

ANALYSIS OF STATE RESOURCES LOCAL ASSISTANCE EXPENDITURE GROWTH

A Required Report
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Montana statute directs that the Legislative Fiscal Division shall compare actual expenditures of state resources and further stipulates that comparisons be made to state expenditures to local governments and district courts and the Office of Public Defender. The following is the statute governing this definition.

17-7-153. State contributions to local government — expenditure comparison. Expenditure comparisons of state resources to local government must include local assistance grants, city or county or city-county appropriations, federal revenue sharing funds, fund transfers to local governments, and other expenditures of state resources made by the state to local government entities, tribal entities, and school districts.

17-7-154. (Temporary) Expenditures for district courts and office of public defender. Expenditure comparisons of state resources to local government must include state expenditures for the district courts and the office of state public defender but not for the appellate defender division. (Terminates June 30, 2025—sec. 7, Ch. 232, L. 2015.)

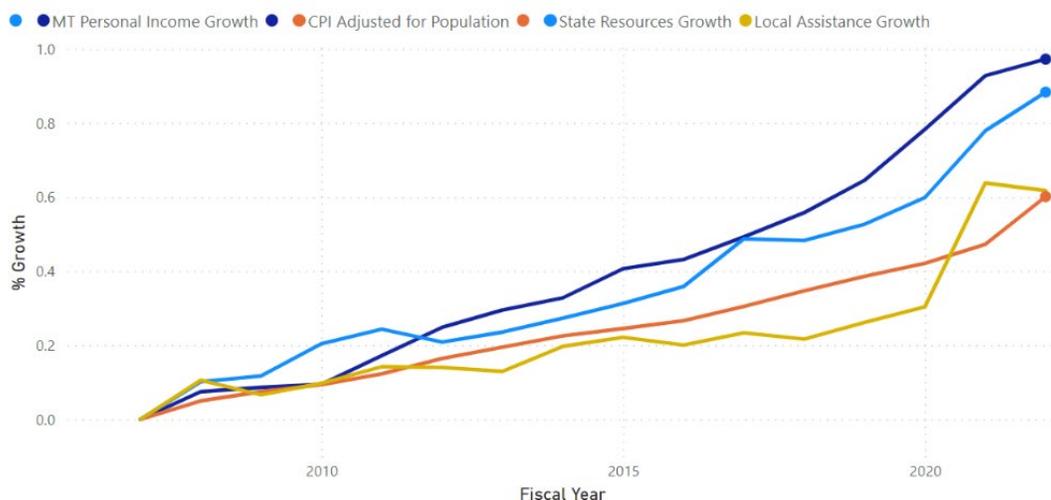
[Montana Code Annotated 17-7-153](#) is difficult to calculate, therefore this is the first analysis reporting on the intricacies of the local assistance data. The following is an initial, preliminary analysis and summary of the key findings.

The local assistance state resource analysis begins in FY 2007, which is different than other state resource analysis. Up until then, public defender functions were performed and funded at the county level and in certain district court cases, the state paid public defender costs through the office of the court administrator of the Judicial Branch. By FY 2007, district courts and the Office of Public Defender were both functional, so the analysis begins with that year.

