

MINUTES  
**JOINT FINANCE-APPROPRIATIONS COMMITTEE**

**DATE:** Tuesday, January 09, 2018

**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

**CONVENED:** Senator Keough called the meeting to order at 8:00 A.M.

**WELCOME AND PAGE INTRODUCTIONS:** Chairman Keough welcomed all the Joint Finance Appropriations Committee (JFAC) members. The Chairman introduce the high school Pages who will serve the Committee for the first six weeks of the session: Senate Page Josie Bush, from Boise, Idaho who attends Centennial High School and will be attending BYU on a Soccer Scholarship in the Fall and hopes to pursue a career as a nutritionist.

**AGENCY PRESENTATION:** **REVIEW OF GOVERNOR'S 2018 GOVERNOR'S BUDGET RECOMMENDATIONS**

**PRESENTER:** **JANI REVIER, Administrator, Division of Financial Management:**  
Introduced Governor's Budget Staff.: Introduced the members of the DFM staff that are here today. David Fulkerson, Deputy Administrator, State Financial Officer. Shelby Kerns, Budget Bureau Chief Our Financial Management Analysts are David Hahn, Sara Stover, Adam Jarvis, Matt Warnick, Gideon Tolman, Amber Christofferson, and Tony Eldeen. From our Economic Bureau we have Derek Santos, Chief Economist Greg Piepmeyer, Economist. ([TO LISTEN TO AUDIO: https://go.usa.gov/xnvJh](https://go.usa.gov/xnvJh))  
When projecting economic growth and revenues to the state, housing starts are a leading indicator. They impact employment in the construction industry and generate sales tax through the purchase of building materials, appliances and furniture. Idaho housing starts hit an all-time high of about 23,000 units in fiscal year 2006. They then dropped deeply after the housing bubble imploded and hit bottom at about 4,000 units in fiscal year 2011. As the chart shows, housing starts have been growing since fiscal year 2012 and are forecast to grow steadily and gradually. While this is well below the previous peak, the current forecast of gradual growth is more sustainable.  
Employment data in Idaho remains positive. Employment in Idaho has grown in almost every quarter since fiscal year 2010, and the forecast predicts the addition of about 15,000 jobs per year. The October unemployment rate was 2.9 percent. With some of the slack out of the labor market, wages and salaries should accelerate, helping fuel overall personal income growth.  
Idaho nominal personal income which includes wages, salaries, proprietors' income and transfer payments has been growing since fiscal year 2010 and is forecasted to grow over the next few years. This growth is encouraging because personal income is a major determinant of the state's General Fund.

The largest single component of General Fund receipts is the individual income tax. Sales tax is the second largest component. Corporate Income tax is a distant third followed by product taxes and miscellaneous revenue. This is why personal income is such an important indicator of General Fund growth – it is mainly driven by individual income and purchases.

General Fund revenue hit a low of \$2.3 billion during the recession in fiscal year 2010 and has steadily increased from then. In fiscal year 2019 the General Fund is forecast to top the \$3.7 billion mark for the first time. It is also notable that General Fund growth has been slower than personal income growth. The General Fund has grown, in aggregate, about 25 percent since 2008 while personal income has grown about 40 percent.

Fiscal year 2017 ended on June 30. The fiscal year closed with the state collecting over \$3.4 billion in receipts which is 8.3% growth over fiscal year 2016 and almost \$94 million more than the forecast. The books closed with an ending balance for fiscal year 2017 of almost \$101 million. Transferring the \$27.5 million to the Strategic Initiatives Fund would require legislative action.

For the current year, the revised forecast is \$3.6 billion which is about \$108 million higher than the forecast DFM released last January, even while reflecting a reduction in revenue from SB 1206 that set aside one percent of sales tax collections, after revenue sharing, for transportation.

Normally conformity for tax year 2018 would be considered during the 2019 legislative session. However, given significant changes to the tax code, the Governor recommends conforming earlier to let taxpayers know what to expect and to give the Tax Commission time to rework its forms. Idaho uses the federal calculation of adjusted gross income or AGI to determine an individual's tax liability. This means taxable income for Idaho taxpayers will be different than past years and conforming to these provisions raises Idaho General Fund revenue by about \$125 million. The federal tax reform bill also expands the definition of qualified expenses from a 529 Education Savings account to include K-12 education. Conforming to this provision will reduce Idaho General Fund revenue by approximately \$6 million. Many corporate deductions are also eliminated but new provisions such as how pass thru expenses are taxed means that conforming will decrease Idaho General Fund revenue by about \$21 million. The net effect is an increase in revenue of right under \$100 million.

