

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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TO: All School Officials

FROM: Wesley R. Bennett, Commissioner

RE: House Enrolled Act 1021-2019; Changes to Indiana Law Regarding School Finance

DATE: July 17, 2019

This is a revised version of a memorandum previously released on June 14, 2019, to make corrections to Section II, Alternative School Operations Fund Assessed Value Growth Quotient. This memorandum supersedes the June 14, 2019 memorandum.

This memorandum discusses House Enrolled Act 2021-2019 (“HEA 1021”). Signed by Governor Holcomb on May 5, 2019, HEA 1021 includes several changes to the law concerning school finance. This memorandum is for informative purposes and is not a substitute for reading the law.

I. Protected Tax Waivers for 2020-2023

Section 9 of HEA 1021 amends IC 6-1.1-20.6-9.9 to expand the availability of protected tax waivers for eligible school corporations through the 2023 budget year. However, it also changes the eligibility requirements.

First, IC 6-1.1-20.6-9.9(a) currently states that new debt issued after 2016 (except refinanced debt and referendum debt) will make a school corporation ineligible if it results in both the debt service levy and rate for the current year be greater than the 2016 debt service levy and rate. This amendment extends back to July 1, 2016, the time period in which the school corporation and the Department of Local Government Finance (“Department”) will have to look to in determining whether debt issuances trigger this comparison.

Second, IC 6-1.1-20.6-9.9(b) currently states that a school corporation is eligible to waive protected taxes if the circuit breaker impact on the operations fund is at least 10% of the operations fund levy. HEA 1021 changes the determination of eligibility to the following formula:

- Step 1: Determine the circuit breaker credits applied against the school corporation’s operations fund.
- Step 2: Determine the levy attributable to new debt incurred after June 30, 2019, excluding a levy for referendum debt.
- Step 3: Find the result of the school corporation’s total levy minus any referendum levy.

- Step 4: Subtract Step 3 by Step 2.
- Step 5: Divide Step 4 by Step 3, expressed as a percentage.
- Step 6: Multiple Step 1 by Step 5.
- Step 7: Find the operations fund levy for the current year.
- Step 8: Divide Step 6 by Step 7, expressed as a percentage. If this result is at least 10%, the school corporation is eligible to waive protected taxes.

Finally, IC 6-1.1-20.6-9.9(d) is amended so that the Department shall determine the amount of credits a school corporation may allocate proportionately across all of its property tax funds, using the following formula:

- Step 1: Take the Step 8 result under IC 6-1.1-20.6-9.9(b) and multiply it by 5.
- Step 2: Take the lesser of Step 1 above or 100%.
- Step 3: Multiply Step 2 above by the Step 6 result under IC 6-1.1-20.6-9.9(b).

Therefore, HEA 1021 provides that a school corporation may not allocate the amount of circuit breaker credits greater than 20% of the operations fund levy of the school corporation.

The following example illustrates how these formulas will work. Assume the following for a school corporation:

C = Operations fund circuit breaker credits	\$4,000,000
N= Non-ref debt levy amount from new debt	\$1,000,000
T = Total levy	\$25,000,000
O = Operations fund levy	\$10,000,000
R = Referendum levy	\$5,000,000
D = Debt service levy	\$10,000,000

IC 6-1.1-20.6-9.9(b) formula to determine eligibility:

- Step 1: C = \$4,000,000
- Step 2: N = \$1,000,000
- Step 3: T – R → \$25,000,000 – \$5,000,000 = \$20,000,000
- Step 4: Step 3 – N → \$20,000,000 – \$1,000,000 = \$19,000,000
- Step 5: Step 4 / Step 3 → \$19,000,000 / \$20,000,000 = 0.95 or 95%
- Step 6: Step 1 * Step 5 → \$4,000,000 * 0.95 = \$3,800,000
- Step 7: O = \$10,000,000
- Step 8: Step 6 / Step 7 → \$3,800,000 / \$10,000,000 = 0.38 or 38%

Because 38% > 10%, school corporation is eligible.

IC 6-1.1-20.6-9.9(d) formula to determine allocable credits:

Step 1: Step 8 (of (b)) * 5 → 0.38 * 5 = 1.90 or 190%

Step 2: Lesser of 100% or Step 1 → 100% < 190%, so 100%

Step 3: Step 6 (of (b)) * Step 2 → \$3,800,000 * 1.00 = \$3,800,000

Therefore, the school corporation may allocate \$3,800,000 to its debt funds.

The amendments to IC 6-1.1-20.6-9.9 do not go into effect until January 1, 2020. Hence, these changes will start being enforced for protected tax waivers submitted for the 2020 tax collections.

