

MINUTES
JOINT FINANCE-APPROPRIATIONS COMMITTEE

DATE: Friday, January 20, 2017

TIME: 8:00 A.M.

PLACE: Room C310

MEMBERS PRESENT: Senators Co-chairman Keough, Bair, Mortimer, Martin, Souza, Lee, Agenbroad, Crabtree, Ward-Engelking, Nye

Representatives Co-chairman Bell, Youngblood, Miller, Burtenshaw, Horman, Malek, Anderson, Dixon, King, Wintrow

ABSENT/ EXCUSED: None

LSO STAFF PRESENT: Cathy Holland-Smith, Paul Headlee, Jared Hoskins, Keith Bybee, Rob Sepich, Robyn Lockett

CONVENED: **Chairman Bell** called the meeting to order at 8:00 am.

Public Employee Retirement System of Idaho (PERSI)

PRESENTER: **Don Drum, Executive Director**

Mr. Drum began by introducing Board and staff members: **Jeff Cilek**, Board Member; **Mike Hampton**, Deputy Director; **Alex Simpson**, Executive Financial Officer; **Kelly Cross**, Program Manager; **Larry Sweat**, IT Manager. He then highlighted some statistics of PERSI's services and projects including total membership, retirees, active members, employers, funding, contributions, 2017 cost of living adjustment, and the Pension Administration Project.

Robyn Lockett, Budget and Policy Analyst, reviewed PERSI's FY 2016 actual expenditures, FY 2017 budget, and the FY 2018 budget request along with the Governor's recommendation. For FY 2016, Ms. Lockett outlined the different types of funds for PERSI, stated the total appropriation which was \$7,384,500, reviewed net object transfers, and stated the total expenditures which was \$6,899,800. Then Ms. Lockett reviewed the analysis of fund balances for PERSI's three funds which are the Administration Fund, the Portfolio Fund, and the Judges' Retirement Fund. **Mr. Drum** then made comments about the remodeling projects going on at their building and provided reasons to why PERSI reverted funds in FY 2015 and FY 2016.

In response to committee questions, **Mr. Drum** explained that in the fund balance analysis for the Administration Fund, the prior year encumbrances are a result of the implementation for a new IT system. He also explained which Consumer Price Index (CPI) PERSI used to recommend a cost-of-living adjustment, which was the Western Region Urban CPI.

Ms. Lockett reviewed the FY 2018 budget request which was a total of \$7,990,800 while the Governor recommended a total of \$7,949,800. In the FY 2018 budget request, **Mr. Drum** addressed the need for the replacement items which was a total of \$300,700, and he reviewed one out of two of PERSI's line-item requests which was the request for an Internal Training Specialist position to augment PERSI's current training unit. **Gideon Tolman**, Division of Financial Management (DFM), explained why the Governor did not recommend the second line-item request which was a pay increase for PERSI's five portfolio staff. Mr. Drum then explained how the agency will provide for that line-item request through dedicated funds from the Administration Fund. **Jody Olson**, Chairman of PERSI Retirement Board, also spoke regarding the second line item request pointing out the importance of the portfolio staff and providing reassurance that the Retirement Board will be able to sustain the pay increase.

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Office of the State Controller

PRESENTER: Brandon Woolf, State Controller

Mr. Woolf began by reviewing the functions of the four management divisions in the State Controller's Office to achieve the statutory requirement of providing accounting and payroll services to approximately 25,000 state employees working for state agencies in Idaho. Those four divisions are Administration, Statewide Accounting, Statewide Payroll, and the Computer Services Center. Mr. Woolf mentioned the managers of each of those divisions which are **Dan Goicoechea**, Administration; **Patrick Hodges**, Statewide Accounting; **Audrey Musgrave**, Statewide Payroll; and **Tammy Shipman**, Computer Services Center.

Ms. Lockett, Budget and Policy Analyst, reviewed the State Controller's FY 2016 actual expenditures, the FY 2017 budget and the FY 2018 budget requests along with the Governor's recommendation. For FY 2016, the Controller's Office had four budgeted programs and three fund sources. The Controller was appropriated \$14,464,200 with an additional \$2,988,100 carryover from previous year's appropriation which means a total of \$17,452,300 was available in FY 2016. A total of \$15,196,300 was spent for FY 2016. Ms. Lockett then reviewed the analysis of fund balances for two, out of the three funds, titled the Miscellaneous Revenue Fund and the Data Processing Services Fund. For FY 2017, the Controller was appropriated a total of \$15,322,700 with one approved line item and some Budget Law Exceptions. **Mr. Woolf** provided an update on the implementation of that one line item and the Budget Law Exceptions.

In response to committee questions, **Mr. Woolf** confirmed a rates increase for customers using the Controller's Computer Services Center (CSC) in order to ensure operation of the Controller's functional core values when offering services.

