Understanding Revenue Sharing

AIC Revenue Sharing Task Force

- **Concerns have been expressed by some city elected officials and legislators that the current formula is outdated and needs to be reexamined.**
- **AIC agreed to form a Revenue Sharing Task Force to look at these issues over the interim.**
- **The Task Force will examine how Revenue Sharing works and decide whether to recommend changes in the formula for consideration by the AIC Board of Directors.**
- **Because the Legislature is not considering increasing our share of sales tax revenue, this Task Force will have to look at how the existing shares of sales tax revenue are allocated.**

Revenue Sharing Formula

Historically there have been two revenue sharing formulas.

- **Business Inventory Replacement**
  AKA County Distribution or Base & Excess

- **City-County Revenue Sharing**
  AKA State Distribution

Business Inventory Replacement
AKA County Distribution or Base & Excess

- **Established in early 1970s to replace revenues local governments lost through repeal of the property tax on business inventory.**
- **Repealing inventory tax was part of political deal for passing the sales tax in the late 1960s and made the sales tax politically palatable for businesses.**
- **County Assessors and businesses hated the inventory tax because compliance and administration were very expensive.**

Business Inventory Replacement AKA County Distribution or Base & Excess

- **Replacement revenue based on assessed business inventory—timber, merchandise and livestock—from 1965 to 1967.**

- **6% of sales tax revenue after refund claims was directed to business inventory replacement.**

Distribution of Business Inventory Replacement Revenue Pre-2000

- **Each taxing district except school districts is entitled to a quarterly base share equal to the amount distributed to that taxing district in the 4th quarter of calendar year 1979.**

- **Whenever the money distributed exceeds in any quarter the base amount by 10% or more, the excess is paid to the county treasurer for distribution to each non-school taxing district in the county.**

Distribution of Business Inventory Replacement Revenue Pre-2000

- **Tax Commission computes the percentage that the average amount of taxes collected on business inventory in 1965, 1966, and 1967 for that county bears to the average total amount of statewide taxes collected on business inventory in those years, and that is the basis of allocating the revenue to each county.**

- **Money is distributed to taxing districts within each county quarterly on the basis of the proportion of each taxing district's current year property tax budget to the total current year property tax budgets of all taxing districts in the county.**

City-County Revenue Sharing AKA State Distribution

- **In 1978, Idaho voters approved the 1% Initiative, which sought to severely limit local government property tax levies.**
- **The initiative could not be implemented as drafted, so the Legislature froze property tax revenues in 1979 and 1980 and established the 5% Cap in 1981 (precursor to the current 3% Cap).**
- **Legislature increased sales tax from 3 to 4 cents in 1984 and created the City-County Revenue Sharing program.**

City-County Revenue Sharing AKA State Distribution

- City money allocated half on the basis of population relative to other Idaho cities and half on the basis of market value relative to other Idaho cities.

- Cities and counties also suffered from the loss of federal general revenue sharing in 1986.   In late 1970s, cities received 24% of their revenue from the federal government.

- The Legislature increased the sales tax again in 1987 and additional revenue flowed through revenue sharing to help offset loss of federal money.

- 7.75% of sales tax revenue after refunds was allocated through this program.

1998 Interim Committee on Revenue Sharing

- **At urging of City of Post Falls, Kootenai County, and other rapidly growing North Idaho communities, the Legislature established an interim committee to look at revenue sharing in 1998.**

- **Jim Hammond, then Post Falls City Administrator, believed the business inventory replacement formula was very archaic and showed committee members per capita distribution amounts that seemed disconnected from the rapid growth that was happening at that time in certain communities.**

- **The committee met seven times and conducted a very thorough review of state shared revenues and resources, local government funding, and state policy on sales tax exemptions.**

1998 Interim Committee on Revenue Sharing

- **Committee voted to support legislation that would keep state distribution basically as is, but would make significant changes to the business inventory replacement formula.**

- **They proposed establishing a "base" based on the 4^{th} quarter distribution in calendar year 1998 and allowing the base to grow an additional 5%.**

- **Once the base hit 105%, then the new revenue over and above that amount would be directed into an "excess" distribution allocated on a population basis.**

- **This was an attempt to strike a balance between protecting cities that relied on revenue sharing for operating revenue and dedicating future revenue growth to growing cities.**

Passage of HB 468 in 2000

- In 1999, the interim committee co-chairs sponsored legislation to codify their recommendations. House Bill 202 narrowly failed to pass the House.
- In 2000, the Legislature passed House Bill 468 by relatively wide margins in the House and Senate and it was signed into law by the Governor.
- The bill kept the revenue sharing distribution formula in Idaho Code 63-3638, and combined the business inventory replacement and city-county revenue sharing in the same subsection (8).
- Initially 13.75% of sales tax revenue after refunds goes through revenue sharing—no additional revenue goes through the formula under HB 468.

