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Circuit Breaker Model Methodology

HEA 1001 (2008)

March 2008 Computations

Description of Circuit Breaker

Under HEA 1001 (2008), real and personal property tax bills will be limited to a percentage of gross assessed value (AV) on the non-exempt portion of the property. Gross AV is the AV before deductions. The circuit breaker will apply with the following AV thresholds.

Property Type	2008	2009	2010+
Homesteads	2%	1.5%	1%
Non-homestead residential property, commercial apartments, long-term care facilities, land under mobile homes, and farmland.	--	2.5%	2%
All other real and personal property.	--	3.5%	3%

In Lake and St. Joseph Counties, the portion of the net tax bill that is attributable to debt service incurred before July 1, 2008, does not count towards the cap. Property tax levies in any county that are approved in a referendum would not count towards the cap.

In addition to the AV-based circuit breaker, qualifying senior citizens are eligible for additional credits. Seniors whose income does not exceed \$30,000 (\$40,000 if married) and whose AV is less than \$160,000 would receive a credit if their net property tax bill increases by more than 2% in a year.

Methodology

Real Property Assessment Data: The analysis used parcel-level assessment and deduction data as a base. The specific datasets that were used for each county are listed in Appendix A.

The analysis was based on Pay 2007 parcel-level auditor's data for 79 counties. The Pay 2007 auditor's data contains the most recent gross assessed value, deductions, and net assessed value for each parcel. These records should reflect the actual 2007 billing. Pay 2006 auditor data along with Pay 2007 assessor AV data were used for 10 counties. Pay 2005 auditor's data along with Pay 2007 assessor AV data were used for two counties. Pay 2004 auditor's data was used for Brown County, but the Pay 2007 assessor AV data was not available for this county.

Note: Pay 2007 assessor and auditor data used in the analysis included original data for counties that were ordered to be retrended. The final assessments and billings by parcel are likely to change.

Personal Property Assessment Data: The analysis used total personal property assessed value by taxing district from the county auditor abstracts. There were 84 counties where Pay 2007 data was used. In eight counties, the

analysis used Pay 2006 personal property AV totals. In a county where Pay 2006 AV was used, the Pay 2007 personal property AV was estimated by reducing the Pay 2006 AV by the amount of inventory AV reported by the county, if the county had not opted for an early elimination of inventory assessments.

Step 1 - Calculate Estimated Real Property Assessed Value. The estimated gross and net assessed value of each real property parcel is calculated.

The calculations begin with Pay 2007 gross AV data. In Brown County, estimated trending factors were applied to the Pay 2006 gross AV to estimate the change in pricing from 1999 to 2005 (Pay 2007). The growth factors applied to Pay 2006 values in Brown County were 19.3% for residential property and 1.1% for non-residential. These factors were also applied to some parcels in other counties if the auditor's data was pre-Pay 2007 and there was no matching Pay 2007 AV from the assessor data.

For all counties, Pay 2008, 2009, and 2010 values were estimated by applying trending rates to the Pay 2007 gross AV. The estimated annual adjustments used in all counties beginning in Pay 2008 were 3.6% for residential property and 3.3% for non-residential property.

Deductions: The Pay 2008 standard deduction was figured at \$45,000, limited to 50% of AV. Beginning in CY 2009, the deduction is \$45,000, limited to 60% of AV.

Homesteads will also qualify for a supplemental deduction beginning with taxes payable 2009. This deduction is based on the homestead's net AV after subtracting off the traditional standard deduction. The supplemental deduction equals 35% of the first \$600,000 of net AV plus 25% of any net AV that exceeds \$600,000.

Other residential deductions were not adjusted. The deductions for non-residential property were adjusted to maintain their relevance to gross AV.

Step 2 - Calculate Estimated Personal Property Assessed Value. The estimated gross and net assessed value of personal property by taxing district is calculated.

County abstract gross and net personal property assessed values for Pay 2007 were used in counties where available. For other counties, the Pay 2006 abstract gross and net values were used. An adjustment was made in counties using Pay 2006 data to remove the value of inventory if those counties had not opted for a 100% deduction prior to Pay 2007. This adjustment was based on the inventory AV reported by the county assessor on Form 15. The resulting Pay 2007 or Pay 2006 values were used, unadjusted, for all years of the analysis.

