

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6004

BILL NUMBER: HB 1001 (SS)

DATE PREPARED: Jun 5, 2002

BILL AMENDED: Jun 5, 2002

SUBJECT: State and Local Fiscal Matters and Appropriations and Tax Restructuring.

FISCAL ANALYST: Diane Powers; Alan Gossard

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill has the following provisions.

Tobacco Provisions:

- (1) Eliminates the Tobacco Farmers and Rural Community Impact Fund.
- (2) Establishes the Rural Development Administration Fund and the Phase II Payment program for Tobacco Farmers.

Gaming Provisions:

- (3) Authorizes dockside gaming and pari-mutuel pull tabs.
- (4) Authorizes the location of a riverboat in a historic district in the towns of French Lick and West Baden.
- (5) Limits a racetrack or satellite facility to 700 pull tab terminals.
- (6) Allows the French Lick/West Baden riverboat to initially install 500 electronic gaming devices.
- (7) Allows permanently moored vessels under certain circumstances.
- (8) Provides that a person may own up to a 100% interest in not more than two riverboats.
- (9) Legalizes the possession of certain antique slot machines.
- (10) Provides for minority and women business participation in the pull tab industry.
- (11) Provides that a licensed owner may not seek treble damages in an action to collect a gambling debt.
- (12) Provides that a person who is not an employee of a riverboat operation, who is less than 21 years of age, and who knowingly or intentionally enters or attempts to enter a riverboat commits a Class A misdemeanor.
- (13) Imposes a Breed Development Fee based on the adjusted gross receipts of pull tab sales.
- (14) Converts the Riverboat Wagering Tax to a graduated tax.
- (15) Revises the distribution of Riverboat Wagering Taxes.
- (16) Provides for revenue sharing of Riverboat Wagering Taxes.
- (17) Imposes a supplemental fee upon the racetracks.

Property Tax Provisions:

- (18) Delays the completion of the current general property tax reassessment of real property for one year. Reschedules the completion date for later general reassessments to allow four years between each general reassessment.
- (19) Delays the initiation of annual assessment adjustments to real property by one year.
- (20) Establishes standards for the assessment of rental property, residential cooperative property, and tangible personal property.
- (21) Grants a property tax assessed value deduction for inventory, rental property, and residential cooperatives.
- (22) Increases the property tax assessed value deduction for homesteads.
- (23) Increases the Homestead Credit.
- (24) Increases the Property Tax Replacement Credit.
- (25) Limits the Property Tax Replacement Credit for property taxes paid on business personal property and inventory.

Other Tax and Expenditure Provisions:

- (26) Establishes a state spending limit.
- (27) Makes changes affecting the gross income tax liability of public utilities, including an increase in the tax rate and imposition of the tax on pass through entities.
- (28) Eliminates the Adjusted Gross Income Tax Credit available to public utilities for Gross Income taxes paid by the public utility.
- (29) Increases the tax rate for Wagering, Corporate Adjusted Gross Income, Sales, Cigarette, and Tobacco Products taxes.
- (30) Requires taxpayers that deduct property taxes (except property taxes on certain agricultural property) on a federal income tax return in certain taxable years to add that amount back to taxable income for the purpose of computing the taxpayer's state Adjusted Gross Income Tax liability.
- (31) Eliminates the Adjusted Gross Income Tax exemption for lottery winnings that exceed \$1,200.
- (32) Requires automatic withholding of riverboat gambling winnings that exceed \$600.
- (33) Increases the renter's deduction and the Earned Income Tax Credit applicable to the Adjusted Gross Income Tax.
- (34) Eliminates the Business Personal Property Tax Credit against state tax liability.
- (35) Establishes a tax credit against state tax liability for property taxes paid on inventory or on newly installed manufacturing or agricultural machinery, tools or equipment.
- (36) Establishes a Headquarters Relocation Tax Credit against state tax liability.
- (37) Increases the Research Expense Tax Credit against state tax liability and makes the credit permanent.
- (38) Allows a city, town, or county to establish a Certified Technology Park Tax Increment Financing (TIF) Area.
- (39) Provides additional remedies for the funding of debt in TIF areas that have reduced revenues as a result of changes in property tax laws.

