



## **Is Idaho's Budget Balanced?**

### *Observations about the FY2016 Executive Budget and Our Capacity to Fund State Needs*

Idaho is a fiscally responsible state with a proud history of balancing its budget. With revenue finally rebounding after a deep, damaging recession, Idaho finds itself behind on state investments. During the 2015 legislative session, lawmakers are poised to begin restoring cuts to schools and to seek new revenues for neglected roads and bridges.

While demand builds for restored public investments, there are also proposals to reduce the revenue stream. With a mix of competing proposals, it is a critical moment to examine whether Idaho's budget is meeting our state's basic needs: schools, colleges and universities, roads and bridges, and public health and safety.

When additional state expenses are included, the proposed executive budget for fiscal year 2016 does not appear to have room to implement the proposed tax cut of 0.5 percentage points for corporations and highest earning households without making cuts elsewhere. Nor is there room in the budget to fully fund broadly shared goals for education without generating new revenues or cutting other parts of the budget.

By foregoing the proposed cut to corporate taxes and income taxes for Idaho's highest earners, Idaho could bring another \$17.8 million to the table for this year's budget.<sup>1</sup> Taking advantage of federal dollars available to Idaho for health care assistance—through either traditional Medicaid expansion or the proposed Healthy Idaho Plan—would make another \$33.9 million available this year.<sup>2</sup>

#### **What expenses are not included in the proposed executive budget?**

Although we have firefighting costs every year (averaging \$10 million annually for the past decade), this ongoing expenditure is not routinely accounted for in the state budget. In 2014, fire suppression was particularly costly, at \$27.7 million.<sup>3</sup> These costs are usually paid during the following fiscal year. For example, the summer 2014 costs will be paid out of the FY2016 budget when specifically authorized by the 2016 Legislature. To ensure we have resources available when we need them, it would be prudent to budget for this cost each year.

The cancellation of the state contract for the Idaho Education Network, which provided broadband in high schools, may also result in additional costs. The proposed budget provides \$6.7 million in General Fund dollars to replace e-rate funds<sup>4</sup> (i.e. funds from the federal government) that are under review for the most recent year due to the cancellation of the state's contract (there could also be a liability in the neighborhood of \$13 million for prior years<sup>5</sup>). Idaho could also face costs from the lawsuit that Syringa brought against the state regarding how

the contract was managed. Syringa is claiming the company's losses are about \$22 million.<sup>6</sup> The company may try to recoup these claimed losses as well as legal expenses.

### **What would Idaho's ending balance be if it accounted for upcoming expenses?**

The executive budget has a proposed ending balance of approximately \$3 million.<sup>7</sup> But simply including the pending fire suppression costs leaves a \$24.7 million shortfall between the state's basic needs and the resources available to cover them. This demonstrates that there is no capacity in the General Fund to divert to other programs like education, public employee compensation, and roads and bridges.

### **How far does this budget go to restore education funding now and in future years?**

Educating our young people is one of the most critical investments we make toward our prosperity, both now and for the future. But school support has been declining in Idaho, leading to students spending fewer days in the classroom each year, cutbacks in course offerings, and difficulty in hiring and retaining teachers, among other problems. At our colleges and universities, declining state support has fueled rising tuition, while college enrollment among Idaho's high school graduates recently declined. At the same time, business leaders are sounding the alarm about the need for a better-skilled workforce.

For these reasons, there is wide support among policymakers for increasing state investments in education. The proposed executive budget would increase school funding by \$101 million or 7.4%.<sup>8</sup> To put that in perspective, the Governor's Taskforce for Improving Education proposed investing \$352 million to restore basic funding, along with other changes.<sup>9</sup> While the funding may be phased in over several years, it is unclear how this new revenue will be generated in future years.

