Purdue Cooperative Extension Service

On Local Government

The Economy, the State Budget and Farmland Taxes

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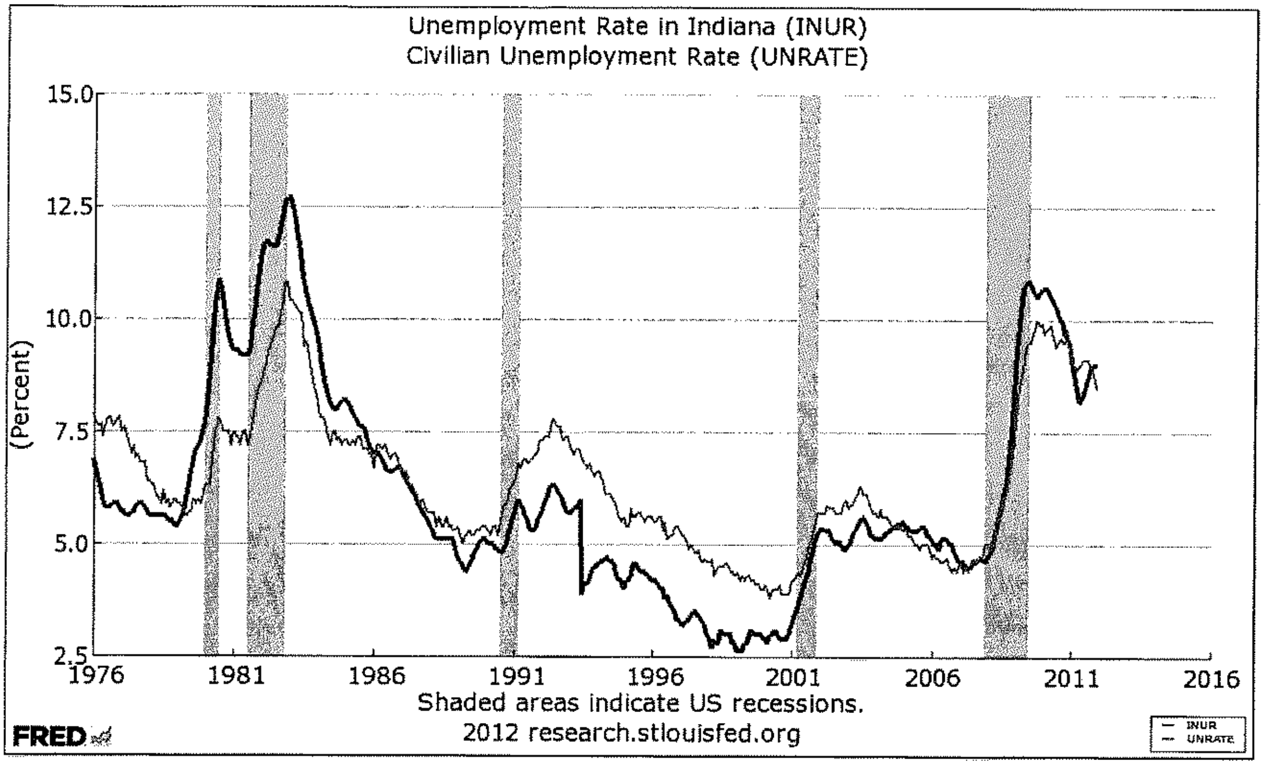
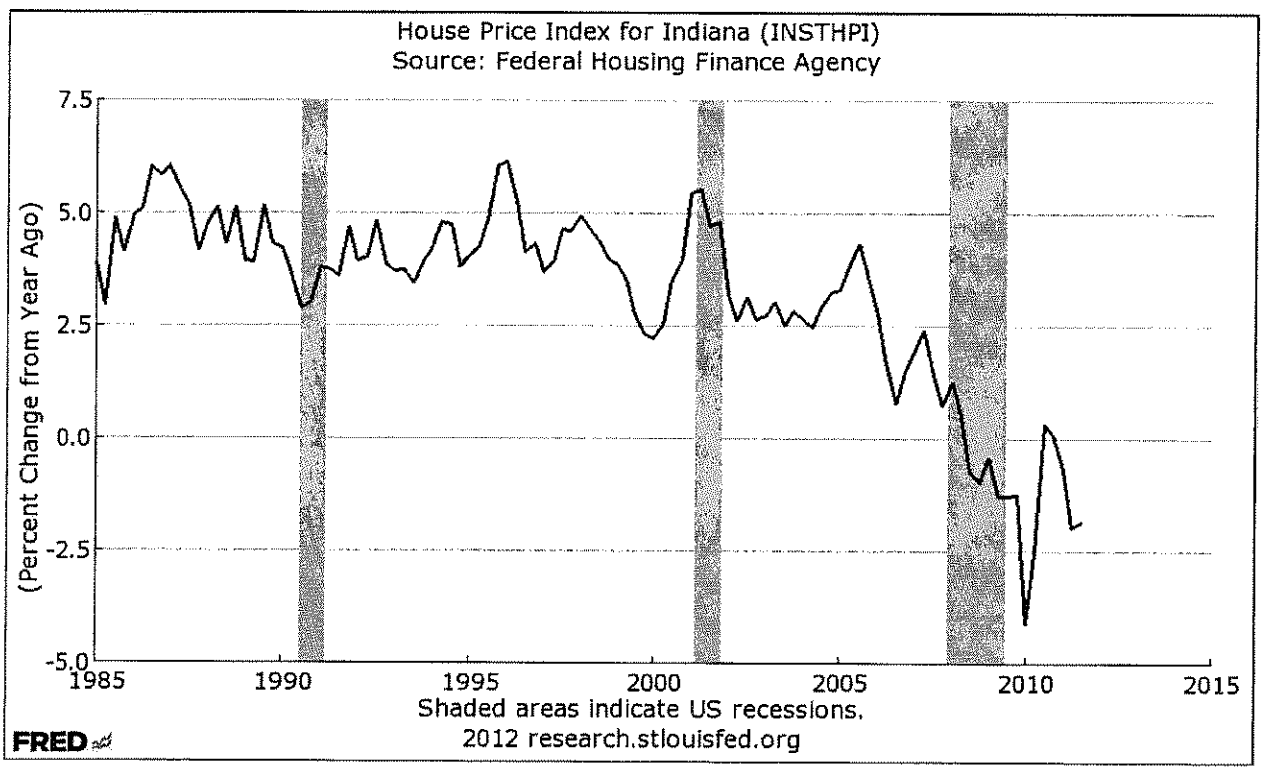
February 1, 2012

For more information
DeBoer's Indiana Local Government Information website:
www.agecon.purdue.edu/crd/Localgov

