

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

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7936**  
**BILL NUMBER: SB 496**

**NOTE PREPARED: Jan 24, 2005**  
**BILL AMENDED:**

**SUBJECT:** Taxation and bonding.

**FIRST AUTHOR:** Sen. Kenley  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** *Abatements and TIFs:* This bill extends the termination date for authority to approve new property tax abatements or to establish new tax increment finance areas (TIF) from December 31, 2005, to December 31, 2010.

*Library Budgets and Levies:* The bill requires, for a public library whose board is not comprised of a majority of elected members, operating budget and tax levy review by the fiscal body of the municipality, township, or county in which the library is located if the library proposes a levy increase of more than 5%.

*Assessment of Low Income Rental Housing:* This bill repeals the provision that prohibits consideration of the value of federal income tax credits in determining the assessed value (AV) of low income housing tax credit property.

*CEDIT Homestead Credit:* The bill permits the county auditor to adjust the distribution of County Economic Development Income Tax (CEDIT) funded homestead credits allowed in the county to offset property tax increases resulting from property tax deductions for inventory.

*Local Riverboat Revenue:* This bill authorizes the use of various revenues associated with riverboat gaming to reduce a unit's levy for a particular year without reducing the unit's maximum levy. It standardizes the provisions of current law authorizing the use of riverboat gaming revenue for property tax relief.

*Report on Local Government Finances:* The bill requires the Department of Local Government Finance (DLGF) to prepare and distribute an annual report on the expenditures, sources of revenue, and expenditures

per person for each political subdivision for the preceding year. It requires each political subdivision to publish the expenditure per person.

*Credit for Homestead Taxes Over 2% of Value:* This bill establishes a credit for property taxes on a homestead with an AV of less than \$300,000 in the amount by which the taxes exceed 2% of the AV.

*Economic Development:* This bill limits a taxpayer from using more than one state tax liability credit for the same project. It requires the Economic Development for a Growing Economy Board (EDGE) to consider the extent to which the granting of an economic development for a growing economy tax credit would reduce the amount available to fund the purposes of a community revitalization enhancement district (CRED) or certified technology park (CTP). The bill reduces the income tax incremental amount that the state is required to pay to a CRED or CTP by the amount of the economic development for a growing economy tax credits granted to businesses operating in the CRED or CTP. It allows a taxpayer to carry over an unused CRED tax credit for only nine taxable years. This bill defines income tax incremental amount in the law governing CTP's. The bill provides reporting standards for a business in a CRED and it requires notice to be given to taxing units affected by the creation of a CRED or professional sports development area.

*Local Borrowing:* The bill provides that bonds and leases issued by political subdivisions and payable from sources other than property taxes are subject to approval by the DLGF. It establishes additional criteria for DLGF approval of property tax based bonds and leases (which are subject to DLGF approval under current law). The bill requires political subdivisions to report certain information concerning new bond issues and leases to the DLGF and to make annual reports to the DLGF concerning outstanding bonds and leases. It also requires the DLGF to compile information from the reports in a data base and to post information from the reports on the Internet.

**Effective Date:** Upon passage; January 1, 2005 (retroactive); March 1, 2005 (retroactive); July 1, 2005.

**Explanation of State Expenditures:** *Assessment of Low Income Rental Housing:* 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 for qualifying funds on owner-occupied residences.

An increase in low income rental housing AV would shift part of the tax burden from personal property and from homesteads (along with all other properties) to the rental properties. Tax shifts from business personal property to real property would cause the state's expense for the 20% PTRC to increase. The shift from homesteads to non-homestead property would cause the state's homestead credit expense to decline.

If all of the Section 42 credits were considered in calculating AV, as discussed in *Explanation of Local Revenues*, the increase in state PTRC expense is estimated at a range of \$45,000 to \$72,000 in FY 2006 (partial year) and \$133,000 to \$213,000 in FY 2007. The homestead credit savings would be estimated between \$82,000 to \$132,000 in FY 2006 (partial year) and \$262,000 to \$420,000 in FY 2007. **Total PTRC and homestead expenses would decline by a range of about \$37,000 to \$60,000 in FY 2006 (partial year) and \$129,000 to \$206,000 in FY 2007.**

*Local Riverboat Revenue:* If local riverboat money is used to reduce property taxes, the state's expenses for PTRC and Homestead Credits will be reduced.

