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FISCAL IMPACT STATEMENT

LS 7047

BILL NUMBER: HB 1402

NOTE PREPARED: Jan 27, 2006

BILL AMENDED: Jan 26, 2006

SUBJECT: Local Taxes.

FIRST AUTHOR: Rep. Oxley

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Scott COIT*- The bill provides additional County Option Income Tax (COIT) revenue in Scott County to fund the financing, construction, acquisition, improvement, renovation, or equipping of jail facilities. The bill provides that the county fiscal body may increase the county option income tax rate up to an additional 0.25% of adjusted gross income of county taxpayers.

Elkhart and Marshall CAGIT- The bill provides that county adjusted gross income tax (CAGIT) revenue in Elkhart and Marshall counties may also be used to operate and maintain jail facilities, juvenile court, detention, and probation facilities, other criminal justice facilities, and related buildings and parking facilities (in addition to the financing, construction, acquisition, renovation, and equipment of those facilities permitted under existing law).

Jasper CAGIT- The bill allows Jasper County to adopt up to an additional 0.25% CAGIT. The bill provides that additional CAGIT revenue for Jasper County may only be used for operating and maintaining jail facilities, juvenile court, detention, and probation facilities, other criminal justice facilities, and related buildings and parking facilities.

Residential Property Tax Credit- The bill permits an additional county economic development tax rate imposed to grant a property tax credit to mitigate the increase in property taxes resulting from the statewide deduction of inventory in the county to be applied, at the discretion of the adopting entity, to all residential property in the county. The bill extends the period in 2006 in which an ordinance can be adopted.

Nashville Food and Beverage Tax- The bill postpones the termination of the Nashville food and beverage tax

from January 1, 2007, to January 1, 2017.

Martinsville Food and Beverage Tax- The bill deletes the December 31, 2010, deadline for initiating projects under the Martinsville food and beverage tax.

Effective Date: (Amended) Upon passage, January 1, 2006 (retroactive), July 1, 2006.

Explanation of State Expenditures: (Revised) *Certification of Additional Local Option Rates-* The Department of State Revenue and the State Budget Agency would be required to adjust Scott County's COIT and Jasper County's CAGIT certified distribution for the year following a tax rate increase authorized under the bill. The Department and the Budget Agency should be able to carry out this provision within their existing resources.

Any overpayments of the distribution due to the proposed rate increase would be covered by the state General Fund until adjusted in the subsequent year distributions.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) *Scott COIT-* Scott County would use additional revenue generated by a rate increase in COIT to finance, construct, acquire, improve, renovate, or equip their county jail. The county treasurer would establish a county jail revenue fund for the receipt of the additional revenue.

Elkhart and Marshall CAGIT- Elkhart and Marshall Counties would be allowed to use the revenue generated from the additional 0.25% CAGIT jail rate for jail operation and maintenance expenditures in addition to capital expenditures. Current law requires their CAGIT rates to return to 1.00% when construction and financing for their jails have been completed. Therefore, these counties would not receive any additional revenue from their CAGIT jail rates to cover jail operational expenses in years after all bonds for construction have been retired.

Jasper CAGIT- The bill would permit Jasper County Council by ordinance to increase their CAGIT rate by 0.15%, 0.2%, or 0.25% only for the operation or maintenance of existing county correctional facilities.

Martinsville Food and Beverage Tax- The removal of the 2010 deadline to begin a project funded by the food and beverage tax could affect the future use of the tax revenue on authorized projects. Statutory authorized revenue uses are: city hall renovation, police or fire station construction, sanitary sewer or wastewater treatment facility improvement, storm water drainage systems improvement, and other projects involving the city's water system or protecting the city's well fields.

Explanation of Local Revenues: (Revised) *Scott COIT-* If the Scott County Council determines that additional COIT revenue is needed to fund jail improvement capital projects, the Council would be allowed to increase the county's COIT rate by 0.25%.

