

Some Consequences of Circuit Breakers for Local Government Policy

The new circuit breakers create new complications for local government policymaking. In counties with significant circuit breaker credits, policy changes in one jurisdictions can affect the revenues of others.

Interdependent budgets. The school corporation sets its tax rate. So does the city and the county. The sum of those tax rates is what taxpayers pay. If the sum is high enough, taxpayers will be eligible for circuit breaker credits, and revenues will be lost. Losses will be allocated among the local units, based on shares in the tax rate. So: the school corporation's budget decisions affect the revenues received by the city, the city's decision affect the school, both affect the county. Local government officials can't know how much revenue they'll receive, until all units set their budgets and tax rates. *No one can budget until everyone budgets.*

Annexation. When a city/town annexes territory, it adds an extra layer of tax rates to additional taxpayers. Higher tax rates mean more taxpayers will be eligible for circuit breaker credits, and these revenue losses will be divided among the overlapping governments. The school corporations, county and others may lose revenue from city/town annexation.

Bond issues. Debt service tax rates on smaller bond issues are covered by the circuit breaker limits. The higher tax rates from added debt service will reduce the revenues of overlapping governments, and reduce the operating revenues of the government that issued the bond. Larger bond issues are outside the circuit breaker limits, and so will not affect other revenues. These bond issues are subject to referenda.

Changes in Assessed Values. Changes in assessed values affect tax rates. If tax rates rise, more taxpayers will be eligible for circuit breaker credits, which will be allocated among overlapping units. This means that changes in assessed values even outside a school corporation's or city's borders could affect its revenues, if it changes the county's tax rate.

Assessment Practice. If assessments are too low, and tax rates are higher, circuit breaker limits will be tighter and more taxpayers will be eligible for circuit breaker credits. Under-assessment results in revenue losses.