*Background:* PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

*Department of State Revenue (DOR):* The bill requires an advisory commission on industrial development that designates a Community Revitalization Enhancement District (CRED) to report to the DOR (in addition to reporting the employers, streets, and street numbers in a CRED as required by current statute): (1) the federal identification number of each business in the CRED; (2) the street address of each employer in the CRED; and (3) the name, telephone number, and email address (if available) of a contact person for each employer in the CRED. The bill also requires businesses operating in a CRED to report, in the manner prescribed by the DOR, information that it determines necessary to calculate the increment sales and income taxes for the CRED.

*Budget Committee:* The bill increases from 10 to 60 days the period of time that the Budget Committee has to review and make a recommendations on allocation of state income and sales taxes in proposed Professional Sports and Convention Development Areas (PSCDAs).

*Report on Local Government Finances.* Not later than May 1of each year, the DLGF Division of Data Analysis would be required to prepare and distribute an annual report on the expenditures, sources of revenue, and expenditures per person for each political subdivision for the preceding year. The Division would have to post the information on the DLGF website; file the report with the Governor and in an electronic format with the General Assembly; and file with each political subdivision the information that pertains to the political subdivision. It is presumed that the DLGF would be able to absorb any additional administrative expenses associated with reporting the information given its existing resources.

Current law requires cities and towns to publish an annual report of receipts and expenditures. School corporations are required to publish an annual financial report. The Department of Education (DOE) provides guidelines on report preparation and assistance as needed. Under this proposal, cities, towns, and schools would no longer be required to publish these reports. The DOE would no longer be required to provide guidelines or assistance in the preparation of the school reports.

*Local Borrowing:* The bill provides that bonds and leases issued by political subdivisions and payable from sources other than property taxes are subject to approval by the DLGF. A political subdivision must file a petition requesting approval from the DLGF to issue bonds or enter into a lease. It establishes additional criteria for DLGF approval of property tax based bonds and leases (which are subject to DLGF approval under current law). The DLGF may seek recommendations from the Local Government Tax Control Board (LGTCB) and the Department of State Revenue (DOR) when determining whether to authorize incurring the bonded indebtedness or the execution of the lease. The LGTCB, the DOR, and other state agencies must provide information to the DLGF that the DLGF considers necessary to determine the estimated impact of the issuance of bonds or execution of a lease on a political subdivision's tax rates. The DLGF may approve or disapprove the proposed bond issue or lease agreement; or approve an alternative financing arrangement after consideration of specified factors. The DLGF must render a decision not later than three months after the date it receives a request for approval. If a decision is not rendered within that time, the bond issue or lease agreement is considered approved unless the DLGF takes a three-month extension. The DLGF must mail notice of the extension to the executive officer of the political subdivision at least ten days before the end of the original three-month period. If a decision is not rendered within the extension period, the issue is considered approved. A political subdivision that issues bonds or enters into a lease after December 31, 2005, must supply the DLGF with information concerning the bond issue or lease within 20 days after the issuance or execution. The DLGF may establish a procedure that permits a political subdivision to transfer the information in a uniform format

through a secure connection over the Internet or through other electronic means. Each political subdivision that has any outstanding bonds or leases must submit a report to the DLGF before March 1 of 2006 and each year thereafter that includes a summary of all its outstanding bonds and leases as of January 1 of that year. The report must include certain information required by the DLGF. The DLGF must compile an electronic data base that includes the information and after December 31, 2006, post quarterly reports and annual summaries of the information. The DLGF may adopt rules to implement the above. It is presumed that the DLGF will be able to absorb any additional administrative expenses associated with these provisions given existing staff and resources.

**Explanation of State Revenues:** *Abatements and TIFs:* The state levies a small tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements or TIFs would change the amount received from this tax.

