
INDIANA ASSOCIATION OF CITIES AND TOWNS

NEWLY ELECTED OFFICIALS TRAINING MUNICIPAL FINANCE

Thomas K. Downs – Ice Miller LLP

Lisa A. Lee – Ice Miller LLP

Gary Malone, CPA – H. J. Umbaugh & Associates

Mayor Steven Croyle – City of Winchester

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CONGRATULATIONS!

Messages for the New Mayor:

- *“Residents in Subdivision Z are complaining about sewage in their basements,”* signed, Utility Superintendent;
- *“Our response time to residents on the east side does not meet State standards, we’ve got to have a new station in the area,”* signed Fire Chief;
- *“The business owners are threatening to pull out of downtown if we don’t provide parking on Main Street,”* signed local Economic Development Director; and
- *“Congratulations, we really liked your stance on lowering property taxes,”* signed President, Local Coalition Against Taxes.

Overview of Basic Concepts

- Capital Planning
- Debt Limits
- Petition/Remonstrance
- Types of Municipal Bonds

Primary Revenue Sources

Primary Revenues

- Property taxes
- Local option income taxes
- License excise, commercial vehicle and financial institutions taxes
- Tax increment revenues
- User fees
- Local excise taxes
 - Food and beverage taxes
 - Innkeepers' tax

Property taxes

- Primary revenue source for local governments.
- Generated from a city/town-wide assessment of real and personal property.
- Real property assessments are based upon “market value”
 - Beginning in 2007, these assessments are adjusted to market value annually through a process known as trending.
- Personal property includes business equipment.
- Property is assessed each March 1st for taxes payable in June and December of following year.

Property taxes (cont'd)

- Property tax rate limitations
 - General Funds
 - Limited to average annual growth in non-farm income over past six years, with certain exceptions
 - Cumulative Funds
 - Statutory limits on tax rate as neutralized by reassessment
 - Debt Service Funds
 - Limited to tax levy needed to repay debt obligation

Property taxes (cont'd)

- Property tax replacement credit
 - Personal property: 60% credit for school general fund.
 - Real property: 60% credit for school general fund and 20% for all other eligible funds.

Circuit Breaker Tax Credit

- A credit limiting a taxpayer's property tax liability to 2% of the gross assessed value, before exemptions, for residential homestead properties beginning with taxes payable in 2008.
 - Became effective in Lake County in 2006 for residential "homesteads".
- The credit limits the property tax liability of all other taxpayers to 3% of the gross assessed value, including both real and personal property, beginning in 2010.

Circuit Breaker Tax Credit (cont'd)

- Credits must be funded by all local taxing units from other revenues, fund balances or budget reductions, in proportion to their levy.
- Taxing units *may not* increase property taxes or borrow funds to offset any shortfall in revenues.
- DLGF has taken the position that each taxing unit must first set aside sufficient property tax collections to pay debt service, before using property tax receipts to fund costs of government services.

Local Option Income Taxes

- County Adjusted Gross Income Taxes (CAGIT)
- County Option Income Taxes (COIT)
- County Economic Development Income Tax (CEDIT or EDIT)
- Supplemental Income Taxes
- Local Option Income Taxes (2007)
 - Property tax levy reduction
 - Levy growth replacement
 - Public safety income tax

CAGIT

- Can be adopted by county council at rates of .5%, .75% or 1.0% of adjusted gross income for county residents.
- Distributed to the county and other taxing units for property tax replacement and new revenues semi-annually.
- Primarily a replacement for property taxes, but can be used to finance new construction.

COIT

- Imposed by county income tax council.
- Rates for county residents begin at .2% of adjusted gross income and increase annually by .1% up to .6%.
- Rates can subsequently be increased by .1% to a maximum of 1.0% of adjusted gross income.

COIT (cont'd)

- Distributed monthly to all civil taxing units in proportion to property tax levy.
- May be applied to a local homestead credit of up to 8.0%.
- Treated as additional revenue to be used for both operating and capital costs.
- No limitation on use of funds. Most flexible of the local option income taxes.

CEDIT

- Imposed by County Council (for CAGIT counties) or Income Tax Council at rates of .1% to .5% of adjusted gross income of county residents.
- Maximum combined rates of 1.0% when combined with COIT and 1.25% when combined with CAGIT.

CEDIT (cont'd)

- Revenues are certified by the State each July for distribution the following year in May and November.
- Distributed to all cities, towns and county in proportion to property tax levy or population.
- Must adopt a capital improvement plan to receive revenue distribution.