The Governor is proposing tax relief of almost \$200 million by dropping income tax rates in all brackets for individuals and businesses by 0.45 percentage point and creating an \$85 nonrefundable Idaho dependent credit. Currently the top individual tax bracket is taxed at 7.4%, under the Governor's proposal the top rate would be 6.95%, the second bracket currently taxed at 7.1% would be 6.65% and so on until you get to the bottom bracket currently taxed at 1.6% which would be 1.15%. The effective rate is cut from the current 6.65% to 6.3%. Since many small businesses file as individuals, the Governor wants to continue to keep the top rate for individual and corporate the same.

The Executive Budget for FY 2019 reflects Governor Otter's goal of ensuring the state is in a better position than when he took office. Education, including K through Career, remains the top budget priority.

To maintain current operations, including education, we have budgeted \$125 million from the General Fund. Of that, \$12 million is for replacement items such as cars, computers, desks, and chairs. General Fund inflation is limited to contract inflation such as rent increases that cannot be absorbed. In the recommendation, dedicated fund agencies were given the same scrutiny and held to the same

standard as General Fund agencies.

As the Governor noted in the State of the State, he is recommending a 3% Change in Employee Compensation to be based on merit with flexibility for directors to address agency needs. The CEC recommendation applies to Public School administrators and classified staff, but not teachers, as they will see an increase from the career ladder.

The appropriation for health insurance is based upon projected utilization and projected costs. In the current year, that state appropriation is \$13,100 per FTP. The recommendation returns to the General Fund the \$13.14 million transferred to the Group Insurance Fund in fiscal year 2016 to meet contracted reserve levels, and giving a two month employee/employer premium holiday to reduce the reserve balance. This results in \$14 million savings that should be considered a one-time reduction, since it is to spend down one-time reserves, and fiscal year 2020 will see the appropriation return to approximately the \$13,000 per FTP level. The Executive Budget for fiscal year 2019 reflects Governor Otter's priority of providing significant funding to implement recommendations from the Task Force for Improving Education. Almost \$42 million will fund the fourth year of the five-year funding plan for the career ladder for certificated instructional employees and pupil service staff. \$10 million for Technology will bring ongoing technology funding to \$36 million. \$4 million for Teacher Professional Development will bring the number of teacher professional development days to two and a half days beyond the fiscal year 2015 appropriation. \$5 million for College and Career Counseling will bring the ongoing total to \$12 million annually. More and better advising is critical to increasing Idaho's go-on rate. \$8 million for Advanced Opportunities will accommodate the increase in the number of students utilizing the Advanced Opportunities Program. \$6.5 million for the second phase of the literacy plan will provide funding for intervention for kindergarten through third grade students who score basic on the state's reading indicator. About a million and a half for Mastery-based Education funds a second phase to expand the number of schools participating in the Mastery Education Network.

In addition to the recommendations of the Governor's Task Force for Improving Education, Governor Otter includes other strategic investments in education funding. \$2 million for the STEM Computer Science Initiative and 2 FTP and associated funding will be use to expand Career Technical Education to seventh and eighth graders resulting in greater skill development and career preparation for post-secondary credits, industry certifications, and apprenticeship programs. \$300,000 for CTE Secondary Incentive Funding will bring programs such as business management and marketing, engineering and technology, family consumer sciences, health sciences, and skilled and technical sciences more in line with the agricultural and natural resources education programs. This allows 1 FTP and spending authority for Science Technology Academies Reinforcing Basic Aviation Space Exploration or STARBASE .

The higher education budget, reflects the recommendation of the Higher Education Task Force that funding be student-centric and focused on system-wide needs. \$5 million for the Opportunity Scholarship will increase the number of Opportunity Scholarship awards by approximately 1,500. The Governor also recommends allowing up to 20% of the funds appropriated to the Opportunity Scholarship to be used for the Adult Completion Scholarship. \$350,000 will implement a degree audit and data analytics system that will enable early identification of students who need additional support or guidance and help students track their progress toward degree completion. The Governor chose to target other available funding

toward addressing the continuity of operations, such as the enrollment workload adjustment for \$4 million and occupancy costs of \$1.6 million. The Governor is also recommending a \$10 million transfer to the Permanent Building Fund for the construction of the Health Sciences Building on the Nampa Campus of the College of Western Idaho.

