

August 4, 2011

City of Evansville Common Council  
Board of Commissioners of Vanderburgh County  
City of Evansville, Indiana

In re: Projection of Consolidation on Pay 2015 Tax Rates and Estimated Savings

Dear Common Council and Board of Commissioners:

Crowe Horwath LLP ("Crowe") was asked to perform additional scenarios and analysis on Scenario 6 from the Report on Financial Analysis of the Proposed Reorganization of the City of Evansville and Vanderburgh County ("Report") dated August 2, 2010. Scenario 6 allocated the City police services to the Full Urban Services District to be paid by City residents only and the Sheriff law enforcement expenses to a new Special Services District to be paid by residents that reside in the unincorporated areas of the County as well as incorporates an estimated savings of seven percent (7%) due to efficiencies gained through the reorganization. In addition to the seven percent (7%) savings, which is equivalent to approximately \$6,550,000, the following scenarios and analysis identify cost savings totaling \$781,579 in Scenario 7B discussed below. Though the Committee feels that the seven percent (7%) savings can be achieved, none of the savings due to efficiencies has been identified.

### **Discussion of Scenarios**

In addition to the allocations in Scenario 6 as previously described, Crowe was asked to project the City and County assessed valuations and budgets to Pay 2015 to project estimated tax rates, savings, if any, and the impact the consolidation could have on the circuit breaker.

There are two scenarios presented on the attached Exhibits, Scenario 7A and Scenario 7B. Scenario 7A projects estimated tax rates assuming no consolidation in Pay 2015. Scenario 7B projects estimated tax rates assuming the City and the County consolidate and the first budget year is 2015. In preparing this analysis, the following assumptions were made:

- The assessed values for each taxing district would increase annually by 2.79% which is the estimated average annual assessed value growth quotient through Pay 2015. The average annual assessed value growth quotient is based on a six-year average of the annual Indiana nonfarm personal income. This quotient is prepared annually by the State Budget Agency and released to assist communities in the preparation of their budgets.
- The five-year average change in all taxing units' budgets was 1.39%. The levy was increased 1.39% per year until Pay 2015.
- For Scenario 7B only, there would be no off-year election cycle so the projected savings would be \$240,000.

- Scenario 7B includes 1) an estimated savings of \$442,693 in salaries and benefits due to the elimination of five (5) elected positions, including shifting the functions of the City Controller and 2) an estimated savings of \$98,886 in professional service fees.

In order to project the tax rates, Crowe applied the average annual assessed value growth quotient to each taxing district's Pay 2010 assessed value on an annual basis until Pay 2015. Crowe performed the same procedure on the levy based on the five-year average change in the City and County budgets to project the estimated levies for Pay 2015. With the Pay 2015 assessed values and levies, Crowe was able to calculate the estimated Pay 2015 tax rates.

Exhibit A is the tax rate comparison assuming no consolidation. The columns on the left are the rates presented in the Report as compared to the projected estimated Pay 2015 tax rates on the right. The majority of the taxing districts are projected to see a tax rate decrease because the assessed value is estimated to grow faster than the projected levy. The two taxing districts that are projecting an increase will be fully annexed into the City of Evansville by Pay 2015. For Pay 2010 the two taxing districts are being phased-in and are not taxed at the full rate for the City services.

Exhibit B is the comparison of projected estimated tax rates for Pay 2015 with rates on the left assuming no consolidation (see Exhibit A) and the tax rates on the right assuming consolidation. The result of the comparison is that consolidation could increase the potential tax liability for the taxpayers in the County and the Town of Darmstadt but reduce the potential tax liability for the taxpayers in the City subject to the circuit breaker limitation described below. The increased tax liability for the County residents is due to the shift of the Sheriff law enforcement function to only residents in the County. This expense currently is shared by all residents living in the County, including City residents.

