



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0251 - Provide budget stability through investment and liability reduction (Jones, Llew)

Status: As Amended in House Committee

- | | | |
|--|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:					
General Fund	\$143,600,000	(\$26,247,673)	(\$25,113,535)	(\$24,513,535)	(\$23,913,535)
State Special Revenue	\$0	\$200,000,000	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0	\$0
Revenue:					
General Fund	*** unknown ***	*** unknown ***	*** unknown ***	\$0	\$0
State Special Revenue	\$143,600,000	\$0	\$0	\$0	\$0
Other	\$0	\$50,000,000	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$143,600,000)</u>	<u>\$26,247,673</u>	<u>\$25,113,535</u>	<u>\$24,513,535</u>	<u>\$23,913,535</u>

Description of fiscal impact: HB 251, as amended, establishes a state special revenue fund known as the debt and liability free account. Funds transferred to the account will be used to pay principle, interest, and other costs associated with redeeming or defeasing outstanding bonds, notes, or other obligations of the State of Montana. In addition, funds may be expended for the purposes of foregoing issuance or reducing the amount of issuance of general obligation bonds and paying legally resolved non-pension financial liabilities. There is transferred to the debt and liability free account \$125 million from the general fund by June 30, 2023, and all interest income generated from the treasury cash account for FY 23 – FY 25 provided for in 17-6-202(2), MCA, as proposed in the Executive Budget. There will be an unknown impact to general fund revenues attributable to cash account earnings based on legislative action (see Technical Note). Additionally, a general fund transfer of \$18.6 million to the statewide public safety communications system account shall occur by June 30, 2023. All funds in the debt and liability free account are statutorily appropriated to the Office of Budget and Program Planning. The coordination instruction in section 8 reduces the transfer amount in section 5(1) to \$62.5 million if certain conditions are met.

FISCAL ANALYSIS

Assumptions:

Office of Budget and Program Planning

1. There will be general fund transfers to state special revenue funds in FY 2023 equal to \$143.6 million. Section 5 of HB 251 authorizes \$125 million from the general fund to the debt and liability free account and \$18.6 million from the general fund to the statewide public safety communications system account.
2. HB 251 is effective upon passage and approval and is retroactively applicable to July 1, 2022 for interest income collected and distributed under 17-6-202(2). Because of this, the debt and liability free account is expected to receive the \$125 million general fund transfer in FY 2023 and an unknown amount of treasury cash account interest earnings prior to June 30, 2025.
3. Once transfers are made to the debt and liability free account, funds in the account will be expended in accordance with section 1(2) of the bill.
4. As bonds, notes, and other financial obligations of the State are redeemed and defeased, there will be general fund debt service cost savings realized as these obligations are reduced and/or eliminated.
5. All callable, defeasible, etc. general obligation debt is assumed to be paid off before the first debt service payment in FY 2024. This results in an ongoing reduction to general obligation debt service expenditure of about \$15 million per year for the period FY 2024 – FY 2027.
6. As proposed in the Executive Budget, it is assumed that State Fund Old Fund financial liabilities will be paid off in FY 2024 (to the extent revenues attributable to 17-6-202(2), MCA, are deposited in the debt and liability free account) and ongoing transfers will be reduced by approximately \$6 million per year.
7. The general fund transfer to the statewide public safety communications system account retires the general fund obligation to the fund and will result in ongoing general fund transfer savings of \$3.75 million per year.
8. Section 8 establishes coordination instruction that links HB 251 to five other bills. If certain conditions are met, section 8 instructs the transfer amount in section 5(1) to be reduced from \$125 million to \$62.5 million. See figure 1.

Figure 1.

COORDINATION SECTION. SECTION 8. COORDINATION INSTRUCTION. (1) IF [THIS ACT] IS PASSED AND APPROVED AND DOES NOT CONTAIN A \$125 MILLION TRANSFER IN [SECTION 5(1)], AND IF ANY OF THE FIVE BILLS IDENTIFIED IN SUBSECTION (2) ARE NOT PASSED AND APPROVED, THEN THE TRANSFER AMOUNT IN [SECTION 5(1)] OF [THIS ACT] IS \$62.5 MILLION.

(2) THE FIVE BILLS ARE:

(A) HOUSE BILL NO. 192;

(B) HOUSE BILL NO. 212;

(C) HOUSE BILL NO. 221;

(D) HOUSE BILL NO. 222; AND

(E) HOUSE BILL NO. 267.