Key Finding

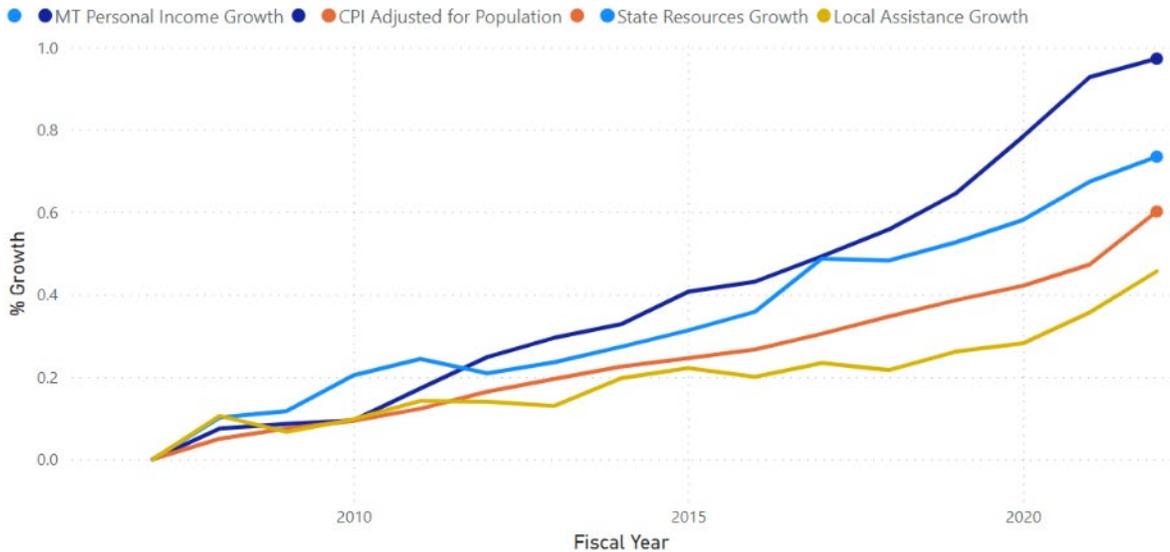
Overall, local assistance to counties, cities, schools, and tribal governments has not kept pace with inflation and population increases and has grown less than the rate of growth for all state resource expenditures until COVID, then the rate of growth climbed above inflation. The low growth is primarily the result of growth in local assistance to K-12 schools, which correlates to school enrollment growth. Please read the full report for more details.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.

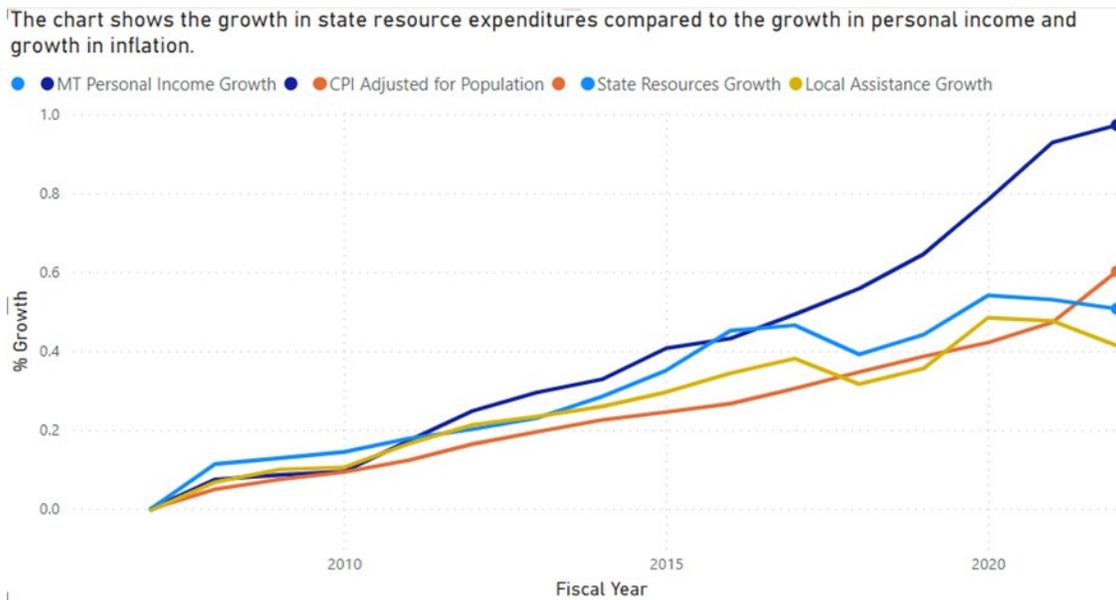


The following chart removes COVID expenditures. When removing COVID related expenses, the local assistance state resource expenditure growth returns to previous trend.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.