If there is an increase in investment because of the changes in this bill, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would have been made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

*Assessment of Low Income Rental Housing:* The State levies a small tax rate for State Fair and State Forestry. An increase in the AV base would increase the property tax revenue for these two funds. If all of the Section 42 credits were considered in calculating AV, as discussed in *Explanation of Local Revenues*, the increase in State Fair and State Forestry tax revenue would be estimated at \$10,000 in FY 2006 (partial year) and \$20,000 in FY 2007.

*Limitation on Use of Multiple Tax Credits:* The bill prohibits a taxpayer (including pass through entities and shareholders, partners, or members of pass through entities) from being granted more than one of the tax credits listed in (1) to (9) below for the same project. This change applies beginning in 2005, regardless of when tax credits were granted. Under the bill, any taxpayer that has been granted more than one of these tax credits for the same project must elect to apply only one of them. This provision could potentially reduce the amount of the specified tax credits obtained for economic development projects, to the extent that taxpayers are successfully obtaining multiple tax credits for a single project. The potential fiscal impact of this change, however, is indeterminable.

- (1) Enterprise Zone Investment Cost Credit.
- (2) Industrial Recovery (Dinosaur) Tax Credit.
- (3) Military Base Recovery Tax Credit.
- (4) Military Base Investment Cost Credit.
- (5) Economic Development for a Growing Economy (EDGE) Credits.
- (6) Capital Investment Tax Credit.
- (7) Community Revitalization Enhancement District (CRED) Tax Credit.
- (8) Venture Capital Investment Tax Credit.
- (9) Hoosier Business Investment Tax Credit.

*CRED Tax Credit:* The bill limits carry forward of the CRED Tax Credit to nine years following the year the credit is approved. This change applies to carry forward of the credit beginning in 2005, regardless of when the tax credit was first accrued. This could potentially reduce the amount of credits approved that are ultimately taken against a taxpayer's tax liability. However, the extent of this impact is indeterminable. Through the end

of 2005, approximately \$11.6 M in CRED Tax Credits have been approved. The extent to which these tax credits will be carried over is unknown.

Under current statute, a taxpayer who makes a qualified investment for the redevelopment or rehabilitation of property located within a CRED is entitled to this credit. The credit is based on 25% of the qualified investment. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce. The credit may be used to reduce the taxpayer's tax liability against the Adjusted Gross Income Tax, CAGIT, COIT, CEDIT, the Insurance Premiums Tax, and the Financial Institutions Tax. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

*EDGE Credits:* The bill makes several changes to exclude EDGE credits awarded for economic development projects in CREDs and certified technology parks from the determination of incremental income taxes captured by CREDs or technology parks. Under current statute, CREDs and certified technology parks are allowed to capture incremental income taxes annually generated in these areas. Fourteen certified technology parks have been designated in Anderson, Columbus, Daviess County, Evansville, Ft. Wayne, Hammond, Indianapolis, Kokomo, Muncie, Richmond, Scottsburg, Shelbyville, Terre Haute, and West Lafayette. Currently, there are 8 CREDs. Marion and South Bend each have one CRED, and Bloomington, Ft. Wayne, and Delaware County each have two CREDs. The bill makes the following changes relating to this issue.

(1) The bill requires an additional condition be met for EDGE credits to be awarded for a project located in either a CRED or a certified technology park. Under current statute, the EDGE Board must make a determination that several conditions have been met regarding the applicant business, its proposed project, and the impact of the proposed project before approving EDGE credits. In addition to these conditions, the bill requires that for projects in CREDs or certified technology parks to obtain EDGE credits, the local unit that established the CRED or technology park must adopt an ordinance granting a credit at least equal to the EDGE credit award.

(2) The bill also requires the EDGE Board to consider the extent to which a CRED or certified technology park needs the incremental income tax attributable to a project for its purposes, when determining the total EDGE credit amount for a project.

(3) The bill specifies that the income tax incremental amount within a certified technology park does not include EDGE credits.

