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# STATE OF INDIANA

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DEPARTMENT OF LOCAL GOVERNMENT FINANCE



INDIANA GOVERNMENT CENTER NORTH  
100 NORTH SENATE AVENUE N1058  
INDIANAPOLIS, IN 46204  
PHONE (317) 232-3777  
FAX (317) 974-1629

**TO:** All Political Subdivisions  
**FROM:** Micah G. Vincent, Commissioner  
**RE:** Reallocation of Circuit Breaker Credits under IC 6-1.1-20.6-9.8  
**DATE:** June 5, 2014

**This memo is not applicable to school corporations that received a waiver from protected taxes under IC 6-1.1-20.6-9.9. The Department will provide further instructions for those school corporations within the next few days.**

The purpose of this memo is to provide taxing units with instructions on the process through which a unit may reallocate its property tax cap impact among its funds pursuant to IC 6-1.1-20.6-9.8(c). While the authorization for this reallocation came from Senate Enrolled Act 517-2013 ("SEA 517-2013"), the reallocation is first applicable in 2014 due to the implementation of protected taxes.

Protected taxes is a mathematical process through which a unit's debt service funds will not be impacted by a unit's credits associated with the constitutional 1%, 2%, or 3% property tax caps. The property tax cap credits that should have gone to the debt service funds will instead be applied against the unit's non-debt service or "unprotected" funds as much as possible. Debt service funds and exempt funds (either voter-approved referendum funds or certain debt services funds in Lake and St. Joseph Counties) are not considered protected for the purposes of circuit breaker credits associated with the Over 65 credit from IC 6-1.1-20.6-8.5. The Department of Local Government Finance's ("Department") circuit breaker reports (<http://www.in.gov/dlgf/9354.htm>) have computed the circuit breaker impact to each fund of a taxing unit assuming the implementation of protected taxes.

When distributing tax revenue, the county auditor will distribute based on the implementation of protected taxes. Units that complete the process outlined in this memo will have the ability to transfer the tax revenue among unprotected funds after receipt as a way to reallocate the credits associated with the property tax caps.

### **Instructions for Approval of Reallocation**

Units interested in reallocating their circuit breaker credits must follow the process outlined below:

1. Units should locate the appropriate form or forms in the attached document. This document contains a form for each taxing unit eligible to complete the reallocation

process. (School corporations granted the waiver from protected taxes under IC 6-1.1-20.6-9.9 are not eligible to complete the reallocation process.) The report is organized by county. Cross-county units will have a form in each county in which the unit is located. The reallocation process must be completed separately for each part of the cross-county unit.

2. After locating the appropriate forms, a taxing unit interested in reallocating its property tax distributions should review the instructions below for completing the form. These instructions provide additional information on certain restrictions that will apply to the unit's ability to reallocate.
3. Units are highly encouraged to have the fiscal body of the unit take official action to indicate its intent to reallocate and its decisions in terms of which funds should be reallocated.
4. After these decisions are made, the unit should submit the completed form to the Department's Legal Division at [dmarusarz@dlgf.in.gov](mailto:dmarusarz@dlgf.in.gov). **The Department requests that the submission of the completed form occur prior to July 15, 2014 in order to allow the unit sufficient time to plan for its 2015 budget.** If possible, reallocations approved prior to June 30, 2014 will allow a unit to make the necessary transfers prior to June 30, resulting in fewer budgetary adjustments that will be needed for the 2015 budget process.
5. The Department will review the requested reallocation and will provide each unit with a certification as to whether or not the proposed reallocation meets the requirements of the restrictions outlined below. In addition, the Department will provide each unit for which a reallocation is approved with an Excel spreadsheet that will allow the unit additional guidance on how to transfer its June distribution monies between funds in order to effectuate the approved reallocation and additional guidance on how to budget for the 2015 budget year based on the approved reallocation.

