
STATE OF INDIANA

DISTRESSED UNIT APPEAL BOARD



ONE NORTH CAPITOL AVENUE, SUITE 900
INDIANAPOLIS, IN 46204
PHONE (317) 234-2273

TO: Distressed Unit Appeal Board Members
FROM: Courtney L. Schaafsma, Executive Director
DATE: May 2, 2018
RE: Muncie Community Schools' Waiver from Protected Taxes

Pursuant to Indiana Code 6-1.1-20.3-8.5(b)(18), the emergency management team for Muncie Community Schools ("MCS") submitted a written request to the Distressed Unit Appeal Board ("DUAB") on April 26, 2018 requesting a waiver from the application of IC 6-1.1-20.6-9.8. DUAB is being asked to consider this request. If the request is granted by DUAB, a written certification of the determination will be provided to the Department of Local Government Finance ("DLGF") prior to June 1, 2018.

Indiana Code 6-1.1-20.6-9.8 designates the property taxes to be collected in a local government's debt service funds (except for exempt debt service funds) to be "protected" from the impact of the 1%/2%/3% property tax caps. This means that the debt service fund tax rate is included in determining a local government's total 1%/2%/3% property tax cap impact but the impact is then allocated only to "unprotected" (non-debt service) funds of the local government. Over 65 property tax cap credits are not impacted by this protection and are always allocated proportionally across all funds of the local government that levy a tax.

Indiana Code 6-1.1-20.6-9.9 provides an opportunity for certain school corporations to request a waiver from the application of protected taxes. A waiver would allow a portion of the property tax cap impact to be applied to the school corporation's debt service fund, thereby reducing the impact to the school corporation's unprotected funds, which typically includes the Capital Projects Fund, Transportation Fund and Bus Replacement Fund. The property tax cap impact is allocated proportionally by property tax levy across all non-exempt funds of the school corporation, if approved for the waiver.

To qualify for a waiver from protected taxes, school corporations must show that the Transportation Fund levy will be reduced by at least 10% due to the application of property tax credits. However, if a school corporation in 2017, 2018 or 2019 issues new bonds or enters into a new lease rental agreement for which the school corporation is imposing or will impose a new debt service levy (except a levy to refinance or renew prior bond or lease rental obligations existing before January 1, 2017, or indebtedness approved by a local public question or referendum), and the school corporation's total debt service levy and rate in the budget year is greater than the school corporation's 2016 debt service levy and rate, the school corporation is not eligible for the waiver.

Most school corporations interested in requesting a waiver from protected taxes must submit a written request to the DLGF before May 1 of the year in which the waiver is requested. Please see the attached memo from DLGF for more information on this process. School corporations under DUAB oversight must submit this written request to DUAB instead of DLGF.

For MCS, the written request indicates that the property tax cap impact to the Transportation Fund is 45%. Per the DLGF property tax cap report (attached), the actual impact to the Transportation Fund of the 1%/2%/3% property tax caps is \$3,884,736.37. Using a certified levy of \$4,678,137, the actual property tax cap impact to the Transportation Fund is approximately 83%. This impact would qualify MCS for the waiver. In addition, while MCS completed a debt restructuring in 2017, MCS did not issue new bonds or enter into a new lease rental agreement in 2017. As a result, MCS would not be restricted from the waiver based on the statutory considerations.

The table below provides an estimate of the allocation of property tax cap credits if the waiver request is approved, including comparison to the property tax cap credits identified in the DLGF report. If the waiver request is approved, DLGF will provide MCS with an official updated calculation of their property tax cap credits after implementation of the waiver.

Fund	No Protected Taxes Waiver	With Protected Taxes Waiver
Debt Service	\$ 3,843.31	\$ 4,109,570.77
Capital Projects	5,023,422.26	2,721,914.00
Transportation	3,886,705.91	2,105,990.43
Bus Replacement	51,300.74	27,797.03
Total	\$ 8,965,272.22	\$ 8,965,272.22

When implementing the waiver from protected taxes, the school corporation is responsible for ensuring that debt service obligations can still be met. In certain situations, school corporations may transfer money from other funds in order to meet debt service obligations as needed. For MCS, the 2018 budget was prepared with the assumption that the school corporation would apply for the waiver. The emergency management team has indicated that MCS will be able to meet its debt service obligations in 2018.

