



Department of Local Government Finance

Property Tax Caps (Circuit Breaker) and the Budgeting Cycle

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April 20, 2022



Introduction

- On or before May 1, 2023, the Department will be posting the 2022 County Circuit Breaker Report.
- This webinar will give us a chance to discuss this report and the impact that CB values will have on the determination of fundability of each unit's certified budget.



Introduction

- This presentation is designed as a follow up the 2021 Circuit Breaker Overview webinar.
- Webinar - April 21, 2021 - Circuit Breaker Overview
 - <https://www.in.gov/dlgef/files/210421-Van-Dorp-Presentation-Circuit-Breaker.ppsx>
 - <https://youtu.be/W6EEQVmAkWk>



Introduction

- In 2021, we focused on defining what the property tax caps (Circuit Breaker or “CB”) are, where they come from, and how they are calculated.
- In 2022, we will discuss the relationship between CB and the budget process in July, December, and April by examining the Department created CB Estimate and CB actual reports along with the Budget Forms 3 and Form 4B.



Agenda

- CB Recap
- Definitions
- CB Timeline
 - CB – July Estimates
 - CB – Form 4B
 - CB – Budget Certification
 - CB – Actual Values
 - CB – Reconciliation
- Resources and Contact Information



CB Recap

- Based on the type of property and the gross assessed value, Article 10, Section 1 of the Indiana Constitution limits a taxpayer's annual property tax liability.
- The circuit breaker, or property tax caps, represent the maximum tax bill that an individual can pay.
- If a tax bill would exceed the cap, a circuit breaker credit is applied to the tax bill that prevents a taxpayer from exceeding the property tax cap.



CB Recap

- The Circuit Breaker represents a savings to taxpayers and represents a loss of revenue to local government.
- Since many budgets are at least partially funded by property tax, loss of revenue may impact the unit's ability to afford their certified appropriation.

<u>Fund</u>	<u>Fund Name</u>	<u>Certified Budget</u>	<u>Certified AV</u>	<u>Certified Levy</u>	<u>Certified Rate</u>
0101	GENERAL	\$24,000	\$41,736,541	\$14,316	\$0.0343
Budget approved for displayed amount.					
Rate reduced due to increased assessed valuation.					
0840	TOWNSHIP ASSISTANCE	\$5,500	\$41,736,541	\$4,967	\$0.0119
Budget approved for displayed amount.					
Rate reduced due to increased assessed valuation.					



Definitions

1. Levy – Property tax to be collected.
2. Max Levy – The maximum amount levy that a unit can adopt, and that the Department can certify during a year. The max levy may be spread across one or more funds each year.
3. Max Levy Type – Some units have separate siloes for their maximum levy. Each maximum levy may spread across one or more funds.



CB Timeline – July Estimates

- Before August 1 of each year, the Department shall provide to each taxing unit that levies property taxes an estimate of the amount by which the taxing unit's distribution of property taxes will be reduced in the ensuing year.
- Ind. Code § 6-1.1-20.6-11.1.



CB Timeline – July Estimates

- Before August 1, the key data for the calculation of the actual CB is unavailable.

Ensuing Year CNAV	Certified Tax Rate	Values for all new Debt Issuances
Listing of All Funds for all Units	List of all <u>approved</u> Excess Levy Appeals	

- Instead, the Department will use the data available to estimate the CB.

3 Years of Actual CB	Max Levy Growth Quotient	Information Collected on PreBudget Survey
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CB Timeline – July Estimates

- With the data available, the Department calculate the Estimated CB and post a report by max levy for each unit.

Example 1: County, City/Town, Library

	Estimated Impact
Civil Max Levy Fund Credits	\$50,640

Example 2: Township

	Estimated Impact
Civil Max Levy Fund Credits	\$1,454,200
Rate-driven funds outside of Civil Max Levy Credits	
Township Fire Credits	\$88,200

Example 3: City/Town with a Fire Territory

	Estimated Impact
Civil Max Levy Fund Credits	\$27,380
Rate-driven funds outside of Civil Max Levy Credits	
Fire Territory Credits	\$16,690
Debt Fund Credits	
Total Estimated Credits	



CB Timeline – July Estimates

- Using the Department’s July estimate, the unit will need to separate this total across one or more funds.
- The amount of CB applied to the fund be based on the estimated amount of the max levy that will be dedicated to the fund.

