

COUNTY AUDITORS' FALL 2013 CONFERENCE

Circuit Breaker Credit Protected and Unprotected Funds

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CB Credit Amount Affect on Taxing Units

- When tax levies and rates are approved for a taxing unit there is an anticipation by the taxing unit that the tax levy will be collected by the county treasurer and distributed by the county auditor
- When there are circuit breaker credit amounts in a taxing district then there are taxpayers in the taxing district that are receiving circuit breaker credits and are not billed the full tax levies because of the circuit breaker credit
- In these instances the full tax levies will not be collected
- The uncollectable tax levies due to the circuit breaker credit amounts are the circuit breaker revenue loss
- The circuit breaker revenue loss percentage is equal to the total circuit breaker credit amount for the taxing unit divided by the taxing unit's full tax levy

CB Protected and Unprotected Funds

- The description given on the previous slide is how the circuit breaker revenue loss would affect taxing units if all property tax funds were included in the circuit breaker credit calculation and all property tax funds were treated equally in the distribution of property taxes
- In the world of circuit breaker credits and property tax distributions there are two terms used to identify property tax funds
- Those two terms are protected funds and unprotected funds
- Protected funds are property tax funds that are to be protected from the effect of circuit breaker revenue loss
- Unprotected funds are property tax funds that are not protected from the effect of circuit breaker revenue loss

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CB Protected and Unprotected Funds

- There are two types of protected funds
 - One type of protected funds are the funds that are not included in the calculation of the circuit breaker credit (circuit breaker exempt funds)
 - For all counties
 - Referendum funds established after 2008 pay 2009
 - For Lake and St. Joseph Counties
 - Debt service and lease rental funds for debt or leases issued or entered into before July 1, 2008
 - And after December 31, 2013 the refunding or amending of the debt or leases issued or entered into before July 1, 2008 are also exempt
 - I called the funds of this type, CB exempt protected funds
 - The other type of protected funds are debt service funds
 - These are the debt service funds of all taxing units
 - Not including the debt service funds of Lake and St. Joseph that are excluded in the circuit breaker calculation (these funds are protected funds under the first category of protected funds)
 - I called the funds of this type, CB non-exempt protected funds

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CB Protected and Unprotected Funds

- **There are two types of protected funds - continued**
 - **The other type of protected funds are debt service funds - continued**
 - **The debt service funds under this category of protected funds are not excluded in the calculation of the circuit breaker credit**
 - **These protected funds do contribute to creation of circuit breaker amounts**
 - **But these funds are protected from the circuit breaker revenue loss including the loss that is created by these protected funds**

CB Protected and Unprotected Funds

- **Unprotected funds are funds that are not protected**
 - **The unprotected funds of a taxing unit within a taxing district are the source of protection for the CB non-exempt protected funds**
 - **In other words the CB non-exempt protected funds of one taxing unit cannot be protected by the unprotected funds of another taxing unit**

CB Protected and Unprotected Funds

- **Unprotected funds are funds that are not protected - continued**
 - If the unprotected funds of a taxing unit cannot fully cover the CB non-exempt protected fund(s) circuit breaker revenue loss, then the CB non-exempt protected funds cannot be fully protected and the CB non-exempt protected funds will experience circuit breaker revenue loss
 - Also, if a taxing unit does not have any unprotected funds to cover the circuit breaker revenue loss of the CB non-exempt protected fund(s), then the CB non-exempt protected fund(s) will experience circuit breaker revenue loss

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Property Tax Distributions to CB Protected and Unprotected Funds

- **In instances where circuit breaker revenue loss exists, county auditors will distribute tax collections to taxing units using circuit breaker adjusted property tax distribution rates**
- **The circuit breaker adjusted property tax distribution rates are the DLGF certified property tax rates adjusted to increase the distributions to protected funds and decrease the distributions to unprotected funds to cover to the extent possible the protected funds circuit breaker revenue loss**

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Circuit Breaker Adjusted Property Tax Distribution Rates

- **The auditor of state's office will calculate the 2013 pay 2014 circuit breaker adjusted property tax distribution rates using**
 - **DLGF 2013 pay 2014 certified property tax rates**
 - **DLGF identified protected and unprotected funds**
 - **2013 pay 2014 Abstract total net assessed value**
 - **2013 pay 2014 Abstract circuit breaker amounts**
- **The auditor of state's office will provide the county auditor of each county that has circuit breaker credits the circuit breaker adjusted property tax rates**

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Circuit Breaker Adjusted Property Tax Distribution Rates

- **The county auditor will use the 2013 pay 2014 circuit breaker adjusted property tax distribution rates to distribute 2013 pay 2014 property tax collections to taxing units**
- **Taxing units may adjust the unprotected funds distributions within the guidelines established by DLGF**

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- Circuit breaker adjusted property tax distribution rate(s) are calculated for each taxing district where circuit breaker credit amounts exist
- The first requirement in the calculation of the 2013 pay 2014 circuit breaker adjusted property tax distribution rates is the existence of circuit breaker credit amounts for a taxing district in the 2013 pay 2014 property tax abstract

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- The first step in the calculation of the circuit breaker adjusted property tax distribution rate is the calculation of the circuit breaker net collection percentage
- The circuit breaker net collection percentage equals
 - 1 minus
 - (gross taxes charged minus circuit breaker credit) divided by (gross taxes charged)
- The circuit breaker net collection percentage is the factor used to calculate the protected funds circuit breaker adjusted rate

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- The next step in the calculation of the circuit breaker adjusted property tax distribution rate is the identification of the funds that are circuit breaker exempt (CB exempt protected funds) and the funds that are not circuit breaker exempt, but are protected (CB non-exempt protected funds)
- The identification occurs with the use of fund data provided by the DLGF
- The reason for the two identifications is that the calculation of the CB adjusted rate is different for each type

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- The circuit breaker adjusted property tax distribution rate for the circuit breaker exempt protected fund(s) is calculated on a taxing district basis
- The total taxing district rate is increased by the increase in the circuit breaker exempt protected fund rate increase that results from the calculation of the circuit breaker adjusted property tax distribution rate

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- **The circuit breaker adjusted property tax distribution rate for the CB non-exempt circuit breaker protected fund(s) is(are) calculated on a taxing unit basis within the taxing district**
- **The total taxing district rate is not increased by the CB non-exempt protected fund rate increase that results from the calculation of the circuit breaker adjusted property tax distribution rate**
- **Also, the total taxing unit rate does not increase**

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- **The total rate of the taxing unit's unprotected funds will decrease in total by the total rate increase of the CB non-exempt circuit breaker protected fund(s)**
- **The total rate decrease of the taxing unit's unprotected fund(s) is prorated between the taxing unit's unprotected funds by taxing unit's unprotected funds certified property tax rates**

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Calculation of Circuit Breaker Adjusted Property Tax Distribution Rates

- **The end result of the circuit breaker adjusted property tax distribution rate calculation is that there may be taxing district and protected fund(s) rate increases and unprotected fund(s) rate decreases**
- **Not all counties will have circuit breaker adjusted property tax distribution rates**
- **The circuit breaker adjusted property tax distribution rates are only used for the distribution of property taxes**
- **Not used for excise tax, FIT and CVET**