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**IPM&CSA LEGISLATIVE UPDATE --- February 15, 2015****Welcome Back to the Capitol:**

Legislators returned to the Idaho Statehouse on January 11 and hit the ground running. It must be an election year (spoiler alert – it is!) because activity at Idaho’s capitol building ramped up right away.

**The Legislative Schedule:**

January: Looking back on the early weeks of the session, Governor Otter kicked off the action with his State of the State Address. Lawmakers heard him pitch his priorities and budget, and then got down to work. Budget writers in the joint finance committee (JFAC) listened to state agency’s financial needs, and policy committees review agency rules. A few bills trickled in, but for the most part, the early days of the session are all about assessing how much there is to spend, what to spend it on, and whether agencies have written rules that reflect legislative policy.

February: By mid-February the committee agendas are stacking up with legislation to be introduced. And as the February 15 deadline approached, the pile-up filled calendars as new legislation came streaming in to the process. Once introduced, legislation is available to the public and ready for hearing in the germane committee. This is where the work of the legislature takes place and committee members apply their expertise to the legislation at hand. Once the deadline for bill introductions has passed, legislation still trickles in, but only if approved by higher authority and introduced into a “privileged” committee.

March: Activity reaches a crescendo in March, and committees rush to complete hearing bills, and the work day moves to the floor on both House and Senate. If your bill isn’t well on its way by now, the chances of success diminish greatly. Legislation blessed by leadership and deemed critical to complete will make it through, but many issues will fall by the wayside as legislators look to wrapping up business and getting back home to attend to their constituents and election schedules.

**The IPM&CSA Legislative Agenda: Issues to Watch**

Here are some of the bills and proposals IPM&CSA is working on this session:

**Industry Issues:**

**DEQ** – DEQ proposes to impose a new fee on USTs to maintain the program in Idaho, and avoid handing it back to the EPA. IPM&CSA believes Idaho marketers are better off being regulated by the state rather than the feds. IPM&CSA worked with DEQ to cap the fee at \$100 per tank per year and to require that the program provide a budget report to the legislature, a listing of the USTs covered, and apply any excess funds to future years, so as to not build up excess funds.

**Dyed Fuel** – The Idaho Tax Commission has completed a report: “*Enhanced Enforcement of Fuel Tax Law: Options to Reduce Use of Untaxed Motor Fuel on Idaho Roads and Highways.*” The report is available from the Tax Commission or IPM&CSA.

ITC presented several ways to deter illegal use of dyed fuel:

- Centralize fuel tax administration.
- Have dedicated fuel tax investigators.
- Have dedicated fuel tax prosecutors.
- Have sufficient and well trained compliance staff.
- Have designated on-road enforcement officers.
- Educate taxpayers.
- Minimized exemptions, refunds, and credits.
- License and bond dyed diesel sellers and purchasers.
- Have fines and penalties that deter illegal use.

### **2016 Legislation to Watch:**

Fuel and UST Legislation:

- **S1244 DEQ UST Fees** – DEQ proposes a tank fee of \$100 per tank per year. IPM&CSA supports the fee to ensure that the State of Idaho, and not the EPA, manages the program.
- **S1310 Dyed Diesel Testing/ Enforcement** – This legislation provides authority for a law enforcement officer to inspect a diesel powered motor vehicle for dyed diesel if requested at a fixed or portable check station and when requested as a secondary action. The legislation is sponsored by Senator Brackett, chairman of the Senate Transportation Committee.

Local Government Pre-Emption

- **H372 State Preemption – Auxiliary Containers** – Prohibits cities and counties from banning auxiliary containers such as plastic bags and water bottles. IPM&CSA joins with the Idaho Retailers Association to support this legislation which ensures uniformity in the regulation of auxiliary containers by requiring regulation or taxation be done by the legislature, and not by individual political subdivisions of the state.
- **H463 State Preemption – Minimum Wage** – Prohibits cities and counties from raising the minimum wage by ensuring that minimum wage in Idaho is decided by the legislature and applied uniformly across the state. IPM&CSA joins with the Idaho Retailers Association to support this legislation.

Idaho Lottery – Horse Racing is back and with it, another fight with the tribes over gaming in Idaho. The controversy may once again wrap the Idaho Lottery into the mix, so this issue bears monitoring for any impacts that might be detrimental to retailers who sell lottery tickets. IPM&CSA has a good relationship with the Idaho Lottery and we work closely with them to maintain this successful program.

