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FISCAL IMPACT STATEMENT

LS 6929

BILL NUMBER: SB 239

NOTE PREPARED: Feb 2, 2010

BILL AMENDED: Feb 1, 2010

SUBJECT: Property Tax Matters.

FIRST AUTHOR: Sen. Hershman

FIRST SPONSOR: Rep. Welch

BILL STATUS: As Passed Senate

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Cyclical Reassessment:* This bill deletes the statute requiring a general reassessment to begin in 2010. It requires the county assessor of each county to prepare and submit to the Department of Local Government Finance (DLGF) a reassessment plan for the county. The bill specifies that the reassessment plan is subject to approval by the DLGF. The bill also provides that the reassessment plan must divide all parcels of real property in the county into different groups of parcels and it requires that each group of parcels must contain at least 20% of the parcels within each class of real property in the county.

The bill provides that for purposes of the periodic reassessment plans, those parcels inspected within the past five years as a result of sales transactions are not required to be re-inspected in the scheduled group. The bill specifies that the periodic reassessment plans require inspection of the real property and it specifies that all parcels continue to be revalued annually under the trending rules. The bill also provides that the reassessment of the first group of parcels under a county's reassessment plan must begin on July 1, 2011, and must be completed on or before March 1, 2012.

Reassessment Petitions: This bill provides that a petition for reassessment of a group of parcels must be signed by not less than 100 real property owners of parcels in the group or 5% of real property owners of parcels in the group and must be filed with the DLGF not later than 45 days after notice of assessment is provided.

Land Values: The bill provides that the county assessor determines the values of all classes of land in the county. It provides that a petition for the review of the land values determined by the county assessor may be filed with the DLGF.

Homestead Property Defined: This bill provides that for purposes of the standard deduction and other property tax laws, the term "homestead" includes a deck or patio; a gazebo; or another residential yard structure (other than a swimming pool); that is assessed as real property and that is attached to the dwelling.

Exemptions: The bill provides that the statute passed in the 2009 special session that allowed certain entities to file or refile an application for a charitable property tax exemption for an assessment date occurring after March 1, 2000, and before March 1, 2010, applies only to entities that are owned, occupied, and used as nonprofit entities.

The bill also provides for a re-filing of a property tax exemption for 2008 and 2009, if the real property is owned by a taxpayer that filed for the property tax exemption after January 15, 2010, and before January 25, 2010, the real property was leased to the Bureau of Motor Vehicles Commission (BMVC) during 2008 and 2009, and the real property received an exemption from real property taxes for the 2006 or 2007 assessment date.

Referenda: This bill provides that if a controlled project of a political subdivision is subject to a referendum vote, the county election board must submit the referendum language to the DLGF for review and approval. It requires the DLGF to review the referendum language to ensure that the description of the controlled project is accurate and is not biased against either a vote in favor of the controlled project or a vote against the controlled project.

The bill also requires a political subdivision to give notice to the circuit court clerk of the applicability of the petition and remonstrance process or the referendum process. It specifies deadlines for certification of the question for a referendum tax levy.

IBTR: The bill provides that upon request by a county assessor, an employee of the Indiana Board of Tax Review (IBTR) may assist taxpayers and local officials in their attempts to voluntarily resolve disputes in which: (1) a taxpayer has filed written notice to obtain a review by the county property tax assessment board of appeals (PTABOA) of an action by a township or county official; and (2) the county PTABOA has not given written notice of its decision on the issues under review.

City Budgets: The bill also amends a city budget statute to conform to deadlines changed in 2009.

Provisional Tax Bills: The bill provides that in the case of property taxes billed under a provisional tax statement: (1) the first installment is due on the later of May 10 of the year following the year of the assessment date or 30 days after the mailing of the provisional tax statement; and (2) the second installment is due on the later of November 10 of the year following the year of the assessment date or a date determined by the county treasurer that is not later than December 31 of the year following the year of the assessment date.

Population: This bill provides that annexations, governmental reorganizations, municipal mergers, town incorporations, municipal dissolutions, governmental name changes, or boundary alterations that would otherwise become effective under current law on January 2 of the year in which a federal decennial census is conducted shall instead become effective on January 1 of the year in which the federal decennial census is conducted. It provides that any action that was effective January 2, 2010, under current law is instead effective on January 1, 2010, without the adoption of an amended ordinance or reorganization plan or any additional action.

