

Purdue Cooperative Extension Service

On Local Government

Recession Aftershocks: Local Government Finance Update

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Indiana's State Budget

Indiana's State Budget,
Fiscal 2008 and 2009

	<u>2008</u>	<u>2009</u>
Start of Year Balances	1,286	1,413
<u>Revenues</u>		
Sales Tax	5,686	6,153
Individual Income Tax	4,838	4,314
Corporate Income Tax	910	839
Gaming	583	621
All Other	1,187	1,125
Total	13,203	13,052

Indiana's State Budget,
Fiscal 2008 and 2009

	<u>2008</u>	<u>2009</u>
<u>Appropriations</u>		
K-12 Education	4,830	6,169
Higher Education	1,654	1,744
Medicaid	1,587	1,664
Property Tax Relief	2,308	1,699
Health & Social Services	943	1,237
Public Safety	721	801
All Other	943	1,122
Total	12,986	14,436

Indiana's State Budget,
Fiscal 2008 and 2009

	<u>2008</u>	<u>2009</u>
Revenues	13,203	13,052
Appropriations	12,986	14,436
Current Year Surplus/Deficit	217	(1,385)

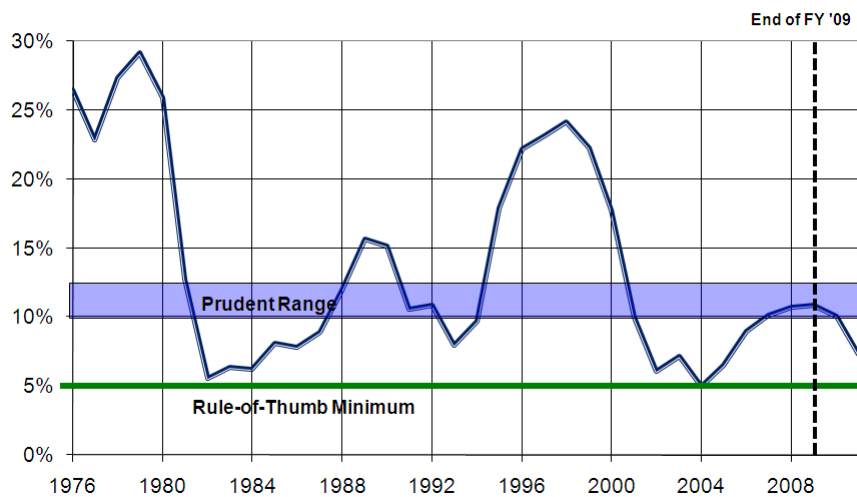
Indiana's State Budget,
Fiscal 2008 and 2009

	<u>2008</u>	<u>2009</u>
Current Year Surplus/Deficit	217	(1,385)
ARRA Medicaid		405
ARRA Fiscal Stabilization		587
Total		992
Transfers from (to) Other Funds	19	73
Reversions	133	357
Payment Delays (Reversals)	(241)	(31)
Total Adjustments	(89)	399

Indiana's State Budget, Fiscal 2008 and 2009

	<u>2008</u>	<u>2009</u>
<u>End of Year Balances</u>		
General Fund	593	55
Tuition Reserve	400	942
Medicaid Reserve	58	58
Rainy Day Fund	363	365
Total	1,413	1,419
Total Balances % of Revenue	10.7%	10.9%

