

Highland Municipal Government



Beyond the Circuit Breaker: How to Lower the Impact from Tax Caps

Prepared and Presented by the Office of the
Clerk-Treasurer • Town of Highland
Police Public Safety Building, 3315 Ridge Road,
Highland, Indiana at 6:30
September 19, 2019

Treasury Talks 3

By way of review
from the first and
second Treasury
Talks...

The Budget Process: Vocabulary

In the public sector, the convention is to use fund balance accounting.

FUND *A separate fiscal and accounting entity used by governments to segregate resources related to specific activities.*

Highland has 68 different funds that are in force and or have cash.

Highland budgets 19 of these during the annual budget process.

Highland budgets 3 for its sanitary district and 1 for its waterworks district.

By law, the town budgets at the fund level, so there are really 23 different budgets. In 2020, this will be down to 22 funds because the debt service funds in the sanitary district will be combined again.

Revenues by Source Government Activities The Key to Budgeting

FISCAL YEAR 2019	CORPORATION GENERAL FUND	PARKS & RECREATION GENERAL FUND	1925 POLICE PENSION FUND	REDEVELOPMENT GENERAL FUND	
Appropriations	\$ 7,639,662	\$ 2,381,918	\$ 845,034	\$ 256,483	
TOTAL	\$ 7,639,662	\$ 2,381,918	\$ 845,034	\$ 256,483	
Income					TOTAL LEVIES
Property Tax	\$ 5,424,853	\$ 1,185,253	\$ 2,238	\$ 273,089	\$ 6,885,433
Other income	\$ 2,459,559	\$ 1,302,785	\$ 739,612	\$ 33,108	MAX LEVY
TOTAL	\$ 7,884,412	\$ 2,488,038	\$ 741,850	\$ 306,197	\$ 6,886,456
					DELTA
Auto Excise & others	\$ 383,654	\$ 83,823	\$ 158	\$ 19,313	\$ 1,023
Licenses & Permits	\$ 887,920	\$ -	\$ -	\$ -	
Intergovernmental	\$ 37,500	\$ -	\$ 738,954	\$ -	
Liquor Excise	\$ 14,700	\$ -	\$ -	\$ -	
ABC Gallonage	\$ 54,098	\$ -	\$ -	\$ -	
Cigarette Tax	\$ 13,287	\$ -	\$ -	\$ -	
Charges for Services	\$ 153,000	\$ -	\$ -	\$ -	
Fines	\$ 56,500	\$ -	\$ -	\$ -	
Interest Earned	\$ 21,000	\$ -	\$ 500	\$ 1,000	
Employee Insurance Prem.	\$ 54,000	\$ 6,000	\$ -	\$ 500	
Transfer Water Surplus	\$ 390,000	\$ -	\$ -	\$ -	
Transfer Sewage Surplus	\$ 390,000	\$ -	\$ -	\$ -	
Miscellaneous	\$ 3,900	\$ 17,300	\$ -	\$ 12,295	
Recreation & Fitness Fees		\$ 878,762	\$ -	\$ -	
Rentals & Leaseholds		\$ 273,000	\$ -	\$ -	
Vending Machine		\$ 2,700	\$ -	\$ -	
T-Mobile Licenses		\$ 41,200	\$ -	\$ -	

Budget Fund Summaries: FY 2019

General Fund		Encumbrances	\$ 251,527.34
<u>Expenses/Appropriated</u>	\$ 7,639,662.00	<i>Incurring in FY 18</i>	
	\$ -	<i>To be Paid in FY 19</i>	
	\$ 7,639,662.00	Jan 1 Cash after Encum	\$ 5,343,929.00
		Dec 31 Cash Balance	\$ 5,588,679.00
<u>Income</u>			
prop tax	\$ 5,424,853.00	Adjusted collections	\$ 271,242.65
other income	\$ 2,459,559.00	Adjusted by Cir Bkr	\$ 324,787.00
	\$ 7,884,412.00	Real Ending Cash Balance	\$ 4,992,649.35
		Restricted Q3 Funds	\$ 24,000.00
<i>Net Income (deficit)</i>	\$ 244,750.00	Unreserved Fund Balance	\$ 4,968,649.35
Proposed Add'l/Approved Appropriations	\$ -	Change in balance before adjustments	\$ 244,750.00
<i>Rev Net Income/(deficit)</i>	\$ 244,750.00	Change in cash Balance	\$ (351,279.65)
Jan 1 2019 Cash Balance	\$ 5,595,456.34	Required Reserve Balance:	\$ 3,183,192.50

