



Mike Kadas
Director

Montana Department of Revenue



Steve Bullock
Governor

MEMORANDUM

TO: Mike Kadas, Director

FROM: Emily Klungvedt, Tax Policy and Research  

DATE: May 6, 2016

RE: Entitlement Share Payments and Block Grant Payments Summary

Attached is the Entitlement Share Payment and Block Grant Payment summary that was presented to the Revenue and Transportation Interim Committee during the last interim. It is updated through FY 2016. This summary lists the annual amount being sent from the state to local governments and schools and a history of the legislative changes made to these payments.

There are three main sections in this document. The first section ("Entitlement Share Payments and Block Grant Payments (HB124) Summary") consists of two tables. The first table lists the actual Entitlement Share Payments and Block Grant Payments that have been sent to local governments and schools since their creation. The second table lists the major revenue sources that were assumed by the state that led to this revenue sharing agreement.

The second section ("Legislative Changes – Entitlement Share Payments (Local Governments)") summarizes the history of the payments to local governments. The first table shows actual payments. The second table shows what the original Entitlement Share Payments would be each year if they were only growing by the annual growth rate and hadn't been affected by legislative change. The next seven tables lists the amount added to or subtracted from the payments due to legislative change. The last table shows the annual growth rate.

The third section ("Legislative Changes – Block Grant Payments (Schools)") is set up similarly to the second section. However, this section shows the history of payments to schools.

Entitlement Share Payments and Block Grant Payments (HB124) Summary

Total Entitlement Share Payments and Block Grant Payments (Actual Payments)																
<u>Government</u>	<u>FY 2001¹</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
Cities	4,348,722	41,819,074	43,073,646	44,457,494	46,000,170	47,485,975	48,286,045	50,328,545	52,482,607	55,138,227	57,972,332	57,972,332	60,682,042	63,340,071	66,062,866	67,794,672
Counties	16,639,779	37,901,465	29,552,023	30,415,967	31,231,115	32,008,770	31,359,261	32,384,708	33,453,404	34,758,086	36,134,507	36,134,507	43,998,071	46,775,703	51,575,418	52,671,754
Cons. Govt.	0	4,572,972	3,862,832	3,976,964	4,099,455	4,284,842	4,337,831	4,500,500	4,671,069	4,880,333	5,102,388	5,102,388	5,420,707	5,740,824	6,048,864	6,192,438
TIFs	4,073,026	3,144,570	3,748,748	3,608,324	3,907,121	1,725,279	1,725,279	1,725,279	1,288,464	819,498	819,498	762,576	2,132,154	2,546,425	2,635,139	2,611,157
School Block Grant	24,072,153	53,350,294	52,402,592	47,712,970	48,073,701	48,440,963	48,809,114	49,180,064	49,555,030	49,930,441	50,309,913	50,309,913	58,555,845	55,314,260	68,759,354	63,756,018
Retirement B.G.	4,932,923	10,920,238	9,863,479	0	0	0	0	0	0	0	0	0	1,636,917	997,143	3,808,074	2,764,448
Transportation B.G.	867,765	1,814,759	1,650,088	1,745,588	1,758,855	1,772,222	1,785,691	1,799,262	1,812,937	1,826,715	1,840,598	1,854,587	2,071,613	2,011,422	2,319,133	2,231,218
Total	54,934,368	153,523,372	144,153,408	131,917,308	135,070,416	135,718,051	136,303,222	139,918,359	143,263,510	147,353,301	152,179,235	152,136,302	174,497,349	176,725,848	201,208,846	198,021,705

¹ FY2001 is the amount the state was reimbursing local governments and schools for personal property tax reimbursement programs. These continued under HB124.

Revenues Assumed 100% by the State from HB124 (2001)																
<u>Revenue</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
Vehicle Taxes and Fees	12,534,181	99,505,000	103,537,562	114,330,576	110,772,000	113,292,384	116,454,885	112,485,831	104,678,282	103,858,176	100,569,000	99,763,028	99,144,345	100,968,164	106,381,106	
Video Gambling Tax	20,891,449	43,666,145	45,794,025	50,748,949	53,361,007	57,277,216	60,641,063	63,134,000	62,458,106	52,395,999	49,824,310	53,823,548	57,260,664	57,146,540	59,798,604	
Total Liquor Taxes	8,760,173	13,529,296	14,153,742	15,038,259	15,907,913	17,240,807	18,790,796	19,878,606	17,701,683	20,590,614	20,964,948	22,097,523	22,951,309	23,690,638	24,599,011	
District Court Funds	0	490,765	2,709,511	2,942,065	3,087,915	3,152,311	3,207,574	3,488,227	3,559,954	3,631,766	3,693,107	3,465,560	3,398,760	3,303,174	3,251,358	
Total Revenue	42,185,803	157,191,206	166,194,839	183,059,849	183,128,836	190,962,718	199,094,318	198,986,665	188,398,025	180,476,554	175,051,366	179,149,659	182,755,077	185,108,516	194,030,079	

