

MEMORANDUM FROM THE DESK OF J PETTER TURNQUIST CPA

This spread sheet model was developed to reveal the potential impact on the Warren County School District of the proposed .4% increase in EIT to be used as a tax shift that provides Property Tax Relief to Homestead and Farmstead Properties.

The file contains seven tabs. Input variables are shaded in green to do "what if's".

The last two tabs represent the historical EIT Collections since 1997 which reveals the potential for the revenue to swings both up and down. This creates concern in that if EIT were to swing downward in 2007-2008 after a fixed EIT rate has been established for ACT 1, there is a potential for a shortfall to the school district.

I created this model as a fiduciary responsibility to the district, although I believe that the EIT revenue base will continue to increase in future years, there is the risk based upon the historical data, that it could swing slightly downward. Since ACT 1 requires that we establish the tax exclusion and provide the tax reductions prior to collecting the new EIT we are forced to base the calculation on estimated collections.

As of May 1, 2007, we will have an established Median Assessed Value and an actual amount of Certified Homestead/Farmstead properties. At that point those variables will be known. The actual EIT collections however, will not be known until after Fiscal Year End June 30, 2008.

Each model scenario includes a "delta input" to show the impact of various levels of EIT collection reduction, should that occur, and the corresponding financial impact upon the district. For this purpose I used \$ 100,000 and the model portrays five variations. In addition, the two tabs titled 75% are presented since we have proposed collections of 75% included in the ballot question for year one, due to collection and compliance lag issues.

The purple shaded areas show the financial impact to the district based upon the assumptions. Those amounts do not reflect the impact of lost investment revenue and implementation costs which would be in addition to the amounts shown.

Should the EIT collections be sufficient, the ACT does allow school districts to retain 2% of the new funds for school operations. That 2% will not cover the additional costs and lost investment revenue incurred by the district but will mitigate the impact. The application of the 2% is a bit ambiguous as to whether it is gross or net.

The intent of the ACT 1 tax relief act is to create a shift that is revenue neutral. It may have been better for the legislation to provide the relief after the end of the first fiscal year of imposing the new tax to eliminate the estimates. In any case, it was not the intent of the ACT for school districts to fund the tax reductions.

However, please note that EIT fluctuation can also work to our advantage in subsequent years should the EIT base increase, since once the tax exclusion is established, amounts collected beyond that target can be used for school operations.

Fortunately the ballot question is crafted to include the phrase "approximately up to" which will allow for modification prior to finalizing the tax should it receive voter approval.

Although it may not be likely that EIT Collections will decline in 2007-2008 I believe providing this disclaimer is none the less prudent.

J Petter Turnquist CPA, Business Administrator
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