Association of Indiana Counties
June 18, 2024
State and Local Tax Review

MLGQ Background

- *Topic 1 & 4 Max Levy Growth Quotient formula and excess levy appeals qualifications.*
- For municipal units, including counties:
  - AVGQ/MLGQ began in 1973 as basis for levy growth.
  - From 1983-2002 units increased levy based on 3 year growth of CNAV in unit, reflective of actual growth within the unit.
  - In 2002 the AVGQ/MLGQ changed to statewide rate of average non-farm personal income growth over previous 6 year period as the basis for MLGQ, not growth of the unit.

MLGQ Background

- For Schools:
  - General Fund (education fund) was adjusted by average daily student attendance since 1973.
    - Education fund no longer on property taxes since 2008.
  - Operations Fund (transportation, bus replacement etc.) now supported by property taxes.
    - Adjusted by MLGQ since 2019.
  - School Operations fund gets the greater of the MLGQ or the 3 year average AV growth in school corporation (if between 102%-104% of MLGQ (automatic).
    - Capped in HEA 1499 (2023) for Pay 24 and 25

MLGQ Background

- For municipalities, growth in AV no longer impacts a unit's MLGQ (absent other mechanisms).

- Examples:

- MLGQ calculation does use growth in AV of the unit when considering annexation adjustments, but not actual year to year AV growth absent annexations.

- MLGQ calculation allows for excess levy appeals if unit CNAV (double of CNAV) and Population growth (150% of prior census) meet thresholds (automatic).

MLGQ

- MLGQ calculation does not allow for a reduction in levy from previous year, absent statutory mechanisms like what we saw enacted as MLGQ cap for 2023 and 2024.

- Because not all AV growth creates the same service costs, growth in CNAV does not reflect **growth in service requirements and costs.**

- The existing statutory allowances for growth beyond standard MLGQ rate such as school growth formula and annexation allowances (which are automatic) and excess levy appeals can further alter the share each unit receives from the property tax base.

MLGQ

- Additionally, not all funds are subject to MLGQ, ("outside the max") which increases the impact in revenue split among taxing units.
  - Debt Service ("need based" limited to what is necessary to make payments in the budget year)
  - Various Cumulative Funds controlled by rate rather than levy.

- Unequal growth in MLGQ (in some communities) and tax caps cause different properties pay differently towards county wide services received by all county residents.

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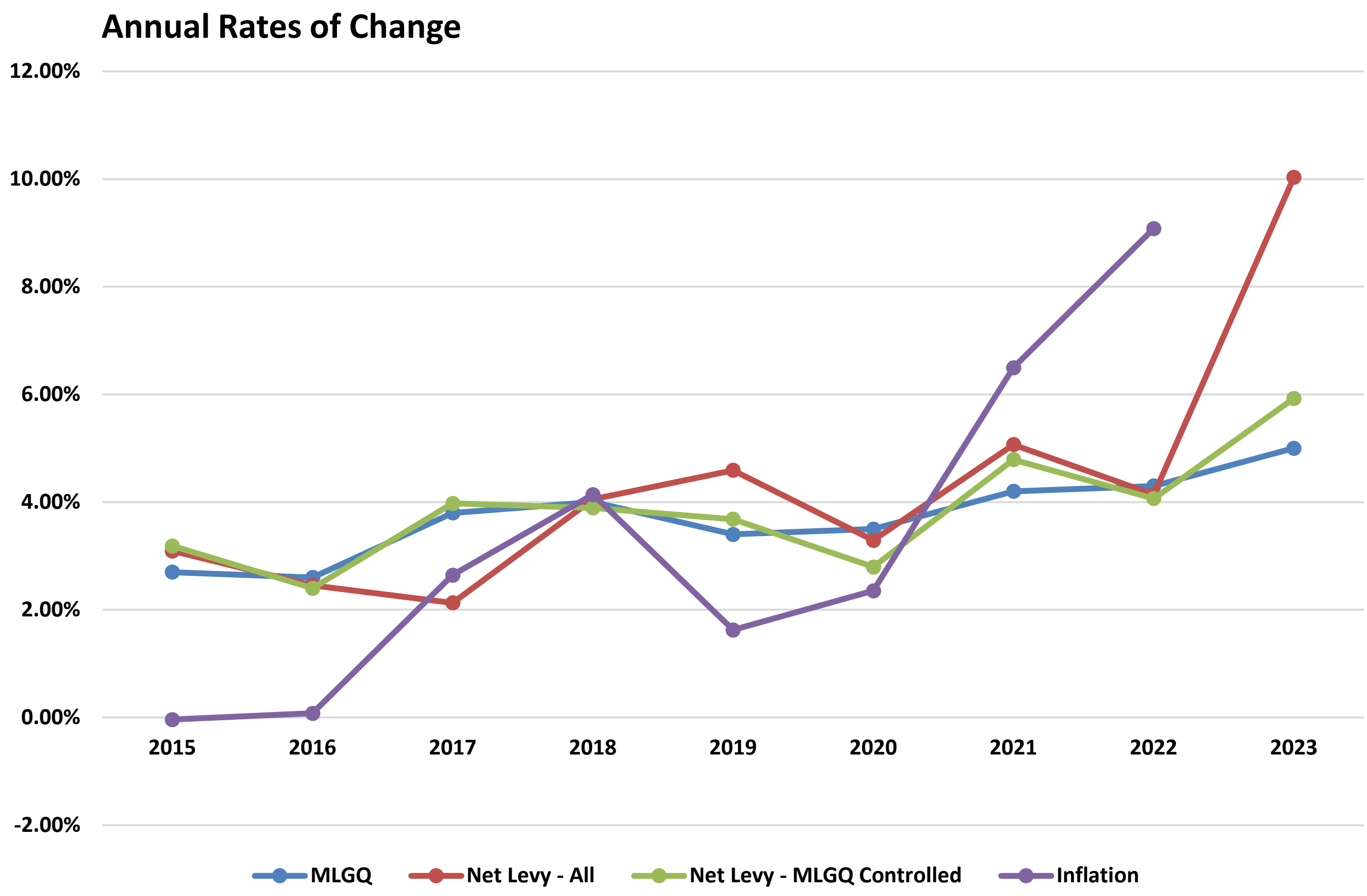

