

**Members**

Rep. Lawrence Buell, Chairperson  
Rep. Eric Turner  
Rep. William Crawford  
Sen. Luke Kenley  
Sen. Lindel Hume



# COMMISSION ON STATE TAX AND FINANCING POLICY

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## MEETING MINUTES<sup>1</sup>

Meeting Date: September 26, 2006  
Meeting Time: 10:30 A.M.  
Meeting Place: State House, 200 W. Washington St.,  
Room 404  
Meeting City: Indianapolis, Indiana  
Meeting Number: 2

**Members Present:** Rep. Lawrence Buell, Chairperson; Rep. Eric Turner; Rep. William Crawford; Sen. Luke Kenley; Sen. Lindel Hume.

**Members Absent:** None.

### I. Call to Order and Introduction of Members

Representative Lawrence Buell, Chairperson of the Commission, called the meeting to order at 10:35 a.m., summarized the meeting agenda, and asked the Commission members to introduce themselves.

### II. Impact of Eligibility Changes Regarding the Property Tax Deduction for Low Income Senior Citizens

Representative Buell indicated that the study topic was assigned to the Commission by the Legislative Council pursuant to SR 49-2006 authored by Senator Richard Young.

Representative Buell recognized Senator Young to discuss the resolution and his concerns regarding the property tax deduction. Senator Young indicated that he authored the resolution in response to calls he has received from elderly constituents who, despite having incomes the \$25,000 maximum to qualify for the deduction, do not qualify for the deduction because the assessed value (AV) of their home exceeds the \$144,000 maximum allowed to qualify for the deduction. Senator Young stated that he is comfortable with the current \$25,000 income limit

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<sup>1</sup> Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.in.gov/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

so that the deduction is focused only on low income senior citizens. However, he indicated that he would like to eliminate the AV limit.

Representative Buell recognized Bob Sigalow, Fiscal Analyst from the Legislative Services Agency, to present estimates of the fiscal impact of eliminating the income limit and the assessed value limit for the property tax deduction for low income senior citizens (Exhibit 1). Mr. Sigalow briefly explained the deduction and highlighted the data and methodology he utilized to estimate the fiscal impacts. He indicated that eliminating the AV could potentially make the deduction available to 5,400 additional taxpayers statewide. He indicated that the additional deductions would result in a statewide tax shift estimated at about \$834,000 in 2008, or about 0.01% of the statewide net property tax levy. Mr. Sigalow explained that eliminating the income limit is estimated to have a much larger impact, with the estimated statewide tax shift totaling about \$21.1 M in 2008, or about 0.35% of the statewide net property tax levy.

### **III. Impact of the 2% Property Tax Cap**

Representative Buell recognized Bob Sigalow, Fiscal Analyst from the Legislative Services Agency, to present estimates of the fiscal impact of the 2% property tax cap (Exhibit 2 and 3). Mr. Sigalow briefly explained that the cap is a credit to the taxpayer for property taxes exceeding 2% of the taxpayer's AV. He also highlighted the methodology he utilized to estimate the fiscal impacts and explained various assumptions required to make the estimates. Mr. Sigalow explained that the estimates are difficult to undertake and could change as trending and equalization adjustments are finalized and due to normal AV and levy growth. He stated that the estimated impact in 2007, when the credit only applies in Lake County, could range from \$19 M to \$31 M. He also indicated that the impact of the credit would increase to \$58 M in 2008 and 2009 once it applies statewide to residential property, and to \$459 M in 2010 once it applies to all real and personal property statewide.

Regarding the potential impact of the cap on bond issues, Mr. Sigalow directed Commission members to a Department of Local Government Finance memorandum on this topic (Exhibit 4). The memorandum directs local units to first make debt service and lease rental payments in full from available property tax collections, with any reduction in collections applied to other funds.

Representative Buell asked Mr. Sigalow to clarify whether the property tax credit is paid by other taxpayers who don't receive the credit. Mr. Sigalow responded that the credit is a reduction in the tax bill of the affected taxpayer and results in a flat reduction in property tax collections by the taxing unit. He indicated that there is no way that the credit can be shifted to other taxpayers as would be the case with a deduction.

Senator Kenley suggested that assuming property tax collections are about \$5.8 B in 2008-2009, the shortfall caused by the credit is approximately 1%. He added that in 2010 the shortfall would, however, increase to about 7.5%. Senator Kenley asked Mr. Sigalow to investigate whether: (1) local units that are estimated to experience the lowest impact have other revenue sources such as income tax; and (2) there is a correlation between per capita cost of government (according to DLGF cost of government study) and the credit amount or collections shortfall.

Representative Crawford asked whether local indebtedness could be obtained. Mr. Sigalow indicated that information on local unit debt levies is available but that information on outstanding debt of local units is not available. Representative Crawford also stated that some rating agencies have placed a premium on bonds issued by local units due to the 2% cap. Mr.

Sigalow indicated that he would research both of these questions.