Ms. Lockett continued her budget presentation by reviewing the FY 2018 budget request where the Controller's Office requested a total of \$16,085,100 while the Governor recommended \$16,188,300. She addressed some base adjustments and annualizations in the FY 2018 budget. She also mentioned the request by the Controller's Office for replacement items of computer equipment in FY 2018 wherein **Mr. Woolf** explained the office operates on a three year replacement cycle that matches manufacturer warranty offerings and is within best practices for maintaining operational equipment for staff. After Ms. Lockett's introduction of the FY 2018 line item requests, Mr. Woolf provided a detailed presentation explaining the reasons for those requests. The requests were: 1) for budget law exceptions to have carry over authority to carry over the Controller's unencumbered and unspent appropriation balances from FY 2017 into FY 2018, 2) for ongoing expenditures to pay the cost of services provided by the Computer Service Center (CSC), 3) for funds to improve the office's physical security, 4) for a statewide analysis of core functional and technical systems requirements needed to modernize Idaho's accounting, financial, payroll, human resources, and procurement infrastructure, and 5) for ongoing expenditures to purchase financial reporting software, service, and appropriate training for staff.

In response to committee questions, **Mr. Woolf** explained the size and budget of the State of Idaho plus some other factors prevent Idaho from attaining a AAA credit rating, and if Idaho had such a rating then interest rates would be lower when borrowing money using bonds. Mr. Woolf also explained the reason for the increased estimated cost, versus the estimated cost in 2013, for implementing the modernization of the Controller's accounting and financial reporting system for the State of Idaho, is because the Controller's Office contracted with Information Services Group (ISG) to provide an analysis for this modernization. The 2013 estimation was due to the Controller's Office conducting its own analysis.

In response to committee questions, **Dan Goicoechea**, Chief Deputy Controller, explained that with the departure of the Idaho Transportation Department (ITD), Department of Labor (DOL), and Department of Health & Welfare (DHW) from the Computer Service Center (CSC)—the cost of which totals approximately \$1.5 million—the line item request for \$618,000 to cover costs of the CSC, is the amount the Controller's Office would pay out of that \$1.5 million with the other costs being allocated out to other state agencies. The cost is allocated out to state agencies and the Controller's Office because they are all customers in the CSC.

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Chairman Bell recessed the meeting at 9:22 am.

Chairman Bell resumed the meeting at 9:33 am.

State Appellate Public Defender

PRESENTER: Eric Fredericksen, State Appellate Public Defender

Mr. Fredericksen began by introducing one of his staff present at the meeting, **Eric Lehtinen**, Chief Attorney in Appellate Unit. He then reviewed the creation and purpose of the State Appellate Public Defender (SAPD) by Idaho Code to help relieve the burden from state counties in providing competent legal counsel to indigent people. He gave an update on SAPD's progress in fulfilling its purpose as well as reviewed the organizational structure of SAPD.

Jared Hoskins, Budget and Policy Analyst, reviewed SAPD's FY 2016 actual expenditures, their FY 2017 budget, and their requests for the FY 2018 budget along with the Governor's recommendation. Mr. Hoskins also pointed out another budgeted program within the SAPD called the Capital and Conflict Representation Program which is a separate budget item due to its costs in death penalty cases and seeking outside counsel when a conflict of interest has been identified. For FY 2016, SAPD's total appropriation was \$2,173,900 with \$177,800 being reverted. Mr. Hoskins also reviewed some Net Object Transfers as well as explained why some of those transfers occurred and why some funds were reverted. For the Capital and Conflict Representation Program, the total FY 2016 appropriation was \$302,400 with \$50,500 reverted. Mr. Hoskins reviewed the analysis of fund balances for SAPD's single dedicated fund which is the Miscellaneous Revenue Fund. For FY 2017, **Mr. Fredericksen** reviewed and updated the progress of SAPD's approved line items. For the FY 2018 budget, Mr. Hoskins reviewed the inflationary adjustments and introduced the three line item requests which Mr. Fredericksen then provided the reasons for two of those requests while Mr. Hoskins explained the reason for the third request. The three line items requests are for a Deputy SAPD Retention Plan, funds for one-time operating expenditures to pay for costs associated capital evidentiary hearings, and removing funds from operating expenditures related to the Idaho Criminal Justice Commission (ICJC).

In response to committee questions, **Mr. Fredericksen** clarified the average workload of the attorneys in the SAPD is equivalent to 50 cases per year while the national standard is 25 cases per year.

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State Treasurer

PRESENTER: Ron Crane, State Treasurer

Mr. Crane began by introducing some his staff present at the meeting: **Laura Steffles**, Chief Deputy Treasurer; **Edelene Ohman**, Director of Investments; **Cozette Walters**, Unclaimed Properties Administrator. He then explained the organizational structure of the State Treasurer's Office, and discussed some of its functions and duties to fulfill the goal of providing banking services for state and local agencies. He then listed some of the funds the State Treasurer manages which are the General Fund, the Millennium Permanent Endowment Fund, Millennium Fund, and the Millennium Income Fund. The Treasurer's office also oversees the Unclaimed Property Division.

