



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 Amended in Senate Committee

- 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	(\$9,310,000)	(\$22,790,000)
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	(\$9,310,000)	(\$22,790,000)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$9,310,000</u>	<u>\$22,790,000</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 the balance reaches 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.

FISCAL ANALYSIS

Assumptions:

1. Beginning in FY 2022, current law excess general fund revenue is calculated as the difference between revenue received and adjusted compound annual growth rate (CAGR) general fund revenue as defined in 17-7-130, MCA. CAGR revenue is calculated using a six-year compound annual growth rate.
2. Under current law, in years where revenue is estimated to exceed CAGR revenue, a budgeted transfer from the general fund to reserves would occur.
3. The determination of excess general fund revenue using a six-year compound annual growth rate is removed in SB 182. Instead, SB 182 provides that excess general fund revenue be calculated as the amount of revenue received above the official HJ 2 revenue estimate.

4. SB 182 changes 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, when certain criteria are met.
5. Excess revenue is distributed in August following the close of a fiscal year.
6. Based on current law estimates under the CAGR distribution formula, there would be a calculated budgeted transfer in FY 2024 and FY 2025 from the general fund to the budget stabilization reserve fund, with any overflow being dedicated to the capital development fund.
7. SB 182 changes the basis for the calculation of excess revenues to those received above HJ 2. Excess revenue is expected to be zero under the proposed bill, because revenue received is assumed to be equivalent to the HJ 2 revenue estimate. As a result, there is a positive fiscal impact to the general fund, and a negative fiscal impact to the budget stabilization reserve fund and the capital development fund because there will not be a budgeted transfer of excess funds from the general fund to the budget stabilization reserve fund because HJ 2 is assumed to equal actual revenue collections.
8. 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
Budgeted General Fund Transfer to BSRF (50% of Excess)	\$0.00	\$0.00	\$9.31	\$22.79
BSRF Deposit	\$0.00	\$0.00	\$9.31	\$22.79
Amount Retained in BSRF to Reach 4.5% Cap	\$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	\$0.00	\$0.00
Budgeted General Fund Transfer to BSRF (50% of Excess)	\$0.00	\$0.00	\$0.00	\$0.00
BSRF Deposit	\$0.00	\$0.00	\$0.00	\$0.00
Amount Retained in BSRF to Reach 4.5% Cap	\$0.00	\$0.00	\$0.00	\$0.00
Capital Dev. Fund Deposit (50% BSRF Excess)	\$0.00	\$0.00	\$0.00	\$0.00
Tax Reduction Fund Deposit (50% BSRF Excess)	\$0.00	\$0.00	\$0.00	\$0.00
<i>Fiscal Impact</i>				
General Fund	\$0.00	\$0.00	\$9.31	\$22.79
Budget Stabilization Reserve Fund	\$0.00	\$0.00	-\$6.76	\$0.00
Capital Development Fund	\$0.00	\$0.00	-\$2.55	-\$22.79
Tax Reduction Fund	\$0.00	\$0.00	\$0.00	\$0.00

9. For a distribution to the tax reduction fund to occur, general fund revenue in a fiscal year must exceed the HJ 2 revenue estimate, inflation and population growth, and CAGR revenue growth.
10. For the period FY 2021 – FY 2025, general fund revenue received is assumed to be equal to the HJ 2 revenue estimate, and as a result, there are no assumed distributions of excess revenue to the budget stabilization reserve, or tax reduction fund. The HJ 2 revenue estimate is extended into FY 2024 and FY 2025 assuming 4% annual growth.
11. 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 \$10 million and less than \$20 million, the rate is reduced by 0.025%
 - b. at least \$20 million and less than \$30 million, the rate is reduced by 0.05%
 - c. at least \$30 million and less than \$40 million, the rate is reduced by 0.075%
 - d. at least \$40 million and less than \$50 million, the rate is reduced by 0.1%

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(continued)

- e. at least \$50 million and less than \$60 million, the rate is reduced by 0.125%
 - f. at least \$60 million and less than \$70 million, the rate is reduced by 0.15%
 - g. at least \$70 million and less than \$80 million, the rate is reduced by 0.175%
 - h. at least \$80 million and less than \$90 million, the rate is reduced by 0.2%
 - i. at least \$90 million and less than \$100 million, the rate is reduced by 0.225%
 - j. \$100 million or more, the rate is reduced by 0.25%
12. 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 tax rate reduction does not result in budget reduction triggers per 17-7-140, MCA.
13. 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.
14. 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.
15. A reduction in the top marginal income tax rate is not forecast to occur during the FY 2022 – FY 2025 period.
16. The Fire Suppression fund is funded via the remaining biennial balance of the Governor’s Emergency appropriation and general fund reversions exceeding 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</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>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Transfers	\$0	\$0	(\$9,310,000)	(\$22,790,000)
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>(\$9,310,000)</u>	<u>(\$22,790,000)</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	(\$9,310,000)	(\$22,790,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>(\$9,310,000)</u>	<u>(\$22,790,000)</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	(\$9,310,000)	(\$22,790,000)
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>(\$9,310,000)</u>	<u>(\$22,790,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	\$9,310,000	\$22,790,000
State Special Revenue (02)	\$0	\$0	(\$9,310,000)	(\$22,790,000)

NO SPONSOR SIGNATURE 3/9 KA 3/9/21
 Sponsor's Initials Date Budget Director's Initials Date