If an ordinance to increase the rate were adopted by the Council before April 1 in a given year the additional rate would be effective on July 1 of the same year. If the ordinance were adopted after March 31 in a given year, the rate would be effective July 1 in the year following adoption.

In either adoption scenario, Scott County would begin to receive revenue from the tax in the immediately

following year. Therefore, if Scott County were to adopt the additional COIT rate in CY 2006, the county would begin to receive revenue from the rate increase in January 2007.

If a 0.25% rate increase were effective on July 1, 2006, the additional rate is estimated to generate approximately **\$0.82 M** in CY 2007, **\$0.85 M** in CY 2008, and **\$0.87 M** in CY 2009.

All revenue generated by an additional tax rate would be set aside for the jail before the certified distribution is divided between the civil taxing units in the County.

Background: Under the bill, Scott County would be authorized to maintain a combined COIT and County Economic Development Income Tax (CEDIT) rate of 1.5%. Under current law, with a few exceptions, the maximum combined rate of COIT and CEDIT is 1.00%.

Scott County received a certified COIT distribution of \$3.2 M in CY 2006 at a 1.00% rate. The County also received a certified CEDIT distribution of \$479,316 in CY 2006 at a 0.16% rate.

Elkhart and Marshall CAGIT- Elkhart and Marshall Counties raised their CAGIT rates (both were 1.00%) in FY 2004 by 0.25% for jail construction. The following table illustrates the rates and CAGIT certified distributions for CY 2006 in both counties.

County	FY 2006 Rate	CY 2006 CAGIT Certified Distribution*	CY 2006 Jail Portion of CAGIT	CY 2006 CAGIT County Certified Share
Elkhart	1.25%	\$44,411,610	\$8,882,322	\$10,731,683
Marshall	1.25%	\$9,304,992	\$1,860,998	\$2,435,745
*Elkhart and Marshall Counties both devote 25% of their certified distribution to property tax replacement. The remaining 75% of their distributions are split into certified shares.				

Jasper CAGIT- If a 0.25% rate increase were effective on July 1, 2006, the additional rate is estimated to generate approximately **\$1.41 M** in CY 2007, **\$1.45 M** in CY 2008, and **\$1.5 M** in CY 2009 for jail operation and maintenance.

Background: Jasper County currently imposes CAGIT at a 1.00% rate and will receive a CY 2006 certified distribution of \$5.43 M.

Nashville Food and Beverage Tax- The bill would allow a ten-year extension, from the current expiration date, on the collection of Nashville's Food and Beverage Tax. For example, if the tax were imposed for an additional ten years, with average annual revenues of \$125,000 per year, Nashville could receive an additional \$1.2 M over the proposed ten-year extension.

Background Information: From FY 1996 to FY 2005, Nashville averaged \$125,000 annually from the tax. The average annual percent change over that time period was 2.3%. The tax was established by P.L. 111-1987. The revenue is used to construct and maintain public parking and restroom facilities.

Martinsville Food and Beverage Tax- This provision should not affect revenue collection. The tax is currently imposed at a rate of 1%.

Residential Property Tax Credit- Under current law, counties 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 caused by the 100% inventory deduction. The county may impose an additional CEDIT rate of up to 0.25% for this purpose. This bill would permit the county to offer the credit either to homesteads or to all property that is used as residential, including mobile homes and commercial apartments. There is no change to the additional 0.25% CEDIT rate. If the credit is offered to non-homestead residential units, then the CEDIT tax rate needed to generate the revenue necessary to fund the credits would have to increase (within the CEDIT rate limitations). The impact depends on local action.

State Agencies Affected: State Budget Agency; Department of State Revenue.

Local Agencies Affected: Counties with a county economic development income tax, Elkhart County, Jasper County, Marshall County, Scott County, Martinsville, Nashville.

Information Sources: State Budget Agency, *Indiana Handbook of Taxes, Revenues, and Appropriations FY 2005*; Elkhart County Auditor; LOGODABA; Local Option Income Tax estimates.

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