### **Completion of the Required Form**

The attached form contains a list of each certified fund of the unit. It then identifies whether or not a fund is either exempt or protected. The form then contains the circuit breaker amounts as calculated and previously released in the Department's circuit breaker reports.

The next column on the form identifies the minimum amount of circuit breaker that must be attributed to a particular fund. This amount has been calculated based on the following assumptions.

By taxing district, the Department has limited the amount of property tax levy attributable to each fund to the amount calculated based on the abstract assessed values and the tax rates used on the abstract. This limit ensures that taxing units are not reallocating circuit breaker credits among funds in a manner that would be inconsistent with the policy decisions made during the budget adoption process and without input from impacted taxpayers. Based on these levy limits, the Department determined the amount of circuit breaker that would be required to be applied to a fund within a taxing district so as not to violate these levy limits. This process also ensures that taxing units are not reallocating circuit breaker credits between taxing districts. In addition, Over 65 circuit breaker credits (which are not eligible to be reallocated) and any property tax cap credits that were required to be spread to a protected fund have been added to this amount. Together, these three components total the Minimum Circuit Breaker Required for a fund.

Minimum Circuit Breaker Required = Total of Circuit Breaker Required to Remain within Levy Limits by Taxing District + Over 65 Circuit Breaker + Property Tax Credit Allocated to Protected Funds

With the Minimum Circuit Breaker Required as a baseline, the Department has then placed the following restrictions on a unit's ability to reallocate among funds, as shown in the Unit Reallocation of Circuit Breaker Amount column:

- Exempt and protected funds have been automatically assigned the Minimum Amount of Circuit Breaker Required, which will be either Over 65 circuit breaker or Property Tax Credit that was allocated to Protected Funds. No additional circuit breaker may be allocated to these funds.
- Funds without property tax levies are not eligible to take circuit breaker credits, so a \$0 has automatically been assigned to these funds. No additional circuit breaker may be allocated to these funds.
- In the event that a unit's circuit breaker credits are only attributable to Over 65 circuit breaker, these amounts (which equal the Minimum Amount of Circuit Breaker Required) have been automatically assigned. No additional reallocation is possible.

After the implementation of these restrictions, the unit may reallocate its remaining circuit breaker credits among funds as desired. In determining how to reallocate, the unit should check for the following:

- For each fund, the Minimum Amount of Circuit Breaker Required has been met.
- The total circuit breaker after reallocation must equal the total circuit breaker prior to reallocation.

Violation of either of these requirements will result in the Department rejecting a unit's reallocation of circuit breaker credits.

### **Transfer of Distributions**

As stated above, the Department will provide each taxing unit for which a reallocation of circuit breaker credits is approved with an Excel spreadsheet and associated instructions. This spreadsheet will assist the taxing unit in determining how to transfer property tax revenue received in the June distribution in order to effectuate the approved reallocation. **Remember, the county auditor will distribute the property tax revenue according to the implementation of protected taxes and will not take into consideration any approved reallocations. It will be the unit's responsibility to properly transfer its property tax revenue among funds in order to implement the reallocation of circuit breaker credits.**

### **2015 Budget Guidance**

In addition to the guidance on necessary transfers, the Excel spreadsheet provided will assist the unit in determining what amounts to place on certain fields on the budget forms for the 2015 budget process. The amount of budgetary adjustments necessary will depend on whether or not

June distributions have been receipted by June 30, 2014 and whether or not the transfers associated with the reallocations have been completed by June 30, 2014.

**Questions**

If you have any questions on the process outlined above, please contact David Marusarz, Staff Attorney, at [dmarusarz@dlgf.in.gov](mailto:dmarusarz@dlgf.in.gov) or (317) 233-6770.

If you have questions regarding the calculations shown on the attached forms, please contact Courtney Schaafsma, Budget Division Director, at [cschaafsma@dlgf.in.gov](mailto:cschaafsma@dlgf.in.gov) or (317) 234-3937.