

Entitlement Share History of Growth Rate Calculations

LFC Subcommittee on Pensions and State/Local Government Budget Interactions
May 4, 2020

HB 124: 2001 Legislative Session (The Big Bill)

- Revised laws governing state and local government revenue collection and allocation
- State assumed control of both expenditures and revenues that were originally administered at the local level
- Ultimately, the revenues exceeded the expenditures that the state assumed control of. As a result, an entitlement share payment was created to make up for the difference.
- This payment is distributed quarterly to cities, counties, and consolidated governments
- This payment grows each year in accordance with a formula provided in statute.

Original Entitlement Share Growth Rate Formula

- Used two measures of the Montana economy (Montana Gross State Product (GSP) and Montana Personal Income (PI))
- For the first year of the biennium the annual average growth rate was calculated for both variables. It was based on the 4 years prior to the most recently published calendar year data.
- For the second year of the biennium the same growth rate was calculated for the last 4 calendar years for which information had been published.
- The average of these two growth rates was then applied to local governments.

Counties=Growth Rate x 54%

Consolidated Governments=Growth Rate x 62%

Cities=Growth Rate x 70%

Original Entitlement Share Growth Rate Example

FY 2016 (First Year of Biennium, \$ Millions)

CY	Montana GSP	Montana PI	GSP Growth Rate	PI Growth Rate
2010	38,581	36,228		
2011	41,125	38,708	6.6%	6.8%
2012	42,292	40,568	2.8%	4.8%
2013	43,234	41,078	2.2%	1.3%
2014	45,148	43,478	4.4%	5.8%
2015	45,937	44,956	1.7%	3.4%
2016	45,854	46,034	-0.2%	2.4%
			4.02%	4.69%
				4.35%

Counties: 2.35% Consolidated: 2.70% Cities: 3.05%

FY 2017 (Second Year of Biennium, \$ Millions)

CY	Montana GSP	Montana PI	GSP Growth Rate	PI Growth Rate
2010	38,581	36,228		
2011	41,125	38,708	6.6%	6.8%
2012	42,292	40,568	2.8%	4.8%
2013	43,234	41,078	2.2%	1.3%
2014	45,148	43,478	4.4%	5.8%
2015	45,937	44,956	1.7%	3.4%
2016	45,854	46,034	-0.2%	2.4%
			2.81%	3.83%
				3.32%

Counties: 1.79% Consolidated: 2.06% Cities: 2.32%

HB 495 (2011 Legislative Session) & New Formula

- Froze the entitlement share growth rate for fiscal years 2012 and 2013
- Beginning in FY 2014, the growth rate calculation was changed
- Instead of using MT GSP and MT PI, the growth rate was based on actual General Fund revenue collections from select sources
- The growth rate uses two buckets of revenue
- The first bucket contains alcohol, gambling, and vehicle revenues and is assigned a weight of .75
- The second bucket contains individual and corporate income revenues and is assigned a weight of .25
- The growth rate for each bucket is the sum of the two previously completed fiscal years divided by the sum of the 2nd and 3rd most recently completed fiscal years, then the weights are applied.

Current Entitlement Share Growth Rate Example

FY 2016 (\$ Millions)

FY	Bucket 1	Bucket 2	Weight 1	Weight 2	Growth Rate 1	Growth Rate 2
2013	219	1,225	75%	25%	3.02%	5.06%
2014	222	1,211				
2015	232	1,348			3.02 x .75	5.06 x .25
2016	233	1,303			2.26%	1.26%
Sum						3.53%

Growth rate for each bucket is the sum of FY 2014 & FY 2015 divided the sum of FY 2013 and FY 2014

- The growth rate that local governments receive is the lesser of the calculated growth rate and
 - 3% for counties
 - 3.25% for consolidated governments
 - 3.5% for cities
 - Finally, the growth rate can not be less than 1

So in FY 2016, 3.53% was larger than the caps in statute, so each local government received their max growth rate.

History of Entitlement Share Growth Rates

