

Projections of Assessments, Levies and Tax Rates for Fayette County Governments, 2008-2010

Larry DeBoer
Department of Agricultural Economics
Purdue University

Revised June 20, 2008

Summary

The loss of Visteon assessed value for taxes in 2009 will have major effects on the budgets of Fayette County, Connersville City, and the Fayette School Corporation. This is no surprise. Visteon's property comprises about 12% of the county's assessed value, and its tax payment of \$3.6 million was 18% of the 2007 net tax levy for all Fayette units.

Local units can choose how to respond to this property loss. At one extreme, levies could be adopted at maximum levels, and the tax rates adjusted upward. The higher tax rates would raise the same levy from smaller assessed value. In effect, the whole \$3.6 million Visteon payment would be distributed to remaining taxpayers. At the other extreme, local units could maintain constant tax rates, and accept the \$3.6 million revenue loss. Remaining taxpayers would not see tax hikes, but lost revenue would imply cuts in local government services. Local units could choose points in between these two extremes, partially compensating for the Visteon loss with higher taxes on remaining taxpayers, and partially accepting reduced revenues.

With the new tax reforms in House Enrolled Act 1001, passed during the 2008 session of the Indiana General Assembly, these choices are limited. The new circuit breakers limit tax bills to a fixed percentage of gross assessed value. In 2009 the limits will be 1.5% for homesteads, 2.5% for farm land and other residential, and 3.5% for other real and personal property. In 2010 and after the limits will be 1%, 2% and 3%, respectively. Taxpayers receive a credit for tax bills above their circuit breaker limit, and local units do not collect this revenue.

Fayette County would lose revenue from the circuit breakers even without the Visteon property losses. Circuit breaker losses for all county units likely would have been under \$5,000 in 2009, and \$893,000 in 2010, assuming Visteon's assessed value was *not* lost. The losses increase in 2010 because the circuit breaker percentage limits are lower. Almost all projected circuit breaker losses are from credits to taxpayers in tax districts 10 and 11, the Connersville Township and Harrison Township districts that include Connersville City. The added city tax rate on the tax bills of property owners in these districts push many above their circuit breaker limits. Tax rates in other districts are not high enough to qualify taxpayers for circuit breaker credits. The circuit breaker losses are shared by all the units that tax property in these two districts.

The higher tax rates required to replace the Visteon levy would push many more taxpayers above their circuit breaker limits. This would result in large circuit breaker credits for Fayette taxpayers, and large circuit breaker losses for Fayette local governments. Total circuit breaker losses are projected to be \$1.48 million for all units in 2009, and \$3.25 million for all units in 2010.

The loss of Visteon assessed value increases circuit breaker losses by \$1.47 million in 2009, and by \$2.36 million in 2010. The total Visteon tax payment loss is about \$3.6 million. In effect, the circuit breakers protect remaining taxpayers from bearing the full burden of the Visteon loss. They do this by requiring

local units to take a substantial share of this loss in lower property tax revenues. In 2010, \$2.4 million or 66% of the \$3.6 million lost Visteon tax bill must be taken as a revenue loss. The remaining \$1.2 million can be raised with higher taxes on remaining taxpayers. Under the circuit breakers, there is less flexibility for local budgeting in response to the Visteon loss.

This has a budgeting advantage, however, if units had intended to reduce revenues in any case, not charging remaining taxpayers the full Visteon loss. Without the circuit breakers, units would have to tax at less than their maximum levies to hold tax rates down. Under the maximum levy rules, if the levy is less than the maximum, future maximum levies are lower. Some of the levy not collected in one year can never be collected in future years. With the circuit breakers, taxpayers pay less than the full Visteon loss, but units can still tax at their maximum levies. If future assessed values were to grow enough to reduce tax rates and circuit breaker losses, the higher future maximum levies would increase budget flexibility.

The circuit breakers are an advantage for taxpayers as well. If remaining taxpayers were made to pay the whole Visteon tax bill loss, their taxes would be higher in 2009 by \$1.5 million and in 2010 by \$2.4 million. Taxpayers must accept a lower level of local government services due to reduced budgets, however.

Fayette County adopted a local option income tax (LOIT) for property tax relief in 2007. LOIT reduces circuit breaker losses, because it reduces the tax bills of those who receive the LOIT-funded tax relief. In a real sense, LOIT generates added revenue for local units by reducing revenue losses.

LOIT property tax relief can be distributed in three ways, to homesteads only, to homesteads and rental housing, or to all property owners. Fayette chose to distribute the relief to homesteads and rental housing. This is the distribution choice that minimizes circuit breaker losses. Distributing relief to all property owners would have increased circuit breaker losses in 2010 by \$38 thousand. Distributing relief to homesteads only would have increased circuit breaker losses by \$1.3 million. Had no LOIT been adopted, circuit breaker losses would have been \$2.3 million higher. Increased losses mean lower revenue.

Counties that adopted LOIT in 2007 have the option to reallocate 2008 state homestead credits to 2009 and/or 2010. This could smooth the ups and downs of homestead taxes. More homestead credits in 2010 also would reduce circuit breaker losses. A reallocation of 2008 state homestead credits so that 30% are paid in 2008, 40% in 2009 and 30% in 2010 would be a move towards accomplishing both goals. The deadline for petitioning such a reallocation has already passed, but there is a chance that this option will be reopened later this year.

Detailed Results

Detailed results are shown in Tables 1 through 7 below. Table 1 shows projected changes in net assessed values by government unit for 2008 through 2010. Net assessed value drops substantially in 2009. This occurs because of the Visteon loss in 2009, and the large increase in homestead deductions passed in HEA1001, also effective in 2009.

Table 2 shows projected property tax levies by government unit for 2008 through 2010. Included are the levies, the circuit breaker credit losses, and the remaining levies after circuit breakers. Circuit breaker credits begin to affect revenues in 2009, and have a larger effect in 2010.