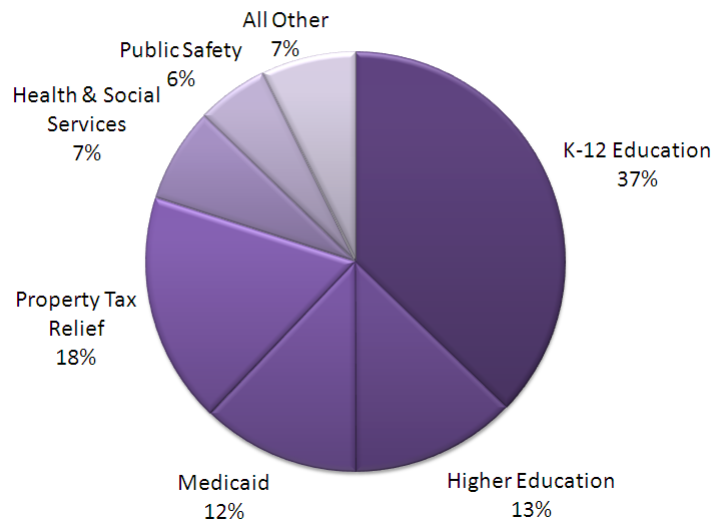
Indiana State Fund Balances as Share of Operating Revenues, FY 1976-2009 and Budgeted 2010-11

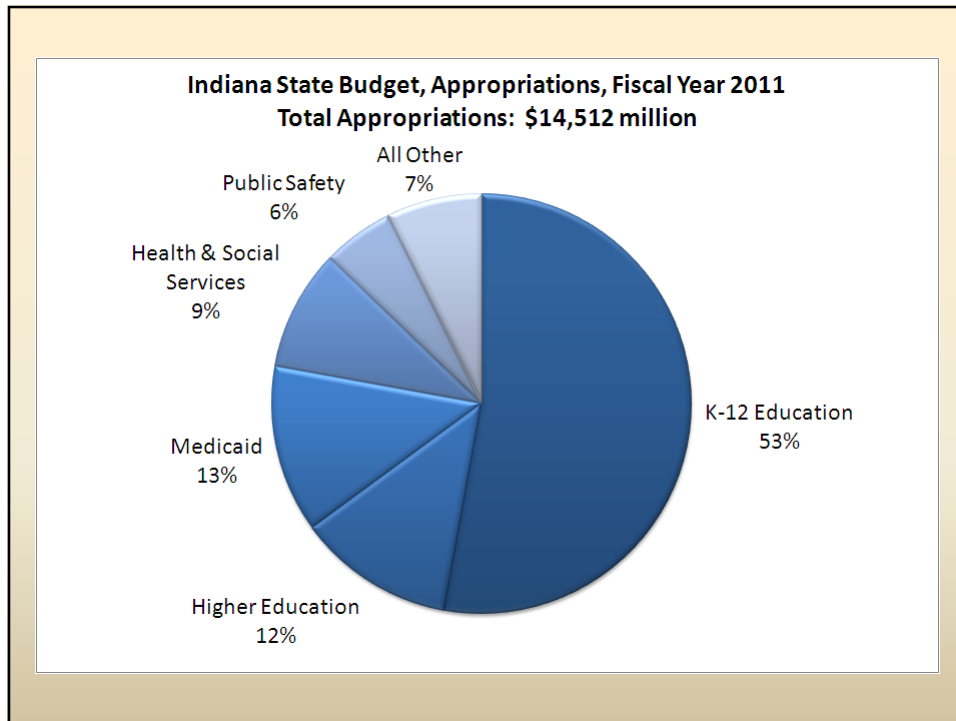


Indiana's State Budget, Fiscal 2009, 2010 and 2011

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>09-11</u>
Start of Year Balances	1,413	1,419	1,334	
Revenues	13,052	13,189	13,606	2.1%
Appropriations	14,436	14,478	14,512	0.3%
Current Year Deficit	(1,385)	(1,289)	(906)	
ARRA	992	825	510	
Total Adjustments	399	379	70	
End of Year Balances	1,419	1,334	1,008	
Balances % of Rev.	10.9%	10.1%	7.4%	

Indiana State Budget, Appropriations, Fiscal Year 2008
Total Appropriations: \$12,986 million





Scenario 1: Business as Usual Budget and Normal Revenue Growth, 2012-13

- Revenue grows 4% each year, 2012 and 2013
- Appropriations grow 3.5% each year

	<u>2012</u>	<u>2013</u>
Current Year Deficit	(890)	(871)
End of Year Balances	188	(613)
Balances % of Revenue	1.3%	-4.2%