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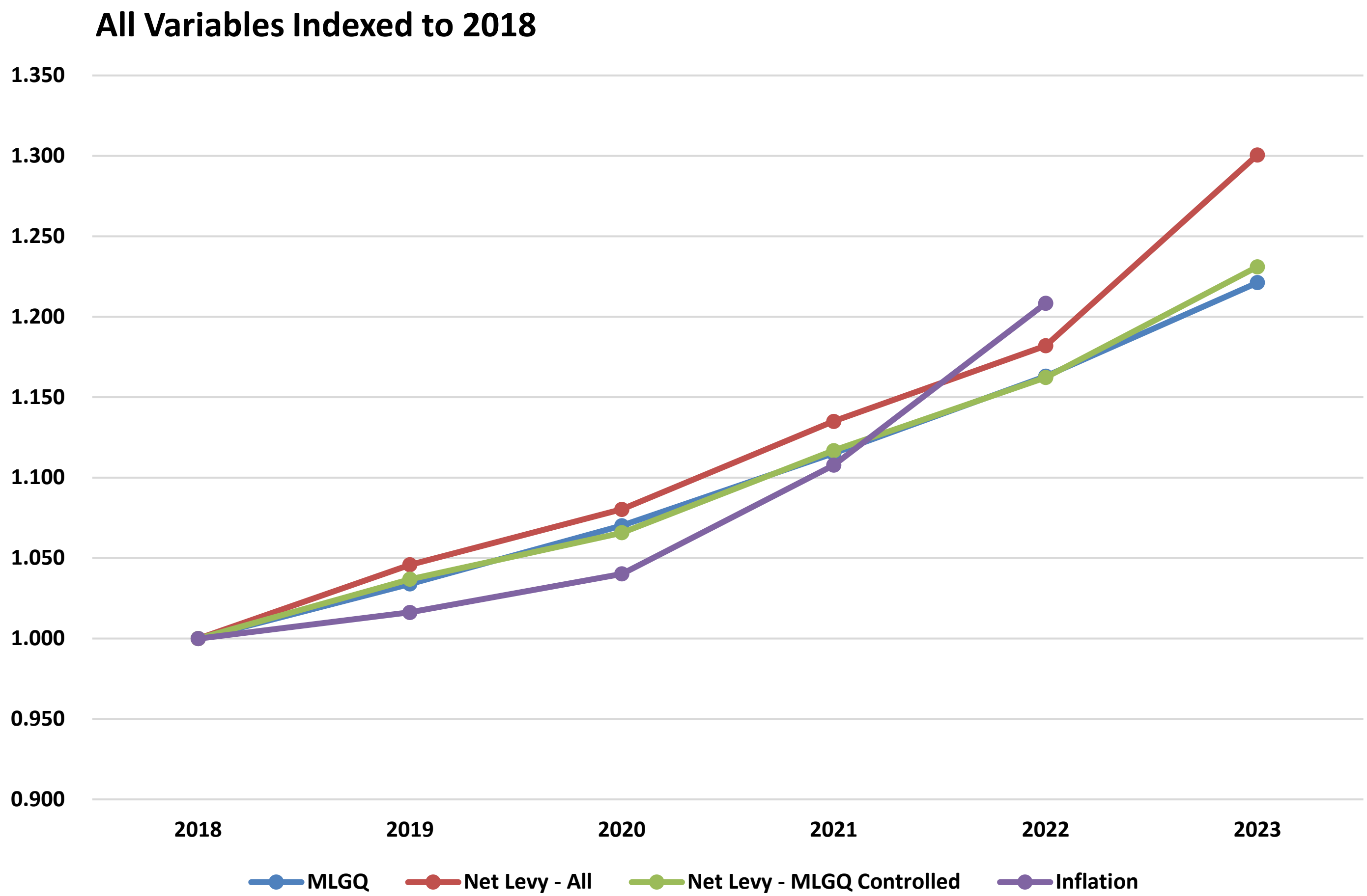

