Delaware County, Indiana

HEA 1001 Analysis

November 13, 2008

PolicyAnalytics, LLC

UMBAUGH

It's all about experience.

What are circuit breaker tax credits?

- Circuit breaker tax credits limit a taxpayer's total property tax liability to a fixed percentage of the assessed value of the taxable property, before any deductions.
  - For taxes payable in 2008, these credits are limited to residential homesteads with a cap of 2.0%.
  - Credits are expanded to 3.0% for all other property taxpayers in 2010.
  - Credits are funded through reductions in property tax revenues of all taxing units in proportion to levy.

How does HEA 1001 change these tax credits?

- Reduces the tax caps for residential homestead taxpayers:
  - 1.5% limit in 2009
  - 1.0% limit in 2010

- Expands the tax caps to all other residential, agricultural and long-term care facilities:
  - 2.5% limit in 2009
  - 2.0% limit in 2010

How does HEA 1001 change these tax credits?

- Expands the tax caps to all other property taxpayers to:
  - 3.5% limit in 2009
  - 3.0% limit in 2010
- Creates additional limits for certain taxpayers over age 65
- Debt service levies in St. Joseph and Lake Counties created before July 1, 2008, and those created by voter referendum in all counties are not subject to circuit breaker tax caps.

How does HEA 1001 change circuit breaker tax credits?

- Changes effective total property tax rates:
  - Reduces assessed values used to compute property tax rates by creating new supplemental homestead exemption for homeowners
    - 35% exemption for first $600,000 remaining assessed value
    - 25% exemption for over $600,000 remaining assessed value
  - Note: reductions in assessed value increase property tax rates and circuit breaker tax credits

Illustration of Residential Homestead Tax Bill with Circuit Breaker Credit

	2008	2010
Assessed value	$ 125,000	$ 125,000
Homestead deduction	(45,000)	(45,000)
Supplemental deduction	0	(28,000)
Net assessment	$ 80,000	$ 52,000
Taxes @ $3.00	$ 2,400	$ 1,560
Circuit breaker credit	0	(310)
Property taxes due	$ 2,400	$ 1,250

How are circuit breaker tax credits funded?

- Circuit breaker tax credits are funded by a reduction in the property tax levy.
- Property tax rates may not be increased to offset the shortfall.
- Funds may not be borrowed to offset the shortfall.

How are tax credits funded?

Taxing Unit	Tax Rate	Levy Reduction
City	$1.00	$ 103
Library	$0.25	$ 26
School	$1.00	$ 103
Township	$0.25	$ 26
County	$0.50	$ 52
Total	$3.00	$ 310

Future Reductions in Property Tax Collections Needed to Fund Credits

- Certified assessed values, property tax levies and property tax rates for taxes payable in 2008 are used as the beginning point for the study.
- Assessed values are adjusted for:
  - Loss of net assessed value from expansion of the supplemental homestead deduction
  - Loss of major taxpayers – Borg-Warner
  - Changes in gross assessments that may result from future trending adjustments to market value

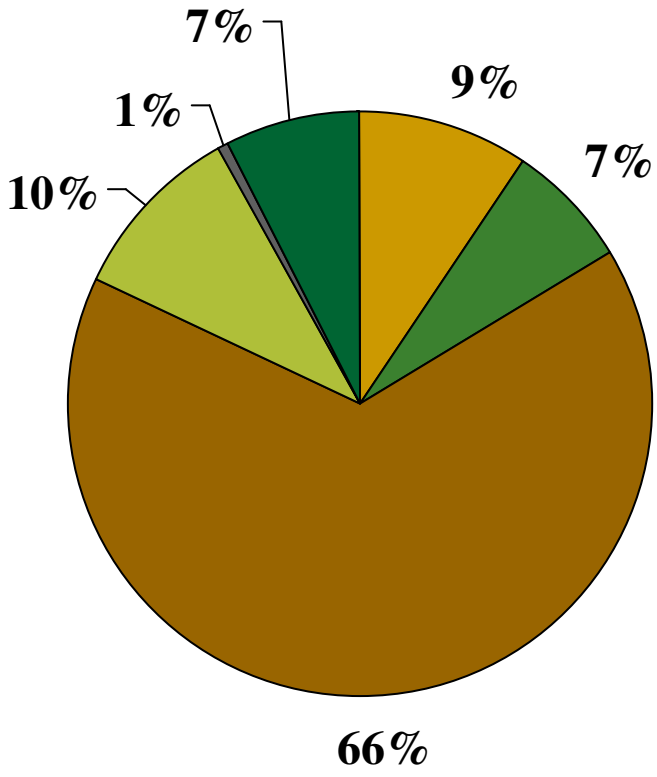
Reductions in Assessed Value from Increased Homestead Exemptions

2008 assessed value	$3,947,546,783
Reductions due to expansion of residential homestead exemptions	$622,100,000
Percentage reduction in assessed value	15.8%

Reductions in Assessed Value Expected to Result from Loss of Borg-Warner

- Estimated Assessed Value Reduction for 2010
  - $44,988,460
    - Personal Property - $39,634,250
    - Real Property (75%) - $5,354,210