Table 3 shows the projected tax rates for 2008 through 2009, by government unit. Average tax rates fall in 2008 and 2009, because farm land assessments rise by a large amount. Average rates fall in 2009

because of the elimination of the school general fund and welfare levies, and other smaller levies, passed in HEA1001. The loss of Visteon assessed value and the new homestead deductions causes a large increase in the tax rate in Connersville City, which sees relatively small levies eliminated by HEA1001.

Table 4 shows the projected total tax bills by property type for 2008 through 2010. Tax bills fall in 2008 because of a large increase in state homestead credits, and because of the new local option income tax. Bills for real property other than industrial property rise substantially in 2009 because of the Visteon loss. Bills fall again in 2010 because of tighter circuit breaker credit limits.

Tables 5 and 6 compare the effect of the three possible methods of distributing tax relief from the local option income tax. Distributing relief to homesteads and rental housing reduces circuit breaker credit losses the most by 2010. This is the distribution option that Fayette County chose.

Table 7 shows the results of a reallocation of \$2.16 million in 2008 state homestead credits, with 30% paid in 2008, 40% paid in 2009 and 30% paid in 2010. This reallocation levels the annual changes in homestead tax bills, and reduces circuit breaker losses in 2010.

Estimates for 2008

Net assessed values, Table 1. Assessed value for real and personal assessed value is assumed to rise 2%. Agricultural land assessments are assumed to rise by 29.5% because of the increase in the farm land base rate from \$880 to \$1,140. The assessed value growth assumptions produce a countywide growth rate of 5.2%. Jurisdictions with more farm land see bigger increases. Jurisdictions without much farm land, such as Connersville City, see the smallest percentage increases. Connersville City shows a 2.4% increase. Recall that the growth assumptions are for gross assessed value, but the table shows net assessed value. Deductions also affect net growth rates.

Levies and circuit breaker credits, Table 2. All levies are assumed to rise 4%. HEA1001 makes no changes in levies in 2008, so total levies rise 4%, an increase of about \$1.1 million. The circuit breaker for homesteads in 2008 is 2% of gross assessed value. No Fayette County homesteads qualify for the credit. There is no circuit breaker for other types of property in 2008.

Unit Tax Rates, Table 3. Gross tax rates decline slightly in most jurisdictions. The total shows the average rate, calculated as the total levy before credits divided by the county assessed value. It decreases by about 3.6 cents per \$100 assessed value. Rates for Connersville City and Glenwood Town increase.

Since all levies are assumed to increase at the same rate, these rate changes emerge from differences in assessed value growth. The AV growth differences are due to the different mixes of farm land and all other property in the tax base. Tax rates fall where AV rises more, and this happens in places with a larger share of farm land in assessed value. Tax rates rise in the city and town, where farm land is a smaller share of assessed value.

Tax bills by property type, Table 4. Unit tax rates are combined into district tax rates. These are applied to estimated parcel assessed values to yield gross tax bills. State credits and local credits are subtracted.

Homestead taxes show an extraordinary 69% drop from 2007 to 2008. This is due first to the large increase in state homestead credits, second to the new LOIT credits, and third to a shift in taxes towards agriculture. Non-homestead residential and commercial apartment tax bills fall 44.9%, because of the added LOIT credits. Agricultural tax bills rise by 21.5%, because of the increase in the base rate

assessment of farm land. Most other property types show small increases, which reflect the assumed 4% rise in levies compared to the assumed 2% rise in assessed values.

Estimates for 2009

Net assessed values, Table 1. Countywide net assessed value drops 24.8% for pay-2009. This is a combination of the 5.3% increase in the base rate assessment of farm land, the assumed 2% increase in gross assessed value of all other property, the increase in homestead deductions passed in HEA1001, which reduces the net assessed value of homesteads, and the loss of most of Visteon's assessed value. The losses in Harrison Township and Connersville City are particularly large, because that is where Visteon's property is located. Losses in the most rural townships are smaller because the increase in farm land assessments offsets some of the decrease in homestead assessments.

Levies and circuit breaker credits, Table 2. The state levy takeovers in HEA1001 take effect in 2009, reducing the county's overall levy before circuit breaker credits by 28.7%. The county levy drops 25.1%, because of the elimination of the welfare levies. The school corporation levy drops by 48.6% because of the state takeover of the general fund and pre-school special education fund. The Connersville City levy drops 2.1% because of the state takeover of the police and fire pension funds. The state levy disappears. All levies that are unaffected by HEA1001 are assumed to rise 4%.

Circuit breaker limits tighten in 2009, to 1.5% of gross assessed value for homesteads, 2.5% for other residential property and farm land, and 3.5% of all other property. Fayette County is projected to see significant circuit breaker credits in 2009. This revenue is not replaced by the state, so these represent property taxes that are not collected—circuit breaker losses. Total losses for all units are projected at \$1.48 million. Almost all of these losses are from taxpayers in Harrison and Connersville Townships, where tax rates are highest. They are highest there because the city adds an extra layer to the tax rate. In addition, Harrison Township and Connersville City taxpayers are most affected by the Visteon tax shift.

Any jurisdiction that shares these taxpayers will be allocated some of the circuit breaker losses. Thus, the county, school corporation and library district, the two townships and Connersville City experience circuit breaker losses. Connersville City accounts for more than half of the countywide circuit breaker losses, at \$826 thousand.

Unit Tax Rates, Table 3. The county average tax rate drops by 17 cents per \$100 assessed value. Gross tax rates rise in all jurisdictions except the state, county and school corporation. These three jurisdictions see reductions because of state levy takeovers. Other jurisdictions see rate increases because of decreases in net assessed value, due to the increase in homestead deductions and the loss of most of Visteon's assessed value. Rate increases are particularly large in Harrison Township and Connersville City, where Visteon's property is located.

Tax bills by property type, Table 4. Unit tax rates are combined into district tax rates. These are applied to estimated parcel assessed values to yield gross tax bills. State credits and local credits are subtracted. Table 4 shows results after circuit breaker credits are subtracted.

Tax bills for industrial real property and personal property decline, because of the loss of Visteon tax payments. Tax bills for remaining industrial real property and personal property would increase. Tax bills for all other property types increase.

