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UNPREPARED IDAHO

WHY D.C.'S NEXT BUDGET CRISIS IS OUR PROBLEM

How Idaho's growing dependency on money from Washington, D.C., threatens the state and its citizens and what policymakers can do about it.

FINANCIAL READY IDAHO

Unprepared Idaho

Why D.C.'s next budget crisis is our problem

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Executive summary

Idaho's dependence on federal money has nearly doubled in 10 years, and state policymakers are unprepared should Washington, D.C., withhold funds or stop spending money in support of state programs. That reality came into focus in January, when lawmakers learned that thousands of Idaho schoolchildren risk losing access to distance learning services through the Idaho Education Network, because the federal government is withholding $14.5 million to keep the system running. Today, the potential impact is on our school system, but because of the sheer volume of federal money entering the state system, the lack of oversight and opaque accounting, other programs are at risk, and Idahoans—young and old, urban and rural—are vulnerable.

Even though Gov. Butch Otter ordered agencies to prepare "an action plan" in the event of a 20 percent cut in federal support, agencies didn't do that, and there's been little follow-up since. To the contrary, the state's reliance on federal money and various grants has grown, and likewise, have concerns about the long-term stability of federal funding sources, concerns about federal budget "sequesters," budget deficits, trillions of dollars in federal debt and continued political brinkmanship over the U.S. government debt limit and ongoing obligations.

The vulnerability is compounded by the state's lack of definitive information about the risk:

- No one knows the number of state employees who receive all or part of their salaries through federal grants.
- Once the federal grants are gone, state taxpayers will still be obligated for accrued pension costs during the lifetime of the employees who earned their pay in part using federal assistance.
- Idaho law gives agencies broad powers to apply for and accept federal grants.
- About a third of the federal money received in the state gets no state legislative scrutiny at all; an unknown amount of money avoids legislative appropriation, although the money is utilized by state agencies, schools and programs.
- The Legislature has little say regarding federal grants received outside the legislative session.

Simple public policy changes would allow lawmakers to be prepared for the possibility of a reduction in federal funding. Such systematic preparation and evaluation of state spending would allow lawmakers to see all the federal money coming into the state, measure the impact of possible cuts and then take appropriate action in the best interests of their constituents.

It is recommended that lawmakers:

- Consider legislation that would bolster legislative control over grants, first by identifying all the grants received on an ongoing basis, the exact statutory authority associated with the receipt and expenditure of grants and the impacts associated with a discontinuation of federal funding.
- Curtail the power of agencies to accept grants outside the normal legislative process, particularly when those grant awards are not tied to an emergency.

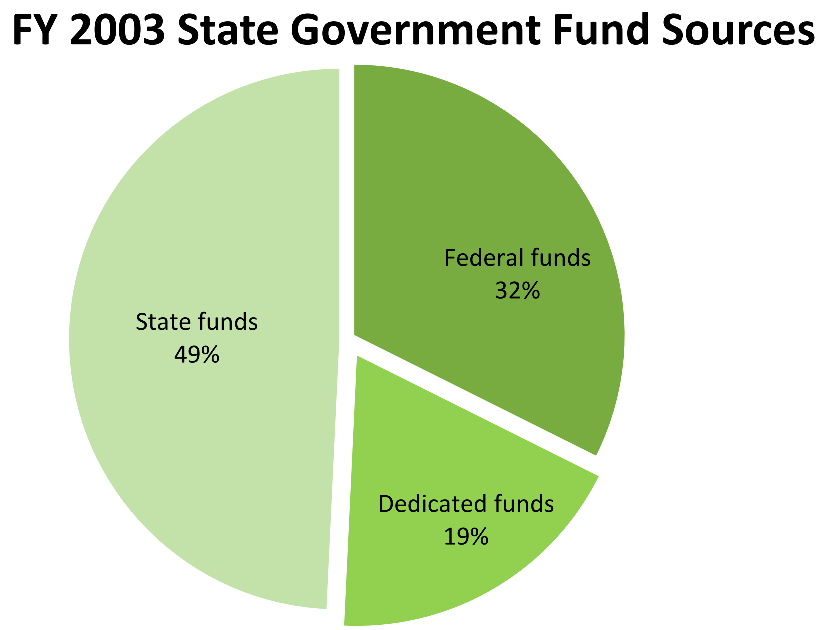
- Instruct agencies to determine the extent to which payrolls are augmented through the use of federal funds.
- Determine the possible consequences to the state pension program should some or all federal funds used for personnel disappear.
- Refine accounting processes to make it easier to track federal funding within the budgets of state agencies where federal funding is "pooled" with state general fund receipts, as is the case with the Department of Health and Welfare.
- Begin identifying federal funds that flow outside the state budget process, but still have an impact on state-funded agencies, programs and obligations, such as is the case with the Idaho Education Network.
- Develop contingency plans in the event of a reduction in federal funds, including an evaluation of the necessity of current programs and the development of alternative funding arrangements in the event federal funds are cut or are eliminated.