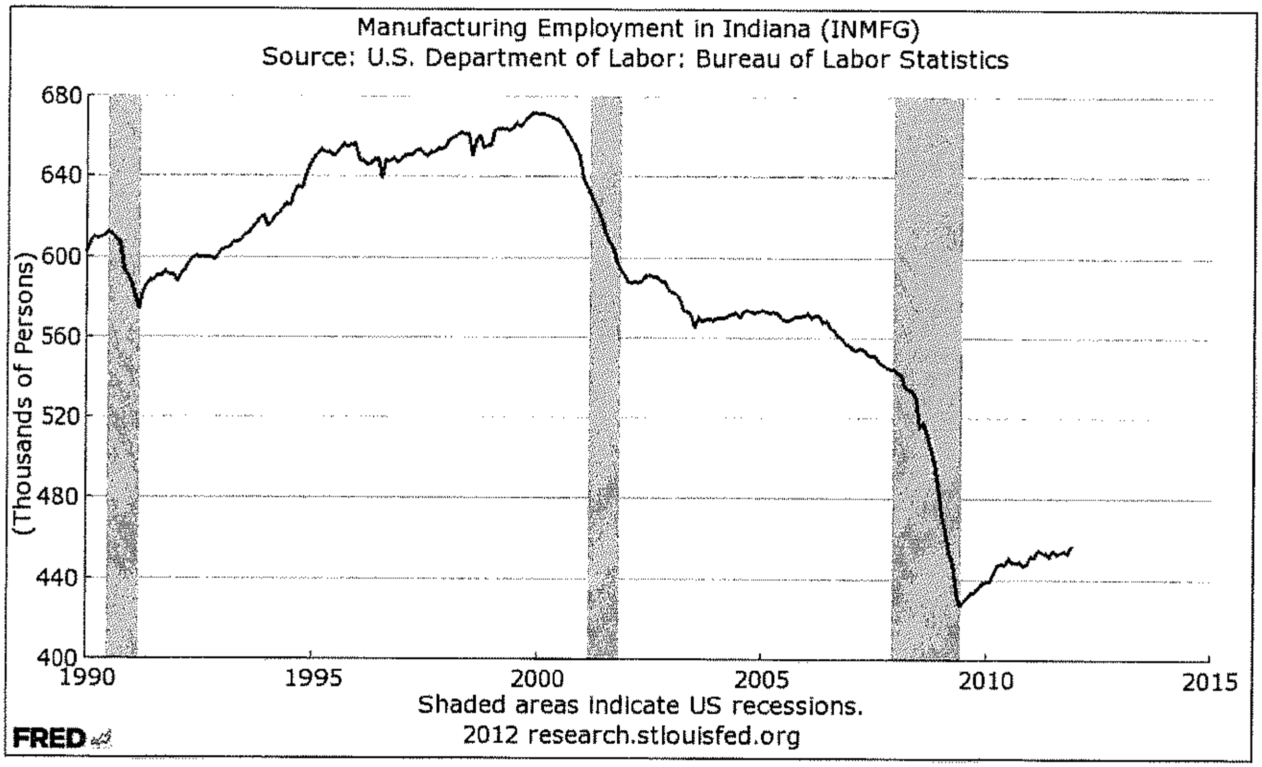
Unemployment Rate, US and Indiana



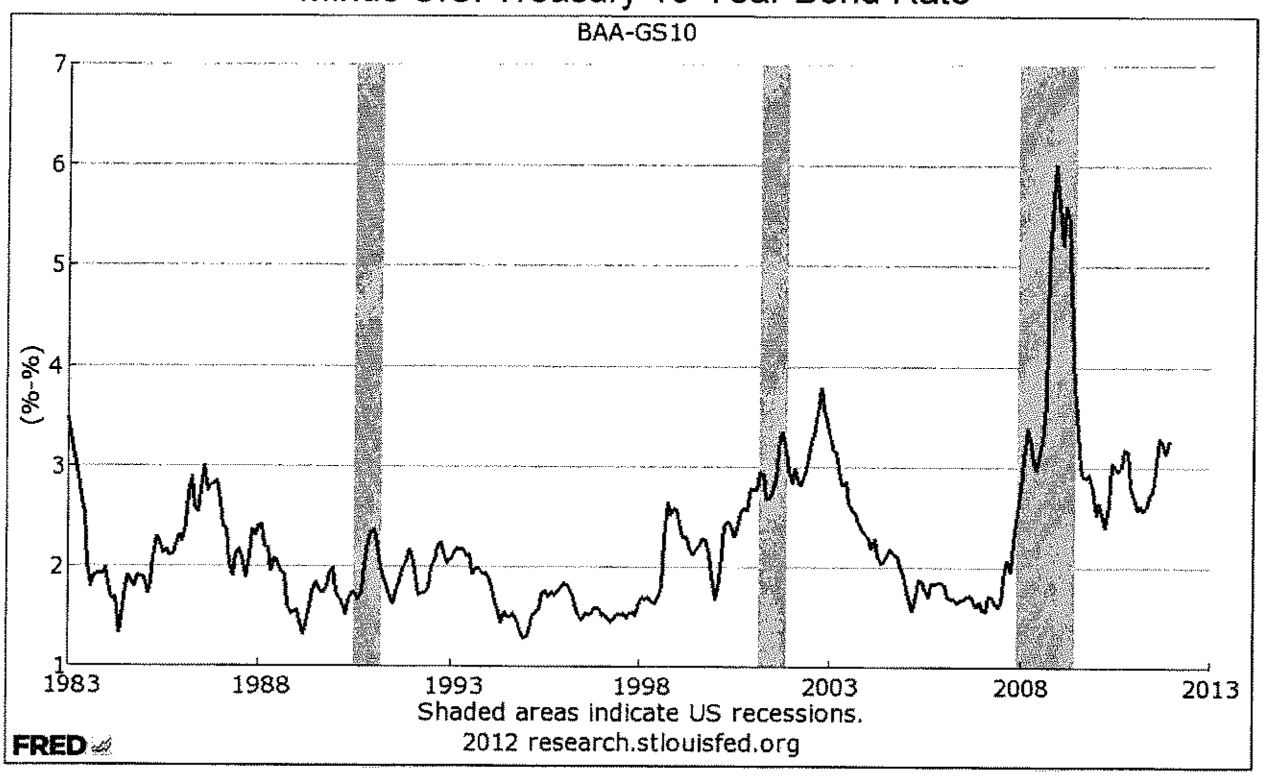
House Price Index, Indiana, Percent Change from Year Ago



Manufacturing Employment, Indiana



Interest Rate Spread: Corporate BAA Bond Rate Minus U.S. Treasury 10-Year Bond Rate



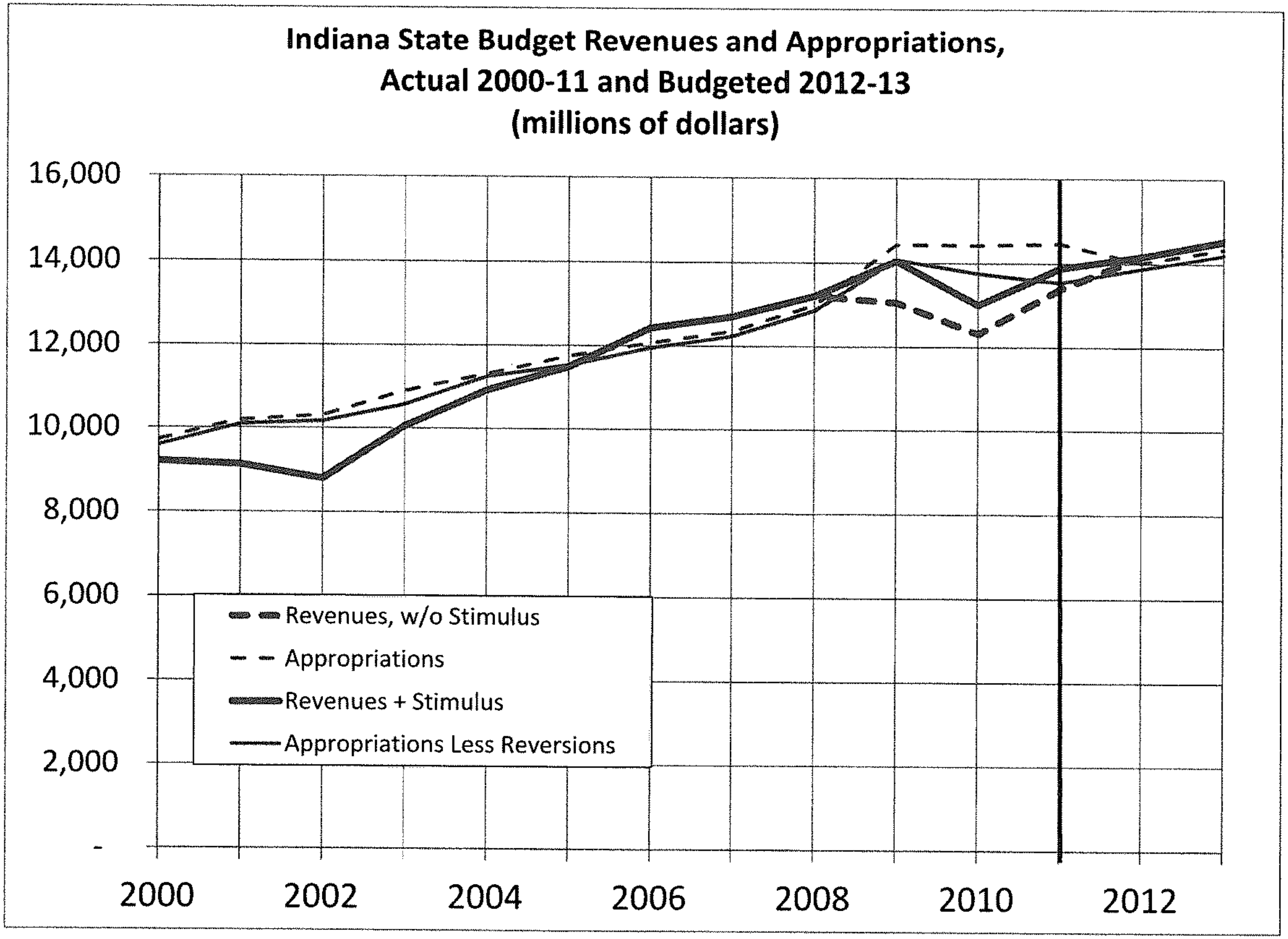
Indiana State Budget Summary, FY 2007-2013

(millions of dollars, updated through December 2011 forecast revision)

