LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7992 **DATE PREPARED:** Jan 23, 2001
BILL NUMBER: HB 1003 **BILL AMENDED:**

SUBJECT: State and Local Finance.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: *Welfare*: This bill eliminates the authority of a county to impose a property tax levy for the county Family and Children's Fund, beginning in 2003. It transfers responsibility for funding children's services from the county Family and Children's Funds to the state. The bill also eliminates the authority of a county to borrow for welfare purposes. This bill makes certain conforming amendments and other changes related to child services. It also specifies that a county shall pay from the county General Fund the cost of any per diem payable for a child adjudicated a delinquent child, or for a child for whom a program of informal adjustment has been implemented, if the child is placed in a secure facility that is not a secure private facility.

Maximum Levies: This bill changes the property tax levy limit provisions to: (1) provide for a maximum increase of 8% (rather than 10%) in property tax levies; and (2) provide for a minimum increase of 4% (rather than 5%) in property tax levies.

Local Property Tax Relief: The bill provides counties with the option of using County Adjusted Gross Income Tax and County Option Income Tax revenue for three types of property tax relief: (1) property tax replacement credits; (2) homestead credits; and (3) property tax reductions for low income homeowners. It allows the combined County Option Income Tax rate and the County Economic Development Income Tax rate to be as much as 1.25%, in order to provide the property tax relief. (This maximum already applies to the combination of the County Adjusted Gross Income Tax and the County Economic Development Income Tax rate.)

Riverboat Revenue: The bill also allows local units to use riverboat revenue for property tax relief.

Effective Date: Upon passage; July 1, 2001; January 1, 2002; July 1, 2002; January 1, 2003.

Explanation of State Expenditures: *Local Property Tax Relief*: If, as explained in local revenues, a county chooses to provide property tax relief by reducing civil unit property tax levies, then there would be a reduction in the state's expense for property tax replacement credit (PTRC) and homestead credit. PTRC and homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any reduction in these expenditures would ultimately benefit the state General Fund.

Riverboat Revenue: If, as explained in local revenues, a local unit chooses to use riverboat revenues to replace property taxes, then there would be a reduction in the state's expense for PTRC and homestead credit.

Maximum Levies: If local unit levy growth is reduced by this bill, then there would be a reduction in the state's expense for PTRC. The reduction would be equal to 20% of the levy reduction. PTRC is paid from the Property Tax Replacement Fund, which is supplemented by the state General Fund. Based on the reduction in maximum levies explained below in local revenues, the state could save approximately \$4.1 M in CY 2002, \$8.1 M in CY 2003, \$12.5 M in CY 2004, \$17.3 M in CY 2005, and \$22.5 M in CY 2006 in PTRC expenses.

Since property tax bills would be reduced by this bill, the amount needed to fund the state homestead credit would also be reduced. It is estimated that the homestead credit cost would be reduced by \$296,000 in CY 2002, \$625,000 in CY 2003, \$960,000 M in CY 2004, \$1.3 M in CY 2005, and \$1.7 M in CY 2006.

The total reduction in expenditures for the state under this provision is estimated at \$2.2 M in FY 2002, \$6.6 M in FY 2003, \$11.1 M in FY 2004, \$16.1 M in FY 2005, and \$21.5 M in FY 2006. The estimated expenditure reduction assumes that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the proposal may be slightly less than the above amounts.

Welfare: This bill eliminates the county funding of the Family and Children's Fund. Beginning in CY 2003, the state would be responsible for the current gross county expenditures from the Family and Children's Fund which are estimated at \$145.9 M for FY 2003 (first half of CY 2003) and \$298.8 M for FY 2004. Child welfare expenditures experienced an average annual increase of about 20% between 1987 and 1995. The projections, above, are based on estimated continued growth in child welfare expenditures of about 5% per year reflecting the lower annual increases of the last few years.

The State already contributes to this expenditure in the form of PTRC and homestead credit. Because of the elimination of the gross property tax levies under this proposal, the state payment for PTRC and homestead credit would be reduced by about \$23.8 M for FY 2003 and \$48.7 M for FY 2004.

The resulting net additional state expenditures (additional expenditures less PTRC and homestead credit) are estimated at \$120.5 M for FY 2003 and \$246.6 M for FY 2004. **The total net cost to the state (Net expenditures less additional revenues as explained below) is estimated at \$108.0 M for FY 2003 and \$221.5 M for FY 2004.**

The bill requires counties to pay maintenance per diem from the county General Fund for delinquent children or children for whom an informal adjustment program has been implemented if the child is in a secure non-private facility. The bill prohibits counties from paying the per diem from the county Family and Children's Fund. Counties may already pay this expense from the General Fund. If there are counties that currently make the expenditure from the county Family and Children's Fund, then the above estimated cost for the state to fund child welfare expenditures could be overstated. *[This note will be updated if further information is received.]*

The bill also contains a provision that requires the state to reimburse each county for the proportionate share of operating costs of the county auditor's and treasurer's offices for support of the Family and Children's Fund. This expense would be in addition to the cost estimate provided above.

