

## 2026 Legislative Session – Week 5 Report

This week, the Division of Financial Management reported that January tax receipts came in approximately \$10 million above expectations, adding to last month's surprise revenue surplus of \$103 million. In total, revenue forecasts now anticipate a \$112 million surplus for FY26. While welcome news for budget writers, it did little to change the direction set late last week by the Legislature for additional state agency cuts.

On Friday, the Joint Finance-Appropriations Committee adopted FY27 "maintenance" budgets that reflect a 5% reduction for most agencies. The JFAC co-chairs indicated that smaller working groups may still develop follow-on "enhancement" bills that adjust or restore targeted line items later in the process, but there is already concern that enhancement budgets will be extremely difficult to move out of the committee.

This week, Governor Little signed H559, which conforms Idaho's tax code with the federal "One Big Beautiful Bill Act." The bill is retroactive to January 1, 2025, and is estimated to have a fiscal impact of \$155 million in FY26 and \$175 million in FY27. The Tax Commission raised concerns about the retroactive effective date and the lack of additional funding to cover the workload (estimated at \$550,000). Tax commissioners warned that staffing reductions from the 5% holdbacks could cause substantial delays in refund processing and may require interest payments from the General Fund if refunds are paid late. Unsurprisingly, legislators appeared surprised to learn this information and have not indicated whether they intend to correct this easy-to-anticipate error.

While Medicaid has been largely shielded from the budget committee's additional 1% and 2% across-the-board cuts, behavioral health service cuts from other divisions within the Department of Health and Welfare are a growing concern for legislators across budget and policy committees. Reporting this week described potential reductions affecting the broader crisis system, including support for the state's 988 crisis line, suicide prevention programming, and children's and family mental health services. Health and Welfare Director Juliet Charron publicly expressed concern that incremental reductions in prevention and early intervention capacity can increase downstream demand for higher-acuity, higher-cost services.

Legislation to formalize oversight of federal Rural Health Transformation Program dollars advanced during the week, passing out of the Senate Health and Welfare Committee. S1264 would create an Idaho Rural Health Transformation Fund in the state treasury and sets a tight timeline for outlining the program evaluation and awards process, with a March 15<sup>th</sup> deadline to design a scoring rubric and a September 30<sup>th</sup> deadline to distribute nearly \$200 million.

Looking forward, on Monday, non-privileged committees (legislative committees that meet in the afternoon) lose their ability to introduce new legislation. Privileged committees (those that meet in the morning) will still be able to introduce new bills, but this marks one of the first milestones to slow the volume of new legislation clogging committees and



extending the session. Some estimates suggest there are more than 100 bills still in the drafting process, which does not point to an early end to the session.

The fight over budgets is nowhere near complete. As JFAC working groups meet in the coming weeks to review agency requests, we are likely to see disagreements in JFAC over how much pain agencies can tolerate and the threshold for budget “cuts” that would result in higher costs to the state. Sound management of government resources requires that tax dollars fund services delivered at the right time, in the right setting, and at the right price. Indiscriminate cuts tend to have the opposite effect, leading to higher costs for services delivered in crisis settings, resulting in worse outcomes.