F I S C A L   I M P A C T   R E P O R T

		LAST UPDATED	3/11/23
SPONSOR	Hickey	**ORIGINAL DATE**	1/6/23
SHORT TITLE	Tobacco Fund Not a State Reserve Fund	**BILL NUMBER**	Senate Bill 178/aHAFC
		ANALYST	Torres, I./ Esquibel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
No Fiscal Impact			N/A		General Fund

Sources of Information

LFC Files

Responses Received From
Department of Finance and Administration (DFA)
Human Services Department (HSD)

SUMMARY

Synopsis of HAFC Amendment to Senate Bill 178

The House Appropriations and Finance Committee amendment to senate bill 178 adds an effective date of July 1, 2024.

Synopsis of Original Senate Bill 178

Senate Bill 178 removes the tobacco settlement permanent fund balance from the general fund reserves so the fund may be invested with higher return targets and provide increasing distributions and to accurately reflect reserve balances. The bill is LFC-sponsored legislation.

This bill does not contain an effective date, and as a result, will go into effect 90 days after the Legislature adjourns (June 16, 2023) if signed into law.

FISCAL IMPLICATIONS

The tobacco settlement permanent fund has been unable to provide increasing distributions to treatment, cessation, and prevention efforts due to low returns resulting from its reserve fund status. By removing the fund from reserves, the tobacco settlement permanent fund will likely earn a higher return over the long run, which will, in turn, generate more revenue for programmatic uses. SIC analysis is needed to estimate the newly generated revenue from this proposal.

The bill is estimated to have no fiscal impact to agency operating budgets because it simply provides instructions to DFA and LFC on how to calculate the state's reserve position. The tobacco settlement permanent fund currently has a balance of about $300 million as of the October 2022 SIC *Investment Holdings Report*, which represents 4.1 percent of recurring general fund spending in FY22. The calculated general fund reserve position will be reduced by the balance of the fund, likely less than 4 percent in FY25 and beyond, due to the House Appropriation and Finance Committee amendment.

SIGNIFICANT ISSUES

Currently, five accounts are included in the state's reserves: the operating reserve, the appropriation contingency fund, the state support fund, the tobacco settlement permanent fund, and the tax stabilization reserve. Because reserves are intended to be liquid and ready to cover shortfalls in revenues, these accounts earn inferior investment returns compared with other investments made by the state and are often identified and used for nonrecurring spending. Only two funds, the operating reserve and the tax stabilization reserve, are true reserve funds in their purpose to backfill general fund revenues during downturns. Other funds are limited to schools (state support fund), primarily used for disaster allotments (appropriation contingency fund), or intended to be permanent funds for programmatic uses (tobacco settlement permanent fund).

By including ancillary funds, the state's reserve position is inflated because a significant portion of the funds are not intended to be available for general fund revenue replacement. This bill would clarify the reserve position to properly reflect the state's current financial status.

IT/al/mg/hg/mg/ne