County Support for Hospitals Program:

- (40) Establishes the County Support for Hospitals (CSFH) program to govern payments by counties to hospitals for the care of indigents.
- (41) Requires each county to impose an annual CSFH property tax levy.
- (42) Provides for amendment of the State Medicaid Plan concerning CSFH.
- (43) Establishes transitional provisions for counties to assume the former state obligation for making payments to hospitals.

Miscellaneous Provisions:

(44) Restores Gary Building Authority code sections to read as they did before amendments by P.L.178-2002 (HEA 1196).

(45) Repeals the Supplemental Net Income Tax, the Uninsured Parents Program, and provisions related to mandatory cruising, the Riverboat Admissions Tax, and the operation of a riverboat on Patoka Lake.

(46) Voids administrative rules governing property taxation that establish a shelter allowance deduction from the assessed value of primary residences and change the standards used to determine the assessed value of personal property.

(47) Prohibits the Department of Local Government Finance from adopting new rules.

(48) Prohibits the closure of Evansville State Psychiatric Treatment Center for Children without legislative approval.

(49) Sets criteria that must be met before Muscatatuck State Development Center may be closed.

(50) Makes appropriations.

(51) Provides for the automatic allotment of certain appropriations.

(52) Makes other changes.

Effective Date: July 1, 2000 (retroactive); July 1, 2001 (retroactive); January 1, 2002 (retroactive); March 1, 2002 (retroactive); March 28, 2002 (retroactive); Upon passage; June 1, 2002; July 1, 2002; August 1, 2002; December 1, 2002; January 1, 2003; January 2, 2003; July 1, 2003; January 1, 2004.

Explanation of State Expenditures:

Summary — Tax Restructuring Provisions: This bill contains several provisions that impact state expenditures and revenues. There is a net decrease in estimated expenditures of \$33.2 M in FY 2003, and a net increase of \$499.1 M in FY 2004, and \$1,103.8 M in FY 2005. Estimated net revenue increases total \$418.2 M in FY 2003, \$810.0 M in FY 2004, and \$810.9 M in FY 2005. The net impact of the revenue increases over estimated expenditure is approximately \$451.4 M in FY 2003 and \$310.9 M in FY 2004. The fiscal impact of each provision is summarized in the table below.

Net Expenditure and Revenue Impacts on GF and PTRF -- Tax Restructuring Provisions			
Provision	FY 2003	FY 2004	FY 2005
State Expenditures:			
Homestead Credit- (30%)	(\$15.6 M)	\$299.3 M	\$654.4 M
PTRC - Eliminate on All Property	4.4 M	(483.3 M)	(988.7 M)
PTRC- 20% on Real Prop, MH's, Indiv PP	--	342.3 M	700.2 M
School General Fund PTRF Credit	(22.0 M)	270.2 M #	592.3 M
School Transportation Fund PTRF Credit	--	70.6 M	145.6 M
Total Change in Expenditures	(\$33.2 M)	\$499.1 M	\$1,103.8 M
State Revenues:			
\$37,500 AV Credit (Inv only, second. effects)	--	(\$27.5 M)	\$18.1 M
Corp. AGI Increase/SNIT Elimination	28.6 M	58.9 M	60.7 M
Corp. Gross/AGI - Utility Taxes	49.5 M	102.0 M	105.0 M
Earned Income Tax Credit- 8% Fed. Credit	(14.0 M)	(34.3 M)	(36.2 M)
Production Equipment Investment Tax Credit	(38.9 M)	(71.6 M)	(68.2 M)
Research Expense Credit		(23.9 M)	(51.5 M)
Renter's Deduction- Additional \$2,000	--	--	(44.4 M)
Sales Tax - Additional 1%	393.0 M	806.4 M	827.4 M
Total Change in Revenues	\$418.2 M	\$ 810.0 M	\$810.9 M
Balance to be Distributed to Rainy Day Fund	\$ 451.4 M	\$ 310.9 M	
# FY 2004 expenditure growth rates reflect the current revenue forecast and not the historical increases in these expenditures. Growth rates could be higher depending on future appropriations.			

Summary — Budget Deficit Reduction Provisions: This bill contains several provisions which result in a positive impact on the state General Fund. This is composed of an estimated expenditure reduction totaling \$128.7 M in FY 2002, and an expenditure increase of \$7.65 M in FY 2003, and \$5.9 M in FY 2004. Estimated revenue increases total \$733.9 M in FY 2003, and \$773.4 M in FY 2004. The fiscal impact of each provision is summarized in the table; additional details of the bill follow the table.

