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 6847 | **NOTE PREPARED:** Feb 4, 2009
BILL NUMBER: SB 548 | **BILL AMENDED:**

SUBJECT: State payment of certain local borrowing costs.

FIRST AUTHOR: Sen. Deig | **BILL STATUS:** As Introduced
FIRST SPONSOR:

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

Summary of Legislation: This bill provides for the reimbursement by the state of borrowing costs of a taxing unit in a county if: (1) the Department of Local Government Finance (DLGF) ordered a reassessment of real property for the assessment date in 2006; (2) the billing of property taxes in the county in 2007 was late; and (3) as a result, the taxing unit had to borrow for current operations. It appropriates money from the state General Fund to pay claims for reimbursement.

Effective Date: Upon passage.

Explanation of State Expenditures: The DLGF shall review each claim for reimbursement from the local taxing units. If the claim is approved, the taxing unit would be reimbursed from the state General Fund. Under this bill, sufficient funds would be appropriated to pay all claims. Estimates indicate that interest on borrowing costs could range from $2 M to $9 M, but potentially be higher.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill permits a local taxing unit to recoup borrowing costs from the DLGF if it had to borrow money in 2007 to support current operations because its tax bills were late in pay 2007 due to a DLGF ordered reassessment of real property in 2006. The reimbursement does not apply to the principal borrowed. The claim must be filed with the DLGF by June 15, 2009 and it may include all loan associated costs incurred before July 1, 2009.

There are two fiscal impacts associated with this bill. The first is whether there were units that do not usually borrow but had to due to the time line created by the reassessment.

The second is whether units that regularly use tax anticipation warrants incurred additional interest costs since tax proceeds were not available as planned. There are two counties (Marion, Posey) that would probably be impacted by this bill. There were also counties whose 2007 tax rates were voided. LaPorte county was directed to redo its 2006 reassessment in May 2008 but does not fall under the requirements of this bill.

At the end of 2007, school corporations in Marion County had a total of $71 M in temporary loans outstanding, nearly all of which were due to the reassessment. According to one school financial officer, interest costs for his school corporation in 2007 because of a shortage of funds were about $900,000,. School Corporations in Posey county had outstanding loans of $3 M at the end of 2007.

In September 2007, the Indianapolis Bond Bank approved up to $80 M in Tax Anticipation Warrants to cover operating expenses in Marion County because of the reassessment. The Bond Bank authorized another $360 M maximum in November 2007, most of which were to be used for 2006 reassessment related issues.

<u>*Background:*</u> In 2006, DLGF conducted a full review, including the holding of public hearings, on the assessment procedures in each county. As a result of this review, 18 counties were directed to review the assessment of commercial and/or industrial properties, and one county was directed to review all real property. In these counties, taxpayers were still liable to pay their original 2007 tax bills. Additionally, three counties (Marion, LaPorte and Posey) were directed to reassess all real property (Posey County was given the option of eliminating residential property from its review) but their pay 2007 tax rates were voided. Taxpayers in Marion and Posey counties were required to pay the taxes they paid in 2006 until the reassessment was completed and reconciliation bills sent out.

The final reconciliation bills in Marion and Posey counties for taxes payable in 2007 were mailed out in June 2008 so it can be assumed that any extra loans they took out would have been for about one year.

According to school financial officers in Marion County, school corporations through the Indianapolis Bond Bank usually issue tax anticipation warrants at the beginning of the calendar year and pay back the loan when they receive their property tax revenue in May and November. When the 2007 tax rates were voided, schools were forced to borrow additional funds because they had not received the property taxes that would have been used to pay the warrants.

<u>**State Agencies Affected:**</u> DLGF, State Auditor.

<u>**Local Agencies Affected:**</u> Local taxing units

<u>**Information Sources:**</u> Robin Phelps, Chief Financial Officer Metropolitan School District (MSD) of Lawrence Township, 317-423-8380; Linda Searles, Chief Financial Officer, Metropolitan School District MSD of Pike Township, 317-387-2206; Joe Licata, Chief Business Officer, MSD of Washington Township, 317-205-3332; Minutes of the Indianapolis Local Public Improvement Bank, September 17, 2007 and November 19, 2007.

<u>**Fiscal Analyst:**</u> David Lusan, 317-232-9592