**Explanation of Local Expenditures:** *CRED and PSCDA Establishment Requirements:* The bill specifies additional information and notification requirements for: (1) an advisory commission on industrial development designating a Community Revitalization Enhancement District (CRED); or a city or county council designating a Professional Sports and Convention Development Area (PSCDA). The bill requires the designating entity to: (1) publish notice of the adoption and substance of the resolution designating a CRED or PSCDA; and (2) file information with each taxing unit where the CRED or PSCDA is located relating to its boundaries, its economic impact, and its tax impact. In addition, the bill requires an advisory commission designating a CRED to report to the Department of State Revenue (in addition to reporting the employers, streets, and street numbers in a CRED as required by current statute): (1) the federal identification number of each business in the CRED; (2) the street address of each employer in the CRED; and (3) the name, telephone number, and email address

(if available) of a contact person for each employer in the CRED.

*Local Borrowing and Report on Local Government Finances:* The bill provides that a political subdivision must file a petition requesting DLGF's approval to issue bonds or enter into leases payable from sources other than property taxes. A political subdivision may also petition for judicial review of the final determination of the DLGF pertaining to the approval or disapproval of a bond issuance or lease contract. The petition must be filed in the tax court not more than 45 days after the DLGF enters its order.

Each political subdivision that has any outstanding bonds or leases must submit a report to the DLGF before March 1 of 2006 and each year thereafter that includes a summary of all the outstanding bonds or leases of the political subdivision as of January 1 of that year. A political subdivision that issues bonds or enters into a lease after December 31, 2005, must supply the DLGF with information concerning the bond issue or lease within 20 days after the issuance of the bonds or execution of the lease. A copy of the official statement and bond covenants, if any, must be supplied with this information. The DLGF may establish a procedure that permits a political subdivision to transfer the information to the DLGF in a uniform format through a secure connection over the Internet or through other electronic means. Before September 1 of each year, each political subdivision must publish information pertaining to expenditures per person. These provisions will increase administrative expenditures for local units; however, it is expected that local units will be able to absorb any additional expenses given existing resources.

*Local Riverboat Revenue:* The bill changes current statute to clarify the types of revenue comprising a Riverboat Fund established by a local unit. Current statute simply allows a local unit to establish a Riverboat Fund if it receives revenue from Riverboat Admission or Wagering Taxes, or from a revenue sharing agreement with a city or county that receives revenue from these two taxes. The bill specifies that a Riverboat Fund consists of money received from Riverboat Admission or Wagering Taxes, whether received directly or through a revenue sharing agreement; and money received under an economic development agreement with a licensed riverboat owner, whether received directly or through a revenue sharing agreement.

The bill also specifies that money in a Riverboat Fund may be used by a local unit to reduce its property tax levy for a particular year, but not reduce its maximum levy. This changes current statute relating to use of Riverboat Wagering Tax revenue by a local unit. Current statute, prohibits a local unit from using Riverboat Wagering Tax revenue to reduce the property tax levy for a particular year. In addition, current statute is silent regarding the use of money received by a local unit from economic development agreements with riverboat owners. Under the bill, money from these agreements also could be used to reduce a local unit's property tax levy for a particular year. (Note: Under current statute, admission tax revenue distributed to local units and revenue sharing money received by non-Riverboat counties and local units within these counties may be used to reduce the property tax levy for a particular year, but may not be used to reduce the maximum levy.) FY 2004 distributions of Riverboat Wagering and Riverboat Admission Taxes to local units are reported in the table below. In addition, the table reports the supplemental payment from the Property Tax Replacement Fund to replace shortages in Admission Tax distributions in FY 2003. The shortages are computed as the difference between the FY 2002 distribution level and the distribution to a local unit in a particular fiscal year.

