



Mike Kadas
Director

Montana Department of Revenue



Steve Bullock
Governor

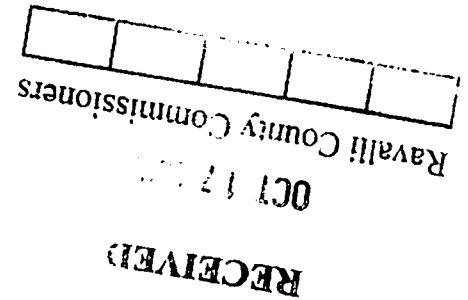
Memorandum

To: Ed Caplis, Director
Office of Tax Policy and Research

From: Aaron McNay, Economist
Rosemary Bender, Economist
Office of Tax Policy and Research

Date: October 17, 2013

Subject: Fiscal Year 2015 Entitlement Share Growth Rates



Per 15-1-121 MCA, the Department of Revenue shall calculate the growth rate of the entitlement share pool. The purpose of this memo is to provide the calculation of the entitlement share growth rate for fiscal year 2015.

As outlined in MCA, 15-1-121(4)(b)(i), the estimation of the entitlement share growth rate is based on the ratios generated using two state revenue factors for the three most recently completed fiscal years. The first ratio is generated using the combined revenue estimates for the vehicle taxes and fees, gaming revenue and alcohol taxes referenced in MCA, 15-1-121(2). The second ratio is created using the combined statewide revenue estimates for individual income taxes and corporation income taxes. Both ratios are generated by dividing the first and second previous completed fiscal years by the sum of the revenue for the second and third previously completed fiscal years. Finally, the two ratios are weighted and summed together, with the first ratio receiving a 0.75 weight and the second ratio receiving a 0.25 weight.

Table 1 shows the tax revenue generated for fiscal years 2011, 2012 and 2013 for the two required ratios. In fiscal year 2011, the vehicle, gaming and alcohol taxes and fees generated approximately \$201,441,102 in revenue. By fiscal year 2013 the revenue generated by the same taxes and fees generated approximately \$214,118,964 in revenue. For personal and corporate income taxes, revenues increased from \$935,135,863 in fiscal year 2011 to \$1,225,290,406 in fiscal year 2013.

Table 1		
Fiscal Year	Vehicle, Gaming and Alcohol Revenue	Personal and Corporate Income Tax Revenue
2011	\$201,441,102	\$935,135,863
2012	\$213,667,892	\$1,026,625,294
2013	\$214,118,964	\$1,225,290,406
Unweighted Ratio	1.031	1.148
Weighted Ratio	0.773	0.287
Entitlement Share Growth Rate	1.060	

Using tax revenue estimates for the years 2011, 2012 and 2013, the next step in estimating the entitlement share growth rate is to generate annual growth rates for the vehicle, gaming and alcohol taxes and fees, and the personal and corporate income taxes. Table 1 shows the non-weighted annual growth rate ratios for both sources of tax revenue. Applying the weights specified in MCA, 15-1-121(4)(b)(i) generate a weighted ratio of 0.773 for the vehicle, gaming and alcohol taxes and a weighted ratio of 0.287 for personal and corporate income tax revenue. Finally, the two weighted ratios are combined to create the entitlement share growth rate of 1.06.

Based on tax revenue estimates, the entitlement growth rate for fiscal year 2015 would be 1.06. However, a growth rate of 1.06 exceeds the maximum allowable growth rates allowed in MCA, 15-1-121(4)(b)(ii). For fiscal year 2015, the entitlement growth rates for counties are not allowed to exceed 1.03. In addition, entitlement growth rates above 1.0325 and 1.035 are not allowed for consolidated local government, and cities and towns respectively. Table 2 shows the final entitlement growth rates that are to be used for counties, consolidated local governments, and cities and towns based on MCA, 15-1-121 for fiscal year 2015

Table 2			
Fiscal Year 2014 to 2015 Growth Rate, per 15-1-121, MCA			
	Counties	Consolidated Local Governments	Cities and Towns
Growth Rate	1.03	1.0325	1.035

Cc: Ryan Evans, Budget Analyst
Governor's Office

Harold Blattie, Executive Director
Montana Association of Counties

Alec Hansen, Executive Director
Montana League of Cities and Towns

Joe Triem, Fiscal Manager
Legislative Fiscal Division