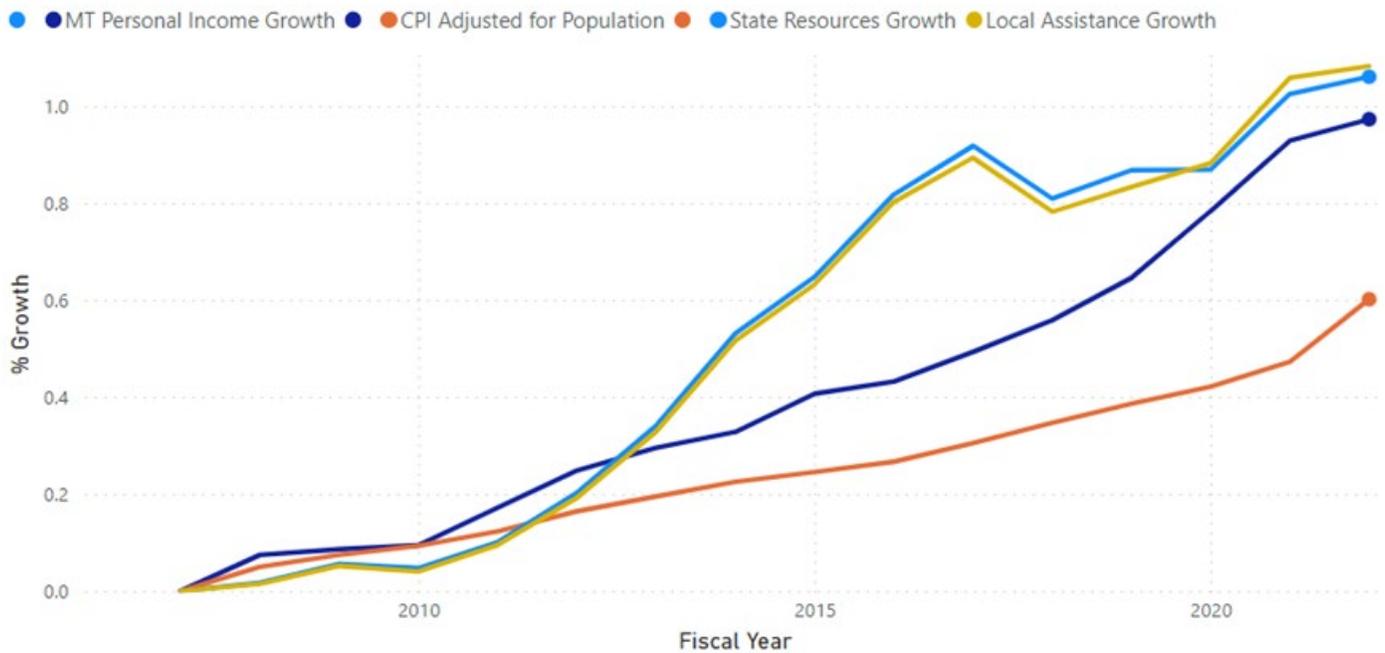


This growth trend is not universal across all local assistance. The following chart shows the state resource growth and the local assistance state resource growth for the judiciary and district court expenditures. The rate of expenditure growth stayed between personal income growth and population adjusted inflation growth until 2018 when it dipped below inflation. The dip in expenditures relates to SB 1 (2017 Special Session), which suspended the employer contribution to the judges' retirement beginning January 1, 2018 and terminating June 30, 2019. At the time this was estimated to save \$2.9 million in general fund. The employer contribution rate holiday was adopted again by the 2021 legislature in HB 2 for the 2023 biennium and was estimated to save the state \$4.3 million.



