

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Monday, February 15, 2016
TIME: 8:30 A.M.
PLACE: Room C310
MEMBERS: Senators Co-chairman Keough, Bair, Mortimer, Brackett, Nuxoll, Johnson, Thayn, Guthrie, Schmidt, Lacey
Representatives Co-chairman Bell, Gibbs, Miller, Youngblood, Burtenshaw, Horman, Malek, Monks, Burtenshaw, King, Gannon
ABSENT/EXCUSED: None
CONVENED: Chairman Keough convened the meeting at 8:00 A.M.
STAFF PRESENT: Burns, Bybee
SPECIAL HEARING: **IDAHO CYBERSECURITY TASK FORCE**
PRESENTER: **Brad Little, Lieutenant Governor, Task Force Chairman**

To view the presentation, please click on the following link: [Idaho Cybersecurity Task Force](#)

Cyber attacks are increasing in frequency and boldness, costing Idaho businesses and taxpayers untold billions of dollars each year. Idaho's thriving business community, along with state agencies that provide essential services, face real threats posed by cyber criminals throughout the world.

In November, 2012, an employee at the Department of Revenue in South Carolina opened a phishing email which compromised 3.8 million Social Security numbers as well as 387,000 credit and debit card numbers. The ongoing cost to South Carolina taxpayers has been over \$60 million including \$27 million earmarked in 2014 and three years of credit monitoring services at a cost of \$6 million a year.

The Task Force which was created in 2015 will work on strengthening Idaho's defenses to proactively protect government and citizen data and infrastructure. The days of purchasing off-the-shelf products are over. Idaho continues to prepare to meet cybersecurity threats, whether from viruses, malware, security breaches or outright theft of personal and private information. The objectives of the Task Force are to develop policies, programs and strategies across state government to detect vulnerabilities and prevent attacks, protecting citizen information and to promote a culture of cybersecurity awareness in which all Idahoans are vigilant and aware of vulnerabilities and cyber risks.

Members of the Task Force are: Brad Little, Lt. Governor; Brad Richy, Bureau of Homeland Security; Bob Geddes, Department of Administration; Brian Ness, Department of Transportation; Virgil Moore, Department of Fish and Game; Dean Cameron, Department of Insurance; Ken Edmunds, Department of Labor; Rich Jackson, Tax Commission; Don Drum, PERSI; Ralph Powell, Idaho State Police; Max Davis-Johnson, Boise State University, and Dan Ewart, University of Idaho.

The Task Force began meeting in September, 2015; private sector and local government people addressed the November meeting. The focus of the February 2016 meeting was to have state agencies do data self-assessment surveys. After that information is received the Task Force will provide the Governor with recommendations. A Cyber Task Force Report should be forthcoming in the Fall of 2017. There is a plan to form a Cyber Public/Private Collaborative Group.

Best practices will require all state agencies and the three branches of government to upgrade cyber training and monitoring and to assure that hardware, software and data are cyber resilient. It will require changes in purchasing, upgrading, and implementing technology. Without adequate cyber defenses, Idaho citizens' privacy and economic security could be jeopardized. Idaho should be able to leverage the best practices of more advanced state agencies within Idaho, private industry, and look to other states if needed. The bulk of the cyber problem appears to be human—causes which will require more awareness and training. Some current software and hardware deficiencies could increase vulnerabilities. Cyber experts predict that economic growth could be depressed in states without robust internal cyber organizations. Lack of action could also affect Idaho's bond rating, 911 systems, and utilities.

AGENCY

PRESENTATION: DEPARTMENT OF COMMERCE

PRESENTER: Megan Ronk, Director

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

Director Ronk outlined several recent national statistics important to Idaho: 1) ranked first in the United States for the largest percentage gains in private sector employment in the last year according to the Bureau of Labor Statistics, 2) fifth highest growth rate based on three-year GDP growth, and 3) outpaced the nation in 10 of 15 industry categories which measures job growth. Idaho has recently received notoriety by several publications for its economic and business climate. In the past year, Idaho was ranked: second Best City (Boise) for Millennial Entrepreneurs, (Thumbtack); fifth Best Economic Outlook (Heartland Institute); fifth Economic Health Index (Bloomberg); and sixth Best State to Start a Small Business (Entrepreneur Magazine).