Budget Fund Summaries: FY 2019

Parks and Recreation Fund		FY 2019	
Expenses/Appropriated	\$	2,381,918.00	
Encumbered	\$	-	
	\$	<u>2,381,918.00</u>	
Income			
prop tax	\$	1,185,253.00	
other income	\$	1,302,785.00	
	\$	<u>2,488,038.00</u>	
Net Income (deficit)	\$	106,120.00	
Proposed Add Appropriations	\$	-	
Rev Net Income/(deficit)	\$	106,120.00	
Jan 1 Cash Balance	\$	1,174,612.01	
Encumbrances	\$	67,371.34	
<i>Incurred in FY 18</i>			
<i>To be Paid in FY 19</i>			
Jan 1 Cash adjusted for Enc	\$	1,107,240.67	
Dec 31 Cash Balance	\$	1,213,360.67	
Tax Caps	\$	71,000.00	
Collections	\$	59,262.65	
Net Ending Cash Balance	\$	<u>1,083,098.02</u>	
Change in cash Balance	\$	<u>(91,513.99)</u>	
Required Reserve Balance:	\$	992,465.83	

Budget Fund Summaries: FY 2019

Redevelopment General Fund

Expenses/Appropriated	\$	256,483.00
Encumbered	\$	-
	\$	<u>256,483.00</u>

Income		
prop tax	\$	273,089.00
other income	\$	33,108.00
	\$	<u>306,197.00</u>

Net Income (deficit) \$ 49,714.00

Proposed Approved Add'L Appropriations \$ 7,080.00

Rev Net Income/(deficit) \$ 42,634.00

Jan 1 Cash Balance \$ 303,477.95

Encumbrances	\$	9,137.14
<i>Incurred in FY 18</i>		
<i>To be Paid in FY 19</i>		

Jan 1 Cash after Encum	\$	294,340.81
Dec 31 Cash Balance	\$	336,974.81

Adjusted by Collections	\$	8,192.67
Adjusted by Tax Cap	\$	32,968.00
Ending Cash Balance	\$	<u>295,814.14</u>

Change in cash Balance	\$	<u>1,473.33</u>
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Reserve Balance: \$ 85,494.33

Budget Fund Summaries: FY 2019

Motor Vehicle Highway Fund

<u>Expenses/Appropriated</u>	\$	1,226,565.00
	\$	-
	\$	<u>1,226,565.00</u>

<u>Income</u>		
prop tax	\$	-
other income	\$	978,027.00
	\$	<u>978,027.00</u>

Net Income (deficit) \$ (248,538.00)

Proposed Add Appropriations	\$	-
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Rev Net Income/(deficit) \$ (248,538.00)

Jan 1 Cash Balance \$ 501,749.87

Encumbrances \$ 23,221.86

Incurred in FY 18

To be Paid in FY 19

Adjusted Jan 1 balance \$ 478,528.01

Dec 31 Cash Balance \$ 229,990.01

(Estimated)

Ending Cash Balance **\$ 229,990.01**

Tax caps or collection rates

Change in cash

Balance \$ (271,759.86)

Budget Fund Summaries: FY 2019

Local Roads and Street Fund

Expenses/Appropriated	\$	411,724.00
	\$	-
	\$	<u>411,724.00</u>

Income		
prop tax	\$	-
other income	\$	387,870.00
	\$	<u>387,870.00</u>

Net Income (deficit) \$ (23,854.00)

