How Do I Determine Our Maximum Levy?

Learn it, build it, own it.

Tim Berry & Angie Steeno
Introduction to the Assessment Process and the Flow of Property Tax Funds
Course Objectives

1. An understanding of the current property tax assessment process, and how these valuations develop into the maximum levy and tax rates for Indiana counties.

2. The History of property tax controls and how is the Maximum Levy calculated.

3. Understand the history of the growth quotient – what does that mean?

4. Understanding the 1782 Notice

5. Answer your questions
Course Agenda

• Topic 1  Property Taxes - How did we get here?
• Topic 2  Indiana Budgets – Maximum Levy
• Topic 3  Budget Process – It all Relates
• Topic 4  The 1782 Notice
Property Taxes –
How did we get here?
Property Tax Reform: Bowen Tax Reform 1973

• Doc Bowen, often referred to as the “Father of Property Tax Reform” made tax reform a core component to his 1972 campaign for Governor

• Core components of his reform passed in the General Assembly in 1973

  • Doubled the state sales tax from 2% to 4%
    • Allocated the extra 2% to Property Tax Replacement Credit (PTRC)

  • Permitted counties to adopt CAGIT

  • Set limits on rates and levies for CAGIT counties

  • Established local Tax Control Boards
Property Tax Reform: Bowen 2.0 1979

• Further Changes were a response to reassessment and the economic environment (high inflation) of the late ‘70’s

• 1. Growth in tax levies was limited to the same growth rate as the Assessed Value Growth Quotient (AVGQ). Minimum AVGQ was 5% and the maximum 10%. Many jurisdictions would “bank” the difference between their actual and maximum levy growth to use in future years

• 2. Taxing units were allowed to appeal to the state tax board for an excess levy above the AVGQ normally permitted
Town of St. John v. State Board of Tax Commissioners

• Filed in ‘93 plaintiffs argued that the method of calculating “true tax value” could lead to different tax values for property with the same market value – violating Indiana’s Constitution which requires a “uniform and equal rate of property assessment and taxation”
• In total 6 opinions were issued by Indiana Supreme and Indiana Tax Courts clarifying “true tax value” and was determined that property should be assessed “under a system that incorporates an objective reality” and that objective reality does not have to be the same as market value.
• Old assessment method calculated a true tax value of property based upon its “reproduction cost less depreciation”
• 75% of 1991 construction values
• New assessment based upon 100% of 1999 construction data
• In 2002 AVGQ formula changed to allow property tax levies to increase at the rate that Indiana nonfarm personal income increases over previous 6 years
Hundreds turn out to protest property tax increase

• About 400 people rallied July 4, 2007 outside the governor’s residence. Many of them Marion County residents outraged over steep increases in their property tax bills. People spoke out and stopped traffic along busy Meridian and 46th streets. Many carried signs and banners protesting the higher taxes in Marion County and throughout the state.

“My tax bill went from $2,400 to $8,000, almost a $6,000 increase,” said Patrick Perry.

Protesters directed their anger at all levels of government and all levels of elected officials, who they said saw the storm approaching but did nothing.

“I’m here to object to tax money going to support the Colts stadium,” said Byron Smith. “It’s robbing from the poor to pay for the rich.”

According to estimates by the Legislative Services Agency, property taxes on homeowners were expected to increase an average of 24 percent this year. Steps lawmakers took during the past legislative session were projected to lower the average increase to 7.7 percent.

The relief is to be sent to homeowners in rebate checks after the second installment of property tax bills goes out this fall.
Indiana Budgets –
Maximum Levy
Goal of Budgeting

Needs

Revenues
Importance of Budgeting

• The budget is more than just a bunch of big numbers

• The budget creates legal limits:
  
  • Appropriations – spending authority
  
  • Levy – how much money can be raised from taxpayers
  
  • Tax Rate – drives the amount of circuit breaker credits
Estimate of Max Levy

• Starting in 2016 for Budget Year 2017.

• Before July 15, DLGF 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 – recent history

<table>
<thead>
<tr>
<th>Budget Year 2016</th>
<th>Budget Year 2017 &amp; Beyond</th>
</tr>
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<tbody>
<tr>
<td>Prior Year Maximum Levy</td>
<td>Prior Year Maximum Levy</td>
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<tr>
<td>PLUS: Prior Year CAGIT PTRC</td>
<td>PLUS: Financial Institutions Adjustment (One-Time Adjustment)</td>
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<tr>
<td>TIMES: AVGQ</td>
<td>TIMES: AVGQ</td>
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<tr>
<td>LESS: Budget Year CAGIT PTRC</td>
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<tr>
<td>EQUALS: Budget Year Maximum Levy</td>
<td>EQUALS: Budget Year Maximum Levy</td>
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<tr>
<td>PLUS: Levy Adjustments</td>
<td>PLUS: Levy Adjustments</td>
</tr>
<tr>
<td>PLUS: Financial Institutions</td>
<td></td>
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<tr>
<td>Adjustment</td>
<td>EQUALS: Working Maximum Levy</td>
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Recent Changes in Max Levy

