

ENTITLEMENT SHARE HISTORY HB 124 (2001 SESSION)

A Report Prepared for the
Legislative Finance Committee
Subcommittee on Pensions/Local Government

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September 16, 2019



HB 124: LOCAL GOVERNMENTS & STATE TRADE REVENUES & EXPENDITURE RESPONSIBILITIES

[HB 124](#) from the 2001 Legislative session, also referred to as The Big Bill, revised laws governing local and state government revenue collection and allocation. The state assumed control of alcohol, vehicle, and gambling taxes as well as district court fees. In return, the state would reimburse local governments for the lost revenue in the form of an entitlement share payment. Prior to the passage of HB 124, local governments were reimbursed from property tax cuts in [SB 184](#) (1999 session). These reimbursements were included in the newly created entitlement share payments, and in this document were forecast to grow at the rate of the entitlement share payments. Furthermore, the state assumed control of the costs from the district courts as well as local welfare offices. In FY 2007, [SB 146](#) was passed which created the Office of the Public Defender (OPD), and its responsibilities were assumed by the state. As a result, local governments' entitlement share payments were slightly decreased to account for the increased costs to the state.

REVENUE AND EXPENDITURE ASSUMPTIONS & METHODOLOGIES

Since the passage of HB 124, revenues, entitlement share payments, and costs assumed by the state have all increased. However, the growth of the assumed responsibilities of the state coupled with the entitlement share payments has outpaced the assumed revenues collected by the state. Prior to the passage of HB 124, the approximate proportion of vehicle, gambling, and alcohol revenue collected by the county and city governments was 37%, 61%, and 23% of the total revenue collected from these sources. For the purpose of this analysis, these values were used to allocate the yearly revenues that the state assumed as a result of HB 124. For example, in FY 2018, gambling collections totaled \$65.1 million. Therefore, the portion of this amount attributable to HB 124 as revenue assumed by the state is \$39.7 million. This methodology was used to calculate the total revenues that the state assumed from the local government on a year-to-year basis.

District court expenditures used in this analysis were obtained from the state accounting system. Both general fund expenditures and state special fund expenditures were used. In FY 2007, district court costs in the amount of \$8.1 million were shifted to the state public defender system. Since the state assumed costs associated with the public defender system, local governments' entitlement share payments were slightly decreased to account for the shift in funding responsibility.