Effective Date: (Amended) January 1, 2008 (retroactive); June 30, 2009 (retroactive); January 1, 2010 (retroactive); Upon passage; July 1, 2010; January 1, 2011.

Explanation of State Expenditures: *Referenda:* Under current law, controlled projects may be subject to local referendum. If a project is placed on the ballot, the county election board must approve the form of the public question. Under this provision, after the county election board approves the question, the board would forward it to the DLGF for review and approval. The DLGF would be able to perform this review with current resources.

IBTR: Under this provision, a county assessor may request that an employee of the IBTR assist in voluntary dispute resolution in a case where the PTABOA has not given notice of a decision on a taxpayer appeal. The IBTR would adopt rules to establish procedures under which assistance would be given. Any fiscal impact would depend on the extent to which the IBTR grants requests for assistance. The IBTR is funded from the General Fund and the Assessment Training Fund.

Explanation of State Revenues:

Explanation of Local Expenditures: *Cyclical Reassessment:* Under a cyclical reassessment schedule, expenditures for reassessment in a county would be spread from a two-year period to a period of up to five years.

Land Values: Currently, the township assessor, or county assessor if there is no township assessor, must set the initial land values and then submit them to the county PTABOA for review. Under the bill, the county assessor would determine all land values. The PTABOA would no longer have a review function, eliminating the cost of the public hearings that they currently must hold. The PTABOA would, however, determine land values in a county if the county assessor fails to do so. If both the county assessor and the PTABOA fail to determine land values, the DLGF would determine the values.

The bill would allow a group of taxpayers to petition the DLGF for a review of the county assessor's land values. The petition could be filed up to 45 days after the values are determined and must be signed by the lesser of (1) 100 real property owners or (2) 5% of the real property owners in the county. The DLGF would be required to review the land values upon petition.

Homestead Property Defined: The additional homestead property defined under this provision would qualify for any locally funded homestead or residential credits available. The LOIT credits that are available as direct taxpayer credits and the CEDIT homestead and residential credits for mitigation of inventory shifts are generated by a specified income tax rate. The available credits would be redistributed at a lower credit rate to include the new homestead property. The traditional COIT homestead credits are paid as a specific credit rate. The additional homestead property would cause an increased cost for these credits, which would reduce the amount of certified shares available for distribution to civil taxing units.

Explanation of Local Revenues: (Revised) *Cyclical Reassessment:* Under current law, real property is fully reassessed every five years. The next general reassessment takes effect with taxes payable in 2013. Annual adjustments to real property values are applied each year in which a general reassessment does not take effect.

Under this bill, counties would submit a reassessment plan to the DLGF by December 31, 2010. The plan must divide the parcels in the county into five groups that each contain approximately 20% of the parcels

in each property class. Beginning with the March 1, 2012, assessment date, each county would inspect one group each year rather than conduct a general reassessment once every five years. However, a county could submit a plan to inspect more than 20% (up to 100%) of the parcels in any one year. All parcels would still be subject to annual adjustments.

Assuming that all property is currently assessed in accordance with the assessment and trending rules, general reassessments under current law should result in only modest one-year changes to most assessments. The general reassessment also picks up physical changes in property not previously noted. The change to cyclical reassessments would have the same overall effect. Since annual adjustments would continue for all property, there should be no discernable change in overall assessment levels.

Homestead Property Defined: The DLGF's interpretation of a homestead is defined as a principal residence consisting of a dwelling and up to one acre of land. Some improvements located on the home site are not considered homestead property. These improvements include, but may not be limited to, decks, patios, gazebos, and swimming pools. Since these improvements do not qualify as homestead property, they are not subject to the standard or supplemental standard deductions, they do not qualify for homestead credits, and the circuit breaker cap for that part of the property is 3% instead of 1%.

Under this provision, beginning with taxes payable in 2011, decks, patios, gazebos, and other residential yard structures, but not swimming pools, would be considered part of the homestead qualifying property if they are attached to the dwelling. The standard and supplemental deductions would apply as would any local homestead credits and the 1% circuit breaker cap.