When Governor Otter was first elected, his goal was to attain Project 60 or \$60 billion in Gross Domestic Product (GDP). The next phase of the program was launched in May, 2014 and known as Accelerate Idaho which was designed to emphasize Idaho's commitment to being a national and global leader for economic growth and prosperity. The initiative was based on three key priorities: advancing individuals, elevating industry, and strengthening communities. Idaho needs to advance educational opportunities and increase the earning potential for all of its citizens; a world-class workforce can lead Idaho into the new global economy. Idaho businesses are already key contributors to national and global economies. By further supporting industries, creating consistent business environments and embracing innovation, Idaho's economy can be elevated. Strong and resilient communities are the backbone of Idaho's heritage. More positive changes can be effected by offering community trainings, anticipating infrastructure needs, and rallying neighbors for regional collaboration.

The Department of Commerce and the Department of Agriculture have international teams that work closely to support Idaho companies pursuing new market opportunities throughout the world. Both Departments jointly manage trade offices in Mexico, Taiwan and China; organize industry-specific trade shows; manage the Governor's trade missions and a variety of services to help companies explore which foreign markets may be the best fit for their products or services. Small businesses make up 88% of Idaho's exporters. Idaho had experienced steady growth in exports until the recession, then bounced back, but the value of exports have declined over the past two years, especially in the semiconductor and mining areas. In 2015, Idaho achieved its highest revenue-generating year on record for lodging tax collections with over 8% growth. Statewide marketing efforts, strategic planning, and content marketing is attracting more business and leisure visitors to Idaho. It is anticipated that lodging tax collections will continue to increase due to increased demand. Idaho Tourism, through the Idaho Travel Council, awarded nearly \$3.95 million in tourism marketing funding to nonprofit organizations in Idaho. The Department is also leveraging funds with the Idaho Recreation Tourism Initiative in creating greater collaboration with other state agencies to promote and expand recreation opportunities.

The Director discussed the organization chart for the Department of Commerce which has the following three divisions: 1) Chief Operating Officer has oversight over the Department and is responsible for the Administration Division focused on public relations and the fiscal /Human Resources responsibilities, 2) Business Development and Marketing is focused on external promotion and marketing efforts, including tourism and IGEM, and 3) Industry and Community Services which consists of both the international and community development teams tasked with working with communities to ensure they are poised for growth opportunities.

The Department manages almost \$10 million in grant programs including CDGG, RCBG, and Gem Grants that are focused on infrastructure, the Opportunity Fund, the Rural Economic Development Professional program that supports economic development in 19 communities, and the IGEM grant program. The IGEM-Commerce program funds research to be commercialized where university researchers and industry experts partner to bring viable technologies and products from the university to market. IGEM grant funds do not go to the industry partner but go directly to Idaho's research universities to support their industry partnerships with preferential consideration given to projects that have an Idaho industry partner. Further, IGEM also requires its industry partners to provide a financial investment in each IGEM project. The Idaho Opportunity fund is used to support infrastructure needs for business expansion projects and is awarded directly to cities and counties at the Director's discretion; the performance-based structure of this program ensures that companies must meet key milestones before funds are awarded

The Tax Reimbursement Incentive (TRI) has helped Idaho become competitive on a national and global scale for attracting new jobs and capital investment to the state. It is a performance-based program that provides a refundable tax credit of up to 30% for up to 15 years on all income, payroll and sales taxes for qualifying projects. To qualify in urban communities with a population of 25,000 or more, a company must create 50 new jobs that collectively pay above the average county wage where the jobs are located; in rural communities with a population of less than 25,000, the company must create 20 jobs that pay above the average county wage. Because it is a performance-based tool, the credit is not issued until the minimum job and wage requirements are met; the credit is calculated based on the taxes actually paid. It has been a very successful program with a return on investment of 423%. Of the 25 approved TRI projects, 13 are existing Idaho companies and 12 companies are new to Idaho; 14 are located in rural communities and 11 are in urban communities. Since TRI's inception in July of 2014, the 25 projects approved are projected to create over 4,000 jobs.

