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**FISCAL IMPACT STATEMENT**

**LS 6445**

**BILL NUMBER:** HB 1300

**NOTE PREPARED:** Dec 16, 2002

**BILL AMENDED:**

**SUBJECT:** Elimination of property tax controls.

**FIRST AUTHOR:** Rep. Kruse

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  GENERAL  
 DEDICATED  
 FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill eliminates property tax rate and levy controls except for school general fund controls related to the school tuition support formula.

**Effective Date:** January 1, 2004.

**Explanation of State Expenditures:** The state's liability for property tax replacement credits (PTRC) would not be affected by this proposal. The bill bases the PTRC on the levy as if the maximum levy was in effect. However, the state would be liable for an increase in homestead credits under this proposal. The amount of the increase would be equal to 20% of homeowners' share of any increase in levy as a result of this bill.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill removes all maximum levies and maximum tax rates for civil taxing units and school corporations, except for the school general fund. The gross property tax levy for all funds in CY 2002 was about \$6.2 B. The CY 2002 gross levy for funds that would be affected by this proposal was \$3.6 B. Under this proposal, that amount is subject to increase by an almost unlimited, unknown amount. Not all units would take advantage of the elimination of the caps. Some units might keep their levy increases within current limits. However, there could be some units that would increase their levies beyond the current limits. A breakdown of affected funds by unit type and fund type follows. The shaded cells indicate levies that are currently not capped or would not be affected under the proposal.

**CY 2002 Gross Property Tax Levies  
by Fund Category  
(In Millions)**

<b>Unit Type</b>	<b>Unit Count</b>	<b>Operating</b>	<b>Cumulative</b>	<b>Debt</b>	<b>Total</b>
Counties	92	975.6	109.1	61.4	1,146.1
Townships	1,008	136.3	16.1	19.1	171.4
Cities & Towns	563	924.8	31.3	44.3	1,000.4
School Gen Fund		1,702.2			
Schools	294	391.1	575.5	665.7	3,336.5
Libraries	239	166.3	7.0	35.5	208.7
Other	161	291.3	16.1	47.4	354.8
<b>Total</b>	<b>2,357</b>	<b>4,589.4</b>	<b>754.9</b>	<b>873.4</b>	<b>6,217.8</b>
Affected Total	2,357	2,885.3	754.9	0	3,640.2

Effects on other tax distributions

Certain other local taxes such as the local option income taxes, motor vehicle excise tax, and financial institutions tax are distributed each year to local units based on each unit's proportion of the total property tax levy. If some units increase their levies as a result of this proposal, there could be a change in the distribution of these revenues among the receiving units.

Effects on Pension Relief Fund distributions

This proposal would also affect the manner in which the "M" distribution from the Pension Relief Fund (PRF) is calculated.

Statewide, there should be no net fiscal impact from this provision. The PRF has a predetermined level of contributions that come in annually from cigarette tax, alcohol tax, and lottery revenues. Distributions from the "M" portion of the PRF, as determined by the "M" formula, will eventually exhaust this fund. If more money is paid out earlier, then less money will be paid out in later years and vice versa. Therefore, statewide, there is no fiscal impact.

This proposal could, however, cause individual cities and towns to experience fiscal impacts. Changing the distribution basis from maximum levy to levy could cause the "M" distribution to be very erratic depending on how individual cities and towns structure their property tax levy and debt, if any. If the actual property tax levy fluctuates within an individual city or town, then its "M" distribution would also fluctuate. Furthermore, since the net statewide effect is neutral, if some cities receive more in "M" distributions, then other cities will receive less in "M" distributions. This provision could also make some currently eligible cities ineligible for "M" distributions.

The actual fiscal impact of this bill would depend on the actions taken by each of Indiana's 2,357 taxing units.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** All civil taxing units and school corporations.

**Information Sources:** Local Government Database.

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