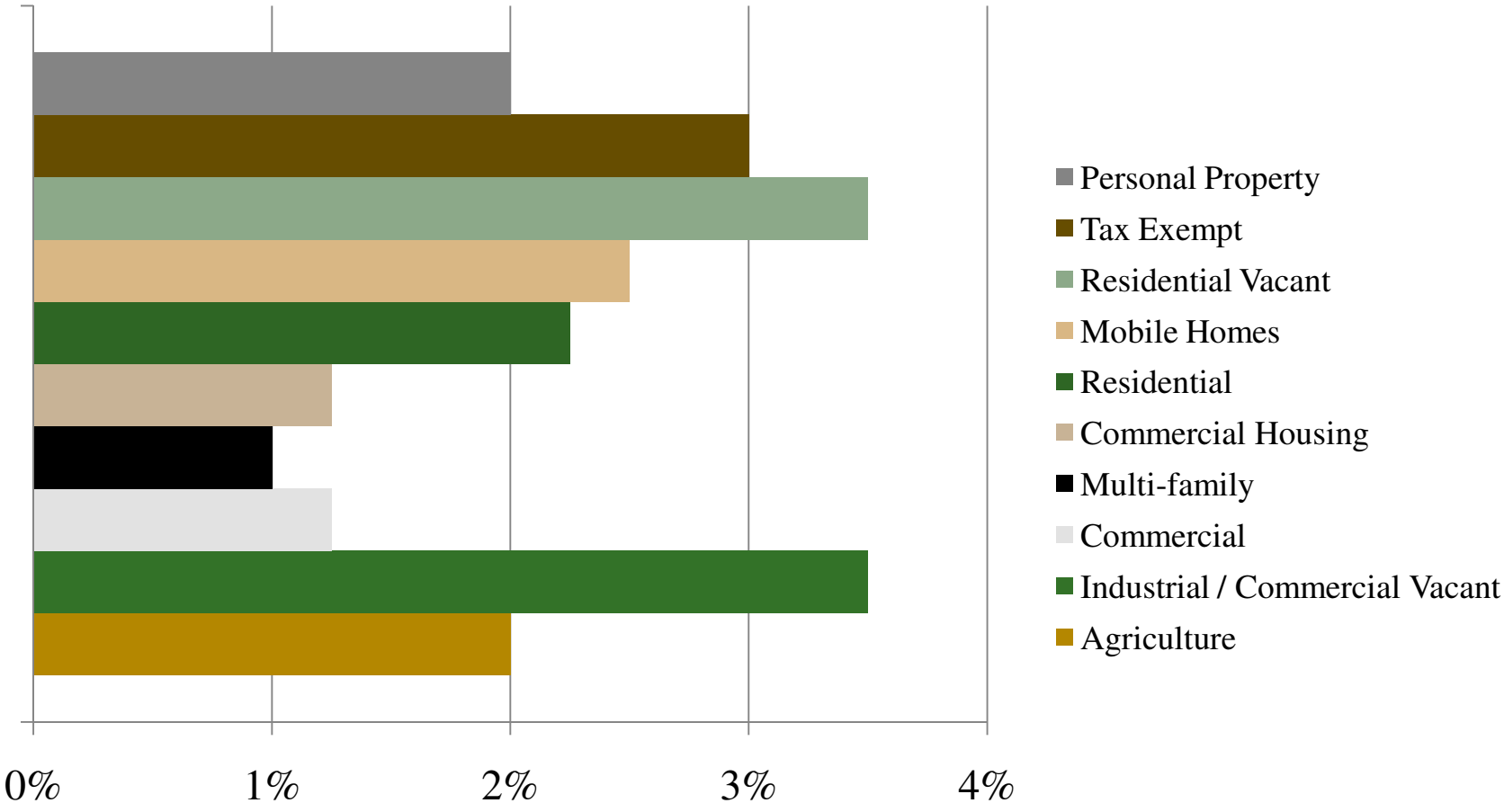
Number of Property Parcels By Major Property Classification



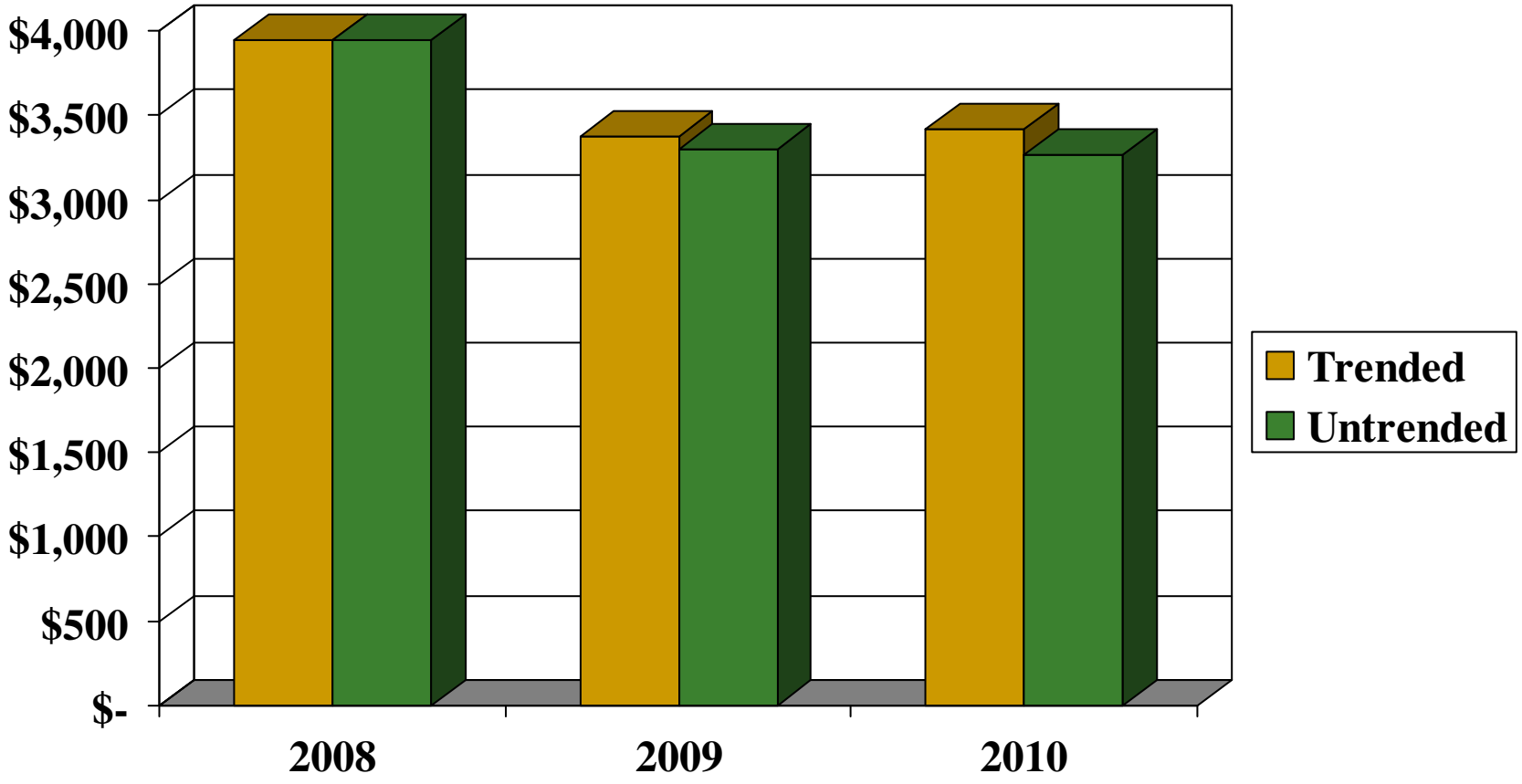
60,654 Total Parcels

- Agriculture
- Industrial / Commercial
- Residential
- Residential Vacant
- Tax Exempt
- Personal Property

Expected Changes in Assessed Value Due to Trending and Reassessment



Projected County Net Assessed Values
(In millions)