The method used to deliver property tax relief to homesteads changes from 2008 to 2009. In 2008 there is a large increase in homestead credits. In 2009 homestead deductions increase, some levies are eliminated,

and property tax replacement credits and most homestead credits are eliminated. Statewide, the two methods deliver approximately the same tax relief to homesteads. However, in some counties—including Fayette—the added homestead credits provide more tax relief than the added deductions and levy takeovers. In 2009, homesteads pay less in property taxes than they would have under 2007's tax rules, but not so much less as they paid with the added homestead credits in 2008.

Visteon paid \$3.6 million in taxes in 2007. To some extent these taxes must be paid by other taxpayers once Visteon's assessed value is reduced.

The change in homestead tax relief and the tax shift from Visteon cause a large projected increase in Fayette homestead tax bills in 2009—a 120%, \$2.4 million increase. Note, however, that this still leaves homestead taxes 32% lower than they were in 2007.

Other taxpayers also see increases in tax bills. Rental housing sees the largest increases after homesteads, because most of this property is located in the city jurisdictions where Visteon's property is located. Such property bears the brunt of the tax shift from Visteon.

Estimates for 2010

Net assessed values, Table 1. Countywide net assessed value rises 2.9%. This is a combination of the farm land increase of 4.2%, and the assumed 2% increase in all other property. Jurisdictions with more farm land see higher assessed value increases.

Levies and circuit breaker credits, Table 2. All levies are assumed to increase by 4%, before circuit breakers. The tighter circuit breaker limits reduce tax bills, and so reduce tax collections by Fayette jurisdictions. Losses jump to \$3.25 million in 2010. The city tax rate paid by property owners in Connersville City means that the circuit breaker losses are concentrated there. More than half the county's total circuit breaker losses are lost by Connersville City. Jurisdictions that share taxpayers with the city see most of the rest of the circuit breaker losses.

Unit Tax Rates, Table 3. The countywide average rate increases 3.3 cents per \$100 assessed value. This results from the assumed 4% increase in levies and the smaller average 2.7% increase in net assessed values.

Tax bills by property type, Table 4. The circuit breaker limits fall to the permanent levels, 1% of homestead gross assessed value, 2% of other residential and farm land assessed value, and 3% of other assessed value. State homestead credits diminish in 2010, and homesteads receive only a small share of circuit breaker credits, so homestead taxes increase by 5.6%. Tax bills for agriculture rise, because of the increase in the farm land base rate. Tax bills for all other property types fall. These results occur because many taxpayers are newly eligible for the circuit breaker credits at the tighter limits. Commercial property and rental housing receive the most circuit breaker credits, and so see the biggest tax bill decreases.

Table 1. Assessed Value Projections, Governmental Units.

Local Unit	2006 Pay 2007			2007 Pay 2008			2008 Pay 2009			2009 Pay 2010		
	Net Assessed Value	Net Assessed Value	Percent Change from 2006-07	Net Assessed Value	Dollar Change from 2006-07	Percent Change from 2006-07	Net Assessed Value	Dollar Change from 2007-08	Percent Change from 2007-08	Net Assessed Value	Dollar Change from 2008-09	Percent Change from 2008-09
State	854,121,160	854,121,160		898,121,863	44,000,703	5.2%	675,704,097	(222,417,765)	-24.8%	695,257,064	19,552,967	2.9%
Fayette County	854,121,160	854,121,160		898,121,863	44,000,703	5.2%	675,704,097	(222,417,765)	-24.8%	695,257,064	19,552,967	2.9%
Columbia Township	25,607,480	27,789,108	8.5%	27,789,108	2,181,628	8.5%	23,608,901	(4,180,207)	-15.0%	24,365,397	756,496	3.2%
Connersville Township	347,316,730	359,121,680	3.4%	359,121,680	11,804,950	3.4%	299,711,899	(59,409,781)	-16.5%	307,707,568	7,995,669	2.7%
Fairview Township	20,397,520	23,387,504	14.7%	23,387,504	2,989,984	14.7%	22,395,764	(991,740)	-4.2%	23,155,240	759,476	3.4%
Harrison Township	299,942,430	310,105,504	3.4%	310,105,504	10,163,074	3.4%	173,612,399	(136,493,105)	-44.0%	178,537,345	4,924,946	2.8%
Jackson Township	48,482,000	52,207,277	7.7%	52,207,277	3,725,277	7.7%	43,190,338	(9,016,939)	-17.3%	44,553,088	1,362,750	3.2%
Jennings Township	34,414,600	37,440,359	8.8%	37,440,359	3,025,759	8.8%	32,174,273	(5,266,086)	-14.1%	33,188,287	1,014,014	3.2%
Orange Township	24,102,280	26,597,456	10.4%	26,597,456	2,495,176	10.4%	23,542,807	(3,054,649)	-11.5%	24,298,858	756,051	3.2%
Posey Township	30,572,650	35,743,831	16.9%	35,743,831	5,171,181	16.9%	34,497,424	(1,246,407)	-3.5%	35,730,259	1,232,835	3.6%
Waterloo Township	23,285,470	25,731,718	10.5%	25,731,718	2,446,248	10.5%	22,725,267	(3,006,451)	-11.7%	23,470,381	745,114	3.3%
Connersville Civil City	473,588,920	485,090,144	2.4%	485,090,144	11,501,224	2.4%	322,868,810	(162,221,334)	-33.4%	331,273,173	8,404,363	2.6%
Glenwood Civil Town	1,227,290	1,256,521	2.4%	1,256,521	29,231	2.4%	956,509	(300,011)	-23.9%	980,281	23,771	2.5%
Fayette County School Corporation	854,121,160	898,121,863	5.2%	898,121,863	44,000,703	5.2%	675,704,097	(222,417,765)	-24.8%	695,257,064	19,552,967	2.9%
Fayette County Public Library	854,121,160	898,121,863	5.2%	898,121,863	44,000,703	5.2%	675,704,097	(222,417,765)	-24.8%	695,257,064	19,552,967	2.9%
TOTAL	854,121,160	898,121,863	5.2%	898,121,863	44,000,703	5.2%	675,704,097	(222,417,765)	-24.8%	695,257,064	19,552,967	2.9%

Table 2. Levy Projections, Governmental Units.

