

Description of steps used to calculate the amounts for the proposed Medicaid Local Sales Tax Transitional Aid program

The Medicaid Local Sales Tax Transitional Aid program has two components: a Calculated Replacement of calendar year 2017 fourth quarter sales tax distributions; and a “Formula” component explained in detail below. For each county and affected transit authority, the amounts of the two aid components are summed and the resulting amount is provided as a payment to be made to the county or transit authority on or before November 2017.

1. The Calculated Replacement component of the proposed Transitional Aid program would provide \$49 million in aid to all counties and those transit authorities with a local sales tax. Beginning in October 2017, local sales tax distributions to these jurisdictions will be reduced due to the repeal of the sales tax on Medicaid health insuring corporations (MHICs). The Calculated Replacement aid component is based on the recognition that there will be foregone local sales tax revenue during the fourth quarter of calendar year 2017. The replacement aid amount to each jurisdiction is a product of two factors: the annualized average local MHIC sales tax distributions to the jurisdiction (based on an average of calendar years 2015 and 2016, and computed using the tax rate in effect at the end of calendar year 2016), multiplied by 25 percent.
2. The “Formula” component of the Transitional Aid program would provide \$158 million in aid. The aid from the Formula component was computed in the manner described below for all 88 counties and the eight transit authorities that impose local sales tax.¹

The Formula begins with the following amounts:

- 1) Each county’s and statewide average per-capita sales tax base (excluding MHIC sales);
- 2) Each county or TA’s average MHIC sales tax distributions;
- 3) Each county or TA’s average total sales tax distributions.

Step One: Identify annualized average local MHIC sales tax distributions. This amount is an average of the amount actually distributed to the jurisdiction in calendar years (CY) 2015 and 2016, calculated as if the tax rate in effect at the end of CY 2016 was in effect during the entire two-year period.

¹ Note that eight counties did not have sufficiently high reliance on MHIC sales tax revenue to receive a Formula aid payment; however, these eight counties (and all other counties and the eight transit authorities with a local sales tax) would receive a payment for replacement of foregone calendar year 2017 fourth quarter MHIC sales tax revenue.

Step Two: Derive the county's relative sales tax capacity. Divide the county's per capita sales tax base (which is an annual average of the CY 2015 and 2016 period, excluding MHIC sales) by the statewide average per capita sales tax base. If the calculated percentage is below 100%, use this percentage in Step Three.

Step Three: Derive the jurisdiction's annual incremental absorption rate.² If the percentage computed in Step Two is lower than 100%, multiply such percentage by 4% to compute the jurisdiction's assigned annual incremental absorption rate. Otherwise, the jurisdiction's assigned annual incremental absorption rate is 4%.

Step Four: Derive the total absorption rate for each year. The formula aid calculations are based on the premise that the jurisdictions will need to adjust to ("absorb") a reasonable portion of their foregone MHIC sales tax distribution, and that their ability to absorb the effects of this change will increase over time. For this reason, the jurisdiction's total absorption rate will increase each year by the amount of its assigned incremental absorption rate, which is 4% or lower. As an example, for a jurisdiction with a 4% annual incremental absorption rate, the total absorption rate in the year one aid calculation is 4%; it is 8% in the year two aid calculation; 12% in the year three calculation, and so on.

Step Five: Identify the jurisdiction's annualized average total local sales tax distributions. This amount is an average of the amount actually distributed to the jurisdiction in CY 2015 and 2016, calculated as if the tax rate in effect at the end of CY 2016 was in effect during the entire two-year period.

Step Six: Derive the absorption amount for each year. This represents the amount of the foregone MHIC sales tax revenue the jurisdiction is expected to absorb in each year. It is derived by multiplying the jurisdiction's total absorption rate for the year by its annualized average total local sales tax distributions.

Step Seven: Compute each year's aid amount. To the extent the annualized average MHIC sales tax distributions (per Step One) exceeds the jurisdiction's absorption amount for the year (per Step Six), such difference is provided as aid. Perform this computation for each successive year until the total absorption amount exceeds its annualized average MHIC sales tax distributions, at which point no further aid is provided.

Step Eight: Derive the jurisdiction's total Formula aid amount. This is the sum of the various annual aid amounts computed in Step Seven. This amount is included in the single, lump-sum total Transitional Aid payment to be provided to the jurisdiction in CY 2017.

² The transit authorities are assigned the same incremental absorption rate assigned to the county in which they are fully or primarily located.

Illustration of the Formula Aid computations

Shown below are the computations performed to derive the Formula Aid amounts for Marion County.

Step One: Annualized average local MHIC sales tax distributions are \$1,215,150.

Step Two: The county's per capita sales tax base (an average of CY 2015 and 2016) is \$11,047. The statewide average is \$14,352. Performing the appropriate division ($\$11,047 / \$14,352$) yields the county's relative capacity, which is 77%.

Step Three: Annual incremental absorption rate is: $77\% \times 4\% = 3.08\%$.

Step Four: Total absorption rate increases by 3.08 percentage points each year. Its first-year rate is 3.08%; second-year rate is 6.16%; third-year rate is 9.24%; and fourth-year rate is 12.32% (no further rates are provided since Marion County's calculations show no aid beginning in the fourth year).

Step Five: Annualized average total local sales tax distributions are \$12,234,475.

Step Six: Annual absorption amounts are computed as follows:

- Year 1: $3.08\% \times \$12,234,475 = \$376,822$
- Year 2: $6.16\% \times \$12,234,475 = \$753,644$
- Year 3: $9.24\% \times \$12,234,475 = \$1,130,465$
- Year 4: $12.32\% \times \$12,234,475 = \$1,507,287$

Step Seven: Each year's aid amount is computed as follows:

- Year 1: $\$1,215,150 - \$376,822 = \$838,328$
- Year 2: $\$1,215,150 - \$753,644 = \$461,506$
- Year 3: $\$1,215,150 - \$1,130,465 = \$84,684$
- Because the Year 4 total absorption amount is \$1,507,287 and therefore exceeds \$1,215,150, there is no further aid after Year 3.

Step Eight: Sum each year's aid amount to yield the county's total Formula aid amount:
 $(\$838,328 + \$461,506 + \$84,684) = \mathbf{\$1,384,522}$