Expenditure and Revenue Impacts to the State General Fund -- Budget Deficit Reduction Provisions			
Provision	FY 2002	FY 2003	FY 2004
State Expenditures:			
CHOICE	\$.05 M	\$4.7 M	--
Project Safeplace/YSB/Domestic Viol. Prev.	--	1.8 M	--
Supplemental ADA Flat Grant	--	35.0 M	--
Department of Education Grants ***	5.2 M	30.2 M	--
ISTEP for Social Studies	--	(0.2 M)	(0.6 M)
Higher Ed Operating Expenses	--	(29.0 M)	--
Higher Ed - Repair and Replacement ***	20.0 M	--	--
Higher Ed Technology Distribution	--	10.0 M	--
State Employee 2% Pay Raise #	--	15.3 M	15.3 M
IN Commission on Health Care Excel.	0.05 M	0.05 M	--
Medicaid Spending	--	(10.1 M)	(13.5 M)
PTRC Distributions	(154.0 M)	--	--
State Police Funding	--	(54.8 M)	--
Tobacco Farmers Provisions	--	4.7 M	4.7 M
Total Change in Expenditures	(\$128.7 M)	\$7.65 M	\$5.9 M
State Revenues:			
Flexible Boarding/Graduated Wagering Tax/Admission Tax Elimination/BIF Cap	--	\$349.9 M	\$365.2 M
Pari-mutuel Pull Tabs	--	--	5.3 M
Taxation of Lottery Winnings	--	4.1 M	4.1 M
Withholding on Gambling Winnings	--	15.0 M	15.0 M
Cigarette Taxes	--	269.2 M	294.7 M
Property Tax Add Back	--	86.4 M	87.0 M
Property Tax Representative Lic. Fee	--	0.04 M	0.04 M
Continuing Education Fees	--	0.02 M	0.02 M
IDEM and State Police Fees **	--	9.2 M	2.0 M
Total Change in Revenues	--	\$733.9 M	\$773.4 M
A portion of IDEM fee increases are deposited into dedicated funds and are not summarized in this table. The bill provides that the State Police may increase fees by rule and, thus, would depend upon administrative action. *Allots funds appropriated by the General Assembly that the Budget Agency included in Budget Deficit Plan. # Reflects only the General Fund share.			

Tax Restructuring Provisions:

Homestead Credit Increase: Currently, Homestead Credits are equal to 10% of homeowners' property tax liability. The Homestead Credit percentage is scheduled to change to 4% in CY 2004. This provision would increase the Homestead Credit percentage to 30% for all years beginning with CY 2004. Additionally, the

bill limits the application of Homestead Credit to the tax due on the first \$1 M of a home's assessed value. In CY 2001, Homestead Credits (at 10%) amounted to \$195.5 M.

In addition to the increase in the Homestead Credit rate, the credits for school levies and the various deductions found elsewhere in this bill will also have an impact in the cost of providing homestead credits. Under the bill, homestead credit would be applied *after* PTRC credits have been applied. The following table summarizes all of the changes in this bill that affect the cost of the Homestead Credit. The school levy credits and PTRC changes were considered first. The resulting Homestead Credit cost serves as the base for the change in the credit percentage.

Summary of Homestead Credit Cost Change					
Cal. Year	Current %	New %	Cost Change From School Credits / Deductions	Cost Change From Percentage Change	Total Cost Change
2003	10%	10%	(\$31.2 M)	\$ 0	(\$31.2 M)
2004	4%	30%	(7.5 M)	637.4 M	629.9 M
2005	4%	30%	(6.3 M)	685.3 M	679.0 M

The following table is a summary of the total Homestead Credit cost changes by state fiscal year.

Summary of Homestead Credit Cost Change	
Fiscal Year	Total Cost Change
2003	(\$15.6 M)
2004	299.3 M
2005	654.4 M

Property Tax Replacement Credit: Under current law, the state pays Property Tax Replacement Credits (PTRC) in the amount of 20% on most school and civil taxing unit operating fund levies. PTRC is currently paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund.

Under this proposal, business personal property would no longer qualify for PTRC payments beginning in CY 2003. Real property, mobile homes, and non-business personal property would continue to qualify for PTRC payments and the PTRC rate would remain at 20%. The PTRC expense was \$886.5 M in CY 2001 and has grown at an average annual rate of 4.3% over the last five years.