	2007 Property Tax Levy	2008					
		Property Tax Levy	Percent Change from 2007	Circuit Breaker Credits	Levy Less Credits	Dollar Change from 2007	Percent Change from 2007
State Unit	20,499	21,319	4.0%	-	21,319	820	4.0%
Fayette County	6,803,074	7,075,197	4.0%	-	7,075,197	272,123	4.0%
Columbia Township	7,196	7,484	4.0%	-	7,484	288	4.0%
Connersville Township	117,188	121,876	4.0%	-	121,876	4,688	4.0%
Fairview Township	6,681	6,948	4.0%	-	6,948	267	4.0%
Harrison Township	55,442	57,660	4.0%	-	57,660	2,218	4.0%
Jackson Township	10,860	11,294	4.0%	-	11,294	434	4.0%
Jennings Township	4,130	4,295	4.0%	-	4,295	165	4.0%
Orange Township	8,034	8,355	4.0%	-	8,355	321	4.0%
Posey Township	15,653	16,279	4.0%	-	16,279	626	4.0%
Waterloo Township	5,821	6,054	4.0%	-	6,054	233	4.0%
Connersville Civil City	7,639,463	7,945,042	4.0%	-	7,945,042	305,579	4.0%
Glenwood Civil Town	13,629	14,174	4.0%	-	14,174	545	4.0%
Fayette County School Corporation	12,603,412	13,107,548	4.0%	-	13,107,548	504,136	4.0%
Fayette County Public Library	551,762	573,832	4.0%	-	573,832	22,070	4.0%
TOTAL	27,862,844	28,977,358	4.0%	-	28,977,358	1,114,514	4.0%

	2009					
	Property Tax Levy	Percent Change from 2008	Circuit Breaker Credits	Levy Less Credits	Dollar Change from 2008	Percent Change from 2008
State Unit	-	-100.0%	-	-	(21,319)	-100.0%
Fayette County	5,299,016	-25.1%	269,032	5,029,984	(2,045,213)	-28.9%
Columbia Township	7,783	4.0%	-	7,783	299	4.0%
Connersville Township	126,751	4.0%	6,903	119,848	(2,028)	-1.7%
Fairview Township	7,226	4.0%	-	7,226	278	4.0%
Harrison Township	59,966	4.0%	4,535	55,431	(2,228)	-3.9%
Jackson Township	11,746	4.0%	-	11,746	452	4.0%
Jennings Township	4,467	4.0%	-	4,467	172	4.0%
Orange Township	8,690	4.0%	-	8,690	334	4.0%
Posey Township	16,930	4.0%	-	16,930	651	4.0%
Waterloo Township	6,296	4.0%	-	6,296	242	4.0%
Connersville Civil City	7,776,222	-2.1%	826,168	6,950,054	(994,988)	-12.5%
Glenwood Civil Town	14,741	4.0%	-	14,741	567	4.0%
Fayette County School Corporation	6,735,554	-48.6%	341,958	6,393,595	(6,713,953)	-51.2%
Fayette County Public Library	596,786	4.0%	30,289	566,497	(7,336)	-1.3%
TOTAL	20,672,173	-28.7%	1,478,884	19,193,289	(9,784,069)	-33.8%

	2010					
	Property Tax Levy	Percent Change from 2009	Circuit Breaker Credits	Levy Less Credits	Dollar Change from 2008	Percent Change from 2009
State Unit	-	-	-	-	-	-
Fayette County	5,510,976	4.0%	590,450	4,920,526	(109,458)	-2.2%
Columbia Township	8,095	4.0%	-	8,095	311	4.0%
Connersville Township	131,821	4.0%	16,068	115,753	(4,095)	-3.4%
Fairview Township	7,515	4.0%	11	7,505	278	3.9%
Harrison Township	62,365	4.0%	9,252	53,112	(2,319)	-4.2%
Jackson Township	12,216	4.0%	-	12,216	470	4.0%
Jennings Township	4,646	4.0%	-	4,646	179	4.0%
Orange Township	9,037	4.0%	12	9,025	335	3.9%
Posey Township	17,607	4.0%	-	17,607	677	4.0%
Waterloo Township	6,548	4.0%	-	6,548	252	4.0%
Connersville Civil City	8,087,270	4.0%	1,816,176	6,271,095	(678,959)	-9.8%
Glenwood Civil Town	15,331	4.0%	1,225	14,106	(635)	-4.3%
Fayette County School Corporation	7,004,976	4.0%	750,446	6,254,530	(139,066)	-2.2%
Fayette County Public Library	620,657	4.0%	66,516	554,141	(12,356)	-2.2%
TOTAL	21,499,060	4.0%	3,250,156	18,248,903	(944,385)	-4.9%

Table 3. Baseline Gross Tax Rates, Governmental Units.

	2007	2008	Change	2009	Change	2010	Change
State	0.0024	0.0024	0.0000	0.0000	-0.0024	0.0000	0.0000
Fayette County	0.7965	0.7878	-0.0087	0.7843	-0.0035	0.7927	0.0084
Columbia Township	0.0281	0.0270	-0.0011	0.0329	0.0059	0.0332	0.0003
Connersville Township	0.0410	0.0411	0.0001	0.0517	0.0106	0.0523	0.0006
Fairview Township	0.0329	0.0299	-0.0030	0.0324	0.0025	0.0326	0.0002
Harrison Township	0.0341	0.0334	-0.0007	0.0509	0.0175	0.0513	0.0004
Jackson Township	0.0224	0.0217	-0.0007	0.0271	0.0054	0.0274	0.0003
Jennings Township	0.0120	0.0114	-0.0006	0.0138	0.0024	0.0140	0.0002
Orange Township	0.0335	0.0316	-0.0019	0.0371	0.0055	0.0373	0.0002
Posey Township	0.0512	0.0455	-0.0057	0.0491	0.0036	0.0493	0.0002
Waterloo Township	0.0250	0.0235	-0.0015	0.0276	0.0041	0.0278	0.0002
Connersville Civil City	1.6131	1.6377	0.0246	2.4085	0.7708	2.4413	0.0328
Glenwood Civil Town	1.1105	1.1280	0.0175	1.5411	0.4131	1.5639	0.0228
Fayette County School Corporation	1.4756	1.4596	-0.0160	0.9969	-0.4627	1.0075	0.0106
Fayette County Public Library	0.0646	0.0639	-0.0007	0.0883	0.0244	0.0893	0.0010
Average County Rate	3.2622	3.2264	-0.0357	3.0594	-0.1671	3.0922	0.0329

