



## **IASBO Annual Meeting**

**Courtney L. Schaafsma, CGFM**

**Commissioner**

**May 13, 2016**



# Agenda

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- Budget Process
- Local Income Taxes
- Assessed Value
- New Legislation



# Budget Process



# Budget Changes for 2016

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- SEA 321-2016 modifies the budget adoption process for local governments.
- Main goals:
  - To provide local governments with more information in advance of adoptions to allow for more accurate budget advertisings and adoptions.
  - To provide more local control over the adoption process and the Department's review process.



## July 14 – Estimate of Maximum Levies

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- Starts in 2016 for Budget Year 2017.
- Before July 15, the Department shall provide to each taxing unit an estimate of the unit's maximum permissible property tax levies for the ensuing year. (IC 6-1.1-18.5-24)
- The Department's estimates shall provide guidance on calculating allowable levy adjustments.



# Maximum Levy Calculation

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Budget Year 2016
Prior Year Maximum Levy
PLUS: Prior Year CAGIT PTRC
TIMES: AVGQ
LESS: Budget Year CAGIT PTRC
EQUALS: Budget Year Maximum Levy
PLUS: Levy Adjustments
PLUS: Financial Institutions Adjustment
EQUALS: Working Maximum Levy

Budget Year 2017
Prior Year Maximum Levy
PLUS: Financial Institutions Adjustment (one-time adjustment)
TIMES: AVGQ
EQUALS: Budget Year Maximum Levy
PLUS: Levy Adjustments
EQUALS: Working Maximum Levy



# Uncouple Maximum Levies and LOITs

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- HEA 1485-2015 uncoupled the maximum levy calculation from local option income taxes.
- CAGIT PTRC is no longer a part of the maximum levy formula.
- This change allows the Department to compute maximum levies earlier in the year as CAGIT PTRC previously was not officially known until October.



## June 30 – Assessed Value Growth Quotient

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- Starts in 2017 for Budget Year 2018.
- The State Budget Agency shall provide the assessed value growth quotient (AVGQ) for the ensuing year before July 1.
  - Currently, no statutory deadline exists, though State Budget Agency typically provides this figure prior to the end of June.



# Financial Institutions One-Time Levy Adjustment

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- Occurs in 2016 for Budget Year 2017.
- For Budget Year 2017, the Department shall make a one-time permanent adjustment to the maximum levies in an amount equal to financial institutions tax adjustment for Budget Year 2016. (IC 6-1.1-18.5-19.1)
- Previously, the financial institutions tax adjustment was not known until the Department did its budget review.



# July 14 – Estimate of Debt Levies

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- Officially starts in 2018 for Budget Year 2019.
- Before July 15, the Department shall provide each political subdivision with an estimate of the property tax rates that would be imposed by the political subdivision in the budget year for debt service. (IC 6-1.1-17-0.7(b)(2))
  - Currently not provided in advance of budget review.
- Actual tax rates will be computed during budget review.



