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FISCAL IMPACT STATEMENT

LS 6486 **NOTE PREPARED:** Mar 4, 2003
BILL NUMBER: HB 2008 **BILL AMENDED:** Mar 4, 2003

SUBJECT: Energize Indiana Program

FIRST AUTHOR: Rep Crawford **BILL STATUS:** As Passed House
FIRST SPONSOR: Sen. Borst

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

Summary of Legislation: (Amended) This bill includes the following provisions:

(1) The bill establishes the Tobacco Settlement Authority. It provides for the sale of bonds payable from future tobacco settlement payments to the state.

(2) The bill distributes over 10 years the net bond proceeds and income accruing to the Authority to the: (1) state General Fund; (2) Twenty-first Century Research and Technology Fund; (3) Venture Fund; (4) Technology Development Grant Fund; (5) Rural Development Council Fund; (6) Value Added Research Fund; (7) Rural Development Administration Fund; and (8) the Growth Scholars Fund. The bill also makes appropriations.

(3) The bill transfers the Twenty-first Century Research and Technology Fund and program from the Budget Agency to the Development Finance Authority.

(4) The bill provides a tax credit against state tax liability for (1) employers that provide employment in targeted employment areas for students and graduates participating in a certified degree program; and (2) graduates of a certified degree program who are employed in Indiana after graduation. It provides for certification of degree programs.

(5) The bill also authorizes the Indiana Port Commission to construct and finance: (1) maritime and nonmaritime port projects throughout Indiana for the transfer of goods and passengers between all modes of transportation; and (2) nonport projects to promote economic growth and development.

(6) The bill removes limitations on the establishment of certified technology parks. The bill also makes related changes.

(7) This bill extends the Research Expense Credit until 2010.

(8) This bill reduces the 30% personal property tax assessed valuation floor for property taxes payable after 2004 and before 2011.

(9) The bill establishes a 22-member Government Efficiency Commission to review all operations of state government and to make recommendations by December 31, 2004, concerning increased efficiency, waste reduction, and other cost reduction.

Effective Date: (Amended) January 1, 2003 (retroactive); Upon Passage; July 1, 2003; January 1, 2004.

Summary of Net State Impact: (Revised) This bill provides for the sale of 35% of the state's anticipated Tobacco Settlement Agreement income stream to the Tobacco Settlement Authority. The Authority would securitize the income through the sale of bonds at a discount for a lump sum payment. The securitization is estimated to raise $522.5 M in net proceeds from the sale of tax exempt bonds in FY 2004: $373.2 M for distribution to the Indiana Growth Fund and $149.3 M for distribution to the General Fund. Additional income will be earned from investment of the undistributed portion of the Indiana Growth Fund. Investment earnings may be as much as $50 M over a ten-year period. This estimate is dependent on how long funds remain in the Indiana Growth Fund for investment purposes.

The tax shifts from business personal property to other property in the bill would cause the state's expense for regular PTRC and Homestead Credits to increase. The additional state expense is estimated at $2.2 M in FY 2005 (partial year), $7.9 M in FY 2006, with the full impact of the phaseout being reached at $11.3 M in FY 2007. The impact will continue until this provision expires in FY 2011.

Extending the expiration date of the Research Expense Credit to December 31, 2010, will result in approximately $37.85 M in revenue loss for FY 2005 (six months liability) and approximately $79 M to $80 M in FY 2006 to FY 2010. The revenue loss from the Indiana Growth Scholars Tax Credit will not occur until FY 2008.

The bill makes the following appropriations from the Indiana Growth Fund.