According to the DLGF, most counties already consider these "attached" improvements as part of the dwelling. Some counties, however, may not. This provision most likely affects only a small amount of property. Due to data constraints, however, the part of the non-qualifying homeowner property that would qualify as homestead property under this bill cannot be determined. While the actual fiscal impact should be considerably less, an illustration is presented of the estimated impact if all non-qualifying homeowner property were to become homestead-eligible.

Illustration including all non-qualifying homeowner property: Beginning with taxes payable in 2011, the additional standard and supplemental standard deductions are estimated at \$1.2 B. The total reduction in net taxes for homeowners, including tax shifts and circuit breakers, is estimated at \$20.0 M. The reduction in net AV would result in a higher tax rate and a net tax shift (after circuit breakers) of about \$10.9 M from homeowners to other taxpayers. The cost of the circuit breaker cap to local taxing units and school corporations would rise by an estimated \$9.0 M. The higher tax rates would also cause TIF proceeds to increase by about \$1.1 M.

Exemptions: HEA 1001-2009(ss) granted additional time to file for a property tax exemption that applies to taxes payable from 2002 through 2010 for property owned and used for educational, literary, scientific, religious, or charitable purposes. The extension of time applied if the owner failed to file an application or if there was insufficient documentation attached to the application. Exemption applications could have been filed through August 31, 2009.

This bill would limit the additional filing opportunity to an entity that is owned, occupied, and used as a nonprofit entity.

The exemption applications that are allowed under current law will result in either unpaid taxes that were

billed in prior years or in refunds of taxes paid by these entities. Refunds of prior property tax payments reduce current year tax revenues. Under the bill, an exemption application filed under the extension by a for-profit entity or for property occupied or used for profit, would be denied. This bill would limit the number of retroactive exemptions granted and the associated revenue loss.

(Revised) *Exemptions - Leased Property*: This provision would allow an exemption for taxes payable in 2009 and in 2010 for an entity that:

- 1) Filed or refiled an exemption application between January 16, 2010, and January 24, 2010, inclusive, under the statute that allows exemptions for property leased to political subdivisions; and
- 2) Leased property to the BMVC during 2008 and 2009 which received an exemption for taxes payable in 2007 or 2008.

The total number of properties that could be affected is unknown. One property has been identified in Marion County. According to county records, the original Pay 2009 tax bill was \$29,036. In 2008, records show the net tax bill after partial exemption was \$4,279 with the same gross assessed value. Assuming that a similar portion of the property would be exempt under this provision, the taxes that would be cancelled are estimated at about \$25,000 each in 2009 and 2010 plus accrued interest and penalties, if any.

The entity would receive a refund for any taxes, interest, or penalties already paid. Refunds reduce current year property tax distributions. The local taxing units and school corporation located in the property's taxing district would forego receipt of their share of the refunded amounts and of amounts due in 2010.

Provisional Tax Bills: Under current law, a county may elect to send out provisional tax statements to its taxpayers if the county abstract is not completed by March 15th of the tax payment year. The abstract is prepared when tax rates are certified and tax bills are figured. The first installment is due on May 10th unless the notice of reassessment or trended assessment is sent after March 26th, in which case the payment is due 45 days after the tax billing statement is mailed. The second installment is due on November 10th unless the May due date was delayed, in which case the November due date may be moved to any date through December 31st.

Under this proposal, the first provisional installment would be due on the later of May 10th or 30 days after the bill is mailed. The second installment would be due between November 10th and December 31st, inclusive, at the county treasurer's discretion.

Population: Under current law, annexations, disannexations, reorganizations, boundary changes, and municipal mergers, incorporations, and dissolutions cannot take effect in the year preceding a decennial census. Instead, they become effective on January 2nd of the year in which the census occurs. Under this provision, these changes would instead take effect on January 1st of the census year. As a result, the population counts for the new decennial census would immediately reflect the changes. State and federal population-based distributions would be affected when the population changes.

This provision would also change the effective date of an action that was effective January 2, 2010, to January 1, 2010.

State Agencies Affected: DLGF.

Local Agencies Affected: County assessors; Township assessors; Property tax boards of appeals; civil taxing units and school corporations.

Information Sources: LSA parcel-level assessment and tax database.

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