## July 14 – Estimate of Cumulative Fund Rates

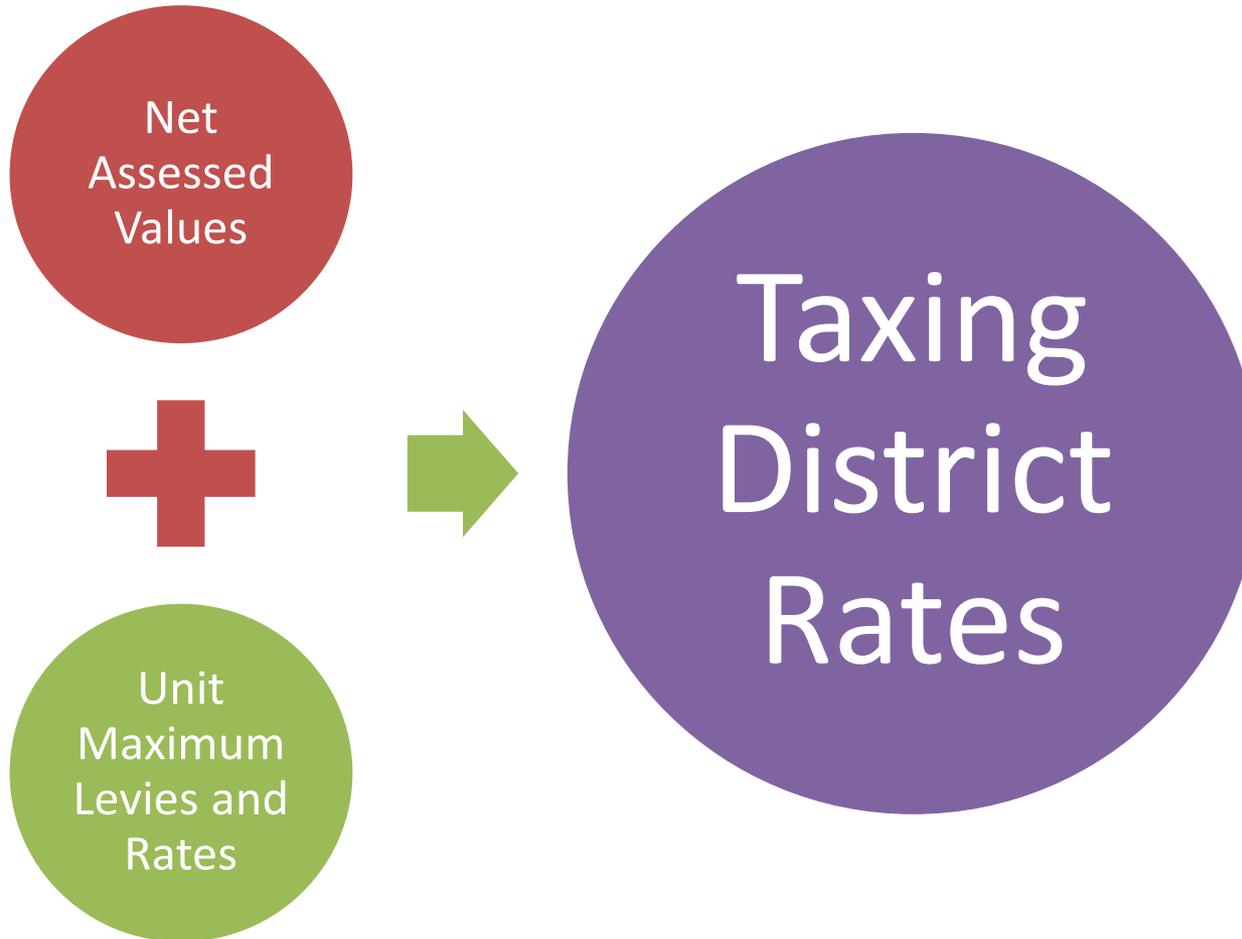
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- Officially starts in 2018 for Budget Year 2019.
- Before July 15, the Department shall provide each political subdivision with an estimate of the property tax rate that could be imposed by the political subdivision in the budget year for each cumulative fund or fund for which a maximum tax rate is established. (IC 6-1.1-17-0.7(b)(1))
  - Currently not provided in advance of budget review.
- Actual tax rates will be computed during budget review.



# Circuit Breaker Calculations

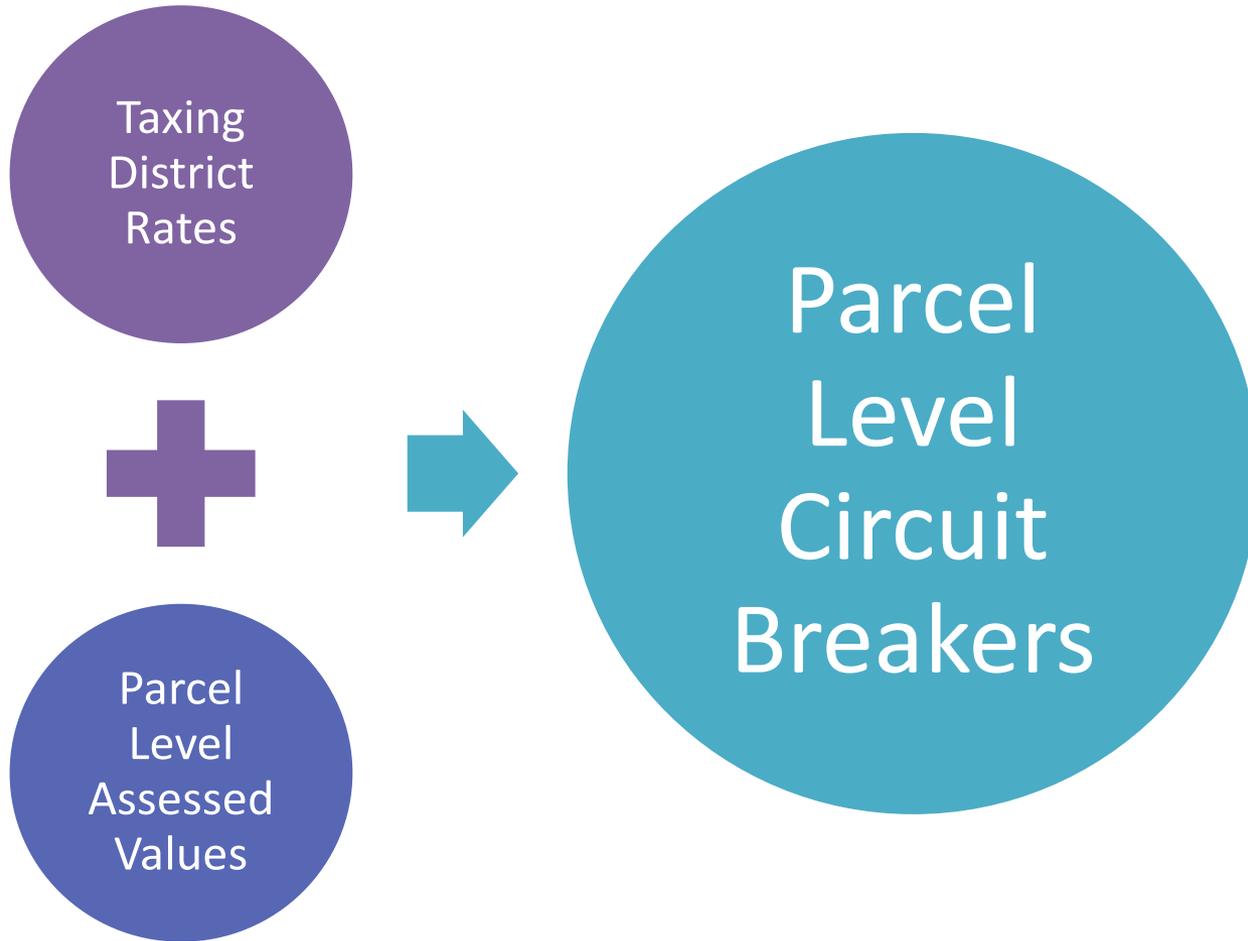
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# Circuit Breaker Calculations