Attachments: Muncie Community Schools’ Request for Waiver from Protected Taxes
 Department of Local Government Finance Memo on Waiver from Protected Taxes,
 April 16, 2018
 Applicable Pages from the Department of Local Government Finance Property Tax Cap Impact
 Report for Delaware County, March 23, 2018,



WRITTEN REQUEST FOR WAIVER FROM IMPLEMENTATION OF PROTECTED TAXES UNDER IC 6-1.1-20.6-9.9

State Form 56028 (R2 / 3-18)
Prescribed by the Department of Local Government Finance

*Please e-mail completed form to your Budget Division Field Representative by April 30, 2018.
You can find contact information at [https://www.in.gov/dlgf/files/Field_Rep_Map - Budget.pdf](https://www.in.gov/dlgf/files/Field_Rep_Map_-_Budget.pdf).*

School Corporation: Muncie Community School Corporation

County: Delaware

(Include all counties if cross-county.)

School Corporation's Debt Service Information Pursuant to IC 6-1.1-20.6-9.9 (a):

1. Is the school corporation imposing a debt service levy for the 2018 budget year? Yes No
2. Did the school corporation issue new bonds or enter into a lease rental agreement in 2017 other than to refinance debt existing before January 1, 2017 or for indebtedness approved through a referendum? Yes No
3. If the answer to both Questions 1 and 2 above is "Yes", please provide the following:
 - 2016 Debt Service Levy _____
 - 2016 Debt Service Rate _____
 - 2018 Debt Service Levy _____
 - 2018 Debt Service Rate _____

School Corporation's Calculation of Eligibility Pursuant to IC 6-1.1-20.6-9.9 (b):

All data included in the calculation below should be based on the year for which the waiver is being requested.

Circuit Breaker Credits Applied to School Corporation's Transportation Fund (2018)	2,115,659
School Corporation's Transportation Fund Certified Levy (2018)	4,678,137
Transportation Fund Circuit Breaker Credits as a Percent of the Transportation Fund Certified Levy	45%

On behalf of the school corporation identified above, by signing below, I certify that I have authority from the school corporation's board to submit this written request and, if determined to be eligible, to make adjustments to the school corporation's tax distributions as needed to effectuate the waiver from the implementation of protected taxes in the year identified above.


Signature

Paul Pfladderer
Printed Name

CFO
Title

4/25/2018
Date (month, day, year)

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE N1058
INDIANAPOLIS, IN 46204
PHONE (317) 232-3777
FAX (317) 974-1629

TO: School Corporation Officials

FROM: Wesley R. Bennett, Commissioner

SUBJECT: School Corporation Waiver from the Implementation of Protected Taxes

DATE: April 16, 2018

This memorandum will discuss the procedures for a school corporation to waive the implementation of protected taxes for 2018, first implemented by House Enrolled Act 1062-2014 ("HEA 1062") and amended by HEA 1109-2016 ("HEA 1109"). This memorandum supersedes all previous memoranda on this subject issued in 2014, 2015, 2016, and 2017.

Under IC 6-1.1-20.6-9.8, implementation of protected taxes provisions went into effect for Pay 2014. Protected taxes are designed to ensure sufficient tax collections in a taxing unit's debt service funds in order to meet debt service obligations. In order to "protect" the debt service funds, the circuit breaker credits attributable to the tax rate for the debt service funds are applied against a taxing unit's "unprotected" funds, i.e., its non-debt service funds. Section 3 of HEA 1062, signed by Governor Pence on March 25, 2014, adds IC 6-1.1-20.6-9.9 to allow certain school corporations a waiver from the implementation of protected taxes under IC 6-1.1-20.6-9.8, originally for 2014, 2015, or 2016 as applicable.

Section 1 of HEA 1109, signed by Governor Pence on March 23, 2016, amended IC 6-1.1-20.6-9.9 to extend the waiver from implementing protected taxes into 2017, 2018, and 2019. It also added an additional restriction for a school corporation seeking a waiver for 2018 and 2019. If a school corporation issues new bonds or enters into a new lease rental agreement for which the school corporation is imposing or will impose a debt service levy (except a levy to refinance or renew prior bond or lease rental obligations existing before January 1, 2017, or indebtedness approved by a local public question or referendum), and the school corporation's total debt service levy and rate in the applicable year is greater than the school corporation's 2016 debt service levy and rate, the school corporation is not eligible to allocate credits proportionately.

Under IC 6-1.1-20.6-9.9, a school corporation can determine its eligibility to waive the implementation of protected taxes for 2016, 2017, 2018, or 2019. School corporations that are eligible for the waiver in a given year will be allowed to allocate their 1%/2%/3% circuit breaker credits proportionally across all funds that are not exempt from circuit breaker credits without regard for whether the fund is a debt service fund. Only exempt (voter-approved referendum) funds are excluded from the application of 1%/2%/3% circuit breaker credits. Exempt funds are not excluded from the application of the Over 65 credits provided for in IC 6-1.1-20.6-8.5. This means debt service funds will be allowed to experience a loss associated with 1%/2%/3% circuit breaker credits for those school corporations that are eligible for and timely request the waiver from the implementation of protected taxes.

