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# **Managing Property Tax Shortfalls and the Importance of Cash Reserves**

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Auditor's Regional Workshops  
June 2009



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# Agenda

- Causes of Property Tax Shortfalls
- Anticipating and Calculating Shortfalls
- Managing Shortfalls
- Importance of Cash Reserves



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# Causes of Property Tax Shortfalls



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# Causes of Property Tax Shortfalls

## Timing Issues (Temporary)

- ❑ Delayed tax rate certification
- ❑ Late mailing of tax bills
- ❑ One tax settlement instead of two
- ❑ 65 Counties have received budget orders
- ❑ Go to the following link to check the status of your county:
  - [http://www.in.gov/dlgf/files/2009\\_Cert\\_Status.p](http://www.in.gov/dlgf/files/2009_Cert_Status.p)

## Delinquencies

- ❑ Collection rates historically below 100%
- ❑ Economic downturn



# Causes of Property Tax Shortfalls (Cont'd)

## Erroneous Assessed Values

- ❑ Certified A.V. substantially different from previous year
- ❑ A.V. used to calculate tax bills much lower than certified A.V.

## Refunds

- ❑ Erroneous assessed values
- ❑ Large number of appeals settled in favor of the taxpayer
- ❑ Abatements not applied

## Circuit Breaker Tax Credits



# Understanding Circuit Breaker Credits

- Tax caps that limit taxpayer liability
- If calculated tax exceeds cap, credit is applied to tax bill
- Percentage caps are based on property type
- Credits are a direct reduction of a taxing unit's property tax revenue
- Credits affect actual property tax distributions and have no effect on “certified” levies
- Actual losses due to circuit breaker credits may not be determined until final settlement
- Tax rate increases may cause increases in circuit breaker credits



# Circuit Breaker Credits

All caps are applied to the gross assessed value

## 2009

- Homesteads - **1.5%**
- Other residential property, agricultural land and long-term care facilities - **2.5%**
- Commercial (all other real and personal property) - **3.5%**

## 2010

- Homesteads – **1%**
- Other residential property, agricultural land and long-term care facilities - **2%**
- Commercial (all other real and personal property) - **3%**



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# Taxing “Unit” versus Taxing “District”

- A taxing unit’s rate is a component of the taxing district’s rate.
- The higher the taxing district tax rate, the greater the impact of the Circuit Breaker credits.

## Taxing Unit

- An individual taxing authority such as the county.

## Taxing District

- A composition of multiple taxing units
- Tax bills are based on the “district” rate.





# Sample Taxing District

<b>Taxing Unit</b>	<b>Taxing Unit Rate</b>	<b>% of Total Rate</b>
State	\$ 0.0024	0.06%
County	0.7469	19.08%
Township	0.0386	0.99%
School	1.2567	32.10%
Library	0.1125	2.87%
Municipality	1.4750	37.68%
Special District	0.2828	7.22%
<b>Total District Tax Rate</b>	<b>\$ 3.9149</b>	<b>100.00 %</b>



# Circuit Breaker Example

	<u>Taxing District #1</u>	<u>Taxing District #2</u>	<u>Taxing District #3</u>
Property Type	Residential HS	Residential HS	Residential HS
2010 Tax Cap	1%	1%	1%
Gross A.V. of Property	\$300,000	\$300,000	\$300,000
Net District Tax Rate*	\$1.5465	\$1.8098	\$2.5075
<b>Calculated Tax Liability**</b>	<b>\$2,563</b>	<b>\$3,000</b>	<b>\$4,156</b>
Tax Cap	\$3,000	\$3,000	\$3,000
<b>Amount in excess of Tax Cap</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,156</b>

\* After application of state homestead credit .

\*\* After application of deductions.

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# Anticipating and Calculating Shortfalls



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# Anticipating Shortfalls

- Identify the “causes” that may affect your taxing unit.
- Prepare cash flow estimates and continually monitor.
- Institute a plan to delay non-essential purchases until property tax shortfalls are known.



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# Cash Flow Estimates

- Identifies cash shortages and available reserves.
- Estimates the availability of cash to pay recurring bills.
- Allows time to prepare contingency plans when shortfalls or delays in revenues occur (may need to issue TAW's or temporarily borrow from other funds).



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# Cash Flow Estimates (Cont'd)

- May determine the need to borrow money to purchase capital items to prevent future cash deficiency.
- May determine that excess money is, or will be, available to invest.
- Contributes to better, more timely decision making and financial management.