Legislative Changes - Entitlement Share Payments (Local Governments)

Total Entitlement Share Payment (Actual Payments)																
<u>Government</u>	<u>FY 2001</u>	<u>FY2002¹</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
Cities		41,819,074	43,073,646	44,457,494	46,000,170	47,485,975	48,286,045	50,328,545	52,482,607	55,138,227	57,972,332	57,972,332	60,682,042	63,340,071	66,062,866	67,794,672
Counties		37,901,465	29,552,023	30,415,967	31,231,115	32,008,770	31,359,261	32,384,708	33,453,404	34,758,086	36,134,507	36,134,507	43,998,071	46,775,703	51,575,418	52,671,754
Cons. Govt.		4,572,972	3,862,832	3,976,964	4,099,455	4,284,842	4,337,831	4,500,500	4,671,069	4,880,333	5,102,388	5,102,388	5,420,707	5,740,824	6,048,864	6,192,438
TIFs ²		3,144,570	3,748,748	3,608,324	3,907,121	1,725,279	1,725,279	1,725,279	1,288,464	819,498	819,498	762,576	2,132,154	2,546,425	2,635,139	2,611,157
Total		87,438,081	80,237,249	82,458,749	85,237,860	85,504,866	85,708,416	88,939,032	91,895,543	95,596,144	100,028,724	99,971,802	112,232,973	118,403,023	126,322,286	129,270,021

¹ The state did not fully assume control of district courts until FY2003. Therefore revenue in FY2002 was significantly greater than revenue in FY2003 as this cost was not decreased from the entitlement share payments until FY2003.

Original Entitlement Share with Growth Only																
<u>Government</u>	<u>FY 2001¹</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
Cities	40,601,043	41,819,074	43,073,646	44,457,494	46,000,170	47,485,975	49,100,498	51,177,449	53,367,844	56,068,257	58,950,166	58,950,166	58,950,166	61,013,421	63,148,891	65,359,102
Counties	28,236,674	29,033,624	29,552,023	30,261,943	31,072,963	31,846,680	32,681,063	33,749,733	34,863,475	36,223,150	37,657,587	37,657,587	37,657,587	38,787,314	39,950,934	41,149,462
Cons. Govt.	3,666,004	3,775,984	3,862,832	3,971,764	4,094,094	4,279,328	4,408,136	4,573,441	4,746,774	4,959,430	5,185,084	5,185,084	5,185,084	5,353,599	5,527,591	5,707,238
TIFs ²	4,667,886	3,144,570	3,748,748	3,608,324	3,907,121	1,725,279	1,725,279	1,725,279	1,288,464	819,498	819,498	762,576	731,902	701,454	476,481	476,481
Total	77,171,607	77,773,252	80,237,249	82,299,525	85,074,348	85,337,262	87,914,976	91,225,903	94,266,557	98,070,335	102,612,334	102,555,412	102,524,738	105,855,789	109,103,897	112,692,283

¹ No payments in FY2001 - this is the "base" entitlement share pool for which the growth rate was initially applied. The original base includes revenue from many sources including motor vehicle fees, gaming revenue, beer/wine/liquor revenue, and district court fees.

The state assumed 100% of public assistance cost from county governments and 100% of district court cost from county governments.

² TIFs do not grow according to a growth rate. With the exception of the reimbursements from SB372 (2011) and SB96 (2013) the amount reimbursed to a TIF is set in statute and funding dissolves when a TIF is no longer in existence. The legislature reduced existing payments to TIF districts by 10% beginning FY2012.

Legislative Changes - HB18 in August 2002 Special Session (Ongoing addition to Entitlement Share Payments)																
<u>Government</u>	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
Cities				0	0	0	0	0	0	0	0	0	0	0	0	0
Counties				154,024	158,152	162,090	166,337	171,776	177,444	184,365	191,666	191,666	191,666	197,416	203,338	209,438
Cons. Govt.				5,200	5,361	5,514	5,680	5,893	6,116	6,390	6,681	6,681	6,681	6,898	7,122	7,354
TIFs				0	0	0	0	0	0	0	0	0	0	0	0	0
Total				159,224	163,512	167,604	172,016	177,669	183,561	190,755	198,347	198,347	198,347	204,314	210,460	216,792

This bill reallocated revenue from the 25-cent marriage license fee and the probation and parole administrative fee from the county to the state and instructed the DOR to add to the FY2003 ESP the revenue from these two sources before applying the growth factor for the FY2004 entitlement share pool. In FY2003, \$150,340.71 was collected for counties and \$5,057.75 was collected for consolidated governments.