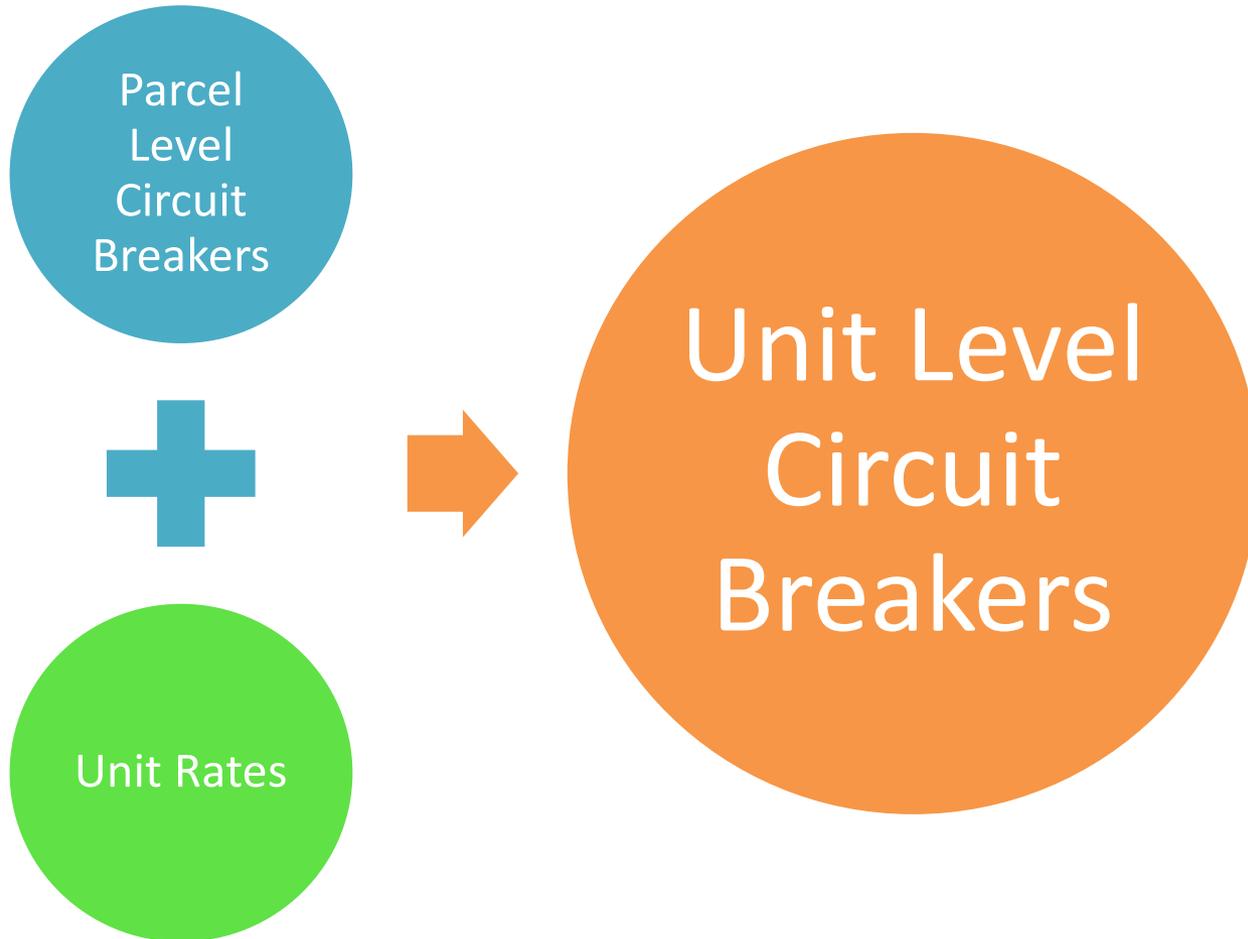
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# Circuit Breaker Calculations