Table 4. Baseline Tax Bills by Property Type.

	2007 Tax Bills	2008 Tax Bills	Percent Change from 2007	2009 Tax Bills	Percent Change from 2008	2010 Tax Bills	Percent Change from 2009
Real Property							
Homestead	6,518,064	2,019,835	-69.0%	4,440,283	119.8%	4,690,089	5.6%
NonHS Residential	3,148,983	1,734,666	-44.9%	2,657,676	53.2%	2,292,444	-13.7%
Apartment	710,696	391,784	-44.9%	605,394	54.5%	505,812	-16.4%
Agriculture	1,504,363	1,827,196	21.5%	2,147,429	17.5%	2,248,879	4.7%
Commercial	2,334,494	2,386,064	2.2%	2,828,077	18.5%	2,514,683	-11.1%
Industrial	1,047,978	1,070,045	2.1%	949,058	-11.3%	850,198	-10.4%
Utility	66,289	67,203	1.4%	78,143	16.3%	75,263	-3.7%
Mobil Home NonHS	36,054	36,531	1.3%	42,500	16.3%	41,085	-3.3%
Other	20,500	21,478	4.8%	21,481	0.0%	20,454	-4.8%
Real Property Total	15,387,423	9,554,802	-37.9%	13,770,040	44.1%	13,238,906	-3.9%
Personal Property Total	5,352,115	5,469,811	2.2%	1,874,768	-65.7%	1,687,557	-10.0%
Total	20,739,538	15,024,613	-27.6%	15,644,808	4.1%	14,926,463	-4.6%

The Effect of the Distribution of Local Income Tax Relief on Circuit Breaker Credits

Fayette County was one of 14 counties to adopt the new local option income taxes (LOIT) in 2007. The income tax that provides the most significant property tax relief has a rate of 1%. The relief is distributed as a local credit to homesteads and owners of rental housing, both small properties classed as residential, and larger properties classed as commercial apartments.

LOIT reduces circuit breaker credits. This is because the property tax relief reduces tax bills, and the circuit breaker credit limits are based on percentages of gross assessed value. When the LOIT relief reduces property tax bills, fewer taxpayers see their tax bills exceed their circuit breaker limits, and so fewer taxpayers receive circuit breaker credits.

Since circuit breaker credits are not paid to local governments, the reduction in circuit breaker credits from LOIT property tax relief adds revenue to local budgets.

LOIT revenue at 1% is projected to be \$3.51 million. With LOIT distributed to homesteads and rental housing, circuit breaker credits in 2010 are projected at \$3.25 million. Without the LOIT, by 2010 Fayette County local governments would lose \$5.54 million in circuit breaker credits. Thus, the LOIT revenue collections reduce the circuit breaker credits in 2010 by \$2.29 million. In effect, this amount of the LOIT's \$3.51 million in collections (65%) increases local revenue by reducing circuit breaker losses.

Counties have three options for distributing LOIT tax relief. It can be distributed to homesteads and rental housing, as Fayette County chose. It can be distributed to homesteads only. Or, it can be distributed to all taxpayers. Each distribution method will produce a different amount of circuit breaker losses. One of those methods will minimize circuit breaker losses, and so maximize local revenues.

Table 5 shows projections of the effects of the three distribution methods on circuit breaker credits, and table 6 shows how the relief and the circuit breaker credits differ from the distribution to homesteads and rental housing, which is the distribution Fayette chose. Distributing relief to homesteads and rental housing puts circuit breaker losses at \$3.25 million.

If, by 2010, LOIT relief were distributed to homeowners only, circuit breaker losses would be more than \$1.3 million higher, at \$4.59 million. Almost all circuit breaker credits received by homeowners are eliminated, but there were only \$222 thousand such credits under the existing distribution. Meanwhile, the rental housing owners no longer receive LOIT relief, and their circuit breaker credits more than double.

If, by 2010, LOIT relief were distributed to all property owners, circuit breaker losses would be \$3.29 million, \$38 thousand more than with the existing distribution. Reductions in credits to commercial and industrial property almost (but not quite) offset increases in credits to rental housing and homesteads.

The LOIT distribution that Fayette chose, to homesteads and rental housing, minimizes circuit breaker credits, though the difference between this distribution and the distribution to all property is small. Distributing LOIT relief to homesteads only would be very costly in circuit breaker losses.