Distributions from the Indiana Growth Fund							
Year	**IN Development Finance Authority ***	**Value Added Research Fund**	**Rural Development Admin. Fund**	**Rural Development Council Fund**	**IN Technology Development Grant Fund**	**Growth Scholars Fund**	**Total**
FY 2004	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	$4.7 M	$ 37.9 M
FY 2005	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	$5.1 M	$ 38.3 M
FY 2006	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	$5.6 M	$ 38.8 M
FY 2007	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	$6.1 M	$ 39.3 M
FY 2008	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	0	$ 33.2 M
FY 2009	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	0	$ 33.2 M
FY 2010	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	0	$ 33.2 M
FY 2011	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	0	$ 33.2 M
FY 2012	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	0	$ 33.2 M
FY 2013	$25 M	$ 0.6 M	$ 2.4 M	$ 1.2 M	$ 4.0 M	0	$ 33.2 M
Total	$250 M	$ 6.0 M	$ 24.0 M	$12.0 M	$ 40.0 M	$21.5 M	$353.5 M

* Represents initial appropriation of $25 M annually. Bill allows annual augmentation of up to $11 M if sufficient funds exist. With maximum annual appropriation of $36 M for the IDFA, total appropriations would equal $463.5 M.

Explanation of State Expenditures: (Revised) The bill establishes the Indiana Growth Fund to receive bond proceeds from the securitization of a portion of the Tobacco Settlement Agreement revenue, as well as appropriations, grants, gifts, donations, and interest that accrues from investment of the money in the Fund. The Fund is to be administered by the Tobacco Settlement Authority established to securitize 35% of the payments made to the state under the Tobacco Master Settlement Agreement. Money in the Fund does not revert to the state General Fund, and the expenses of administering the Fund are to be paid from the Fund. If the Authority has insufficient money to make the total amount of transfers required by law for any fiscal year, the Authority will make transfers for that fiscal year as directed by the State Budget Agency after review by the Budget Committee.

Indiana Development Finance Authority Distributions: The bill provides for distribution of at least $250.0 M ($25.0 M annually) from the Indiana Growth Fund to the Indiana Development Finance Authority (IDFA) from FY 2004 to FY 2013. The bill also provides that a supplemental distribution totaling $110.0 M ($11.0 M annually) from FY 2004 to FY 2013 may be made to the IDFA if the Budget Committee determines that a sufficient balance remains in the Growth Fund for such supplemental distribution. The bill requires the IDFA to annually deposit these funds either in the 21st Century Research and Technology Fund and the Indiana Venture Fund.

Indiana Venture Fund: The Indiana Venture Fund is established by the bill to be administered by the IDFA.

Money in the Venture Fund does not revert to the state General Fund, and the expenses of administering the Venture Fund are to be paid from the Venture Fund. Money in the Venture Fund is to be utilized by the IDFA to:

(1) Make direct loans to a technology commercialization project to provide seed capital or venture capital. Such loans can not exceed the lesser of 40% of the initial funding for the project or $600,000.

(2) Make direct or co-venture investments in the form of loans or loan guarantees by entering into agreements with professional or accredited investors who agree to invest at least as much as the IDFA in a technology commercialization project to provide venture capital or seed capital. The IDFA may not loan, or guarantee loans, of more than $1.0 M to any single business under these arrangements. This maximum may be increased to $1.5 M if deemed necessary to protect or enhance the initial investment of the IDFA.

(3) Enter into written agreements with one or more professional investors to establish a pool of funds to be used exclusively as venture capital or seed capital investments. The IDFA may not invest more than $2.0 M in a single pool or in affiliated pools of funds.

The bill also establishes a seven-member advisory board to evaluate applications for loans or co-venture investments in the form of loans or loan guarantees. The advisory board consists of: (1) three members of the IDFA other than the Lt. Governor, to be selected by the Governor; (2) three members of the 21st Century Research and Technology Fund Board other than the Lt. Governor, to be selected by the Governor; and (3) the Lt. Governor. The bill requires the advisory board to make recommendations to the IDFA, and for the IDFA to make the final determination regarding investments. Members of the advisory board are not entitled to per diem, but are entitled to reimbursement for travel and other expenses.