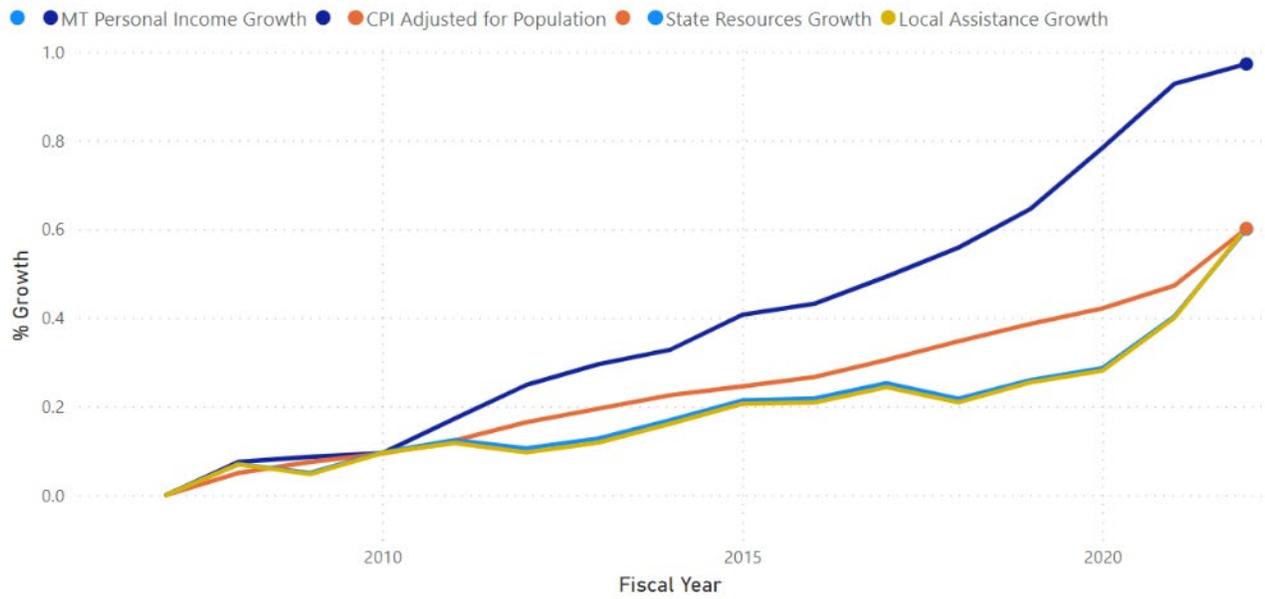
The following chart shows the Office of Public Defender, including the appellate defender, expenditure growth trends above the growth in personal income. The growth is primarily associated with caseload growth and increases in FTE to address caseloads and increased funding for contract attorneys. The decline in FY 2018 mirrored falling abuse and neglect cases, which had been growing at 20-30% annually since 2014 and constituted 19.2% of case costs in FY 2016. By FY 2018, fewer abuse and neglect cases occurred, then in 2020 COVID restrictions drove overall caseload down as fewer crimes were committed during the lockdown period. The 2021 biennium budget added funding for 30.50 FTE for caseload growth and contributes to the increase shown in FY 2021 and FY 2022.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



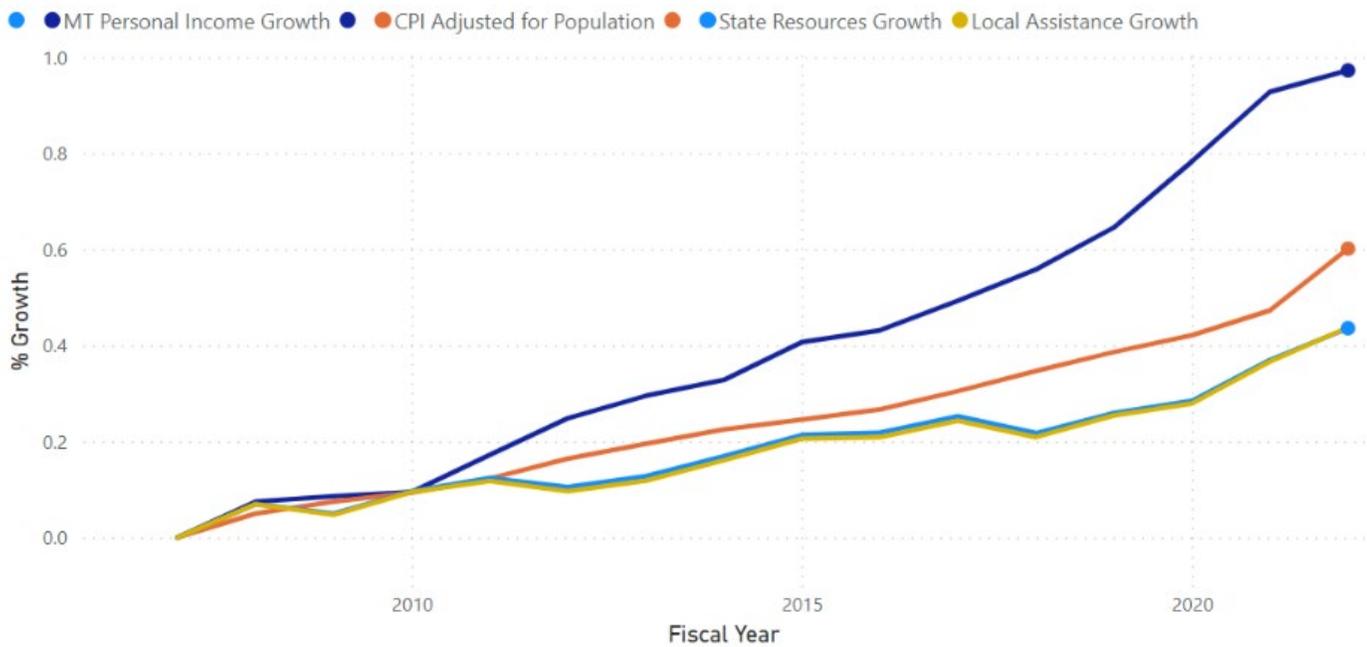
The following chart shows the state resource growth and local assistance state resource growth for the Office of Public Instruction (OPI) and K-12 schools **with COVID included**. The lines are nearly identical as the primary function for OPI is local assistance to K-12 schools. When analyzing the trend for K-12 schools, local assistance state resources expenditures did not keep up with inflation until FY 2022. K-12 schools comprise 67.3% of the local assistance in FY 2022.