Future Reductions in Property Tax Collections Needed to Fund Credits

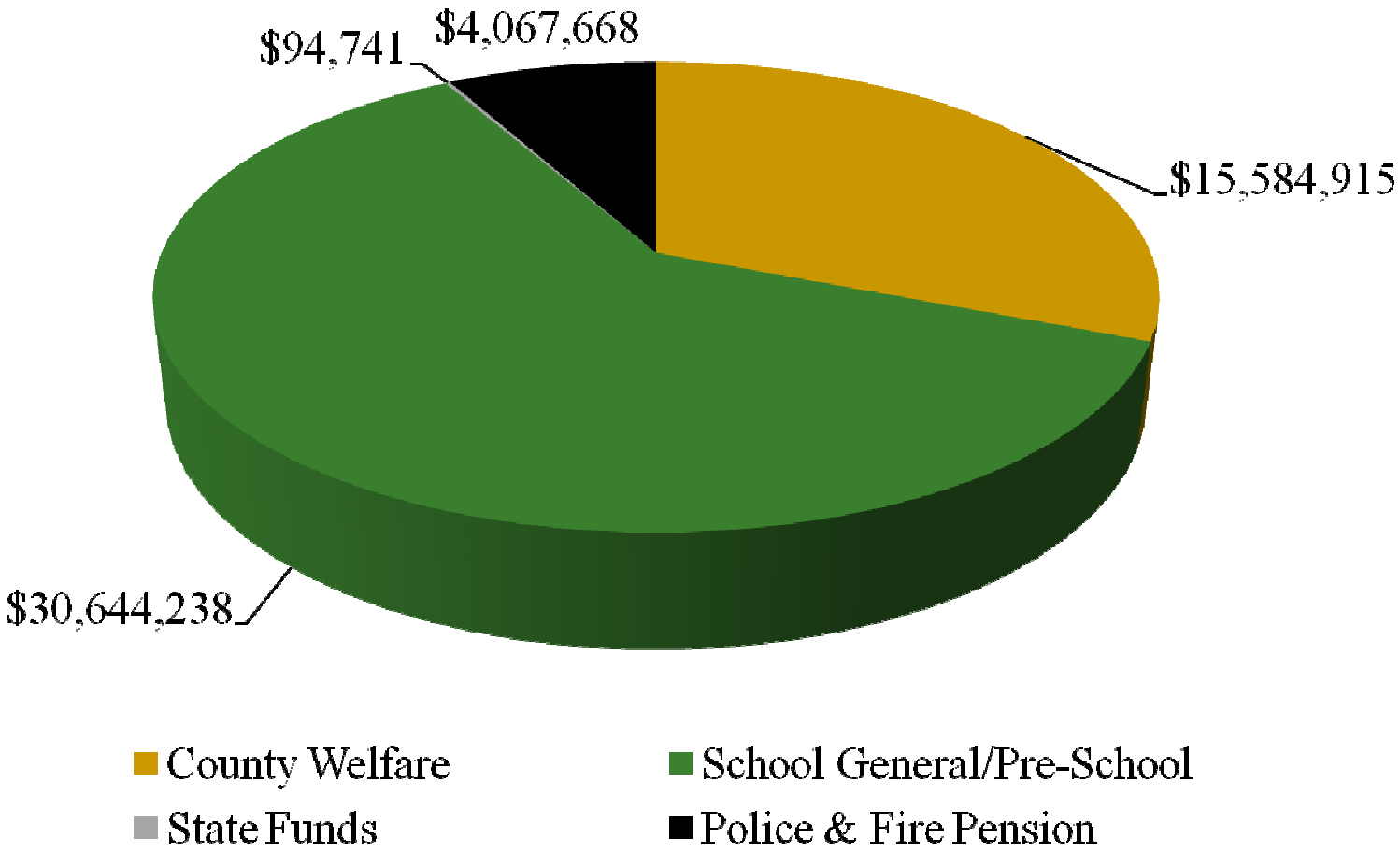
- 2008 levies are adjusted for:
  - Assumption of certain property tax levies by State and elimination of State property tax credits.
  - Increases in maximum controlled levy limits.
  - Changes in debt service levies subject to tax caps.
  - Loss of cumulative fund revenues due to reduction in net assessed value from the supplemental homestead deduction and loss of Borg-Warner.
  - Phase in of corporate levies in recently annexed areas.

Elimination of Certain Property Tax Levies in 2009

- Pre-School and School General Fund
- County Welfare Funds
- Pre-1977 Police and Fire Pensions
- State Fair Board and Forestry

  - Note: reductions in levies reduce property tax rates and reduce circuit breaker tax credits

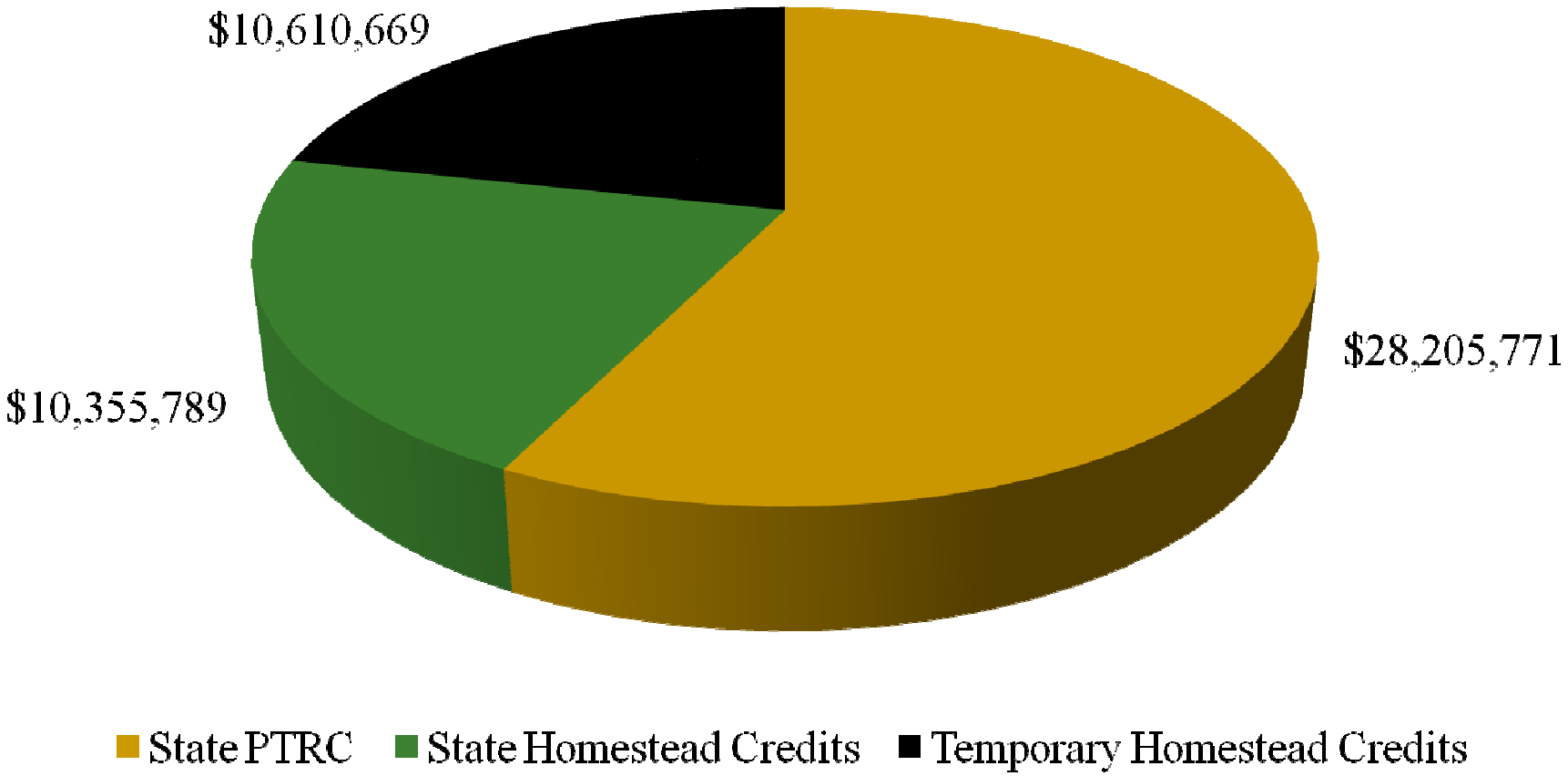
State Assumed Levies
$50,391,562



Elimination of State Property Tax Replacement Funds beginning in 2009

- Phases out state funded property tax relief, including property tax replacement credits and state homestead credits in 2009. Temporary homestead credits are phased out through 2010.
  - Note: reductions in property tax credits increase effective tax rates and circuit breaker tax credits