Post-2000 Developments

- Currently 11.5% of sales tax revenue after refunds goes through revenue sharing. The percentage was lowered to account for sales tax rate increases where the state didn't want local governments to get increased revenue.

- The sales tax rate was temporarily increased from 5% to 6% from May 1, 2003 to June 30, 2005. The Legislature didn't allow this additional money to flow through revenue sharing because the state was in a fiscal crisis.

- The sales tax was then permanently increased in 2006 to 6% and the additional revenue didn't flow through revenue sharing because the state needed all of it for school funding to replace the repealed M&O levy for schools.

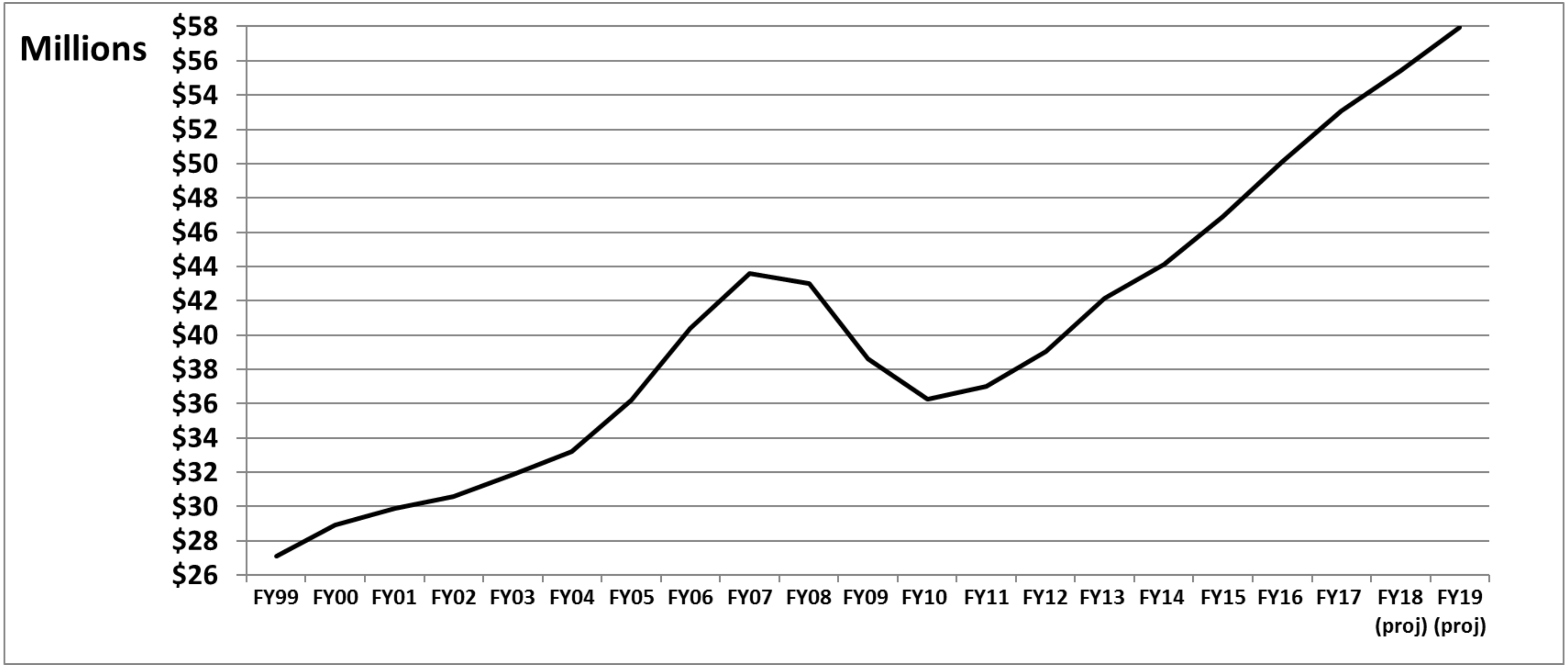
City-County Revenue Sharing
AKA State Distribution Current Formula

56.4% of revenue sharing funds go through the State Distribution, split:

- **50% to Cities and**
- **50% to Counties.**

The Cities' portion is allocated based on assessed market value (50%) and population (50%).

Revenue Sharing, State Distribution Revenues to Cities FY99 – 19 (proj).