### **Additional Analysis**

- If the projected savings of seven percent (7%) is reduced to three percent (3%), the savings would be equivalent to approximately \$2,800,000 and would increase the estimated tax rate for the General Service District as shown on Exhibit B by approximately \$0.0498 per \$100 of net assessed valuation ("NAV").
- Crowe also performed additional analysis to see the impact of the Sheriff law enforcement levy on the taxpayers. Currently, Scenario 7B (Exhibit B) taxes only the residents that reside in the unincorporated areas of the County. In this additional analysis, the levy for the Sheriff law enforcement was moved back to the General Service District so that all taxpayers of the County, including the incorporated areas will pay for the services. As a result, the reorganized total tax rate would decrease by approximately \$0.1958 per \$100 NAV as compared to Scenario 7B for the unincorporated areas and increase by approximately \$0.0973 per \$100 NAV for the incorporated areas. Additionally, if the projected savings were reduced to three percent (3%) and the Sheriff law enforcement was allocated to the General Service District, the reorganized total tax rate would decrease by approximately \$0.1460 per \$100 NAV as compared to Scenario 7B for the unincorporated areas and increase by approximately \$0.1471 per \$100 NAV for the incorporated areas.

**Circuit Breaker Analysis**

The State General Assembly enacted legislation which provides taxpayers with a tax credit for all property taxes in an amount that exceeds a percentage of the gross assessed value of real and personal property eligible for the credit ("Credit"). A person is entitled to the Credit against

the person's property tax liability for property taxes first due and payable after 2009 in the amount by which the person's property tax liability attributable to the person's:

- (1) homestead would otherwise exceed 1%;
- (2) residential rental property would otherwise exceed 2%;
- (3) long term care property would otherwise exceed 2%;
- (4) agricultural land would otherwise exceed 2%;
- (5) nonresidential real property would otherwise exceed 3%; or
- (6) personal property would otherwise exceed 3%;

of the gross assessed value of the property that is the basis for determination of property taxes for that calendar year. The application of the Circuit Breaker Tax Credit will result in a reduction of property tax collections for each political subdivision in which the Circuit Breaker Tax Credit is applied.

The Legislative Services Agency ("LSA") prepared a report which estimates the impact of the Credit for all taxing units in the State. Pursuant to LSA data dated October 21, 2010, the estimated Credit allocable to the City and County for budget years 2011 and 2012 is shown in the following table.

	Estimated Circuit Breaker Tax Credit	
	<u>2011</u>	<u>2012</u>
City of Evansville	\$ 3,255,402	\$ 3,259,915
Vanderburgh County	1,693,987	1,706,807

**Circuit Breaker Analysis Examples**

As discussed above, homesteads are subject to Credits for any tax liability in excess of 1% of the gross assessed value ("GAV") of the property. Assuming \$100,000 for the GAV, the taxpayer's tax liability cannot be in excess of \$1,000. Any amount in excess of \$1,000 is considered a Credit. For example, a qualified homestead residential homeowner in the Evansville – Center Township taxing district with a GAV of \$100,000 and NAV of \$32,750 has an estimated property tax liability of \$836 for Pay 2010 thus the taxpayer receives no Credits because the taxpayer's tax liability is not in excess of \$1,000 (see Table #1 below). As a result of the proposed reorganization, a taxpayer with a NAV of \$32,750 could see a reduction in the

amount of property tax liability to \$718 (see Table #1 below). However, a qualified homestead residential homeowner in the same taxing district with a GAV of \$250,000 and NAV of \$130,250 has an estimated property tax liability before the Credits of \$3,326 for Pay 2010 thus the taxpayer receives \$826 in Credits because the taxpayer's tax liability is in excess of \$2,500 or 1% of the GAV (see Table #2 below). As a result of the proposed reorganization, a taxpayer with the same NAV may see a reduction in the amount of Credits from \$826 to \$357 but the taxpayer's tax liability will remain at \$2,500 because the taxing district tax rates are high enough that the estimated decrease does not decrease the taxpayer's liability to less than 1% of the gross assessed value or \$2,500 (see Table #2 below).