Proposed Add Appropriations	\$	-
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Rev Net Income/(deficit) \$ (23,854.00)

Jan 1 Cash Balance \$ 187,582.07

Encumbrances \$ 1,690.82

Incurring in FY 18

To be Paid in FY 19

Jan 1 Cash adjusted \$ 185,891.25

Dec 31 Cash Balance \$ 162,037.25

(Estimated)

Ending Cash Balance \$ 162,037.25

Tax caps or collection rates

Change in cash Balance \$ (25,544.82)

Suggested Reserve Balance: \$ 171,551.67

Budget Fund Summaries: FY 2019

Sanitary District Special Operating Fund

<u>Expenses/Appropriated</u>	\$	2,369,491.00
Encumbered	\$	-
	\$	<u>2,369,491.00</u>

<u>Income</u>		
prop tax	\$	212,652.00
other income	\$	2,184,684.00
	\$	<u>2,397,336.00</u>

Net Income (deficit) \$ **27,845.00**

Proposed Add
Appropriations \$ -

Rev Net Income/(deficit) \$ **27,845.00**

<u>Jan 1 Cash Balance Adj</u>	\$	430,048.22
<u>Dec 31 Cash Balance</u>	\$	457,893.22

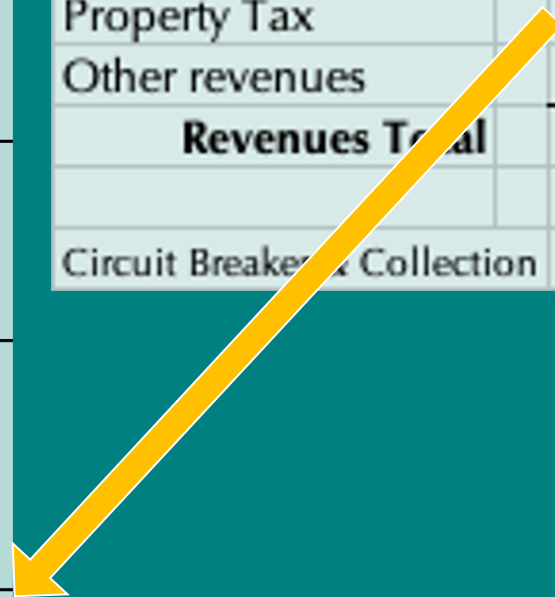
Collection Rate	\$	10,632.60
Circuit Breaker Adjustment	\$	105,900.00
Ending Cash Balance	\$	<u>341,360.62</u>
Tax caps or collection rates		

Change in cash
Balance \$ **(95,155.00)**

The Budget Process: Departmentalized Funds

GENERAL FUND DEPARTMENTS	
Clerk-Treasurer	\$ 258,276
Town Council	\$ 239,501
Subtotal	\$ 497,777
Planning and Development	
Plan Commission	\$ 71,413
Advisory BZA	\$ 22,719
Building & Inspection	\$ 356,648
Subtotal	\$ 450,780
General Government	
Town Hall & Monuments	\$ 30,125
Board of Works	\$ 778,458
Subtotal	\$ 808,583
Public Safety	
Police Department	\$ 5,457,992
Fire Department	\$ 404,630
VIPS Department	\$ 19,900
Subtotal	\$ 5,882,522
General Fund Total	\$ 7,639,662

General Fund Revenues	
Property Tax	\$ 5,424,583
Other revenues	\$ 2,459,559
Revenues Total	\$ 7,884,142
Circuit Breaker Collection	\$ (597,029.62)



