LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7446 | **NOTE PREPARED:** Jan 10, 2005
BILL NUMBER: HB 1497 | **BILL AMENDED:**

SUBJECT: Penal County Option Income Tax.

FIRST AUTHOR: Rep. Buck | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: The bill allows a county to increase its county income tax rate by 0.25% to finance county penal operations. The bill provides that money distributed to finance county penal operations is distributed before the rest of the county's distributive shares. The bill requires a county penal facility that receives county option income tax (COIT) revenue to maintain its current level of operational funding from the county general fund. The bill provides that the combined tax rate for a county that imposes a COIT under these provisions and a county economic development income tax (CEDIT) may not exceed 1.25%.

Effective Date: July 1, 2005.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: In addition to the COIT rate allowed under current law, a county would have the option to impose additional COIT at a rate up to 0.25% and use the revenue generated by the rate increase to fund county penal operations. In order to impose an additional COIT rate, the ordinance would have to be adopted by April 1, of a given year for the rate increase to be effective in the same year.

A COIT county with an existing tax rate would have the option to designate revenue up to a maximum rate of 0.25% from their existing tax rate for penal or jail expenses. A county would be required to designate the revenue for penal/jail expenses before April 1, in the year immediately preceding the year in which the designation were to take effect. This provision could effect other projects funded by COIT revenue and perhaps lower the certified share that the taxing units of the county would receive.

An ordinance adopted would be required to be sent to the county treasurer and Department of State Revenue. The county treasurer would be required to establish the county penal revenue fund. Revenue for the penal fund would be deposited before the county's COIT certified distribution were distributed to taxing units.

Revenue in the penal fund would only be designated for county penal or jail operation expenses. Under the bill, the Department of Local Government Finance would not be able to consider penal revenue in the determination of the county's maximum levy.

Explanation of Local Revenues: *Summary:* There are three counties with COIT currently that are either at or over a combined 1.25% rate. The three counties at or over their combined rate would have the option under the bill to designate a certain amount of existing revenue not exceeding a 0.25% rate for their jails.

The 23 remaining COIT counties have cap space under their combined rate to impose an additional rate for penal or jail expense. The cap space in these counties ranges from 0.09% to 0.25%. If all 23 COIT counties with cap space were to impose an additional COIT rate to the maximum combined COIT and CEDIT rate of 1.25%, under the provisions of the bill, approximately $1.9 M in additional COIT revenue would be raised in CY 2006.

Background: Current law allows, with few exceptions, a maximum combined CEDIT and COIT rate of 1.0%.

State Agencies Affected:

Local Agencies Affected: COIT counties.

Information Sources: State Budget Agency.

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