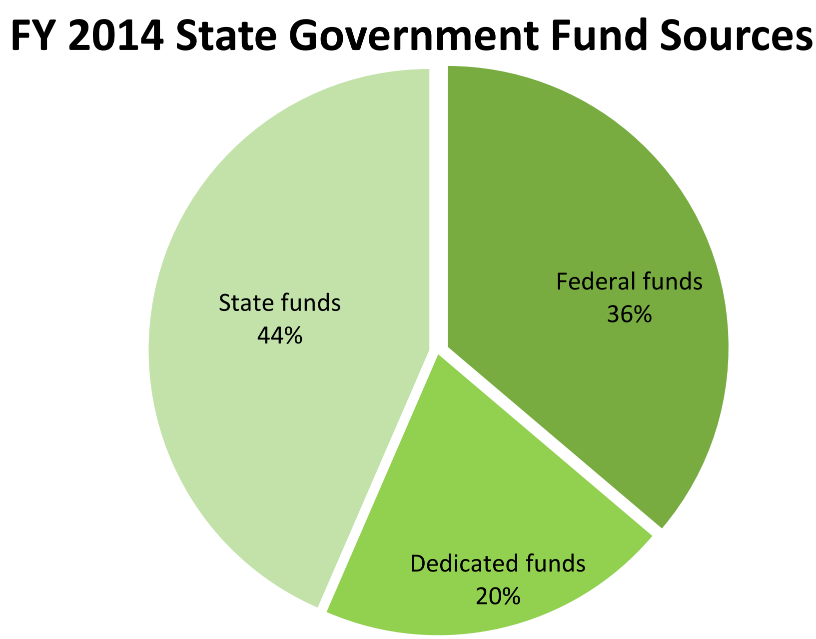
Introduction

Though known for its adherence to the principles of Western independence, Idaho is increasingly dependent on the federal government as a primary funding source.

The state's reliance on federal funding has grown almost 82 percent since 2003.[1] While just 10 years ago, the Legislature appropriated $1.2 billion in federal funds, today the Legislature appropriates more than $2.3 billion.[2] Gov. C.L. "Butch" Otter's budget proposal for 2014-15 calls for the state to boost federal spending yet again: by 2.2 percent to more than $2.4 billion.

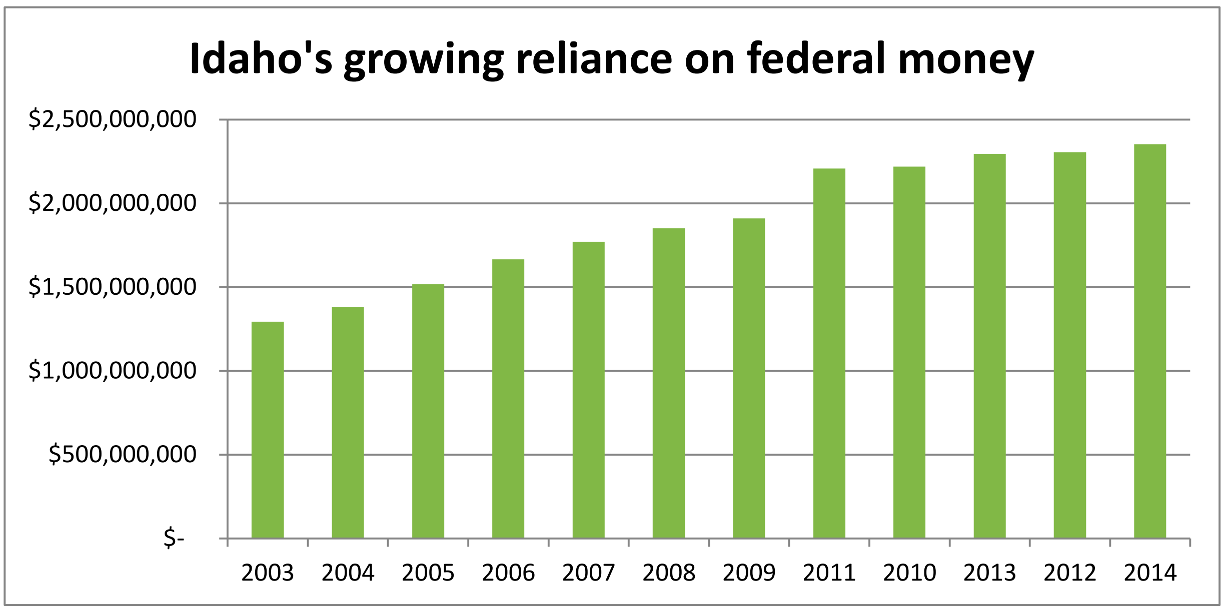
Typically, the federal portion of the state budget receives little or no attention. While trends for general fund appropriations are covered in multi-year detail in executive and legislative budget books, there is no one-stop comparison for Idaho government acceptance of federal money in the government's primary budget documents provided to lawmakers each year.





Furthermore, the office of the state controller, whose office maintains the state's government transparency website, reports that the state received $804 million from the federal government in FY 2013.[3] This, of course, represents a difference of $1.5 billion, not including those federal programs for which the Legislature does not appropriate money on an annual basis, namely food stamps and unemployment insurance benefits. And if one is to rely on the state controller's data, it would be easy to conclude the state's reliance on federal money is not a problem; in FY 2012, the state controller says the state received $880.5 million from the federal govenrment, indicating a downward trend regarding federal receipts in the state, which is simply not true.

The reason for the discrepency between actual federal receipts and the report by the state controller is likely because federal monies allocated to the state Department of Health and Welfare are pooled with general tax receipts in the state's Cooperative Welfare Fund. Federal money is magically re-labeled, and the issue appears to be less than it really is.



Advocates for continued high levels of federal spending argue that Idaho is merely appropriating money that Idahoans have paid to the national government via federal income taxes. Similarly, advocates for federal spending contend that the money "would get spent anyway," just in some other state, and the federal funds meet a "need" that would otherwise go unmet.