The Budget Process: Allocating Pay CT

FY 2019	General CT	San Dist San	Water	Sewer	San Dist Oper	Biweekly	Annual
Payroll/Personel Clerk (44% • 28% • 28%) Hours	\$753.81 36		\$460.66 22	\$460.66 22		\$1,675.14 80.00	\$43,553.54
Deputy Clerk-Treasurer <i>pay periods</i>	\$ 776.17 26		\$ 689.93 26	\$ 689.93 26		\$2,156.02 26	\$56,056.52
Encumbering Officer (44% • 28% • 28%) Hours	\$742.29 36		\$453.62 22	\$453.62 22		\$1,649.54 80.00	\$42,887.94
Chamberlain Clerk (P-T) (44% • 15% • 29% • 15)	\$363.38 20	\$127.18 7	\$254.37 14	\$127.18 7		\$872.12 48.00	\$22,675.16
Chancery/Bursar Clerk (24% • 24% • 26% • 26%) Hours	\$347.49 19	\$347.49 19	\$384.07 21	\$384.07 21		\$1,463.14 80.00	\$38,041.54
Chancery/Bursar Clerk (24% • 24% • 26% • 26%) Hours	\$345.21 19	\$345.21 19	\$381.55 21	\$381.55 21		\$1,453.54 80.00	\$37,791.94
Utility Clerk (32% • 34% • 34%) Hours		\$506.20 26	\$525.67 27	\$525.67 27		\$1,557.54 80.00	\$40,495.94
Utility Clerk (32% • 34% • 34%) Hours		\$478.12 26	\$496.51 27	\$496.51 27		\$1,471.14 80.00	\$38,249.54
Sr. Chancery Bursar Clerk (24% • 24% • 26% • 26%) Hours	\$356.41 19	\$356.41 19	\$412.69 22	\$375.17 20		\$1,500.68 80.00	\$39,017.68
Clerk-Treasurer	29.0% \$905.18		27.0% \$842.76	27.0% \$842.76	17.0% \$530.62		\$3,121.32
Totals:	\$4,589.96	\$2,160.62	\$4,901.83	\$4,737.12	\$530.62	\$16,920.16	\$439,924.04
	\$119,338.88	\$56,176.22	\$127,447.48	\$123,165.24	\$13,796.22	\$439,924.04	\$439,924.04

ALLOCATION by FUNCTION

40.8%		28.0%		28.1%		Total
Billing & Collection		Clerical/Rec/Finance		Administrative		
Gen CT	\$0	Gen CT	\$75,624	Gen CT	\$43,715	\$119,338.88
Water	\$63,826	Water	\$23,771	Water	\$39,850	\$127,447.48
Sew	\$59,544	Sew	\$23,771	Sew	\$39,850	\$123,165.24
San Dist San	\$56,176	San Dist San	\$0.00	San Dist San	\$0	\$56,176.22
				San Dist Oper	\$13,796	\$13,796.22
	\$179,546.65		\$123,166.60		\$123,414.56	\$439,924.04

* Property Tax Funded in part

Annual		Allocation by Fund and Source		FICA
General CT*	\$119,338.88	Gov't & San Dist	43.0%	\$189,311.32
San Dist San*	\$56,176.22	Water Utl	29.0%	\$127,447.48
Water	\$127,447.48	Sew Utl	28.0%	\$123,165.24
Sew	\$123,165.24			\$439,924.04
San Dist Oper*	\$13,796.22			\$33,654.19
	\$439,924.04			\$49,271.49

Payroll/Personel Clerk	\$ 19.95	\$ 0.99	\$ 20.94
Deputy Clerk-Treasurer	\$ 2,045.42	\$ 110.60	\$ 2,156.02
Encumbering Officer	\$ 19.95	\$0.67	\$ 20.62
Chamberlain Clerk	\$ 14.68	\$ -	\$ 14.68
Chancery/Bursar Clerk	\$ 18.17	\$ 0.12	\$ 18.29
Chancery/Bursar Clerk	\$ 18.17	\$ 0	\$ 18.17
Lead Utility Clerk	\$ 19.20	\$ 0.27	\$ 19.47
Utility Clerk	\$ 18.17	\$ 0.22	\$ 18.39
Sr. Chancery/Bursar Clerk	\$ 18.49	\$ 0.27	\$ 18.76
Base rate		Longevity	Composite