Scenario 2: Business as Usual Budget and Rapid Revenue Growth, 2012-13

- Revenue grows 7.5% each year, 2012 and 2013
- Appropriations grow 3.5% each year

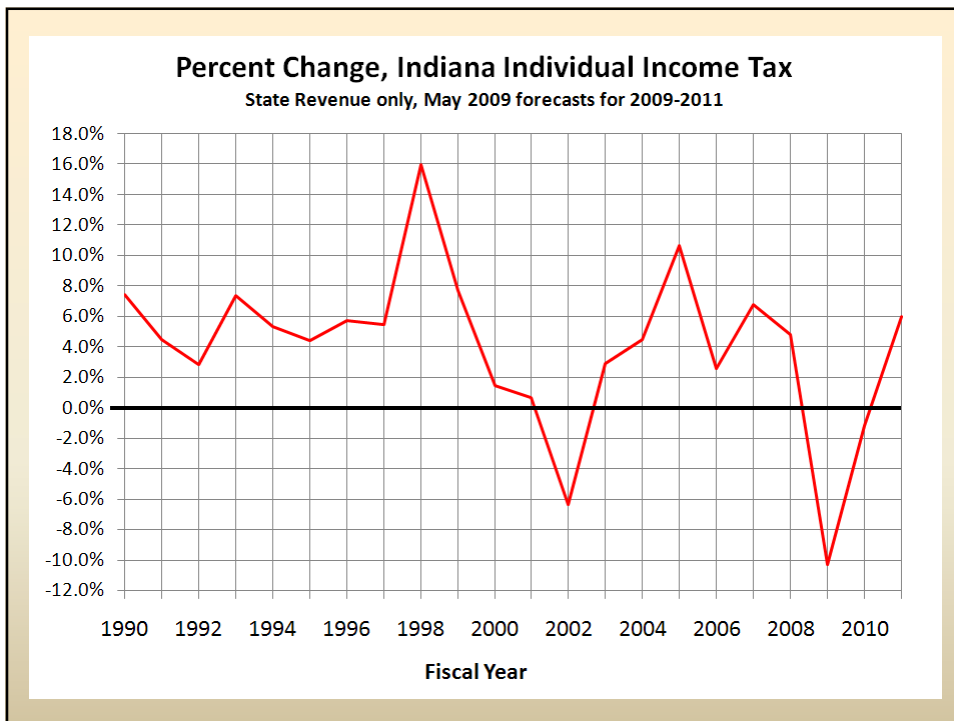
	<u>2012</u>	<u>2013</u>
Cur. Year Surplus/Deficit	(413)	136
End of Year Balances	664	870
Balances % of Revenue	4.5%	5.5%

Scenario 3: Flat-lined Budget and Normal Revenue Growth, 2012-13

- Revenue grows 4% each year, 2012 and 2013
- Appropriations do not grow from 2011 levels