But this dependence on a federal supply of money puts Idaho in a precarious position. It is impossible to project when federal dollars will be withheld, either because of action or inaction on the part of politicians in Washington, D.C., or as a result of disagreement with federal agencies or officials.

Recent history proves this is the case. In late January, lawmakers learned that the Federal Communications Commission was withholding $14.5 million needed to continue the Idaho Education Network.[4]

Indeed, even after the state stops accepting federal funding, the state is left with a ticking time bomb of cost to taxpayers, the effects of which may not be known until it is too late.

Furthermore, federal funding often causes the state to engage in programs or projects it might otherwise choose to avoid, as well as cause agencies to administer programs not allowed or authorized by state law. Some grants position the state to engage in policies that are contrary to state statute.

Finally, the state finds itself funding paying higher costs for projects because of attached federal edicts, and contractors who work with the state are also vulnerable to federal requirements.

It's also important to note that a recent survey of Idahoans finds that the public strongly disagrees with budgeting that puts the state at the mercy of the federal government, and a supermajority of those surveyed said the federal government should have less influence over Idaho politicians.

The pension time bomb

To understand one of the most troubling components of Idaho's acceptance of federal funds, one must understand how the state's pension system works. In short, most state agencies participate in the state pension program known as the Public Employees Retirement System of Idaho (PERSI).[5] PERSI is a defined benefit program, meaning, unlike 401(k) programs wherein the employee has specific assets in a retirement account, employees are compensated in retirement with a set monthly stipend throughout their retirement years. Those monthly checks are calculated on an employee's highest 42 months of salary.[6]

As a percentage of the entire state budget, Idaho depends on federal money more today than it did 10 years ago

For example, a general state government employee earning $60,000 a year and completing 10 years of employment with state government would end up with a monthly retirement stipend of $1,000. But if that employee's salary were boosted by a federal grant to, say, $80,000 a year, that pension would be $1,300 per month. During the course of 20 years in retirement, the pension system would pay out another $72,000 in benefits, not counting any cost of living adjustments that may be awarded by the PERSI board.

These larger benefits are paid out long after the federal grant has gone away, and it is up to taxpayers and employees to keep the pension system solvent with their contributions to PERSI.

Also problematic: No one knows for sure, in full detail, how many state employees are funded at some level via a government grant. The data, at present, may be impossible to come by. According to the Legislature's budget office, 1,314 employees are funded in some part through the federal government via $187 million in appropriated dollars.[7]

This, however, does not fully account for personnel in agencies who are continuously appropriated and, therefore, not subject to the traditional monitoring of the state Legislature's budget analysts. Nor does it apply to the federal-heavy state Department of Health and Welfare. That's because employees in that agency are not counted as federally funded, rather funded via a pooled "dedicated" fund account.

However, about half the agency's funding comes from the federal government, meaning it is possible to conclude that, similarly, half the agency's more than 2,600 employees receive some form of federal funding.

According to the Legislature's budget data, 27 of 44 agencies depend on federal money as part of their personnel budgets.

27 of 44 Idaho agencies depend on federal money as part of their personnel budgets … but it is hard to know exactly how many employees receive part of their paychecks from federal coffers.

Further complicating matters is the fact that the governor's Division of Financial Management (DFM) says that the number of federally funded state employees is 2,013.[8] Like the Legislature's data, it too does not include a tabulation of federally funded positions at the Department of Health and Welfare. DFM's data also indicate that only six agencies of state government do not have federal money going to pay employees.

While the pension problem is a looming concern on Idaho's distant horizon, a more immediate impact may come from those agencies with employees whose paychecks are suddenly no longer supported by a federal income stream. State taxpayers could be asked to make up for the loss in federal revenue in order to keep payrolls from dipping.

State agencies administer hundreds of grant programs

As of June 30, 2012, Idaho state agencies depended on or administered 440 separate federal grants covering a wide assortment of subjects.[9] The threat of federal spending cuts prompted the Otter administration, in the summer of 2012, to ask agencies to inventory their federal programs. The administration wanted a brief description of each program as well as to "specify the consequences to the state of Idaho of potential funding reduction/grant elimination."[10]

As this effort was under way, the governor said he was directing agencies to report what would happen in the event of a 20 percent reduction in federal funds.[11]

Neither the administration nor the Legislature has taken action as a result of the inventory; the request to prepare a plan for a 20 percent cut in spending was not truly fulfilled; agencies indicated which federally funded programs were larger priorities than others. However, the inventory does reveal some interesting information about state government activities.

In most cases, agencies found that their federal funding was utterly indispensable. Many agencies listed every grant program as "Priority 1." Others used different terms to indicate the value of their programs. For example, the Department of Environmental Quality (DEQ) divided its grants into four categories, three of which connote value: Critical, vital, significant.

Critical programs were identified as those that would require state funds to continue should the federal dollars go away. They're billed as "core programs" of the department. For example, the DEQ said that its federally funded air quality monitoring program is of critical importance: "Reductions to this grant could result in limiting DEQ's monitoring program below EPA-delegated requirements. This would result in the EPA assuming responsibility for air quality monitoring in Idaho."[12]

Vital grant programs, the DEQ said, were those that comprise "agreements for additional program activities ensuring human health and environmental protection," of which the loss of funding would result in the "possible need" to request state funding. Significant grants were "projects and pass through agreements" that might impact the ability to deliver services.

The final category of grant identified by the DEQ was "non-reoccurring"—those grants that are of a one-time nature only. Unlike other agencies of state government, DEQ did not identify grant programs that were superlative to the agency's mission or goals.