Table 5. Estimated Circuit Breaker Credits by Property Type, Three LOIT Tax Relief Distributions, 2010

	Relief to Homesteads Only		Relief to Homesteads/Rentals		Relief to All Property		No LOIT
	LOIT Relief	Circuit Breaker Credits	LOIT Relief	Circuit Breaker Credits	LOIT Relief	Circuit Breaker Credits	Circuit Breaker Credits
Real Property							
Homestead	3,511,499	3,382	1,676,232	222,330	1,066,761	539,206	955,750
NonHS Residential	-	2,067,004	1,490,248	828,188	746,542	1,446,409	2,067,004
Apartment	-	537,273	345,020	216,671	172,838	376,667	537,273
Agriculture	-	12,157	-	12,157	366,082	8,325	12,157
Commercial	-	1,035,363	-	1,035,363	574,784	498,176	1,035,363
Industrial	-	320,801	-	320,801	189,595	151,355	320,801
Utility	-	13,505	-	13,505	14,372	6,524	13,505
Mobil Home NonHS	-	6,945	-	6,945	7,776	3,356	6,945
Other	-	4,086	-	4,086	3,973	1,897	4,086
Real Property Total	3,511,499	4,000,515	3,511,499	2,660,047	3,142,725	3,031,915	4,952,884
Personal Property Total	-	590,109	-	590,109	368,774	256,693	590,109
Total	3,511,499	4,590,625	3,511,499	3,250,156	3,511,499	3,288,608	5,542,993

Table 6. Estimated Circuit Breaker Credits, Differences from LOIT Distribution to Homesteads and Rental Housing, 2010

	Relief to Homesteads Only		Relief to Homesteads/Rentals		Relief to All Property		No LOIT
	LOIT Relief	Circuit Breaker Credits	LOIT Relief	Circuit Breaker Credits	LOIT Relief	Circuit Breaker Credits	Circuit Breaker Credits
Real Property							
Homestead	1,835,267	(218,949)	-	-	(609,470)	316,876	733,420
NonHS Residential	(1,490,248)	1,238,815	-	-	(743,705)	618,221	1,238,815
Apartment	(345,020)	320,602	-	-	(172,181)	159,996	320,602
Agriculture	-	-	-	-	366,082	(3,832)	-
Commercial	-	-	-	-	574,784	(537,187)	-
Industrial	-	-	-	-	189,595	(169,446)	-
Utility	-	-	-	-	14,372	(6,981)	-
Mobil Home NonHS	-	-	-	-	7,776	(3,590)	-
Other	-	-	-	-	3,973	(2,189)	-
Real Property Total	-	1,340,468	-	-	-	371,868	2,292,837
Personal Property Total	-	-	-	-	368,774	(333,417)	-
Total	-	1,340,468	-	-	-	38,451	2,292,837

Reallocating 2008 State Homestead Credits to 2009 and/or 2010

HEA1001, section 848, allows counties that adopted local option income taxes for property tax relief in 2007 to petition the Department of Local Government Finance to postpone the extra state homestead credits to be paid in 2008, to 2009 or 2010, or both. The deadline for this petition has passed, but there is a chance that DLGF will reopen the decision period before the end of the year.

One consideration in this decision is the change in the method used to deliver property tax relief to homesteads between 2008 to 2009. In 2008 there is a large increase in homestead credits, while in 2009 homestead deductions increase, levies are eliminated, and property tax replacement credits and most homestead credits are eliminated. In some counties, including Fayette, the added homestead credits provide more tax relief than the added deductions and levy takeovers. In 2009, homesteads pay less in property taxes than they would have under 2007's tax rules, but not so much less as they paid with the added homestead credits in 2008.

In addition, Fayette County loses the Visteon assessed value in 2009, which will shift some taxes to other taxpayers, including homeowners.

The projected effect of these changes on taxes in 2008 and 2009 are shown in Table 4. Fayette homeowners see a 69% tax bill cut in 2008, and a 120% tax bill increase in 2009. Homeowner taxes remain substantially lower than they were in 2007, but this instability in tax payments can cause problems for homeowners.

The timing of state homestead credits can be rearranged to smooth these changes, though they cannot be completely eliminated.

A second reason to consider postponing 2008 state homestead credits is the effect on circuit breaker credits. No Fayette County homesteads are likely to be eligible for the credits in 2008, because the credit limit is so high, at 2% of gross assessed value. Few homeowners will receive circuit breaker credits in 2009, either. In 2010, however, the homestead circuit breaker credit limit is 1%, and circuit breaker credits for homeowners are higher, about \$222 thousand. Allocating 2008 state homestead credits to 2010 would reduce circuit breaker credits, and so reduce revenue losses for local governments. When the credits are removed in 2011, however, homeowner tax bills and circuit breaker credit losses would rise.

Table 7 shows the results of an experiment. The 2008 HEA1001 state homestead credit of \$2,157,112 is redistributed, with 30% paid in 2008, 40% paid in 2009, and 30% paid 2010. This increases 2008 homestead tax bills by \$1.2 million, and decreases the homestead tax bills in the next two years, by \$709 thousand in 2009 and \$404 thousand in 2010. Circuit breaker credits are reduced in 2010 by about \$141 thousand. This is a revenue gain for local governments (from added tax payments by homeowners).

Payments are smoothed considerably through this reallocation. Homestead taxes drop in 2008 by 50.4% instead of 69%, but in 2009 they rise only 15.4%, instead of 120%. Homestead taxes rise by 14.9% instead of 5.6% in 2010. They would probably rise by a similar amount (a percent in the low teens) in 2011.

The "optimal" reallocation of 2008 state homestead credits depends on the county's goals: to smooth homestead tax payments, or to minimize circuit breaker losses in 2010. To smooth homestead tax bills, some 2008 state homestead credits should be reallocated to both 2009 and 2010. To reduce circuit breaker losses, more state homestead credits should be reallocated to 2010.

Table 7. Example of Reallocated State Homestead Credits: 30% in 2008, 40% in 2009 and 30% in 2010

	2007	2008	Percent Change from 2007	2009	Percent Change from 2008	2010	Percent Change from 2009
2007 "Racino" Credits		869,803		-		-	
HEA1001 State Homestead Credits		2,157,112		487,090		278,337	
Total		3,026,915		487,090		278,337	
Homestead Tax Bills with 2008 Homestead Credits paid in 2008	6,518,064	2,019,835	-69.0%	4,440,283	119.8%	4,690,089	5.6%
Homestead Circuit Breaker Credits		-		5,381		222,330	
2007 "Racino" Credits		869,803		-		-	
HEA1001 State Homestead Credits		-		487,090		278,337	
Reallocated 2008 Homestead Credits		647,134		862,845		647,134	
Total		1,588,841		1,206,127		997,374	
Homestead Tax Bills with Reallocated Homestead Credits	6,518,064	3,232,479	-50.4%	3,731,339	15.4%	4,285,945	14.9%
Homestead Circuit Breaker Credits		-		1,800		80,810	
Homestead Tax Bill difference	-	1,212,644		(708,944)		(404,144)	
Circuit Breaker Credit difference		-		(3,581)		(141,520)	

Methods

The 2008 property tax reform complicates local government fiscal analysis. In the past it often was possible to estimate the effect of tax rate, levy or assessed value changes by simply recalculating aggregate numbers. With the new circuit breakers, however, accurate estimates require parcel-by-parcel data on assessed values and tax bills of homesteads, rental housing, farm land, and other property.