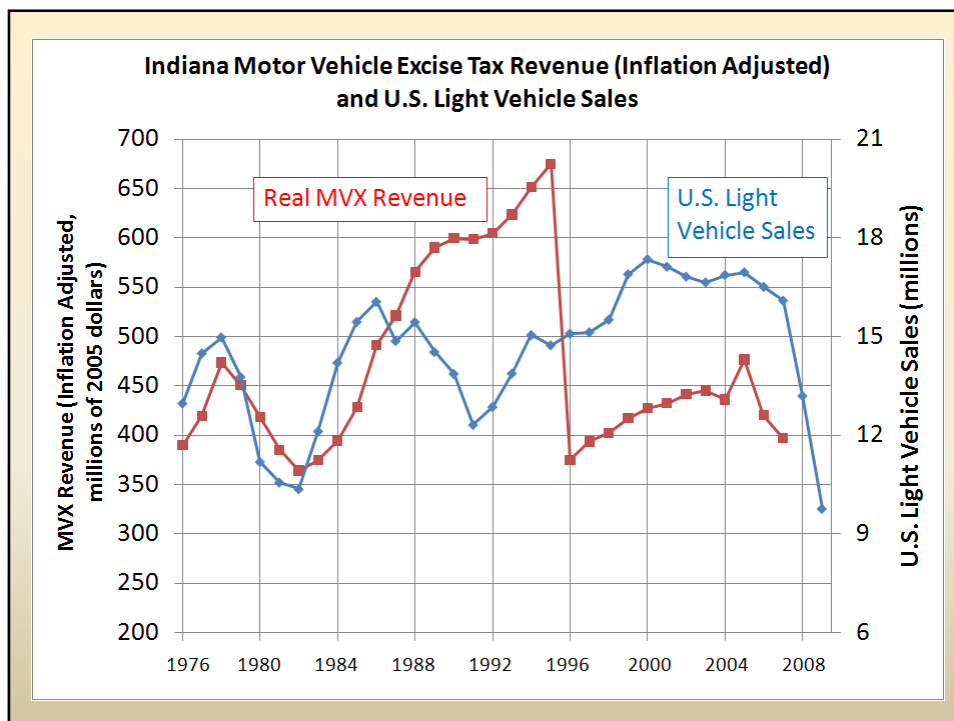
	<u>2012</u>	<u>2013</u>
Cur. Year Surplus/Deficit	(362)	204
End of Year Balances	716	990
Balances % of Revenue	5.1%	6.7%