# Cash Flow Shortage or Budget Deficit?

	<u>Jan - Mar</u>	<u>April - June</u>	<u>July - Sept</u>	<u>Oct - Dec</u>	<u>Totals</u>
Receipts:					
Property Tax	\$ -	\$ -	\$ -	\$ 900,000	\$ 900,000
Auto Excise, CVET, FIT	-	-	-	90,000	90,000
CAGIT/CAGIT PTRC	-	37,500	-	37,500	75,000
Other Misc. Revenues	<u>13,500</u>	<u>13,500</u>	<u>13,500</u>	<u>13,500</u>	<u>54,000</u>
 Total Receipts	<u>13,500</u>	<u>51,000</u>	<u>13,500</u>	<u>1,041,000</u>	<u>1,119,000</u>
Disbursements:					
Personal Services	195,825	195,825	195,825	195,825	783,300
Supplies	22,380	22,380	22,380	22,380	89,520
Other Services and Charges	55,950	55,950	55,950	55,950	223,800
Capital Outlays	<u>-</u>	<u>-</u>	<u>8,952</u>	<u>13,428</u>	<u>22,380</u>
 Total Disbursements	<u>274,155</u>	<u>274,155</u>	<u>283,107</u>	<u>287,583</u>	<u>1,119,000</u>
 Net Cash Flow	(260,655)	(223,155)	(269,607)	753,417	-
Beginning Cash	<u>263,800</u>	<u>3,145</u>	<u>(220,010)</u>	<u>(489,617)</u>	<u>263,800</u>
 Estimated Ending Cash	<u>\$ 3,145</u>	<u>\$ (220,010)</u>	<u>\$ (489,617)</u>	<u>\$ 263,800</u>	<u>\$ 263,800</u>

# Cash Flow Shortage or Budget Deficit?

	<u>Jan - Mar</u>	<u>April - June</u>	<u>July - Sept</u>	<u>Oct - Dec</u>	<u>Totals</u>
Receipts:					
Property Tax	\$ -	\$ -	\$ -	\$ 900,000	\$ 900,000
Property Tax Shortfall				(36,000)	(36,000)
Circuit Breaker Tax Credit				(94,000)	(94,000)
Auto Excise, CVET, FIT	-	-	-	90,000	90,000
CAGIT/CAGIT PTRC		37,500		37,500	75,000
Other Misc. Revenues	13,500	13,500	13,500	13,500	54,000
	<u>13,500</u>	<u>13,500</u>	<u>13,500</u>	<u>13,500</u>	<u>54,000</u>
Total Receipts	<u>13,500</u>	<u>51,000</u>	<u>13,500</u>	<u>911,000</u>	<u>989,000</u>
Disbursements:					
Personal Services	264,262	264,262	264,262	264,264	1,057,050
Supplies	22,375	22,375	22,375	22,375	89,500
Other Services and Charges	43,750	43,750	43,750	43,750	172,200
Capital Outlays	-	-	-	130,000	130,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>130,000</u>	<u>130,000</u>
Total Disbursements	<u>330,387</u>	<u>330,387</u>	<u>330,387</u>	<u>460,389</u>	<u>1,448,750</u>
Net Cash Flow	(316,887)	(279,387)	(316,887)	450,611	(459,750)
Beginning Cash	329,750	12,863	(266,524)	(583,411)	329,750
	<u>329,750</u>	<u>12,863</u>	<u>(266,524)</u>	<u>(583,411)</u>	<u>329,750</u>
Estimated Ending Cash	<u>\$ 12,863</u>	<u>\$ (266,524)</u>	<u>\$ (583,411)</u>	<u>\$ (132,800)</u>	<u>\$ (130,000)</u>



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# Items needed to compute a shortfall

- Current Year Budget Order
- Form 22's relevant to the budget year being analyzed
- Detailed receipts report from your accounting system
- About 30 minutes to set up and minutes to maintain