21st Century Research and Technology Program and Fund: The bill transfers certain administrative responsibility pertaining to the 21st Century Research and Technology Program from the State Budget Agency (SBA) to the IDFA. The bill also transfers administration of the 21st Century Research and Technology Fund from the State Treasurer to the IDFA. Under the bill, the Fund Board approves and recommends applications for grants and loans to the Budget Committee. After review by the Budget Committee, the IDFA is authorized (instead of the SBA) to approve, deny, or modify grants and loans recommended by the Fund Board. However, the bill also requires that grant and loan applications recommended by the Fund Board be submitted to the SBA for approval. Under current statute, the IDOC must provide administrative assistance to the IDFA. Currently, the IDFA has a staff of approximately eight employees. The additional administrative responsibilities established under the bill presumably could be absorbed by these agencies given their existing budgets and resources. The December 7, 2002, state staffing table indicates that the IDOC has 52 vacant full-time positions, including regional office positions.

Fund Transfers: The bill authorizes the IDFA to transfer funds from the existing Business Development Loan Fund to the Indiana Venture Fund (established by the bill). The allotment balance in the Business Development Loan Fund as of January 17, 2003, was $108,125.

High Growth Company Qualification: The bill changes the current law definition of a *high growth company with high skilled jobs*. Under current law, a high growth company has average annual growth in earnings over the prior three years equal to 15%. The bill lowers the growth requirement to 10% average annual growth. The bill also changes the growth indicator from company ***earnings*** to company ***gross revenue***. The first change could increase the pool of businesses that qualify for: (1) loan guarantees financed through the Industrial Development Project Guaranty Fund; and (2) enhanced assistance through the Capital Access

Program. (Under the Capital Access Program the IDFA's contribution to a loan is triple the regular match for these high growth companies.) The impact of the growth indicator change is unknown, though it could potentially change the pool of eligible companies.

Rural Development Administration Advisory Board: The bill creates the Rural Development Administration Advisory Board to make recommendations to the Indiana Rural Development Council concerning the expenditure of money from the Rural Development Administration Fund. The Board consists of 16 members. Non-voting members include the Executive Director of the Indiana Rural Development Council, 2 members of the Senate appointed by the President Pro Tempore of the Senate, and 2 members of the House of Representatives appointed by the Speaker of the House of Representatives. The Board includes 11 voting members appointed by the Governor: a representative of the Commissioner of Agriculture, a representative of the Department of Workforce Development, 2 persons with knowledge and experience in state regional economic needs, a representative of a local rural economic development organization, a representative of a rural development council, a representative of rural education, a representative of the League of Regional Conservation and Development Districts, and a person enrolled in rural secondary education.

The bill distributes $42.0 M (4.2 M annually) from FY 2004 to FY 2013 from the Indiana Growth Fund. The Rural Development Administrative Fund and the Rural Development Council Fund are created to receive these payments. The funds are to be administered by the Indiana Rural Development Council. Money in the funds at the end of a fiscal year does not revert to the General Fund. The following table outlines the specific distributions.

	FY 2004	**FY 2005**
Value Added Research Fund	$600,000	$600,000
Rural Development Administration Fund	$2,400,000	$2,400,000
Rural Development Council Fund	$1,200,000	$1,200,000
Total	**$4,200,000**	**$4,200,000**

Energize Indiana Growth Scholars Fund and Program: The bill appropriates $4.7 M for FY 2004, $5.1 M for FY 2005, $5.6 M for FY 2006, and $6.1 M for FY 2007 from the Indiana Growth Fund to the Energize Indiana Growth Scholars Fund. The Fund is created by the bill and is to be administered by the State Budget Agency. Money in the Fund at the end of a fiscal year does not revert to the General Fund.