In addition to the change in property types that qualify for the credit, the school property tax credits found elsewhere in this bill will also have an impact in the cost of providing Property Tax Replacement Credits. The following table contrasts the cost of PTRC under current law and under the proposal.

Summary of PTRC Cost			
Cal. Year	Cost of PTRC under Current Law	Cost of PTRC under Proposal	Total Cost Change
2003	\$949.9 M	\$958.6 M	\$ 8.8 M
2004	975.5 M	684.5 M	(291.0 M)
2005	1,001.8 M	715.8 M	(286.0 M)

The following table is a summary of the total PTRC cost changes by state fiscal year.

Summary of PTRC Cost Change	
Fiscal Year	Total Cost Change
2003	\$ 4.4 M
2004	(141.1 M)
2005	(288.5 M)

School General Fund PTRF Credit. The bill increases the current 20% state property tax replacement credit on school general fund levies to 32%. The school formula and school budget process remain unchanged. No school formula currently exists for CY 2004. Assuming a 2.7% annual increase in levies, the levies eligible for the 32% credit are estimated to be \$1,826.2 M in CY 2004 and \$1,875.5 M in CY 2005. School general fund credit expenditures from the Property Tax Replacement Fund for FY 2004 are estimated at about \$270.2 M, ½ of the CY 2004 credit and \$592.3 M for FY 2005.

School Transportation Fund PTRF Credit. The bill increases the current 20% state property tax replacement credit on school transportation fund levies to 40%. School transportation fund credit expenditures from the Property Tax Replacement Fund for FY 2004 are estimated at about \$70.6 M, ½ of the CY 2004 credit and \$145.6 M for FY 2005.

Earned Income Tax Credit Refunds: The refundable portion of the earned income tax credit (EITC) qualifies as Maintenance of Effort (MOE) expenditures and would contribute toward the state's annual MOE requirement under the Temporary Assistance to Needy Families (TANF) program. Based on simulations using 1999 tax return data, EITC refunds for those eligible under current law total an estimated \$13.8 M. The simulations also suggest that refunds under the bill would increase by about \$2 M.

Budget Deficit Reduction Provisions:

CHOICE IN-Home Services Program: The bill automatically allots the appropriations for the FSSA CHOICE Program for in-home services for FY 2002 and FY 2003. The bill would, upon passage, allot a prorated portion of \$2.7 M scheduled to revert, estimated to be \$52,000 for FY 2002, and \$4.7 M for FY 2003 that the Governor included in his Budget Deficit Management Plan as reversions.

Project Safeplace: The bill separately appropriates the Project Safeplace funding of \$125,000 for FY 2003 and requires the automatic allotment of the funds. The bill further requires that the money allotted must be

spent for Project Safeplace during the fiscal year. The source of funds for this provision is a cap in the Homestead Credit.

Youth Services Bureau: The bill requires the automatic allotment of the \$1.25 M appropriated for FY 2003. The bill further requires that the money allotted must be used for the Youth Services Bureau during the fiscal year. The source of funds for this provision is a cap in the Homestead Credit.

Domestic Violence Prevention and Treatment Program: The bill requires the automatic allotment of the \$1 M appropriated for FY 2003. This would prevent an anticipated \$0.5 M reduction in the allotment for this program. The bill further requires that the money allotted must be used for the Domestic Violence Prevention and Treatment Program during the fiscal year. The source of funds for this provision is a cap in the Homestead Credit.

School Funding Provisions: The bill appropriates \$35 M for FY 2003 to the Department of Education to be distributed to local schools based on the average daily attendance (ADA) of the school corporation. The bill also automatically allots the appropriations for the Department of Education for FY 2002 and FY 2003. The bill allots about \$5.2 M for FY 2002 and \$30.2 M for FY 2003 that the Governor included in his Budget Deficit Management Plan as reversions.

Under this provision, the state would experience reduced expenditures by the removal of funding for ISTEP tests in social studies. Under the proposal, the ISTEP program would include only math, English, and science exams after July 1, 2002. The bill would reduce expenditures in FY 2003 by approximately \$0.2 M and in FY 2004 by approximately \$0.6 M. Under P.L. 291-2001, the FY 2003 total appropriation for ISTEP+ testing and remediation (Grades 3, 6, 8, and 10) is \$40,174,677. Testing and remediation funding is provided from both the state General Fund and state dedicated funds.