PERF 11.2%

Total: \$536,047.44

The Budget Process: Tax Refund 2018

FUND	Approved Property Tax LEVY	AMOUNT of REFUND	NET LEVY before Tax caps and adjustments	CIRCUIT BREAKER & COLLECTION LOSS	Effective Collection Rate
Corporation GENERAL	\$5,319,259.00	\$350,972.04	\$ 4,968,286.96	\$407,062.81	86%
PARKS & RECREATION	\$1,104,038.00	\$ 72,862.62	\$ 1,031,175.38	\$ 84,254.58	86%
POLICE PENSION	\$ 2,184.00	\$ 146.60	\$ 2,037.40	\$ 132.12	87%
REDEVELOPMENT GENERAL	\$ 233,694.00	\$ 15,393.51	\$ 218,300.49	\$ 18,246.80	86%
MCCD	\$ 544,921.00	\$ 35,991.49	\$ 508,929.51	\$ 41,184.93	86%
PARK BOND & INTEREST	\$1,342,100.00	\$ 93,753.81	\$ 1,248,346.19	\$ 29,923.95	91%
CORPORATION BOND & INTEREST	\$1,500,444.00	\$104,749.18	\$ 1,395,694.82	\$ 34,377.09	91%
REDEVELOPMENT BOND & INTEREST	\$ 192,197.00	\$ 13,414.35	\$ 178,782.65	\$ 4,450.15	91%
SANITARY DIST SPECIAL OPERATING	\$ 205,301.00	\$ 7,989.97	\$ 197,311.03	\$ 93,473.64	51%
SANITARY DIST BOND & INT EXEMPT	\$ 191,105.00	\$ 13,341.04	\$ 177,763.96	\$ 4,384.09	91%
SANITARY DIST BOND & INTEREST	\$2,129,451.00	\$148,730.63	\$ 1,980,720.37	\$ 47,820.66	91%
WATER DISTRICT BOND & INTEREST	\$ 148,516.00	\$ 9,969.13	\$ 138,546.87	\$ 3,794.00	91%

Getting to Why 2020 Is different: The Loss of the Exemption and the Estimate of Circuit Breaker Credit • HIGHLAND CIVIL

ESTIMATED CAPS LEVY ESTIMATED for 2020	\$ 1,202,000		Intuitive Allocation Basis	Intuitive Percentage Pct of Total	TRUE Allocation Basis	Effective Collection Rate
	Estimated Levy	Pct of Total				
GENERAL FUND	\$ 5,614,723	53%	\$ 641,678	73%	\$879,105.92	84%
<i>Corporation Bond & Interest</i>	\$ 1,293,817	12%	\$ 147,864			100%
POLICE PENSION FUND	\$ 2,238	0%	\$ 256	0.03%	\$ 350.41	84%
PARKS GENERAL FUND	\$ 1,226,737	12%	\$ 140,197	16%	\$192,072.10	84%
<i>Park District Bonds and Interest</i>	\$ 1,357,612	13%	\$ 155,155			100%
<i>Redevelopment Bond and Interest</i>	\$ 189,148	2%	\$ 21,617			100%
REDEVELOPMENT GENERAL FUND	\$ 282,647	3%	\$ 32,302	4%	\$ 44,254.50	84%
CUM CAPITAL DEVELOPMENT FUND	\$ 550,656	5%	\$ 62,932	7%	\$ 86,217.07	84%
	<u>\$ 10,517,578</u>		<u>\$1,202,000</u>	100%	<u>\$ 1,202,000</u>	88.6%
Controlled Funds	\$ 7,677,001					

Getting to Why 2020 Is different: The Loss of the Exemption and the Estimate of Circuit Breaker Credit • Sanitary and Water Districts