II. Alternative School Operations Fund Assessed Value Growth Quotient

Section 8 of HEA 1021 amends IC 6-1.1-18.5-2 so that all school corporations shall calculate a specific assessed value growth quotient (“alternate AVGQ”) to their operations funds, instead of the AVGQ certified by the State Budget Agency (“certified AVGQ”) generally used by units. A school corporation must use this alternate AVGQ if it is calculated to be greater than the certified AVGQ for that year.

This amendment is effective July 1, 2019. Therefore, starting with the pay-2020 budget cycle, school corporations are to use the steps in determining their assessed value growth quotient illustrated in the following formula:

Step 1: Find the average growth in net assessed value over the preceding 3 calendar years, using the following formula:

$$\frac{\left(\frac{\text{CNAV for current year}}{\text{CNAV for prior year}} - 1\right) + \left(\frac{\text{CNAV for prior year}}{\text{CNAV for 2 years back}} - 1\right) + \left(\frac{\text{CNAV for 2 years back}}{\text{CNAV for 3 years back}} - 1\right)}{3}$$

Step 2: Take the Step 1 amount and subtract it by (Certified AVGQ – 1 + 0.02). If that result is more than zero, use that amount. Otherwise, use zero.

Step 3: If the Step 2 amount is less than 0.04, use the Step 2 amount. Otherwise, use 0.04.

Step 4: Add the Step 3 amount to the certified AVGQ.

Step 5: If the Step 4 amount is greater than the certified AVGQ, use the Step 4 amount. Otherwise, use the certified AVGQ.

The following example illustrates how this formula ought to be used. Assume for this example

Certified AVGQ for the ensuing year:	1.035
CNAV for current year (CNAV):	\$1,175,000,000
CNAV from prior year (CNAV ₁):	\$1,125,000,000
CNAV from two years back (CNAV ₂):	\$975,000,000
CNAV from three years back (CNAV ₃):	\$925,000,000

Step 1:

$$\left(\frac{\$1,175,000,000}{\$1,125,000,000} - 1\right) + \left(\frac{\$1,125,000,000}{\$975,000,000} - 1\right) + \left(\frac{\$975,000,000}{\$925,000,000} - 1\right) \rightarrow$$

$$\frac{0.044444 + 0.153846 + 0.054054}{3} \rightarrow \frac{0.252345}{3} = 0.084115 \text{ or } 0.084$$

Step 2: Step 1 – (Certified AVGQ – 1 + 0.02) →
 0.084 – (1.0350 – 1 + 0.02) →
 0.084 – (0.0350 + 0.02) →
 0.084 – 0.055 = 0.029 →
 0.029 > 0 →
 0.029

Step 3: Lesser of Step 2 amount or 0.0400 → 0.029 < 0.0400 → 0.029

Step 4: Step 3 + Certified AVGQ → 0.029 + 1.0350 = 1.064

Step 5: Greater of Step 4 or Certified AVGQ → 1.0641 > 1.0350 → 1.064

Therefore, the school corporation in this example may increase its maximum levy using the alternate AVGQ of 1.064 for the ensuing year, instead of the certified AVGQ. Please note that rounding in the above example was for ease of reading, only. HEA 1021 does not dictate that rounding must occur at any point in this formula, unlike the certified AVGQ which must be rounded to the nearest thousandth (0.000).

III. Changes to capital projects and bus replacement plan adoptions

Sections 14 and 15 of HEA 1021 amend IC 20-40-18-6 and IC 20-40-18-9, respectively, with respect to school capital projects plans and bus replacement plans:

- A capital projects plan no longer must contain an estimate of revenue sources to be dedicated to the proposed projects or the amount of property taxes to be collected in the upcoming year and retained for capital expenditures for a later year.
- A school board is no longer required to publish notice of public hearing on a proposed capital projects plan or bus replacement plan in accordance with IC 5-3-1-2(b). Instead, the school board must submit the proposed capital projects plan or bus replacement plan, including an amended plan, to Gateway at least ten (10) days before the hearing on the

proposal. Once uploaded, the Department must make the proposed plan available to taxpayers on the Gateway public site. The Department must also allow a taxpayer to search for the proposed plan by the taxpayer's address.

- Once a proposed capital projects plan or bus replacement plan, including amended plans, is adopted by the school board, the school board must upload the adopted plan onto Gateway at least thirty (30) days after adoption. Once uploaded, the Department must make the adopted plan available to taxpayers on the Gateway public site.

The changes under sections 14 and 15 of HEA 1021 are effective January 1, 2020. As such, the Department will implement appropriate changes to the capital projects plan template and to Gateway so that they may be used starting on January 1, 2020.

IV. Technical Corrections

HEA 1021 also removes references to the school corporation funds eliminated pursuant to HEA 1009-2017 and HEA 1167-2018. These changes are effective retroactive to January 1, 2019. While these are simply technical clean-up, the Department believes these changes are also intended to effectuate the intent of HEA 1009 and 1167, especially regarding the transferability of monies between the operations and education fund.

Contact Information

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