

TAX MATTERS

NOVEMBER 12, 2009, Issue #09-45, by Bernard Ridens, Executive Director
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1. TA BOARD MEETING THIS TUESDAY
2. 2009 VIGO COUNTY PROPERTY TAX REPORT
3. RECOVERY ZONE BONDS – PART 2
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6. TAX QUESTIONS AND PROBLEMS
7. QUOTE OF THE WEEK

REVIEW OF PAST TAX MATTERS

OCTOBER 15, 2009 (#09-41)

- FEDERAL AND STATE OPEN DOOR LAWS
 - [Handbook on Indiana's Public Access Laws](#) and the [Federal Freedom of Information Act](#)
- COUNTY RESEARCH PROJECT
 - We are currently working on a very extensive special report comparing other counties our size, having a city the size of Terre Haute and adjacent counties.
- CITY PLANNER AT NEIGHBORHOOD PARTNERSHIP MEETING
 - Pat Martin's report to the Terre Haute Neighborhood Partnership
- SCHOOL FORMULA ARITHMETIC
 - Larry DeBoer's explanation of why school funding allocation was a hot topic in the last state budget debate

OCTOBER 29, 2009 (#09-43)

- RECOVERY ZONE BONDS
 - Todd Samuelson of Umbaugh Footnotes examines Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds

OCTOBER 22, 2009 (#09-42)

- WHAT IS NEXT FOR INDIANA MUNICIPALITIES?
 - Article: <http://www.imaweb.com/TaxTalk.asp#Circuit>
- THE MARKETS
 - The good news is the Dow Jones Industrial Average rose above 10,000 last week. The bad news is it first rose above 10,000 more than 10 years ago - March 1999 to be specific.

The Taxpayers Association is a not-for-profit 501(c)(4) organization supported by membership dues. Any citizen or group of citizens in Vigo County may be a member. Current members are encouraged to promote membership in the organization by giving the attached application to a potential member. [See the TA application and dues structure.](#) This is NOT an invoice for your dues.

1. TA BOARD MEETING THIS TUESDAY!

The last Taxpayers Association regular board meeting for 2009 will be next Tuesday, November 17, 2009, 12:00 noon at the Terre Haute Bowling Center. As always, all members are welcome. If you can attend, simply let me know. If you have any concerns, please contact me or President Tom Woodason at twoodason@hwcengineering.com.

2. 2009 VIGO COUNTY PROPERTY TAX REPORT

The Indiana Legislative Services Agency produced reports on every county detailing the changes in property tax bills and the distribution of tax levies. You can find the five-page Vigo County Property Tax Report here: <http://www.in.gov/legislative/pdf/VIGO09.PDF>.

3. RECOVERY ZONE BONDS – PART 2

Two weeks ago we ran the first part of a series by CPA Todd Samuelson examining the financial tools created by the federal stimulus program called Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds. Here is the second part.

Save Money For a Limited Time Only: Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds

Part 2

By Todd Samuelson, CPA, Partner

Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds are two new financing tools created by the American Recovery and Reinvestment Act – commonly known as the federal stimulus program. If you missed the general description of these bonds that allow you to finance projects at lower interest costs, please see our October 28 issue of Footnotes.

Because these two allocations are available only through the end of 2010, they are most applicable for projects that are already in the planning or approval stages. All of the normal Indiana statutes for obtaining project approval still apply, including petition and remonstrance or referendum.



Both of these new funding mechanisms must be used in areas designated as recovery zones. County Commissioners have the authority to define the geographic area that constitutes a recovery zone – and some have chosen to designate the entire county. County Commissioners also have the authority to decide which projects will be allowed to use the county's allocations for these programs. If a city or county does not use its full allocation, those allocations may revert to the state for use in other parts of Indiana.

If you have a project at the local level you think might be appropriate for Recovery Zone Economic Development Bonds or Recovery Zone Facility Bonds, make your County

Commissioners aware of it as soon as possible. They will be reviewing options and making decisions about the allocation, and you want your project to be among those considered.

If your particular area has an allocation that is too low for the project (or projects) you have in mind, consider reaching out to your neighboring communities or counties and taking a regional approach to pool your allocations to achieve a project that you could not accomplish individually.

As we have all seen, interest rates and bond markets can change very quickly. Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds may or may not be the most cost-efficient means of financing at any given time, but they should be evaluated when you assemble your project's funding package.

We at Umbaugh can provide you the allocation amount available in your area, evaluate what projects are appropriate for these bonds, calculate the advantages of various financing mechanisms and help you implement the most cost-effective financing. Remember, if you have projects that require financing in the near future, these tools are only available through next year.

If you have questions about Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds, please contact us at footnotes@umbaugh.com.

Source: Umbaugh Footnotes, November 11, 2009

4. THEORY ON CEO SALARIES

Press Release

WEST LAFAYETTE, Ind. - Chief executives in 35 of the top Fortune 500 companies were overpaid by about 129 times their "ideal salaries" in 2008, according to a new type of theoretical analysis proposed by a Purdue University researcher to determine fair CEO compensation.