ESTIMATED CAPS LEVY ESTIMATED for 2020			Circuit Breaker Loss		Circuit Breaker Loss	
			Intuitive Allocation Basis	Intuitive Percentage	TRUE Allocation Basis	Effective Collection Rate
	Estimated Levy	Pct of Total		Pct of Total		
SANITARY DISTRICT OPERATING	\$ 220,417	9%	\$ 24,501	100%	\$ 283,400	-29%
<i>SANITARY District Bond & Interest</i>	\$ 2,329,094	91%	\$ 258,899			100%
	<u>\$ 2,549,511</u>		<u>\$ 283,400</u>	100%	<u>\$ 283,400</u>	88.9%
Controlled Funds	\$ 220,417					
ESTIMATED CAPS LEVY ESTIMATED for 2020			Circuit Breaker Loss		Circuit Breaker Loss	
			Intuitive Allocation Basis	Intuitive Percentage	TRUE Allocation Basis	Effective Collection Rate
	Estimated Levy	Pct of Total		Pct of Total		
<i>WATER District Bond & Interest</i>	\$ 165,644	6%	\$ 1,085.01			100%
	<u>\$ 165,644</u>		<u>\$ 1,085</u>	0%	<u>\$ -</u>	99.3%

Getting to Why 2020 Is different: The Loss of the Exemption and the Estimate of Circuit Breaker Credit

Projected Circuit Breaker “Credits” for 2020

HIGHLAND CIVIL	\$1,202,000
HIGHLAND Sanitary District	\$ 283,400
HIGHLAND Water District	\$ 16,700
	<hr/>
	\$ 1,502,100

The Budget Process: Property Taxes

Property Taxes How they work: **Indiana Tax Caps**

- As *tax base declines* (loss of Tax Base) , more likely to trigger tax caps.
- As **tax rates go up** (spending increases), more likely to trigger tax caps.
- As **deductions are removed**, more likely to trigger tax caps
- *Tax caps when triggered lower tax collection rates.*

Financing Urban Government

What is a purely public good?

1. *Non-Appropriability*. The inability of a service provider to fully recover or charge back the cost of delivery or overhead.
2. *Non-exclusion*. One doesn't have to pay to play. One cannot be excluded from a service if they have NOT paid for it.
3. *Non-exhaustion or non-rivalry*. These goods cannot be exhausted in most cases.

Treasury Talks

Exhausting/rival

Non-exhausting/Non-rival

<p>Private Goods</p> <ul style="list-style-type: none">Common Market items	<p>Toll Goods (Quasi Public)</p> <ul style="list-style-type: none">Mass TransportationToll roads & bridgesEMSThe Public Airwaves
<p>Common Pool Resources</p> <ul style="list-style-type: none">Water SupplyFish & GameFederal Lands	<p>Public Goods</p> <ul style="list-style-type: none">National defensePublic safety -police/firepollution controlJustice



Exclusion Feasible

Exclusion NOT Feasible

Characteristics of Good Public Finance System

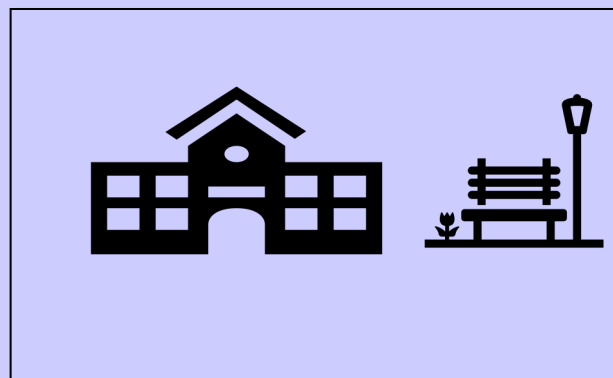
- Equitable
 - Principle of Benefits received
 - Principle of ability to pay
 - **Horizontal Equity:** *Taxpayers who have equal capability to pay taxes should be treated equally.*
 - **Vertical Equity:** *Unequals should be treated unequally. Measuring the burden bearing based upon in some respects ability to pay.*

Treasury Talk: What Next?