	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
<u>Fiscal Impact:</u>					
<u>Expenditures:</u>					
Debt Service and Transfers	\$0	\$173,752,327	(\$25,113,535)	(\$24,513,535)	(\$23,913,535)
Transfers	\$143,600,000	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$143,600,000</u>	<u>\$173,752,327</u>	<u>(\$25,113,535)</u>	<u>(\$24,513,535)</u>	<u>(\$23,913,535)</u>
<u>Funding of Expenditures:</u>					
General Fund (01)	\$143,600,000	(\$26,247,673)	(\$25,113,535)	(\$24,513,535)	(\$23,913,535)
State Special Revenue (02)	\$0	\$200,000,000	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$143,600,000</u>	<u>\$173,752,327</u>	<u>(\$25,113,535)</u>	<u>(\$24,513,535)</u>	<u>(\$23,913,535)</u>
<u>Revenues:</u>					
General Fund (01)	***unknown***	***unknown***	***unknown***	\$0	\$0
State Special Revenue (02)	\$143,600,000	\$0	\$0	\$0	\$0
Other	\$0	\$50,000,000	\$0	\$0	\$0
TOTAL Revenues	<u>\$143,600,000</u>	<u>\$50,000,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>					
General Fund (01)	(\$143,600,000)	\$26,247,673	\$25,113,535	\$24,513,535	\$23,913,535
State Special Revenue (02)	\$143,600,000	(\$200,000,000)	\$0	\$0	\$0
Other	\$0	\$50,000,000	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

1. The buy down of existing debt in state programs with debt service supported by fees and loan repayments via state revolving loan programs will reduce future borrowing costs for localities and other eligible entities.

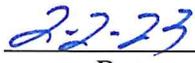
Long-Term Impacts:

1. New Section 5 requires the transfer of unobligated funds in the debt and liability free account as of June 30, 2027 in the following manner: 50% to the legislative capital development fund and 50% to the general fund.
2. The amount of the transfer in #1 is unknown but would happen at the end of FY 2027 and have a positive impact on general fund balance and a positive impact on the balance of the legislative capital development fund.

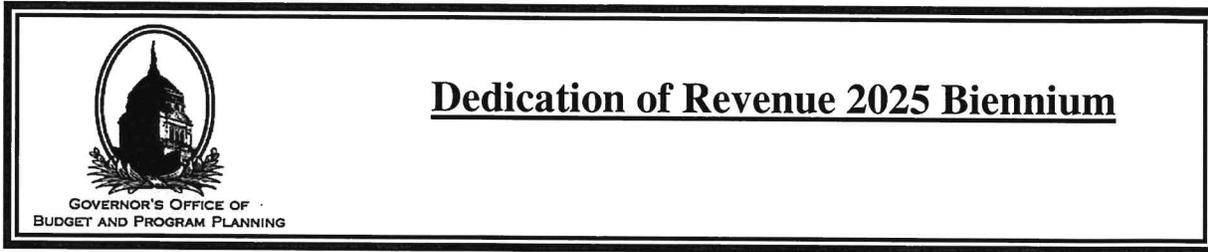
Technical Notes:

1. Like other appropriated or transferred funds, the short-term investment balance of the treasury cash account will fall as debt and liability free account funds are deployed for debt reduction. The timing and amount of these expenditures are unknown as of the writing of this fiscal note; therefore, the decline in treasury cash account interest earnings cannot be quantified with sufficient precision. Further, there is expectation of legislative action that is likely to further draw down general fund, and by extension, treasury cash account balances during the 2025 biennium. The *General Fund Revenue Summary*, released by the Legislative Fiscal Division on January 13, 2023, notes under the TCA Interest Earnings section that, “[treasury cash account earnings] will be directly impacted by any legislative action that reduces the general fund ending fund balance.





Sponsor's Initials _____ Date _____ Budget Director's Initials _____ Date _____



17-1-507, MCA.

- a) **Are there persons or entities that benefit from this dedicated revenue that do not pay?**
N/A General Fund transfer, not fee based

- b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**
The revenue is to be used for the express purpose of clearing outstanding financial obligations of the State of Montana. Creating a state special revenue fund dedicated to providing the funds for this purpose adds clarity to state expenditures and ensures that funds are available to fulfill the objective of debt relief.

- c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**
Yes.

- d) **Does the need for this state special revenue provision still exist? Yes No (Explain)**
Yes, the revenue deposited into the state special revenue fund will be used for the redemption and/or defeasance of the State's outstanding financial liabilities.

- e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**
No, the intended use of this revenue is clearly defined.

- f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**
Yes, the legislature acknowledges that the State should prudently manage its financial liabilities.

- g) **How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**
The revenue is intended for use toward a specific end, outlined in the bill language establishing the state special revenue fund into which the revenue is dedicated. This creates an expenditure standard for the dedicated revenue, which should improve audit efficiency.