CEDIT (cont'd)

- Uses of CEDIT.
 - Economic development projects.
 - Capital projects which can be funded through general obligation bonds or cumulative funds.
 - Can be used for debt service or lease rental payments for eligible projects.
 - Or any other purpose permitted by statute.

- Note: There is also an EDIT tax available to reduce burden on residential property taxpayers from the elimination of business inventory assessments.

Supplemental Income Taxes

- An additional income tax rate, above the other limits, that is approved by the General Assembly for the funding of a specific project or projects.

New Local Option Income Taxes

Property Tax Levy Replacement Tax

- Imposed by county council (for CAGIT counties) or income tax council at rates of up to 1.0% of adjusted gross income of county residents.
- Revenues may only be used to reduce property tax levies.

New Local Option Income Taxes

Levy Growth Replacement Tax

- Imposed by county council (for CAGIT counties) or income tax council at rates of up to 1.0% of adjusted gross income of county residents.
 - Actual rate determined by the DLGF and the State Budget Agency
- Revenues may only be used to fund a tax stabilization account and to offset future increases in property tax levies.

New Local Option Income Taxes

Public Safety Income Tax

- County may impose an income tax to fund public safety costs only if it imposes both:
 - A levy growth income tax; and
 - Income tax for property tax relief
 - Maximum rate for public safety income tax is the lesser of:
 - 0.25%; or
 - The property tax relief income tax rate
 - Revenues may only be used to fund specific public safety expenses.
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Utility User Fees

- Revenues generated from rates and charges for utility services.
 - Water, wastewater, storm water, gas, electric and solid waste
- Establishment of rates and issuance of bonds may require approval of the Indiana Utility Regulatory Commission

Tax Increment

- Tax increment financing (or “TIF”) is a tool which captures increases in assessed value from new development.
- Can capture increases in real property and, at times, depreciable personal property assessed value.
- Generally, cannot capture increased assessed value resulting from residential property improvements, nor existing assessed value.

What can TIF be used for?

- Any capital project that is in, serving or benefiting an allocation area.
 - Utility improvements
 - Roads, R.O.W., drainage, rail
 - Land acquisition / development
 - Buildings / equipment

- Used as a funding source for infrastructure or incentives to encourage new development.

Debt Financing Tools

Short Term Debt

■ Tax Warrants

- ❑ Short term obligations, payable within 12 months, from anticipated tax receipts.
- ❑ Low interest, tax exempt debt.
- ❑ Provides funds for needed expenditures until property tax distributions are received.

■ Bond Anticipation Notes

- ❑ Payable from bond proceeds, usually within a five-year period.
- ❑ Source of funding for preliminary capital costs.

Long Term Debt

- Property Tax General Obligation Bonds
 - Secured by full “faith & credit”.
 - Traditionally received highest bond rating and lowest interest rates.
 - Generally limited to two percent of assessed value, divided by three, except for some special taxing districts.
 - Subject to petition / remonstrance process if in excess of \$2 million.

Impact of Circuit Breaker on Property Tax Supported Bonds

- Changes the security for property tax supported bonds from an unlimited promise to levy property taxes to pay debt to a promise to levy a limited property tax to pay debt.
- While the impact on some issuers of property tax supported debt is minimal, others have received lower bond ratings or have been denied access to bond insurance.
- Result is higher interest costs.

Long Term Debt (cont'd)

- Utility revenue bonds
 - Secured by pledge of net utility revenues.
 - Traditionally has been viewed as less secure than property tax supported bonds.
 - Lower bond ratings.
 - Higher interest rates.
 - Credit enhancement.
 - Reserves, insurance, other revenues.
 - Not subject to 2% constitutional debt limit

Long Term Debt (cont'd)

- Local option income tax revenue bonds
 - Secured by pledge of limited income tax revenues.
 - Also viewed as less secure than property tax supported bonds.
 - Lower bond ratings.
 - Higher interest rates.
 - Credit enhancement.
 - Reserves, insurance, other revenues.
 - Subject to 2% constitutional debt limit.

Long Term Debt (cont'd)

- Lease rental obligations
 - Bonds issued by others (ie: building corporation, building authority, redevelopment authority, etc.).
 - Facility leased to city/town upon completion with lease rentals used to repay bonds.
 - Lease rentals can be paid from property taxes, income taxes or any other available revenue.
 - More costly than general obligation bonds.
 - Not subject to debt limits.

Long Term Debt (cont'd)

- Tax increment revenue bonds
 - Limited revenue pledge.
 - Limited by source of revenue and by number of taxpayers
 - Limited marketability.
 - Sophisticated investor
 - May require credit enhancement.
 - Corporate guarantee
 - Letter of credit
 - Other revenue pledge