"One of the most pressing economic and corporate governance issues of the day is how to determine fair pay packages for CEOs," said Venkat Venkatasubramanian, a professor of chemical engineering. "The proposed theory allows us to compute what the fair pay is for a CEO, including bonuses and stock options, under ideal conditions."

The ratio of CEO pay to the lowest employee salary has gone up from about 40-to-1 in the 1970s to as high as 344-to-1 in recent years in the United States. However, the ratio has remained around 20-to-1 in Europe and 11-to-1 in Japan, according to available data, he said.

Using the new analysis method, Venkatasubramanian estimated that the 2008 salaries of the top 35 CEOs in the United States were about 129 times their ideal fair salaries. CEOs in the Standard & Poor's 500 averaged about 50 times their fair pay, raising questions about the efficiency of the free market to properly determine fair CEO pay, he said.

"You might ask why a chemical engineer is concerned with economics and CEO salaries," Venkatasubramanian said. "Well, it turns out that the same concepts and mathematics used to solve problems in statistical thermodynamics and information theory also can be applied to economic issues, such as the determination of fair CEO salaries."

Findings appeared Tuesday (Nov. 3) in the online open-access journal Entropy. The paper, "What is Fair Pay for Executives? An Information Theoretic Analysis of Wage Distributions," is available for free downloads from the Entropy site at <http://www.mdpi.com/1099-4300/11/4/766>

A key idea in his theory is the economic interpretation of the concept of entropy.

"There have been many attempts to find a suitable interpretation of entropy for economic systems without much success," Venkatasubramanian said. "Just as entropy is a measure of disorder in thermodynamics and uncertainty in information theory, what would entropy mean in economics?"

Venkatasubramanian identified entropy as a measure of "fairness" in economic systems, revealing a connection between statistical thermodynamics, information theory and economics.

"As we all know, fairness is a fundamental economic principle that lies at the foundation of the free and efficient market system," he said. "It is so vital to the proper functioning of the markets that we have regulations and watchdog agencies that break up and punish unfair practices such as monopolies, collusion and insider trading. Thus, it is eminently reasonable, indeed reassuring, to find that maximizing fairness, or maximizing entropy, is the condition for achieving economic equilibrium."

Using the new theory, the ideal pay distribution is determined to be "lognormal," a particular way of characterizing data patterns in probability and statistics.

"This is the economic equivalent of the Boltzmann distribution for ideal gases, which describes how the gas molecules are distributed at various energy levels," Venkatasubramanian said. "One may view our result as an 'economic law' in the statistical thermodynamics sense. The free market will 'discover' and obey this economic law if allowed to function freely and efficiently without collusion-like practices or other unfair interferences."

The publication comes at a time when Congress is grappling with the issue. The Federal Reserve announced a plan on Oct. 22 to eliminate excessive pay packages that might encourage bankers to take reckless risks. The Obama administration pay czar, Kenneth R. Feinberg, has announced plans to reduce executive pay at companies that received the most federal bailout money, slashing the base salaries of those top executives and setting top pay at \$200,000 for AIG executives in the financial products division.

Until now, however, there has been no scientific way of determining executive pay.

"We now have a rational quantitative basis for setting the fair base pay scales for the top management, and any added incentive pay package might then be linked to measurable and meaningful performance metrics that promote long-term survival and growth for the organization," Venkatasubramanian said.

Fair pay for an average S&P 500 CEO should ideally be in the range of 8 to 16 times the lowest employee salary, Venkatasubramanian said.

"It's interesting to note that Warren Buffett, CEO of Berkshire Hathaway and an outspoken critic of executive pay excesses, drew an annual salary of \$200,000 in 2008," Venkatasubramanian said. "This makes his pay ratio 8-to-1, assuming a minimum employee salary of \$25,000 per year, which fits the ideal benchmark estimate for fair CEO pay almost exactly. Mr. Buffett's instincts about fairness seem to be amazingly accurate. The top pay set by Mr. Feinberg for the AIG executives is almost exactly the amount recommended by the new theory."

As a contrast to the United States, average CEO pay ratios were about 11-to-1 in Japan, 15-to-1 in France, 20-to-1 in Canada, and 22-to-1 in Britain in 2006.

"These ratios are not that far off, when compared to U.S. ratios, from the ideal benchmark estimates from my theory," Venkatasubramanian said. "Even in the United States, the CEO pay ratios in the 1960s and 1970s were much more reasonable and in general agreement with the ideal values. So the executive pay excesses appear to be a recent phenomenon. This appears to be another valuation bubble - the CEO valuation bubble - much like the ones we have witnessed in stocks, real estate, commodities, etc."

William A. Masters, professor and associate head of Purdue's Department of Agricultural Economics, said, "This paper tackles an important problem in a new way. Venkat is a brilliant engineer who sees patterns that others miss. It's wonderful to see this kind of cross-disciplinary investigation, broadening the range of ideas and mathematical tools being applied to crucial issues like CEO pay."