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# July 31 – Circuit Breaker Estimates

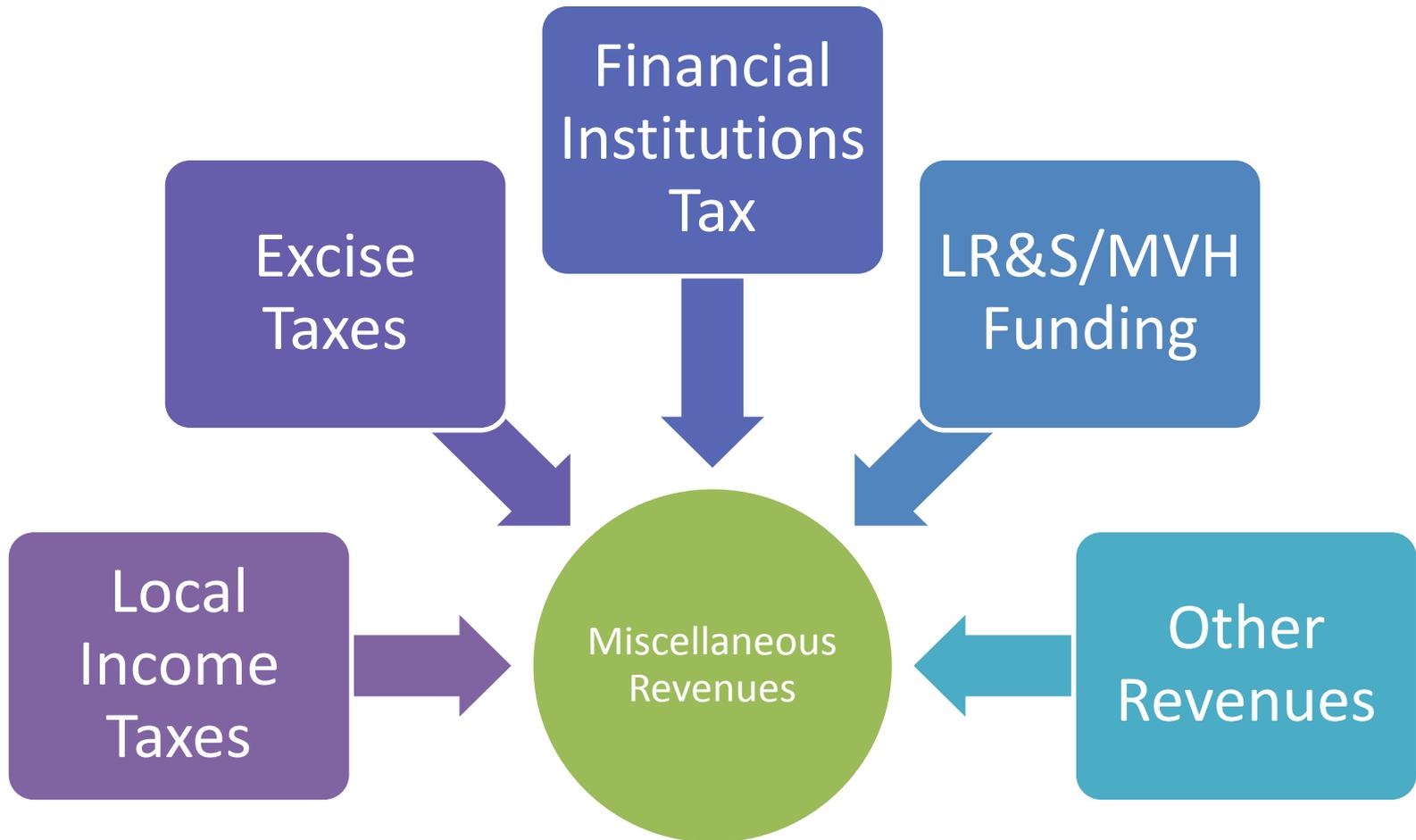
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- Starts in 2016 for Budget Year 2017.
- Before August 1, the Department shall provide each taxing unit an estimate of the amount by which the taxing unit's property tax distribution will be reduced by circuit breaker credits in the ensuing year. (IC 6-1.1-20.6-11.1)
- The Department shall use the best available assessed value data and maximum levy estimates.