Additionally, the bill gives the State Budget Agency the option (with the approval of the State Budget Committee) to reduce the FY 2003 appropriation for testing and remediation in P.L. 291-2001. Under the bill, the Governor may issue an executive order suspending or revising ISTEP testing and remediation in FY 2003.

Operating Expenses for Higher Education: The bill also requires a reduction of \$29 M in FY 2003 appropriations for operating expenses for higher education. The bill specifies that the reduction shall be in the proportion of the operating appropriations of each campus divided by the total operating appropriations for all university campuses. The bill would allow universities to defray the operating appropriation reductions with funds appropriated to Higher Education Technology from the Build Indiana Fund. The amount available may not exceed \$29 M.

This bill automatically allots \$20 M of the \$56.5 M appropriation in FY 2002 to Higher Education for general repair and rehab. The State Budget Agency is to prepare and provide for the Budget Committee's review of the formula for the distribution of the allotted general repair and rehab funds. The amounts of the distribution should be proportional to the appropriations.

The bill also appropriates \$10 M for FY 2003 to state universities for technology. The formula to distribute the technology funds is to be developed by the State Budget Agency and reviewed by the Budget Committee.

2% Pay Raise for State Employees: The bill provides the funding for a 2% general salary adjustment for state employees, excluding the state judicial and legislative departments. Salaries and wages with some fringe

benefits are projected to be about \$1.3 B for FY 2003. The fiscal impact of a 2% general salary adjustment would be about \$26.0 M for FY 2003, of which about \$15.3 M would be General Fund dollars. The pay raise would be effective July 1, 2002. The raise for general and dedicated funds would be funded from the elimination of the Adjusted Gross Income Tax exemption on lottery winnings.

Indiana Commission on Health Care Excellence: The bill appropriates \$100,000 over two years, FY 2002 and FY 2003, for the operation of the subcommittees of the Indiana Commission on Health Care Excellence.

Medicaid Program: The bill authorizes OMPP to require a Medicaid recipient to select only one pharmacy (pharmacy “lock-in”). The impacts to the state from these changes are estimated to be a reduction in expenditures of \$10.1 M in FY 2003 and \$13.5 M in years thereafter. This is based on total Medicaid expenditure reduction, state and federal, of \$26.6 M in FY 2003 and \$35.5 M in years thereafter. The FY 2003 impact is assumed to be 75% of a full year’s impact due to the time required to promulgate rules.

PTRC Distributions: The state currently makes six Property Tax Replacement Credit distributions to county treasurers each calendar year from the Property Tax Replacement Fund (PTRF). Under HEA 1001 (2001), the May 2001 distribution was delayed until July 2001. After 2001, the original payment schedule is to be resumed. This means that the last FY 2001 payment was delayed until FY 2002, thereby creating five payments in FY 2001 and seven payments in FY 2002. This bill would require that the alternative schedule is to be used each year. The continued delay of the May payment until July would reduce the number of payments in FY 2002 from seven to six and reduce state expenditures from the PTRF by about \$154 M in FY 2002.

State Facilities Down-Sizing Provisions:

This bill has certain provisions regarding the downsizing or closure of Evansville State Psychiatric Treatment Center for Children (EPCC). The Division of Mental Health and Addiction may not terminate, in whole or in part, normal patient care or other operations at EPCC without the specific statutory authority of the General Assembly. The Division is prohibited from reducing staffing levels at EPCC below those in effect on January 1, 2002. Further, the Division may not remove, transfer, or discharge any patient unless it is in the patient’s best interest. The Division is also prohibited from interfering in the admission of patients to the Evansville State Psychiatric Treatment Center for Children. FSSA estimates that these provisions will result in the elimination of savings of \$1.6 M. These funds were originally planned to pay for community placements and services for patients housed at the facility. In addition, this bill contains provisions for the Division of Disability, Aging, and Rehabilitative Services.

Division of Disability, Aging, and Rehabilitative Services - Muscatatuck State Developmental Center Closure - Cost - variable depending upon placement of patients in the community - upper end estimate of \$51.7 M annually.

This facility is scheduled for closure by June 2003. This bill states that this facility may not close unless specifically authorized by statute. In addition, the bill sets requirements for placing residents in placements outside Muscatatuck, and the Division needs the express written consent of a patient’s guardian or representative for the patient’s removal, transfer, or discharge. There are currently 837 full-time state and 178 full-time contract employees at this facility. As of May 13, 2002, there were 200 patients at Muscatatuck. The facility may remain open indefinitely due to these provisions.

