



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0182

Title: Generally revise laws on state finance, reducing tax rate if conditions met

Primary Sponsor: Hertz, Greg

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$4,660,000	\$11,400,000
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: SB 182 establishes the tax reduction fund for the purpose of funding reductions to the top marginal income tax rate. The bill amends the flow of excess general fund revenue calculated in 17-7-130, MCA, and amends the flow of funds from the Fire Suppression fund after it is at its statutory cap, to allow for a distribution to the tax reduction fund. When there is a balance in the tax reduction fund, it may be used to fund a reduction to the top marginal income tax rate if certain conditions are met, including reserve balances being sufficiently full and excess revenues exceeding the growth of population plus inflation.

FISCAL ANALYSIS

Assumptions:

- Beginning in FY 2022, current law excess general fund revenue is calculated as the difference between revenue received and adjusted general fund revenue as defined in 17-7-130, MCA. Adjusted general fund revenue is calculated using a six-year compound annual growth rate.
- The current law calculation of excess general fund revenue is not changed in SB 182.
- SB 182 alters the flow of excess general fund revenue to the budget stabilization reserve fund and the capital development fund and adds a new distribution to the tax reduction fund.
- For the period FY 2021 – FY 2023, general fund revenue received is assumed to be equal to the HJ 2 revenue estimate. The HJ 2 revenue estimate is extended into FY 2024 and FY 2025 assuming 4% annual growth.

5. Excess revenue is distributed in August following the close of a fiscal year. Excess general fund revenue distributions are estimated to be \$0 in FY 2022, \$0 million in FY 2023, \$18.6 million in FY 2024, and \$45.6 million in FY 2025.
6. The following table details the fiscal impact of the new excess revenue flow structure contained in SB 182.

Estimated Fiscal Impact of SB 182 on Distribution of Excess General Fund Revenue				
	FY 2022	FY 2023	FY 2024	FY 2025
<i>Current Law</i>				
Excess General Fund Revenue	\$0.00	\$0.00	\$18.62	\$45.59
BSRF Deposit (50% of GF Excess)	\$0.00	\$0.00	\$9.31	\$22.79
Amount Retained in BSRF	\$0.00	\$0.00	\$6.76	\$0.00
Capital Dev. Fund Deposit (100% BSRF Excess)	\$0.00	\$0.00	\$2.55	\$22.79
<i>Proposed Law</i>				
Excess General Fund Revenue	\$0.00	\$0.00	\$18.62	\$45.59
BSRF Deposit (75% of GF Excess)	\$0.00	\$0.00	\$13.97	\$34.19
Amount Retained in BSRF	\$0.00	\$0.00	\$6.76	\$0.00
Capital Dev. Fund Deposit (50% BSRF Excess)	\$0.00	\$0.00	\$3.60	\$17.09
Tax Reduction Fund Deposit (50% BSRF Excess)	\$0.00	\$0.00	\$3.60	\$17.09
<i>Fiscal Impact</i>				
Budget Stabilization Reserve Fund	\$0.00	\$0.00	\$0.00	\$0.00
Capital Development Fund	\$0.00	\$0.00	\$1.05	-\$5.70
Tax Reduction Fund	\$0.00	\$0.00	\$3.60	\$17.09

7. The increased amount of excess general fund revenue distributed to the budget stabilization reserve fund under SB 182 (75%, up from 50%) will have an impact on the general fund balance in years with excess revenue because the general fund retains less of the overage or excess. Because the loss to general fund balance is attributable to “excess” revenue above what was anticipated, the impact to the general fund is assumed to be zero.
8. The balance of the tax reduction fund on September 1 of an even-numbered year determines the decrease in the top marginal tax rate for the following tax year as follows:
 - a. at least \$20 million and less than \$40 million, the rate is reduced by 0.05%
 - b. at least \$40 million and less than \$60 million, the rate is reduced by 0.1%
 - c. at least \$60 million and less than \$80 million, the rate is reduced by 0.15%
 - d. at least \$80 million and less than \$100 million, the rate is reduced by 0.2%
 - e. \$100 million or more, the rate is rate is reduced by 0.25%
9. If there is a certified balance in the tax reduction fund in an even-numbered year, the following conditions must be met before a rate reduction can occur:
 - a. The balance of the budget stabilization reserve fund is equal to 4.5% of second-year general fund appropriations (i.e., the fund is at its cap).
 - b. The balance of the fire fund is equal to at least 3% of second-year general fund appropriations.
 - c. The compound annual growth rate of general fund revenue – calculated per 17-7-130, MCA – is greater than the combined rate of growth of population and inflation.
 - d. The tax rate reduction does not result in budget reduction triggers per 17-7-140, MCA.
10. If the certified balance in the tax reduction fund in an even-numbered year is not sufficient to fund a tax rate reduction, the balance is transferred to the general fund.

11. If there is a transfer to the tax reduction fund after an odd-numbered year, that balance is carried into the following even-numbered year.
12. As illustrated in the following table, a reduction in the top marginal income tax rate is not forecast to occur during the FY 2022 – FY 2025 period. The balance of the tax reduction fund does not achieve an amount sufficient to trigger a rate cut.

Determination of Tax Rate Reduction Amount*				
	FY 2022	FY 2023	FY 2024	FY 2025
Balance of Tax Reduction Fund	\$0.00	\$0.00	\$3.60	\$17.09
CPI + Population Growth	3.2%	2.6%	2.6%	2.6%
Six-Year CAGR	3.0%	3.6%	2.8%	2.3%
Allowable Tax Rate Reduction	0.00%	0.00%	0.00%	0.00%
Balance of Tax Reduction Fund Returned to GF	\$0.00	\$0.00	\$3.60	\$0.00

* Assuming BSRF is full, fire fund balance equals at least 3% of second-year appropriations, and no budget triggers per 17-7-149, MCA.

13. The Fire Suppression fund is funded via the remaining biennial balance of the Governor’s Emergency appropriation and general fund reversions in excess of 0.5% of general fund appropriations. This fiscal note assumes expenditures generally equal appropriations and any reversions deposited in the Fire Suppression fund would not cause the Fire Suppression fund to reach its statutory cap. As a result, this fiscal note assumes no money from reversions would flow into the tax reduction fund.

	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	<u>\$0</u>	<u>\$0</u>	<u>\$4,660,000</u>	<u>\$11,400,000</u>
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$4,660,000</u>	<u>\$11,400,000</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$4,660,000	\$11,400,000

NO SPONSOR SIGNATURE

 Sponsor's Initials

 Date

KA

 Budget Director's Initials

2 / 10 / 21

 Date