

PolicyAnalytics, LLC

Memorandum

To: Distressed Unit Appeal Board

From: William J. Sheldrake, President
Policy Analytics, LLC

Re: City of Gary Distressed Unit Appeal

Date: December 22, 2008 (Revised)

The City of Gary requested the assistance of Policy Analytics, LLC in preparing its appeal to the Distressed Unit Appeal Board [DUAB]. Policy Analytics has agreed to provide results from its HEA 1001 impact model for a number of scenarios to assist with the appeal. Policy Analytics is providing professional services related to this appeal on a non-paid contractual basis with the City of Gary. This letter serves as a description of those scenarios modeled in this analysis.

Policy Analytics has developed a simulation model to estimate the impacts of the policy changes embodied in HEA 1001-2008 on local governmental revenues. The model is used by governmental units to anticipate future budget constraints and to quantify the effects of various policy options. Given a set of input assumptions, the model calculates circuit breaker impacts on the parcel level.

The following assumptions apply to all scenarios in this analysis:

1. Estimated AV growth rates are applied by property type based on past growth and expected future trends.
2. AV assumptions are based on certified property assessments from the 2006 pay 2007 tax year.
3. Certified levies are used in the analysis for all units in the analysis through 2008.
4. Levy estimates, as supplied by non-petitioning units, are incorporated into the model for 2009.

The following levy scenarios for petitioning units were included in the analysis:

1. Baseline Scenario – Controlled levies remain frozen at the certified 2008 level. Debt service levies are held constant. Cumulative fund levies increase by 1% annually.
2. DUAB Appeal– Levies for all appealing units set to levels specified in the DUAB appeal documentation.

Attached to this memo, Tables 1A and 1B compare the estimated circuit breaker impact and resulting net revenue for Gary taxing units under the current law or baseline scenario –assuming no budget reductions and/or tax rate cap changes – with the revenues proposed in the DUAB appeal. Table 2 contains the estimated adjustment to the tax rate caps that would be required to generate the DUAB Appeal revenue levels, without change to the revenues of non-appealing units.

**155 E. Market Street, Suite 501
Indianapolis, Indiana 46204
317-860-0785**

Net Revenue Analysis

Tables 1A and 1B

Table 1A compares projected net revenues under current law with revenues proposed in the DUAB appeal. The scenario presented in Table 1B assumes a levy adjustment in 2009 for a successful excess levy appeal.

The circuit breaker credit is projected to cause an annual levy reduction of \$35 to \$40 million among all units included in the DUAB appeal. The City of Gary is projected to lose approximately \$32 million or 48% of its levy to the circuit breaker in 2009 (when the excess levy appeal is included).

The difference between the proposed in the DUAB appeals and the net revenues generated under the baseline circuit breaker model is \$34.1 million in 2009, declining to \$21.4 million in 2011. This difference represents the amount of relief from the circuit breaker credit required to achieve the revenues proposed in the DUAB appeal.

In all scenarios, revenues return to the current law levels by 2012.

Rate Cap Adjustments

Table 2

Table 2 shows the projected tax rate caps that are required to achieve the revenues proposed in the DUAB appeal, without causing revenue changes to the non-appealing units. Two scenarios have been modeled. In the first scenario, the circuit breaker relief is funded by all three rate caps on a pro-rata basis. In the second scenario, the circuit breaker relief is only funded by properties in the 3% rate cap.

Table 1A

Lake County DUAB Appeal

Net Revenue Analysis

excludes excess levy appeal

Unit	Unit Name	2009			2010			2011			2012		
		Certified Levy	Circuit Breaker Credit	Net Revenue	Certified Levy	Circuit Breaker Credit	Net Revenue	Certified Levy	Circuit Breaker Credit	Net Revenue	Certified Levy	Circuit Breaker Credit	Net Revenue
Baseline Scenario													
0101	GARY CIVIL CITY	62,899,806	29,172,518	33,727,288	62,907,574	34,822,272	28,085,302	62,915,419	34,060,651	28,854,768	62,923,343	32,890,537	30,032,806
0809	GARY SANITARY	9,855,202	3,727,228	6,127,974	9,855,202	4,448,580	5,406,622	9,855,202	4,350,377	5,504,825	9,855,202	4,200,194	5,655,008
0813	GARY AIRPORT	1,672,079	775,499	896,580	1,674,660	927,002	747,658	1,677,267	908,025	769,242	1,679,900	878,097	801,803
0816	GARY PUBLIC TRANSPORTATION	4,079,462	1,242,889	2,836,573	4,079,462	1,483,413	2,596,049	4,079,462	1,450,787	2,628,675	4,079,462	1,400,771	2,678,691
1100	GARY STORM WATER MANAGEMENT	1,096,296	508,455	587,841	1,096,296	606,851	489,445	1,096,296	593,504	502,792	1,096,296	573,043	523,253
	Total	79,602,845	35,426,589	44,176,256	79,613,194	42,288,119	37,325,075	79,623,646	41,363,345	38,260,301	79,634,203	39,942,641	39,691,562
DUAB Appeal													
0101	GARY CIVIL CITY			59,529,418			52,930,065			48,345,106			30,032,806
0809	GARY SANITARY			9,500,915			8,566,999			7,050,410			5,655,008
0813	GARY AIRPORT			1,432,020			1,194,518			957,013			801,803
0816	GARY PUBLIC TRANSPORTATION			3,534,347			3,180,715			2,705,271			2,678,691
1100	GARY STORM WATER MANAGEMENT			940,950			783,892			626,834			523,253
	Total			74,937,650			66,656,189			59,684,634			39,691,562
Net Revenue Difference													
0101	GARY CIVIL CITY			25,802,130			24,844,763			19,490,338			-
0809	GARY SANITARY			3,372,941			3,160,377			1,545,585			-
0813	GARY AIRPORT			535,440			446,860			187,771			-
0816	GARY PUBLIC TRANSPORTATION			697,774			584,666			76,596			-
1100	GARY STORM WATER MANAGEMENT			353,109			294,447			124,042			-
	Total			30,761,394			29,331,114			21,424,333			-