Business Inventory Replacement Current Formula

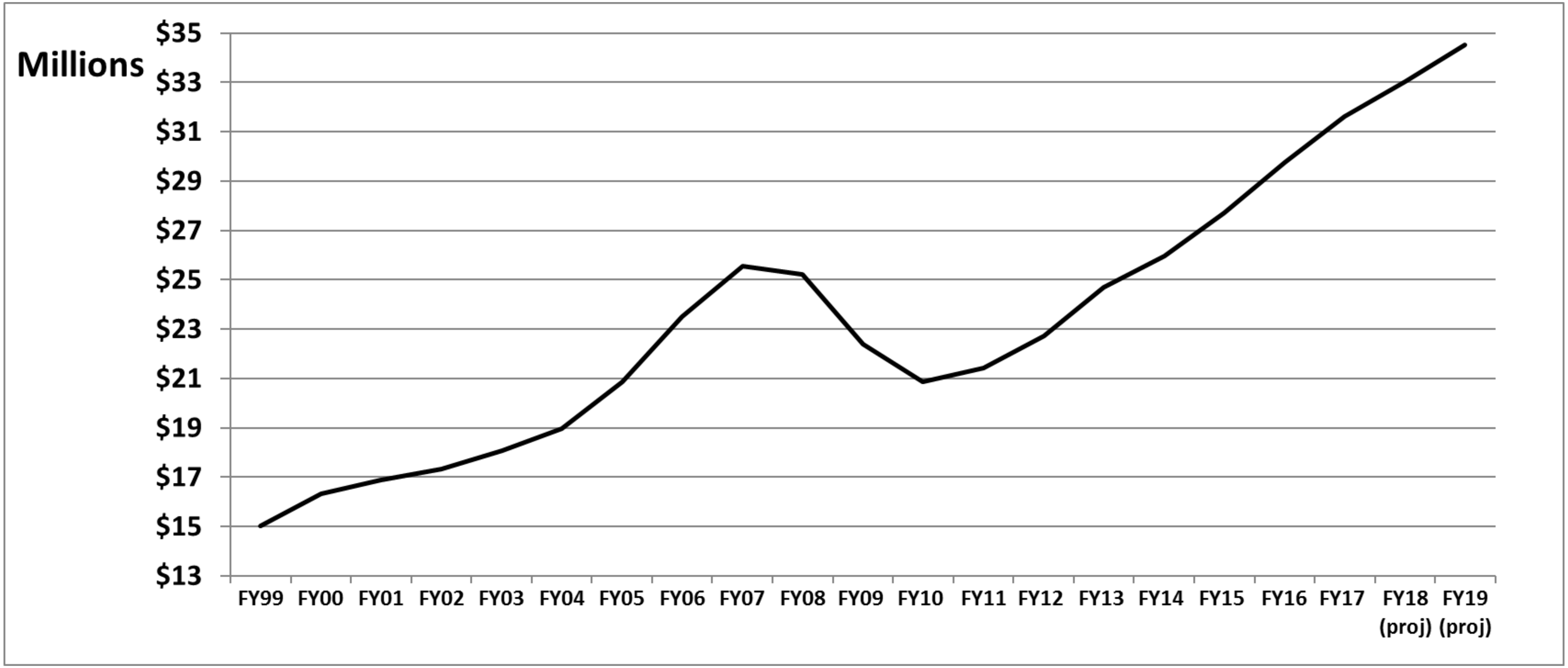
43.6% of revenue sharing funds go through the County Distribution, split:

- 82% to Cities and Counties and
- 18% to Nonschool Special Districts

Cities receive a base, the amount distributed in the 4th quarter of 1999 that can increase up to 5%.

The amount over 105% of the base is distributed 50% to cities and 50% to counties and the cities' portion of the excess distribution is allocated on a population basis (100%).

Revenue Sharing, County Distribution Revenues to Cities FY99 – 19 (proj.)



Revenue Sharing Projections

	AIC Projection	Actual
FY 2011	+2.5%	+2.3%
FY 2012	+3%	+5.7%
FY 2013	+3.5%	+8.2%
FY 2014	+5%	+4.9%
FY 2015	+5%	+6.4%
FY 2016	+5%	+7.1%
FY 2017	+5%	+6%
FY 2018	+4.5%	
FY 2019	+4.6%	

NOTE: Revenue sharing projections are based on the state fiscal year, which runs July 1 to June 30.

HB 664—Rep. Monks Bill

Bill was introduced in the 2018 session, but sponsor agreed that it would not advance this session if AIC had a Task Force look at the issue over the interim. HB 664 would do the following:

- **Establish per capita average distribution for the total of both the County and State Distributions, which is now $72 per capita.**

HB 664—Rep. Monks Bill

- **Cities that receive more than the per capita average would have their distributions frozen in future years until they fell sufficiently to reach the average level.**

- **Cities that are below the per capita average would get new revenue in future years to bring them up to the average level.**

- **The bill doesn’t take revenue from cities that are over the per capita average, but in the most extreme cases cities could have their distributions frozen for 20 or 30 years.**