<b>Riverboat Admission and Wagering Tax Distributions to Local Units (in millions) - FY 2004</b>				
<b>Local Unit</b>	<b>Supplemental Payment*</b>	<b>Admission Tax</b>	<b>Wagering Tax</b>	<b>Total</b>
Dearborn County	\$ 2.52	\$ 3.89	N/A	\$ 6.41
Dearborn County CVB	0.25	0.39	N/A	0.64
East Chicago	1.46	4.08	13.55	19.09
Evansville	0.37	1.54	4.76	6.67
Gary	1.83	3.51	12.27	17.61
Hammond	0.96	3.86	13.75	18.57
Harrison County	2.36	6.95	11.77	21.07
Harrison County CVB	0.12	0.35	N/A	0.47
Lake County	4.25	11.46	N/A	15.71
Lake County CVB	0.38	1.03	N/A	1.41
LaPorte County	0.86	2.67	N/A	3.52
LaPorte County CVB	0.09	0.27	N/A	0.35
Lawrenceburg	2.52	3.89	17.69	24.10
Michigan City	0.86	2.67	9.56	13.08
NW Ind. Law Enforcement Training Academy	0.04	0.11	N/A	0.16
Ohio County	0.77	1.65	N/A	2.41
Ohio County CVB	0.08	0.16	N/A	0.24
Rising Sun	0.77	1.65	6.60	9.01
Switzerland County	0.81	3.59	5.11	9.51
Switzerland County CVB	0.04	0.18	N/A	0.22
Vanderburgh County	0.37	1.54	N/A	1.91
Vanderburgh County CVB	0.04	0.15	N/A	0.19
<b>Total</b>	<b>\$ 21.74</b>	<b>\$ 55.59</b>	<b>\$ 95.05</b>	<b>\$ 172.37</b>

\*Supplemental payment from the state Property Tax Replacement Fund to replace FY 2003 Admission Tax distribution shortages.

CVB = County Convention and Visitor's Bureau

N/A = Local units don't receive statutory distributions of Wagering Tax.

**Explanation of Local Revenues: Abatements and TIFs:** Under current law, real property, new manufacturing equipment and new research and development equipment may qualify for property tax abatements. The abatements may be granted for periods up to ten years. Currently, no new abatements can be granted after December 31, 2005.

Under current law, TIFs are granted for up to 50 years, and proceeds may be used to:

1. Pay debt service on obligations incurred for the financing of redevelopment in the allocation area;
2. Deposit funds into a debt service reserve to pay bonds;
3. Pay debt service on bonds used to pay for local improvements in or serving the allocation area;
4. Pay premiums on early bond redemptions;
5. Make lease payments;
6. Reimburse the local unit for the cost of making local improvements;
7. Reimburse the local unit for rent paid by the unit for a building or parking facility in or serving the allocation area;
8. Pay a PTRC-like credit to taxpayers in the allocation area;
9. Pay expenses incurred by the redevelopment commission for public improvements in or serving the allocation area; and

10. Reimburse public and private parties for expenses in training employees of certain industrial facilities.

Currently, no new TIFs can be created after December 31, 2005.

This bill extends the December 31, 2005 deadline to December 31, 2010 for abatements and TIFs to be granted. If there is an increase in development because of the continued use of abatements and TIFs, the new property would, at some point, be placed on the tax rolls. For abatements this could help spread the property tax burden and could possibly reduce some tax rates, and for TIFs it increases revenue for the redevelopment commission. However, if one assumes that the investment would be made with or without the abatement or TIF, an increase in abatements (ERAs) and TIFs could also cause a delay in the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls. In all cases, the granting of an abatement or TIF is a local decision.

The impact would depend on the value of new abatements and TIFs that might be granted after CY 2005 and before CY 2011. The following chart shows the AV for real and personal property abatements and total TIFs for the last 10 years.

Year	Abatements				TIFs	
	Real	Personal	Total	Increase	Total	Increase
1994	\$41,790,975	\$54,579,109	\$96,370,085		\$23,116,487	
1995	42,660,544	44,913,061	87,573,605	(8,796,480)	27,555,225	4,438,738
1996	39,409,092	66,760,681	106,169,772	18,596,168	32,003,233	4,448,008
1997	41,483,134	49,280,601	90,763,735	(15,406,038)	31,998,229	(5,004)
1998	43,312,527	43,532,906	86,845,433	(3,918,302)	38,078,710	6,080,481
1999	47,739,446	49,989,013	97,728,459	10,883,026	40,528,120	2,449,410
2000	50,877,703	70,955,197	121,832,900	24,104,441	51,193,949	10,665,829
2001	57,247,336	94,062,035	151,309,370	29,476,471	29,191,747	(22,002,202)
2002	65,621,529	102,594,325	168,215,854	16,906,484	44,379,676	15,187,929
2003	59,113,642	154,181,896	213,295,539	45,079,685	29,950,248	(14,429,428)

*Library Budgets and Levies:* Under current law, fiscal bodies of cities, towns, and counties must review and adopt budgets and tax levies for taxing units that (a) are not comprised of a majority of officials who are elected to serve on the governing bodies and (b) are proposing an increase in the total unit tax levy that is greater than 5%. Under this provision, instead of a review trigger based on the proposed increase in the total unit tax levy, the trigger for libraries only would be based on the proposed increase in the library's operating tax levy. This measure would remove debt levies and library capital projects levies from the trigger calculation.