Estimates for 2008

1. Increase gross assessed values using assumptions about growth rates. This analysis uses 2% for all real and personal property, except farm land. The farm land base rate per acre increases from \$880 to \$1,140 for 2008 taxes, so all agricultural land gross assessments are increased 29.5%. Parcel assessed values sum to more than the certified assessed value used to calculate tax rates in 2007. Total assessed values were adjusted downward by 2.3% to account for this difference.
2. Subtract deductions. HEA1001 does not change deductions for 2008, so these are assumed to remain the same. The remainder is net assessed value.
3. Recalculate tax district and unit net assessed values. Sum parcel-by-parcel net assessed values from step 2 by tax district. Sum the tax district assessed values that comprise each unit's net assessed value.
4. Increase unit tax levies using assumptions about growth rates. This analysis assumes that all levies increase 4%. HEA1001 does not eliminate levies until 2009.
5. Recalculate unit-fund tax rates. Divide the assumed 2008 fund levies from step 4 by the assumed 2008 net assessed values from step 3. Multiply by 100 to obtain the new tax rates, in dollars per \$100 assessed value.
6. Recalculate tax district tax rates. Sum the recalculated unit-fund rates in each tax district.
7. Recalculate parcel gross tax bills, before state and local credits. Multiply the recalculated net assessed values for each property parcel by the recalculated tax rates for the appropriate tax district. Divide by 100 to obtain estimated tax bills.
8. Calculate state credits. The traditional PTRC and homestead credits continue in 2008. Assume that the 2007 rates apply. HEA1001 adds \$620 million in new homestead credits for 2008; legislation in 2007 added another \$250 million for \$870 million in extra homestead credits, in total. In an April 29 memo DLGF released the added homestead credits from HEA1001, which implied that Fayette County received 0.35% of the state total of \$620 million. This same share is used to allocate the added \$250 million from 2007's legislation. Multiply this share by \$870 million to obtain the total added homestead credits in Fayette County. Take this figure as a percentage of total homestead tax bills to obtain an added state credit percentage. Subtract traditional PTRC from all tax bills. Subtract traditional homestead credits and new homestead credits from homestead tax bills.
9. Calculate new LOIT credits. This calculation applies to the new LOIT credits for property tax replacement. Fayette County passed a 1% income tax to be applied to tax relief for homesteads and rental housing. Estimate the added income tax revenue from existing income tax receipts. The credit rates are calculated by dividing the amount of revenue the income tax will raise by the county-wide sum of the recalculated gross tax bills for homesteads and rental housing. Multiply this credit percentage by the parcel tax bills for the eligible property types, and subtract the result from the tax bills.

10. Estimate the circuit breaker credits by parcel. In 2008 homesteads have a circuit breaker limit of 2% of gross assessed value. Multiply this percentage by the gross assessed value of each homestead parcel. Compare the recalculated tax bills (step 9) to the circuit breaker tax limits (step 10). Where the tax bill exceeds the tax limit, subtract the tax limit from the tax bill. These are the circuit breaker credits received by taxpayers. Where the tax bill is less than the tax limit, the circuit breaker credit is zero. Sum these circuit breaker credits by tax district. Divide them among units based on each unit's share of the district tax rate. In 2008 there appear to be no homestead parcels eligible for circuit breaker credits in Fayette County.

11. Estimate the circuit breaker credits by unit and fund. The tax district credit sums will be pro-rated among the unit-funds based on the shares of each unit-fund tax rate in the total district tax rate. Take each unit-fund rate as a percentage of the total district tax rate. Multiply each unit-fund percentage by the total circuit breaker credits for each tax district. Sum the unit-fund credits for each unit.

Estimates for 2009

1. Increase gross assessed values using assumptions about growth rates. This analysis uses 2% for all real and personal property, except farm land. The farm land base rate per acre increases from \$1,140 to \$1,200 for 2009 taxes, so all agricultural land gross assessments are increased 5.3%. Eliminate the Visteon personal property assessed value, and reduce the Visteon real property assessed value to \$5.9 million. Assume this remaining real assessed value is in District 11, Connersville City-Harrison Township.

2. Subtract deductions. HEA1001 changes the homestead deductions for taxes in 2009. The \$45,000 homestead standard deduction is made permanent. Calculate the additional homestead standard deduction after the increase of the maximum from 50% of assessed value to 60% of assessed value. Subtract the larger of the \$45,000 deduction or 60% of gross assessed value from projected homestead gross assessed value. If this remainder is \$600,000 or less, multiply by 35% for the new supplemental homestead standard deduction. If this value is above \$600,000, take \$210,000 (=35% of \$600,000) plus 25% of the amount above \$600,000. Subtract this from the projected gross assessed value of each homestead parcel. Subtract other existing deductions from the gross assessed values of all parcels.

3. Recalculate tax district and unit net assessed values. Sum parcel-by-parcel net assessed values from step 2 by tax district. Sum the tax district assessed values that comprise each unit's net assessed value.

4. Increase unit tax levies using assumptions about growth rates. This analysis assumes all levies increase 4%. Eliminate the fund levies that will be taken over by the state, as a result of HEA1001. These include the school general fund, the county child welfare funds, and several smaller funds.

5. Recalculate unit-fund tax rates. Divide the projected fund levies, less the state takeovers, by the projected net assessed values from step 3. Multiply by 100 to obtain the new tax rates, in dollars per \$100 assessed value.