Mr. Hoskins presented the State Treasurer's FY 2016 actual expenditures, their FY 2017 budget, and their budget requests for FY 2018 along with the Governor's recommendation. For FY 2016, the State Treasurer's total appropriation was \$3,839,700 which was divided among the General Fund and four different dedicated funds. Mr. Hoskins reviewed two of the four dedicated funds; those being the Professional Services Fund and the Unclaimed Property Fund. Mr. Hoskins introduced the FY 2017 budget which had one line item, and introduced some Legislative Intent Language. **Mr. Crane** then provided a status update on that line item and the Legislative Intent Language.

In response to committee questions, **Mr. Crane** explained that the part of the Legislative Intent Language for the State Treasurer to mitigate bank service fees did not cause any change in the Treasurer's operation of performing that mitigation than what has already been done before. He also explained there will be a change in what the banks are paying to the Treasurer for compensating balances due to the potential of increasing interest rates, but that increase in payment will not come close to what the Treasurer can earn in their portfolio investments. Those investments therefore are safe to invest since the Treasurer is allowed to invest only under the rules set by Idaho Code. Mr. Crane then addressed why Idaho will probably not reach a AAA credit rating because the State's per capita income would have to increase, and the State would need to borrow more money which cannot be done since the Idaho Constitution disallows the holding of long-term debt.

In response to committee questions, **Edelene Ohman**, Director of Investments for the Treasurer's Office, stated the total asset base for the investments in the Treasurer's Office is approximately \$5 billion.

Mr. Hoskins reviewed the FY 2018 budget requests along with the Governor's recommendations. He introduced the one line item request. **Cozette Walters**, Unclaimed Property Administrator, then discussed the reasons for that line item request.

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Division of Financial Management

PRESENTER: Jani Revier, Administrator

Ms. Revier stated the purpose of the Division of Financial Management (DFM) which is to assist the Governor in his duty as Chief Budget Officer of the State. She then reviewed the organizational structure of DM listing the various duties for the three Bureaus within DFM which are Management Services Bureau led by Deputy Administrator **David Fulkerson**; the Budget Bureau led by **Shelby Kerns**; and the Economic Analysis Bureau led by **Derek Santos**.

Cathy Holland-Smith, Division Manager of the Budget and Policy Analysis Division, reviewed DFM's FY 2016 actual expenditures and their FY 2018 budget request as well as the Governor's recommendation. For FY 2016, Ms. Holland-Smith reviewed and provided explanations for some transfers of funds made by DFM between different object classes. She then reviewed the analysis of fund balances for DFM's single dedicated fund called the Miscellaneous Revenue Fund, and answered a question concerning funds that, if approved by the Legislature, will be used in the FY 2018 budget to handle operating costs for the Idaho Criminal Justice Commission (ICJC), a function once performed by the State Appellate Defender's Office (SAPD). Since there were no line items in FY 2017, Ms. Holland-Smith continued to discuss the FY 2018 budget highlighting the two line item requests. **Ms. Revier** provided background and discussed the reasons for those two line items which were to appropriate funds to DFM to handle the operating costs for the ICJC, and provide funding for a senior financial management analyst position.

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Executive Office of the Governor

PRESENTER: Jani Revier, Administrator, Division of Financial of Management

Ms. Revier briefly reviewed the purpose of the Governor’s Office highlighting section 5 of the Idaho Constitution vesting the governor with “supreme executive power” and tasks the governor with the responsibility for ensuring all state laws are faithfully executed.

Ms. Holland-Smith reviewed the Governor’s Executive Office FY 2016 budget highlighting some transfers between object classes and stating that the Governor’s funds come from the General Fund. Since there were no line items in the Governor’s FY 2017 budget, Ms. Holland-Smith transitioned to discuss the FY 2018 budget requests.

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FY 2017 Supplemental Appropriation Hearings

Executive Office of the Governor: Cybersecurity Position

PRESENTER: Marilyn Whitney, Deputy Chief of Staff

Ms. Whitney provided background and an explanation for funding of a Director of Information Security position within the Executive Office of the Governor to protect the state government’s cyber capabilities and privacy of all Idahoans.

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Judicial Branch: Renovation Costs for Supreme Court Office Space

PRESENTER: Sara Thomas, Executive Director

Ms. Thomas provided background information and an explanation for extra costs related to the renovation of the basement in the Idaho Supreme Court building. This renovation is done to bring back the Supreme Court’s IT department into this building as file storage goes digital.

In response to committee questions, **Ms. Thomas** explained the reason for this renovation project originally being appropriated using the General Fund and not the Permanent Building Fund because this project was not eligible for that fund.

In response to committee questions, **Robyn Lockett**, Budget and Policy Analyst, explained the funds for this supplemental request can come from dedicated funds or the General Fund. The prerogative for using either fund or funds is up to the Idaho Legislature.

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Department of Commerce: Gowen Field Air Missions

PRESENTER: Bobbi-Jo Meuleman, Chief Operating Officer

Ms. Meuleman provided background and an explanation for a \$100,000 supplemental request to fund the F-35 strike mission which is a program replacement for the A-10 mission. She recognized **General Gary Saylor**, who represented the Idaho Military Division.

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ADJOURN: There being no further business to come before the committee, the meeting adjourned at 10:56 am.

Representative Bell
Chair

Cody Jessup
Secretary