

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

301 State House
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FISCAL IMPACT STATEMENT

LS 7682

BILL NUMBER: HB 1902

DATE PREPARED: Apr 27, 2001

BILL AMENDED: Apr 11, 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.

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 County Reassessment Fund; (2) reassess real property for the general reassessment to be completed for the March 1, 2002 assessment date; and (3) review succeeding general reassessments to identify assessment disparities that are then subject to correction by the State Board. It provides that a taxpayer may appeal the March 1, 2002 reassessment value to the State Board.

The bill requires township assessors and the county assessor to provide support and information to the State Board for the Lake County general reassessment, and provides for enforcement through the Tax Court of a request by the State Board for information.

Industrial Assessments: Beginning with the 2004 reassessment date, this bill directs the State Board (instead of the township assessor) to assess major industrial properties in Lake County.

Local Option Tax: This bill permits municipalities in Lake County to impose a municipal option income tax. It requires a public hearing before adoption of the tax. The bill requires a municipality to annually reduce its budget by at least 3% to retain the tax and provides that the maximum permissible General Fund property tax levy of a municipality is frozen as long as the tax is in effect. The revenue from the tax is used to reduce the adopting municipality's property tax levy. The bill provides that the tax may not continue in effect after December 31, 2005.

Circuit Breaker: The bill provides a state income tax credit for property tax paid on homesteads for certain low income taxpayers in Lake County. It provides that the credit is funded from Gaming Admissions Tax

revenue that would otherwise be paid to Lake County and the three largest cities by population in the county. The bill also makes conforming amendments.

Effective Date: (Amended) January 1, 2001 (Retroactive); Upon Passage; July 1, 2001; 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 245,000 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. For example, if each notice cost \$0.50 to prepare and mail, the Tax Board would incur additional expenditures of \$122,500.

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 would require the township assessors and the county assessor to provide the State Board and its contractor with support and information as requested. Written requests for information would have to be fulfilled within seven days of the request date. The State Board or its contractor would be permitted to petition the Tax Court for an order seeking compliance if the assessor fails to produce the requested information. The Tax Court could find that any willful violation of its order constitutes a direct contempt of the Tax Court.

The bill requires the State Tax Board to review real property assessments in Lake County after each general reassessment following the upcoming reassessment. The State Board would be permitted to contract with an appraisal firm to conduct the review. The State Board or its contractor would determine the variance between the total assessed value of real property and the lawful assessment. If the variance exceeds 10%, the State Tax Board would 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. 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.

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.

Secondary impact of Circuit Breaker: The refundable portion of the tax credit would qualify as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program.

Industrial Assessments: Under the proposal the State Board, with support from the county assessor, would

assess each industrial facility in Lake County with an estimated true tax value of \$25 M or more for each reassessment beginning with the one that takes effect in CY 2006. The State Board would also assess any new industrial property in Lake County between reassessments. These facilities are currently assessed by local assessors. This provision could increase the State Board's administrative expenses for personnel and travel. The actual increased costs to the State Board would depend on the number and complexity of these facilities. Assessments of industrial property could be more uniform under the proposal which would result in a distribution of the tax burden that is equitable to all taxpayers. If these assessments are more uniform than under the current system, appeals of industrial assessments also could be reduced.

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 more than \$18,000, the tax credit is reduced by \$.50. Homeowners who have earned income more than \$18,600 would not receive a tax credit. If the amount of credit exceeds an individual's income tax liability, the excess is refundable to the taxpayer.

The tax credit is effective for tax years beginning January 1, 2001. Homeowners will be able to first claim this tax credit when they file their 2001 tax returns between January and April of 2002. Homeowners would not be permitted to claim both the credit and the current state income tax deduction of up to \$2,500 in property taxes paid. This could potentially reduce the amount of revenue loss from the state income tax deduction for property taxes by approximately **\$115,000** each in FY 2002 and FY 2003. Beginning in FY 2004, the reduction in revenue loss is estimated at **\$102,000** annually. This would affect the state General Fund.

It is estimated that the income tax credit will provide approximately **\$3.4 M** in property tax relief to eligible low income homeowners in Lake County for property tax paid each in CY 2001 and CY 2002. Beginning with the credit for property tax paid in CY 2003, the credit would total an estimated **\$2.6 M to \$3.0 M each year**. According to parcel data received, almost 4,900 single family dwelling parcels in Lake County have no property tax liability. However, beginning in CY 2003 under the currently proposed *Real Property Assessment Manual*, an estimated 13,000 parcels will have no property tax liability. The increase in the number of homes with no property tax liability is due to the Shelter Allowance contained in the proposed manual. This allowance deducts \$20,600 from the value of owner-occupied dwellings in Lake County. These lower values account for the lower credit estimate beginning in CY 2003.

Fifty percent of the tax credit is to be funded by the riverboat admission tax revenue that is distributed to Lake County and 16.67% of the credit is to come from revenue distributed to *each* of the three largest cities in the county (Gary, Hammond, and East Chicago). 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 riverboat admission tax revenue to reimburse the state General Fund. (In FY 2000, Lake County received \$17.9 M from admission tax revenue. FY 2000 receipts for the three largest cities in Lake County were \$6.62 M in Gary, \$5.81 M in Hammond, and \$5.42 M in East Chicago)

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) *Gaming Revenue:* Under current law, a local unit's riverboat revenues may not be used to replace property tax. This bill gives 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 municipalities in Lake County to impose a municipal option income tax. It requires a public hearing before adoption of a tax. The maximum rate of tax that may be imposed on a 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 effect on July 1 of the year that the ordinance is adopted in 2002 and years after. The bill provides that the 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 revenue 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 adopting unit.

The bill requires an adopting municipality to annually reduce its budget by at least 3% to retain a local option income tax. The revenue from the income 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% reduction in expenditures, 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. In addition, the maximum permissible property tax levy of a municipality that adopts the income tax would not increase while the income tax is in effect.

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.