- 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.
Cum Fund Levy changed in 2017 – Cum Cap Development

• The cumulative fund levy adjustment for counties, cities, and towns has been modified to consider only the levy for the unit’s cumulative capital development (CCD) fund. (IC 6-1.1-18.5-9.8(a))

• Previously, the levy adjustment required the comparison between the unit’s CCD fund levy and the excess property taxes imposed by a unit in certain cumulative funds above what the unit imposed in 1984
Started in 2016 for Budget Year 2017 – Community Mental Health Centers

• Before July 15, the Department shall provide to each county, city, and town an estimate of the maximum permissible property tax rate for the ensuing year for their cumulative capital development fund. (IC 6-1.1-18.5-9.8(b))

• Before July 15, the Department shall provide to each county an estimate of the maximum amount of property taxes imposed for community mental health centers that are exempt from levy limits for the ensuing year. (IC 6-1.1-18.5-10(d))
Started for Budget Year 2017 – Development Disability Centers

- Before July 15, the Department shall provide to each county an estimate of the maximum amount of property taxes imposed for developmental disabilities centers that are exempt from levy limits for the ensuing year.
  
  (IC 6-1.1-18.5-10(d) and IC 12-29-1-3.5)

- The maximum allowable levy adjustment is equal to the prior year’s maximum allowable levy adjustment times AVGQ. (IC 12-29-1-1)

- Previously, the maximum allowable levy adjustment was based on the levy that could be generated by a $0.0333 tax rate on the assessed value in the county.

- This change allows for the computation of this adjustment earlier in the process as it is no longer dependent on NAVs.
FIT Adjustment

• 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.
You Have all Done this Right????

• Before May 1, the fiscal officer of each political subdivision shall provide the DLGF with an estimate of the total amount of the political subdivision’s debt service obligations (as defined in IC 6-1.1-20.6-9.8 that will be due in the last six months of the current year and in the ensuing year. (IC 6-1.1-17-0.7(a))
More Changes coming this summer

• 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))

• An Estimate of the maximum property tax rate that may be imposed by the political subdivision for property taxes payable in the ensuing year for debt service. (IC 6-1.1-17-0.7(b)(2))

• Actual tax rates will be computed during budget review.
Circuit Breaker – Already in place

• Before August 1, the DLGF 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.
It all Inter-relates

- Net Assessed Value
- Unit Maximum Levies/Rates

Taxing District Rates

Parcel Level Circuit Breakers

- Taxing District Rates
- Parcel Level Assessed Value

Unit Level Circuit Breakers

- Parcel Level Circuit Breakers
- Unit Level Rates
Officially begins for Budget Year 2019

• Before August 1, the DLGF shall provide to each political subdivision an estimate of the maximum amount of property tax revenues and misc. 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))

• 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
Budget Process –
It all relates
Budget Adoption Process

- Notice to Taxpayers
- Public Hearing
- Budget Adoption
Budget Adoption Process

• 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 eliminated 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
• 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))
Property Tax Caps

Needs

Revenues
Property Tax Caps

Needs

Revenues

Circuit Breakers
Since 2017, taxing units are to adopt “net budgets” or “post-circuit breaker budgets”.
- The amount fundable by the net property tax levy and other miscellaneous revenues
- DLGF provides guidance to units on how to accomplish this.
DLGF Budget Review

- Department Review of Budgets, Levies and Rates
- 1782 Notice Period
- Certified Budget Order
Starting with 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 deadline makes completion of budget timeline dates even more important! CNAV’s!
## Maximum Levy Calculation

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Maximum Levy</td>
<td>4,859,940</td>
</tr>
<tr>
<td>PLUS: 2017 Permanent Appeal Amount and New Max Levies</td>
<td>0</td>
</tr>
<tr>
<td>PLUS: Other Adjustments to 2017 Maximum Levy</td>
<td>0</td>
</tr>
<tr>
<td>2017 Maximum Levy for Growth Quotient</td>
<td>4,859,940</td>
</tr>
<tr>
<td>TIMES: 2018 Assessed Value Growth Quotient (AVGQ)</td>
<td>1.04</td>
</tr>
<tr>
<td>Initial 2018 Maximum Levy</td>
<td>5,054,338</td>
</tr>
<tr>
<td>PLUS: Potential 2018 Appeals as Reported by Unit</td>
<td>0</td>
</tr>
<tr>
<td>Estimated 2018 Maximum Levy Prior to Allowable Adjustments</td>
<td>5,054,338</td>
</tr>
<tr>
<td>PLUS: Estimated 2018 Cumulative Capital Development Adjustment</td>
<td>318,121</td>
</tr>
<tr>
<td>PLUS: Estimated 2018 Mental Health Adjustment</td>
<td>127,300</td>
</tr>
<tr>
<td>PLUS: Estimated 2018 Developmental Disabilities Adjustment</td>
<td>27,500</td>
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<tr>
<td>LESS: Other adjustments reported by the taxing unit</td>
<td>0</td>
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<tr>
<td>ESTIMATED 2018 MAXIMUM LEVY</td>
<td>5,527,258</td>
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</tbody>
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1782 Notice
Questions?

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