STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: **County Council and COIT Council Members in Levy Freeze Counties**

CC: **All Local Units in Levy Freeze Counties**

FROM: **Brian Bailey, Commissioner** BEB

RE: **Levy Freeze Options for 2011**

DATE: **August 10, 2010**

On August 2, 2010 the Department of Local Government Finance ("Department") certified the "levy freeze" income tax rates pursuant to I.C. 6-3.5-1.5. These are the rates that would need to be imposed to fully fund operating levy growth with income tax instead of property tax. In most cases, the certified rate for 2011 is higher than the rate currently in place. This is the result of two factors: (1) the amount of revenue needed grows each year because an additional year of growth is funded, and (2) the certified distributions of most counties declined this year, causing the same rate to generate less revenue in 2011 than it did in 2010.

The law requires that the council adopt the Department-certified rate for years 1 and 2 only. This year, councils now have the option of adopting the higher rate or leaving the rate the same. (Note that the rate may not be reduced or rescinded.) This leaves councils with three options, outlined on Page 2 of this memorandum.

The Department needs to know which of the three options the council selects to begin processing the 2011 budget order. Specifically, the Department needs to know which growth factor to apply to the levies and how to allocate the levy freeze revenues. **The Department requests that all councils indicate in writing which of the three options the council selects and submit that to Karen Large, Budget Division Director by November 1.** This will allow the Department to correctly administer the will of the council. Work on the county's budget order will be on hold until the information is submitted. **Submission of this information in advance of the November 1 deadline will put the county in the best position to ensure on-time billing.**

Please note that Department field staff conducted budget workshops with the assumption that the levy would remain frozen (option 1 or option 2). Units in counties where option 3 is under consideration should independently review their advertising to ensure that the advertised levy can accommodate levy growth. The Department will not certify a levy that is greater than what was advertised by the unit.

If you have any questions, please contact Deputy Commissioner Sarah Ancel at 317.234.4376 or sancel@dlgf.in.gov.

Options for 2011 Funding for Counties adopting LOIT Levy Freeze

OPTION 1:

Adopt the Department-certified income tax rate and keep the levy frozen. If this option is selected, the levy growth factor on operating funds would be 0% and the growth would be fully funded from income tax.

OPTION 2:

Keep the income tax rate the same and keep the levy frozen. If this option is selected, the levy growth factor on operating funds would be 0% and the revenue raised from the income tax rate would be distributed in proportion to the levy freeze amount calculated under I.C. 6-3.5-1.5. For example, if the total levy freeze amount in the county were $1,000,000 and the income tax revenue were $750,000, each unit within the county would have only 75% of its growth funded with income tax revenues. The remaining growth would not be funded from current-year revenues. Pursuant to I.C. 6-3.5-1.1-24(o) and I.C. 6-3.5-6-30(o), money may be distributed from the county stabilization fund if the certified distribution for levy freeze is less than the levy freeze amount for that year.

OPTION 3:

Keep the income tax rate the same and allow the levy growth to come from property taxes. If this option is selected, then the levy growth factor on operating funds is 2.9%, and the revenue generated from the income tax funds prior year growth only. Pursuant to I.C. 6-3.5-1.1-24(o) and I.C. 6-3.5-6-30(o), money may be distributed from the county stabilization fund if the certified distribution for levy freeze is less than the levy freeze amount for that year.