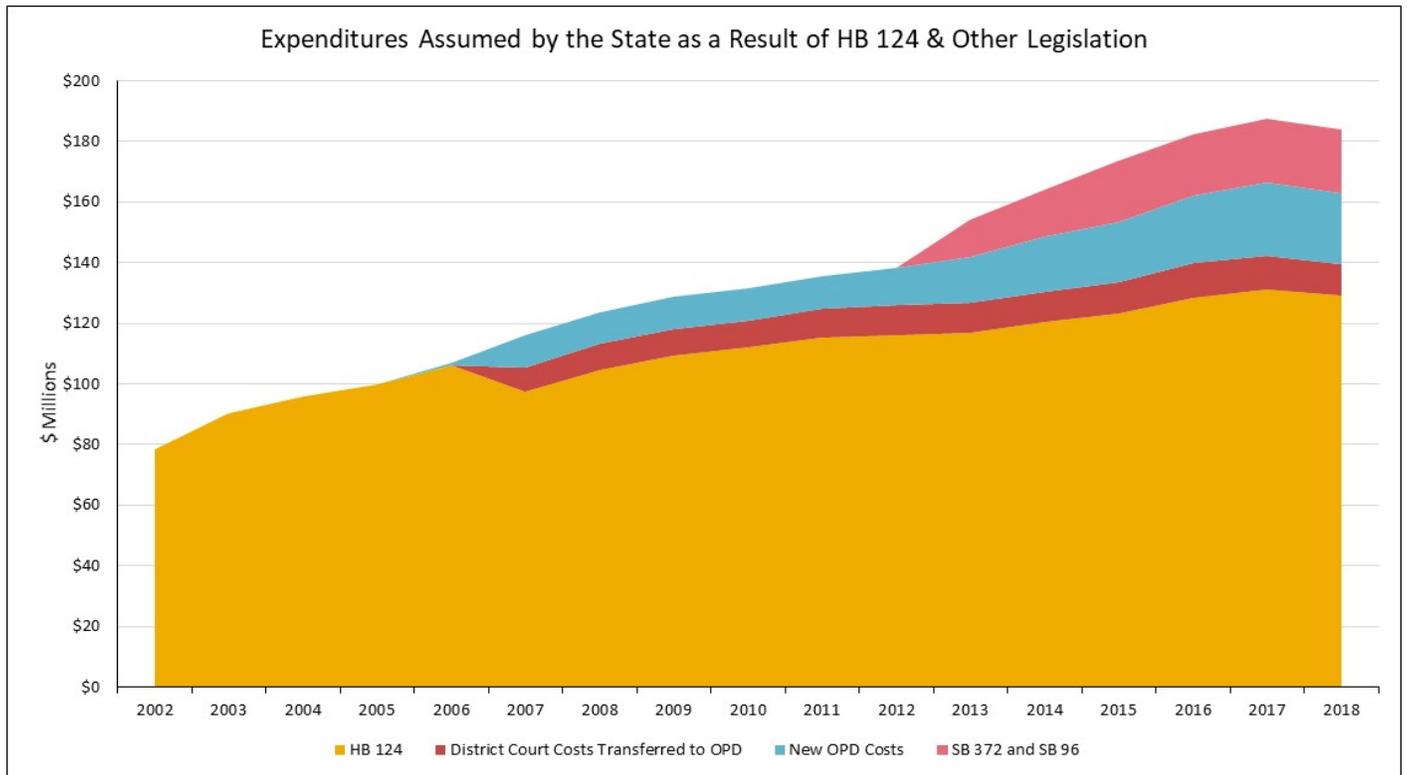
The state also assumed responsibility for local governments' welfare offices. For FY 2002 and FY 2003 the costs provided in the bill's fiscal note were used to represent the base cost to the state. Moving forward, the growth rate of state general fund and state special funds expenditures in the Community Services Division in the Department of Public Health and Human Services (DPHHS) was used to model growth in the state's assumed welfare costs. Ultimately, costs to the state have outpaced the revenues they assumed from local governments due to decreased vehicle and gambling revenues compared to FY 2007. The table and graph on the following page show how the revenues and costs assumed by the state have changed over time as new legislation was introduced.