MLGQ

- This graph show that controlled levies increased at comparable rates with the MLGQ, as expected, prior to the MLGQ caps enacted in 2023.
- In years with low inflation, the MLGQ allowed net levy growth above inflation but rising inflation dramatically changed the picture in the past year or two in terms of funds outside the MLGQ. Yet, controlled fund increases were not nearly as dramatic.
- Contrast the increase in the non-controlled funds which rose somewhat with inflation (though delayed) to the slower growth in MLGQ controlled funds.

MLGQ

- Use of the exceptions to MLGQ is part of the manner in which local units are forced to fight over property tax dollars. The calculation in each unit type does not reflect actual service cost as a basis, nor growth of those costs.

- The current MLGQ calculations (in their various forms) may no longer function effectively to align costs to revenue distributions, but increased service costs absolutely need to recognized and allowed within county budgeting.

- Increased service costs due to:
  - Inflation
  - Increased number of service recipients
  - New services provided

- **If MLGQ is going to be reformed, recognition of rising service costs due to these factors must be part of the system.**

Excess Residential Assessment

- *Topic 5: Use of influence factor or assessed value deduction for assessment of excess residential acreage.*

- The basis for real property assessment relative to the Indiana Constitution was set out in the series of *Town of St. John* decisions by the Indiana Supreme Court. Those decisions set out standards by which Indiana laws must comply with Article 10.

Excess Residential Assessment

- *Indiana Supreme Court -"We conclude that the Property Taxation Clause requires the General Assembly to provide for a system of assessment and taxation characterized by uniformity, equality, and just valuation based on property wealth".* Further**,** *"assessment regulations must be based on objectively verifiable data to enable review of the system and to ensure that it generally provides for uniformity and equality based on property wealth". (emphasis added)*

- This and other quotes from the Court generally have been taken by us to mean assessments must be based on objective measures of property wealth and to artificially lower assessment of one class of property is neither uniform across all classes nor based on objectively verifiable data which measures property wealth.

Excess Residential Assessment

- However, the Indiana Constitution does allow deductions and credits specifically in Article 10, Section 1 (b):

- *"A provision of this section permitting the General Assembly to exempt property from taxation also permits the General Assembly to exercise its legislative power to enact property tax deductions and credits for the property. The General Assembly may impose reasonable filing requirements for an exemption, deduction, or credit."*

Excess Residential Assessment

- While deductions and credits each will have their own policy implications, we urge the legislature to consider these mechanisms to carry out tax policy rather than approach them from an assessment standpoint.

- While deductions will have impacts to other taxpayers through shifts of tax burden and credits will have negative financial impacts to units, they do not run afoul of the Indiana Constitution.

- Assessors also hear from taxpayers on these and other issues. For example of a policy that meets the constitutional standard, the Over 65 Deduction may be in need of updating to reflect rise in home values. In this way, tax policy is carried out in a manner that remains constitutional.