Recession and Indiana Local Government



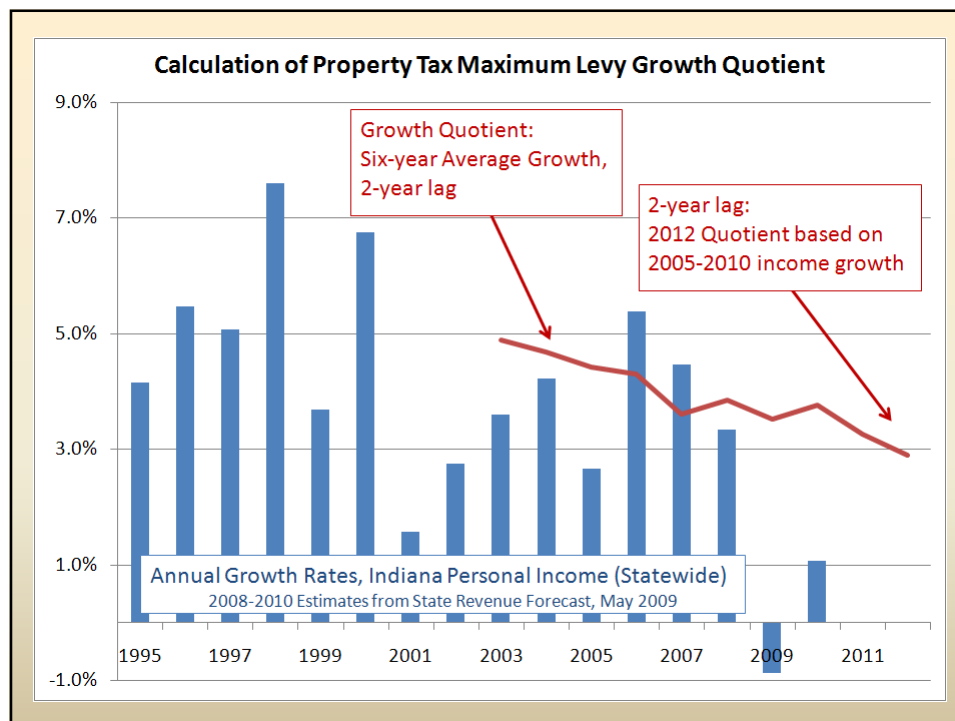
Local Income Tax Revenue

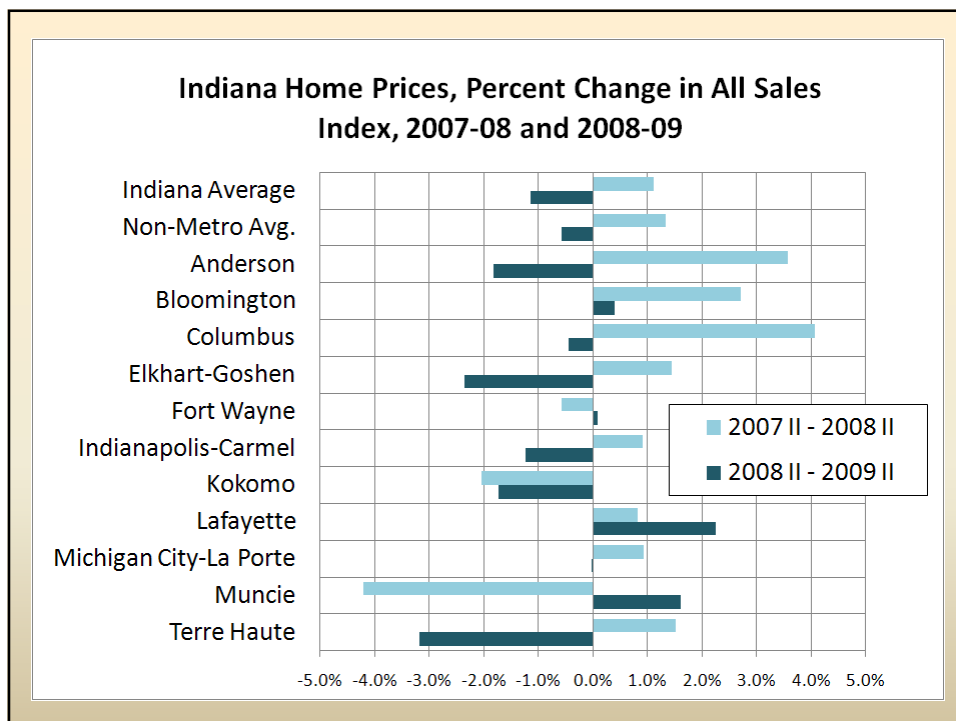
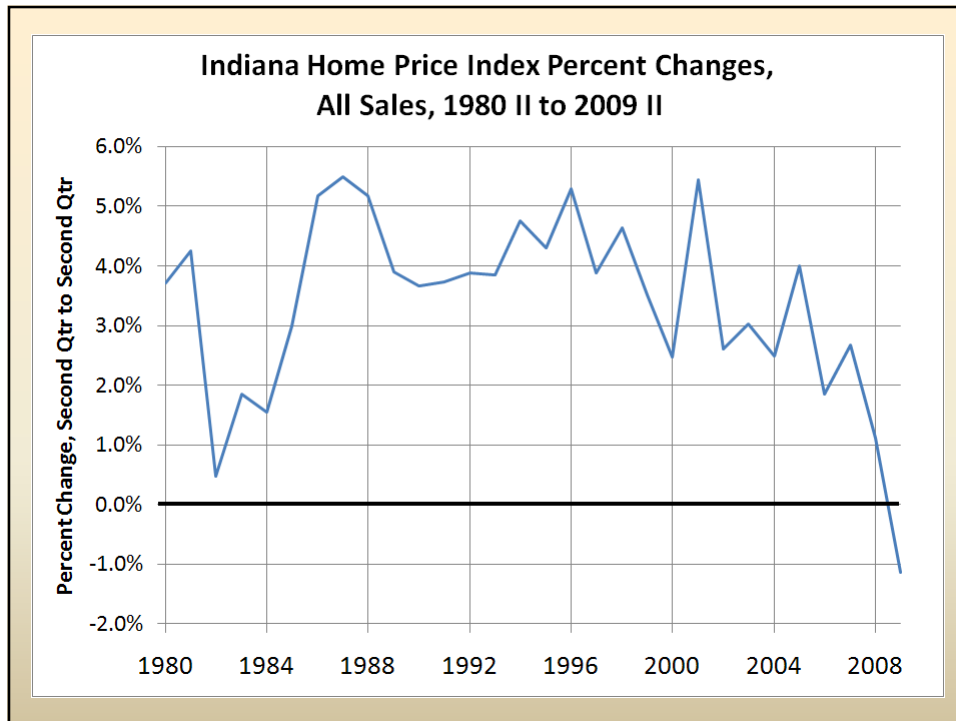
- The State Budget Agency has issued preliminary local income tax distributions for 2010, pending further LOIT adoptions
- In 51 of 91 counties, 2010 revenue is *lower* than 2009 revenue
- Adjusted for changes in rates, Local Income Tax distributions will decline 1.9% from 2009 to 2010