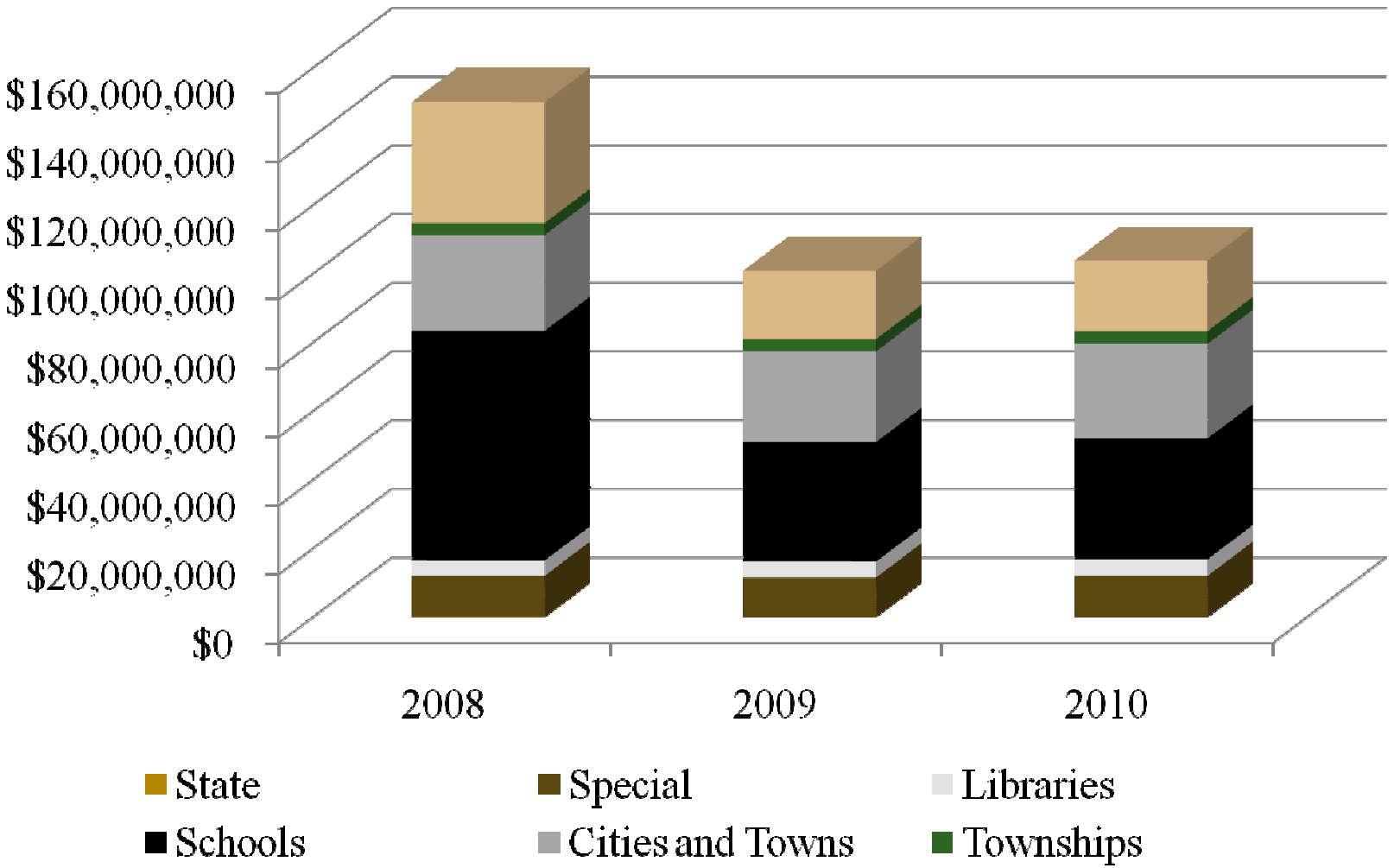
State Property Tax Relief
$49,172,229



Other Factors Affecting Future Levies

- Future Levy Growth
  - Controlled Levies
    - Assumes increase of 4.0% in 2009
    - Assumes increase of 4.3% in 2010
    - TIF replacement levies now in controlled levies
  - Debt Service Levies
    - Expected changes as existing debt is retired and new debt is issued within the circuit breaker limits.
  - Cumulative Fund Levies
    - Reduced to reflect loss of assessed value due to expansion of homestead exemption.
    - Reduced to reflect the loss of assessed value from Borg-Warner.