Table #1: Calculation of Estimated Net Property Tax Liability for a Qualified Homestead Residential Homeowner with \$100,000 GAV

<u>Payable Year</u>	<u>GAV</u>	<u>NAV</u>	<u>1% of GAV</u>	<u>Estimated Property Tax Liability</u>	<u>Estimated Circuit Breaker Tax Credits</u>	<u>Estimated Net Property Tax Liability</u>
2010	\$ 100,000	\$ 32,750	\$ 1,000	\$ 836	\$ -	\$ 836
2015	100,000	32,750	1,000	718	-	718

Table #2: Calculation of Estimated Net Property Tax Liability for a Qualified Homestead Residential Homeowner with \$250,000 GAV

<u>Payable Year</u>	<u>GAV</u>	<u>NAV</u>	<u>1% of GAV</u>	<u>Estimated Property Tax Liability</u>	<u>Estimated Circuit Breaker Tax Credits</u>	<u>Estimated Net Property Tax Liability</u>
2010	\$ 250,000	\$ 130,250	\$ 2,500	\$ 3,326	\$ (826)	\$ 2,500
2015	250,000	130,250	2,500	2,857	(357)	2,500

Generally, the impact to agricultural and business taxpayers located in the unincorporated areas of the County could see an increase in their annual tax liability. In large part, this is due to the Sheriff Special Services District taxpayers bearing the cost of the Sheriff law enforcement function whereas prior to the proposed reorganization, the law enforcement function was a cost to all taxpayers in the County. For example, a non-homestead residential rental property located within the Evansville – Center Township taxing district could see a decrease in their annual tax bill before Credits from \$6,384 to \$5,483 assuming a GAV of \$250,000 and no deductions (see Table #3 below). However, the taxpayer would see no impact to their tax bill liability because the reduction is captured in the Credits because the tax liability is in excess of 2% of the GAV or \$5,000.

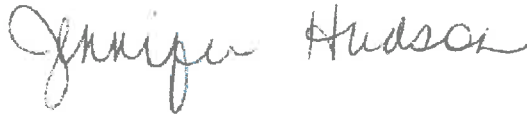
Table #3: Calculation of Estimated Net Property Tax Liability for a Non-Homestead Residential Rental Property

<u>Payable Year</u>	<u>GAV</u>	<u>NAV</u>	<u>1% of GAV</u>	<u>Estimated Property Tax Liability</u>	<u>Estimated Circuit Breaker Tax Credits</u>	<u>Estimated Net Property Tax Liability</u>
2010	\$ 250,000	\$ 250,000	\$ 5,000	\$ 6,384	\$ (1,384)	\$ 5,000
2015	250,000	250,000	5,000	5,483	(483)	5,000

There is no circuit breaker impact to non-residential real property and personal property at the 3% threshold because the tax rates do not exceed 3%.

If you have any questions, please contact me at (317) 269-2374.

Sincerely,



Jennifer Hudson

EVANSVILLE-VANDERBURGH COUNTY REORGANIZATION PLANNING COMMITTEE  
 Vanderburgh County, Indiana

Comparison of Pay 2010 Tax Rates to Projected Pay 2015 Tax Rates  
 Scenario 7A - Excluding Proposed Reorganization Plan