The Governor's FY 2017 recommended budget amount is \$36,232,700 with 43 FTP's. The only line item recommended is for additional support for the IGEM project for \$29,600 in dedicated spending authority to use unspent fund balances. It includes a transfer of \$17,000 from the Small Business Assistance Fund to the IGEM Fund. The fund shift would be used to support additional IGEM grants in FY 17. The Department of Commerce supports the following Governor's recommendations in several other agencies' budgets: 1) the Governor's K-through Career Initiative, 2) funding for the STEM Action Center (a computer science initiative), 3) funding for a community college in eastern Idaho, and 4) expanding access to Professional-Technical education programs.

AGENCY

**PRESENTATION: DEPARTMENT OF REVENUE AND TAXATION
State Tax Commission**

PRESENTER: Ken A. Roberts, Chairman

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

The Commission's mission is to administer the state's tax laws in a fair, timely, and cost effective manner to benefit all Idaho citizens. The primary focus is to provide outstanding customer service in all interactions and activities. Some of the customer service accomplishments include: 1) improved Taxpayer Access Point (TAP) to expand online services for taxpayers and tax preparers, 2) created an Idaho Taxpayer Rights brochure to educate taxpayers on their rights when dealing with the Tax Commission, 3) added extensive enhancements to the Commission's website including information on security, tax fraud, aircraft and sales taxes, building contractors, and repair shops, etc., 4) implemented new techniques to fight tax fraud, 5) implemented additional customer surveys to measure performance and to implement ways to improve interactions with taxpayers, 6) expanded education and outreach efforts, and administered fuels tax increase and related distribution changes. **Chairman Roberts** acknowledged the Commission's Revenue Operations Administrator Doreen Warren who was the recipient of the Federation of Tax Administrators 2016 Harley T. Duncan Award for Leadership and Service; it is a national award given annually to an individual who has demonstrated sustained and significant service in the administration of state taxes.

One of the main purposes of the State Tax Commission is to collect revenue. Just over \$3.8 billion was submitted for collection in FY 2015 for all tax types. Income taxes, individual and corporate combined, make up the largest share of gross collections at 52.5%. The percentage of other taxes collected include sales tax at 38.0%, fuels taxes for 6.7%, and all remaining taxes amount to 2.0%. The Tax Commission provides over 95% (or \$2.9 billion) of revenue that goes into the General Fund. A chart was presented that compared growth rates from 2003 (the first year the GenTax database/processing system was used) through 2015, confirming that the Commission's efficiency was due to more sophisticated computerization.

Several of the Commission's challenges were discussed: 1) fraud and identity theft cases are growing rapidly which is pulling staff from other areas to work fraud/identity theft cases, 2) protecting Idaho's investment in GenTax, the state's taxpayer database/processing system, which needs continual upgrades to maintain customer service and maintain security, 3) enhancing customer service, and 4) workforce management (retirement, compensation, attract/retain qualified employees).

The Governor's recommended FY 2017 budget totals \$41,676,700 which includes replacement items for \$517,300 and the following line items: 1) GenTax Software Maintenance for \$550,000, \$363,500 for Refund Fraud Prevention, \$177,500 for additional Personnel in Tax Appeals, and some other miscellaneous items. The State Tax Commission's goal is to reduce backlog in processing tax returns.

ADJOURNED: There being no further business, Chairman Keough adjourned the meeting at 9:53 A.M.

Senator Keough
Chair

Peggy Moyer
Secretary