To determine if a school corporation is eligible for a waiver from the implementation of protected taxes, a school corporation should prepare the following analysis:

1. Determine the total debt service levy and tax rate for the school corporation in 2016. This should equal the certified debt service levy and tax rate from the 2016 Budget Order.
2. Ascertain whether the school corporation took on new debt in 2017 or will take on new debt in 2018, including issuing new bonds or entering into a new lease rental agreement, for which the school corporation is imposing or will impose a debt service levy. For purposes of this component, a debt service levy imposed to refinance or renew debt incurred before January 1, 2017 or debt approved by a voter referendum is excluded. **If the answer to this component is “No”, please proceed to step 6. If the answer is “Yes”, continue with step 3.**
3. Determine the total debt service levy and tax rate in 2018. This should equal the certified debt service levy and tax rate from the 2018 Budget Order.
4. Compare the school corporation’s total debt service levy in 2018 to the school corporation’s total debt service levy in 2016. Compare the school corporation’s total debt service rate in 2018 to the school corporation’s total debt service rate in 2016.
5. If both the school corporation’s total debt service levy and total debt service rate in 2018 are greater than those in 2016, the school corporation is ineligible to waive protected taxes. If the school corporation’s total debt service levy and total debt service rate in 2018 are not greater than those in 2016, or the school corporation did not take on new debt in 2017 or 2018, then proceed to the next step.
6. Determine the amount of circuit breaker credits being applied to the school’s transportation fund. This amount should be calculated assuming protected taxes are in place for the school corporation. To determine this amount, the school corporation can use the Department of Local Government Finance’s (Department) circuit breaker reports. These reports can be found on the Department’s webpage at <http://in.gov/dlgf/9644.htm>. The values computed for these reports assume the implementation of protected taxes for the school corporation’s funds. The school corporation can utilize the circuit breaker credit amount shown for its transportation fund. Cross-county school corporations should sum the circuit breaker credits from each of the applicable county circuit breaker reports to arrive at a total amount of credits for the transportation fund. The school corporation may only use a report for the applicable year in which the waiver would apply. **Reports from prior years may not be used.**
7. Determine the amount of the transportation fund levy for the school corporation. This should equal the certified levy for the school transportation fund from the 2018 Budget Order. The certified levy is also shown on the circuit breaker report for easy reference. Cross-county school corporations should sum the certified levy from each of the applicable county budget orders or reports to arrive at a total certified levy for the transportation fund.
8. Divide the circuit breaker credit amount by the transportation fund levy and express it as a percentage. If the circuit breaker loss equals at least 10% of the transportation fund levy, the school corporation is eligible for a waiver from the implementation of protected taxes. In order to qualify, this calculation must show a loss of at least 10%. **Rounding up the calculation in order to achieve 10% will be not accepted.**

A school corporation that is eligible and would like to waive the implementation of protected taxes must submit a written request to the Department for a certification that the school corporation's calculation is correct. This written request must be provided to the Department by April 30 of the year in which the school corporation wants the waiver from the implementation of protected taxes. In order to facilitate the calculation detailed above and the written request by the school corporation, the Department has prepared a standard form for the written request. The form is attached to this memorandum. A school corporation desiring to be eligible for a waiver from the implementation of protected taxes should complete this form and email it to the Budget Division field representative for the county where the school corporation is located. Budget field representative county assignments and contact information can be found at http://www.in.gov/dlgf/files/Field_Rep_Map_-_Budget.pdf. For a cross-county school corporation where each county has a different field representative, the request only needs to be sent to one of them.

It is recommended, but not required, that a form be accompanied with a school board resolution or similar action authorizing submission of the application. **Any written request received by the Department after April 30 will not be accepted.**

After receiving a written request from a school corporation, the Department shall determine whether the percentage computed by the school corporation is accurate and whether the school corporation is eligible for the waiver from the implementation of protected taxes. The Department must complete its actions by June 1 of the year for which the waiver is requested.

Indiana Code 6-1.1-20.6-9.9 allows for a waiver to be granted for taxes payable in 2016, 2017, 2018, or 2019. A school corporation that is approved in one year for a waiver must submit a written request and calculation again in each future year in order to qualify. As an example, if a school corporation received a waiver in 2017, it must submit a written request again by April 30, 2018 using 2018 circuit breaker credit and levy information in order to qualify for the waiver in 2018. Each waiver applies only to one applicable tax year.