PROPERTY TAX REDUCTIONS AND RESULTING REIMBURSEMENTS THROUGH ENTITLEMENT SHARE PAYMENTS

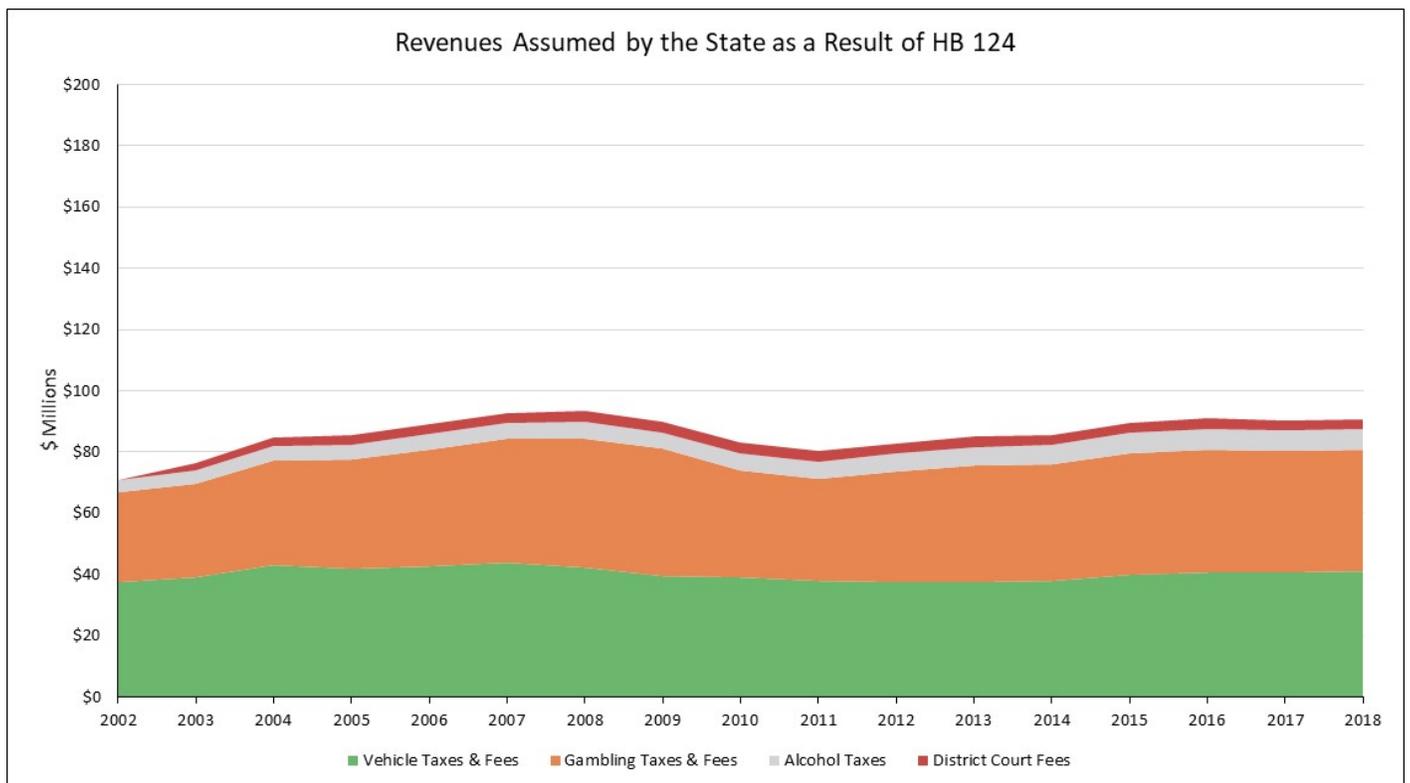
SB 372 and SB 96, from the 2011 and 2013 Legislative sessions, reduced taxes on business equipment. To offset the lost revenue at the local levels, the state agreed to reimburse local governments through an addition to their ongoing entitlement share payment.

The rest of the document provides a more in-depth look at the history of the relationship between the entitlement share payment and OPD. It examines the reduction in entitlement share payments when the state assumed the costs of OPD as well as the overall growth of the entitlement share payments over time.

