accomplished in 2014 throughout the State: 1) trained 2,150 loggers, 2) annually inspected 2,853 K-12 school buildings, 3) inspected 2,435 State buildings annually, 4) inspected 3,167 elevators/lifts/escalators, 5) provided contract support to local government, 6) in agriculture, over 750 pivots permitted annually involving 4 licenses (1 general electrical and 3 specialty licenses), 7) involved with Tribal contracts, and 8) completed over 5,000 in-plant inspections annually for modular/manufactured housing.

The Governor's FY 2016 budget recommendation is for \$113,86,100, a 2% increase from the previous year. Pearce provided statistics for the Division's operating budget by fund category and by object of expenditure.

The Legislative Audits Division of the Legislative Services Office performed an FY 2011- 13 audit with no findings or recommendations.

**PASSED THE
GAVEL:**

**Senator Cameron, Chairman, passed the gavel to Senator Keough, Vice
Chair.**

**PRESENTATION: SELF-GOVERNING AGENCIES
State Lottery**

PRESENTER: Jeff Anderson, Director

To view the presentation, please click on the following link: [State Lottery](#)

The Lottery's mission is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho Public Schools and the Permanent Building Fund and the goal is to become the highest performing jurisdiction in North America. Idaho's Lottery was recognized as having the highest growth in dividends to good causes among lotteries in the United States and Canada. The Lottery Director is appointed by the Governor and confirmed by the Senate and is accountable to citizens through the Lottery Commission which has five members. The Lottery is a dedicated fund agency that receives no General Fund dollars; its beneficiaries are Idaho Public Schools, the Permanent Building Fund and the Bond Levy Equalization Fund. As responsible stewards and through efficient management of resources the Lottery has been able to return some spending authority; in FY 2014 lottery activities generated an additional \$1 million to the General Fund.

Anderson informed the Committee that the lottery may not meet its \$49.5 million dividend forecasted at the beginning of the fiscal year. The lottery industry, including Idaho, is experiencing a challenging year. The sales forecast for FY 2015 was \$220,400,000; however, that appears to be potentially unattainable due to a severe drop in sales of the two big jackpot games, Powerball and Mega Millions. Nationally, combined sales of those two games have never experienced a decrease of this magnitude. A 40% decline in Powerball sales for the first half of FY 2015 is occurring simultaneously with a 25% decline in Mega Million sales which means FY 2015 Multi State draw game sales may close with a significant decline. Fortunately, Idaho so far this fiscal year has outperformed the industry, only down 27% on Powerball and 14% on Mega Millions.

Per Idaho Code there are limits on certain expenses; administrative expenses for FY 2016 are forecast to be 6% of sales, well below the 15% cap; expenses that are variable based on sales are continuously appropriated—retailer commissions at 6% and marketing continues to be in the 1.8% range, well below the statutory cap. For FY 2016 the sales goal has been revised from \$220,600,000 to \$216,300,000 and the dividend goal, from \$51,000,000 to \$48,000,000. The Director wants to be sure the Lottery can deliver as forecast, thus the revised numbers. Successful changes to the Powerball game along with new products may help overachieve but Anderson feels it is better to be safe than sorry.

**PRESENTATION: OFFICE OF THE GOVERNOR
Idaho State Liquor Division (ISLD)**

PRESENTER: Jeff Anderson, Director

To view the presentation, please click on the following link: [Idaho State Liquor Division](#)

ISLD is a dedicated fund agency whose mission is 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. The executive team is made up of the Director and three deputies. The goal of the Idaho State Liquor Division is to be the most respected and highest performing purveyor of distilled spirits in the United States. Distilled spirits are offered in 170 locations throughout Idaho with 66 retail stores and 104 contract stores; the contract stores offer products in communities where a state store is not feasible. ISLD ships over 1,000,000 9-liter cases annually via a private sector trucking partner, Diamond Lines. Sales this year are forecast to be \$174 million which would be an increase of 3.2%.

ISLD is citizen owned for the benefit of all, including those who choose not to consume beverage alcohol. Distributions are set in Idaho Code, Title 23, Section 404. FY 2014 set another record distribution of \$63 million, an increase of 4.8% on a sales increase of 3.4%. Per capita consumption of distilled spirits in Idaho is well below the national average and even less when cross-border sales to Washington State consumers are factored out. It is estimated that 7% of Idaho's business is attributable to cross-border sales. (The 7% number has increased since Washington State dismantled their model of spirits distribution and replaced it with the license state model that included significant new taxes and fees on spirits products.) Idaho has only 15 retail outlets per 100,000

residents offering distilled spirits; access matters in curtailing over consumption and abuse of this legal product.

Growth over time has been predictable due to the nature of consumer choices with spirits continuing to capture a growing share of beverage alcohol consumption. Since 2010 ISLD'S forecast sales for FY 2015, including Washington are up 27%, distributions are up 36% and volumes are up only 15%. The Division's plan of convenient but limited access and getting more out of the stores in operation by focusing on customers and their interest in premium and super-premium products is working. Growth in sales and profit per FTP as well as sales and profit per store continues to improve. Recently the state store in Weiser was converted to a contractor and ISLD plans to move that store allocation into the Treasure Valley where population and customer need is growing. The plan is to work toward customer care and getting more out of store allocations rather than adding more state stores. The forecast for FY 2016 is to increase 3% in sales, net income, and distributions.

The Governor's recommended budget for FY 2016 is \$18,413,200, an increase of 4.1 % in spending authority. Decision units (DU) are described as follows: 1) DU #1 - planning four remodels/relocations in Coeur d'Alene, Moscow, Caldwell and Boise, 2) DU #2 — relocation of Weiser store, 3) DU #5 - one-time costs for additional labor to set up four stores and opening the relocated store in Weiser, 4) DU #3 — Capital outlay for wireless access points in 66 stores to allow for improved efficiency in auditing inventory as well as in-bound freight receiving, 5) DU #4 — convert six group to full-time positions — convert temporary clerks to benefitted, classified clerks, and 6) DU #6 — convert ISLD second floor storage area to office and conference space. (The roof on this building is scheduled to be replaced in FY 2016 with \$180,000 in funds from the Permanent Building Fund Advisory Council since it is a state building.)

ADJOURNED: There being no further business, Vice Chair Keough adjourned the meeting at 10:00 A.M.

Senator Cameron
Chair

Peggy Moyer
Secretary

Senator Keough
Vice Chair