



Mike Kadas
Director

Montana Department of Revenue



Steve Bullock
Governor

Memorandum

To: Ed Caplis, Tax Policy and Research

From: Emily Klungvedt, Tax Policy and Research

Date: May 21, 2015

Subject: Explanation of HB 33 (2015) on the FY 2016 Entitlement Share Payments

Recent legislation has affected the calculation of the FY 2016 Entitlement Share Payments. House Bill 33 (“Appropriate money for new or expanded mental health crisis intervention”) instructs the Department of Revenue to decrease the Entitlement Share Pool for FY 2016 by \$1,049,904.

15-1-121(3)(b), MCA – For fiscal year 2016, the fiscal year entitlement share pool is reduced by \$1,049,904.

HB 33 then states that the growth rate is to be applied to this reduced Entitlement Share Pool to determine total FY 2016 Entitlement Share Payments.

15-1-121(4)(b)(iv), MCA – For fiscal year 2016, the entitlement share growth rate is applied to the most recently completed fiscal year entitlement payment minus \$1,049,904 to determine the subsequent fiscal year payment.

Local governments can see the loss in revenue for their FY 2016 payments under the column titled “HB 33 Reduction in Entitlement Share Pool” in the following links: [County ESP](#), [City ESP](#), [Consolidated Government ESP](#). The remainder of this memo explains how this is calculated.

Proportional Distribution of the \$1,049,904 by Local Government Type

The first step to comply with HB 33 is to proportionately distribute the \$1,049,904 loss in revenue between local government types (counties, cities and towns, and consolidated local governments). This distribution is based on prior year (FY 2015) Entitlement Share Payments (ESP) and is shown in the following table.

Reduction of the FY 15 ESP due to HB 33				
Used to Calculate FY 16 Payments				
	<u>FY 15 ESP</u>	<u>FY 15 ESP</u>	<u>HB 33 Reduction</u>	<u>Reduced FY 15 ESP</u>
		<u>% of Total</u>	<u>(FY 15 ESP * %)</u>	<u>(FY 15 ESP – HB 33 Red.)</u>
Counties	\$51,575,416.92	41.69828%	\$437,791.95	\$51,137,624.97
Cities/Towns	\$66,062,865.36	53.41126%	\$560,766.98	\$65,502,098.38
Consolidated Govt	\$6,048,863.21	4.89045%	\$51,345.07	\$5,997,518.14
Total	\$123,687,145.49		\$1,049,904.00	\$122,637,241.49

For example, counties received a combined total of \$51,575,416.92 in payments in FY 2015. This is 41.7% of the total ESP ($\$51,575,416.92 / \$123,687,145.49 = 41.7\%$). Therefore, 41.7% of statutorily required reduction of \$1,049,904, or \$437,791.95, is subtracted from the county's share of the FY 2015 ESPs.

The growth rate for FY 2016 will be applied to the FY 2015 reduced value as shown in the table below. This growth will be distributed to individual taxing jurisdictions 50% based on prior year share of revenue and 50% based on population (per current law, 15-1-121, MCA).

FY 2016 Calculation for Growth in ESP				
	<u>Reduced FY 15 ESP</u>	<u>Growth Rate</u>	<u>FY 16 Total ESP</u>	<u>Amount of Growth (FY 15 ESP – FY 16 ESP)</u>
Counties	\$51,137,624.97	3%	\$52,671,753.74	\$1,534,128.75
Cities/Towns	\$65,502,098.38	3.5%	\$67,794,671.82	\$2,292,573.44
Consolidated Govt	\$5,997,518.14	3.25%	\$6,192,437.48	\$194,919.34
Total	\$122,637,241.49		\$126,658,863.04	\$4,021,621.53

Proportional Distribution of the \$1,049,904 by Individual Taxing Jurisdiction

The second step to comply with HB 33 is to proportionately allocate the reduction in revenue by individual taxing jurisdiction. The table below shows an example of this calculation for three counties.

FY 2016 Calculation for Growth in ESP				
<u>County</u>	<u>FY 15 ESP</u>	<u>FY 15 ESP % of Total</u>	<u>HB 33 Reduction</u>	<u>Reduced FY 15 ESP (FY 15 ESP – HB 33 Red.)</u>
Beaverhead	\$562,125.32	1.08991%	\$4,771.54	\$557,353.78
Big Horn	\$208,941.38	0.40512%	\$1,773.57	\$207,167.81
Blaine	\$454,640.07	0.88151%	\$3,859.16	\$450,780.91
Totals	51,575,416.92		437,791.93	51,137,624.99

For example, Beaverhead County received \$562,125.32 in ESP in FY 2015. This is 1.1% of total ESP that all of the counties received. Therefore, 1.1% of the county share of revenue reduction due to HB 33 (\$437,791.93) is reduced from Beaverhead County's FY 2015 ESP. This is equal to \$4,771.54 ($\$562,125.32 * 1.1\% = \$4,771.54$).

The final FY 2016 payments for individual taxing jurisdictions are calculated by taking the FY 2015 ESP minus the loss in revenue due to HB 33 plus the growth amount allocated to that taxing jurisdiction. This calculation can be seen for every local government in the links listed above or by clicking on the "Entitlement Share Payments" tab in the following link:

http://revenue.mt.gov/home/local_governments.

For further questions, contact Emily Klungtvedt at eklungtvedt@mt.gov or (406)444-6634.