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Budget 2012	Budget 2013	Avg. Ann Change 2011-13
Start of Year Balances	1,089	1,286	1,413	1,420	831	1,182	1,766	
Revenues								
Sales Tax	5,379	5,686	6,153	5,915	6,218	6,618	6,865	5.1%
Individual Income Tax	4,616	4,838	4,314	3,876	4,586	4,890	5,084	5.3%
Corporate Income Tax	987	910	839	592	705	796	785	5.5%
Gaming	625	583	621	680	677	633	581	-7.3%
All Other	1,096	1,187	1,125	1,255	1,200	1,233	1,222	0.9%
Total	12,703	13,203	13,052	12,317	13,384	14,170	14,536	4.2%
Annual Percent Change	2.2%	3.9%	-1.1%	-5.6%	8.7%	5.9%	2.6%	
Appropriations								
K-12 Education	4,647	4,830	6,169	7,450	7,584	7,285	7,352	-1.5%
Higher Education	1,588	1,654	1,744	1,725	1,755	1,696	1,702	-1.5%
Medicaid	1,525	1,587	1,664	1,848	1,874	1,858	2,024	3.9%
Property Tax Relief	2,189	2,308	1,699	136	21	-	-	-100.0%
Health & Social Services	860	943	1,237	1,354	1,354	1,231	1,232	-4.6%
Public Safety	718	721	801	781	796	763	770	-1.6%
All Other	831	943	1,122	1,129	1,083	1,186	1,267	8.2%
Total	12,359	12,986	14,436	14,423	14,466	14,019	14,347	-0.4%
Annual Percent Change	2.4%	5.1%	11.2%	-0.1%	0.3%	-3.1%	2.3%	
Current Year Surplus/Deficit	345	217	(1,384)	(2,106)	(1,082)	151	189	
ARRA Medicaid	-	-	405	573	466	-	-	
ARRA Fiscal Stabilization	-	-	587	110	35	-	-	
ARRA Total	-	-	992	683	501	-	-	
Transfers from (to) Other Funds*	70	19	73	165	4	291	3	
Reversions	119	133	357	670	928	142	141	
Payment Delays (Reversals)	(337)	(241)	(31)	-	-	-	-	
Total Adjustments	(148)	(89)	399	834	932	433	144	
Balances Used	(196)	(128)	(6)	589	(351)	(584)	(334)	
End of Year Balances								
General Fund	537	593	55	831	1,125	1,705	2,035	
Education Fund	317	400	942	-	-	-	-	
Medicaid Reserve	88	58	58	-	-	-	-	
Rainy Day Fund	344	363	365	-	57	61	64	
Total	1,286	1,413	1,420	831	1,182	1,766	2,099	
Total Balances % of Revenue	10.1%	10.7%	10.9%	6.7%	8.8%	12.5%	14.4%	
5% of Revenue	635	660	653	616	669	708	727	
Appropriations less Reversions	12,240	12,854	14,079	13,754	13,538	13,877	14,206	
Percent Change	2.4%	5.0%	9.5%	-2.3%	-1.6%	2.5%	2.4%	

Prepared by Larry DeBoer, Agricultural Economics, Purdue University, December 2011.

* Transfers from other funds in 2012 includes $288 million in corporate echeck revenue from 2007-2011.


Indiana State Budget Revenues and Appropriations,
Actual 2000-11 and Budgeted 2012-13
(millions of dollars)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
2000
2002
2004
2006
2008
2010
2012
Revenues, w/o Stimulus
Appropriations
Revenues + Stimulus
Appropriations Less Reversions

STATE REVENUE FORECAST
TOTAL GENERAL FUND REVENUE FORECAST
Fiscal Years 2012 and 2013
December 14, 2011
(in millions $)

	Actual 2011	Prior Forecast 2012	Updated Forecast 2012	Diff. From Prior Forecast	Percent Diff. From Prior Forecast	Percent Growth Over 2011	Prior Forecast 2013	Updated Forecast 2013	Diff. From Prior Forecast	Percent Diff. From Prior Forecast	Percent Growth Over 2012
Major Taxes											
Sales & Use [1]	6,217.5	6,517.7	6,617.6	99.9	1.5%	6.4%	6,796.2	6,864.6	68.4	1.0%	3.7%
Individual AGI	4,585.6	4,773.5	4,890.1	116.6	2.4%	6.6%	5,051.2	5,084.0	32.8	0.6%	4.0%
Corporate - AGI, URT, USUT, FIT [2]	704.8	686.5	795.5	109.0	15.9%	12.9%	692.1	784.9	92.8	13.4%	-1.3%
Riverboat Wagering	529.0	556.5	508.1	-48.4	-8.7%	-4.0%	530.4	471.0	-59.4	-11.2%	-7.3%
Racino Wagering [3]	131.3	127.7	109.4	-18.3	-14.3%	-16.7%	121.4	96.1	-25.3	-20.8%	-12.2%
Subtotal Major Taxes	**12,168.2**	**12,661.9**	**12,920.7**	**258.8**	**2.0%**	**6.2%**	**13,191.3**	**13,300.6**	**109.3**	**0.8%**	**2.9%**
Other Revenue											
Cigarette [4]	255.9	257.1	278.9	21.8	8.5%	9.0%	254.3	275.7	21.4	8.4%	-1.1%
Cigarette - Medicaid	11.6	11.6	11.4	-0.2	-1.7%	-1.6%	11.5	11.3	-0.2	-1.7%	-0.9%
Insurance [5]	185.4	177.2	196.2	19.0	10.7%	5.8%	177.2	177.2	0.0	0.0%	-9.7%
Inheritance	148.7	145.0	165.0	20.0	13.8%	11.0%	145.0	165.0	20.0	13.8%	0.0%
Alcoholic Beverages	16.1	16.5	16.3	-0.2	-1.2%	0.9%	16.9	16.3	-0.6	-3.6%	0.0%
Riverboat Admissions	16.4	15.9	15.4	-0.5	-3.1%	-6.0%	15.5	14.0	-1.5	-9.7%	-9.1%
Interest	22.9	25.0	17.0	-8.0	-32.0%	-25.7%	25.0	16.0	-9.0	-36.0%	-5.9%
MV, CVET & FIT Recapture	246.7	219.7	247.0	27.3	12.4%	0.1%	200.8	250.0	49.2	24.5%	1.2%
Miscellaneous Revenue	202.3	211.5	207.0	-4.5	-2.1%	2.3%	211.9	205.9	-6.0	-2.8%	-0.5%
Subtotal Other Revenue	**1,106.0**	**1,079.5**	**1,154.2**	**74.7**	**6.9%**	**4.4%**	**1,058.1**	**1,131.4**	**73.3**	**6.9%**	**-2.0%**
Total General Fund	**$13,274.2**	**$13,741.4**	**$14,074.9**	**$333.5**	**2.4%**	**6.0%**	**$14,249.4**	**$14,452.0**	**$182.6**	**1.3%**	**2.6%**

(1) 'Sales & Use' in December 2011 updated column includes sales tax revenues deposited in the Public Mass Transportation Fund (PMTF) in prior years pursuant to a change in HEA 1001-2011, which provided the PMTF with a direct General Fund appropriation rather than a percentage of the sales and use tax. This increases the sales tax forecast for the State General Fund by $44.4 M in FY 2012 and $46.0 M in FY 2013.

(2) In December 2011, Indiana Department of Revenue's internal audit recognized that an error has led to an understatement of corporate tax revenues starting in January 2007. The prior year amounts totaling $288 M have been transferred to the State General Fund and will be reported through the state surplus statement. The FY 2012 revenues of $32.1 M have been deposited in the month they were received and the November revenue report has been updated to accurately reflect the corporate tax revenues to the State General Fund. Incorporating these changes to the corporate tax model increased the forecast by $101.7 M in FY 2012 and $97.1 M in FY 2013.

(3) In October 2011, US bankruptcy court determined that Indiana slot machine wagering tax does not extend to the 15% of AGR set-aside for transfer to Tobacco Master Settlement, horse racing purposes, and the State General Fund. This decision is estimated to impact the slot machine wagering tax deposited in the State General Fund by $16.0 M in FY 2012 and $20.4 M in FY 2013.