Step 3 - Calculate Estimated Net Assessed Value by Taxing Unit and Fund. The estimates of Pay 2008, 2009, and 2010 real and personal net AV were summed by taxing district and then combined. The total tax increment financing (TIF) AV for each taxing district is also introduced into the model. The non-residential growth rates are applied to the TIF AV for each year, and the total estimated TIF is then subtracted from the total real and personal property net AV. The resulting total estimated taxing district net AV was then distributed to each taxing unit and fund in the district.

The rate of change in estimated net AV for each fund was calculated for each year and coupled with a 1% annual AV growth assumption. This overall rate of change was then applied to the Pay 2007 certified net AV that was used in the 2007 budget process. The resulting net AV for Pay 2008, 2009, and 2010 was used in the tax rate

calculations.

Step 4 - Calculate Estimated Property Tax Levies by Fund. Fund levies for 2008, 2009, and 2010 were estimated using 2007 levies in 89 counties and 2006 levies in 3 counties as a base. In counties where 2007 levies were unavailable, the 2006 levies were inflated to 2007.

The estimated growth rates applied for levies subject to the unit's maximum levy were 4.0% for 2007 (if needed), 3.8% for 2008, 4.3% in 2009, and 4.6% in 2010. The growth for civil unit cumulative funds was estimated at 1% per year, and the school capital projects fund levy growth was applied at 6% per year. Debt service fund levies were held constant.

For 2008, the model used the school general fund levy as calculated by LSA's school funding formula runs. The Department of Child Services provided the levy estimate for the 2008 family and children fund and children's psychiatric residential treatment fund.

For 2009, the levies for the following funds are eliminated: State Fair, State Forestry, county family and children, county children's psychiatric residential treatment services, county medical assistance to wards, children with special health care needs, hospital care for the indigent, school general, and preschool special education.

Also in 2009, the county general fund levy is reduced by the amount paid to the state for juvenile incarceration, unit levies are reduced by the additional amount that the state will assume for pre-1977 public safety pensions, and the Marion County Health and Hospital levy is reduced by \$35 M.

In counties that have adopted the local option income tax (LOIT) to replace maximum levy increases (commonly referred to as LOIT-1), the levies for levy-controlled funds were held constant. Ten counties had adopted LOIT-1 effective for 2008.

Step 5 - Calculate Estimated Tax Rates. For each year, the estimated fund tax rate is computed by dividing the estimated fund levy by the estimated net AV and multiplying by 100. The fund tax rates are aggregated to the taxing district level, resulting in the district tax rate.

Step 6 - Calculate Gross Tax by Parcel, District Personal Property. The estimated tax rates are then applied to the estimated net AV for each parcel and to the taxing district aggregate net AV for personal property. The result is the gross tax due.

Step 7 - Calculate Old State Credits. For 2008, the state still pays \$2,028.5 M in combined Property Tax Replacement Credit (PTRC) and Homestead Credit (HSC). The base rate for the HSC remains 20% while the PTRC base rate must be reduced so that the total of the two credits does not exceed the \$2,028.5 M appropriation.

The 2007 PTRC and HSC district rates were divided by 0.922 in order to return to the full, unadjusted rate base. (In 2007, both the PTRC and HSC rates were reduced in order to stay within the appropriation.) The unadjusted rates are the effective district rates that reflect the fact that some funds do not qualify for the credits. The unadjusted PTRC and HSC rates were then applied to the gross levies for each parcel and the district total gross levy for personal property. The PTRC rates were then reduced pro rata so that the total combined PTRC and HSC amounts equaled roughly \$2,028.5 M. The interaction between the two credits causes the HSC amount to rise whenever the PTRC amount is reduced.

There are no traditional PTRC or Homestead Credits for years beginning in 2009.