# Miscellaneous Revenues

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## July 31 – Estimate of Miscellaneous Revenues

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- Officially starts in 2018 for Budget Year 2019.
- Before August 1, the Department shall provide to each political subdivision an estimate of the miscellaneous revenue that the political subdivision will receive in the ensuing year if the political subdivision imposed its rates and levies at their maximums. (IC 6-1.1-17-0.7(c))



## July 31 – Estimate of Miscellaneous Revenues

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- Estimate of miscellaneous revenues will include at least the following revenue types:
  - Local income taxes (timeline changes)
  - Excise taxes – license excise and commercial vehicle excise (CVET)
  - Financial institutions tax
  - Local road & street
  - Motor vehicle highway
  - Cigarette tax
  - Riverboat



# August 1 – Auditor’s Certificate

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- Starts in 2016 for Budget Year 2017.
- SEA 321-2016 eliminated the requirement for the county auditor to provide to each taxing unit in the county an “Auditor’s Certificate”.
  - The Auditor’s Certificate provided taxing units with estimates of miscellaneous revenues.
  - These estimates will now be provided by the Department instead of the county auditor.



# County Council Review

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Unit  
Levies and  
Rates

Unit Level  
Circuit  
Breakers

County  
Council  
Review



# County Council Review

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- Starts in 2016 for Budget Year 2017.
- The previously existing version of County Council Review has been eliminated.
  - Includes elimination of penalties associated with failure to submit to the county council or failure of the county council to correctly complete the review process.



# County Council Review

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- Starts in 2016 for Budget Year 2017.
- At the first meeting of the county fiscal body in August, the county fiscal body shall review the estimated levy limits and estimated circuit breaker impacts provided by the Department. (IC 6-1.1-17-3.6(a))
- The county fiscal body may request that representatives from the taxing units in the county attend the meeting. (IC 6-1.1-17-3.6(b))



# County Council Review

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- The county fiscal body must allow a representative of a taxing unit to comment on the taxing unit's proposed budgets, levies, and tax rates. (IC 6-1.1-17-3.6(c))
- After the meeting, the county fiscal body may prepare and distribute written recommendations to the county's taxing units. If written recommendations are not prepared, the minutes of the meeting shall be distributed by the county auditor. (IC 6-1.1-17-3.6(d))



# Budget Adoption Process

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Notice to  
Taxpayers

Public  
Hearing

Budget  
Adoption



# Notice to Taxpayers (Form 3)

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- Starts in 2016 for Budget Year 2017.
- At least 10 days before the public hearing, the political subdivision shall submit its Notice to Taxpayers on Gateway. (IC 6-1.1-17-3(a))
  - SEA 321-2016 eliminates the requirement that the Notice to Taxpayers be submitted before September 14.
- Local units will have more control over their budget adoption process due to elimination of arbitrary deadline.



# Notice to Taxpayers (Form 3)

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- The Notice to Taxpayers must include:
  - Estimated budget.
  - Estimated maximum permissible levy, as provided by the Department.
  - Current and proposed levies for each fund.
  - Estimated amount of circuit breaker impact, as provided by the Department.
  - Amount of excessive levy appeals to be requested.
  - Date, time, and place for public hearing.



# Capital Projects Fund Notices

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- SCHOOLS ARE STILL REQUIRED TO PUBLISH **IN THE NEWSPAPER** THE NOTICE OF HEARING ON THE CPF PLAN AND THE NOTICE OF ADOPTION.
  - Notice of hearing must be published one time at least 10 days before the public hearing. IC 5-3-1-2(b)
  - Notice of adoption should be published within 10 days of adoption.



# Bus Replacement Fund Notice

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- SCHOOLS ARE STILL REQUIRED TO PUBLISH **IN THE NEWSPAPER** THE NOTICE OF HEARING ON THE BUS REPLACEMENT PLAN.
- Notice of hearing must be published one time at least 10 days before the public hearing. IC 5-3-1-2(b)



# November 1 – Budget Adoption

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- Starts in 2016 for Budget Year 2017.
- In formulating a political subdivision's estimated budget, the political subdivision must consider the net property tax revenue that will be collected during the ensuing year, after taking into account the Department's estimates of circuit breaker impacts. (IC 6-1.1-17-3(a))
  - Currently, most units adopt budgets without acknowledging the impact of circuit breakers.