Source: Purdue University Press Release, InsideINDianaBusiness.com

5. PUBLIC MEETINGS

The purpose of this calendar is to encourage taxpayers to attend public meetings. Taxpaying persons working at your business or living in your neighborhood should be encouraged to attend a meeting of their choice at least once per year. The date and time for the meetings listed below are always subject to change. **Organizations that are underlined have a web page that can be accessed by clicking on their [respective hyperlinks](#).** The contact person is also listed. You should call the appropriate office and confirm the date and time if you plan to attend.

Date	Time	Public Meeting	Location	Contact Info
Thur. Nov. 12	7:00 pm	<u>City Council – Regular Meeting</u>	City Hall – Courtroom	Michelle 232-3375
Mon. Nov. 16	5:30 pm	<u>Human Relations Commission</u>	Booker T. Washington Center	Jeff 232-0110
Mon. Nov. 16	7:00 pm	<u>Vigo County Public Library</u>	Vigo County Public Library	Nancy 232-1113
Tue. Nov. 17	9:00 am	<u>County Commissioners</u>	County Annex	Judy 462-3367
Tue. Nov. 17	10:00 am	<u>City Board of Sanitary Commissioners</u>	City Hall – 3 rd Floor	Sally 235-5458
Tue. Nov. 17	12:00 noon	<u>Taxpayers Association Board Meeting</u>	Terre Haute Bowling Center, 600 E. Springfield Dr.	Bernard 235-1361
Wed. Nov. 18	9:30 am	Clay-Owen-Vigo Solid Waste District	109 E. Nat'l, Brazil IN	Janet 800-387-3380
Wed. Nov. 18	2:00 pm	<u>E-911 Advisory Board</u>	County Jail – Sheriff's Training Room	Greg 462-3226 ext. 320
Wed. Nov. 18	4:00 pm	<u>City Redevelopment Commission</u>	City Hall – 1 st Floor	Phenny 232-0018
Wed. Nov. 18	4:00 pm	<u>Air Pollution Control Department</u>	103 S. 3 rd St.	George 462-3433
Wed. Nov. 18	7:00 pm	<u>Airport Authority</u>	Airport	Kara 877-2524
Thur. Nov. 19	2:00 pm	Tree Advisory Board	City Hall Mayor's Conf. Room	Jennifer 232-4028
Mon. Nov. 23	2:00 pm	<u>Board of Public Works and Safety</u>	City Hall – Board of Public Works Room	Robin 232-4767
Mon. Nov. 23	4:00 pm	<u>County Park Board</u>	County Annex	Julia 462-3391
Mon. Nov. 23	5:30 pm	Terre Haute Housing Authority	2001 N. 19 th Street	Jeff 232-1381
Mon. Nov. 23	7:00 pm	<u>Vigo County School Board</u>	VCSC Board Room	Judy 462-4216
Tue. Nov. 24	9:00 am	<u>County Commissioners</u>	County Annex	Judy 462-3367
Tue. Nov. 24	4:30 pm	<u>City Park Board – Business Meeting</u>	Deming Park	Eddie 232-2727
Tue. Nov. 24	5:00 pm	<u>County Council</u>	County Annex	Auditor 462-3361
Wed. Nov. 25	5:30 pm	<u>Information Technology Advisory Board</u>	City Hall – 1 st Floor	Brad 244-2316
Tue. Dec. 1	9:00 am	<u>County Commissioners</u>	County Annex	Judy 462-3367
Tue. Dec. 1	10:00 am	<u>City Board of Sanitary Commissioners</u>	City Hall – 3 rd Floor	Sally 235-5458
Tue. Dec. 1	4:30 pm	Honey Creek Conservancy District	3241 S. 3 rd Place	Craig 232-4311
Wed. Dec. 2	9:00 am	<u>City Board of Zoning Appeals</u>	City Hall – 1 st Floor Conf. Room	Judy 462-3367
Wed. Dec. 2	7:00 pm	<u>County Area Planning Commission</u>	County Annex	Vickie 462-3354
Thur. Dec. 3	7:00 pm	<u>City Council – Sunshine Meeting</u>	City Hall – Courtroom	Michelle 232-3375

6. TAX QUESTIONS AND PROBLEMS

Here is a tax-related question for you to answer and compete for most questions answered correctly during a three-month period. The purpose of this topic is to encourage readership of *Tax Matters* and improve taxation and government education in our community. Send your answers anytime to the following email address: taxtopics@aol.com or reply to this issue. We will tally the correct answers and the correct answer to the current problem will be given next week.

The correct answer to last week's problem was \$3,320.

Here is this week's problem:

Given: A six-unit apartment building in Honey Creek Township
March 1, 2008 Assessed Value: \$175,000
Mortgage Exemption: Does not apply
Homestead Mortgage: Does not apply
Honey Creek Township Rate: 1.8973%
Homestead Credit: Does not apply
Homestead Supplemental Credit: Does not apply
0.95 acres
2.5% cap
Find the annual tax due and payable 2009.

7. QUOTE OF THE WEEK

"People who complain about taxes can be divided into two classes: men and women."

- Author Unknown

END

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