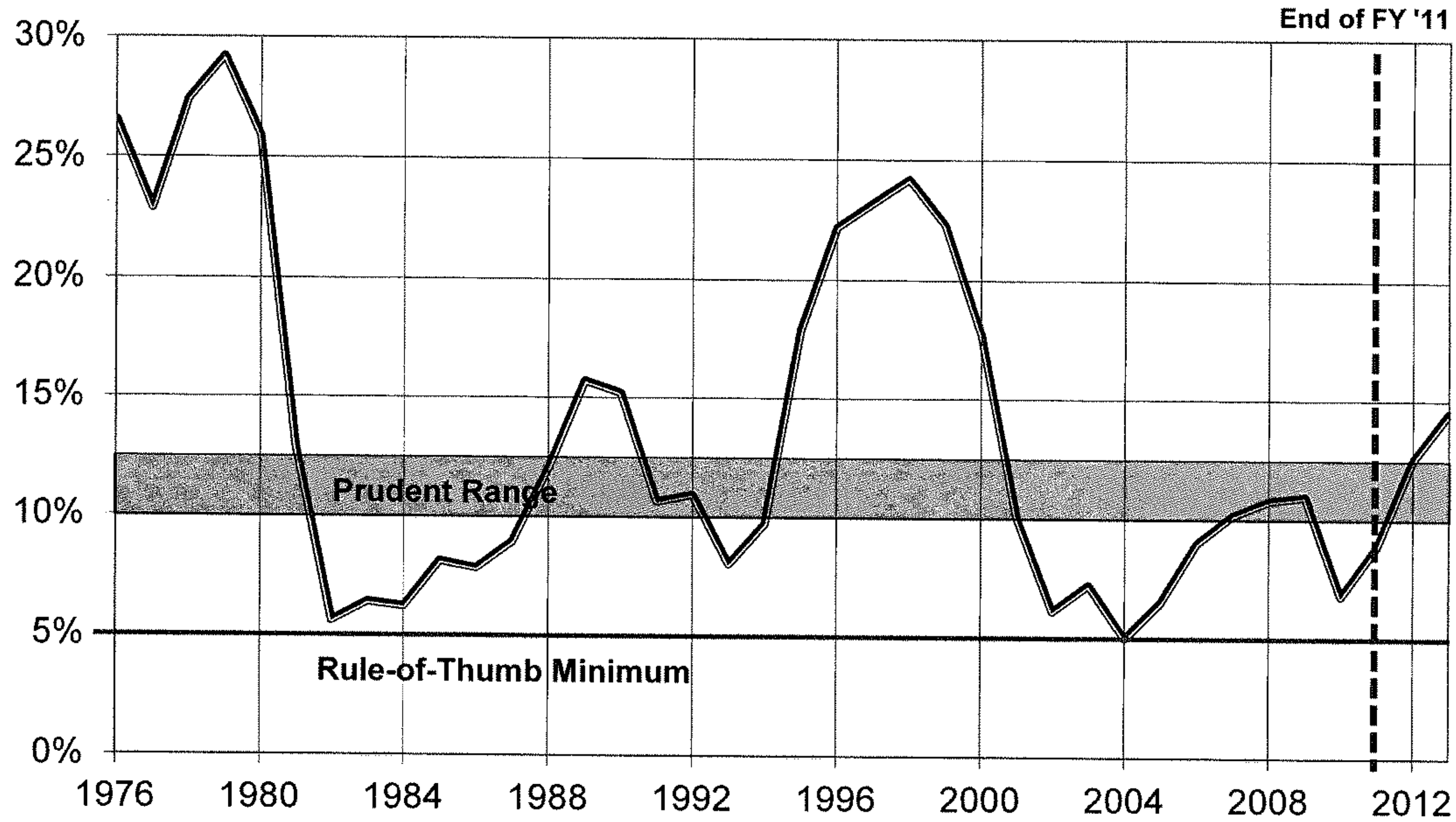
(4) 'Cigarette' in December 2011 updated column includes the portion of the cigarette tax dedicated to the retiree health benefit plan that is being redirected to the general fund for FY 2012 and FY 2013 only. This increases the cigarette tax forecast for the State General Fund by $26.6 M in FY 2012 and $26.3M in FY 2013.

(5) Indiana Department of Insurance determined that various guaranty funds had more capital than needed to meet claim liabilities and the excess should be returned to the companies that contributed to the fund through assessments. Since those companies had taken insurance premiums tax credits for those assessments, the disbursed excess will be reimbursed to the State General Fund for those credits. This will result in the State General Fund receiving an estimated $19.0M in FY 2012.

End-of-Month Revenue Report
December 31, 2011
Targets per December 14, 2011, Forecast
Indiana State Budget Agency

	Comparison to Monthly Targets				Comparison to Prior Year-to-Date			
	Forecast Revenue Y-T-D	Actual Revenue Y-T-D	Difference Amount	Difference Percent	Actual Revenue Prior Y-T-D	Actual Revenue Current Y-T-D	Change Amount	Change Percent
Major Taxes								
Sales & Use[1]	$3,257.2	$3,273.6	$16.4	0.5%	$3,041.9	$3,273.6	$231.7	7.6%
Individual AGI	$2,171.8	$2,186.0	$14.3	0.7%	$2,005.3	$2,186.0	$180.7	9.0%
Corporate - AGI, URT, USUT, FIT [5]	$374.1	$438.2	$64.1	17.1%	$317.5	$438.2	$120.7	38.0%
Riverboat Wagering	$173.3	$169.1	-$4.2	-2.4%	$188.8	$169.1	-$19.7	-10.4%
Racino Wagering	$47.0	$55.5	$8.5	18.0%	$57.2	$55.5	-$1.7	-3.0%
Subtotal Major Taxes	**$6,023.3**	**$6,122.3**	**$99.0**	**1.6%**	**$5,610.7**	**$6,122.3**	**$511.6**	**9.1%**
Other Revenue								
Pre-HEA 1001-2011 Cigarette[2]	$136.4	$132.4	-$4.0	-2.9%	$141.8	$132.4	-$9.4	-6.6%
Pre-HEA 1001-2011 Cigarette - Retiree Fund[2]	$13.8	$13.3	-$0.4	-3.0%	$0.0	$13.3	$13.3	N/A
Insurance	$90.3	$100.3	$10.0	11.1%	$86.0	$100.3	$14.3	16.6%
Inheritance	$84.3	$93.5	$9.2	10.9%	$71.3	$93.5	$22.2	31.1%
Alcoholic Beverages	$9.0	$8.8	-$0.2	-2.3%	$8.7	$8.8	$0.1	0.6%
Riverboat Admissions	$8.0	$9.5	$1.5	19.2%	$8.7	$9.5	$0.9	10.1%
Interest	$8.9	$7.6	-$1.3	-14.6%	$11.8	$7.6	-$4.3	-36.1%
MV, CVET & FIT Recapture[3]	$0.0	$0.0	$0.0	N/A	$0.0	$0.0	$0.0	N/A
Miscellaneous Revenue	$81.2	$82.3	$1.2	1.4%	$79.1	$82.3	$3.2	4.1%
Subtotal Other Revenue	**$431.7**	**$447.7**	**$16.0**	**3.7%**	**$407.4**	**$447.7**	**$40.3**	**9.9%**
Total General Fund	**$6,455.0**	**$6,570.0**	**$115.0**	**1.8%**	**$6,018.1**	**$6,570.0**	**$551.9**	**9.2%**

Indiana State Fund Balances as Share of Operating Revenues, FY 1976-2011, Budgeted 2012-13



LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

NOTE PREPARED: J 24, 2012

BILL NUMBER: 14

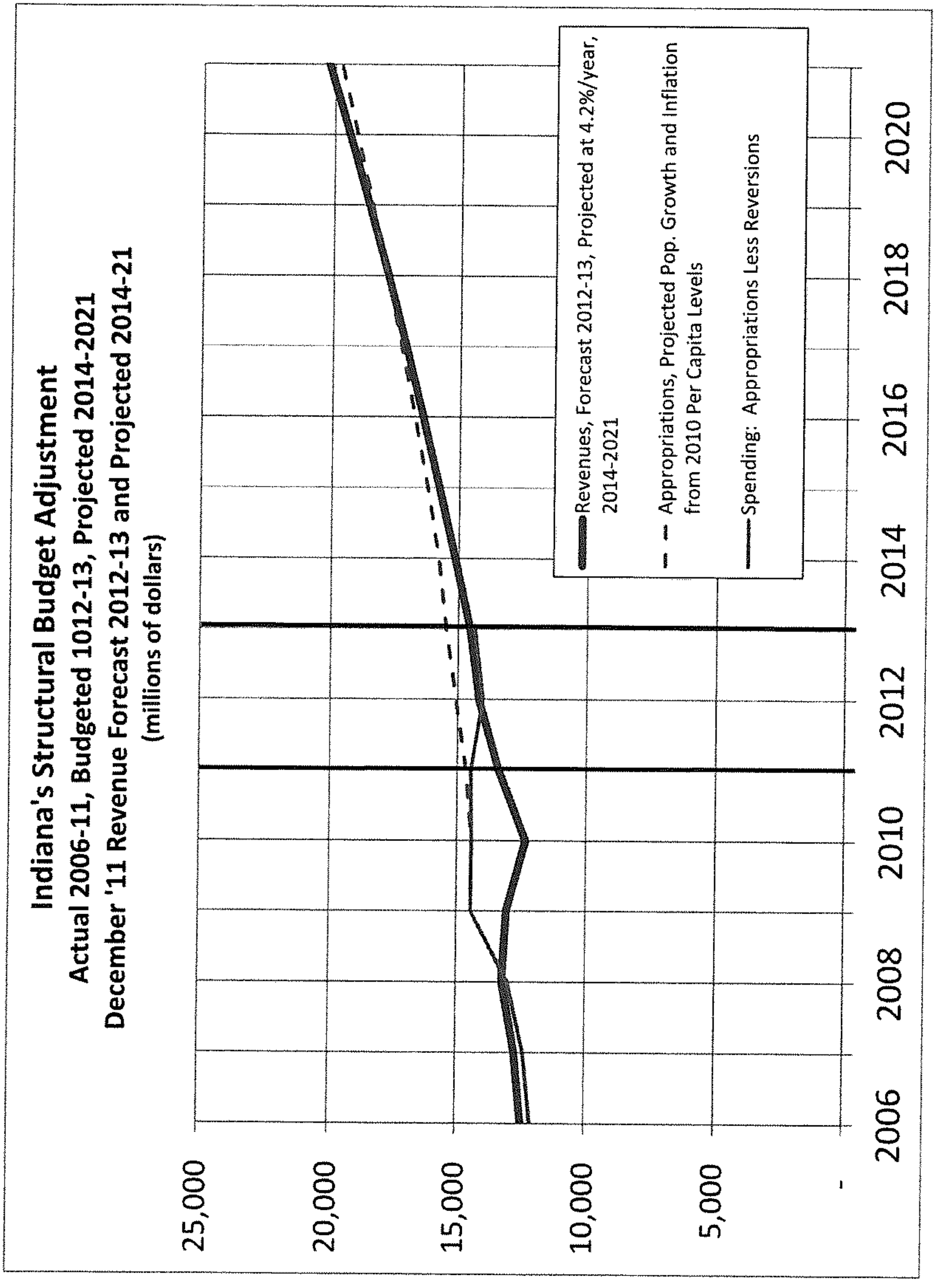
SUBJECT: Auto tic T er efu d.