# Calculation of Property Tax Shortfall

SAMPLE COUNTY, INDIANA

## SUMMARY OF CERTIFIED VS ACTUAL PROPERTY TAXES

YEAR

2008

### FORM 22'S - PROPERTY TAXES

Fund Number	Fund Name	2008 Certified (1)	9/16/2008 - 2008 STLMNT Adv Draw #1	2/9/2009 - June 2008 STLMNT - SPRING	5/1/09 - Dec 2008 STLMNT - FALL	Total Received	Under/ (Over) Collection
0101	General	\$ 6,430,393.00	\$ 1,221,774.67	\$ 1,832,662.01	\$ 3,054,436.68	\$ 6,108,873.35	\$ 321,519.65
0123	2006 Reasses	135,126.00	25,673.94	38,510.91	64,184.85	128,369.70	6,756.30
0790	Cum Bridge	993,571.00	188,778.49	283,167.74	471,946.23	943,892.45	49,678.55
0801	Health	105,319.00	20,010.61	30,015.92	50,026.53	100,053.05	5,265.95
0823	Mental Health	250,380.00	47,572.20	71,358.30	118,930.50	237,861.00	12,519.00
0843	Co. Welfare F&C	808,767.00	153,665.73	230,498.60	384,164.33	768,328.65	40,438.35
0856	County HCI	158,971.00	30,204.49	45,306.74	75,511.23	151,022.45	7,948.55
0858	Welfare MAW	3,974.00	755.06	1,132.59	1,887.65	3,775.30	198.70
0859	Welfare CSHCN	23,846.00	4,530.74	6,796.11	11,326.85	22,653.70	1,192.30
2391	CCD	391,467.00	74,378.73	111,568.10	185,946.83	371,893.65	19,573.35
Totals		\$ 9,301,814.00	\$ 1,767,344.66	\$ 2,651,016.99	\$ 4,418,361.65	\$ 8,836,723.30	\$ 465,090.70

Why?

(1) Per "Budget Order and 100% of Budget Levy Certification" report supplied by County Auditor.



# How to Investigate a Shortfall

- Pull Form 22's
- Allocate loss to the taxing units in the taxing district.
  - Need individual tax rates of each taxing unit in the taxing district (available from the Budget Order)
- If the shortfall is related to timing, it can be managed through temporary loans, interfund transfers or budget reductions.
- If shortfall is related to delinquencies then it is assumed you will eventually collect.
  - In other words, cannot appeal.
- If shortfall is related to errors/refunds then taxing unit may qualify for a temporary levy appeal.



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# Managing Shortfalls



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# Temporary Borrowing from Other Funds

- Taxing units may temporarily borrow money from any fund.
- The borrowed money must be repaid by the end of the current budget year or by June 30 of the ensuing budget year (if emergency declared by fiscal body).



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# Tax Anticipation Warrants

- 1-year loan from a financial institution
- May be necessary to “roll” the loan
- Interest costs



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# “Dormant Funds”

- Look for funds that are no longer in use that have existing balances.
- Funds can be declared dormant by the fiscal body and remaining balances may be transferred to the General Fund.
- Reference IC 36-1-8-5



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# Reduction of Current Budget (Appropriations)

- Estimate realistic expenditures through year-end.
- Formalize budget reductions with the passage of a “Reduction of Appropriation” resolution.





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# Discontinue Additional Appropriations

- Only request additional expenditures (appropriations) in extenuating circumstances.
- Determine if the “additional” expenditure can be deferred to a future period or funded by reducing an appropriation in another area.



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# Manage Non-Essential Spending

- Consider policy to delay non-essential spending until such time as property taxes revenues are fixed and measurable.
  - Typically this would be December of each year.
  - Recently this has been unknown well into the ensuing year.



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# Maintain Accurate Records

- Provides relevant information needed to make informed decisions.
- Provides taxpayers with an adequate record of county operations and information on the county's finances.
- Provides local officials, state and federal agencies, and financial investment analysts with sufficient data to assess the financial position of the municipality.
- Facilitates the preparation of budgets, annual reports and other documents such as grant or loan applications.
- Facilitates State Board of Accounts audits.



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# The Importance of Cash Reserves



# Cash Reserves

## (“Operating Balance”)

- Monies remaining at the end of a budget year after all revenues have been received and all expenditures have been disbursed.
- In theory, the operating balance should equal the amount needed to operate during the first 6 months of the ensuing year less miscellaneous revenues for the same period. (Minimum recommended reserve is 15% to 20% of budgeted disbursements.)
- The DLGF currently does not have the authority to limit operating balances except for certain funds as specified by statute.
- When preparing the proposed budget, operating balances should not be negative.



# The Importance of Cash Reserves

- With planning, many cash flow shortages can be managed without the need for short-term borrowing
- Demonstrates:
  - Fiscal accountability
  - Financial stability
- Provides funds to respond to unforeseen events or emergencies
- Provides funds for grant matching and capital expenditures

*Using cash reserves can be the most expensive dollars spent.*



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# Summary

- Be aware of the causes of shortfalls
- Understand the importance of cash flow modeling
- Understand the difference between a budget deficit and cash flow shortfall
- Understand the importance of maintaining adequate cash reserves



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