Step 8 - Calculate Supplemental State Homestead Credits. A total of \$870 M was appropriated for additional 2008 Homestead Credit (\$250 M was appropriated during the 2007 legislative session and \$620 M was appropriated during the 2008 session). The state homestead credit rates calculated in Step 7 were increased pro rata in order to increase the total state Homestead Credit amount by \$870 M.

State homestead credit appropriations of \$140 M in CY 2009 and \$80 M in CY 2010 were also made during the 2008 session. These are the only state credits to be paid in 2009 and 2010. The base HSC rates that were calculated in Step 7 were adjusted and then applied to the 2009 and 2010 gross tax bills for each homestead to determine the credit for each parcel.

Step 9 - Calculate the Net Tax After State Credits. For each parcel and each district total gross levy for personal property, the state PTRC and Homestead Credits are subtracted from the gross tax. The result is the net tax liability before local credits, if any, and before circuit breakers, if any.

Step 10 - Calculate Traditional Local Credits. These local credits come in the form of traditional homestead credits funded with the County Option Income Tax (COIT) or the County Economic Development Income Tax (CEDIT).

For 2008 taxes, the existing COIT- and CEDIT-funded HSC rates were applied to each homestead's calculated net tax after PTRC, but before state HSC. For 2009 and 2010, these rates were applied to the homestead's gross tax as there is no PTRC for these years.

Step 11 - Calculate New Local Credits. These local credits come in the form of LOIT-funded PTRC and HSC, commonly referred to as LOIT-2. Counties may impose a County Adjusted Gross Income Tax (CAGIT) or COIT tax rate of up to 1% to provide any combination of (1) property tax replacement credits for all property, (2) property tax replacement credits for residential property, and (3) homestead credits.

LOIT estimates were made for 2008, 2009, and 2010 in the adopting counties and represent the total local credits available. These credits were apportioned among the property types in the proportions adopted by each county. The total credits for each property type were then distributed, pro rata, based on the net tax after all state credits for each parcel and each district total for personal property. The result is the taxpayer's net tax liability that will be compared to the circuit breaker threshold.

Thirteen counties adopted LOIT-2 credits for 2008 (see Appendix A).

Step 12 - Calculate Real Property Circuit Breaker Credits by Parcel, Personal Property by District. For real property, each parcel's net tax liability is compared to the parcel's gross AV as described above in the circuit breaker description. If the net tax exceeds the appropriate percentage of gross AV, then the excess tax is shown as a taxpayer credit and not charged to the taxpayer. For personal property, the comparison was made between the net tax liability in the taxing district and the gross AV in that district.

The net tax that was compared to the gross AV in Lake and St. Joseph Counties was first reduced by the amount of the tax liability that was attributable to levies for existing debt.

Step 13 - Calculate Additional Circuit Breaker Credits for Qualifying Senior Homeowners. This estimate was computed in two parts and then combined.

A. Seniors currently eligible for the aged deduction whose gross AV is less than \$160,000. The data for these individuals came from the parcel-level property tax database. This database contains data on all seniors currently eligible for the aged deduction (i.e., seniors whose income does not exceed \$25,000 and whose gross AV does not exceed \$182,430). The data on qualifying seniors (i.e., those whose gross AV is less than \$160,000) were extracted from this database.

B. Seniors making between \$25,000 and \$30,000 (\$40,000 if married) whose gross AV is less than \$160,000. These individuals are not eligible for the current aged deduction because their income exceeds the \$25,000 income limit. However, they are allowed to claim the elderly exemption on their income tax. As a result, income tax data was used to identify these individuals. The state grants all taxpayers a homestead property tax deduction of up to \$2,500 from their gross income; individuals in Lake County are allowed to claim a property tax credit up to \$300 in lieu of the property tax deduction. If the property tax that an individual pays is known, the net AV can be estimated by dividing the property tax by the applicable average county net tax rate. To compute an estimate of the gross AV, the property tax standard deduction is added to the net AV.

Four categories of eligible seniors were identified:

1. Those who paid less than \$2,500 in property taxes. The net and gross AV of these individuals were estimated directly using the property tax paid and the average county net tax rate. The net AV and gross AV were then aggregated by county.