Projected Property Tax Levies

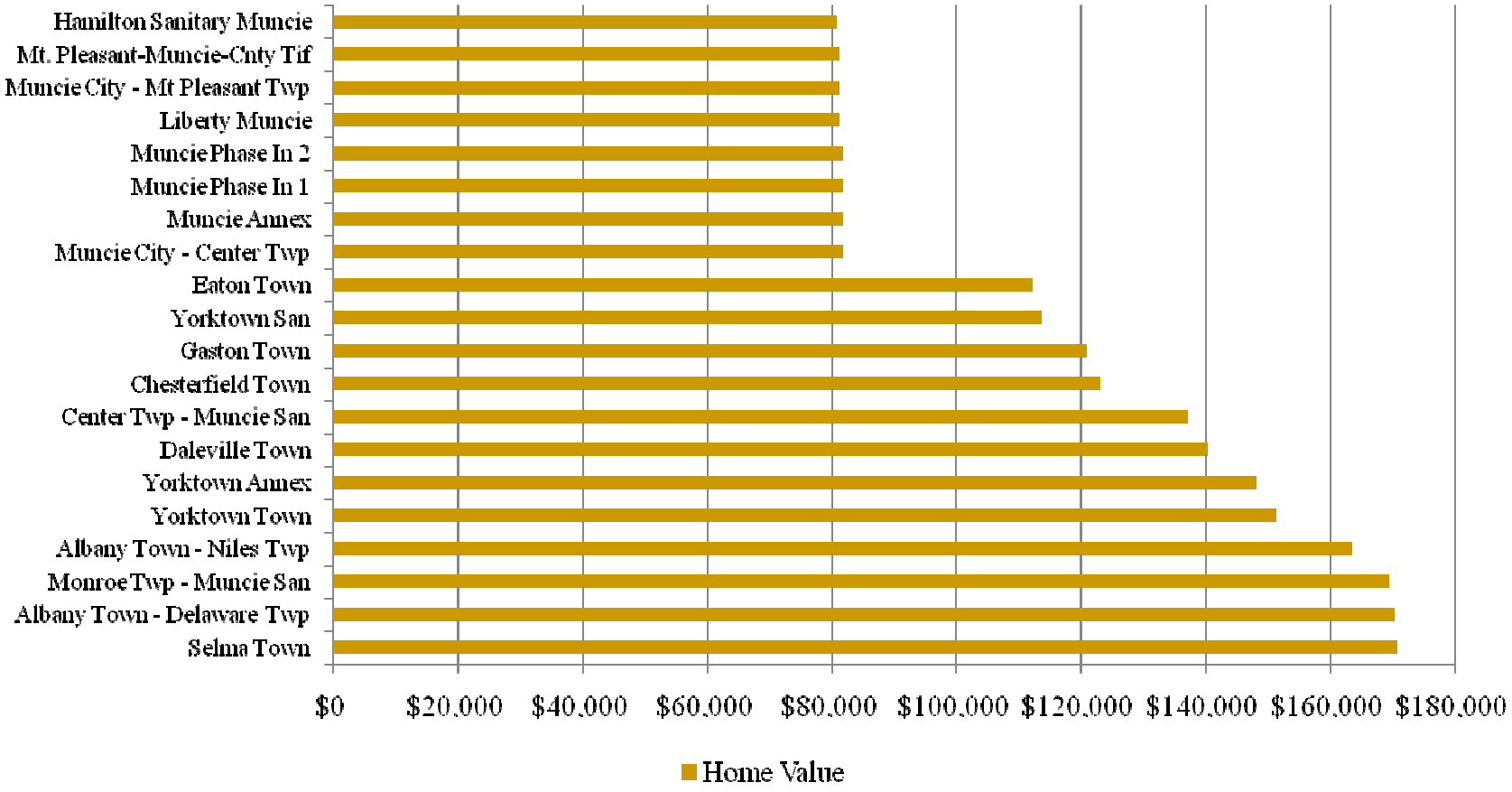


Estimated Tax Rates: 2010

District Number	Taxing District	2010 Tax Rate	PTRC	State HS Credit	State Temp HS Credit	CEDIT HS Credit
1	CENTER TWP	$2.2726	0.0000	0.0000	4.7283	9.3269
2	CENTER TWP - MUNCIE SAN	2.6671	0.0000	0.0000	4.7283	9.3269
3	MUNCIE CITY - CENTER TWP	3.9908	0.0000	0.0000	4.7283	9.3269
4	DELAWARE TWP	1.8205	0.0000	0.0000	4.7283	9.3269
5	ALBANY TOWN - DELAWARE TWP	2.4354	0.0000	0.0000	4.7283	9.3269
6	HAMILTON TWP	1.8467	0.0000	0.0000	4.7283	9.3269
7	HAMILTON TWP - MUNCIE SAN	2.2411	0.0000	0.0000	4.7283	9.3269
8	HARRISON TWP	1.4263	0.0000	0.0000	4.7283	9.3269
9	HARRISON TWP - MUNCIE SAN	1.8208	0.0000	0.0000	4.7283	9.3269
10	LIBERTY TWP	1.8256	0.0000	0.0000	4.7283	9.3269
11	SELMA TOWN	2.4338	0.0000	0.0000	4.7283	9.3269
12	MONROE TWP	2.0461	0.0000	0.0000	4.7283	9.3269
13	MONROE TWP - MUNCIE SAN	2.4405	0.0000	0.0000	4.7283	9.3269
14	MT PLEASANT TWP	1.9318	0.0000	0.0000	4.7283	9.3269
15	MT PLEASANT TWP - MUNCIE SAN	2.3262	0.0000	0.0000	4.7283	9.3269
16	MUNCIE CITY - MT PLEASANT TWP	4.0255	0.0000	0.0000	4.7283	9.3269
17	YORKTOWN TOWN	2.5517	0.0000	0.0000	4.7283	9.3269
18	NILES TWP	1.8343	0.0000	0.0000	4.7283	9.3269
19	ALBANY TOWN - NILES TWP	2.4728	0.0000	0.0000	4.7283	9.3269
20	PERRY TWP	1.7679	0.0000	0.0000	4.7283	9.3269
21	SALEM TWP	2.0833	0.0000	0.0000	4.7283	9.3269
22	UNION TWP	1.8470	0.0000	0.0000	4.7283	9.3269
23	EATON TOWN	2.9940	0.0000	0.0000	4.7283	9.3269
24	WASHINGTON TWP	1.4358	0.0000	0.0000	4.7283	9.3269
25	GASTON TOWN	2.8574	0.0000	0.0000	4.7283	9.3269
26	DALEVILLE TOWN	2.6387	0.0000	0.0000	4.7283	9.3269
27	CHESTERFIELD TOWN	2.8267	0.0000	0.0000	4.7283	9.3269
28	HAMILTON SANITARY MUNCIE	4.0461	0.0000	0.0000	4.7283	9.3269
29	LIBERTY MUNCIE	4.0235	0.0000	0.0000	4.7283	9.3269
30	MUNCIE ANNEX	3.9908	0.0000	0.0000	4.7283	9.3269
31	MT. PLEASANT-MUNCIE-CNTY TIF	4.0255	0.0000	0.0000	4.7283	9.3269
32	YORKTOWN ANNEX	2.5754	0.0000	0.0000	4.7283	9.3269
33	MUNCIE PHASE IN 1	3.9908	0.0000	0.0000	4.7283	9.3269
34	MUNCIE PHASE IN 2	3.9908	0.0000	0.0000	4.7283	9.3269
35	YORKTOWN SAN	2.9698	0.0000	0.0000	4.7283	9.3269