The Fund is to be used to: (1) pay the total operating expenses of the Student Assistance Commission, including grants and administrative expenses, for the Certified Degree Program; and (2) reimburse the state General Fund for the cost of the Internship Payroll Credit (see *Explanation of State Revenues*). The bill requires the State Budget Agency to annually transfer from the Fund an amount equal to the amount needed to reimburse the state General Fund for the cost of the Internship Payroll Credits taken by taxpayers in that fiscal year. Any money remaining in the Fund after reimbursement of the tax credit cost may be used by the Student Assistance Commission for grants to students to pay for academic credit to fulfill the internship component of a certified degree program.

Certified Degree Programs: The bill provides for the establishment of *certified degree programs* by state and private institutions of higher learning. These programs would be certified by the Student Assistance Commission in consultation with the Department of Workforce Development and the Commission for Higher

Education. Under the bill, a certified degree program must address areas of *targeted employment* and include an internship component. The bill defines targeted employment as employment in any of the following business activities.

(1) Advanced manufacturing, including the following:
    (A) Automotive and electronics.
    (B) Aerospace technology.
    (C) Robotics.
    (D) Engineering design technology.
(2) Life sciences, including the following:
    (A) Orthopedics or medical devices.
    (B) Biomedical research or development.
    (C) Pharmaceutical manufacturing.
    (D) Agribusiness.
    (E) Nanotechnology or molecular manufacturing.
(3) Information technology, including the following:
    (A) Informatics.
    (B) Certified network administration.
    (C) Software development.
    (D) Fiber optics.
(4) Twenty-first Century logistics, including the following:
    (A) High-tech distribution.
    (B) Efficient and effective flow and storage of goods, services, or information.
    (C) Intermodal ports.

Other Administrative Impacts: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the Internship Payroll Credit. In addition, the bill requires the Student Assistance Commission to certify degree programs in consultation with the Commission for Higher Education and the Department of Workforce Development. The bill also requires the Student Assistance Commission to establish requirements for Growth Scholars Tax Credits and to annually award provisional tax credits to students under that program. Any expenses relating to these additional administrative requirements presumably could be absorbed given each agency's existing budget and resources.

Government Efficiency Commission: The bill creates a 22-member commission consisting of one cochairperson appointed by the President Pro Tempore of the Senate, one cochairperson appointed by the Speaker of the House, 10 members appointed by the President Pro Tempore of the Senate, and 10 members appointed by the Speaker of the House. The members can not be an elected or appointed state or local official. The Commission shall have four subcommittees: K-12 education, higher education, Medicaid and human services, and general government.

The members are entitled to traveling expenses and other expenses incurred in connection with the members' duties. Assuming an average of two meetings per month, the FY 2004 impact is estimated to be $18,250 and the FY 2005 impact is estimated to be $9,125. The expenses of the Commission would be paid from the Legislative Services Agency budget. The staff advisers for the Commission include the State Budget Director, the Commissioner of the Higher Education Commission, the Indiana State Board of Education Administrator, and the Executive Director of the Legislative Services Agency.

Port Commission: The bill expands the Port Commission's authority beyond financing and building port projects on Lake Michigan, the Ohio River, and the Wabash River. In addition to its current powers, the bill authorizes the Port Commission to issue revenue bonds under its current law issuing authority to finance projects involving (1) to (3) below.

(1) Ports on other water bodies in Indiana.

(2) Nonmaritime port and traffic exchange points throughout Indiana for the transfer of goods and passengers between all modes of transportation.

(3) Any other project located in Indiana other than at a port, that the Commission finds will enhance, foster, aid, provide, or promote: (a) economic development; (b) public-private partnerships; and (c) other industrial, commercial, business, transportation purposes.