The next slides exhibit what is in current law and what is possible to lessen impact from the negative impacts of circuit breaker.

They are not recommendations but set forth as educational illustrations.

In all cases it should be the goal to seek to deliver services at the highest possible quality and at the lowest possible cost.

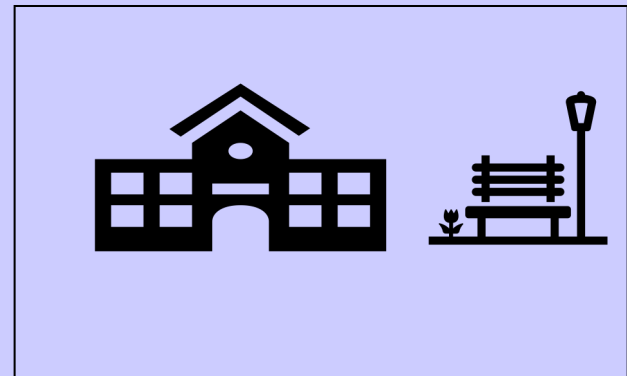


I.C. 36-5-1, Secs. 12-19

Treasury Talk: What Next?

1. Dissolve the Town

- Petition with number equal to 2% of total votes cast for Indiana secretary of state last election.
- Filed with Town Council holds hearing and finds whether to submit the issue to voters.
- If the Council doesn't go forward or the vote outcome is not desired, appeal within 30 days to Circuit court.
- If referendum moves forward, 2/3 of those voting must support. Takes effect 6 months after the filing. Prohibited in a year prior to Census.



I.C. 36-5-1, Secs. 12-19

Treasury Talk: What Next?

Review Debt Levies

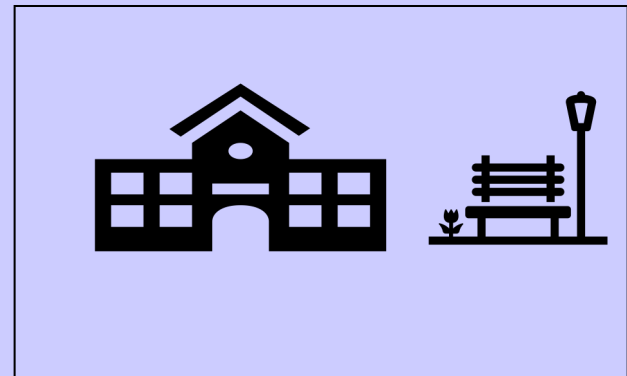
In Highland's case, lower the lease levies to only cover the cost of debt service.

Where lawful, finance debt investment with *non property tax resources*. (How about our road program?)

Lower cost of operations

Use the purchasing aggregation organizations.

While normally labor intensive, find ways to substitute technology to perform certain functions.

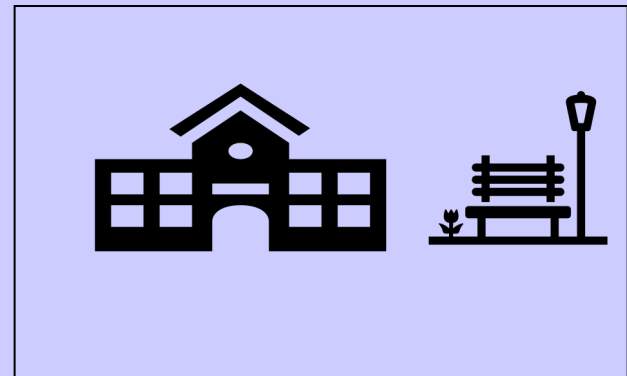


Treasury Talk: What Next?

Lower cost of operations

Lower tax rate by sharing tax base and organizational capacity.