FIRST AUTHOR: e . e le
FIRST SPONSOR: e . ic

BILL STATUS: A P ed e te

Summary of Legislation: (A e ded) T e bill rovide t t for ur o e of t e uto tic t er refu d t tute , t t t e ou t of t e refu d for qu lif i t er i deter i ed o er c it b i b dividi t e tot l ou t of e ce t te re erve v il ble to rovide uto tic t er refu d b t e tot l u ber of qu lif i t er . T e bill ecifie t t: (1) if t e ou t of t e e ce re erve i le t 100,000,000, ll of t e e ce re erve ll be tr ferred to t e Pe io t biliz tio Fu d; d (2) if t e ou t of t e e ce re erve i 100,000,000 or ore, 50 of t e e ce re erve ll be tr ferred to t e Pe io t biliz tio Fu d d 50 of t e e ce re erve ll be u ed for t e ur o e of rovidi uto tic t er refu d. (U der curre t l w, t e e ce re erve re divided equ ll betwee t e Pe io t biliz tio Fu d d t e uto tic t er refu d, re rdle of t e doll r ou t of t e e ce re erve .)

T e bill rovide t t be i i i 201 : (1) t e Office of M e e t d ud et ll c lcul te, fter t e e d of e c odd- u bered t te fi c l e r, t e tot l ou t of t te re erve ; d (2) ou t i t e t te Tuitio e erve Fu d re ot co idered i deter i i w et er t te re erve e ceed 10 of e er l reve ue. T e bill l o ecifie dditio l require e t (b l ce i t e tuitio re erve equ l to t le t 10 of t e tuitio u ort ro ri tio for t e followi e r) t t u t be ti fied be i i i 201 before tr fer be de.


Indiana's Structural Budget Adjustment
Actual 2006-11, Budgeted 1012-13, Projected 2014-2021
December '11 Revenue Forecast 2012-13 and Projected 2014-21
(millions of dollars)
25,000
20,000
15,000
10,000
5,000
-
2006
2008
2010
2012
2014
2016
2018
2020
Revenues, Forecast 2012-13, Projected at 4.2%/year, 2014-2021
Appropriations, Projected Pop. Growth and Inflation from 2010 Per Capita Levels
Spending: Appropriations Less Reversions

Farmland Assessment

Calculation of the Base Rate for an Acre of Farmland

Assessment Year 2010; Tax Year 2011

	NET INCOMES		MARKET VALUE IN USE			
Year	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
2002	105	20	7.02%	1,496	285	890
2003	106	71	6.29%	1,685	1,129	1,407
2004	104	135	6.35%	1,638	2,126	1,882
2005	110	59	7.22%	1,524	817	1,170
2006	110	74	8.18%	1,345	905	1,125
2007	122	184	7.94%	1,537	2,317	1,927

Average Market Value in Use **$1,290**

Calculation of the Base Rate for an Acre of Farmland

Assessment Year 2011; Tax Year 2012

	NET INCOMES		MARKET VALUE IN USE			
Year	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
2003	106	71	6.29%	1,685	1,129	1,407
2004	104	135	6.35%	1,638	2,126	1,882
2005	110	59	7.22%	1,524	817	1,170
2006	110	74	8.18%	1,345	905	1,125
2007	122	184	7.94%	1,537	2,317	1,927
2008	140	189	6.56%	2,134	2,881	2,508