Higher education did not fare nearly as well in the budget proposal. Colleges and universities requested an increase of 19.4%, but the executive budget provides only a 3% boost. Community colleges requested a 13.1% increase, but the executive budget proposes a bump of only 1.5%.<sup>10</sup>

The table below is intended as an illustration, within the FY2016 budget framework, of how longer-term proposals affect our balance. It shows the full impact of the proposed tax cut for corporations and top earners, to be phased in over five years: \$90.3 million is the remainder that the budget would ultimately have to absorb.<sup>11</sup> The table also shows the remaining cost to fully implement the recommendations of the Governor's Task Force for Improving Education.

### Illustration of Idaho's Capacity to Fund Commitments in Future Years

<b>Ending balance for proposed executive budget for FY2016</b>	<b>\$3,157,900</b>
<i>Additional Expenditures Not Yet Accounted For in FY2016</i>	
Fire suppression expenses accrued in 2014 <sup>12</sup>	\$ (27,700,000)
Potential liabilities from the Idaho Education Network contract	(Amount unknown)
<i>Additional Cost of Long-Term Revenue Costs, Investments</i>	
Additional cost of tax cut proposal when fully implemented	\$ (90,300,000)
Cost to complete roll-out of Education Task Force recommendations <sup>13</sup>	(\$208,900,000)
<b>Idaho's Adjusted Budget Position</b>	<b>(\$323,742,100)</b>

The negative balance of over \$320 million demonstrates how strained our state budget is. Further revenue cuts risk exacerbating this imbalance and may make it impossible to reach broadly shared goals around education investment.

### Will this budget reduce the gap between what state workers earn and market wages?

Maintaining the safety of our highways, managing our criminal justice system, and protecting our public health are some of the critical functions performed by our state workers. Fair wages that attract and retain effective workers keep our state running smoothly and prevent the high costs of employee turnover.

There has been concern about the growing gap between state worker pay and market wages. In the executive budget, the proposed salary increase for state workers is 3%.<sup>14</sup> That increase would happen after 1% of the increase from last year is taken away (because it was classified as a 'one-time' expenditure).<sup>15</sup> Therefore, state workers would effectively receive 2% more than last year, on average.

Currently, state workers earn 20% less than the market rate, which includes jobs in both the private and public sector (in the previous year, it was 19% less).<sup>16</sup> Since private sector wages are expected to increase by 3.7% over the next year, the gap between state wages and market wages would continue to grow. One out of five state employees made less than \$20,000 a year, and 56% made less than \$40,000.

The state does not have the revenue needed to begin closing this gap.

### Is funding for roads and bridges part of the executive budget proposal?

The state's investment in roads and bridges has always come out of a dedicated funding stream, mostly from gas taxes and vehicle registration fees. This level of funding has not kept up with maintenance needs for these investments. Further delays in repairing neglected roads and bridges mean higher costs in the future. While some have proposed that we begin diverting General Fund dollars to pay for transportation, there is no capacity to do this without making significant cuts to other investments, namely education.

## Are there available dollars that could balance Idaho’s budget this year?

By foregoing the proposed tax cuts of \$17.8 million this year and realizing the \$33.9 million in savings available through the proposed Healthy Idaho Plan, the budget would have a positive ending balance (although we cannot account for potential costs from the Idaho Education Network’s contract issues). See table.

### Potential FY2016 Ending Balance for FY2016 with Additional Leveraged Dollars

<b>Ending balance for proposed executive budget for FY2016</b>	<b>\$3,157,900</b>
<i>Additional Expenditures Not Yet Accounted For</i>	
Fire suppression expenses accrued in 2014	(\$27,700,000)
Potential liabilities from the Idaho Education Network contract	(Amount unknown)
<i>Additional Funds Available for FY2016</i>	
Restored cost of the first year of the tax cut proposal	\$17,800,000
Savings leveraged by using federal dollars for the Healthy Idaho Plan (these decline over time)	\$33,900,000
<b>Idaho's Potential Adjusted Budget Position</b>	<b>\$27,157,900</b>

## Concluding Remarks

Each year state lawmakers must reconcile competing priorities and make difficult budget decisions. Using public dollars wisely to make prudent investments in the foundations of our state economy will maximize our prosperity and wellbeing—now and in the future. Now that Idaho revenues are rebounding, lawmakers are in a good position to better fund schools and to address our neglected infrastructure. However, the proposed budget leaves Idaho short on the funds needed to deliver the services that businesses and residents expect. Adjustments must be made to the current budget if Idaho is going to cover necessary expenses without tapping reserve funds. Additional cuts to revenue could jeopardize widely shared goals for our state, including education investment.