Vehicle Sales and MVX Revenue

- Each 10% drop in this year's U.S. vehicle sales results in a 3% drop in next year's MVX Revenue
- Vehicle sales fell 18% in 2008 and look to fall about 26% in 2009
- That's a 5% MVX drop in 2009, and a 8% drop in 2010
- Add the "hole" in older vehicle registrations, and MVX revenue may be 20% lower than normal in 2011





Property Tax Bills, 2009

Property Tax Policy Changes in 2009

- School General Fund and County Welfare Funds property tax levies are eliminated
 - LEVY IS REDUCED
- Homesteads receive an added 35% supplemental deduction
 - ASSESSMENTS ARE REDUCED
- Property Tax Replacement Credits are Eliminated
 - STATE GENERAL RELIEF IS REDUCED
- State Homestead Credits are phased out
 - STATE HOMEOWNER RELIEF IS REDUCED

Homestead Tax Bill, 2008 and 2009

Statewide Estimates

	<u>2008</u>	<u>2009</u>	<u>Change</u>
District Levy	8,500	5,950	-30%
District Net Assessed Value	340,000	288,422	-15%
District Gross Tax Rate	2.50	2.06	-17%
PTRC Rate	22%	0%	-100%
Homestead Credit Rate	45%	20%	-56%
Net Tax Rate	1.07	1.65	54%
Homestead Net A.V.	75,000	47,250	-37%
Tax Bill	804	780	-3%
Circuit Breaker Limit	2,400	1,800	

Policy Breakdown: Typical Homeowner, Typical County

Total Homeowner Tax Bill Change	-3%
Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	37%

Policy Breakdown:

School GF/Welfare Levy Share at **30%** in 2008

Total Homeowner Tax Bill Change	-3%
Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	37%

Policy Breakdown:

School GF/Welfare Levy Share at **40%** in 2008

Total Homeowner Tax Bill Change	-19%
Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-51%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	37%

Policy Breakdown:

School GF/Welfare Levy Share at **25%** in 2008

Total Homeowner Tax Bill Change	4%
Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-29%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	37%

Policy Breakdown:

22% Real PTRC Rate in 2008

Total Homeowner Tax Bill Change	-3%
Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	37%

**Policy Breakdown:
25% Real PTRC Rate in 2008**

Total Homeowner Tax Bill Change	1%
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Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	29%
State Homestead Credits Phase-Out; Local Credits added	37%

**Policy Breakdown:
17% Real PTRC Rate in 2008**

Total Homeowner Tax Bill Change	-9%
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Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	19%
State Homestead Credits Phase-Out; Local Credits added	37%

Where Will Homeowner Taxes Rise in 2009?

- Where school general fund and county welfare funds were a small share of the levy in 2008
- Where Homesteads are a large share of total assessed value, and business is a small share
- Where property tax replacement credit and homestead credits rates were high in 2008
 - Places with low debt service levies
- Where no LOIT was adopted

Non-Homestead Tax Bill, 2008 and 2009

Statewide Estimates

	<u>2008</u>	<u>2009</u>	<u>Change</u>
District Levy	8,500	5,950	-30%
District Net Assessed Value	340,000	288,422	-15%
District Gross Tax Rate	2.50	2.06	-17%
PTRC Rate	22%	0%	-100%
Homestead Credit Rate			
Net Tax Rate	1.95	2.06	6%
Homestead Net A.V.	75,000	75,000	0%
Tax Bill	1,463	1,547	6%
Circuit Breaker Limit	n/a	2,625	