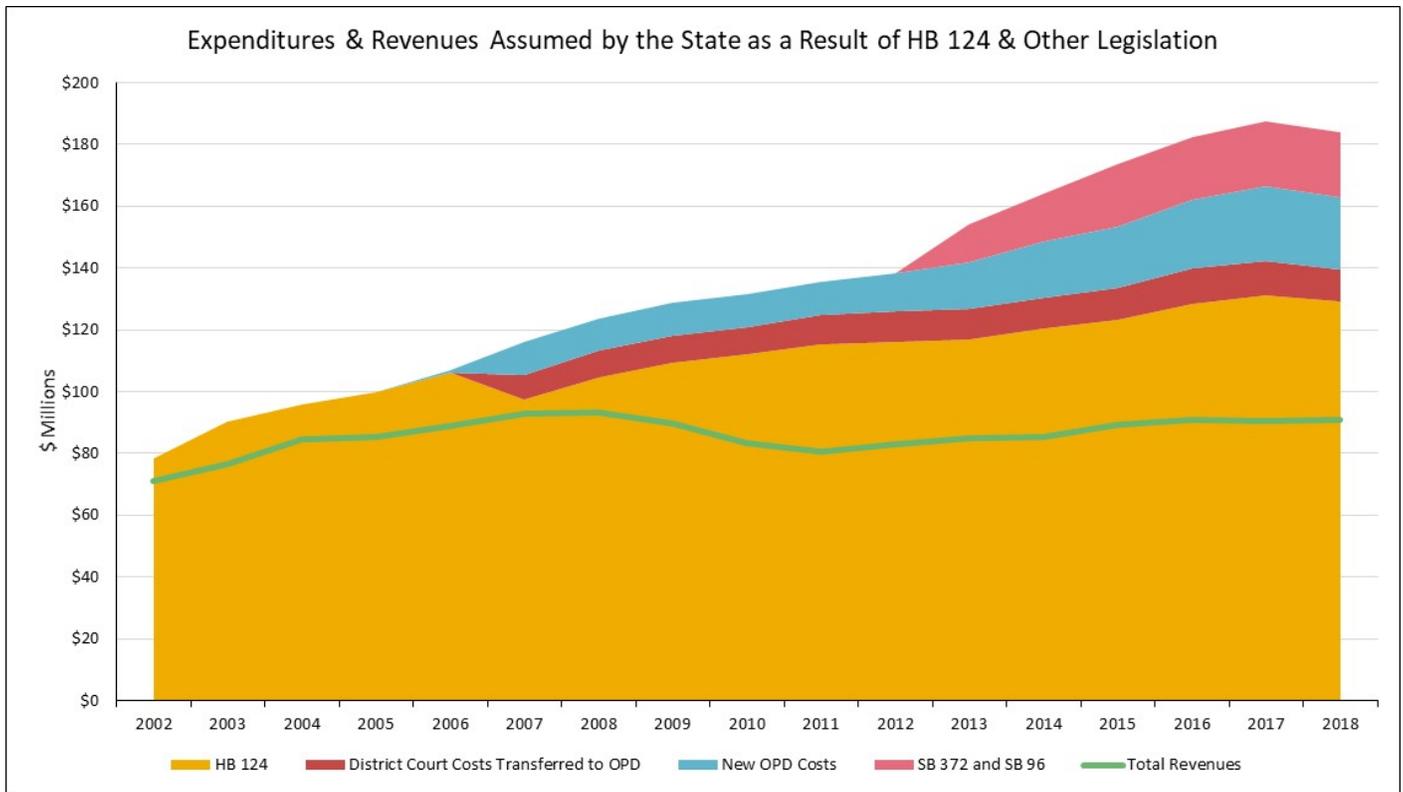
The following chart shows historical expenditures associated with HB 124 as well as other costs that affected entitlement share payments.



The next chart shows the revenues assumed by the state as a result of HB 124.



When HB 124 was passed, the initial intent was that the costs assumed by the state would be slightly more than the new revenues, roughly \$2.0 million. ***In fact, part of the reasoning behind the legislation was to provide a method to share state revenue growth with local governments.*** In the first few years the difference hovered instead around \$10.0 million. However, by 2008 the revenues peaked, and the discrepancy has grown substantially since then.



The trend shown above is expected to continue in future years, as entitlement share payments will likely grow by approximately 3.0% per year. Growth in public defender costs are not forecast to slow either. In contrast, the revenues sources discussed in this report are forecast to experience slow growth, if any.

Primary take-aways

- Statewide property tax reductions decrease tax collections at the local level. As a result, local governments have been reimbursed by the state through an addition to the entitlement share payment. These reimbursements can grow faster than those taxes that would have been collected at the local level.
- When OPD was created, \$8.0 million in costs were shifted from the district courts to OPD. These costs, though now under the OPD, would have still been under the state’s responsibility, though would have likely grown slower under the district courts.
- Since the implementation of HB 124, the original base entitlement share has grown by 2.9% per year, no more than traditional government spending. However, the revenues that the state assumed from local governments have yet to return to their peak levels they experienced in FY 2008, and continue to remain virtually flat.
- While the district court costs and entitlement share payments have grown over time at a modest pace, the OPD costs have far outpaced them, averaging 5.5% per year. For more information on the creation of OPD and SB 146, reference this report by the LFD.