Example 1: County, City/Town, Library

	Estimated Impact
Civil Max Levy Fund Credits	\$50,640



CB Timeline – July Estimates

- The Department will post the total estimated CB in Gateway on the Form 3.

Date of Public Hearing	Tuesday, September 14 2021	Date of Adoption Meeting	Tuesday, October 12 2021
Time of Public Hearing	8:15 AM	Time of Adoption Meeting	8:45 AM
Public Hearing Place	Council Room 313 West Jefferson Street Room 100 Decatur, IN 46733	Adoption Meeting Place	Council Room 313 West Jefferson Street Room 100 Decatur, IN 46733
Estimated Civil Max Levy	\$ 11,817,186		
Estimated Fire Max Levy	[Estimated Fire Max Levy has not been populated by the Department's Max Levy Calculations. Please contact gateway@dlgf.in.gov for more information.]		
Est. Fire Territory Max Levy	[Estimated Fire Territory Max Levy has not been populated by the Department's Max Levy Calculations. Please contact gateway@dlgf.in.gov for more information.]		
Est. School Operating Max Levy	[Estimated School Operating Max Levy has not been populated by the Department's Max Levy Calculations. Please contact gateway@dlgf.in.gov for more information.]		
Property Tax Cap Credit Estimate	\$ 380,820		





CB Timeline – Form 4B and CB

- Units are not required to use the Department's estimate when compiling their budget, but should be considering the impact of the CB for most levied funds. Debt and referendum funds should use a CB estimate of zero dollars.
- Units will report the CB amount on the Form 4B.

A screenshot of a web-based interface for Form 4B: Financial Statement. The breadcrumb trail at the top reads "Select Unit > Unit Main Menu > Budget Form Menu > Form 4B". Below this, it shows "Selected Year: YYYY | Selected Unit: Gateway County". A button labeled "Click Here for Print/View Options" is present. The text "PRESCRIBED BY THE DEPARTMENT OF LOCAL GOVERNMENT FINANCE" and "APPROVED BY STATE BOARD OF ACCOUNTS" is displayed. The title "Form 4-B: Financial Statement" is shown on the right. A dropdown menu for "Select Fund:" is set to "0101 - GENERAL". A red oval highlights a button at the bottom that says "Click to Edit: Levy, Rate, Tax Cap Impact or School Transfers".



CB Timeline – Form 4B and CB

- Since CB represents a reduction in revenue, units will enter their CB estimates as negative values.

Estimated Tax Cap Loss ⓘ	Advertised Amount	Adopted Amount
Estimated Property Tax Cap Impact	-300000	-300000

- The CB value entered will populate Line 12 of the 4B.

Revenues	Advertised Amount	Adopted Amount
10. Reserved for DLGF Application of Levy Excess		
11. Property Tax Levy ⓘ	\$ 2,500,000	\$ 2,500,000
12. Property Tax Cap Impact ⓘ	\$ (300,000)	\$ (300,000)
13. Miscellaneous Revenues ⓘ	\$ 4,000,000	\$ 4,000,000
14. Budget Year Total Revenues ⓘ	\$ 6,200,000	\$ 6,200,000



CB Timeline – Form 4B and CB

- Estimating CB can be a difficult proposition:
 1. If a unit estimates a CB value that is too high, they will risk understating their revenue and create a budget reduction that may need to be addressed through the additional appropriation process.
 2. If a unit estimates a CB value that is too low, they will risk overstating their revenue available and may create a budget that is not fundable.



CB Timeline – CB and Budget Certification

- By December 31/January 15, the Department will use the budgets, levies, and rates that were advertised and adopted to produce the Certified Budget Order.
- While not listed, the unit’s estimated CB has impacted the Certified Budget Amount.

