Revenue Sources and Debt Financing

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Primary Revenue Sources

Primary Revenues

- Property taxes
- Local option income taxes
- License excise, commercial vehicle and financial institutions taxes
- Tax increment revenues
- User fees
- Local excise taxes

Property taxes

- Primary revenue source for county governments.
- Generated from a county-wide assessment of real and personal property.
- Real property assessments are based upon “market value” as determined annually by county assessor.
- Personal property includes business equipment, which is self assessed by the taxpayer.
- Property is assessed each March 1st for taxes payable in June and December of following year.

Property taxes (cont'd)

- Property tax levy limitations
  - General Funds
    - Limited to average annual growth in non-farm income over past six years
  - Cumulative or Capital Development Funds
    - Statutory limits on tax rate as neutralized by reassessment
  - Debt Service Funds
    - Limited to tax levy needed to repay debt obligation

Property taxes (cont'd)

- Property tax rate limits
  - Caps on total effective tax rates known as circuit breaker tax credits
- Property tax credits
  - State homestead and general replacement credits ended in 2008
  - Temporary state homestead credits will be phased out through 2010
  - Local option income taxes provide both targeted and general property tax relief

Circuit Breaker Tax Credit

- A credit limiting a taxpayer's property tax liability to percentage of gross assessed value, before deductions.
- Creates a hard cap on total effective tax rate.
- Credits are funded by all local taxing units, in proportion to their levy, from other revenues, fund balances or budget reductions, after providing for debt service obligations.
- Taxing units ***may not*** increase property taxes or borrow funds to offset any shortfall in revenues.

Circuit Breaker Limits

- Residential homestead tax caps:
  - 1.5% limit in 2009
  - 1.0% limit in 2010
- Other residential, agricultural and long-term care facilities tax caps:
  - 2.5% limit in 2009
  - 2.0% limit in 2010

Circuit Breaker Limits

- Tax caps for all other property taxpayers:
  - 3.5% limit in 2009
  - 3.0% limit in 2010

- Creates additional limits for certain taxpayers over age 65
- Debt service levies established before July 1, 2008 are excluded from the tax caps for Lake and St. Joseph Counties
- Debt service levies approved by referendum are excluded after July 1, 2008.

Local Option Income Taxes

- County Adjusted Gross Income Taxes (CAGIT)
- County Option Income Taxes (COIT)
- County Economic Development Income Tax (CEDIT or EDIT)
- Supplemental Income Taxes
- New LOITS:
  - Property tax replacement income tax
  - Levy growth replacement income tax
  - Public safety income taxes

CAGIT

- Can be adopted by County Council at rates of .5%, .75% or 1.0% of adjusted gross income for county residents.
- Distributed to the County and other taxing units for property tax replacement and new revenues semi-annually.
- Maximum combined rate of 1.25% with CEDIT.

COIT

- Imposed by County Income Tax Council.
- Rates for county residents begin at .2% of adjusted gross income and increase annually by .1% up to .6%.
- Rates can subsequently be increased by .1% to a maximum of 1.0% of adjusted gross income.
- Maximum combined rate of 1.0% with CEDIT.

COIT (cont'd)

- Distributed monthly to all civil taxing units in proportion to property tax levy.
- May be applied to a local homestead credit of up to 8.0%.
- Treated as additional revenue.
- No limitation on use of funds.

CEDIT

- Imposed by County Council (for CAGIT counties) or Income Tax Council at rates of .1% to.5% of adjusted gross income of county residents.
- Maximum combined rates of 1.0% when combined with COIT and 1.25% when combined with CAGIT.

CEDIT (cont'd)

- Revenues are certified by State each July for distribution the following year in May and November.
- Distributed to all cities, towns and county in proportion to property tax levy or population.
- Must adopt a capital improvement plan to receive revenue distribution.

CEDIT (cont'd)

- Uses of CEDIT.
  - Economic development projects.
  - Capital projects which can be funded through general obligation bonds or cumulative funds.
  - Can be used for debt service or lease rental payments for eligible projects.
  - Or any other purpose permitted by statute.
- Note: There is also an EDIT tax available to reduce burden on residential property taxpayers from the elimination of business inventory assessments.

Supplemental Income Taxes

- An additional income tax rate, above the other limits, that is approved by the General Assembly for the funding of a specific project or projects.

New Local Option Income Taxes

- New LOITs designed for property tax relief
  - Option A: Levy Growth Replacement Tax (1% maximum rate)
  - Option B: Property Tax Replacement Tax (1% maximum rate)
    - Uniform Credits
    - Residential Homestead Credits
    - Qualified Residential Credits
  - Option C: Public Safety Tax (0.25% maximum rate)

Tax Increment

- Tax increment financing (or "TIF") is a tool which captures increases in assessed value from new development.
- Can capture increases in real property and, at times, depreciable personal property assessed value.
- Cannot capture increased assessed value resulting from residential property improvements nor existing assessed value.

What can TIF be used for?

- Any redevelopment capital project that is in, serving or benefiting an allocation area or any county capital project that is within or physically connected to the allocation area.

- Used as a funding source for infrastructure or incentives to encourage new development.

Debt Financing Tools

Short Term Debt

- Tax Warrants
  - Short term obligations, payable within 12 months, from anticipated tax receipts.
  - Low interest, tax exempt debt.
  - Provides funds for needed expenditures until property tax distributions are received.
- Bond Anticipation Notes
  - Payable from bond proceeds, usually within a five-year period.
  - Source of funding for preliminary capital costs.

Long Term Debt

- Property Tax General Obligation Bonds
  - Secured by full "faith & credit".
  - Traditionally received highest bond rating and lowest interest rates.
  - Generally limited to two percent of assessed value, divided by three, except some for some special taxing districts.
  - Subject to petition / remonstrance process if in excess of $2 million and to referendum if over $12 million.

Impact of Circuit Breaker on Property Tax Supported Bonds

- Changes the security for property tax supported bonds from an unlimited promise to levy property taxes to pay debt to promise to levy a limited property tax to pay debt.
- While the impact on some issuers of property tax supported debt has been minimal, others have received lower bond ratings or have been denied access to bond insurance.
- Result is higher interest costs.

Long Term Debt (cont'd)

- Local Option Income Tax Revenue Bonds
  - Secured by pledge of limited revenues.
  - Traditionally has been viewed as less secure than property tax supported bonds.
    - Lower bond ratings.
    - Higher interest rates.
  - Credit enhancement.
    - Reserves, insurance, other revenues.
  - Subject to 2% constitutional debt limit.

Long Term Debt (cont’d)

- Lease rental obligations
  - Bonds issued by others (ie: building corporation, building authority, redevelopment authority, etc.).
  - Facility leased to county upon completion and lease rentals used to repay bonds.
    - Lease rentals can be paid from property taxes, income taxes or any other available revenue.
  - More costly than general obligation bonds.
  - Not subject to debt limits.

Long Term Debt (cont'd)

- Tax increment revenue bonds
  - Limited revenue pledge.
    - Limited by source of revenue and by number of taxpayers
  - Limited marketability.
    - Sophisticated investor
  - May require credit enhancement.
    - Corporate guarantee
    - Letter of credit
    - Other revenue pledge