# November 1 – Budget Adoption

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- Taxing units will start to adopt “net budgets” or “post-circuit breaker budgets”.
- The amount fundable by the net property tax levy and other miscellaneous revenues.
- In the long-term, the Department intends to redo its current Fund Report (Form 4B or 16-Line Statement) to account for this change.
- For Budget Year 2017, the Department will provide guidance to units on how to accomplish this.



# Adoption Deadlines

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- Form 4 Budget Ordinance
  - At least 10 days after the public hearing but no later than November 1.
- Capital Projects Fund Plan
  - Any time after public hearing but no later than November 1.
- Bus Replacement Fund Plan
  - Any time after public hearing but no later than November 1.



# Schools Subject to Binding Adoption

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- Hearing and Adoption by Appropriate Fiscal Body:
  - Form 4 Budget Ordinance
- Hearing and Adoption by School Board:
  - Capital Projects Fund Plan
  - Bus Replacement Fund Plan



# Department Budget Review

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Department  
Review of  
Budgets, Levies,  
and Rates

1782 Notice  
Period

Certified  
Budget Order



# Department Budget Review

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- Starts in 2016 for Budget Year 2017.
- For debt service funds and rate-controlled funds (cumulative funds), the Department will complete a similar level of budget review as currently exists.
- For levy-controlled funds, the Department's level of review will be contingent on the budgets and levies adopted by the local governments.
- IC 6-1.1-17-16



# Department Budget Review

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- Three-prong test:
  - Adopted levies exceed estimated maximum levies.
    - Same level of budget review as currently exists (budgets, revenues, levies, rates).
  - Adopted levies are within estimated maximum levies, BUT budgets are not fundable.
    - Same level of budget review as currently exists.
  - Adopted levies are within estimated maximum levies AND budgets are fundable.
    - Shortened budget review (levies and rates).
    - Adopted budgets and revenues accepted.



# Department Budget Review

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Department  
Review of  
Budgets, Levies,  
and Rates

1782 Notice  
Period

Certified Budget  
Order

- Level of detail of review dependent on local unit adoptions.



# Department Budget Review

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Department  
Review of  
Budgets, Levies  
and Rates

- Level of detail of review dependent on local unit adoptions.

1782 Notice  
Period

- 10 calendar days to review and respond to preliminary budget order.

Certified Budget  
Order



# Department Budget Review Deadline

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- Budget Year 2017 and 2018: February 15 of the budget year
- Starting for Budget Year 2019:
  - December 31 of the year prior to the budget year; or
  - January 15 of the budget year if a unit in the county is issuing debt in December or is filing a shortfall appeal in December
- Change in Department deadline makes it more important for local units to take ownership over their budget process.



# Department Budget Review

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Department  
Review of  
Budgets, Levies,  
and Rates

- Level of detail of review dependent on local unit adoptions.

1782 Notice  
Period

- 10 calendar days to review and respond to preliminary budget order.

Certified Budget  
Order

- 2017: February 15
- 2018: February 15
- 2019: December 31 or January 15



# Local Income Taxes



# Local Income Taxes

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- HEA 1485-2015 consolidates the three LOITs (CAGIT, COIT, CEDIT) into one local income tax starting in 2017.
- Schools in current CAGIT counties will continue to receive a distribution of local income taxes.
- The revenue will be considered to be a part of the “expenditure rate”.



# Local Income Taxes

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- SEA 67-2016 distributes the existing trust account balances held by the State Budget Agency.
- Schools in CAGIT counties will receive a portion of this special distribution in May 2016.
- This special distribution is to be deposited into a school's rainy day fund.
- This special distribution does need to be appropriated before being spent.
- SEA 67-2016 also modifies the supplemental distribution threshold for future distributions.