Under current statute, Port Commission revenue bonds have a maximum maturity of 50 years. Also under current statute, Port Commission revenue bonds do not constitute a debt, or a pledge of the faith and credit, of the state or political subdivisions of the state. In addition, current statute requires that revenue bonds of the Port Commission be secured with revenues derived by the Commission from fees, tolls, rentals, and other charges for: (1) the use of Commission ports, projects, terminal facilities, and lands; or (2) services rendered by the Commission. Current law authorizes the Port Commission to fix its fees, tolls, rentals, and other charges to provide revenue sufficient to pay its administrative, operation, and maintenance costs and the principal and interest on revenue bond issuances. As a result of the bill, the Port Commission would incur additional administrative expenses relating to the expansion of project financing authority. Additional staffing that may be necessitated by this expansion is unknown at this time. The Port Commission currently has 11 employees staffing its Indianapolis office, with 23 port employees located in Mt. Vernon, Jeffersonville, and Portage.

IEDC Board Membership and Authority: The bill changes the membership of the Indiana Economic Development Council (IEDC) so that it is composed of 21 members, none of whom can be members of the General Assembly. The Governor and Lt. Governor each appoint three members; and the Speaker of the House of Representatives, President Pro Tempore of the Senate, House Minority Leader, and Senate Minority Leader each appoint two members. Also, the presidents of Indiana University, Purdue University, Indiana State University, Ball State University, Ivy Tech State College, Vincennes University, and the University of Southern Indiana each appoint one member. Members appointed by the Governor, Lt. Governor, President Pro Tempore of the Senate, and Senate Minority Leader serve for terms of four years; and members appointed by the Speaker of the House of Representatives, the House Minority Leader, and the college and university presidents serve for terms of two years. The bill provides that IEDC Board members are entitled to a salary per diem equal to the per diem for members of the General Assembly for attending meetings. In addition, Board members are to be reimbursed for actual and necessary expenses on the same basis as state employees. Under current law, the IEDC Board is composed of the Governor, the Lt. Governor, the chief operating officers of the IEDC, the Corporation for Indiana's International Future, and additional persons appointed by the Governor.

The bill requires the Board to elect an executive director of the IEDC. The bill also allows the IEDC to employ bond counsel, other legal counsel, technical experts, and other officers, agents and employees.

Personal Property Assessment Floor: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due on owner-occupied residences.

The tax shifts from business personal property to other property in the bill would cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any additional PTRC or Homestead Credit payments would ultimately come from the state General Fund. The additional state expense is estimated at $2.2 M in FY 2005 (partial year), $7.9 M in FY 2006, and $11.3 M in FY 2007. This amount will grow by about 5% per year through FY 2010.

Technology Parks/Technology Development Grant Fund: The bill provides for the distribution of $40.0 M ($4.0 M annually) to the Technology Development Grant Fund from FY 2004 to FY 2013. The Fund is established to provide grants to redevelopment commissions that have established technology parks. The bill requires the Indiana Department of Commerce to administer the Fund. The bill limits total grants to a particular technology park to $2 M for leasing, construction, and purchase of capital assets and $2 M for operating expenditures. However, no more than $500,000 may be distributed to a particular technology park in a fiscal year. The bill removes the requirement that a certified technology park application demonstrates a firm commitment from at least one business engaged in high technology activity creating a significant number of jobs.

Explanation of State Revenues: (Revised) *Tobacco Settlement Authority:* The Public Finance Office has estimated that an issuance of $617.95 M in tax exempt bonds with a 35-year maturity would result in net proceeds of $522.5 M. This estimate is based on the financial conditions in December of 2002 and the following assumptions: a liquidity reserve of $48.1 M, capitalized interest of $21.7 M, costs of issuance of $6.2 M, an original issue discount of $19.4 M, an interest rate of 6.73%, and an accelerated retirement of the bonds. Actual proceeds from the securitization process will depend on future market factors. The dollar amount of bond proceeds actually achieved under the terms of the bill will be dependent upon the length of time for which the bonds are issued, how the bonds are structured, the tax exempt status of the issue, and the yield available in the market at the time of issuance.

This estimate does not account for the investment earnings from the proceeds. Depending on the amount of funds available and the length of time the funds are left in the Indiana Growth fund, investment earnings could be as much as $50 M over a ten-year period.

