

EXPLAINING THE PSC FUND BALANCE



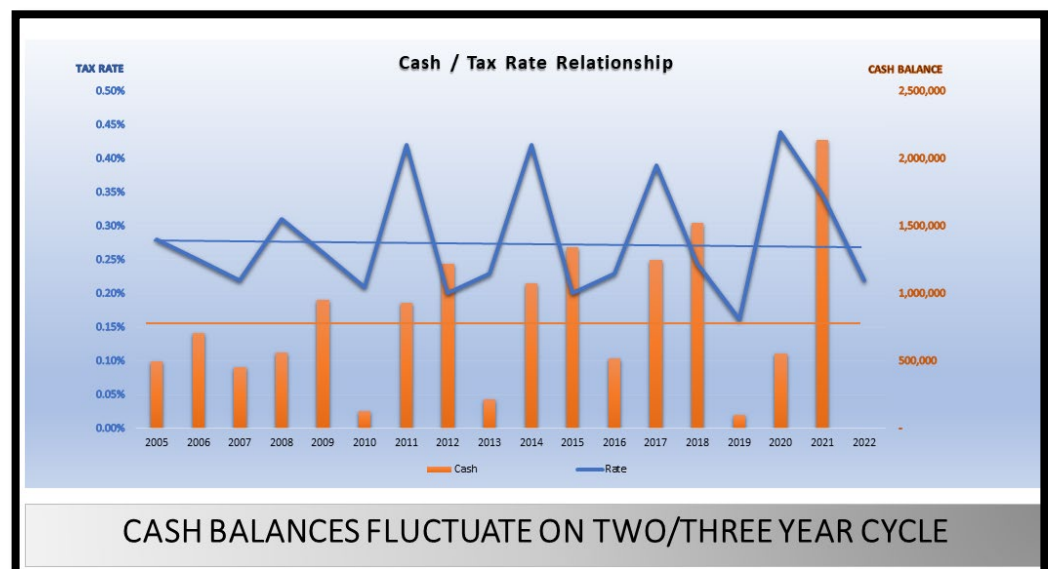
- The composition of fund balance includes cash, receivables, and liabilities;
- There are planned legislative actions to reduce our fund balance;
- The \$2 million cash balance and the \$1 million receivable resulted from a change in the tax rate determination, which was meant to provide sufficient working capital to cover first-quarter expenditures; and
- The Department of Revenue uses “unspent” funds (§ 69-1-224, MCA) as the criterion for determining the tax rate.

The current PSC Fund Balance is \$3 million. The composition of our Fund Balance includes \$2 million in cash, \$1 million in estimated future receivables, and a small amount of other accounts. The receivables represent tax collections to be received in the first quarter of the fiscal year 2022. Given that the PSC expects to expend the same \$1 million during the first quarter, the net impact to the agency is zero, all things equal.

The PSC expects the remaining \$2 million in cash to be reduced by ongoing operations, a special HB 2 authorization to spend \$1 million of available cash on a biennial software modernization project, and a statutorily required reduction of the utility company tax rate assessed in future periods. To fund the fiscal year 2022 \$4 million appropriation, the Department of Revenue will assess taxes of \$3.6 million, a reduction of \$1.5 million from the fiscal year 2021.

It should be noted that the \$2 million in cash at the end of the fiscal year 2021 resulted from a change in the tax rate

determination for the fiscal year 2020. Based on its authority in § 69-1-224, MCA, the Department of Revenue modified the determination to provide sufficient working capital for a subsequent fiscal



year's first quarter. The problem was evident at the end of the fiscal year 2019; the PSC only had \$51 thousand in cash to start the next fiscal year's first quarter. On average, each quarter requires about \$1 million in expenditures. Because of the working capital shortfall, during the fiscal year 2020, the PSC needed to borrow \$800 thousand from the State General Fund.

To solve the problem, the Department of Revenue began including a first-quarter-expenditure-coverage factor into the utility company tax rate. Although the change resulted in a higher cash balance and a higher receivable balance at the end of the fiscal year 2021, the fiscal year 2022 rate (0.22 percent) has returned to a rate closer to the historical average (0.28 percent).

To determine the tax rate, the Department of Revenue applies § 69-1-224(1)(c)(iii), which requires "reducing the revenue to be collected for the current year by any funds remaining unspent at the close of the prior fiscal year." As such, the determination starts with the PSC's cash balance and then adds or subtracts other current assets or liabilities based on whether they are "spent" or "unspent" "at the close of the prior fiscal year." At the end of the fiscal year 2021, although the PSC reports a cash balance of \$2 million, approximately \$500 thousand of it was classified as "spent." The \$500 thousand represents the first half of the \$1 million biennial authorization for the software modernization. As such, the Department of Revenue reduced our FY2022 tax revenues by \$1.5 million.