But even some of those "non-reoccurring" grants shed light on how state agencies experience mission creep as a result of federal government support. One grant, for example, was for the Idaho Clean School Bus Campaign. The program and its $85,000 expenditure called for the department to install "pollution reduction devices … on 16 school busses in areas of Idaho with non-attainment or exeedences (sic) of the National Ambient Air Quality Standards (NAAQS)."[13]

Another non-reoccurring grant, totaling $2.1 million, allowed the agency to monitor wetlands.[14] The wetlands grant promised to "lay the groundwork for improving DEQ's and the state's capacity to monitor and assess wetlands by providing statewide data."[15] The program also promised to interface with the state's wetland conservation strategy.

Neither the wetland nor the clean school bus program is expressly authorized by state statute. Indeed, Idaho law has few references to wetlands—only in conjunction with the placement of electrical transmission, swine and solid waste facilities.[16]

However, previous Legislatures and governors have granted DEQ wide latitude to decide what grants to accept or not accept. Idaho law specifically says the agency director "shall have the power to apply for, receive on behalf of the state, and utilize any federal aid, grants, gifts, gratuities, or moneys made available through the federal government including, but not limited to, the federal water pollution control act, for use in or by the state of Idaho in relation to health and environmental protection."[17]

Similar language occurs in the statute granting powers to the Department of Health and Welfare: "The director, when so designated by the governor, shall have the power to apply for, receive on behalf of the state, and utilize any federal aid, grants, gifts, gratuities, or moneys made available through the federal government."[18]

Simply put, either agency would need to self-censor its grant application processes in order to limit its use of federal money. Additionally, the permissive wording of the statute may encourage grant application, rather than discourage it.

Nonetheless, other agencies with less permissive grant-making authority also acquire federal grants that are a departure from their responsibilities. The state Department of Agriculture utilized a $54,000 grant "aimed at educating the public about the dangers of transporting infested firewood, encouraging citizens to purchase and burn local firewood and promoting businesses providing and selling firewood." The department has no role in the regulation of firewood, although it does have some responsibility for invasive pests.[19]

Some federally funded programs may have well-defined purposes that would, ordinarily, win support from lawmakers and the public alike, and that are in closer alignment with state government functions. For example, the state attorney general collected $809,000 in FY 2013 to investigate Medicaid fraud and patient abuse.[20] The attorney general's office said a cut in funding would likely mean a cut in staffing, since most of the money is used for personnel. Another program funded through the attorney general's office provided almost $236,000 to investigate child exploitation.[21]

Likewise, the State Board of Education administers more than $2.3 million in grants aimed at helping low-income students get a college education.[22]

Such funding is at risk in the event the federal government reduces or discontinues funding.

Agencies re-examine grants, keep possession of details

In the fall of 2013, in anticipation of a federal government shutdown, the Otter administration, once again, asked state agencies to prepare a list of all the federal funds they receive and identify spending priorities. Rather than keep those plans with the governor's budget office, the agencies were instructed to retain possession of those plans.[23] That means Idahoans who are interested in the strategies and priorities of the state agencies must request the documentation from each agency. Some agencies require citizens to complete official public records requests before providing the information.[24]

Still, agencies struggled predicting what might happen in the event of a government shutdown and the prolonged impacts. The state Department of Education, in a memo to the governor's budget office, pondered the consequences even to the processing of reimbursement for federally funded programs, writing, "We don't have a definitive answer whether the financial systems and the federal employees that run them will be operational to process the reimbursement requests. Significant delays will create a cash flow burden for the (Department of Education) and (school) districts. Backlogging requests for reimbursement may create further issues."[25] The department worried specifically about the possibility that it wouldn't receive $6 million in federal government reimbursements for child nutrition and other federal programs.[26]

But while the state Department of Education reported 51 grant programs totaling more than

$215 million, the agency did not include $21 million that occur outside the Legislature's budgeting process. Indeed, those federal fund sources—including federal forest funds and Indian education funds—provide money to 96 of 159 public school districts and charter schools. Most impacted by potential federal funding irregularities would be the Mountain Home School District, home to an Air Force base. The school receives $2.1 million in federal money that does not pass through the state government.

Lawmakers can't measure the value of grants they don't see

One reason federal grant programs may be alluring to a state agency is Idaho has a process to avoid legislative scrutiny for such spending. Those grants deemed "non-cognizable" do not require advance spending permission from the Legislature. Cognizable means, essentially, those items or issues known or available for consideration. Non-cognizable would be those grants unknown to the state or unavailable for consideration or action by lawmakers.

State law says, "Funds available to any agency from sources other than state funds, if not cognizable at the time when appropriations were made whether state fiscal liability is increased or not, must have prior approval of the administrator of the division of financial management and the board of examiners in order that funds may be expended, except those funds received under such conditions that preclude approval by the administrator of the division and/or the board of examiners."[27]

The amount of grants approved as a "noncog"—as budget writers like to call them—varies from year to year. In 2013, some $26 million escaped legislative review.[28] A similar amount was expected for FY 2014.This is typical for recent budget years, but not so long ago, FY 2011 and 2012, the state processed $250 million and $132 million in grants outside the normal appropriations process. This was in conjunction with the state's acceptance of federal stimulus money. However, the acceptance of such funding has implications for legislative budget writers and policymakers years into the future. Such funding ties the state to so-called "maintenance of effort" requirements that could impact budgeting and policy decisions years into the future.[29]

A note on Medicaid

But the bigger problem for Idaho lies in the acceptance of federal money for massive welfare and entitlement programs that gives the state little to no control and dictates how they operate. Additionally, legislative budget writers are often confused by requests for additional funding for general fund matching funds. One example comes from the state's Medicaid program, where the federal government pays about 70 percent of the cost associated with clients and Idaho picks up the remaining 30 percent.