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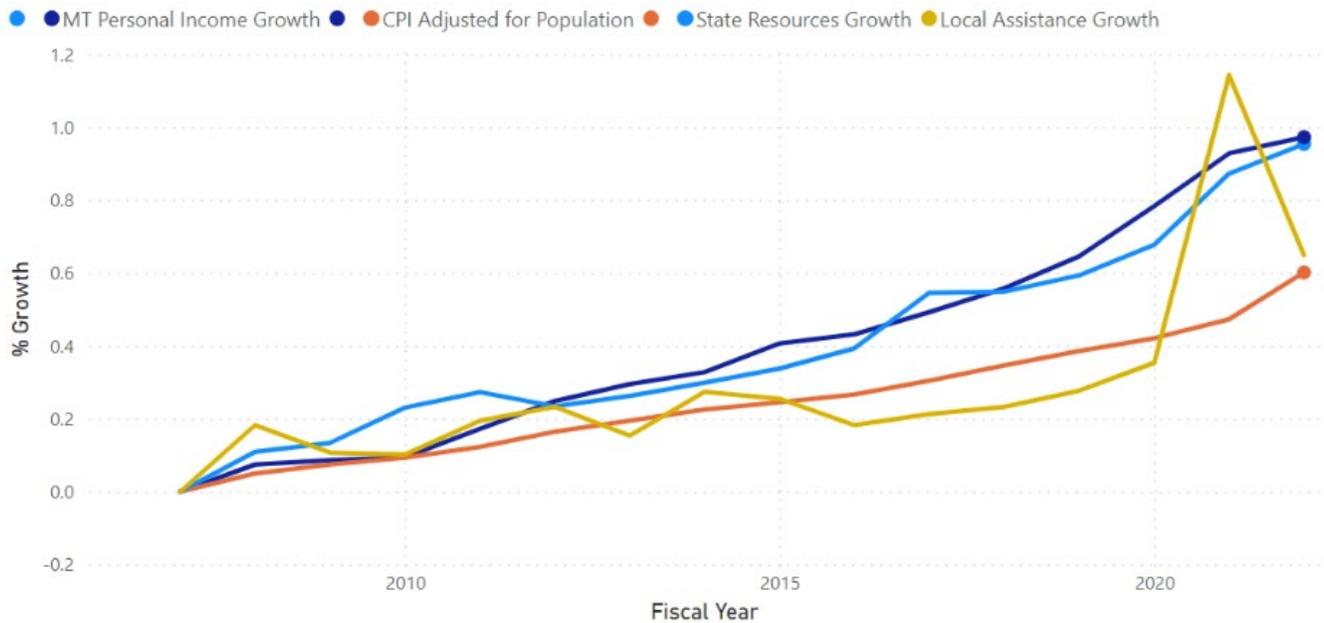
The following chart is OPI total budget and K-12 schools **without COVID dollars**. . The state resources expenditure growth when filtered to OPI, is nearly identical to the local assistance growth since the primary function is local assistance to K-12 schools.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