- 1 FY 2016 Executive Budget Section, A – 27, Budget Summary. Available at: <http://dfm.idaho.gov/fy2016/eb/sectiona/govrecommendation.pdf>.
- 2 Milliman, Diederich, Ben, “Idaho Medicaid Expansion Population and Cost Forecast Including Option 3.5.” November 14, 2014. Available at: <http://www.healthandwelfare.idaho.gov/Portals/0/AboutUs/Newsroom/Milliman%20Actuarial%20Analysis.pdf>.
- 3 FY 2016 Idaho Legislative Budget Book. Section 4 – 39, Board of Land Commissioners Department of Lands. Available at: <http://legislature.idaho.gov/budget/publications/LBB/current/LBB.pdf>.
- 4 FY 2016 Executive Budget Detail. Section F – 21, Administration, Department of Idaho Education Network. Available at: <http://dfm.idaho.gov/fy2016/ebd/generalgovt/administration.pdf>.
- 5 Legislative Services Analysis estimate provided on November 18, 2014.

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- 6 Richert, Kevin, Idaho Ed News. "CEO: Syringa will respond to broadband contract rebid." January, 20, 2015. Available at: [http://www.idahoednews.org/news/ceo-syringa-will-respond-to-broadband-contract-rebid/#.VOVyL2jF\\_sY](http://www.idahoednews.org/news/ceo-syringa-will-respond-to-broadband-contract-rebid/#.VOVyL2jF_sY)
  - 7 FY 2016 Executive Budget Section, A – 27, Budget Summary. Available at: <http://dfm.idaho.gov/fy2016/eb/sectiona/govrecommendation.pdf>.
  - 8 FY 2016 Executive Budget Section, A – 31, Budget Summary. Available at: <http://dfm.idaho.gov/fy2016/eb/sectiona/govrecommendation>
  - 9 FY 2016 Idaho Legislative Budget Book, Section 1 – 6, Public School Support. Available at: <http://legislature.idaho.gov/budget/publications/LBB/current/LBB.pdf>.
  - 10 FY 2016 Executive Budget Section, A – 31, Budget Summary. Available at: <http://dfm.idaho.gov/fy2016/eb/sectiona/govrecommendation.pdf>.
  - 11 Kyle, Zach. Idaho Statesman. "Otter proposes corporate and personal income tax cuts for Idaho." January 13, 2015. (Reported figures provided by the Idaho Division of Financial Management). Available at: <http://www.idahostatesman.com/2015/01/13/3588295/otter-proposes-income-tax-cut.html>.
  - 12 FY 2016 Idaho Legislative Budget Book. Section 4 – 39, Board of Land Commissioners Department of Lands. Available at: <http://legislature.idaho.gov/budget/publications/LBB/current/LBB.pdf>.
  - 13 FY 2016 Idaho Legislative Budget Book, Section 1 – 6, Public School Support. Available at: <http://legislature.idaho.gov/budget/publications/LBB/current/LBB.pdf>.
  - 14 FY 2016 Executive Budget Section, A – 27, Budget Summary. Available at: <http://dfm.idaho.gov/fy2016/eb/sectiona/govrecommendation.pdf>.
  - 15 Russell, Betsy. The Spokesman-Review. "Eye on Boise: State employees' pay lags further behind." January 4, 2015. Available at: <http://www.spokesman.com/stories/2015/jan/04/eye-on-boise-state-employees-pay-lags-further/>
  - 16 Russell, Betsy. The Spokesman-Review. "Eye on Boise: State employees' pay lags further behind." January 4, 2015. Available at: <http://www.spokesman.com/stories/2015/jan/04/eye-on-boise-state-employees-pay-lags-further/>