The U.S. Supreme Court's decision in the Obamacare case allows states to decide whether to expand the state-federal partnership program or not.[30] Medicaid clients added under the expanded system are covered with full funding through the federal government through 2016, and then up to 90 percent thereafter. This funding, however, does not cover additional administrative costs.

Idaho, so far, has not elected to expand Medicaid. However, the state is accepting new Medicaid clients anyway. This expansion is achieved by using marginally adjusted gross income (MAGI) to determine the eligibility of potential Medicaid clientele. Under MAGI, some 70,000 Idahoans were expected to be added to Medicaid, without Idaho lawmakers making any kind of shift whatsoever in policy.[31]

Federal aid has consequences for the state and businesses

It is no secret that Idaho depends on a large infusion of federal money for transportation infrastructure. Like other states, Idaho receives more money out of the federal transportation trust fund than it contributes, about $1.70 for each dollar received by the trust account, according to the U.S. Government Accountability Office (GAO).[32]

This factor has no doubt contributed to Idaho being one of 18 states not using general funds as a source of transportation funding.[33] But in relying on federal funds, state policymakers need to understand that they're also artificially increasing the cost of transportation projects, leaving less money available to make repairs or pour fresh concrete.

The GAO has concluded that states accept, through their use of federal money, all the bureaucracy, paperwork and payout requirements that come with it.[34] The GAO noted that states do not track the costs or benefits of accepting federal money. Idaho is among those states not delineating specific costs required to comply with federal mandates, although those mandates are widely understood, largely covering labor, environment and procurement areas.

One of the larger regulatory areas is in wages, the federal Davis-Bacon Act specifically mandating the use of prevailing wages in construction projects. Idaho doesn't know the impact of such federal requirements, according to the Idaho Transportation Department (ITD).

"Approximately 90 percent of the ITD construction program is paid from federal funds. As a result, the projects are bid using federal requirements that include Davis-Bacon wages," said Mel Coulter, ITD communications specialist. "However, ITD does not bid the same project to be built using federal funds and again using state funds. While we know that Davis-Bacon wages apply, ITD does not have the data to compare on a project by project basis."[35]

But states do report, anecdotally, the compliance challenges that come with the acceptance of federal money.

The GAO noted as much in its report: "According to transportation officials and contractors, administrative tasks associated with the federal requirements pose challenges. For example, analyzing impacts and demonstrating compliance with NEPA requires extensive paperwork and documentation. State officials also said that coordinating with multiple government agencies on environmental reviews is challenging, in part because these agencies may have competing interests."

Idaho specifically identified the issues associated with federal requirements in interviews with GAO auditors:

"Idaho DOT officials said that for some projects designated as categorical exclusions, where the projects were expected to have no significant impact, they had to prepare the same amount and level of documentation as for projects requiring more complex (environmental reports), which requires a longer and more detailed process than categorical exclusions because the environmental impact, if any, needs to be determined."[36]

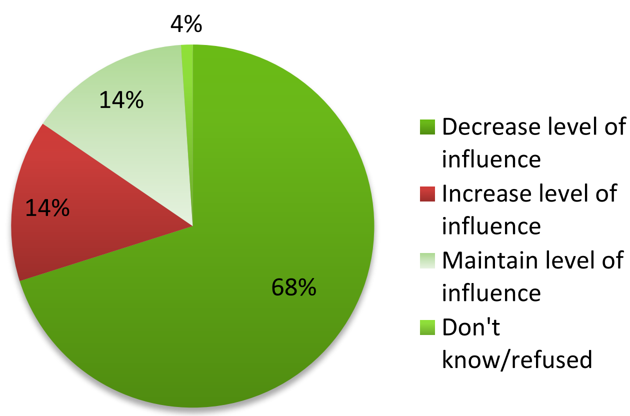
State regulators aren't the only ones impacted; private sector contractors also have to comply with the requirements for wages, as noted, again, by the GAO: "Contractors in Idaho agreed with Florida DOT officials, stating that although they pay employees the market rate (which is higher than the Davis-Bacon prevailing wage rate), they still have to adhere to Davis-Bacon prevailing wage paperwork requirements, which is costly and time-consuming to complete and submit."[37]

Idahoans support reducing reliance on federal dollars

By an overwhelming majority, Idahoans support initiatives to prepare for reduced funding from Washington, D.C. In a poll of 500 registered voters conducted Jan. 20-22, 2014, some 91 percent of respondents said it is somewhat or very important for Idaho to be prepared for the possibility that federal money coming to Idaho will decline.[38]

Additionally, surveyed Idahoans believe federal money is almost never free. Asked whether federal funds come with strings attached, 90 percent of survey respondents either strongly or somewhat agreed.[39] Conversely, only 42 percent said federal spending reflects the values of Idahoans.[40] A supermajority of Idahoans, 68 percent, said the federal government should have less influence over state lawmakers.[41]

Poll: Would you like to increase, decrease or maintain the level of influence the federal government has over Idaho's state legislators in Boise?