Using the assumptions stated above, the Authority would deposit approximately $373.2 M in the Indiana Growth Fund and $149.3 M in the state General Fund after the projected sale of bonds in 2004. The distribution to the General Fund may jeopardize the tax-exempt status of the bond issue which could increase the cost of the bonds and decrease the net proceeds.

Background Information: This bill creates the Tobacco Settlement Authority to assist in securitizing 35% of the revenue stream payable to the state from the Tobacco Master Settlement Agreement between the states and participating tobacco manufacturers. The Authority is established as a body corporate and politic. The governance of the Authority is by a 7-member board consisting of the Governor, Lieutenant Governor, the Treasurer of State, and 4 members appointed by the Governor (not more than three of whom may be members of the same political party). Four members of the Board constitute a quorum, and 4 affirmative votes are required for the Board to take action. Members of the Board are not eligible for compensation, but are entitled to reimbursement for actual expenses on the same basis as state employees.

The Authority may employ independent counsel, financial advisers, other agents, and employees necessary to carry out the operations of the Authority. Employees of the Authority are not considered to be state employees. The Authority must contract with an independent certified public accountant for an annual financial audit. Copies of the Authority's annual budget and financial report are to be submitted to the Budget Director, the Legislative Council, and the State Board of Accounts. The Authority is prohibited from exercising the power of eminent domain and levying taxes.

The Authority may purchase from the state a portion of the amounts and revenues due to the state under the Tobacco Master Settlement Agreement. The Tobacco Settlement Authority is authorized to issue bonds in an amount appropriate to provide sufficient funds for payment of debt service, establishment of debt service or operating reserves to secure the bonds, and covering the cost of issuance of bonds, financing costs, and other expenditures necessary to carry out its purposes. The bill provides that 5/7 of the net proceeds of bonds issued by the Authority, with certain exceptions, are to be deposited in the Indiana Growth Fund; 2/7 of the net proceeds of bonds issued are to be deposited in the state General Fund.

The bill authorizes the state to sell and assign to the Authority all of the state's right to receive a 35% portion of the state's annual share of the revenues due to the state under the Tobacco Master Settlement Agreement. A sale and assignment of rights to this revenue is irrevocable.

The bill provides for a transfer of revenues or income not required to meet the obligations of the Authority to the General Fund if directed by the Governor.

The bill provides for the dissolution of the Authority not later than two years from the final payment of its outstanding bonds and satisfaction of all other outstanding obligations. Upon dissolution, all of the Authority's property shall be transferred to the state, including the Authority's right to revenues due under the Tobacco Master Settlement Agreement.

Internship Payroll Credit: The bill establishes the Internship Payroll Credit for payroll and other costs incurred by a taxpayer that employs in *targeted employment* a student in, or a graduate of, a *certified degree program*. (See discussion of these terms under *Explanation of State Expenditures*.) The credit is equal to the sum of: (1) $500 for each targeted employment position filled by a student or graduate of a certified degree program; plus (2) the lesser of the payroll expenditures incurred by the taxpayer to employ the student or graduate in targeted employment or $500. The amount of credits eligible taxpayers may claim annually is indeterminable. This total would be contingent upon a number of factors, including employer utilization, student interest, and current and future capacity of higher learning institutions to operate certified degree programs.

The bill requires annual transfers from the Energize Indiana Growth Scholars Fund in FY 2004 to FY 2007 to the state General Fund to offset the costs of the tax credit (see *Explanation of State Expenditures*). The bill appropriates $4.7 M for FY 2004, $5.1 M for FY 2005, $5.6 M for FY 2006, and $6.1 M for FY 2007 from the Indiana Growth Fund to the Energize Indiana Growth Scholars Fund. Based on the annual appropriations to the Growth Scholars Fund, at least 4,700 certified degree program students or graduates placed in targeted employment positions could be claimed for purposes of the credit in FY 2004, with no net fiscal impact to the state General Fund. This total would increase to 5,100 in FY 2005, 5,600 in FY 2006, and 6,100 in FY 2007, with no net fiscal impact. This assumes that each eligible taxpayer claims $1,000 per student or graduate employed and does not carry over excess credits to succeeding years. The bill does not provide for funding the credit offset after FY 2007 or in excess of the appropriation amounts.

