

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7682

BILL NUMBER: HB 1902

DATE PREPARED: Apr 7, 2001

BILL AMENDED: Apr 5, 2001

SUBJECT: Lake County Property Tax; Local Option Taxes.

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**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) *Gaming Revenue*: This bill permits the use of Gaming Admissions Tax revenue to reduce property tax levies.

Minimum Assessments: The bill sets in Lake County a maximum residential property tax deduction amount effective for taxes payable in 2002, and a minimum residential assessed value effective for taxes payable in 2003. If the 2002 reassessment is delayed, the bill provides that the minimum residential assessed value takes effect at the same time as the delayed general reassessment.

Reassessment: This bill requires the State Board of Tax Commissioners (State Board) to contract with an accounting firm with respect to Lake County to: (1) report on expenditures from the Lake County reassessment fund; (2) reassess real property for the general reassessment to be completed for the March 1, 2002, assessment date; (3) review succeeding general reassessments to identify assessment disparities that are then subject to correction by the State Board; and (4) for each year a general reassessment is completed, examine the proper application of the minimum assessed values, property tax exemptions, maximum deduction amounts, and equalization procedures, and the completeness of parcel identification records. It provides that a taxpayer may appeal the March 1, 2002, reassessment value to the State Board. The bill directs the State Board to correct any assessment, deduction, or exemption inaccuracies reported to the State Board by the accounting firm.

Local Option Tax: This bill permits Lake County to impose a property tax reduction income tax, and permits municipalities in Lake County to impose a municipal option income tax. It requires a public hearing before adoption of a tax. The bill requires affirmative votes of five members of the county council to adopt the county tax, and requires the county to reduce its workforce by at least 250 to retain the county tax. The bill requires the county or a municipality to annually reduce its budget by at least 3% to retain a tax. The revenue from each tax is used to reduce the adopting unit's property tax levy. This bill allows the imposition of the municipal tax only for a period when the county tax is not in effect. It also provides that the county tax and

municipal tax may not continue in effect after December 31, 2005.

Circuit Breaker: This bill also provides a state income tax credit for property tax paid on homesteads for certain low income taxpayers in Lake County.

The bill makes technical corrections and conforming amendments.

Effective Date: (Amended) January 1, 2001 (Retroactive); Upon Passage; January 1, 2002.

Explanation of State Expenditures: (Revised) *Reassessment:* This bill would require the State Tax Board to contract with a CPA firm with real property appraisal expertise to reassess property in Lake County for the general reassessments that will be effective for the 2002 Pay 2003 tax year. The CPA firm would prepare a detailed report including (1) Reassessment Fund expenditures made after July 1, 1999, and (2) the fund balance. The report would be filed with the Lake County Council, the Lake County Prosecutor, the State Board of Tax Commissioners, and the Indiana Attorney General.

The cost of the contract would be paid from the Lake County Reassessment Fund. The State Tax Board would be responsible for mailing assessment notices to the taxpayers and the county assessor. There are approximately 224,000 parcels of land in Lake County. The State Tax Board would incur the cost of mailing a notice to the owners of each of the 224,000 parcels. As an example, if each notice cost \$0.50 to prepare and mail, the Tax Board could have an increased expense of \$112,000.

According to the bill, a taxpayer may appeal the assessed value determined by the appraisal company. This appeal would be made directly to the State Tax Board. The number of appeals that the State Tax Board receives would increase under this bill, as would the expense to dispose of those appeals.

The bill requires the State Tax Board to contract with the same CPA firm to review real property assessments in Lake County after each general reassessment following the upcoming reassessment. The firm would determine the variance between the total assessed value of real property and the lawful assessment. An estimate of the cost of the contract is not currently available. The State Board of Tax Commissioners is funded from the state General Fund.

If the variance exceeds 10%, the State Tax Board could hold hearings to determine whether a special reassessment should be conducted. If the variance is 10% or less, the State Tax Board would determine whether to conduct a reassessment to correct the assessments. The cost of a reassessment would be paid from the Lake County Reassessment Fund.

Minimum Assessments: The bill also requires the State Tax Board to contract with the same CPA firm to review the implementation of the minimum assessed values and deduction limitations on single family residences, the accurate application of assessment rules, the accurate conduct of equalization, and the completeness of parcel records. The State Tax Board would be responsible for the cost of this contract. An estimate of the cost of such a contract is not currently available.

The state currently provides a Homestead Credit against the property tax due on a person's principal residence. The credit is currently equal to 10% of the property tax liability and is scheduled to be reduced to 4% for CY 2002 and years thereafter. The tax shift to homeowners described in Local Revenues would also increase the state's liability for Homestead Credit. As part of the tax burden would be shifted to some homesteader property, the Homestead Credit on that property would increase. Since the net tax rate would

be reduced by the additional assessed value, the net tax on homesteads with assessed values that already meet or exceed the minimum assessed value amount in this bill would be reduced. The state would have a reduced Homestead Credit liability on these properties. Overall, since the only class of property with increased values under this bill is single family residential property, the countywide total net tax on residential property would increase and so would the cost of the Homestead Credit. The estimated additional state cost for the Homestead Credit under this bill is approximately \$300,000.