- **Joint park & recreation department**
 - *Park boards act, formulate agreement on use of facilities and personnel.*
 - *Fiscal body (councils) must adopt ordinance approving the agreement.*
 - *Governed by a joint board, existing combined. 2/3rd required for quorum.*
- *Budgets still go to each unit's council.*
- *Joint Park and Recreation Fund, largest unit.*
- *At end of each year, can end arrangement.*



I.C. 36-10-3, Secs. 29-32

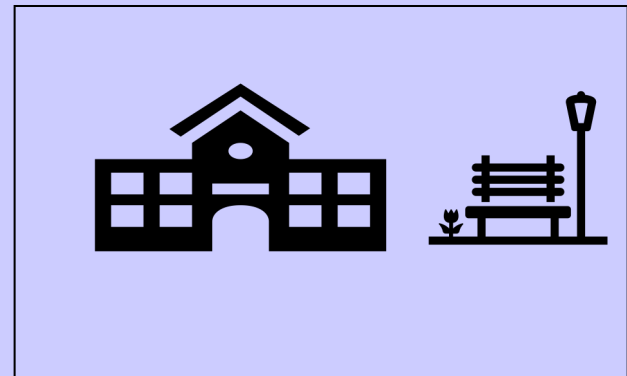
Treasury Talk: What Next?

Lower cost of operations

Lower tax rate by sharing tax base and organizational capacity.

- **Fire Protection territory**

- *Two units adopt ordinance after Jan 1 before April 1 in a given year.*
- *Must hold a public hearing. Must show impact on taxpayers, service levels, expenditures in first and future years.*
- *Provider unit handles fire protection fund*
- *DLGF at inception must verify that no duplication of levies for same services.*



I.C. 36-10-3, Secs. 29-32

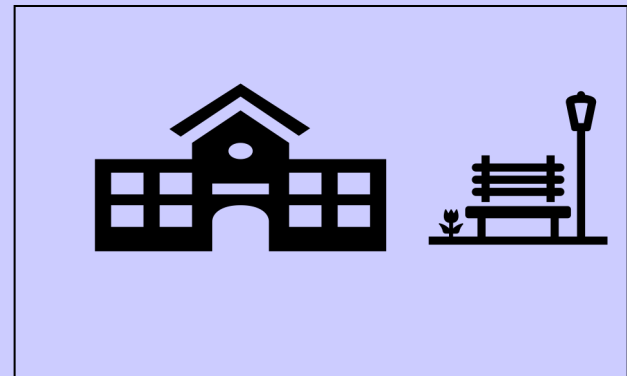
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I.C. 36-10-3, Secs. 29-32

Treasury Talk: What Next?

Lower cost of operations

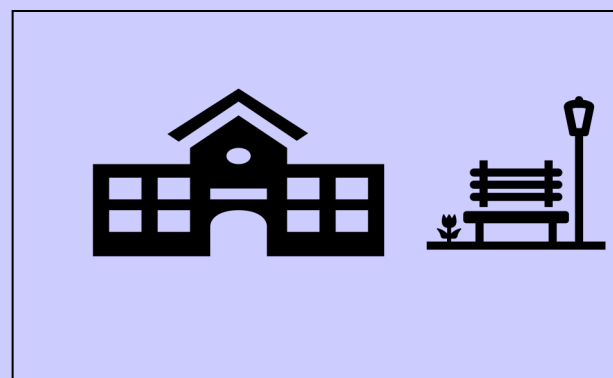
Lower tax rate by sharing tax base and organizational capacity.

- **Interlocal Cooperation**

- *Form committee to reorganize.*
- *Only goes into effect after referendum.*
- *Functions of offices must be retained.*
- *Can be between political subdivisions or units.*

- **Modernization of Government**

- *Form committee to reorganize.*
- *Only goes into effect after referendum.*
- *Functions of offices must be retained.*
- *Can be between political subdivisions or units.*



I.C. 36-1-7 et seq.
I.C. 36-1.5 et seq.

Treasury Talk

“Democracy is a system for finding proximate solutions for insoluble problems.”

Reinhold Niebuhr