From 2003 to 2004, there were 22 libraries that had total levy increases over 3% but had operating levy increases under 3%. Conversely, there were 38 libraries that had operating levy increases over 3% but had total levy increases under 3%. There were 63 libraries that had both operating and total levy increases over 3% and there were 117 libraries that had both operating and total levy increases under 3%.

So, if this bill had been in effect for 2004, 22 libraries that were subject to review would not have been reviewed, 38 libraries that were not subject to review would have been reviewed, and the status of 180 libraries would not have changed.



Under current law, the reviewing body is (1) the municipal fiscal body , if the unit is totally contained in the municipality, or if the unit was originally established by the municipality; or (2) the county fiscal body if the municipality is not the appropriate body.

Under this bill, the reviewing body for library unit would be (1) the municipal fiscal body, if the unit is totally contained in the municipality; (2) the township fiscal body, if the unit is totally contained in the township and the municipality is not the appropriate body; or (3) the county fiscal body if neither the township nor the municipality is the appropriate body.

*Assessment of Low Income Rental Housing:* Current law prohibits consideration of Section 42 federal housing tax credits in determining the AV of low-income rental housing. Under this proposal, the prohibition would be repealed beginning with property taxes paid in 2006.

There is a great deal of uncertainty surrounding the issue of when and how the credits are to be considered under statutory law (before the prohibition was enacted), case law, and the new market value-based assessment rule. Before the prohibition was enacted, the assessment of low- income housing property under the income method may or may not have considered the income from the credits.

The Indiana Housing Finance Authority (IHFA) oversees the granting of Section 42 credits in the state. According to the IHFA, about \$15 M in net credits were awarded in 22 counties in CY 2004. Net credits are total credits (\$16.6 M) less returned credits (\$1.6 M). These credits continue for a total of ten years. The amount of the credit in each subsequent year is equal to the amount awarded in the first year. So, for instance, the credits granted in 2004 of \$15 M are actually worth a total of \$150 M over the 10 year period.

There is uncertainty as to how to value the credits for property tax purposes. One theory is to use the net present value of the credits granted over the past ten years. The net present value of the total 10-year value of the credits granted in each year was calculated by discounting the annual payments at the average 10-year treasury bill rate in effect in the year that the credits were issued. This amount was further discounted by 20% as it is understood that the credits are resold at about 80% of their value. Under this theory, the credits granted over the past 10 years, discounted for resale, would be worth AV of about \$652 M for taxes paid in 2006 and \$725 M for 2007.

A second theory recognizes only the unused portion of the discounted net present value. So, the values calculated above would be reduced by the used portion of those credits. Under this theory, the credits granted over the past 10 years, discounted for resale, would be worth AV of about \$405 M for taxes paid in 2006 and \$460 M for 2007.

If it is assumed that all local assessors would incorporate these credits in the AV of low income rental housing, the tax base could rise by a range of \$405 M to \$652 M in CY 2006 and \$460 M to \$725 M in CY 2006. These AV increases would reduce the state average net tax rate by a range of about \$0.0025 to \$0.0040 per \$100 of AV. The resulting net tax shift from all taxpayers to owners of low income rental property is estimated at a range of about \$7.0 M to \$11.2 M in CY 2006 and \$8.1 M to \$12.8 M in CY 2007. The actual increase in AV and the resulting tax shift would depend on (1) whether or not each local assessor adds the value of the credits to the value of the property, (2) the method used to convert the credits into AV, and (3) future appeals and court rulings.