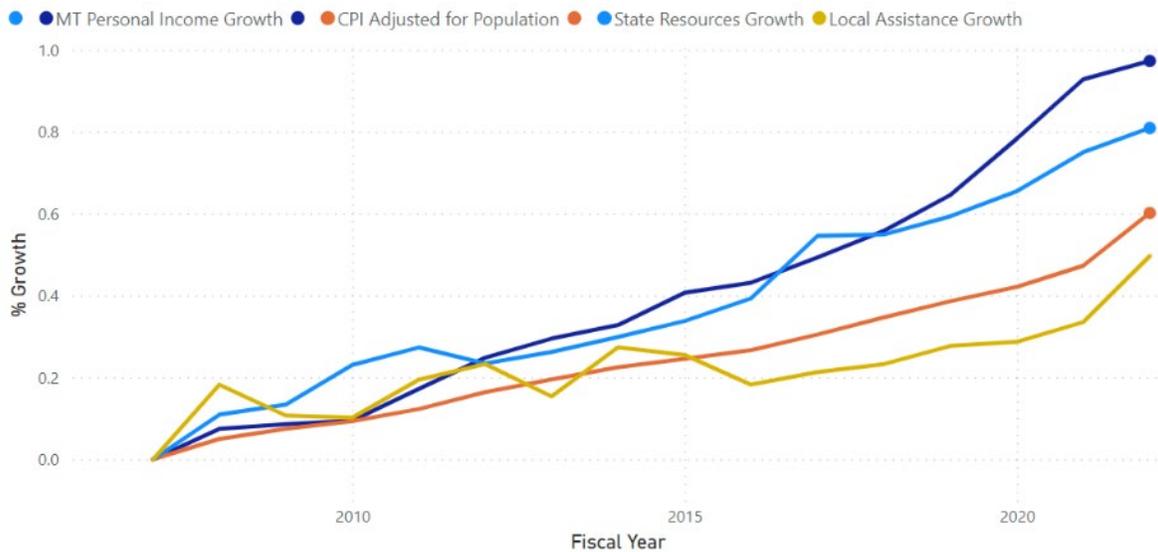
Local assistance state resource expenditure growth without K-12 schools but including COVID spending.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



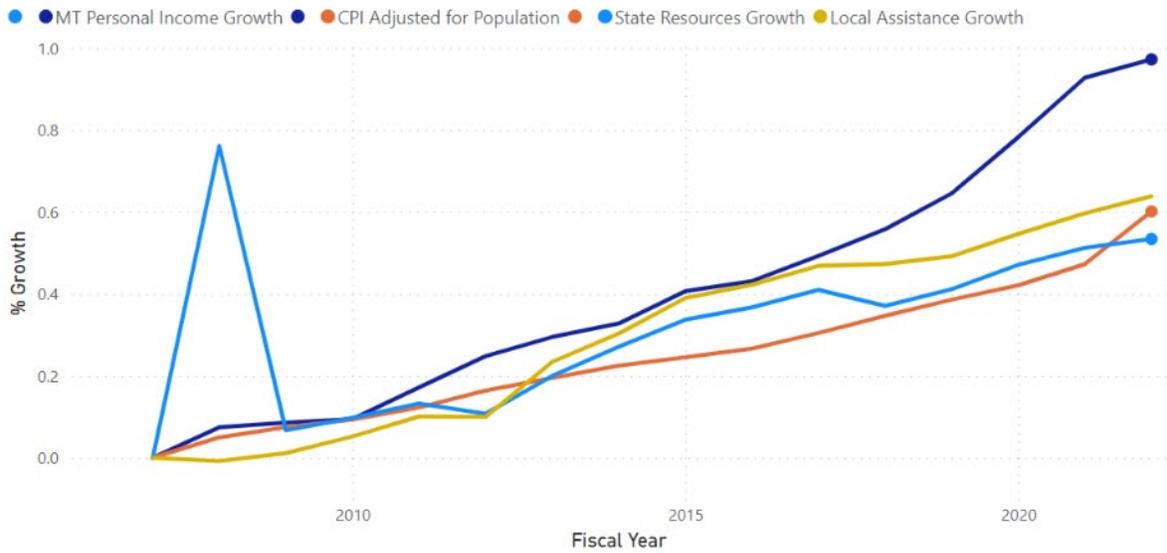
Local assistance state resource expenditure growth without K-12 schools or COVID.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