**Policy Breakdown:
Typical Homeowner, Typical County**

<u>Total Homeowner Tax Bill Change</u>	-3%
Net Assessed Value, due to new 35% Homestead Deduction	-30%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	37%

**Policy Breakdown:
Typical Non-Homestead, Typical County**

<u>Total Homeowner Tax Bill Change</u>	6%
Net Assessed Value, due to new 35% Homestead Deduction	16%
Levy, due to elimination of School & Welfare Levies	-36%
Property Tax Replacement Credits, eliminated	25%
State Homestead Credits Phase-Out; Local Credits added	0%

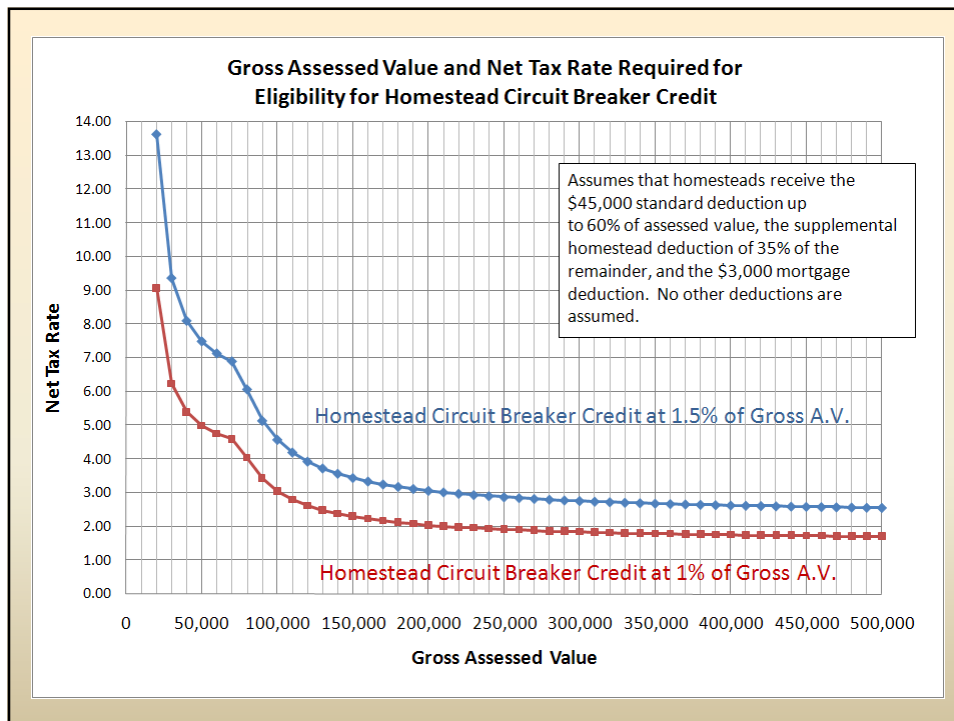
Tax Caps in 2009-2010

Tax Cap Credits in 2009

- Evidence from 2009 will show that most circuit breaker credits went to rental housing, commercial and industrial property owners, not homeowners or farm land owners

Tax Caps in 2010

- Cap rates drop to 1% for homesteads, 2% for rental housing and farm land, and 3% for all other property (commercial, industrial real and personal property)



Local Option Income Taxes

Local Option Income Taxes

- The budget bill extended the deadline for LOIT adoption for 2010 to October 31, 2009
- So far this year, four counties have adopted new LOITs (Clinton, Grant, Lawrence, St. Joseph)
- 24 Counties now have LOITs
 - 11 for Levy Freeze (none this year)
 - 23 for Property Tax Relief (all 4 this year)
 - 15 for Public Safety (3 this year)

Local Option Income Taxes

- Evidence from 2009 will show that counties with LOITs have lower tax cap losses as a share of their levies, compared to counties without LOITs
- Tax cap losses are minimized when LOIT tax relief is distributed to property types with the most tax cap credits (in 2009, rental housing, commercial and industrial property)

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