Recommendations

The easiest action for Idaho lawmakers to take would be to simply reject additional federal grants or the administration of federal programs. However, as noted, Idaho already accepts a wide assortment of grants covering multiple topics. Some of those programs are tied mightily into the existing operational infrastructure of state government.

Still, lawmakers have an opportunity to begin loosening the federal government straightjacket and removing the stranglehold that the federal government has over current government operations and future generations of Idahoans. Utah began working to this end in 2013, and the effort is already bearing fruit, with a state auditor recently warning that "given the recent partial shutdown and the budget turmoil in Congress, Utahns should consider the concerns raised by such a significant amount of funding dependent on a single source with such fiscal dysfunction."[42]

The warning was made possible by the Utah Legislature's creation of a special commission to study the risks associated with the loss of federal funds and state dependency on that money. The Legislature also passed a concurrent resolution calling on state and local policymakers to "assess the risks from any reductions of federal funds to the state of Utah and its political subdivisions and urges political subdivisions across the state to adopt and implement comprehensive financial risk management measures as soon as possible."[43]

An amendment to the governor's budget proposal calls on the governor to take into account federal funding as well as the risk of changes to federal funding. [44]

Idaho could follow suit, or adopt other legislation making it possible to control, monitor, assess and curtail the use of federal money and the state's dependency on an unreliable funding source.

1. Pass legislation that formalizes the review process for new grants. That review should determine, at a minimum, what the grants received by the state are, whether the state will be able to discontinue a federally funded program at any time and what contingency arrangements have been made or need to be made in the event the federal government stops funding the program. The American Legislative Exchange Council has model legislation on this topic. (See Appendix B).

2. Refine statutes to give less power to agencies and their directors to accept federal grants. The acceptance of a grant is a major commitment on the part of a state government, and as such, broad powers allowing an agency official to apply for and accept a grant should be curtailed, providing lawmakers with adequate opportunity to make a decision. The process to accept "non-cognizable" grants should be limited to emergencies only. Under current law, the Legislature is cut out of the decision-making process whenever a grant is presented from the Legislature's adjournment to the start of the next session. Federal bureaucrats understand when lawmakers are in session, and thus, can avoid key oversight from lawmakers by making an award during the off-season.

3. The Legislature's budget committee should instruct state agencies to get a handle on the impact of federal funds on salaries, determine the number of affected state employees by department as well as the impact on wages. Additionally, the budget panel should instruct the state pension program to determine what the impact would be should the state's receipt of federal money in support of payroll be cut in the near term.

5. Agencies should be instructed to re-review the grants they are receiving and identify the specific statutory responsibility that is being met through the acceptance of a grant. The governor and the Legislature's germane committees should review those reports during the 2015 legislative session, and include the information in their reports to the budget committee.

6. The Legislature should evaluate "pooled" funding at the Department of Health and Welfare, wherein federal and state funds are combined in a single "dedicated" fund account, making it difficult to fully evaluate the extent to which federal monies are impacting employee pay and other internal operating costs.

7. The state—either the legislative branch, executive branch or both—should create a mechanism to get a handle on grants that flow *directly to state agencies, programs or school districts that bypass the state budget process. Examples include the $21 million going to school districts directly and the $14.5 million from the Federal Communications Commission used to pay for high speed broadband Internet to Idaho public schools.*

Appendix A

Utah SCR 7, Concurrent Resolution to Reduce Utah's Dependence on Federal Funds

General Description:

This concurrent resolution of the Legislature and the Governor supports the Financial Ready Utah enterprise risk management process to assess the risks from any reductions of federal funds to the state of Utah and its political subdivisions and urges political subdivisions across the state to adopt and implement comprehensive financial risk management measures as soon as possible.

Be it resolved by the Legislature of the state of Utah, the Governor concurring therein:

WHEREAS, the Legislature of the state of Utah declares that the nation's fiscal recklessness poses a great, clear, and present threat to America's future;

WHEREAS, David Walker, former Comptroller General of the United States warns "The most serious threat to the United States is not someone hiding in a cave in Afghanistan or Pakistan, but our own fiscal irresponsibility";

WHEREAS, the federal government is now in its fourth year of not passing a budget; WHEREAS, the national debt has now surpassed $16.4 trillion, more than $136,000 per household;

WHEREAS, annual deficits have exceeded $1 trillion for each of the last four years, and unfunded obligations for social programs now exceed $85 trillion, with no apparent Congressional resolution on the horizon;

WHEREAS, it took 200 years for the United States to accumulate the first trillion dollars in debt and only 286 days to accumulate the most recent trillion;

WHEREAS, $85 billion per month of the national debt and annual deficits are now offset through Federal Reserve operations such as "quantitative easing" and "operation twist";

WHEREAS, more than 40 cents of every dollar the state of Utah spends comes from the federal government that borrows and prints more than 40 cents of every dollar it sends to Utah;

WHEREAS, last New Year's Eve, the United States Congress merely delayed until March 1, 2013, the implementation of the automatic cuts or "sequestration" of 8-9% of federal discretionary spending, including funds to state and local governments, and 10% of military spending under the Budget Control Act of 2011;

WHEREAS, in its recently released audit of the Federal Government's financial statements, the Government Accountability Office declared, "Over the long term, the structural imbalance between spending and revenue will lead to continued growth of debt held by the public as a share of GDP [Gross Domestic Product]; this means the current structure of the federal budget is unsustainable";

WHEREAS, this fiscal scenario is by all accounts unsustainable for the nation as well as for our state;

