AIC Summary of Annexation Tax and Revenue Issues and Suggested Reforms

INTRO: Annexation has been an issue of contention for many years, principally between municipalities and those taxpayers who are opposed to a proposed annexation of their property. Most legislative debates and statutory changes have revolved around the relationship between the city or town and the annexed taxpayer, whether in reference to legal proceedings or service delivery, particularly utility service. The tax caps have now, however, created a new dynamic that causes significant consequences to other units due to annexations.

Issue 1. Annexation of capped parcels (or parcels that will be pushed to the cap by the addition of the municipal levy) causes losses to other overlapping taxing units without a corresponding change in service delivery.

Issue 2. Tax caps have required counties to use more income tax revenues to support local services. Levy adjustments due to annexation provide the annexing municipality with a greater share of the income tax distribution for CAGIT or COIT and the change in population changes the distribution of CEDIT, again, without a corresponding change to service delivery.

Potential Reforms:
1.) Property tax revenue loss for other units (increase in the limited only to the amount of services taken over by annexing municipality.
   a. Example: Percentage of unincorporated residents tax liability used to fund sheriff’s road patrol, township fire service, planning and zoning costs etc., would be reduced and only that portion of the levy would be transferred to the annexing municipality.
   b. Provide much greater discretion to the DLGF to calculate levy increases based only on additional services provided to newly annexed residents; or
   c. Require county auditor to reduce tax distribution or levy for those individuals annexed in this way.
2.) Comprehensive reform of local option income taxes.
   a. Revenue directed to units performing services rather than share of levy.
   b. Property tax relief based on unit loss to circuit breaker.
   c. Simplification of rates.

Other Issues:
1.) Opportunities for individuals to challenge annexation.
2.) Utility concerns, both for the municipalities’ ability to extend services to spur economic development and competition between existing utility providers.
3.) Annexation boundaries meeting 1/8 test but bypassing areas that should be annexed for more efficient service delivery.
Effect of Annexation post Circuit Breakers

Revenue summary of potential annexation by City of Fort Wayne

The area used in the example below is north of Fort Wayne and has approximately 12,500 residents. The area currently receives City of Fort Wayne Utilities (water & sewer) and has been considered on and off by the City for several years but considered again recently due to lost revenue from circuit breaker credits.

| Additional Revenue to the City of Fort Wayne | $ 7,000,000 |
| Make-up of additional revenue: |
| New additional property tax paid by taxpayers under the caps: | $ 2,000,000 |
| Property Tax Revenue from other tax units due to circuit breaker allocation: |
| Northwest Allen County Schools reduction | $ 2,500,000 |
| Allen County Government reduction | $ 1,000,000 |
| Other overlapping tax unit reductions | $ 500,000 |
| CEDIT income tax revenue from population adjustment |
| Allen County Government reduction | $ 1,000,000 |
| Total revenue shifted from other units to Fort Wayne | $ 5,000,000 |
| Total additional revenue to City of Fort Wayne | $ 7,000,000 |

Key Points:

1) Over 70% of the additional revenue that Fort Wayne would receive would come from other tax units.
2) A majority of the annexed taxpayers will not pay more tax after the annexation because they are already at the property tax caps.
3) Annexation switches from a primarily contentious issue with taxpayers to a primarily contentious issue with other political subdivisions (tax units).
4) Schools, already hit hard by circuit breakers, will not be able to operate successfully with the additional decreases in revenue due to annexations.
Property Tax Distribution

$155K home, without mortgage

- Township: $327
- County: $89
- Library: $55
- School: $448
- State: $1,036
- City: $648

Total: $1,550

Property Tax Rate: 4.92%