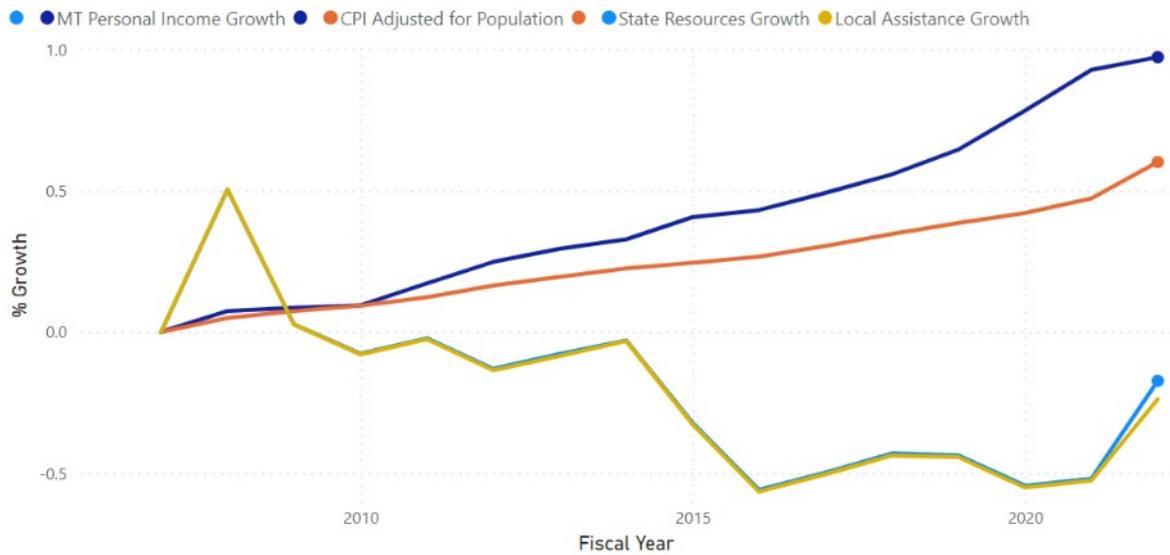
Other large categories of local assistance include entitlement share payments for cities and counties and oil and gas revenue for counties. The following chart shows the general fund of the Department of Revenue (DOR) and isolates the general fund local assistance, **which is almost entirely entitlement share payments**. (Note in FY 2008 there was a one-time property tax rebate, and it is reflected in the big spike that year.)

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



The following chart is the state special fund of the Department of Revenue (DOR) and isolates the state special fund local assistance. The state special revenue state resources when filtered to DOR, is nearly identical to the local assistance growth since the primary DOR state special appropriation is for the transfer of oil and gas revenue to counties. As seen in the chart below, revenue from oil and gas has declined since FY 2007.

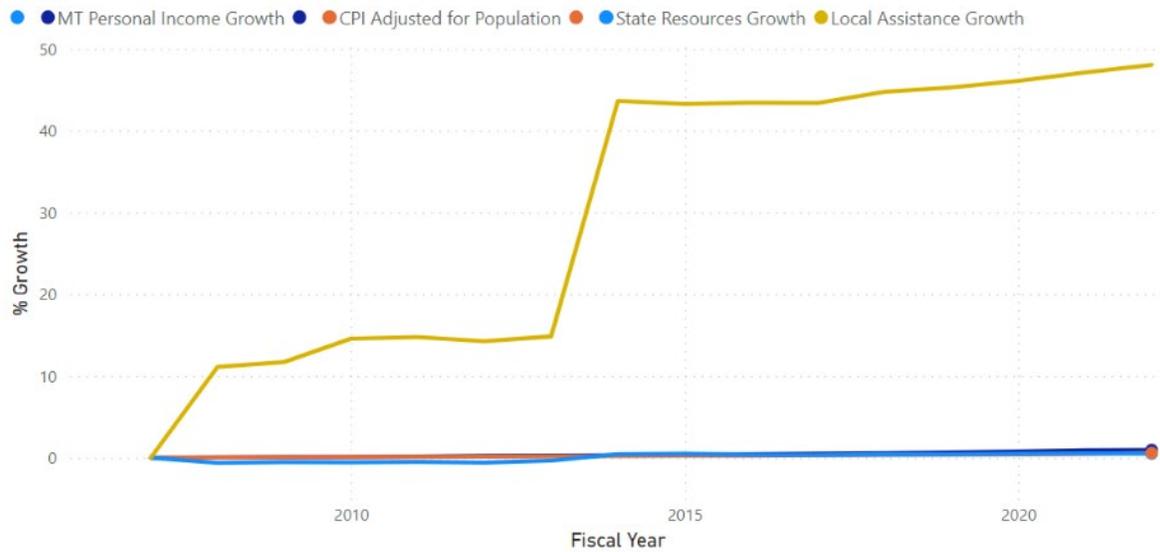
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Department of Administration