WHEREAS, in May 2012, the American Institute of Certified Public Accountants, in its review of the federal government's most recent annual financial statements, warned, "The U.S. is not exempt from the laws of prudent finance. We must take steps to put our financial house in order. The credit rating agencies have recently issued renewed warnings of U.S. credit downgrades unless substantive reforms are made. Our current fiscal policy results in mortgaging our nation's future without investing in it, leaving our children, grandchildren and future generations to suffer the consequences. This is irresponsible, unethical and immoral";

WHEREAS, restoring fiscal sanity and sustainability is at the heart of jumpstarting economic growth and fostering a business climate where companies can grow and begin to hire; and

WHEREAS, absent credible actions to address this fiscal irresponsibility, uncertainty will continue to dominate business decision making and economic recovery will languish:

NOW THEREFORE BE IT RESOLVED that the Legislature of the state of Utah, the Governor concurring therein, wholeheartedly supports the Financial Ready Utah initiative of fostering within the state of Utah an enterprise risk management process to assess the immediacy, severity, and probability of risks from any reductions of federal funds to the state of Utah and how the state will marshal its resources, both human and capital, to prioritize and provide the most essential government services.

BE IT FURTHER RESOLVED that the Legislature and the Governor strongly urge local, state, and national representatives to take immediate and sustained action to eliminate deficit spending and secure economic self-reliance to the state of Utah and to the United States.

BE IT FURTHER RESOLVED that the Legislature and the Governor strongly urge the President of the United States and the United States Congress to pass a budget each year and adopt a credible and sustainable plan to balance those budgets.

BE IT FURTHER RESOLVED that the Legislature and the Governor strongly urge Utah's towns, cities, and counties to adopt and implement comprehensive financial risk management measures as soon as possible.

BE IT FURTHER RESOLVED that copies of this resolution be sent to the Attorney General of the United States, the President of the United States, the Majority Leader of the United States Senate, the Speaker of the United States House of Representatives, the Utah Association of Counties, the Utah League of Cities and Towns, Financial Ready Utah, the Utah State Chamber of Commerce, the Utah Board of Regents, the Utah State Board of Education, and the members of Utah's congressional delegation.

Appendix B

Federal Receipts Reporting Requirements Act

This bill requires all state agencies and political subdivisions to disclose (i) total federal receipts; (ii) the percentage such receipts are of their respective budget, and (iii) what their specific contingency plan is if federal receipts are diminished.

Model Legislation, with changes specific to Idaho

{Title, enacting clause, etc.}

Section 1 {Title} This act may be cited as the Federal Receipts Reporting Requirements Act.

Section 2 {Definitions.}

(A) As used in this section:

(1) "Designated state agency" means the [list state departments].

(2) "Designated state agency" does not include the judicial branch, the legislative branch, or an office or other entity within the judicial branch or the legislative branch.

(3) "Political Subdivision" means [list political subdivisions].

(4) "Federal receipts" means the federal financial assistance as defined in 31 U.S.C. Sec. 7501, that is reported as part of a single audit, as that section existed on Jan. 1, 2014.

(5) "Single audit" is as defined in 31 U.S.C. Sec. 7501, as it existed on Jan. 1, 2014.

Section 2 {Federal Receipts Reporting Requirements.}

(A) Designated state agencies and political subdivisions shall each year, on or before October 31, prepare a report that:

(1) reports the aggregate value of federal receipts the designated state agency or political subdivision received for the preceding fiscal year;

(2) reports the aggregate amount of federal funds utilized by the designated state agency or political subdivision for the preceding fiscal year. The report shall include all federal funds appropriated by the Legislature, continuously appropriated and any programs supported by federal funds, the loss of which may impact the continuity or delivery of services;

(3) identifies any obligations, agreements or memoranda of understanding that may be impacted by federal or state decisions regarding federal receipts;

(4) calculates the percentage that constitutes federal receipts of the total budget for the designated state agency or political subdivision received for that fiscal year; and

(5) develops a plan(s) for operating the designated state agency or political subdivision if there is a reduction of:

(a) 5 percent or more in the federal receipts that the designated state agency or political subdivision receives; and

(b) 25 percent or more in the federal receipts that the designated state agency or political subdivision receives.

(B) The designated state agencies and political subdivisions shall submit the report to the [Division of Finance] on or before November 1 of each year.

(C) (1) The [Division of Finance] shall, on or before November 30 of each year, prepare a report that:

(a) compiles and summarizes the reports the [Division of Finance] receives in accordance with Subsection 2(B); and

(b) compares the aggregate value of federal receipts each designated state agency and political subdivision received for the previous fiscal year to the aggregate amount of federal funds to the total budget of the designated state agency or political subdivision for that fiscal year.

(2) The [Division of Finance] shall, as part of the report required by Subsection 2(C)(1), compile a list of designated state agencies and political subdivisions that do not submit a report as required by this section.

(D) The [Division of Finance] shall submit the report required by Subsection 2(C) to the [Appropriations Committee] on or before December 1 of each year.

(E) Upon receipt of the report required by Subsection 2(C), the [chair(s) of the Appropriations Committee] shall place the report on the agenda for review and consideration at the next [Appropriations Committee] meeting.

(F) When considering the report required by Subsection 2(C), the [Appropriations Committee] may elect to:

(1) recommend that the Legislature reduce or eliminate appropriations for a designated state agency or political subdivision;

(2) take no action; or

(3) take another action that a majority of the committee approves.

Section 3. {Severability clause.}

Section 4. {Repealer clause.}

Approved by ALEC's Board of Directors on January 16, 2012.