Taxing District	Pay 2010 Tax Rates										Projected Pay 2015 Tax Rates										Difference
	County (1)	Township	School	Library	City	Special District (1)	Total	County	Township	School	Library	City	Special District	Total							
Armstrong Township	\$ 0.5692	\$ 0.0789	\$ 0.5475	\$ 0.1684	\$ 0.1126	\$ 0.0791	\$ 1.5557	\$ 0.5315	\$ 0.0737	\$ 0.5112	\$ 0.1573	\$ 0.1051	\$ 0.0739	\$ 1.4527							
Center Township	0.5692	0.0663	0.5475	0.1684	0.1126	0.0791	1.5431	0.5315	0.0619	0.5112	0.1573	0.1051	0.0739	1.4409							
German Township	0.5692	0.0616	0.5475	0.1684	0.1126	0.0791	1.5384	0.5315	0.0574	0.5112	0.1573	0.1051	0.0739	1.4364							
Knight Township	0.5692	0.0746	0.5475	0.1684	0.1126	0.0791	1.5514	0.5315	0.0696	0.5112	0.1573	0.1051	0.0739	1.4486							
Perry Township	0.5692	0.0685	0.5475	0.1684	0.1126	0.0791	1.5453	0.5315	0.0639	0.5112	0.1573	0.1051	0.0739	1.4429							
Pigeon Township	0.5692	0.2629	0.5475	0.1684	0.1126	0.0791	1.7397	0.5315	0.2455	0.5112	0.1573	0.1051	0.0739	1.6245							
Scott Township	0.5692	0.1617	0.5475	0.1684	0.1126	0.0791	1.6385	0.5315	0.1509	0.5112	0.1573	0.1051	0.0739	1.5299							
Union Township - Real Estate	0.5692	0.2688	0.4225	0.1684	0.1126	0.0791	1.6206	0.5315	0.2510	0.3845	0.1573	0.1051	0.0739	1.5133							
Union Township - Personal Property	0.5692	0.2688	0.5475	0.1684	0.1126	0.0791	1.7456	0.5315	0.2510	0.5112	0.1573	0.1051	0.0739	1.6300							
Darmsstadt - Armstrong Township	0.5692	-	0.5475	0.1684	0.3143	0.0791	1.6785	0.5315	-	0.5112	0.1573	0.2934	0.0739	1.5673							
Darmsstadt - Center Township	0.5692	0.0226	0.5475	0.1684	0.3143	0.0791	1.7011	0.5315	0.0211	0.5112	0.1573	0.2934	0.0739	1.5779							
Darmsstadt - German Township	0.5692	0.0114	0.5475	0.1684	0.3143	0.0791	1.6899	0.5315	0.0106	0.5112	0.1573	0.2934	0.0739	1.5884							
Darmsstadt - Scott Township	0.5692	0.0148	0.5475	0.1684	0.3143	0.0791	1.6933	0.5315	0.0136	0.5112	0.1573	0.2934	0.0739	1.5779							
Evansville - Center Township	0.5692	0.0226	0.5475	0.1684	1.1719	0.0741	2.5637	0.5315	0.0211	0.5112	0.1573	1.0942	0.0692	2.3845							
Evansville - Knight Township	0.5692	0.0128	0.5475	0.1684	1.1719	0.0741	2.5439	0.5315	0.0119	0.5112	0.1573	1.0942	0.0692	2.3753							
Evansville - Annexation - Knight Township	0.5692	0.0128	0.5475	0.1684	0.3773	0.0741	1.7493	0.5315	0.0119	0.5112	0.1573	1.0942	0.0692	2.3753							
Evansville - Perry Township	0.5692	0.0235	0.5475	0.1684	1.1719	0.0741	2.5646	0.5315	0.0219	0.5112	0.1573	1.0942	0.0692	2.3853							
Evansville - Pigeon Township	0.5692	0.0680	0.5475	0.1684	1.1719	0.0741	2.5991	0.5315	0.0635	0.5112	0.1573	1.0942	0.0692	2.4269							
Evansville - Annexation - Pigeon Township	0.5692	0.0680	0.5475	0.1684	0.3773	0.0741	1.8045	0.5315	0.0635	0.5112	0.1573	1.0942	0.0692	2.4269							

(1) Health and Museum rates are included in Special District.

EVANSVILLE-VANDERBURGH COUNTY REORGANIZATION PLANNING COMMITTEE  
Vanderburgh County, Indiana

Scenario 7B - Creation of Special Sheriff District for Unincorporated Areas Only and 7% Cost Savings in General Services District