6. Recalculate tax district tax rates. Sum the recalculated unit-fund rates in each tax district.

7. Recalculate parcel tax bills, before local credits. Multiply the recalculated net assessed values for each property parcel by the recalculated tax rates for the appropriate tax district. Divide by 100 to obtain estimated tax bills.

8. Calculate state credits. The tax reform eliminates property tax replacement credits and traditional state homestead credits, so these percentages should not be subtracted. Calculate Fayette County's dollar share of the \$140 million in added homestead credits provided for 2009 by HEA1001, using the percentage share from DLGF's April 29 memo. Take this figure as a percentage of total homestead tax bills to obtain a state credit percentage. Subtract these homestead credits from homestead tax bills

9. Calculate LOIT credits. Estimate the added income tax revenue from existing income tax receipts. Assume no change in this revenue from 2008, because of potential recession and the effect of the Visteon loss. The credit rates are calculated by dividing the amount of revenue the income tax will raise by the county-wide sum of the recalculated gross tax bills for homesteads and rental housing. Multiply this credit percentage by the parcel tax bills for the eligible property types, and subtract the result from the tax bills.

10. Estimate the circuit breaker credits by parcel. Assign the appropriate circuit breaker percentage to each parcel: 1.5% for homestead property, 2.5% for rental housing and farm land property, and 3.5% for all other property (including personal property). Multiply these percentages by the gross assessed value of each parcel, then divide by 100. Compare the recalculated tax bills (step 9) to the circuit breaker tax limits (step 10). Where the tax bill exceeds the tax limit, subtract the tax limit from the tax bill. These are the circuit breaker credits received by taxpayers. Where the tax bill is less than the tax limit, the circuit breaker credit is zero. Estimate the circuit breaker credits by tax district. Sum the parcel circuit breaker credits by tax district.

11. Estimate the circuit breaker credits by unit and fund. The tax district credit sums will be pro-rated among the unit-funds based on the shares of each unit-fund tax rate in the total district tax rate. Take each unit-fund rate as a percentage of the total district tax rate. Multiply each unit-fund percentage by the total circuit breaker credits for each tax district. Sum the unit-fund credits for each unit.

Estimates for 2010

1. Increase gross assessed values using assumptions about growth rates. This analysis uses 2% for all real and personal property, except farm land. The farm land base rate per acre increases from \$1,200 to \$1,250 for 2010 taxes, so all agricultural land gross assessments are increased 4.2%. Remaining Visteon assessed value increases 2%.

2. Subtract deductions. Subtract the larger of the \$45,000 deduction or 60% of gross assessed value from projected homestead gross assessed value. If this remainder is \$600,000 or less, multiply by 35% for the new supplemental homestead standard deduction. If this value is above \$600,000, take \$210,000 (=35% of \$600,000) plus 25% of the amount above \$600,000. Subtract this from the projected gross assessed value of each homestead parcel. Subtract other existing deductions from the gross assessed values of all parcels.

3. Recalculate tax district and unit net assessed values. Sum parcel-by-parcel net assessed values from step 1 by tax district. Sum the tax district assessed values that comprise each unit's net assessed value.

4. Increase unit tax levies using assumptions about growth rates. This analysis assumes all levies increase 4%. Eliminate the fund levies that will be taken over by the state, as a result of HEA1001. These include the school general fund, the county child welfare funds, several smaller funds, and parts of the county general fund.

5. Recalculate unit-fund tax rates. Divide the projected fund levies, less the state takeovers, by the projected net assessed values from step 3. Multiply by 100 to obtain the new tax rates, in dollars per \$100 assessed value.
6. Recalculate tax district tax rates. Sum the recalculated unit-fund rates in each tax district.
7. Recalculate parcel tax bills, before local credits. Multiply the recalculated net assessed values for each property parcel by the recalculated tax rates for the appropriate tax district. Divide by 100 to obtain estimated tax bills.
8. Calculate state credits. The tax reform eliminates property tax replacement credits and traditional state homestead credits, so these percentages should not be subtracted. Calculate Fayette County's dollar share of the \$80 million in added homestead credits provided for 2010 by HEA1001, using the percentage share from DLGF's April 29 memo. Take this figure as a percentage of total homestead tax bills to obtain a state credit percentage. Subtract these homestead credits from homestead tax bills
9. Calculate LOIT credits. Estimate the added income tax revenue from existing income tax receipts. Assume no change in this revenue from 2008, because of potential recession and the effect of the Visteon loss. The credit rates are calculated by dividing the amount of revenue the income tax will raise by the county-wide sum of the recalculated gross tax bills for homesteads and rental housing. Multiply this credit percentage by the parcel tax bills for the eligible property types, and subtract the result from the tax bills.
10. Estimate the circuit breaker credits by parcel. Assign the appropriate circuit breaker percentage to each parcel: 1% for homestead property, 2% for rental housing and farm land property, and 3% for all other property (including personal property). Multiply these percentages by the gross assessed value of each parcel, then divide by 100. Compare the recalculated tax bills (step 9) to the circuit breaker tax limits (step 10). Where the tax bill exceeds the tax limit, subtract the tax limit from the tax bill. These are the circuit breaker credits received by taxpayers. Where the tax bill is less than the tax limit, the circuit breaker credit is zero. Estimate the circuit breaker credits by tax district. Sum the parcel circuit breaker credits by tax district.
11. Estimate the circuit breaker credits by unit and fund. The tax district credit sums will be pro-rated among the unit-funds based on the shares of each unit-fund tax rate in the total district tax rate. Take each unit-fund rate as a percentage of the total district tax rate. Multiply each unit-fund percentage by the total circuit breaker credits for each tax district. Sum the unit-fund credits for each unit.

The Methods and the Tables

Steps 1-3. Net assessed values, Table 1.

Step 4. Levies, Table 2.

Step 5. Unit Tax Rates, Table 3. increase.

Steps 6-9. Tax bills by parcel, Table 4.

Steps 10-11. Circuit Breaker credits, Table 2.