Residential Homestead Breakeven AV for 2010

By Taxing District



Residential Homestead Breakeven AV for 2010

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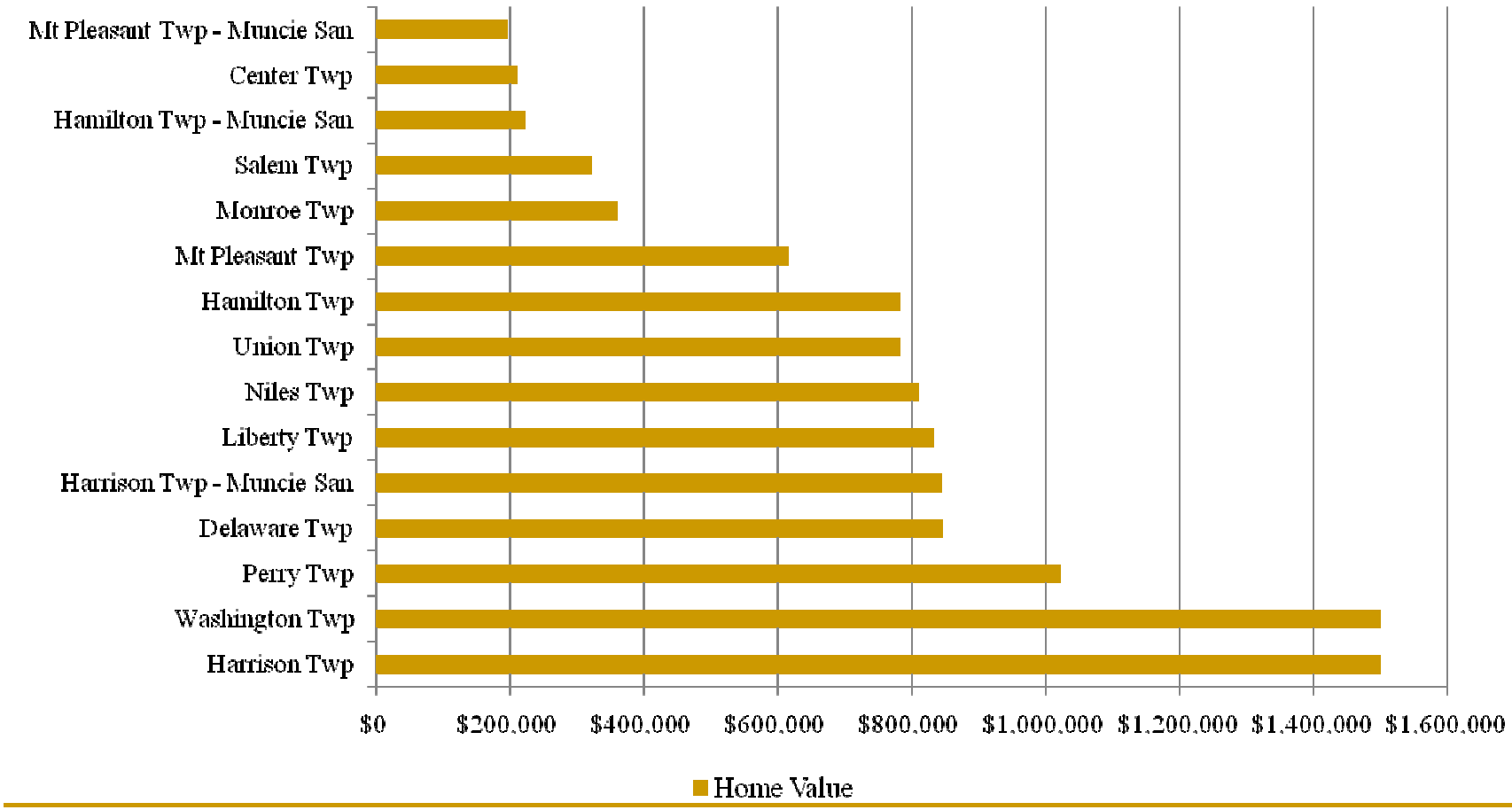
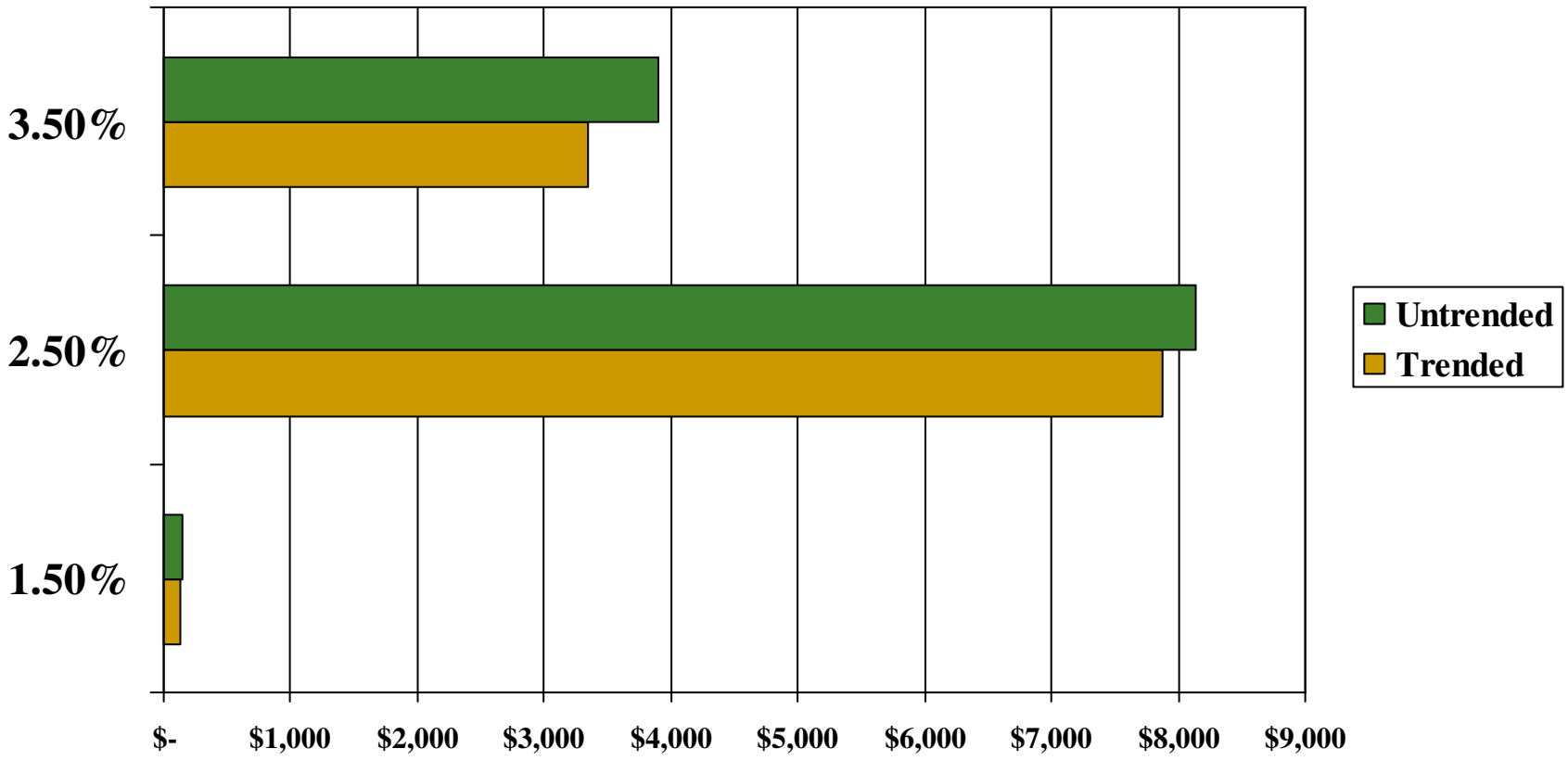