Legislative Changes - Entitlement Share Payments (Local Governments), continued

Legislative Changes - SB146 in 2005 Session and SB169 in 2007 Session (Ongoing reduction to Entitlement Share Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities							-814,453	-848,904	-885,237	-930,030	-977,834	-977,834	-977,834	-1,012,058	-1,047,480	-1,084,142
Counties							-1,488,139	-1,536,801	-1,587,515	-1,649,428	-1,714,746	-1,714,746	-1,714,746	-1,766,188	-1,819,174	-1,873,749
Cons. Govt.							-75,984	-78,834	-81,822	-85,487	-89,377	-89,377	-89,377	-92,282	-95,281	-98,377
TIFs							0	0	0	0	0	0	0	0	0	0
Total							-2,378,576	-2,464,539	-2,554,574	-2,664,946	-2,781,956	-2,781,956	-2,781,956	-2,870,528	-2,961,935	-3,056,268

Under SB146, in the 2005 legislative session, the state assumed public defender costs beginning in FY2007. The amounts for reducing the entitlement share payments were written into statute 15-1-121(3)(i). SB169 in the 2007 legislative session adjusted these values for six counties.

Legislative Changes - SB372 and HB495 in 2011 Session (Ongoing addition to Entitlement Share Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities													1,505,446	1,558,137	1,612,671	1,669,115
Counties													4,807,560	4,951,787	5,100,340	5,253,351
Cons. Govt.													211,666	218,545	225,648	232,981
TIFs													805,953	805,953	765,900	765,900
Total													7,330,625	7,534,422	7,704,560	7,921,347

SB372 reduced the tax rate on class 8 property from 3% to 2% for the first \$2 million in market value of class 8 property owned by an individual or business. The \$2 million threshold would have been raised to \$3 million and the tax rate further reduced to 1.5% if the corporation license and individual income tax collections exceeded the prior year's collection by more than 4% beginning FY2013 (this did not happen and is no longer in law). This bill reimbursed local governments, schools, and TIFs for this loss in value. HB495 changed the way the growth rate is calculated and reduced TIF payments by 10%.

Legislative Changes - SB372 and HB495 in 2011 Session (One-time addition to Entitlement Share Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities													1,204,264			
Counties													3,056,004			
Cons. Govt.													106,653			
TIFs													594,299			
Total													4,961,220			

Legislative Changes - SB96 in 2013 Session (Ongoing addition to Entitlement Share Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities															2,348,783	2,430,991
Counties															8,139,979	8,384,178
Cons. Govt.															383,783	396,256
TIFs															1,392,758	1,368,776
Total															12,265,303	12,580,201

SB96 changed the tax rate on class 8 property. The first \$100,000 of market value owned by an individual or business is exempt, the next \$6 million is taxed at 1.5%, and anything over \$6.1 million in market value is taxed at 3%. This bill reimbursed local governments, schools, and TIF districts for this loss in value.

Legislative Changes - SB96 in 2013 Session (One-time addition to Entitlement Share Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities														1,780,571		
Counties														4,605,375		
Cons. Govt.														254,064		
TIFs														1,039,018		
Total														7,679,027		

Legislative Changes - HB33 in 2015 Session (Ongoing subtraction to the Entitlement Share Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities																-580,394
Counties																-450,926
Cons. Govt.																-53,014
TIFs																0
Total																-1,084,333

HB33 ("Appropriate money for new or expanded mental health crisis intervention") instructed the Department of Revenue to decrease the Entitlement Share Pool for FY 2016 by \$1,049,904. This means the FY15 payments were reduced by this amount before applying the growth rate. The total amount subtracted is \$1,049,904 times the growth factor.