Circuit Breaker & Local Option Taxes: The Department of State Revenue will have some additional administrative expenses with revising tax forms, instructions, and computer programs to accommodate this new tax credit and to administer additional local option income taxes.

Explanation of State Revenues: (Revised) *Circuit Breaker:* This bill also provides a state income tax credit for property tax paid on homesteads for certain low income taxpayers in Lake County. This tax credit would be available to homeowners in Lake County who have earned income of less than \$18,600. A homeowner who has earned income of less than \$18,000 would be entitled to an income tax credit equal to the lesser of \$300 or the amount of property taxes paid on the qualified homestead. For homeowners who have incomes between \$18,000 and \$18,600, the tax credit is gradually reduced. For every dollar of income over \$18,000 the tax credit is reduced by \$.50. Homeowners who have earned income over \$18,600 would not receive a tax credit.

The tax credit is effective for tax years beginning January 1, 2002. Homeowners will be able to claim this refundable tax credit when they file their 2002 tax returns between January and April of 2003.

It is estimated that the income tax credit will provide approximately \$5 M in property tax relief to eligible low income homeowners in Lake County.

The tax credit is to be funded by County Adjusted Gross Income Tax (CAGIT), County Option Income Tax (COIT) or riverboat admission tax revenue that is to be distributed to Lake County. Before July 1 of each year the Department of State Revenue is to determine the amount of tax credits claimed in the preceding tax year and transfer funds from any CAGIT, COIT, or riverboat admission tax revenue to reimburse the state General Fund. Currently, since Lake County has not adopted CAGIT or COIT, the General Fund reimbursement will come from the \$1 riverboat admission tax revenue that is to be distributed to Lake County. (In FY 2000, Lake County received \$17.9 M from admission tax revenue.)

Explanation of Local Expenditures: (Revised) *Reassessment:* The cost of the appraisal company contract to reassess property would be paid from the Lake County Property Reassessment Fund. The cost of reassessment, whether performed by local assessors or performed under local contracts would be paid from the fund under current law. There would be little change in the payments made from the fund.

Explanation of Local Revenues: (Revised) *Minimum Assessments:* The bill specifies that the minimum assessed value of single family residences, including land, in Lake County would be \$20,000 beginning with the 2002 Pay 2003 tax year. This minimum AV would be presumed to be accurate under the bill unless it is proven to be inaccurate by clear and convincing evidence. Additionally, the total of all deductions on a single family residence would be limited to \$12,000 beginning with the 2001 Pay 2002 tax year under the bill. The minimum net assessed value of a single family residence would be equal to \$8,000 beginning with the **2001 Pay 2002** tax year under this proposal (unless the \$20,000 minimum AV is judged inaccurate for a specific residence).

There are a number of residential taxpayers in Lake County who currently pay little or no property tax on their homes as a result of low assessments and high deductions. Since this bill would establish a minimum assessment, the AV tax base would grow. Increasing the tax base would cause a shift of part of the property tax burden from all taxpayers to the taxpayers whose assessments would increase as a result of this bill in the form of a reduced tax rate.

Minimum Assessment Assumptions and Method: For purposes of this analysis, it was assumed that the State Tax Board's currently proposed real property assessment manual will be used to revalue property effective with property taxes payable in 2003. It was also assumed that the actual assessment under the proposed manual will accurately reflect the value of property in Lake County. The analysis also used Lake County multipliers that were previously prepared by the State Tax Board to estimate market values based on current assessed values. These multipliers were applied to the assessed value data for each parcel in Lake County identified as a single family dwelling to estimate the property's value under the new assessment manual. The estimated value under the new manual is the baseline value in this analysis. The minimum assessment and the maximum total deduction were applied to the baseline value for each parcel to produce an estimate of the additional assessment for each parcel as a result of the bill. The additional assessment data was then used to recompute the tax rates for each fund, taxing unit, and taxing district based on CY 2000 net property tax levies.

Minimum Assessment Analysis:

2001 Pay 2002 Tax year (Before Reassessment)

According to the data, there are 140,595 parcels in Lake County classified as single family dwellings. The current assessed value of these parcels is \$3.47 B. Under the bill, **44,559** single family dwelling parcels, or just over 31% of the total number, would see an increase in net value totaling about **\$195.6 M**. The additional assessed value accounts for a 5.6% increase in the total net assessed value of single family dwellings and a 1.9% increase in overall net assessed value. However, the effects vary widely among townships and communities. For instance, the percentage of parcels with an increase varies from 5.0% in Schererville to 77.9% in Whiting.