<u>Fund</u>	<u>Fund Name</u>	<u>Certified Budget</u>	<u>Certified AV</u>	<u>Certified Levy</u>	<u>Certified Rate</u>
0101	GENERAL	\$14,558,165	\$1,341,167,581	\$10,050,710	\$0.7494
Budget has been decreased because projected revenues are insufficient to fund the adopted budget.					
Rate reduced to remain within statutory levy limitation.					
0102	ELECTION/REGISTRATION	\$239,286	\$1,341,167,581	\$96,564	\$0.0072
Budget approved for displayed amount.					
Rate reduced to remain within statutory levy limitation.					



CB Timeline – CB and Budget Certification

- Once the Budget Order is certified, the Department will provide a listing of all tax rates to the county auditor.
- The county auditor will simulate all the tax bills and will report the actual CB losses for all taxpayers to the State.
- The Department will review the CB losses and post an Actual CB report that contains the circuit breaker loss by unit and by fund.



CB Timeline – Actual CB Report – Example 1

- While the Department certified \$3.969M, the unit will only collect \$3.911M or 98% of the certified levy.

Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
School		\$3,969,687	\$4,007,944.58	\$13,978.06	\$82,536.01	\$96,514.08	\$3,911,430.51		
RAINY DAY	0061	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
DEBT SERVICE	0180	\$1,263,559	\$1,275,736.17	\$4,449.24	\$0.00	\$4,449.24	\$1,271,286.93	N	Y
EDUCATION	3101	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
OPERATIONS	3300	\$2,706,128	\$2,732,208.41	\$9,528.82	\$82,536.01	\$92,064.83	\$2,640,143.58	N	N



CB Timeline – Actual CB Report – Example 2

- While the Department certified \$11.2M, the unit will only collect \$10.3M or 91% of the certified levy.

Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
County		\$11,226,543	\$11,349,554.94	\$44,808.58	\$983,982.94	\$1,028,791.52	\$10,320,763.42		
GENERAL	0101	\$9,491,603	\$9,595,604.31	\$37,883.90	\$861,058.59	\$898,942.49	\$8,696,661.82	N	N
ELECTION/REGISTRATION	0102	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
2015 REASSESSMENT	0124	\$347,507	\$351,314.47	\$1,387.01	\$31,525.10	\$32,912.10	\$318,402.37	N	N
BOND #3	0183	\$379,923	\$384,086.35	\$1,516.39	\$0.00	\$1,516.39	\$382,569.96	N	Y
HIGHWAY	0702	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
LOCAL ROAD & STREET	0706	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
CUMULATIVE BRIDGE	0790	\$431,790	\$436,521.34	\$1,723.41	\$39,171.11	\$40,894.51	\$395,626.83	N	N
HEALTH	0801	\$143,930	\$145,507.11	\$574.47	\$13,057.04	\$13,631.50	\$131,875.61	N	N
CUMULATIVE CAPITAL DEVELOPMENT	2391	\$431,790	\$436,521.34	\$1,723.41	\$39,171.11	\$40,894.51	\$395,626.83	N	N



CB Timeline – Actual CB Report – Example 3

- While the Department certified \$10.2M, the unit will only collect \$7.6M or 74% of the certified levy.

Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
GENERAL	0101	\$10,258,540	\$10,364,838.88	\$23,958.75	\$2,708,004.69	\$2,731,963.44	\$7,632,875.44	N	N
DEBT SERVICE	0180	\$313,459	\$316,706.75	\$732.08	\$0.00	\$732.08	\$315,974.67	N	Y
FIRE PENSION	0341	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
POLICE PENSION	0342	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
LOCAL ROAD & STREET	0706	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
MOTOR VEHICLE HIGHWAY	0708	\$824,662	\$833,207.00	\$1,925.99	\$217,690.65	\$219,616.64	\$613,590.37	N	N
CUMULATIVE CAPITAL IMP (CIG TAX)	2379	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N



CB Timeline – Actual CB Report

- In each of example, we looked at the relationship between the certified levy and the CB adjusted levy, but we haven't examined the relationship between the CB losses and the estimated CB losses from the Form 4B.
- While CB will impact the budget, until we reconcile the estimated CB with the actuals CB, we won't know what that impact represents.