About Idaho Freedom Foundation

The Idaho Freedom Foundation (IFF) is a nonpartisan educational research institute and government watchdog dedicated to improving the lives of Idahoans. IFF advocates for free market solutions, private property rights, individual responsibility and transparent, limited government. IFF develops and distributes original research and data with the goal of restoring our state and nation as beacons of opportunity and prosperity.

About the Sutherland Institute for Self-Government

The Sutherland Institute Center for Self-Government in the West protects freedom and opportunity in Utah and the West by promoting federalism and equipping state leaders – both public and private – to reclaim their powers and responsibilities under the United States Constitution.

The Center is a project of Sutherland Institute, a think tank advocating conservative principles in Salt Lake City, Utah.

About the author

Wayne Hoffman is one of Idaho's leading experts on public policy, the Idaho Legislature and the practice of journalism. Hoffman has spent 25 years writing about government and politicians. He writes a weekly column, found in newspapers and on websites throughout Idaho, and is often invited to speak on complex issues including taxation, health care, free markets and education. Throughout his years in the news business, Wayne won numerous awards for investigative and political journalism. During his years of covering the state Legislature, governor's office and state agencies, Wayne often exposed government waste, failed government programs and politicians whose voting records were inconsistent with their rhetoric. After leaving the news business in 2005, Wayne became the special assistant to the director of the state Department of Agriculture. In 2006, he managed the communications efforts of several successful political campaigns and became the communications director for Congressman Bill Sali. Wayne lives in Nampa with his two children. Wayne has been at the helm of Idaho Freedom Foundation since the organization launched in January 2009.

Endnotes

[1] Legislative Fiscal Reports, FY 2003-14.

[2] It is important to understand that this figure is just a portion of the state's federal spending addiction; close to $1 billion is unappropriated, or continuously appropriated. These generally fall into two programs: Food Stamps and Unemployment Insurance.

[3] Transparent.idaho.gov, FY 2013 revenues by fund source.

[4] Idaho faces $14 million shortfall for school broadband network, Spokesman-Review, Jan. 30, 2014.

[5] Title 59, Chapter 13, Idaho Code.

[6] Ibid.

[7] Legislative Budget Office, FY 2014 FTPs and Personnel Cost Appropriations report prepared for IFF, Nov. 15, 2013.

[8] Response to request for information to IFF, Nov. 13, 2013.

[9] Idaho Single Audit Report, Office of the State Controller. Data do not include grants to Idaho colleges and universities.

[10] Federal funds inventory form.

[11] Otter: Plan for 20 percent reduction in federal money, Idaho Press-Tribune, June 17, 2012.

[12] IDEQ Particulate Matter (PM) 2.5 Monitoring, federal funds inventory report.

[13] DEQ federal funds inventory Idaho Clean School Bus Campaign.
[14] DEQ federal funds inventory, Wetland Program Development.
[15] Ibid.
[16] Idaho Code 67-1705.
[17] Idaho Code 39-105.
[18] Idaho Code 56-1003.
[19] Idaho Code 22-103.
[20] Federal funds inventory from the Office of Attorney General.
[21] Ibid.
[22] Federal funds inventory report from the State Board of Education.
[23] Information from Jani Revier, administrator, Division of Financial Management, Feb. 3, 2014.
[24] In a Feb. 5, 2014 email, the state Department of Agriculture specifically said it needed a completed Public Records Request before releasing budget documentation regarding grants and contingency plans in the event of a cut.
[25] Memo to Division of Financial Management "Impact of Federal Shutdown on Education."
[26] Ibid.
[27] Idaho Code 67-3516.
[28] Legislative and executive branch authorities specify that non-cognizable grants are to be one-time expenditures only.
[29] Guidance on Maintenance of Effort Requirements in the state Fiscal Stabilization Fund Program. http://www2.ed.gov/policy/gen/leg/recovery/statutory/moe-guidance.pdf.
[30] *NFIB v. Sebelius*, 132 S. Ct. 2566 (2012).
[31] IFF 2013 memo to legislators on MAGI, http://idahofreedom.net/wp-content/uploads/2013/01/magi.pdf
[32] All States Received More Funding Than They Contributed in Highway Taxes from 2005 to 2009, Government Accountability Office, September, 2011. http://www.gao.gov/new.items/d11918.pdf
[33] How States and Territories Fund Transportation, 2009, http://www.transportation.wv.gov/highways/highwayscommission/Documents/Transportation%20Funding.pdf.
[34] Federal Requirements for Highways May Influence Funding Decisions and Create Challenges, but Benefits and Costs Are Not Tracked, Government Accountability Office, December, 2008. http://www.gao.gov/assets/290/284235.pdf.
[35] Email communication between ITD and Idaho Freedom Foundation, Dec. 5, 2013.
[36] GAO study, 2008.
[37] Ibid.
[38] Poll to be released by the Sutherland Institute's Center for Self Government in the West, February 2014.
[39] Ibid. In the survey, 75 percent strongly agreed, and 15 percent said they somewhat agree.
[40] Ibid.
[41] Ibid.
[42] Utah depends too much on federal funds, auditor warns, KSL News, Dec. 4, 2013. http://www.ksl.com/?sid=27889991.
[43] Utah SCR 7, signed by the governor March 26, 2013. http://le.utah.gov/~2013/bills/sbillint/SCR007.htm. See Appendix A.

[44] Utah Senate Bill 138, signed by the governor March 26, 2013. http://le.utah.gov/~2013/bills/static/SB0138.html
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