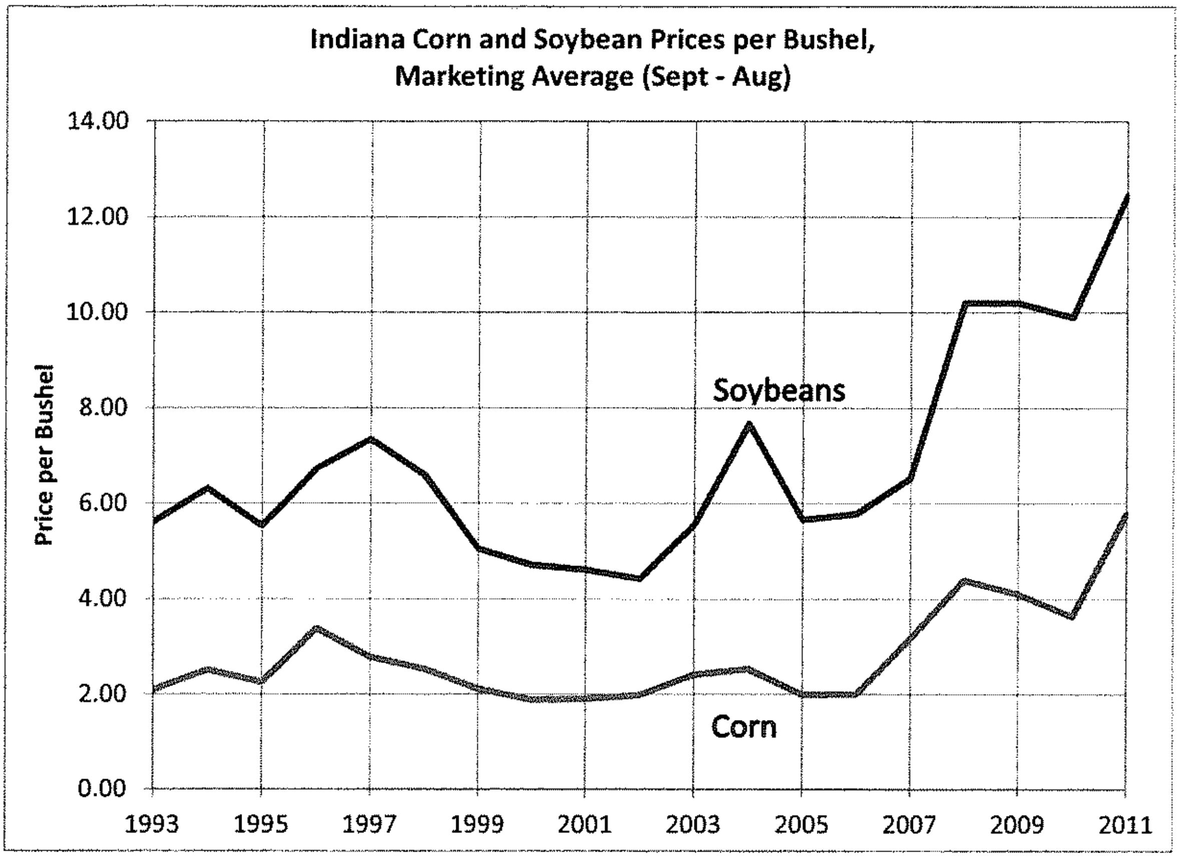
Average Market Value in Use **$1,500**

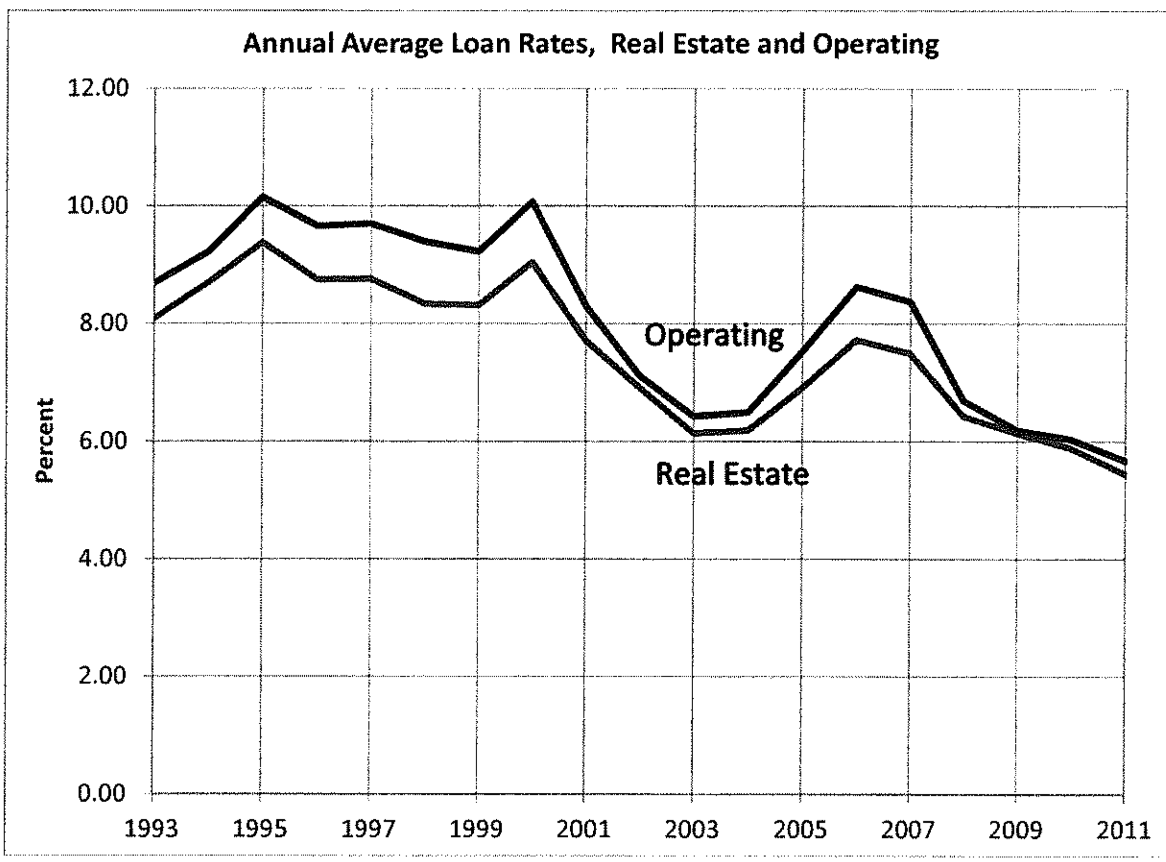
Calculation of the Base Rate for an Acre of Farmland

Assessment Year 2012; Tax Year 2013

	NET INCOMES		MARKET VALUE IN USE			
Year	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
2004	104	135	6.35%	1,638	2,126	1,882
2005	110	59	7.22%	1,524	817	1,170
2006	110	74	8.18%	1,345	905	1,125
2007	122	184	7.94%	1,537	2,317	1,927
2008	140	189	6.56%	2,134	2,881	2,508
2009	139	116	6.17%	2,253	1,880	2,066

Average Market Value in Use **$1,630**


Indiana Corn and Soybean Prices per Bushel,
Marketing Average (Sept - Aug)
Price per Bushel
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Soybeans
Corn


Annual Average Loan Rates, Real Estate and Operating
Percent
12.00
10.00
8.00
6.00
4.00
2.00
0.00
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
Operating
Real Estate

Data Used to Calculate Base Rate of a Farm Land Acre

Data Year	Net Incomes: Cash Rent	Net Incomes: Operating	Cap. Rate	Market Value In Use: Cash Rent	Market Value In Use: Operating	Annual Average
1999	99	36	8.77%	1,129	410	770
2000	101	60	9.56%	1,056	628	842
2001	102	61	8.00%	1,275	763	1,019
2002	105	20	7.02%	1,496	285	890
2003	106	71	6.29%	1,685	1,129	1,407
2004	104	135	6.35%	1,638	2,126	1,882
2005	110	59	7.22%	1,524	817	1,170
2006	110	74	8.18%	1,345	905	1,125
2007	122	184	7.94%	1,537	2,317	1,927
2008	140	189	6.56%	2,134	2,881	2,508
2009	139	116	6.17%	2,253	1,880	2,066
2010	141	162	5.96%	2,366	2,718	2,542
2011	162	204	5.56%	2,914	3,669	3,291

Base Rate Calculations

Tax Year	Data Range: First	Data Range: Last	Base Rate	Percent Change
2006	1999	2002	$880	-16.2%
2007	2000	2003	$880	0%
2008	1999	2004	$1,140	29.5%
2009	2000	2005	$1,200	5.3%
2010	2001	2006	$1,250	4.2%
2011	2002	2007	$1,290	3.2%
2012	2003	2008	$1,500	16.3%
2013	2004	2009	$1,630	8.7%
2014	2005	2010	$1,760	8.0%
2015	2006	2011	$2,030	15.3%

2006: Base rate reduced from $1,050; First year of annual trending; Last year of 4-year average.

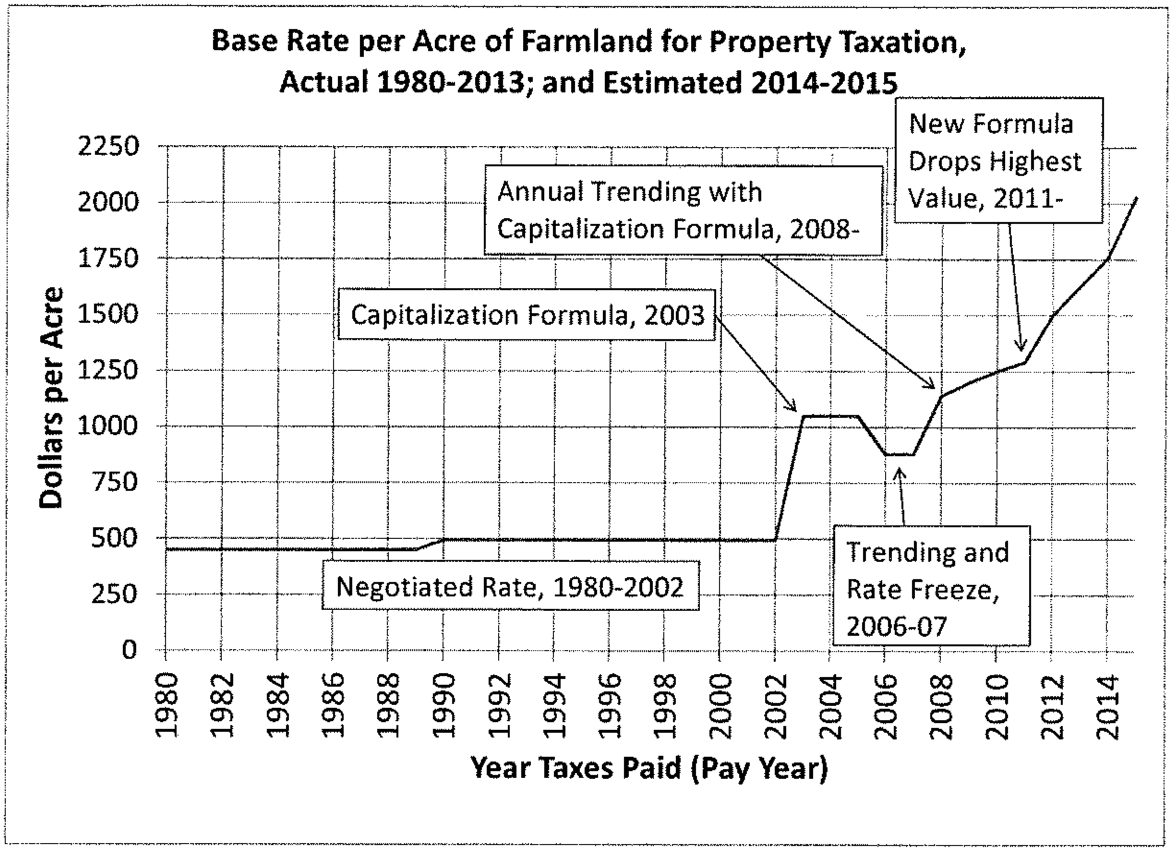
2007: Base rate set by statute, not formula; 4-year average would have been $1,040, an 18.2% increase.