CB Timeline – Actual CB Report – Example 3 (Part 2)

Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
GENERAL	0101	\$10,258,540	\$10,364,838.88	\$23,958.75	\$2,708,004.69	\$2,731,963.44	\$7,632,875.44	N	N

- Scenario 1:
- In the General fund, if the unit estimated CB losses of \$3,731,693.44, then there may be up to \$1M of revenue that wasn't used during budget certification.
- Scenario 2:
- In the General fund, if the unit estimated CB losses of \$1,731,693.44, then there may be up to \$1M of revenue that was used in the budget certification that will not be collected by the unit.



CB Timeline – CB Reconciliation

- The Department encourages all units to compare their Form 4B estimated CBs to the Department's Actual CB report to determine if CB values were:
 1. Perfectly Estimated
 2. Overestimated
 - More property tax than anticipated.
 3. Underestimated
 - Less property tax than anticipated.



CB Timeline – CB Reconciliation

- The CB Recon will reveal different information for each unit:
 1. For perfectly estimated units, that all revenue was used on the budget and that the budget is still fundable.
 2. For overestimated units, new expenditures may be available to be considered during the budget year or that more cash may be available at the end of the budget cycle than expected.
 3. **For underestimated units, the actual revenue available may not support the current planned expenditures for the budget year or the cash at the end of the budget cycle may be lower than expected.**



CB Timeline – CB Reconciliation - Sample

- For each fund, any CB reconciliation should include:
 1. CB estimate from Gateway or 1782.
 2. Actual CB value for each fund from DLGF Report.
 3. Operating Balance from Gateway or 1782.

Fund	Fund Description	Certified Levy	CB Estimate (From Gateway)	CB Actual (From Abstract)	Certified Op. Balance	Adjusted Op. Balance
0101	GENERAL	\$ 19,542,664	\$ (100,000)	\$ (253,342)	\$ 14,339,009	\$ 14,185,667
0102	ELECTION/REGISTRATION	\$ 55,183	\$ (50,000)	\$ (715)	\$ 978,703	\$ 1,027,988
0124	2015 REASSESSMENT	\$ 733,146	\$ (50,000)	\$ (9,504)	\$ 159,463	\$ 199,959
0180	DEBT SERVICE	\$ 2,885,282	\$ -	\$ (7,529)	\$ 9,637	\$ 2,108
0790	CUMULATIVE BRIDGE	\$ 1,679,140	\$ (50,000)	\$ (21,768)	\$ 1,541,328.00	\$ 1,569,560
0792	COUNTY MAJOR BRIDGE	\$ 2,625,134	\$ (50,000)	\$ (34,031)	\$ 322,974.00	\$ 338,943
0801	HEALTH	\$ 504,530	\$ (50,000)	\$ (6,540)	\$ 485,124.00	\$ 528,584
2102	AVIATION/AIRPORT	\$ 772,562	\$ (50,000)	\$ (10,015)	\$ 239,429.00	\$ 279,414
2391	CUMULATIVE CAPITAL DEVELOPMENT	\$ 2,625,134	\$ (50,000)	\$ (34,031)	\$ 2,333,706.00	\$ 2,349,675
		\$ 31,422,775	\$ (450,000)	\$ (377,476)	\$ 21,467,523	\$ 21,540,047



Contact the Department

- Website: www.in.gov/dlgf
 - “Contact Us”: <https://www.in.gov/dlgf/contact-us/>
 - Budget Field Representative Map: https://www.in.gov/dlgf/files/Budget_Field_Reps.pdf
- Gateway Support: Support@dlgf.in.gov
- Telephone: (317) 232-3777