Appendix

	Costs Assumed by the State																
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Original Entitlement Share (Less SB 146)	\$84,293,511	\$76,488,501	\$78,691,201	\$81,167,227	\$83,611,983	\$83,811,118	\$87,036,084	\$90,423,519	\$94,585,892	\$99,010,880	\$99,010,880	\$99,010,880	\$102,283,806	\$105,665,481	\$109,159,534	\$112,770,207	\$113,334,058
District Court	182,614	20,175,625	23,408,217	24,908,388	27,511,581	19,485,002	20,876,006	21,510,758	21,580,311	22,743,047	23,681,892	24,252,335	24,553,975	25,285,005	27,600,470	27,337,356	25,358,494
Office of Public Defender	-	-	-	-	753,162	18,660,000	18,940,000	19,630,000	19,420,000	20,420,000	22,280,000	24,840,000	28,290,000	30,460,000	33,620,000	35,310,000	33,530,000
County Welfare Offices	15,167,615	15,545,703	16,197,625	16,884,631	18,925,240	18,014,121	21,495,994	22,964,301	22,781,018	21,667,930	21,542,938	21,781,200	22,684,300	22,136,024	22,688,799	23,000,391	22,787,211
SB 372 and SB 96 (2011 & 2013 session)												12,291,845	15,213,449	19,969,863	20,501,548	21,179,678	21,285,577
SB 184 reimbursements (1999 session)	(21,208,954)	(21,737,502)	(22,363,494)	(23,067,163)	(23,761,946)	(23,818,539)	(24,735,052)	(25,697,737)	(26,880,655)	(28,138,206)	(28,138,206)	(28,138,206)	(29,068,348)	(30,029,397)	(31,022,383)	(32,048,511)	(32,208,754)
Original Bill	78,434,786	90,472,328	95,933,550	99,893,082	106,286,858	97,491,702	104,673,032	109,200,841	112,066,566	115,283,651	116,097,504	116,906,209	120,453,732	123,057,113	128,426,420	131,059,443	129,271,009
Total	\$78,434,786	\$90,472,328	\$95,933,550	\$99,893,082	\$107,040,020	\$116,151,702	\$123,613,032	\$128,830,841	\$131,486,566	\$135,703,651	\$138,377,504	\$154,038,054	\$163,957,181	\$173,486,976	\$182,547,968	\$187,549,121	\$184,086,586

	Revenues Assumed by the State from Counties and Cities																
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Alcohol Taxes	\$4,284,759	\$4,404,514	\$4,657,986	\$4,835,713	\$5,054,021	\$5,412,931	\$5,670,933	\$5,281,148	\$5,738,380	\$5,766,614	\$5,954,194	\$6,156,666	\$6,284,545	\$6,491,196	\$6,588,814	\$6,677,350	\$6,800,077
Gambling Taxes	29,129,990	30,559,525	34,045,145	35,801,306	38,217,243	40,447,646	42,119,591	41,677,590	34,955,802	33,239,754	35,906,531	38,199,745	38,122,569	39,890,621	40,393,112	39,485,390	39,697,090
Vehicle Taxes	37,585,150	38,909,708	43,065,042	41,676,561	42,613,442	43,813,532	42,280,111	39,338,742	39,025,310	37,796,778	37,572,033	37,357,309	37,804,289	39,765,444	40,549,824	40,817,896	40,946,060
District Court Fees	-	2,664,891	2,839,310	3,009,058	3,107,784	3,134,942	3,349,474	3,449,824	3,481,407	3,595,814	3,434,353	3,386,388	3,275,256	3,203,067	3,425,321	3,324,707	3,374,543
Total	\$70,999,900	\$76,538,638	\$84,607,484	\$85,322,639	\$88,992,490	\$92,809,051	\$93,420,109	\$89,747,305	\$83,200,899	\$80,398,960	\$82,867,111	\$85,100,108	\$85,486,659	\$89,350,328	\$90,957,071	\$90,305,343	\$90,817,770