# Assessed Value



# Ag Land Assessment

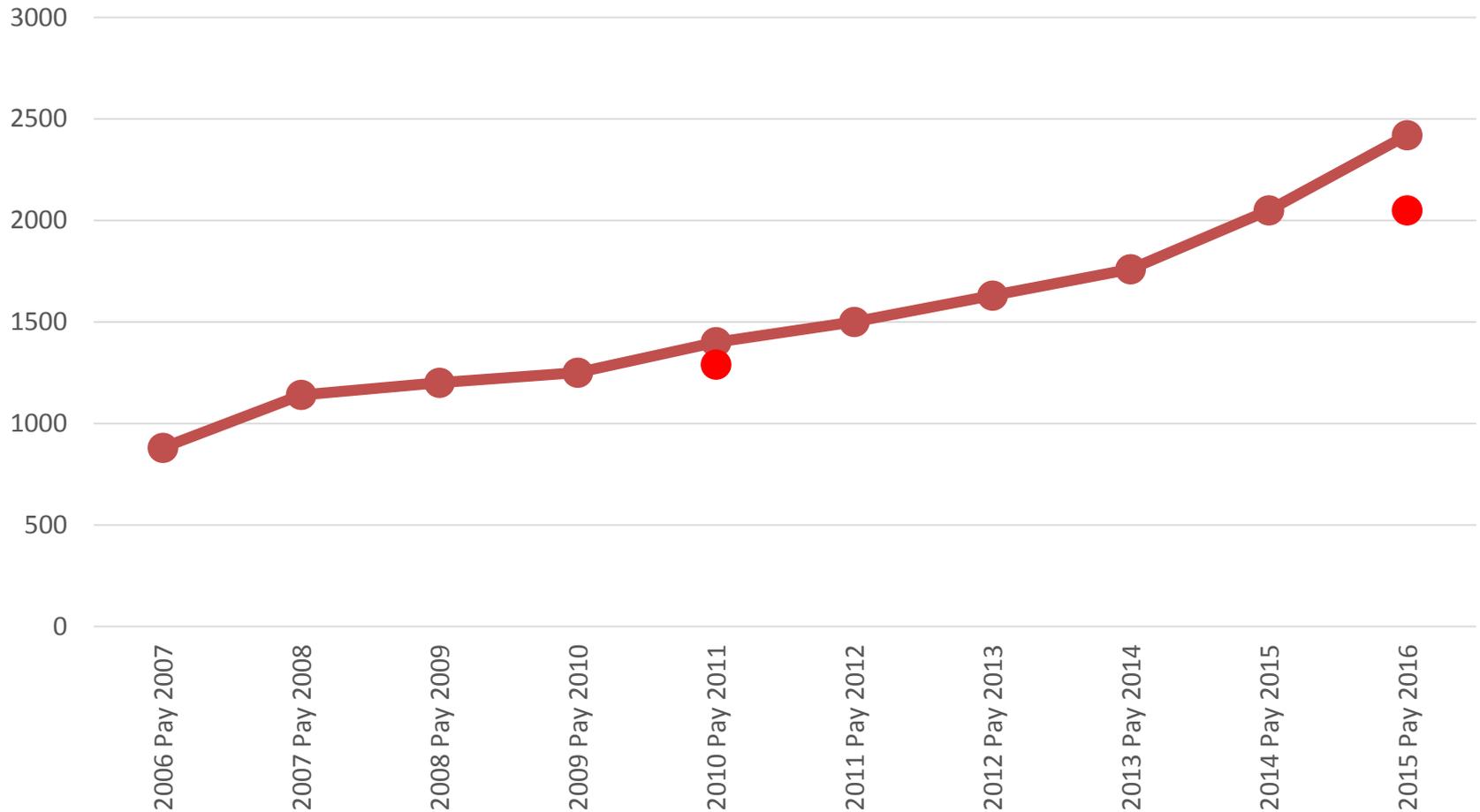
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- Assessments for agricultural land are calculated using an income-based formula to derive “market value in use” for the current use.
- The existing formula is based on a six-year rolling average with the highest year excluded from the calculation.
- Since 2006, the ag base rate has been consistently growing and was projected to continue to grow for the next several years.



# Ag Land Assessment

Ag Base Rate Calculations





# Ag Land Assessment

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- SEA 308-2016 modifies the formula used to compute the agricultural land base rate.
- The calculation requires a three-step process:
  - First, the Department computes the ag base rate as it traditionally has.
  - Second, the Department compares the resulting rate to the prior year base rate to determine the capitalization rate to use.
  - Third, the Department recomputes the ag base rate using the identified capitalization rate.



# Ag Land Assessment

Year	Cash Rent Income Per Acre	Owner-Occupied Income Per Acre	Cap. Rate	Market Value in Use – Cash Rent	Market Value in Use – Owner-Occupied	Average Market Value in Use
2010	141	172	5.97%	2,362	2,881	2,622
2011	161	254	5.61%	2,870	4,528	3,699
2012	185	116	5.06%	3,656	2,292	2,974
2013	204	341	4.84%	4,215	7,045	5,630
2014	205	173	4.77%	4,298	3,627	3,963
2015	198	-39	4.74%	4,177	-823	1,677
<b>Average of the 5 Lowest Years</b>						<b>2,990</b>



# Ag Land Assessment

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- Preliminary Base Rate: \$2,990
- Prior Year Base Rate: \$2,050
- Percent Difference: 46%
- If preliminary base rate is at least 10% greater than the prior year base rate, use a cap. rate of 8%.
- If preliminary base rate is at least 10% less than the prior year base rate, use a cap. rate of 6%.
- If preliminary base rate is neither at least 10% greater nor at least 10% less than the prior year base rate, use a cap. rate of 7%.