2. Except for taxpayers in Lake County, those who paid at least \$2,500 in property taxes. To compute the net AV and gross AV of these taxpayers, the parcel-level property tax database was used to compute the average net AV and gross AV of all homeowners who paid at least \$2,500 in property taxes. These averages were then multiplied by the number of taxpayers in this category.

3. Taxpayers in Lake County who paid at least \$2,500 in property taxes. To estimate the net AV and gross AV of these taxpayers, the parcel-level property tax database was queried to obtain the average net AV and gross AV of all homeowners in Lake County who paid at least \$2,500 in property taxes. These averages were then multiplied by the number of taxpayers in this category.

4. Taxpayers in Lake County who elected to take the property tax credit. For some Lake County taxpayers it is more economically feasible for them to take the credit rather than the property tax deduction. To estimate the net AV and gross AV of these taxpayers, the local property tax database was queried to obtain the average net AV and gross AV of all homeowners in Lake County whose property taxes were at least \$300 but less than \$2,500. These averages were then multiplied by the number of taxpayers in this category. These estimates were added to those in Category 3 to obtain an estimate for Lake County.

For qualifying seniors, after the initial circuit breaker calculation, the net tax was computed for 2008, 2009, and 2010. The net tax for 2009 was capped at 102% of the net tax for 2008; that for 2010 was capped at 102% of the net tax for 2009.

Step 14 - Calculate Circuit Breaker Credit Loss by Taxing Unit. In actuality, circuit breaker credits amount to

taxes not collected. When property taxes are collected, the county auditor distributes the amount collected in each taxing district to the taxing units that comprise that district. This distribution is based on the percentage of the total taxing district tax rate that each taxing unit's tax rate represents. A reduction in tax collections means that each taxing unit receives less money from property taxes than expected.

To estimate each taxing unit's tax loss, all circuit breaker credits are first aggregated by taxing district. Then a portion of the total circuit breaker credit amount for each taxing district is assigned to each taxing unit based on the unit and district tax rates. Since taxing units may appear in multiple taxing districts, each taxing unit's revenue losses from all of the taxing districts in which it is present are aggregated to determine the total circuit breaker loss for the taxing unit.

Step 15 - Calculate Supplemental School Distribution. State appropriations of \$50 M in CY 2009 and \$70 M in CY 2010 were made for a school circuit breaker replacement distribution. This distribution is made to local school corporations to offset their reduction in property tax revenue due to the circuit breaker if their reduction is more than 2% of the school's total property tax levy.

Each school corporation's total circuit breaker loss is divided by the corporation's total levy to determine if it is eligible for a distribution. The available appropriation is divided by the total circuit breaker loss for the eligible school corporations to determine the portion of the appropriation that each eligible school will receive.

Appendix A

County	Auditor Data	Assessor Data	Certified Levies	Personal Property Data	LOIT-1	LOIT-2 (Property Tax Credits)			
					(Max Levy Increase Replacement)	Distribution			
					Rate	Rate	Home-steads	All Res	All Prop
01 Adams	2007		2007	2007					
02 Allen	2007		2007	2007					
03 Bartholomew	2007		2007	2007					
04 Benton	2007		2007	2007		1.00%			100%
05 Blackford	2007		2007	2007					
06 Boone	2007		2007	2007					
07 Brown	2004		2006	2006	0.20%	0.50%	100%		
08 Carroll	2007		2007	2007					
09 Cass	2007		2007	2007					
10 Clark	2005	2007	2006	2006					
11 Clay	2007		2007	2007					
12 Clinton	2006	2007	2007	2007					
13 Crawford	2007		2007	2007					
14 Daviess	2007		2007	2007					
15 Dearborn	2007		2007	2007					
16 Decatur	2005	2007	2007	2007					
17 DeKalb	2007		2007	2007					
18 Delaware	2006	2007	2007	2007					
19 Dubois	2007		2007	2007					
20 Elkhart	2007		2007	2007					
21 Fayette	2007		2007	2007		1.00%			100%
22 Floyd	2007		2007	2007					
23 Fountain	2007		2007	2007					
24 Franklin	2007		2007	2007					
25 Fulton	2007		2007	2007					
26 Gibson	2007		2007	2007					
27 Grant	2007		2007	2007					
28 Greene	2007		2007	2007					
29 Hamilton	2007		2007	2007					
30 Hancock	2007		2007	2007					