To meet the state's demand for skilled labor, the Governor recommends funding for recommendations of the Workforce Development Task Force. Funding to continue to build CTE training capacity at six post-secondary institutions throughout the state will produce more graduates for high-demand jobs. Approximately \$1 million will be divided between the following programs: College of Southern Idaho's Paramedic Program, College of Western Idaho's Occupational Therapy Assistant Program, College of Eastern Idaho's Registered Nursing Program, North Idaho College's Dental Hygiene Program, Idaho State University's Energy Electrical Engineering Program, Lewis Clark State College's Graphic Communications Program and Diesel Technician and Collision Repair Programs. \$750,000 for Workforce Training Centers provides enhanced support for Idaho's six workforce training centers and the individuals they serve with short-term, industry-focused training. The Governor recommends continuing efforts to develop online Career Technical Education classes by funding the development of four online courses through the Idaho Digital Learning Academy for \$70,000. The Governor remains committed to addressing the shortage of physicians and medical residencies in Idaho. In order to keep momentum behind the efforts to bolster graduate medical education the Governor is recommending Funding for the expansion of the Washington, Wyoming, Alaska, Montana, and Idaho Medical Education Program at the University of Idaho. Funding for the third year of the two University of Utah School of Medicine seats added in fiscal year 2017 on behalf of Idaho students. To address the shortage of mental health professionals in Idaho, the Governor recommends building American Psychological Association-accredited psychology internship programs in partnership with the Western Interstate Commission for Higher Education. Funding for the Psychiatry Residency Program will create a minimum level of funding per resident of \$30,000. The Eastern Idaho Regional Medical Center internal medicine program has gained accreditation. The Governor recommends funding to establish the program with 10 internal medicine residents. By fiscal year 2020, the Bingham Internal Medicine Program will transition to a residency accredited program and, in so doing, will need to grow its class size to a minimum of five residents per class. The recommendation funds the existing program and adds one seat for a total of 12 internal medicine residents.

The Governor recommends important investments in health and human services to provide better outcomes for Idahoans. To reduce Idaho's uninsured population and lower insurance premiums, the Governor recommends the creation of the Idaho Health Care Plan. In this two-part plan, the Department of Health and Welfare will apply for an 1115 waiver to allow Medicaid to cover individuals with specifically diagnosed medical conditions who were originally covered on the individual insurance marketplace. In coordination, the Department of Insurance and Your Health Idaho will apply for a federal 1132 waiver to expand coverage through the exchange by providing federal premium tax credits to working individuals with incomes under 100% of the federal poverty limit, providing health insurance for approximately 35,000 Idahoans that were previously uninsured. The Idaho Health Care Plan will require \$17.4 million from the General Fund and \$11.4 million of Millennium Fund with the remainder being made up of federal funds. To fulfill his commitment that each region of the state have a community

crisis behavioral health center, the Governor recommends centers for regions two, three, and six. A supplemental and line item in fiscal year 2019 will fund 13 child welfare staff to help address the increased needs of the children and families served by the Department of Health and Welfare. The Expanded Access Program was created by Executive Order as a treatment option for Idaho children with treatment-resistant epilepsy to receive Epidiolex, a medication not yet FDA-approved or commercially available. The supplemental and funding in fiscal year 2019 will allow the continuation of the program. The Governor is concerned about the high rates of suicide in the state and, to help combat this problem, recommends a quarter of a million dollars for youth suicide prevention. The budget also includes 5.78% General Fund growth in Medicaid.

The Department of Correction is experiencing growth in its offender population and space is needed to accommodate it. Included in the recommendation is a fiscal year 2018 supplemental for a system-wide 99-bed expansion to house current year population growth. In FY 2019, the recommendation includes \$2.7 million and 7 FTP for a 95-bed expansion. Also included is funding for a contract to house offenders out of state. The Governor is also recommending a \$9 million transfer to the Permanent Building Fund for an additional Department of Correction Community Reentry Center. Replacement of the offender management system at the Idaho Department of Correction is necessary as the current system is written in an outdated language, and does not interface with newer systems such as electronic medical records and the inmate account management system. The Governor is recommending this \$15.8 million system as a supplemental in fiscal year 2018. To target rural areas throughout the state and improve officer coverage and response times, the Governor is recommending \$1.2 million for six Idaho State Police troopers and one sergeant. And to address the backlog of work in forensics at ISP, the Governor has included \$1.2 million for forensic instruments and scientists. The Governor also recommends funding to support resource management throughout the state. A recent evaluation of strategies to meet the long-term water management and recreation access solutions for Priest Lake and the Priest River system found that required work to the Department of Water Resources owned Priest Lake Outlet Dam, the 3-mile long channel known as the Thorofare, and the timber breakwater at the north end of Priest Lake would cost \$5 million. The Governor recommends a \$2.4 million General Fund transfer to the Department of Water Resources for the improvements to the dam and needed work on the breakwater. For the continued implementation of the Idaho Pollutant Discharge Elimination System at the Department of Environmental Quality for the state to assume primacy from the Environmental Protection Agency, the Governor has included \$665,600 and approximately 6 FTP. The Governor has designated the Department of Environmental Quality to act as beneficiary to receive the \$5.5 million Volkswagen settlement and distribute the funds to statewide projects intended to offset the air pollution emitted by the vehicles that violated the Clear Air Act due to negligence by Volkswagen. Almost \$4 million in spending authority is recommend for the Good Neighbor Authority Program. The recommendation includes spending authority for \$3.5 million of dedicated and federal fund to build a new Billingsley Creek unit of Thousand Springs State Park. The Governor also recommends over \$2 million of General Fund and dedicated fund spending authority to address necessary maintenance in state parks. The Executive Budget for fiscal year 2019 includes other strategic investments throughout state government. The Governor is supporting legislation being introduced by the Controller that redirects indirect cost recovery funding into