# Ag Land Assessment

Year	Cash Rent Income Per Acre	Owner-Occupied Income Per Acre	Cap. Rate	Market Value in Use – Cash Rent	Market Value in Use – Owner-Occupied	Average Market Value in Use
2010	141	172	8.00%	1,763	2,150	1,957
2011	161	254	8.00%	2,013	3,175	2,594
2012	185	116	8.00%	2,313	1,450	1,882
2013	204	341	8.00%	2,550	4,263	3,407
2014	205	173	8.00%	2,563	2,163	2,363
2015	198	-39	8.00%	2,475	-488	994
<b>Average of the 5 Lowest Years</b>						<b>1,960</b>



# Market Segmentation

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- HEA 1290-2016 introduces “market segmentation” for property tax assessments.
- Market segmentation requires that sales of properties purported to be similar to the subject property can be used to value that subject property only if they hail from the same market or submarket as the subject property.
- The Department is also instructed to update its Real Property Assessment manual to address market segmentation.



# New Legislation



# Referendum Language

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- SEA 279-2016 adds IC 20-46-1-10.1 which includes language for use by school corporations that are extending an operating referendum.
- A resolution to extend a referendum must be adopted by the governing body of the school corporation and approved through a referendum before December 31 of the final calendar year of the prior referendum.
- The extended referendum may not exceed the number of years for which the prior referendum tax levy was imposed.



# Referendum Language

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“For the \_\_\_ (insert number) calendar year or years immediately following the holding of the referendum, shall the school corporation continue to impose a property tax rate that does not exceed \_\_\_ (insert amount) cents (\$0.\_\_\_\_) on each one hundred dollars (\$100) of assessed valuation and for the purpose of funding \_\_\_\_\_ (insert short description of purposes)?

The tax rate requested in this referendum was originally approved by the voters in the \_\_\_\_\_ (insert name of the school corporation) in \_\_\_\_\_ (insert the year in which the referendum tax levy was approved).”



# Protected Taxes Waiver

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- HEA 1109-2016 extends the protected taxes waiver two additional years (2017 and 2018).
- In addition to the 10% circuit breaker impact to transportation fund requirement, if:
  - A school corporation in 2017 or 2018 issues new bonds or enters into new leases (other than refundings and referenda); and
  - The school corporation's total debt service levy in 2017 or 2018 is greater than the debt service levy in 2016;
  - The school corporation is not eligible for the waiver.



# Capital Projects Fund

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- HEA 1109-2016 extends the utilities and insurance adjustment for the capital projects fund until January 1, 2018.



# Transparency

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- SEA 126-2016 requires the Department to prepare a summary report of data provided by taxing units.
- The report is to be published on Gateway starting in 2017.
- A taxing unit that has a webpage must display a link to the report on its webpage.



# Transparency

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- Information to be included:
  - Expenditure data
  - Revenue data
  - Fund balances
  - Operating budget
  - Approximate number of employees
  - Outstanding debt and interest paid on the debt
  - Assessed value and tax rates
  - SCHOOL ONLY: Educational performance data



# Transparency

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- SEA 327-2016 requires a taxing unit to upload certain contracts to Gateway.
- The contracts must be uploaded during each year for which the contract amount exceeds the lesser of:
  - 10% of the unit's property tax levy for the year;
  - \$50,000.
- The contract is to be uploaded not later than 60 days after contract execution.
- The unit is responsible for protecting confidential information.



# Property Tax Appeals

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- SEA 308-2016 allows a county fiscal body to adopt an ordinance to capture taxes from all taxing units within a taxing district when there is an appeal that is uncommon and infrequent.
- The ordinance must specify the appeals and why they are uncommon and infrequent, a detailed list of expenses incurred by fund and by parcel number, and that the county auditor will deduct the expenses in the ordinance from the property tax receipts collected in the taxing district before apportioning the tax receipts for the next semi annual settlement.



# Property Tax Appeals

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- HEA 1273-2016 modifies IC 6-1.1-15-10.5, which was added in the 2015 legislative session to allow a taxing unit to establish an assessment appeals fund.
- HEA 1273 changes the language to specify that property tax receipts are transferred into the appeals fund but may not be transferred from a debt service fund.
- Levy excess may not be transferred into this fund.



# Contact the Department

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- Courtney Schaafsma, Commissioner
  - Telephone: 317.234.5720
  - Email: [cschaafsma@dlgf.in.gov](mailto:cschaafsma@dlgf.in.gov)
- Website: [www.in.gov/dlgf](http://www.in.gov/dlgf)
  - “Contact Us”: [www.in.gov/dlgf/2338.htm](http://www.in.gov/dlgf/2338.htm)