Annual Growth Rate																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Cities		3.00%	3.00%	3.18%	3.47%	3.23%	3.40%	4.23%	4.28%	5.06%	5.14%	0.00%	0.00%	3.50%	3.50%	3.50%
Counties		3.00%	1.61%	2.45%	2.68%	2.49%	2.62%	3.27%	3.30%	3.90%	3.96%	0.00%	0.00%	3.00%	3.00%	3.00%
Cons. Govt.		3.00%	2.30%	2.82%	3.08%	2.86%	3.01%	3.75%	3.79%	4.48%	4.55%	0.00%	0.00%	3.25%	3.25%	3.25%
TIFs		--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Legislative Changes - Block Grant Payments (Schools)

Total Block Grant Payments (Actual Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant		53,350,294	52,402,592	47,712,970	48,073,701	48,440,963	48,809,114	49,180,064	49,555,030	49,930,441	50,309,913	50,309,913	58,555,845	55,314,260	68,759,354	63,756,018
Retirement Block Grant		10,920,238	9,863,479	0	0	0	0	0	0	0	0	0	1,636,917	997,143	3,808,074	2,764,448
Transportation Block Grant		1,814,759	1,650,088	1,745,588	1,758,855	1,772,222	1,785,691	1,799,262	1,812,937	1,826,715	1,840,598	1,854,587	2,071,613	2,011,422	2,319,133	2,231,218
Total		66,085,291	63,916,159	49,458,558	49,832,556	50,213,185	50,594,806	50,979,326	51,367,967	51,757,157	52,150,511	52,164,499	62,264,375	58,322,825	74,886,561	68,751,684

Original Block Grant Payments with Growth Only																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant		53,350,294	52,402,592	47,712,970	48,073,701	48,440,963	48,809,114	49,180,064	49,555,030	49,930,441	50,309,913	50,309,913	50,309,913	50,309,913	50,309,913	50,309,913
Retirement Block Grant		10,920,238	9,863,479	0	0	0	0	0	0	0	0	0	0	0	0	0
Transportation Block Grant		1,814,759	1,650,088	1,745,588	1,758,855	1,772,222	1,785,691	1,799,262	1,812,937	1,826,715	1,840,598	1,854,587	1,868,681	1,882,883	1,897,193	1,911,612
Total		66,085,291	63,916,159	49,458,558	49,832,556	50,213,185	50,594,806	50,979,326	51,367,967	51,757,157	52,150,511	52,164,499	52,178,594	52,192,796	52,207,106	52,221,525

The original payments for school block grants includes revenue from vehicle taxes and fees, corporate license tax paid by financial institutions, state land payments in lieu of taxes, and property tax reimbursements.

The FY2002 and FY2003 payments to the retirement and transportation block grant payments were set in statute and set to grow at 0.76% for FY2004 and beyond. SB424 (2003) eliminated the payment for the retirement block grant payments.

SB424 (2003) also eliminated portions of the school block grants. Block grants to school district transportation funds were cut in half and block grants for debt service funds were eliminated.

Legislative Changes - SB372 in 2011 Session (Ongoing addition to Block Grant Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant													5,004,347	5,004,347	5,004,347	5,004,347
Retirement Block Grant													997,143	997,143	997,143	997,143
Transportation Block Grant													127,569	128,539	129,515	130,500
Total													6,129,059	6,130,029	6,131,005	6,131,990

SB372 reduced the tax rate on class 8 property from 3% to 2% for the first \$2 million in market value of class 8 property owned by an individual or business. The \$2 million threshold would have been raised to \$3 million and the tax rate further reduced to 1.5% if the corporation license and individual income tax collections exceeded the prior year's collection by more than 4% beginning FY2013 (this did not happen and is no longer in law). This bill reimbursed local governments, schools, and TIFs for this loss in value.

Legislative Changes - SB372 and HB495 in 2011 Session (One-time addition to Block Grant Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant													3,241,585			
Retirement Block Grant													639,774			
Transportation Block Grant													75,363			
Total													3,956,722			

Legislative Changes - SB96 in 2013 Session (Ongoing addition to Block Grant Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant															8,441,758	8,441,758
Retirement Block Grant															1,767,305	1,767,305
Transportation Block Grant															187,680	189,106
Total															10,396,743	10,398,169

SB96 changed the tax rate on class 8 property. The first \$100,000 of market value owned by an individual or business is exempt, the next \$6 million is taxed at 1.5%, and anything over \$6.1 million in market value is taxed at 3%. This bill reimbursed local governments, schools, and TIF districts for this loss in value.

Legislative Changes - SB96 in 2013 Session (One-time addition to Block Grant Payments)																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant															5,003,336	
Retirement Block Grant															1,043,626	
Transportation Block Grant															104,744	
Total															6,151,706	

Annual Growth Rate																
Government	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
School Block Grant		0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.00%	0.00%	0.00%	0.00%	0.00%
Retirement Block Grant		0.76%	0.76%	--	--	--	--	--	--	--	--	--	--	--	--	--
Transportation Block Grant		0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%	0.76%