Appendix A

County	Auditor Data	Assessor Data	Certified Levies	Personal Property Data	LOIT-1	LOIT-2 (Property Tax Credits)			
					(Max Levy Increase Replacement)	Rate	Distribution		
					Rate		Home-steads	All Res	All Prop
31 Harrison	2007		2007	2007					
32 Hendricks	2007		2007	2007					
33 Henry	2007		2007	2007					
34 Howard	2007		2007	2007		0.50%	100%		
35 Huntington	2007		2007	2007					
36 Jackson	2007		2007	2007					
37 Jasper	2006	2007	2007	2006	0.30%	1.00%			100%
38 Jay	2007		2007	2007	0.40%	0.50%		100%	
39 Jefferson	2007		2007	2007					
40 Jennings	2007		2007	2007					
41 Johnson	2007		2007	2007					
42 Knox	2007		2007	2007					
43 Kosciusko	2007		2007	2007					
44 LaGrange	2007		2007	2007					
45 Lake	2007		2007	2006					
46 LaPorte	2007		2007	2006					
47 Lawrence	2006	2007	2007	2007					
48 Madison	2007		2007	2007					
49 Marion	2007		2007	2007	0.20%				
50 Marshall	2007		2007	2007					
51 Martin	2007		2007	2007					
52 Miami	2007		2007	2007					
53 Monroe	2007		2007	2007					
54 Montgomery	2007		2007	2007		1.00%	80%		20%
55 Morgan	2007		2007	2007	0.20%	1.00%			100%
56 Newton	2007		2007	2007					
57 Noble	2007		2007	2007					
58 Ohio	2007		2007	2007					
59 Orange	2007		2007	2007					
60 Owen	2007		2007	2007					

Appendix A

County	Auditor Data	Assessor Data	Certified Levies	Personal Property Data	LOIT-1	LOIT-2 (Property Tax Credits)			
					(Max Levy Increase Replacement)	Rate	Distribution		
					Rate		Home-steads	All Res	All Prop
61 Parke	2007		2007	2007	0.30%	0.25%			100%
62 Perry	2007		2007	2007					
63 Pike	2007		2007	2007					
64 Porter	2006	2007	2007	2006					
65 Posey	2006	2007	2006	2006					
66 Pulaski	2007		2007	2007	0.40%	1.00%			100%
67 Putnam	2007		2007	2007					
68 Randolph	2007		2007	2007					
69 Ripley	2007		2007	2007					
70 Rush	2007		2007	2007					
71 St. Joseph	2006	2007	2007	2006					
72 Scott	2007		2007	2007					
73 Shelby	2007		2007	2007					
74 Spencer	2007		2007	2007					
75 Starke	2006	2007	2007	2007					
76 Steuben	2007		2007	2007					
77 Sullivan	2007		2007	2007					
78 Switzerland	2007		2007	2007					
79 Tippecanoe	2007		2007	2007					
80 Tipton	2007		2007	2007					
81 Union	2007		2007	2007					
82 Vanderburgh	2007		2007	2007					
83 Vermillion	2006	2007	2007	2007					
84 Vigo	2007		2007	2007					
85 Wabash	2007		2007	2007	0.40%	1.00%	50%		50%
86 Warren	2007		2007	2007	0.30%	0.25%			100%
87 Warrick	2007		2007	2007					
88 Washington	2007		2007	2007					
89 Wayne	2007		2007	2007					
90 Wells	2007		2007	2007	0.40%	0.20%	100%		
91 White	2006	2007	2007	2007					

Appendix A

County	Auditor Data	Assessor Data	Certified Levies	Personal Property Data	LOIT-1	LOIT-2 (Property Tax Credits)			
					(Max Levy Increase Replacement)	Rate	Distribution		
							Home- steads	All Res	All Prop
92 Whitley	2007		2007	2007					