Table 1B

Lake County DUAB Appeal

Net Revenue Analysis

includes excess levy appeal

Unit	Unit Name	2009			2010			2011			2012		
		Certified Levy	Circuit Breaker Credit	Net Revenue	Certified Levy	Circuit Breaker Credit	Net Revenue	Certified Levy	Circuit Breaker Credit	Net Revenue	Certified Levy	Circuit Breaker Credit	Net Revenue
Baseline Scenario													
0101	GARY CIVIL CITY	67,290,806	32,491,123	34,799,683	62,907,574	34,822,272	28,085,302	62,915,419	34,060,651	28,854,768	62,923,343	32,890,537	30,032,806
0809	GARY SANITARY	10,385,202	4,123,050	6,262,152	9,855,202	4,448,580	5,406,622	9,855,202	4,350,377	5,504,825	9,855,202	4,200,194	5,655,008
0813	GARY AIRPORT	1,772,079	855,642	916,437	1,674,660	927,002	747,658	1,677,267	908,025	769,242	1,679,900	878,097	801,803
0816	GARY PUBLIC TRANSPORTATION	4,079,462	1,293,948	2,785,514	4,079,462	1,483,413	2,596,049	4,079,462	1,450,787	2,628,675	4,079,462	1,400,771	2,678,691
1100	GARY STORM WATER	1,171,296	565,556	605,740	1,096,296	606,851	489,445	1,096,296	593,504	502,792	1,096,296	573,043	523,253
	Total	84,698,845	39,329,319	45,369,526	79,613,194	42,288,119	37,325,075	79,623,646	41,363,345	38,260,301	79,634,203	39,942,641	39,691,562
DUAB Appeal													
0101	GARY CIVIL CITY			63,920,418			52,930,065			48,345,106			30,032,806
0809	GARY SANITARY			10,030,915			8,566,999			7,050,410			5,655,008
0813	GARY AIRPORT			1,532,020			1,194,518			957,013			801,803
0816	GARY PUBLIC TRANSPORTATION			3,534,347			3,180,715			2,705,271			2,678,691
1100	GARY STORM WATER			1,015,950			783,892			626,834			523,253
	Total			80,033,650			66,656,189			59,684,634			39,691,562
Net Revenue Difference													
0101	GARY CIVIL CITY			29,120,735			24,844,763			19,490,338			-
0809	GARY SANITARY			3,768,763			3,160,377			1,545,585			-
0813	GARY AIRPORT			615,583			446,860			187,771			-
0816	GARY PUBLIC TRANSPORTATION			748,833			584,666			76,596			-
1100	GARY STORM WATER			410,210			294,447			124,042			-
	Total			34,664,124			29,331,114			21,424,333			-

Table 2

Gary Distressed Unit Appeal
Estimated Tax Rate Cap Adjustments

	Excluding Excess Levy Appeal				Including Excess Levy Appeal			
	2009	2010	2011	2012	2009	2010	2011	2012
Current Statute								
Homestead Property	1.5000	1.0000	1.0000	1.0000	1.5000	1.0000	1.0000	1.0000
Other Residential	2.5000	2.0000	2.0000	2.0000	2.5000	2.0000	2.0000	2.0000
Non-Res and Personal Prop.	3.5000	3.0000	3.0000	3.0000	3.5000	3.0000	3.0000	3.0000
Scenario 1: Increase to all rate caps								
Homestead Property	2.8388	2.0313	1.6827	1.0000	2.9760	2.0313	1.6827	1.0000
Other Residential	3.8388	3.0313	2.6827	2.0000	3.9760	3.0313	2.6827	2.0000
Non-Res and Personal Prop.	4.8388	4.0313	3.6827	3.0000	4.9760	4.0313	3.6827	3.0000
Scenario 2: Increase to 3% rate cap only								
Homestead Property	1.5000	1.0000	1.0000	1.0000	1.5000	1.0000	1.0000	1.0000
Other Residential	2.5000	2.0000	2.0000	2.0000	2.5000	2.0000	2.0000	2.0000
Non-Res and Personal Prop.	5.4666	4.6865	4.1491	3.0000	5.6716	4.6865	4.1491	3.0000