a dedicated fund to pay for a new accounting and payroll system. This will raise the necessary \$102 million in a five-year period. The funding proposal for Idaho's Business Information Infrastructure Modernization would transfer the funds collected in the Indirect Recovery Fund to a new Business Information Infrastructure Fund at the Controller's Office starting in fiscal year 2018 and continuing for five years. Since those funds are currently deposited into the General Fund, there would be an annual General Fund revenue reduction of approximately \$20 million until the legislation sunsets. This fully funds the estimated \$102 million cost of the new system. In addition to consolidation, \$5.5 million of General Fund is recommended for critical enhancements to provide support, increase security and storage capacity, and enhance the ability of the state to connect with citizens through online tools. \$46.7 million in dedicated and federal spending authority is recommended for the Idaho Transportation Department for highway construction. Almost \$35 million in federal fund spending authority will be used for a training facility at the Orchard Combat Training Center and barracks at Gowen Field. This also includes 42 FTP for facilities maintenance workers, training area management specialists, and security personnel, to support growth at the Orchard Combat Training Center. Finally, the Governor is recommending a \$25 million transfer to the Permanent Building Fund for repair and maintenance of existing facilities. There were almost \$97 million in requests to the Permanent Building Fund for alteration and repair projects at state owned buildings for fiscal year 2019. This transfer will help address the maintenance backlog.

The Governor remains committed to building back our rainy day accounts. After accounting for the recommended reductions in revenue, the statutory transfer for fiscal year 2018 will be about \$4.5 million. To keep the Public Education Stabilization Fund at the 2016 levels, a \$32 million transfer is recommended. Between fiscal years 2017 and 2018, \$25 million was transferred out of PESF to fully fund K-12 enrollment growth. In addition, there is a shortfall for the Advanced Opportunities program that will result in another transfer out of PESF of \$7 million in fiscal year 2018. If the Governor's recommendation is followed, by the end of his term, the combined savings accounts will total approximately \$425 million and be above fiscal year 2007 levels both in dollars and percentage of appropriation.

That ending balance becomes the beginning balance in fiscal year 2019. After accounting for the Controller's system, other executive legislation, tax conformity, and tax relief there is about \$3.8 billion in revenue. The Governor is proposing almost \$70 million in transfers that we have discussed. He is also proposing \$247 million in spending over the fiscal year 2018 levels, over half of that funding is just maintaining current operations such as public school growth. The recommendation leaves an ending balance of \$70 million. ([TO LISTEN TO AUDIO: https://go.usa.gov/xnvJh](https://go.usa.gov/xnvJh))

In response to committee questions, Ms. Revier reviewed the Higher Education Coordinator position and the changes the Governor is making to that position. Ms. Revier also reviewed the reserve funds and what we could possibly do with those funds. She also stated the Governor's position on the transportation transfer that did not happen. Lastly, Ms. Revier reviewed the PESF fund. ([TO LISTEN TO AUDIO: https://go.usa.gov/xnvJh](https://go.usa.gov/xnvJh))

**AGENCY PRESENTATION: REVIEW OF BUDGET HEARING SCHEDULE, LEGISLATIVE BUDGET BOOK, AND GENERAL FUND FY 2018 — FY 2019 BUDGET SCENARIOS**

**PRESENTER** **PAUL HEADLEE, Division Manager, LSO:** Review of Budget Hearing Schedule and Budget Book: Introduces the LSO Budget Staff; Reviews the 2018 Budget Hearing Schedule (Please see packet) Reviews how the budget book works and how to read the reports. ([TO LISTEN TO AUDIO: https://go.usa.gov/xnvSY](https://go.usa.gov/xnvSY))

**CONVENED:** There being no further business, Senator Keough adjourned the meeting at 9:53 A.M.

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Senator Keough  
Chair

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Amberlee Honsaker  
Secretary