### Tax Proposals Worth Watching:

- Income Tax - Reducing current personal and corporate tax rates by a small amount, with the goal of being more competitive with surrounding states. House members champion rate reduction, but the Senate is concerned with preserving revenues to fund education. IPM&CSA supports reduction in income tax rates and will work to promote this proposal.
- Personal Property Tax – Moving toward complete elimination of the personal property tax. A proposal from the tax working group was to raise the exemption in taxable value from \$100,000 in to \$250,000 or \$500,000. IPM&CSA supports complete elimination of the personal property tax.
- Sales Tax on Groceries – The proposal to eliminate sales tax on groceries is supported by conservatives, but others oppose the idea. IPM&CSA will monitor this proposal.
- Local Option Sales Tax – Local governments continue to push for local option taxing authority for sales tax, and other sources of revenues. IPM&CSA opposes local option authority, and particularly as applied to fuel tax.
- Sales tax – This year’s proposal for a ballot initiative would drop the rate from 6 to 4 cents per dollar, but expand sales tax to services. Although not a legislative issue, this one bears watching.

## **Governor Otter’s Budget Principles & Policy Priorities**

Here is the roadmap the Governor laid out to lawmakers. FY 2016 General Revenue projections come in at \$3.13 billion, an increase of 5.5% over 2015. The governor is projecting FY2017 general revenues of \$3.32 billion and proposing an FY2017 budget of \$3.297 billion. The FY 2017 budget proposal is an increase of \$225 million from the previous year, an increase of 7.32%.

Here are his guiding principles for governing the state in 2016, according to his FY2017 Executive Budget Summary:

### **Governor’s Budget Principles:**

- Government will not grow at the same rate as the economy.
- Reserve funds depleted during the recession must be restored.
- Structural balance in the state budget must be maintained.

### **Governor’s Budget Priorities:**

- Education is the top priority. (Education accounts for 63% of the state expenditure, totaling \$2.1 Billion of the FY2017 \$3.3 billion General Fund budget.)
- Growth in government should be limited.
- The focus will remain on strategic investments and providing core services.

### **Here are some highlights from the Governor’s Budget Proposal for FY 2017:**

A 7.9% increase in spending for K-12 education, that’s \$116.6 million in new money including nearly \$40 million in teacher’s career ladder, \$5 million each for college and career advising and professional development, \$30 million in discretionary funding, \$10 million for classroom technology, \$10.7 million for literacy, and \$14 million in STEM funding (Science, Technology, Engineering and Math).

Higher Education gets an increase of 9.6% for community colleges and 8.8% for four year schools, including \$10 million that would lock in tuition costs for students entering colleges (but not costs to the state, which would absorb the increase).

The total education budget requested is \$2.065 billion, an increase of 8.4% overall, more than \$160 million additional for 2017.

Health and Human Services gets \$22 million in additional funds for a total of \$707 million, an increase of 3.2%. This is the second largest component of the general fund budget, after education.

Other Notable Budget Items Include:

Primary Care Access Program, (part of HHS budget) proposes \$30 million to subsidize basic preventive health care for Idahoans who fall in the coverage gap between Medicaid and subsidized insurance under the State Insurance Exchange.

\$25,377,200 for post-secondary education to expand research initiatives, workforce development, and education opportunities;

and \$17,202,000 in FY 2016 and \$28,669,000 FY 2017 to conform to the federal tax code.

### **Transportation Funding**

Idaho Transportation Department Spending Authority Increase - \$58,237,800. Ongoing spending authority is provided for new user revenue generated in the State Highway Account related to the implementation of HB 132 and HB 312a.

Idaho Transportation Department Strategic Initiatives Program Fund - \$54,700,000. One-time spending authority in the Strategic Initiatives Program Fund related to FY 2015 surplus revenue is recommended, as outlined in HB 312a.

Idaho Transportation Department Federal Fund Increase - \$21,270,200. Dedicated and federal fund spending authority related to the Fixing America's Surface Transportation (FAST) Act is included. The FAST Act is a federal multi-year transportation bill that was signed on December 4th, 2015. It provides increased federal funding for highway transportation and safety

### **The Big Budget Picture**

Total State Revenues & Expenditures Stand at more than \$8 Billion:

- When accounting for total Idaho state revenues and expenditures, the total is \$8.37 and \$8.26 respectively, more than two and a half times the General Fund of \$3.3 Billion. Federal funds, dedicated funds and "other" funds bring the total to more than \$8 billion.
- Idaho receives \$2.9 billion in federal funds, not far below what the state brings in as part of our general fund revenue stream of \$3.3 billion.

General Fund Expenditures: Where the Money Goes – The Top Three Expenses

- Education accounts for 63% of the General Fund expenditures, totally more than \$2.1 billion.
- Health and Human Services accounts for 22% of general fund expenditures, totaling \$707 million.
- Public Safety accounts for 10% of the general fund budget, at \$337 million.
- General Government accounts for just 3.4% of general fund expenditures, totally \$113 million.

General Fund Revenues: Where the Money Comes From – Top Three Sources

- Individual Income Tax accounts for 47% of the total, at \$1.606 billion
- Sales tax accounts for 40% of the total, at \$1.345 billion
- Corporate Income tax accounts for 6.6% of the total, at \$222 million.