Representative Buell recognized Lee Morris, Mayor of LaPorte, and Steve Luecke, Mayor of South Bend to present information in behalf of the Indiana Association of Cities and Towns and its members (Exhibit 5). Mayor Morris and Mayor Luecke both described the potential impact of the 2% cap on local financing and budgets, in particular relative to LaPorte and South Bend. Mayor Morris and Mayor Luecke both presented scenarios projecting the estimated loss in revenue in LaPorte and South Bend due to the 2% cap. They both also suggested that property tax reform is needed and highlighted alternative revenue sources for cities and towns.

Representative Buell recognized Jacque Clements, Clinton County Auditor, to discuss the impact of the 2% cap on counties in behalf of the Association of Indiana Counties and its members. Ms. Clements indicated that the biggest impact of the 2% cap will begin in 2010 when it applies to all real and personal property, and not just residential property. She also discussed how the 2% cap will affect operating funds in comparison to debt service. Ms. Clements also indicated that the 2% cap is affecting bond ratings of local units. She stated that the cost of the bonds issued for the Bartholomew County jail project was increased by \$300,000 to \$400,000 over the term of the bond issue due to the reduction in the county's bond rating over the 2% cap.

Representative Buell recognized Libby Cierzniak with Baker and Daniels representing certain urban school districts to present information on the impact of the 2% cap (Exhibit 6). Her presentation indicated that urban school districts will be affected more heavily by the 2% cap than other school districts. As a result, Ms. Cierzniak indicated that school districts with the highest complexity indexes will incur the biggest financial impact from the 2% cap. She also discussed how the cap could have a larger impact on school districts with relatively low tax rates than districts with high tax rates.

Representative Buell recognized Bill Waltz with the Indiana State Chamber of Commerce who commented on the potential for the 2% cap to have varying impacts on taxing units the extent to which this may focus attention on the taxing units most affected by the cap. He also commented briefly on the potential impact of creating local property tax control boards.

Representative Buell recognized Husain Mahmoud, City Controller of Gary who indicated that Gary has operated for three years under the 2% cap currently applicable in Lake County. He indicated that Gary has utilized gaming revenue and proceeds from a tax settlement with USX to offset reductions in property tax collections due to the cap. He outlined the current budgetary pressures in Gary, including the increasing impact of pensions, the DROP program, and public safety. He also indicated that Gary is trying not to avoid utilizing more gaming revenue for general fund expenses.

Representative Buell recognized Jim Merton, City Securities Corporation who claimed that the bond market is penalizing local units issuing bonds because of the 2% cap. He indicated that the bond market is charging higher interest rates and higher rates for bond insurance than would have been charged without the 2% cap. Mr. Merton also commented that trending may not have the impact on AV as previously expected because of slowing of housing price growth.

#### **IV. Child Welfare System and Funding**

Representative Buell recognized Judge Jim Payne, Director, Department of Child Services (DCS) and Mary Edmunds, Deputy Director of Administrative Services, DCS.

Judge Payne discussed the state and county components of the child welfare system. He described the service referral process for children through the CHINS program and through county probation officials. He also described the types of services that may be provided to children, and explained how the service costs are paid. Judge Payne provided a map of the DCS regions (Exhibit 7) and briefly discussed the purpose of the regions. He also provided information highlighting variation among counties and regions in terms of the number of CHINS children being served and the length of time CHINS children receive services (Exhibit 8). Judge Payne commented that it is important to examine the service differences between counties and regions and determine the reasons for this variation. Finally, Judge Payne presented information on county budgets for child welfare also referencing various measures including county population under 18, property tax rate and levy amount for a \$100,000 home, children served, and school complexity rating (Exhibit 9). He commented that the data seem to indicate that the school complexity rating is correlated with the budget size and number of children served and suggested that a method needs to be developed for anticipating service levels and cost in the counties. He also commented that the county data highlights the lack of uniformity and consistence of service levels and funding under the current child welfare system.

Representative Buell recognized Mary Edmunds who briefly explained tables for each county reporting recent county welfare budget, tax, and expenditure totals, and county welfare budget projections through 2012 (Exhibit 10).

Representative Buell recognized Richard Pflum, Jr., Fayette County Council President and Bryan Sasser, Fayette County Councilman. Mr. Pflum briefly discussed the recent growth in the budget of Fayette County's Office of Family and Children (OFC) and efforts by the county council to reduce the OFC budget (Exhibit 11). He also provided information comparing the 2006 property tax rate for family and children services to the property tax rates for other county funds (Exhibit 12).

Representative Buell recognized Kathy Graham of IARCA. She discussed her concerns that a state takeover of child welfare funding may have a negative impact on providers.

Representative Buell recognized Judge Marilyn Moores, Marion Superior Court. Judge Moores commented on the current condition of the child welfare system. She also expressed her concern that centralized control and funding of child welfare programs may lead to fewer treatment options for many children close to home.

Representative Buell recognized the Rev. C. L. Day, Concerned Clergy of Indianapolis. Rev. Day discussed concerns of small and minority-operated treatment providers.

Representative Buell recognized Judge Payne for a final comment. Judge Payne indicated that the Fayette County audit was done in November 2004.

## **V. Adjournment**

Representative Buell adjourned the meeting at 1:15 p.m.