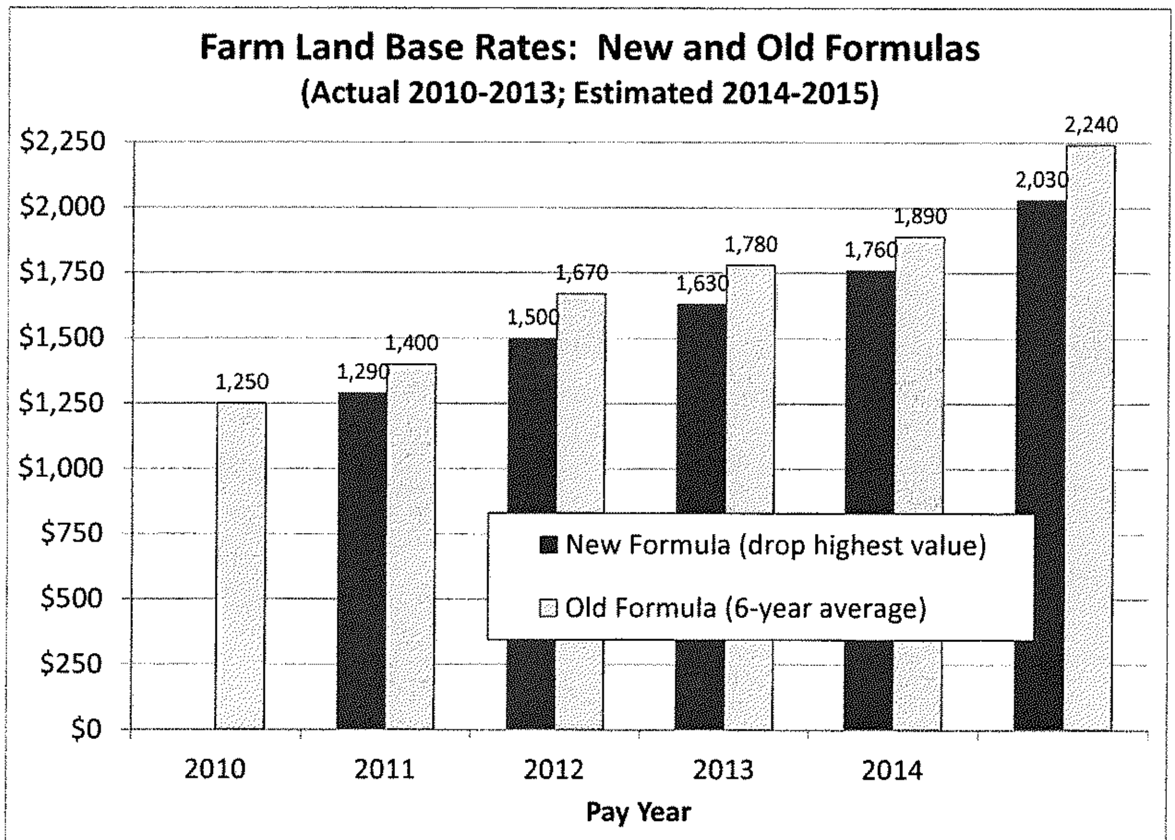
2008: First year of 6-year average; increase from $1,040 would have been 9.6%.

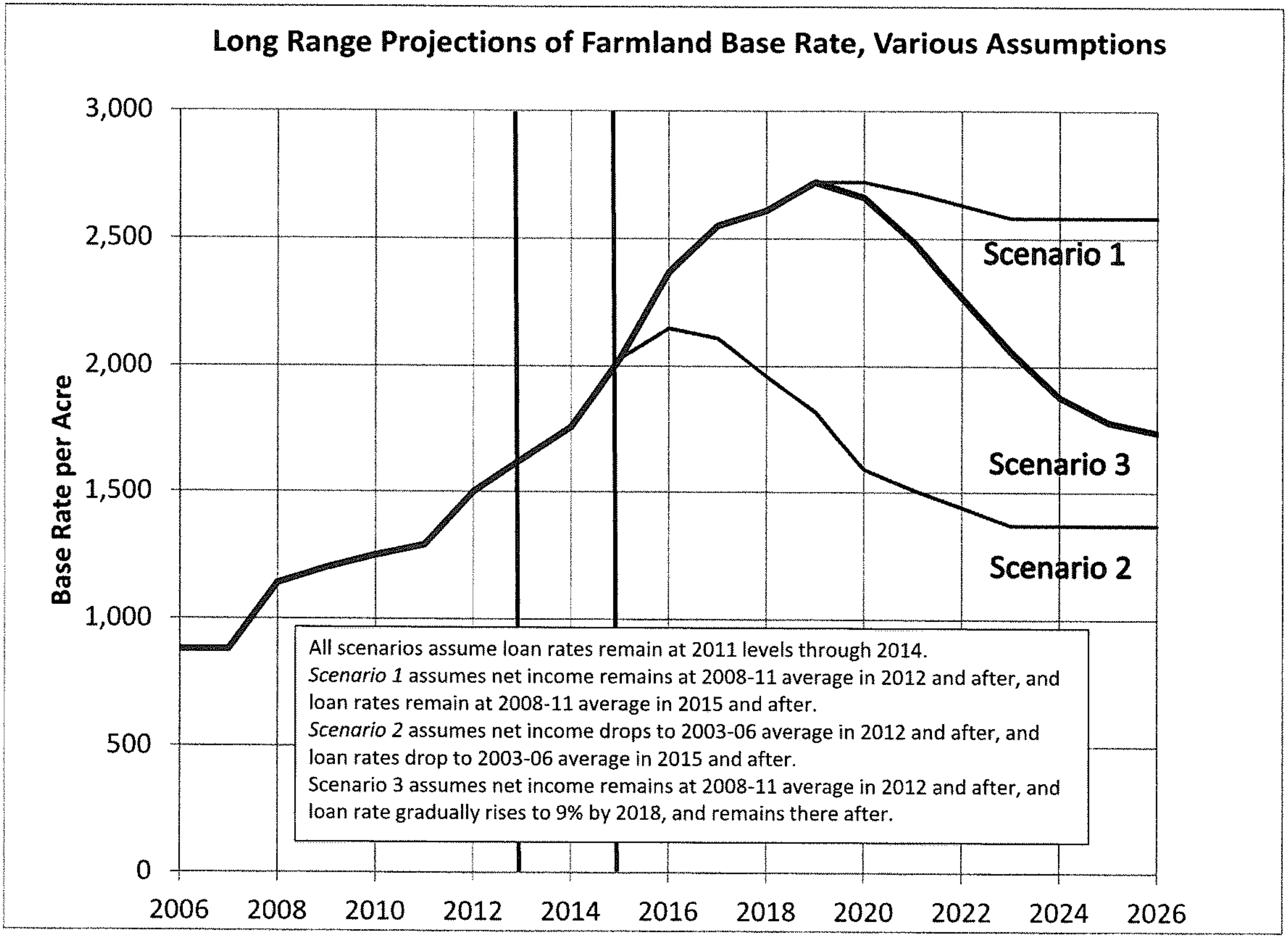
2009-2010: Base rates were set by DLGF based on 6-year average formula.

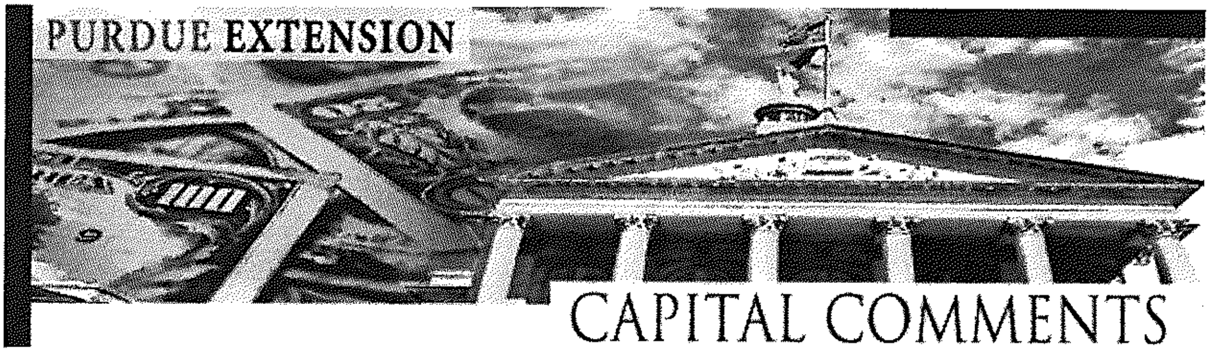
2011-2013: Base rates were set by DLGF based on 6-year average formula with highest year eliminated.

2014-2015: Base rate *estimates* based on existing data and 6-year average formula with highest year eliminated.


Base Rate per Acre of Farmland for Property Taxation,
Actual 1980-2013; and Estimated 2014-2015
Dollars per Acre
2250
2000
1750
1500
1250
1000
750
500
250
0
New Formula Drops Highest Value, 2011-
Annual Trending with Capitalization Formula, 2008-
Capitalization Formula, 2003
Negotiated Rate, 1980-2002
Trending and Rate Freeze, 2006-07
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
Year Taxes Paid (Pay Year)


Farm Land Base Rates: New and Old Formulas
(Actual 2010-2013; Estimated 2014-2015)
$2,250
$2,000
$1,750
$1,500
$1,250
$1,000
$750
$500
$250
$0
1,250
1,290
1,400
1,500
1,670
1,630
1,780
1,760
1,890
2,030
2,240
New Formula (drop highest value)
Old Formula (6-year average)
2010
2011
2012
2013
2014
Pay Year


Long Range Projections of Farmland Base Rate, Various Assumptions
Base Rate per Acre
3,000
2,500
2,000
1,500
1,000
500
0
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
2026
Scenario 1
Scenario 3
Scenario 2
All scenarios assume loan rates remain at 2011 levels through 2014.
Scenario 1 assumes net income remains at 2008-11 average in 2012 and after, and loan rates remain at 2008-11 average in 2015 and after.
Scenario 2 assumes net income drops to 2003-06 average in 2012 and after, and loan rates drop to 2003-06 average in 2015 and after.
Scenario 3 assumes net income remains at 2008-11 average in 2012 and after, and loan rate gradually rises to 9% by 2018, and remains there after.



