Entitlement Share 101

History

In 2001, the legislature passed House Bill 124, also known as the "Big Bill". HB 124 amended numerous sections of Montana code and created what has become known as the entitlement share program.

The entitlement share program aimed to address two main issues:

1. As revenue streams for both state and local governments became more complex over time, allocating taxes and fees become more complicated as well.
   - For example, prior to 2001 county treasurers collected fees, sent a portion of the funds to the state where those moneys were divvied up into multiple accounts, and then leftover funds would be sent back to the county or other local governments. Money changed hands many times in an overly complex system, which led to fears that mistakes could be made.
2. Legislation in 1997 and 1999 (and again in 2013 and 2015) reduced tax rates on several classes of property, creating a loss of revenue for many local governments and school districts.
   - Most of the reduced property tax rates applied to businesses and energy developers (see Title 15, chapter 6, part 1, MCA for more information on specific property classifications).
   - The state enacted the tax reductions, but local governments felt the brunt of them and had to find ways to "fill the gap" of lost property tax revenue.

The solution to both issues was an entitlement share payment concept that created a financial partnership between state and local governments. Each local government remitted taxes and fees to the state general fund and in turn received an annual amount that represented revenue received by local governments for a diminished property tax base and various earmarked fees and other revenue. The concept streamlined a complex accounting system while also allowing the state to reimburse local governments hit hardest by state-mandated property tax reductions.

How was the entitlement share payment concept established?

A base entitlement share payment was calculated for each local government, accounting for all revenue the local government was entitled to annually. Base payments included distributions of property taxes and licensing fees directly collected from counties and included other taxes and fees collected at the state level, such as:

1. DNRC payments in lieu of taxes (PILT) for counties having over 6% state land
2. Aircraft registration fees
3. Gaming revenue
4. Coal tax apportionment
5. Beer, liquor and wine tax apportionment

   See 15-1-121(2), MCA for a full list of dedicated revenue included in entitlement share payments.

The base calculation also included local government revenue reimbursements for fluctuations in property tax bases.

Each local government's total payment received in a prior year would become the new base component for the next fiscal year and adjusted annually to account for growth. The annual growth factor calculation formula is complex and can be found in 15-1-121, MCA.

How has entitlement share changed?

Numerous legislative actions have affected the entitlement share program:

- 2001 – HB 124 (the Big Bill) removed local government obligations for most welfare program costs and SB 176 transferred district court funding responsibilities from local governments to the state. First-year base components were calculated after the state assumed these extra costs, so funding welfare programs and district courts were not included in entitlement share payments.
- 2005 – SB 146 created a statewide public defender system, transferring funding obligations to the state. The bill relieved local governments from the growing financial burden of the public defender office while also excluding public defender service fees from entitlement share payments.
- 2011 – SB 372 changed the method of calculating a local government's base component and growth rate. Base components were changed to equal the previous year's entitlement share payment, and the growth rate was amended to reflect an overall growth rate, based 50% on each county's base year component and 50% on population, adjusted annually.
- 2011 – HB 495 eliminated growth rate increases for fiscal years 2012 and 2013 and changed the growth rate calculation, adding a 3% cap, effective in fiscal year 2014.
- 2013 – SB 96 reduced business and equipment taxes, requiring a partial reimbursement through increased local government entitlement share payments.
- 2015 - HB 33 appropriated more state money for new or expanded mental health crisis intervention, paid for by reducing entitlement share payments to local governments.
- 2017 – HB 565 reduced local governments' growth rate for fiscal year 2018 to .5% and fiscal year 2019 to 1.87%. Reductions are one-time-only, and the statutory growth rates are restored for fiscal year 2020.
- 2017 - HB 422 allows the state to withhold entitlement share payments if a local government fails to file financial reports and remit payments due to the state.

Summary

The money distributed in entitlement shares is dedicated local government revenue. Entitlement shares are not discretionary funding allocations granted by the state to local governments, but, rather, the entitlement share program is a vehicle both local governments and the state use to distribute funds more cost effectively and efficiently.

Links to more information:

Montana Department of Revenue Annual Entitlement Share Payment Reports

- https://mtrevenue.gov/publications/entitlement-share-payments/

Montana Association of Counties Entitlement Share Summary

- http://www.mtcounties.org/resources/fiscal-information-forms/entitlement-share

Montana League of Cities and Towns FY 2018 County Entitlement Share Payments

- https://www.mtleague.org/fy-2018-county-entitlement-share-payment-adjusted-for-hb565/

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