

2026 Legislative Session – Week 4 Report

Budget policy and tax code conformity were closely linked this week at the Capitol. The Legislature advanced both a fast-tracked tax conformity bill and new budget reduction targets, framing them as part of a broader effort to keep the state budget structurally balanced while absorbing the fiscal effects of recent federal tax changes.

On Friday, JFAC approved an additional 1% General Fund cut for the remainder of FY26, and an additional 2% permanent General Fund cut beginning in FY27. Combined with the Governor's prior 3% holdback, the result is an approximate 4% reduction for most agencies in FY26 and an ongoing 5% reduction for most agencies beginning in FY27. These additional reductions do not apply to K-12 public schools, Medicaid, the Idaho Department of Corrections, or the Idaho State Police. Education-sector reporting this week underscored the potential for disproportionate impacts on public colleges and universities, which are not exempt from the additional reductions.

H559, legislation that conforms Idaho's tax code with the federal tax code, passed the House by a 59-9 vote and the Senate by a 28-7 vote, clearing both chambers with more than two-thirds support, virtually guaranteeing that a Governor's potential veto would be overridden. The fiscal note projects a reduction in General Fund revenue of \$155 million in FY26 and \$175 million in FY27. The bill includes an emergency clause and applies retroactively to January 1, 2025. For employers and taxpayers, the immediate relevance of H559 is timing. Conformity decisions determine how Idaho taxpayers and businesses align state filings with federal rules for the 2025 tax year. As you might anticipate, H559's revenue effect is being used to justify spending reductions for FY26 and FY27.

S1264, introduced on Thursday, proposes a statutory framework for managing and overseeing the federal Rural Health Transformation Program grant. S1264 would create an Idaho Rural Health Transformation Fund in the state treasury to receive federal grant dollars and any additional appropriations and would establish a Rural Health Transformation Committee as a legislative oversight body. The bill establishes a seven-member committee (three Senators, three Representatives, and one nonvoting Governor-appointed member), requires annual public reporting of receipts and expenditures, and assigns committee responsibilities, including governance, review, and recommendations on funding subawards and program outcomes.

The Idaho Supreme Court unanimously upheld Idaho's private education tax credit, ruling that the program does not violate the state constitution's requirement to maintain a public school system. The court found that the constitutional mandate establishes a minimum obligation for public education but does not preclude the Legislature from creating



additional education-related programs, and concluded that supporting education serves a valid public purpose even when funds flow through private choices. The decision allows the tax credit program to continue as enacted, while leaving broader policy debates about its impact on public schools to the Legislature.

Looking ahead, JFAC is expected to begin assembling FY27 maintenance budgets next week. We are also expecting the January revenue report, which compares actual tax receipts with expectations. While revenue in the first several months of FY26 lagged projections, December exceeded expectations by over \$100 million. If January continues the positive trend, legislators may face a dilemma: revenue exceeding expectations will jeopardize their plan to decimate state agency budgets.