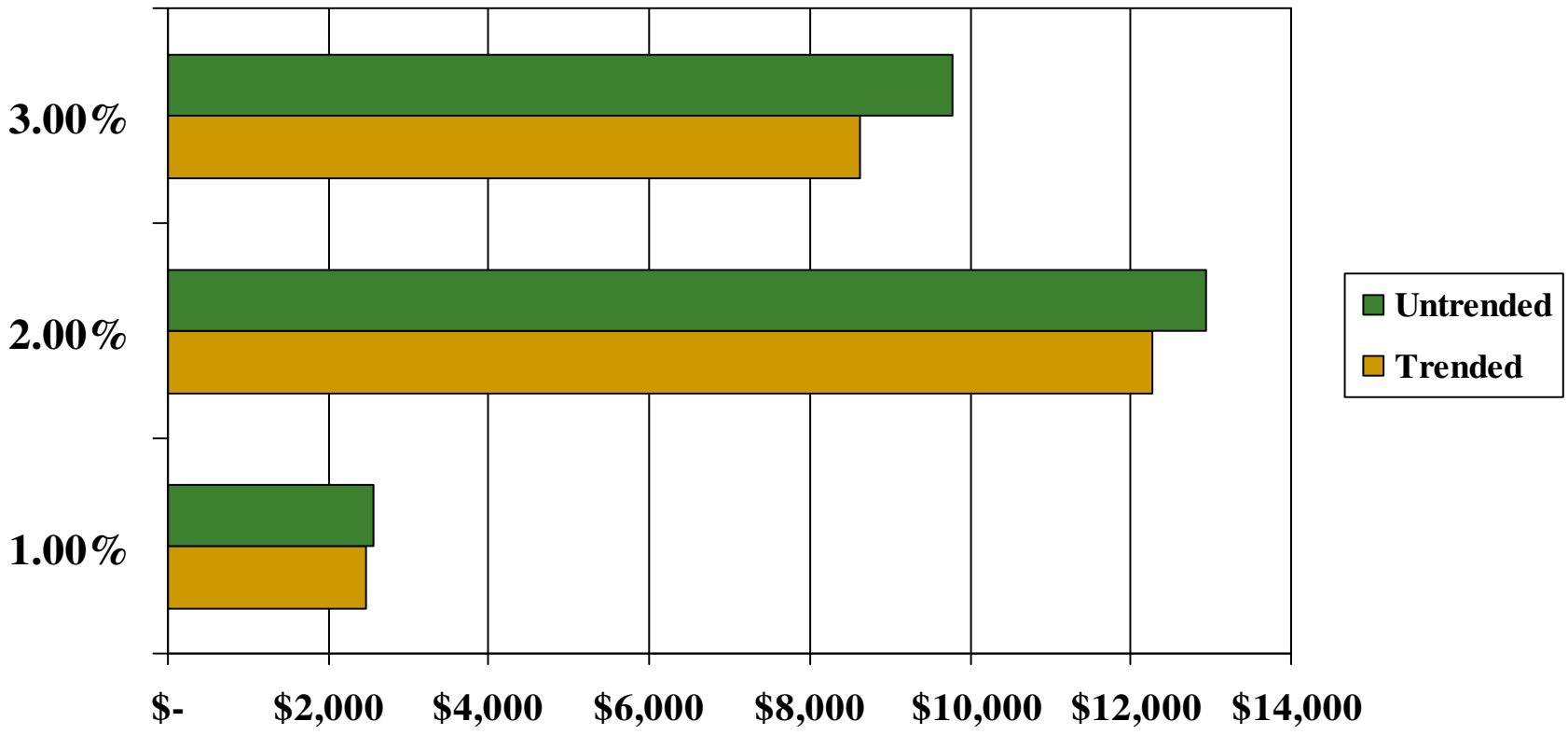
2009 Circuit Breaker Tax Credits (In thousands)

Estimated at $12,200,951 (Untrended)
Estimated at $11,346,722 (Trended)