*CEDIT Homestead Credit:* Under current law, each county may adopt an ordinance to provide a 100%

inventory deduction for taxes paid in CY 2004, CY 2005, and CY 2006. This deduction will apply statewide beginning with property taxes paid in CY 2007. Counties that elect to provide the deduction for 2004, 2005, and 2006, and then all counties beginning in 2007, are permitted to use CEDIT proceeds to pay for additional homestead credits in the county in order to mitigate any shift of the tax burden from inventory property to homestead property. The county may impose an additional CEDIT rate of up to 0.25% for this purpose.

Currently, this additional homestead credit, if adopted by the county, may be applied at a uniform credit rate across the county or it may be allocated among the county's taxing districts on a pro rata basis using the proportion of the county's inventory valuation in the district as the basis. The allocation method, if adopted by the county, is supposed to equitably distribute the credits in counties with a non-uniform inventory distribution.

However, some counties have taxing districts with large amounts of inventory, but few homesteads. If the allocation method were employed in these counties, then the available credits in districts with a lot of inventory but few homesteads would far exceed the inventory tax shift, and possibly the total tax liability, of the homesteads in the district. Homesteads in other districts would not get an equitable share of total credits.

This bill would give the county auditor the authority to adjust each district's credit percentage under the allocation method in order to achieve equity. The total amount of local homestead credits and the CEDIT rate necessary to generate them would not be affected by this provision. This provision does not change the countywide total value of the credits.

*Credit for Homestead Taxes Over 2% of Value:* Under this provision, each homeowner in the state would receive a property tax credit if (1) the net property tax on the homestead, after all credits are applied, exceeds 2% of the homestead's gross AV, and (2) the homestead's AV is less than \$300,000. The credit would equal the amount of tax that exceeds the 2% threshold.

No application is required to receive the credit. The county auditor would identify the eligible homesteads and apply the credit.

There is no funding mechanism for this credit. Property tax credits that are not funded reduce the tax collections that are distributed to local civil taxing units and school corporations. So, the entire cost of the credit would be a local revenue reduction.

An analysis of 2004 net property tax rates applicable to homesteads in each taxing district was performed to determine the number of counties and taxing districts where the credits could be triggered. The calculation of the net tax rate begins with the district gross tax rate and then nets out PTRC, state homestead credit, and both COIT- and CEDIT-funded local homestead credits (if applicable). The \$300,000 maximum gross AV was reduced only by the \$35,000 standard deduction. No other deductions were applied.

The results indicated that there are 89 taxing districts (out of 1,950 total) in 22 counties where the credit might apply. The analysis also revealed that:

- Only 16 taxing districts in 3 counties had net tax rates high enough to qualify a home valued at \$100,000.
- The qualified number goes up to a cumulative 40 taxing districts in 9 counties at the \$150,000 value level.
- The qualified number goes up to a cumulative 59 taxing districts in 13 counties at the \$200,000 value level.
- The qualified number goes up to a cumulative 77 taxing districts in 19 counties at the \$250,000 value level.

These calculations did not include deductions such as those for mortgage holders, elderly homeowners, or

veterans. The application of deductions to gross value reduces the ratio of net tax to gross AV, thereby reducing the number of qualifying homesteads. This explains why it is possible in a single district to have, for example, \$200,000 homes that qualify but not \$150,000 homes. Changes to the net tax rate, gross AV, and deductions from year to year could cause an increase or reduction in qualifying homesteads (depending on the change in tax rate relative to the change in a homestead's AV).

*Local Borrowing:* The bill provides that bonds and leases issued by political subdivisions and payable from sources other than property taxes are subject to approval by the DLGF. It also establishes additional criteria for DLGF approval of property tax based bonds and leases (which are subject to DLGF approval under current law). The impact that these provisions will have on local borrowing is indeterminable; however, additional oversight and the consideration of additional factors as identified in the bill could result in less borrowing.

**State Agencies Affected:** DLGF; LGTCB; DOR; Department of Natural Resources; Fair Board.

**Local Agencies Affected:** County auditors; political subdivisions.

**Information Sources:** Kurt Barrow, Assessment Director, DLGF, 317-232-3777; Local Government Database.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859; Jim Landers, 317-232-9869; Chuck Mayfield, 317-232-4825; Bernadette Bartlett, 317-232-9586.