Taxing District	Projected Pay 2015 Tax Rates										Reorganized Tax Rates						Difference
	County (1)	Township	School	Library	City	Special District (1)	Total	General Service	Township	School	Library	Full Urban Services	Special District	Special Sheriff	Total		
Armstrong Township	\$ 0.5315	\$ 0.0737	\$ 0.5112	\$ 0.1573	\$ 0.1051	\$ 0.0739	\$ 1.4527	\$ 0.4540	\$ 0.0737	\$ 0.5112	\$ 0.1573	\$ -	\$ 0.0739	\$ 0.2931	\$ 1.5632	\$ 0.1105	
Center Township	0.5315	0.0619	0.5112	0.1573	0.1051	0.0739	1.4409	0.4540	0.0619	0.5112	0.1573	-	0.0739	0.2931	1.5514	0.1105	
German Township	0.5315	0.0574	0.5112	0.1573	0.1051	0.0739	1.4364	0.4540	0.0574	0.5112	0.1573	-	0.0739	0.2931	1.5469	0.1105	
Knight Township	0.5315	0.0696	0.5112	0.1573	0.1051	0.0739	1.4486	0.4540	0.0696	0.5112	0.1573	-	0.0739	0.2931	1.5591	0.1105	
Perry Township	0.5315	0.0639	0.5112	0.1573	0.1051	0.0739	1.4429	0.4540	0.0639	0.5112	0.1573	-	0.0739	0.2931	1.5534	0.1105	
Pigeon Township	0.5315	0.2455	0.5112	0.1573	0.1051	0.0739	1.6245	0.4540	0.2455	0.5112	0.1573	-	0.0739	0.2931	1.7350	0.1105	
Scott Township	0.5315	0.1509	0.5112	0.1573	0.1051	0.0739	1.5289	0.4540	0.1509	0.5112	0.1573	-	0.0739	0.2931	1.6404	0.1105	
Union Township - Real Estate	0.5315	0.2510	0.3945	0.1573	0.1051	0.0739	1.5133	0.4540	0.2510	0.3945	0.1573	-	0.0739	0.2931	1.6238	0.1105	
Union Township - Personal Property	0.5315	0.2510	0.5112	0.1573	0.1051	0.0739	1.6300	0.4540	0.2510	0.5112	0.1573	-	0.0739	0.2931	1.7405	0.1105	
Darmsstadt - Armstrong Township	0.5315	-	0.5112	0.1573	0.2934	0.0739	1.5673	0.4540	-	0.5112	0.1573	0.1883	0.0739	0.2931	1.6778	0.1105	
Darmsstadt - Center Township	0.5315	0.0106	0.5112	0.1573	0.2934	0.0739	1.5884	0.4540	0.0211	0.5112	0.1573	0.1883	0.0739	0.2931	1.6989	0.1105	
Darmsstadt - German Township	0.5315	0.0138	0.5112	0.1573	0.2934	0.0739	1.5779	0.4540	0.0106	0.5112	0.1573	0.1883	0.0739	0.2931	1.6884	0.1105	
Darmsstadt - Scott Township	0.5315	0.0138	0.5112	0.1573	0.2934	0.0739	1.5811	0.4540	0.0138	0.5112	0.1573	0.1883	0.0739	0.2931	1.6916	0.1105	
Evansville - Center Township	0.5315	0.0211	0.5112	0.1573	1.0942	0.0692	2.3845	0.4540	0.0211	0.5112	0.1573	0.9803	0.0692	0.2931	2.1931	(0.1914)	
Evansville - Knight Township	0.5315	0.0119	0.5112	0.1573	1.0942	0.0692	2.3753	0.4540	0.0119	0.5112	0.1573	0.9803	0.0692	0.2931	2.1839	(0.1914)	
Evansville - Annexation - Knight Township	0.5315	0.0119	0.5112	0.1573	1.0942	0.0692	2.3753	0.4540	0.0119	0.5112	0.1573	0.9803	0.0692	0.2931	2.1839	(0.1914)	
Evansville - Perry Township	0.5315	0.0219	0.5112	0.1573	1.0942	0.0692	2.3853	0.4540	0.0219	0.5112	0.1573	0.9803	0.0692	0.2931	2.1939	(0.1914)	
Evansville - Pigeon Township	0.5315	0.0635	0.5112	0.1573	1.0942	0.0692	2.4269	0.4540	0.0635	0.5112	0.1573	0.9803	0.0692	0.2931	2.2355	(0.1914)	
Evansville - Annexation - Pigeon Township	0.5315	0.0635	0.5112	0.1573	1.0942	0.0692	2.4269	0.4540	0.0635	0.5112	0.1573	0.9803	0.0692	0.2931	2.2355	(0.1914)	

(1) Health and Museum rates are included in Special District.