The additional net value would reduce the net tax rate. The estimated reduction in tax rates varies by taxing district from 0.9% in several communities in St. John Township and in Merrillville to 9.5% in the Lake Station-Hobart Township taxing district. The additional valuation would shift part of the property tax burden from all taxpayers in Lake County to properties with increased assessments under the bill. The countywide total shift amount is estimated at about **\$12.6 M**.

Based on the estimated tax rates, the minimum tax payment on a single family dwelling was estimated. The minimum tax is the absolute lowest tax amount that a taxpayer with the maximum \$12,000 deduction and minimum \$8,000 net AV would have to pay. The estimated minimum tax varies from \$270 in the Hanover Township taxing district to \$554 in the Gary-Calumet-Gary School taxing district.

A more detailed summary by township and by taxing district is available from the Legislative Services Agency.

Tax Years 2002 Pay 2003 And After (After Reassessment)

According to the data, there are 140,595 parcels in Lake County classified as single family dwellings. The estimated assessed value under the proposed assessment manual of these parcels is \$8.53 B. Under the bill, **35,822** single family dwelling parcels, or just over 25% of the total number, would see an increase in net

value totaling about **\$307.7 M**. The additional assessed value accounts for a 3.6% increase in the total net assessed value of single family dwellings and a 1.7% increase in overall net assessed value. However, the effects vary widely among townships and communities. For instance, the percentage of parcels with an increase varies from 5.3% in Schererville to 72.8% in the Gary-Calumet-Lake Ridge School taxing district.

The additional net value provided by the minimum assessments would reduce the net tax rate. The estimated reduction in tax rates varies by taxing district from 0.8% in several communities in North, Ross, and St. John Townships to 5.0% in the Gary-Calumet-Lake Ridge School taxing district. The additional valuation would shift part of the property tax burden from all taxpayers in Lake County to properties with increased assessments under the bill. The countywide total shift amount is estimated at about **\$11.3 M**.

Based on the estimated tax rates, the minimum tax payment on a single family dwelling was estimated. The minimum tax is the absolute lowest tax amount that a taxpayer with the minimum \$20,000 AV and the maximum \$12,000 deduction (\$8,000 net AV) would have to pay. Because many taxpayers would not have deductions that approach the maximum \$12,000 deduction, the tax paid by those taxpayers would be higher than the minimum amount shown. The estimated minimum tax varies from \$129 in the St. John Township taxing district to \$380 in Hammond.

A more detailed summary by township and by taxing district is available from the Legislative Services Agency.

Gaming Revenue: Under current law, a local unit’s riverboat revenues may not be used to replace property tax. This bill would give each unit that receives Gaming Admissions Tax revenue the authority to use the revenue to reduce its property tax levy. The actual fiscal impact of this provision would depend on local action.

The following table contains the direct distributions made to Indiana counties, municipalities, and towns from the Riverboat Admission Tax in FY 2000.

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.

Local Option Tax: This bill permits Lake County to impose a county property tax reduction income tax, and permits municipalities in Lake County to impose a municipal option income tax. It requires a public hearing before adoption of a tax. The bill requires affirmative votes of five members of the county council to adopt the county tax, and requires the county to reduce its workforce by at least 250 to retain the county tax.

The maximum rate of tax that may be imposed on a county or municipal resident is 1% and .5% on nonresidents of the adopting taxing unit. The municipal option income tax is effective upon passage and may first be implemented on September 1, 2001, if the fiscal body adopts an ordinance by July 1, 2001. The municipal option income tax may take affect on July 1 of the year that the ordinance is adopted in 2002 and years after. The County Property Tax Reduction Income Tax is effective January 1, 2002. The county must adopt an ordinance between February 15 and May 1 for the tax to be effective July 1 of that year or years after. This bill allows the imposition of the municipal tax only for a period when the county tax is not in effect. It also provides that the county tax and municipal tax may not continue in effect after December 31, 2005.

A 1% county option income tax is estimated to raise approximately \$70.7 M in CY 2002. There are 19 cities and towns in Lake County which would be eligible to adopt a municipal option income tax. The amount of municipal income tax which could be generated is dependent on which cities or towns adopt the tax and the amount of resident income within the municipality along with nonresident income of those individuals who work in the area.

The bill requires the county or a municipality to annually reduce its budget by at least 3% to retain a local option income tax. The revenue from each tax is to reduce the adopting unit's property tax levy. Taxing units generally receive increases in revenue each year and generally increase their budgets each year. If a municipality reduces its budget by 3% in order to impose the local option tax, not only would there be a 3% cut, but the unit would also forego a budget increase for the year. Average budget increases range from 2.7% per year to 12% per year in Lake County.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: Lake County assessors; Lake County Auditor; Counties and municipalities that receive Gaming Admissions Tax revenues.

Information Sources: State Board of Tax Commissioners.