Placement Criteria: This bill sets specific criteria for placing residents in outside placements. The

criteria are similar to those set forth in SEA 217-2002. The Division is working to meet these conditions currently. The Division is not expected to incur any additional costs due to the planning requirements. This bill differs from SEA 217-2002 in that the placement must be presented to the individual or the individual's representative for input, rather than the placement must be acceptable to the individual or the individual's representative.

Extension of Muscatatuck Closure Date: This bill extends the closure date of Muscatatuck State Developmental Center (MSDC) indefinitely. The MSDC is currently budgeted through June 30, 2003.

The estimated budget for MSDC is currently \$51.7 M (all numbers are current as of May 13, 2002). The per diem for residents at MSDC is currently \$708 per resident. Of this amount, Medicaid reimburses the state \$265, with state cost of \$443 per resident. (The maximum Medicaid allowable per diem is \$428 per resident. This amount includes the state share of \$163. Since the MSDC per diem is above this match, the state is responsible for 100% of costs above this amount, or an additional \$280.)

The cost of this provision depends upon the number of residents remaining at MSDC in 2004. Many of the residents are in the process of transferring to placements in the community. Of the 200 remaining residents, 132 have "support plans" that identify the needs required for a patient's placement in the community, and 106 guardians have signed medical consent release forms. Depending on the timing of the transition process, some residents may be in a community placement by the end of FY 2003. Given this possibility, the costs associated with keeping MSDC open are difficult to assess. However, the fixed costs are \$300,000, and costs per resident are \$20,029 per month.

Capital Costs: The FSSA hired BSA Design to review the condition of state-operated care facilities. This study estimates that MSDC requires \$84.1 M in capital improvements over the next ten-year period to maintain existing service. The immediacy of these repairs is not known; however, the Division has continued to make repairs to the facility to maintain a safe, livable environment. The extent and cost of critical repairs are not known at this time.

Expenditures from the Motor Vehicle Highway Account: The bill changes the funding sources for the State Police operating account. Currently, the State Police operating account is funded from the state General Fund, the Motor Vehicle Highway Account (MVHA), and the Motor Carrier Regulation Fund. The bill funds the State Police operating account from the MVHA and the Motor Carrier Regulation Fund. This will reduce state General Fund expenditures by an estimated \$54,841,661 for FY 2003. The bill does not change the funding for the State Police Pension and Benefit Funds which are supported equally by the state General Fund and the MVHA.

The MVHA also distributes funds to the Department of Transportation and local units of government based on a formula. The additional MVHA funds used to support the State Police would otherwise have been distributed with 53%, or approximately \$29,066,080, going to the Department of Transportation, and 47%, or approximately \$25,775,581, going to local units of government.

The bill adjusts MVHA distributions by removing \$20 M of MVHA funds from the Personal Services account of the Bureau of Motor Vehicles (BMV) and distributing these funds based on a formula which provides 53%, or \$10.6 M, to the Department of Transportation, and 47%, or approximately \$9.4 M, to local units of government. The \$20 M of MVHA funds which the BMV loses may be replaced with additional revenue generated by fees charged in license branches.

The bill provides that \$34.842 M that would otherwise be distributed to the State Highway Fund (INDOT), are to be used to fund the appropriation for the State Police. The bill provides that distributions to local units will not be reduced from what they would otherwise receive. The State Auditor will compute what local units would have received prior to the bill and will reduce INDOT's distributions and increase local units' distributions to provide that amount. The net effect of the proposed changes will ultimately impact the INDOT and not local units.

Tobacco Farmers Provisions: The bill annually appropriates money from the General Fund to the Value Added Research Fund, the Rural Development Administration Fund, and the Indiana Rural Development Council. (See the table below.) The funds are established as non-reverting; the appropriation to the Value Added Research Fund is made in addition to the existing level of appropriation.

