STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: **School Corporations**

FROM: **Courtney L. Schaafsma, Commissioner**

SUBJECT: **Estimates of 2017 Property Tax Cap Credits for School Corporations that Elect to Waive Protected Taxes**

DATE: **August 2, 2016**

The Department of Local Government Finance ("Department") is issuing this memorandum to school corporations potentially eligible to waive protected taxes for 2017 to inform them of their estimated property tax cap credits. The Department is providing these estimates solely to assist those school corporations who believe they may qualify for the waiver. These are simply estimates and are in no way binding on school corporations. The credit estimates may be found on the Department's website at http://in.gov/dlgf/2339.htm, located under the Reports section.

The school protected tax waiver process is described in Indiana Code ("IC") 6-1.1-20.6-9.9. To be eligible, the property tax cap credits allocated to a school's transportation fund must exceed a certain threshold of the fund's levy. A school seeking eligibility to waive protected taxes must petition the Department before May 1 for certification.

For the purposes of these estimates, the Department calculated reallocated property tax cap credits for those school corporations where there is projected to be a loss of at least 10% to the school corporation's transportation fund due to circuit breakers. If a school corporation is not displayed in the report, it is because the Department's initial estimates show that the school corporation would not be eligible. To reiterate, a school corporation must petition the Department before May 1, 2017 and receive certification from the Department to be eligible to waive protected taxes for 2017. A school corporation not included in this report is not prohibited from petitioning the Department in 2017 if it believes it is in fact eligible.

School corporations potentially eligible for a waiver from protected taxes may use the figures in this report when formulating and adopting their budgets for 2017. For the 2017 budget year, all taxing units will enter anticipated property tax cap credits as line item expenditures on Form 1.

The Department reminds school corporations of HEA 1109-2016, which introduces some additional eligibility criteria for 2017 and 2018. Specifically, if a school corporation in 2017 or 2018 issues new bonds or enters into a new lease rental agreement for which the school corporation is imposing or will impose a debt service levy other than:

(1) to refinance or renew prior bond or lease rental obligations existing before January 1, 2017; or

(2) indebtedness that is approved in a local public question or referendum under IC 6-1.1-20 or any other law; and

the school corporation's total debt service levy in 2017 or 2018 is greater than the school corporation's debt service levy in 2016, the school corporation is not eligible to allocate credits proportionately.

The Department emphasizes that its estimates do not account for HEA 1109's additional eligibility criteria since the Department cannot definitively know at this time what each school corporation's debt incurrence will be in 2017. Rather, the estimates look only at the 10% threshold under IC 6-1.1-20.6-9.9. Just because a school corporation is included in the report as potentially eligible does not guarantee that the school corporation will be able to waive protected taxes in 2017. A school corporation that ultimately is not eligible to waive protected taxes despite these initial estimates is responsible for adjusting its budgets to account for protected taxes.

As a reminder, for many taxing units, the estimates of property tax cap credit impact are higher for 2017 than the actual impact was in 2016. The Department notes the following variables that are likely to make these estimates higher than the actual 2016 values:

- Because the Assessed Value Growth Quotient (AVGQ) for this year is 3.8%, the Department projects that levies in 2017 will be higher than they were in 2016.
- For the purposes of these calculations, the Department assumes that each taxing unit will take its maximum levy.
- The Department's maximum levy calculations assume that taxing units will also take the highest levy adjustments possible. Consequently, the assumed levies for certain units, particularly county units, are conservatively high.
- For debt service levies, the Department assumes that each taxing unit's June 30, cash balance is $0 in addition to assuming no miscellaneous revenues. As a result, projected debt levies are likely to be higher for many units than they will be after the unit's budget is certified.
- Because the Department does not yet have Pay 2017 assessed value data available, rates are calculated on Pay 2016 assessed values. Higher levies over stable assessed values generate higher rates, which in turn generate higher property tax cap credit estimates.

In sum, the Department's estimates err on the conservative side because of the limitations of the underlying data available to the Department at this time.

The Department notes that its estimates of property tax cap credits are not binding. If a unit utilizes a tax cap impact figure in adopting its budget that turns out to be greater than the actual impact, the unit can use the additional appropriation process to adjust its budget for the actual revenue received.

The Department intends to release an FAQ document concerning HEA 1109 in early 2017. In the meantime, for additional information about how these estimates impact the budget cycle and the budget forms in Gateway, please review the following memoranda:

- Budget Streamlining: http://www.in.gov/dlgf/files/pdf/160330_-_Schaafsma_Memo_-_Budget_Streamlining.pdf
- Budget Form Changes for 2017 Budgets: http://www.in.gov/dlgf/files/pdf/160701_-_Parkinson_Memo_-_Budget_Form_Changes_for_2017_Budgets.pdf.
- Calculation of Estimated Maximum Levy for Budget Year 2017: http://www.in.gov/dlgf/files/pdf/160726%20-%20Estimated%202017%20Maximum%20Levy%20Calculations.pdf
- Calculation of Estimated Cumulative Fund Maximum Rates for Budget Year 2017: http://www.in.gov/dlgf/files/pdf/160714%20-%20Estimated%202017%20Maximum%20Rates%20for%20Rate-Controlled%20Funds.pdf.
- Estimates of 2017 Property Tax Cap Credits: http://www.in.gov/dlgf/files/pdf/160729%20-%20Schaafsma%20Memo%20-%20Estimates%20of%202017%20Property%20Tax%20Cap%20Credits.pdf

Questions may be directed to Deputy Commissioner Matthew Parkinson at (317) 232-3759 or mparkinson@dlgf.in.gov. Questions may also be directed to the Department's Budget Field Representative team. Contact information for Budget Field Representatives may be found at http://www.in.gov/dlgf/files/Field_Rep_Map_-_Budget.pdf.