Explanation of State Revenues: *Welfare*: The state would receive the FIT and Motor Vehicle Excise Tax monies that were apportioned to the counties' Family and Children Funds. The estimated total revenues that would be transferred to the state General Fund is about $24.9 M for CY 2003 and $25.4 M for CY 2004. **On a fiscal year basis this would amount to approximately $12.4 M in FY 2003 and $25.1 M in FY 2004.**

Explanation of Local Expenditures: *Welfare*: The counties will experience reduced expenditures for family and children's services at an estimated $291.9 M for CY 2003 and $305.7 M for CY 2004.

Explanation of Local Revenues: *Local Property Tax Relief*: This bill would allow county income tax councils to pass an ordinance to use County Adjusted Gross Income Tax (CAGIT) or County Option Income Tax (COIT) revenue to provide property tax relief in the county. The property tax relief could include additional property tax replacement credits against civil unit tax levies, additional homestead credits, and property tax reductions for low income homeowners.

In order to qualify for the low income homeowner relief, the taxpayer's income may not exceed $25,000. The maximum tax reduction allowed may not reduce the net tax due to an amount that is less than 2% of the taxpayer's income.

If a county adopts an ordinance to provide property tax relief from COIT revenues, the county may impose a combined COIT plus County Economic Development Income Tax (CEDIT) rate of up to 1.25%. The COIT plus CEDIT rate limit is currently 1%.

The amount of tax relief realized by property taxpayers under this proposal will depend on local action.

Riverboat Revenue: Current law prohibits the use of local riverboat revenue for the reduction of maximum or actual property tax levies. This provision would allow the revenue to be used to reduce *actual* levies at the discretion of the taxing unit. The unit's *maximum* levy could not be reduced. This means that a unit which chooses to use riverboat revenues to replace property taxes in a year would not be required to use the revenue in this way in a future year if they choose not to.

The following tables contain the direct distributions made to Indiana counties, municipalities, and towns from the Riverboat Admission Tax (Table A) and the Riverboat Wagering Tax (Table B) in FY 2000.

TABLE A: FY 2000 Riverboat Admissions Tax Distributions to Local Units

LOCAL UNIT	DISTRIBUTION
Dearborn County	$7,466,989
East Chicago	5,426,295
Evansville	2,039,968
Gary	6,623,385
Hammond	5,810,174
Harrison County	8,446,028
Lake County	17,859,853
LaPorte County	3,765,163
Lawrenceburg	7,466,989
Michigan City	3,765,163
Ohio County*	3,334,770
Rising Sun*	3,334,770
Vanderburgh County	2,039,968
TOTAL	**$77,379,515**

* 50% of the total Admission Tax distributions to Ohio County and the city of Rising Sun are shared with Ripley County, Switzerland County, and fourteen municipalities within Dearborn, Ripley, and Switzerland Counties.

TABLE B: FY 2000 Riverboat Wagering Tax Distributions to Local Units

LOCAL UNIT	DISTRIBUTION
East Chicago	$11,667,854
Evansville	4,880,172
Gary	12,551,339
Hammond	11,755,768
Harrison County	8,311,584
Lawrenceburg	16,474,535
Michigan City	8,670,722
Rising Sun	7,726,066
TOTAL	**$82,038,040**

Maximum Levies: Currently, civil taxing units receive maximum levy increases equal to their three-year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would change the 5% minimum to 4% and change the 10% maximum to 8% beginning in CY 2002. This would cause the growth in local civil units' levies and tax rates to slow. The amount by which the levy growth slows is dependent upon (1) the unit's actual three-year AV growth quotient, and (2) whether the unit sets the tax levy at the maximum permissible levy.
Under current law, the statewide total maximum levy for civil units (not including schools) is estimated at $2,383 M in CY 2002 and $2,510 M in CY 2003. Under this proposal, the statewide total civil unit maximum levy is estimated at $2,362 M in CY 2002 and $2,469 M in CY 2003. The maximum levy reduction under this provision would amount to approximately **$21 M in CY 2002, $41 M in CY 2003, $63 M in CY 2004, $87 M in CY 2005, and $113 M in CY 2006**.

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

Welfare: The counties will experience reduced net levies of an estimated $216.1 M for CY 2003 and $226.9 M for CY 2004. The reduced net levies are equal to the reduced gross levies less the amount paid by the state for PTRC and homestead credits. The gross levies are estimated to be $267.0 M for CY 2003 and $280.3 M for CY 2004. PTRC and homestead payments are estimated to be $50.9 M for CY 2003 and $53.5 M for CY 2004.

In addition to the elimination of the Family and Children Funds and the shift in responsibility to pay for these services, the FIT and Motor Vehicle Excise Tax monies that were apportioned to the funds would flow to the state General Fund under this proposal. The estimated total revenues that would be transferred to the state General Fund is about $24.9 M for CY 2003 and $25.4 M for CY 2004.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating these family and children's services levies and tax rates, TIF proceeds would be reduced. If these tax rates had been eliminated in CY 2000, TIF districts, statewide, would have lost about $4.7 M. However, this bill permits the TIF district's governing body to impose a special assessment on the property in the TIF area in order to meet the district's obligations.

State Agencies Affected: State Board of Tax Commissioners; Family and Social Services Administration.

Local Agencies Affected: All civil taxing units.

Information Sources: Family and Social Services Administration; Local Government Database.