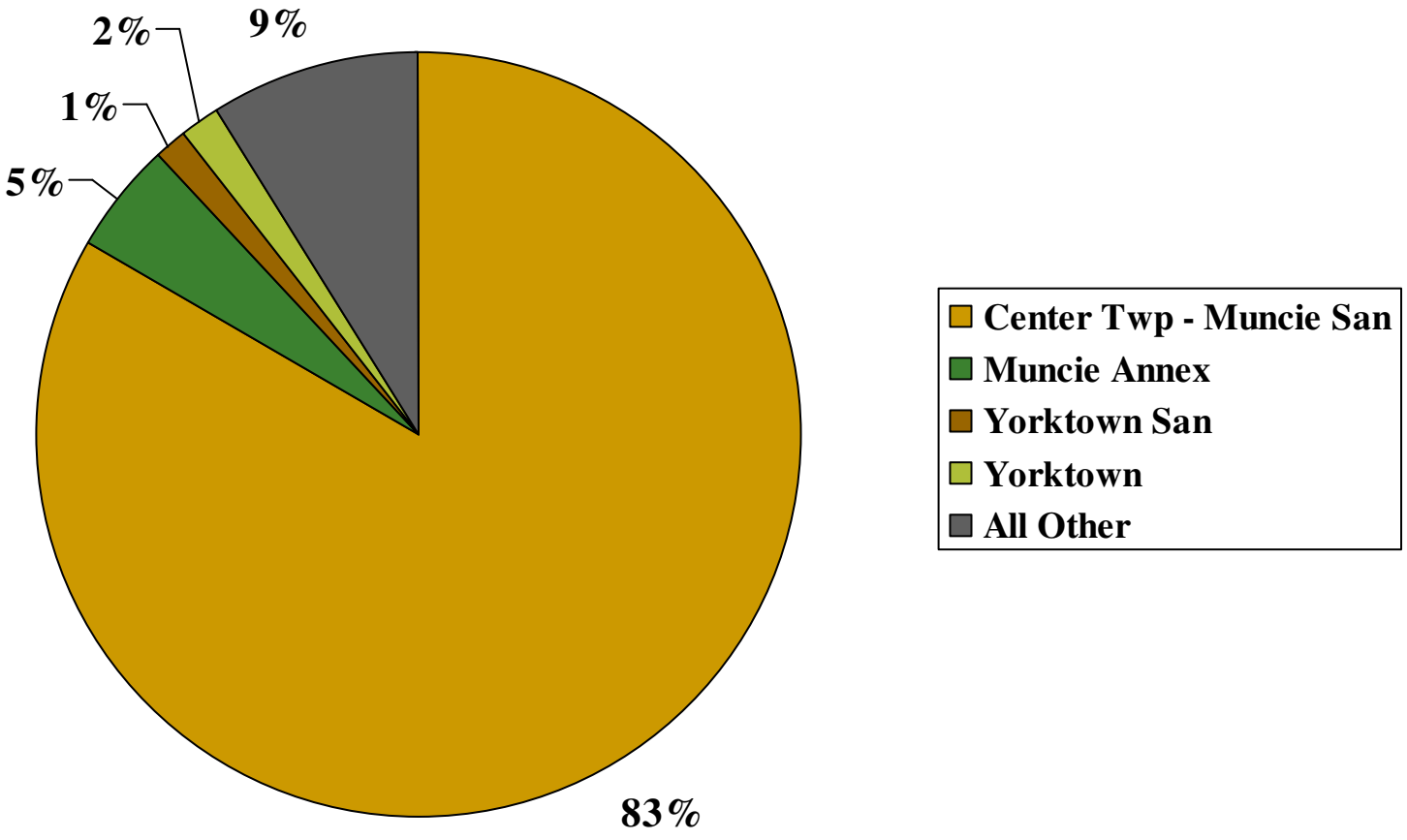


2010 Circuit Breaker Tax Credits (In thousands)

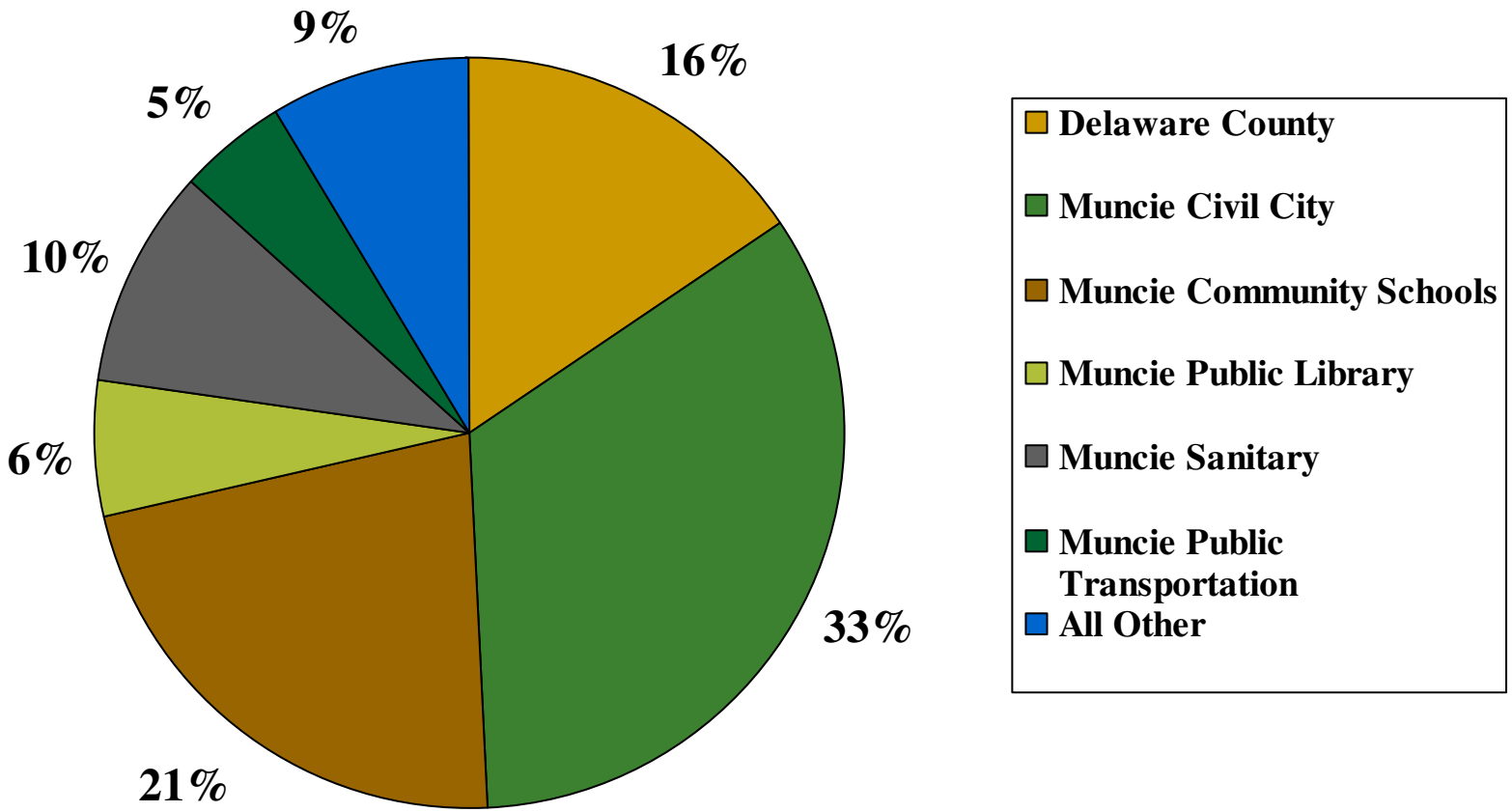
Estimated at $25,277,051 (Untrended)
Estimated at $23,371,340 (Trended)



2010 Circuit Breaker Credits by Taxing District



2010 Circuit Breaker Credits by Taxing Unit



How do we manage the revenue shortfalls?

- **Manage the revenue shortfalls within the authorized levies**
  - Reduce spending in anticipation of revenue shortfalls
    - Improved efficiencies and cost sharing with other units
    - Reduced level of public services
  - Develop fees and charges to replace lost revenues
    - Adopt user fees where appropriate
    - Consider payments in lieu of taxes for tax-exempt properties based upon value of services provided
  - Changes benefit only the taxing unit making the change

How do we manage the revenue shortfalls?

- **Manage the revenue shortfalls by reducing authorized levies**
  - Advantage is that resulting reduction in property tax rate reduces the circuit breaker tax credits of all overlapping taxing units
  - Disadvantage is that the taxing unit will only benefit to the extent that these levy reductions actually reduce tax credits; and then, only in proportion to their tax rate
    - May still experience a revenue loss, but with limited means to fund the shortfall
  - A reduction of a controlled levy cannot be fully replaced if circumstances change.

How do we manage the revenue shortfalls?

- **Increase the tax base to reduce tax rates**
  - Release of excess captured assessed value within tax increment allocation areas
  - Modification of guidelines for future property tax abatement
  - Consolidation of service territories
    - Fire protection territories
    - Consolidation of services provided by multiple taxing units.
  - Annexation

How do we manage the revenue shortfalls?

- **Authorize new local option income taxes**
  - Consider changes to existing local income taxes
    - Increase rates for EDIT and/or COIT within existing statutory limit of 1.0% of taxable income.
    - Currently, the combined rate of EDIT and COIT equals 0.8%.
    - Provides new revenues to replace lost revenue or reduces property tax levies and rates to reduce tax credits.
    - Can only be enacted by the Muncie City Council

How do we manage these credits?

- **Authorize new local option income taxes**
  - Consider adoption of one of the three new LOITs designed for property tax relief
    - Option A: 1.0% Levy Growth Replacement Tax
    - Option B: 1.0% Property Tax Replacement Tax
      - Uniform Credits
      - Residential Homestead Credits
      - Qualified Residential Credits
    - Option C: 0.25% Public Safety Tax, if enacted with Option A or Option B above
    - Can only be enacted by the Muncie City Council