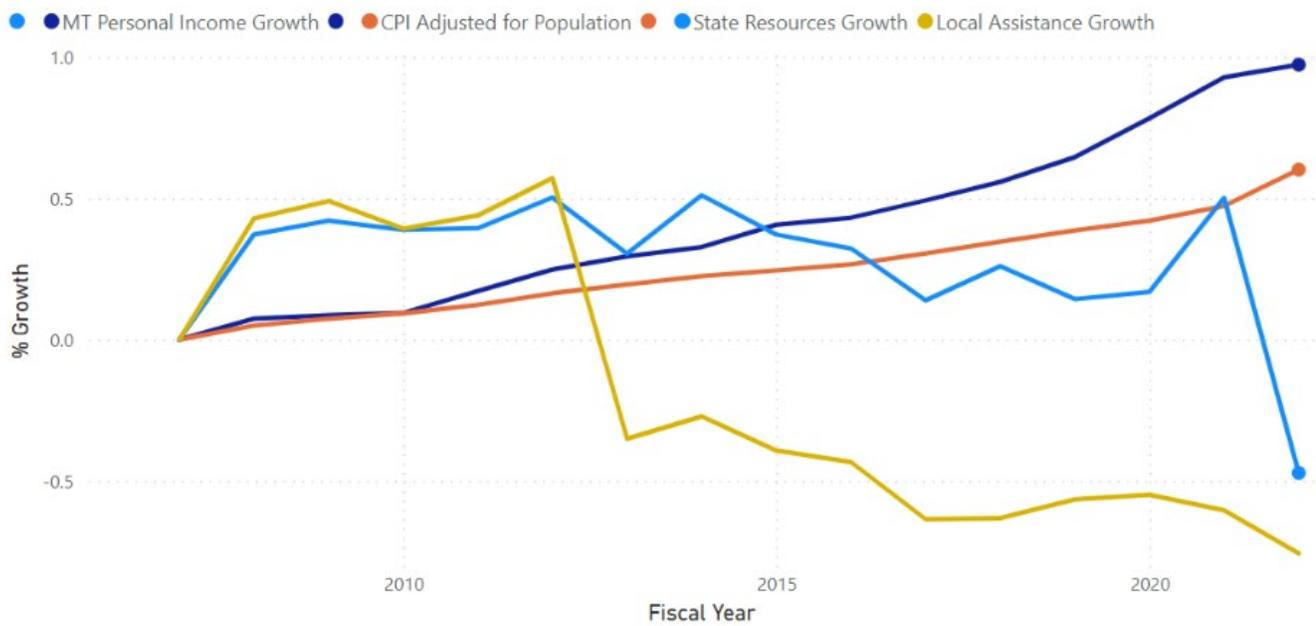
Since 2007, the state has substantially increased its allocation to pension contributions on behalf of local governments. The FY 2022 total local government share of the extra pension contributions is \$57 million general fund for DOA. Note regular pension contributions through State Auditor of \$41 million are in addition to these amounts.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



The Department of Administration also distributes 25% of U.S. Mineral Royalties to counties via a state special fund. These funds from the federal government have been lower in recent years.

The chart shows the growth in state resource expenditures compared to the growth in personal income and growth in inflation.



Next Steps

Further details may be researched on the overall local assistance for cities, counties as work schedules allow.