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December 2011

Suddenly the State Has Money

All of a sudden the state has money. The recent December forecast revision increased expected revenues by $516 million for the biennium. It's been almost 10 years since we've seen that much added revenue at the start of a legislative session.

And that's not all. Suddenly, there's an added $288 million in state balances, the money in the state's checking account. That's in addition to the added forecast revenue.

Part of the added money recognizes that revenue has been running ahead of projections so far this year. Projections have been adjusted upward. Much of it, though, results from money we collected but didn't know we had.

Here's what happened: Tax payments are deposited into a collections fund when they first arrive at the Department of Revenue. Then a computer program sweeps this money into the appropriate fund, like the general fund. The budget passed by the General Assembly then authorizes spending out of these funds.

In 2007 business corporations were offered a new way to pay their corporate income taxes, called "e-Check." Taxes could be paid by check electronically. Unfortunately, the software that ran the sweep was not modified to catch this new source of corporate taxes. When the sweeps happened, the corporate e-Check money was left in the collections fund. The money wasn't lost. All of it was still there in the collections fund, and it even earned interest.

The e-Check payments were small at first, less than half a percent of the $12 billion a year that passes through the collections fund. Then e-Check payments jumped from $58 million in 2010 to $139 million in 2011. A Department of Revenue auditor found the error in November.

The newly discovered e-Check money totaled 320 million. Of this amount, 288 million has been added to state balances. That's the tax money collected through 2011 but not spent because we didn't know it was there. The $32 million from this fiscal year, 2012, has been added to this year's revenue estimate.

But the discovery of the error affects the forecast, too. Corporate income tax revenues were higher than we knew, so future growth starts from a higher number. Corporate tax projections are up 202 million for fiscal years 2012 and 2013 as a result.

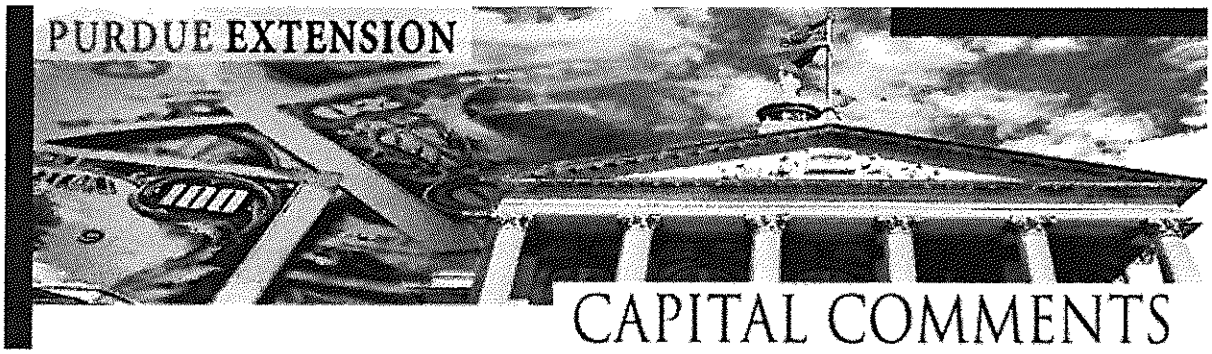
The General Assembly has three basic choices of what to do with this added money. They could increase spending, they could reduce taxes, or they could add the money to state balances.

That's where the new "excess state reserves" law kicks in. If state balances exceed 10 percent of the budget at the end of a fiscal year (on June 30), the excess has to be distributed half to the pension stabilization fund to help cover teacher pension commitments and half to income tax credits. In other words, excess balances trigger an automatic tax cut.

When the law was passed earlier this year, it didn't look like it would have much effect any time soon. Balances were expected to be a little less than 10 percent at the end of the biennium in 2013. Now, with all the extra money, balances are expected to be 12 percent of the budget at the end of *this* fiscal year, June 30, 2012. If nothing is changed, the Budget Agency expects that 167 million will be used for tax cuts when taxes are paid in 2013.That would amount to a credit of about 3 percent on your income tax payment, perhaps 60 for the average taxpayer.

What could our legislators do? They could let the tax cut happen; everyone likes lower taxes. Or they could spend enough of the added money so that balances do not top 10 percent; this would make up for a fraction of the 1.6 billion or so in spending cuts during the last biennium. Or they could change the law to raise the balance ceiling above 10 percent; Indiana balances have averaged about 14 percent over the past 35 years, so the 10 percent ceiling is a little low historically.

In a sense, we've put an explicit price on added spending or higher balances. Support school spending or shore up the checking account, and it costs you and me $60. We'll soon see if this price affects what the General Assembly does.



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J nu ry 2012

Farmland Assessments Rise Again

Here comes this column g in: property t xes on f rm l nd re incre sing. The b se r te for the ssessment of n cre of f rm l nd w s 1,290 for t xes in 2011. It will be 1,500 per cre for taxes in 2012. And the state's Department of Local Government Fin nce (DLGF) h s nnounced th t for t xes in 2013, the b se r te will be 1,630.

F rml nd is ssessed st rting with this b se r te. It is multiplied by soil productivity f ctor, which v ries from bout 0.5 to 1.3 b sed on soil type. Some cre ge is djusted by n influence f ctor, percent ge reduction th t ccounts for f ctors li e frequent flooding. The result is the ssessed v lue of f rml nd. Th t ssessment times the property t x r te, less ny credits, is the t x bill.

The b se r te is djusted e ch ye r with formul . The DLGF offers the det ils on their website, at www.in.gov/dlgf/7016.htm . It's complicated, but three of its features tell the story.

First, it's a c pit liz tion formul . It divides the estim ted net income e rned from farm acre by an interest rate, to get the amount that a "rational" investor would pay for th t cre. For ex mple, in 200 the DLGF estim ted th t l ndowner renting the cre, or n oper tor growing corn or be ns, could e rn n ver ge of 165. The Chic go Feder l Reserve reported sever l f rm-rel ted interest r tes th t ver ged 6.56 . Divide the e rnings by the interest r te, nd (fter some rounding) the result is 2,50 .

Now im gine n uction for n cre th t e rns 165. The first bid is 1,000. E rnings of $165 on an investment of $1,000 give a rate of return of 16.50%. That's a really gre t de l, bec use our r tion l investors get r te of return of only 6.56 on other investments. They bid more, say $2,000. That's a rate of return of 8.25%, still a good de l. At bid of 2,50 the r te of return is no better or worse th n other investments. A r tion l investor would not bid more.

The second import nt fe ture of the base rate formula is that it's a six-ye r rolling ver ge. For t xes in 2011, c pit liz tion results from 2002 through 2007 were ver ged together. For 2012, the ye rs re 2003 through 200 . The b se r te ch nged bec use the results for 2002 were dropped, nd the results for 200 were entered.

al in 2002 corn nd be n prices were pretty low, nd the net income estim te w s only 63. The interest r te w s higher, t 7.02 , so the c pit liz tion result w s only 90. Th t low number w s dropped from the ver ge for 2012 t xes.

Here's where a new quirk in the formula comes in. The DLGF drops the highest value of the six from the ver ge. The Gener l Assembly ch nged the formul for 2011 t xes, to m k e the incre ses in the b se r te little sm ller. For 2011 t xes they dropped the highest v lue of 1,927, from 2007 d t . The 200 v lue is higher, so now it is dropped, nd the 2007 figure enters the ver ge. For 2012 t xes, the b se r te ver ge dropped the v lue 90 nd dded the v lue 1,927. The b se r te incre sed from 1,290 to 1,500.

Without dropping the highest v lue the b se r te for 2012 t xes would h ve been 1,670. The c lcul tion ch nge reduced the b se r te by bout 10 .

The third import nt fe ture of the formul is the four-ye r l g. The DLGF used d t from 2004 to 2009 for the 2013 c lcul tion of 1,630. We k now the d t for 2010, nd most of the numbers for 2011. Th t me ns we c n project wh t will h ppen to the b se r te for 2014 nd 2015. Commodity prices h ve rem ined high nd interest r tes h ve rem ined low. So for t xes in 2014, the b se r te will be bout 1,760. For t xes in 2015, the b se r te will be bout 2,030.

The six-ye r ver ge nd the four-ye r l g h ve nother implic tion. The expected high prices nd low interest r tes in 2012 will first enter the formul for t xes in 2016, nd will rem in in the formul for six ye rs, dropping out in 2022. The b se r te is lik ely to incre se, nd rem in high, for long, long time.

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