



Damon Run Conservancy District

P.O. Box 472
Valparaiso, IN 46384

Phone: 219-395-1800
Fax: 888-877-7110

NEWSLETTER

RE: Damon Run Conservancy District – Property Taxes
Date: November 13, 2009

Recently questions have been raised regarding District property taxes. This memo has been prepared by the District in conjunction with its accountant in an effort to address the property tax questions. Most questions relate to why taxes for the District are anticipated to fluctuate, from the first tax bill freeholders received for the District over the next few years.

While explanations have previously been provided, it may be helpful to restate how the District operates from a revenue and expense standpoint. The District has three primary revenue sources to pay for its operations and outstanding debt. The three sources include property taxes, user fees and connection fees. The District currently pays for all operating costs through user fees and connection fees. User fees are billed on a monthly basis and connection fees are one-time fee assessed to the property owner at the time of connection to the District's utility system. The District operates with a very lean and efficient management structure. Overhead expenses have been kept low through minimal staff and largely volunteer services.

The District has debt arising from its utility system. Property taxes and cash on hand from capitalized interest are used to pay the District's lender and service its debt. Capitalized interest is money from the original bond anticipation notes ("BANs" i.e. the District's debt) the District set aside as part of its financial plan to help manage the amount of property tax needed to pay interest on the BANs during the initial years of the District's existence. It was planned to use this cash on hand in Pay 2008 through Pay 2010 to keep tax rates affordable and relatively level (\$1,800 - \$2,000 based on a \$225,000 home) while allowing the District to build-out and add users to the system. **The primary key to managing an affordable tax rate is to maximize and expedite the level of growth within the District. In other words the more users that connect into the District, the lower the tax rate will ultimately be.** To the extent that growth does not occur at the levels anticipated in the District financial plan, the tax rate will increase. While growth of the District is the best way to manage the tax rate, there are limited other methods to assist in managing the tax rate due to less growth than projected. These methods include user fee and connection fee revenue to help pay for debt service. In response to slower growth due to the nationwide economic financial issues, at the beginning of 2009 the District increased the connection fee by \$2,000. This cost was passed on to new connections to the system and does not impose any cost on existing users of the system. Additionally, to further help in managing the rate, the District is in the process of increasing the monthly user fees for sewer and water. The increase is \$3.50 for water and sewer each month and these dollars will be applied to debt service and help maintain a reasonable tax rate. Each of the foregoing arises from the financial plan of the District.

The tax rate for the District increased from Pay 2008 to Pay 2009. The attached spreadsheet compares the current District outlook to the District's original Financial Plan. Per the original Financial Plan, the District anticipated a Pay 2008 tax bill to be approximately \$1,800 for a \$225,000 home. For Pay 2009 the District estimated a tax bill of approximately \$2,000. For Pay 2010 the District estimated a tax bill of just

under \$1,200. This Financial Plan met the District's original goal of keeping annual tax bills below \$2,000.

Based on what has actually transpired over the past few years, the Pay 2008 tax bill for a \$225,000 home was approximately \$1,600, for Pay 2009 approximately \$2,075, and Pay 2010 is anticipated to be just under \$2,000. The variances are due to differences in net assessed valuation ("NAV"). Actual Pay 2008 NAV was approximately \$4,000,000 higher than originally estimated, reducing the annual property tax bill from our original estimates. For Pay 2009 the actual tax bill is slightly higher than anticipated. This increase is due to the NAV being approximately \$1,800,000 lower than anticipated in the original Financial Plan. For Pay 2010 the current estimate assumes NAV remains at the Pay 2009 level. This is a conservative estimate and with each new home, business or property added to the District the NAV for the District will increase. Please note that Liberty Intermediate School is not yet connected to the District's system but will be very soon. Once connected, the School will begin paying fees and charges for the use of the system. Since the School was not connected when the 2010 budget was prepared, additional revenue is not relied on for 2010. As is always the case, should the Pay 2010 NAV increase, the estimated residential tax bill would decrease.

In spite of the efforts expended, tax bills have increased approximately \$500 for a \$225,000 home from Pay 2008 to Pay 2009. The simple reason is Pay 2008 NAV was significantly higher than anticipated which in effect lowered Pay 2008 tax bills and as a result created an increase for Pay 2009. Had Pay 2008 NAV been closer to the original estimate, the change from Pay 2008 to Pay 2009 tax bills would not have been as noticeable. Pay 2010 taxes are estimated to be slightly lower than Pay 2009; however, Pay 2010 taxes and taxes in future years will ultimately be contingent upon the level of growth that occurs within the District.

It is also important to note that to date the District has been paying interest only on outstanding debt. Beginning with Pay 2011 taxes, principal payments on the outstanding debt will be added, increasing the annual debt service payment for the District. The impact on property taxes of adding principal payments will ultimately be driven by changes in the District's NAV.

One final issue that may impact the amount of property tax revenue the governmental units across the State will face in future years is House Enrolled Act 1001. HEA 1001 caps the amount of property taxes property owners will be required to pay in a given year. In 2010, this cap will be 1% of NAV for homestead residential properties. The District monitors the action of the State legislature, but there is not sufficient information is available at this time in order to determine the overall impact to the District.