For those school corporations that have timely submitted a written request and that the Department has determined to be eligible for the waiver from the implementation of protected taxes, additional steps will be necessary when the school corporation receives its tax distributions in June and December. The school corporation will be responsible for reallocating its tax distribution among the appropriate funds in order to eliminate the impact of protected taxes. Further information and guidance on this process will be provided by the Department in advance of the June tax distributions.

A school corporation should submit this request only if it intends to proceed with the waiver. A school corporation that submits a request but later rescinds it could delay or disrupt its 2019 budget certification. School corporations are highly encouraged to review their financial situation, work with their financial advisors, or confer with the Department about how the mechanics of waiving protected taxes will affect the school corporations' other funds, before submitting their requests.

Questions related to the process outlined above should be directed to the Department's Budget Field Representative team.

2018 Delaware County Circuit Breaker Report

County-wide Totals

1% Homestead Circuit Breaker Credits	2% Circuit Breaker Credits	3% Circuit Breaker Credits	Over 65 Circuit Breaker Credits	Over 65 Circuit Breaker Credits	County-wide Grant Total
\$4,797,421.68	\$22,000,879.44	\$21,922,662.10	\$79,760.54	\$48,800,723.76	

Unit	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	Exempt	Protected
	TRANSPORTATION	6301	\$1,453,168.00	\$1,447,887.60	\$1,505.91	\$78,073.88	\$79,579.79	N	N
	BUS REPLACEMENT	6302	\$454,867.00	\$459,213.88	\$471.37	\$24,438.48	\$24,909.85	N	N
LIBERTY-PERRY COMMUNITY SCHOOL CORP	School		\$2,140,282.00	\$2,126,135.93	\$2,009.03	\$17,490.96	\$19,499.99		
	DEBT SERVICE	0180	\$607,847.00	\$603,829.69	\$570.57	\$0.00	\$570.57	N	Y
	SCHOOL PENSION DEBT	0186	\$278,625.00	\$276,782.95	\$261.54	\$0.00	\$261.54	N	Y
	CAPITAL PROJECTS (School)	1214	\$623,227.00	\$619,108.11	\$585.01	\$8,694.17	\$9,279.18	N	N
	TRANSPORTATION	6301	\$524,706.00	\$521,237.66	\$492.53	\$7,319.77	\$7,812.30	N	N
	BUS REPLACEMENT	6302	\$105,877.00	\$105,177.52	\$99.38	\$1,477.01	\$1,576.40	N	N
MUNCIE COMMUNITY SCHOOL	School		\$19,914,986.00	\$19,906,337.52	\$8,384.41	\$8,956,887.81	\$8,965,272.22		

2018 Delaware County Circuit Breaker Report

County-wide Totals

1% Homestead Circuit Breaker Credits	2% Circuit Breaker Credits	3% Circuit Breaker Credits	Over 65 Circuit Breaker Credits	Total Circuit Breaker Credits	County-wide Grant Total
\$4,797,421.68	\$22,000,879.44	\$21,922,662.10	\$79,760.54	\$48,800,723.76	

Unit	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	Exempt	Protected
<i>Muncie Community School</i>	DEBT SERVICE	0180	\$9,128,785.00	\$9,124,820.84	\$3,843.31	\$0.00	\$3,843.31	N	Y
	CAPITAL PROJECTS (School)	1214	\$6,046,317.00	\$6,043,691.41	\$2,545.56	\$5,020,876.70	\$5,023,422.26	N	N
	TRANSPORTATION	6301	\$4,678,137.00	\$4,676,105.23	\$1,969.54	\$3,884,736.37	\$3,886,705.91	N	N
	BUS REPLACEMENT	6302	\$61,747.00	\$61,720.04	\$26.00	\$51,274.74	\$51,300.74	N	N
WES-DEL COMMUNITY SCHOOL CORP	School		\$2,049,518.00	\$2,050,763.39	\$1,288.50	\$116,480.08	\$117,768.59		
	DEBT SERVICE	0180	\$679,204.00	\$679,616.67	\$427.01	\$0.00	\$427.01	N	Y
	CAPITAL PROJECTS (School)	1214	\$655,392.00	\$655,789.91	\$412.04	\$55,709.91	\$56,121.95	N	N
	TRANSPORTATION	6301	\$494,243.00	\$494,543.72	\$310.72	\$42,011.91	\$42,322.64	N	N
	BUS REPLACEMENT	6302	\$220,679.00	\$220,813.08	\$138.74	\$18,758.26	\$18,897.00	N	N