This credit may be claimed by individual and corporate taxpayers against their Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax liabilities. The credit is effective beginning in tax year 2003. As a result, the fiscal impact could begin in FY 2004 depending upon how quickly degree programs can be certified. The credit is not refundable, but may be carried forward to subsequent years. The credit can not be carried back. If an employer is a pass through entity and does not have a tax liability, the credit could be taken by shareholders, partners, or members of the pass through entity in proportion to their distributive income from the pass through entity. A taxpayer claiming the credit for an employee is not eligible to receive the Enterprise Zone Employment Credit or the Prison Investment Credit for the same employee.

Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Indiana Growth Scholars Tax Credit: The bill establishes a refundable tax credit that: (1) could be awarded on a provisional basis by the Student Assistance Commission to an undergraduate student enrolled in a certified degree program; and (2) would be claimed in tax years subsequent to the student's graduation if the student is employed in Indiana. An eligible taxpayer could potentially be entitled to a maximum tax credit of $2,000 per year over four consecutive tax years after graduation. The fiscal impact of the credit could potentially begin in FY 2008. Despite the annual maximum for provisional credits (equal to $28.0 M), the annual fiscal impact would be contingent upon the distribution of provisional credits by the Commission among students in two-year and four-year certified degree programs. Thus, the fiscal impact of the credit could exceed $28.0 M in a particular fiscal year, however, those years would be offset by years in which credits claimed fell below $28.0 M.

The bill permits the Student Assistance Commission to award a provisional tax credit during an academic year to a full-time undergraduate student who is enrolled in a certified degree program and who is an Indiana resident. To be eligible for a provisional tax credit, the student also must meet specified academic requirements and additional eligibility requirements imposed by the Commission. The maximum provisional credit is $2,000 per academic year. The provisional credit may not be claimed against the student's Adjusted Gross Income (AGI) Tax. Rather, the provisional credit may be claimed once the student has graduated from the certified degree program and is employed in Indiana. Under the bill, the provisional credits would be claimed in the order of academic year in the certified degree program during which they were awarded. Thus, a provisional credit awarded in a student's first year in a certified degree program would be claimed in the first taxable year after graduation; and a provisional credit awarded in the fourth year in a certified degree program would be claimed in the fourth taxable year after graduation.

Under the bill, the tax credit is refundable. The bill limits the number of provisional credits a student may receive to four over four years in a certified degree program. The bill also limits the amount of a provisional credit to $2,000 per student per academic year. The bill places an aggregate limit on the annual amount of provisional credits that the Commission may award to $28.0 M per academic year. This could provide $2,000 provisional credits to 14,000 students each academic year. Assuming 12 months start-up for the Certified Degree Program and for establishing eligibility requirements for the Growth Scholars Tax Credit Program, provisional credits could potentially be awarded for the first time during the 2004-2005 academic year. As a result, provisional credits could be claimed for the first time by graduates of a two-year certified degree program in tax year 2007. This would have a fiscal impact in FY 2008. Provisional credits awarded in the 2004-2005 academic year to a student in a four-year certified degree program could, at the earliest, be claimed in tax year 2009.

Personal Property Assessment Floor: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about $33,000 in FY 2005 (partial year), $115,000 in FY 2006, and $150,000 annually from FY 2007 through FY 2010.

Port Commission: Under current statute, ports and other property of the Port Commission, interest on Commission revenue bonds, proceeds from the sale of the bonds, and receipt of the interest and proceeds is exempt from taxation in Indiana, except for the Financial Institutions Tax and the Inheritance Tax. The bill extends this tax-exempt status to nonmaritime port facilities and nonport projects of the Commission that are authorized by the bill. Thus, the bill could result in the exemption of additional investment income from taxation, to the extent that taxpayers substitute investment in Port Commission revenue bonds for investments in taxable instruments.

Research Expense Credit: This bill extends the expiration date of the Research Expense Credit to December 31, 2010. It is currently set to expire December 31, 2004. It is estimated that these changes will result in an additional revenue loss beginning in FY 2005 through FY 2011.

Over the past few years, the current Research Expense Credit has ranged from $9.2 M in FY 1996 to $24.2 M in FY 1999. However P.L. 192-2002ss increased the credit to 10% and eliminated the apportionment formula. Consequently the cost of the base credit was estimated to increase by an additional $47.9 M in FY 2004 and $51.5 M in FY 2005 (for a full 12 months or $24.8 M for 6 months due to the expiration of the credit in 2004). The total annual cost of the current credit is estimated to be $72.1 M in FY 2004 and $75.7 M in FY 2005. If this credit were to expire December 31, 2004, the revenue base could potentially increase by approximately $37.85 M in FY 2005 (six months liability) and $79 M in FY 2006. However, without this credit available, taxpayers' investment in research activities could significantly change and affect their base income tax liabilities. Research Expense Tax Credits affect revenue collections deposited in the General Fund.

It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability. With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides $100,000 for each $1 M in new research expenses. Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

Technology Parks: The bill also removes the limitation that no more than $5 M may be deposited in an Incremental Tax Financing Fund for a certified technology park over the life of the park. This change could potentially increase the incremental Sales and Use Tax and Adjusted Gross Income Tax revenue from technology parks deposited in these incremental tax financing funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Personal Property Assessment Floor*: Under current assessment rules, the total value of a taxpayer's depreciable personal property located in the same taxing district must be at least 30% of the total cost of the property. This is known as the 30% valuation floor. This bill would reduce the floor to 25% for taxes payable in CY 2005 and 20% for taxes payable in CY 2006 through CY 2010. The floor would return to 30% beginning with taxes paid in CY 2011.

The reduction of the floor would reduce the assessed value of personal property which would shift part of the tax burden from personal property taxpayers to all property taxpayers. The following table contains the estimates of tax shifts in CY 2005 and CY 2006, based on examination of data from returns with over $150,000 in assessed valuation.

Estimated Property Tax Shifts From 30% Floor Reduction				
	CY 2005 25% Floor		**CY 2006 20% Floor**	
Property Type	**% Shift**	**Tax Shift**	**% Shift**	**Tax Shift**
Agricultural	0.7%	2.8 M	1.2%	4.6 M
Residential	1.0%	22.1 M	1.6%	35.9 M
Commercial	(0.1) %	(1.0) M	(0.2) %	(2.1) M
Industrial	(1.5) %	(13.9) M	(2.6) %	(24.2) M
Utility	(7.8) %	(16.5) M	(11.3) %	(24.8) M
PTRC		2.8 M		4.6 M
Homestead Credit		3.7 M		6.1 M
Total Change *		0.0		0.0
* Totals may not sum to zero due to rounding.				

Technology Centers and Parks: Removing the lifetime $5 M limitation deposits in incremental tax financing funds of certified technology parks could potentially increase the incremental revenue from local option income taxes collected from park employees that are deposited in the incremental tax financing funds.

State Agencies Affected: Indiana Department of Commerce; Indiana Development Finance Authority; State Budget Agency; 21st Century Research and Technology Fund Board; Budget Committee; State Treasurer; Lt. Governor; Governor; Department of Workforce Development; Commissioner of Agriculture; Department of State Revenue; State Student Assistance Commission; Commission for Higher Education; Port Commission; State Board of Education; Legislative Services Agency; Department of Local Government Finance; Indiana Economic Development Council.

Local Agencies Affected:

Information Sources: Department of State Revenue; Department of Local Government Finance; Local Government Database.

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