General Fund Impact	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Value Added Research Fund	\$1.0 M						
Rural Develop. Admin. Fund	2.5 M						
Rural Development Council	1.2 M						
General Fund Appropriations	\$4.7 M						

The Tobacco Farmers and Rural Community Trust Fund is renamed the Tobacco Farmers Fund. The bill requires certain transfers of revenue from the Tobacco Master Settlement Agreement Fund to the Tobacco Farmers Fund until January 1, 2010. (See the table below.) The estimated payments to the Tobacco Master Settlement Fund will be sufficient to make the required transfers to the Tobacco Farmers Fund. The bill also repeals the FY 2003 appropriation of \$5 M for the Tobacco Farmers and Rural Community Trust Fund from the Tobacco Master Settlement Agreement Fund. It further requires that any remaining funds from the FY 2002 appropriation be returned to the Tobacco Master Settlement Agreement Fund.

Tobacco Master Settlement Fund Impact	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Phase II Supplement (\$23.6M)	\$4.72 M						
Phase II Market Share Adjust.	0.63 M	0.64 M	0.65 M	0.66 M	0.67 M	0.68 M	0.69 M
Tobacco Master Settlement	\$5.35 M	\$5.36 M	\$5.37 M	\$5.38 M	\$5.39 M	\$0.68 M	\$0.69 M

Expenditure Limits: This bill establishes a maximum annual percentage change for state government expenditures to be based on the lesser of the three-year average change in Indiana non-farm personal income over the prior three fiscal years or 6%. The bill excludes expenditures for education, teachers' pension obligations, Medicaid, and property tax replacement from the expenditure limits. If revenues exceed the expenditure limit, the excess shall be deposited in the Excess Tax Fund. The General Assembly may authorize spending that exceeds the expenditure limit if a concurrent resolution is adopted by a majority of the members of both the House and Senate.

The bill allows individuals to file a lawsuit to enforce the state expenditure limits. Successful plaintiffs are allowed costs and reasonable attorney fees. The state may recover costs and reasonable attorney fees if a suit is ruled frivolous.

This provision applies to appropriations beginning in FY 2004. According to the November 14, 2001, Surplus Statement, FY 2003 budgeted appropriations are \$10,497.9 M and net expenditures are estimated to be \$10,488.9 M. The average annual change in Indiana non-farm personal income for the last three years (FY 1999 to FY 2001) has been 3.9%.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Background Information: The prior three-year average annual change in the Indiana non-farm personal income and population for the last three fiscal years, as well as the maximum limits set out in this bill, are identified below.

<u>Fiscal Year</u>	<u>3-Year Avg % Change in IN Non- Farm Income</u>
1999	3.8%
2000	3.9%
2001	3.9%

Indiana Gaming Commission: The bill requires the Indiana Gaming Commission (IGC) to regulate and administer pari-mutuel pull tab operations. The IGC would incur additional administrative expenses as a result. However, the bill requires that the holder of a pull tab license or supplier's license bear the cost of any investigation by the IGC relating to the licensee. Also, the bill allows the IGC to impose an administrative fee on race track or satellite facility permit holders offering pull tab games in an amount that allows the IGC to recover the costs of administering pari-mutuel pull tabs.

The IGC also would incur additional administrative expenses relating to the licensing and regulation of gaming at the Orange County riverboat casino. As with the existing riverboat casinos, such administrative costs will be covered with revenue from license fees and the Riverboat Wagering Tax.

Purchasing Goals: The bill establishes minority and women's business purchasing goals for horse racing track and satellite facility owners selling pari-mutuel pull tabs. It places responsibility for enforcement of these requirements under the IGC. Currently, the IGC administers similar requirements for riverboats. The bill also establishes the Minority and Women Business Participation Fund to be administered by the IGC. Under the bill, the Fund contains fines for violations of the minority and women business purchasing requirements and an annual fee of \$10,000 imposed on each riverboat and each racetrack or satellite facility selling pull tabs. The Department of Administration may use fee money in the Fund to hire employees to administer the purchasing goals program. Otherwise, the money in the Fund is to be used to assist women and minority business enterprises. Expenses of administering the Fund must be paid from money in the Fund.

Minority Health Initiatives Fund: The Minority Health Initiatives Fund is established to provide funding for the Minority Health Coalition to implement the Minority Health Initiative Program. The fund is non-reverting and annually appropriated; it consists of distributions from the Cigarette Tax, appropriations from the General Fund, and from any other source. The fund is estimated to receive distributions from Cigarette Tax revenue of \$405,000 in FY 2003, \$422,000 in FY 2004, and \$425,000 in FY 2005.

Income Tax Exemptions/Deductions/Credits: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs due to: (1) the temporary re-institution of the property tax add back; (2) withholding requirements for gambling and lottery winnings; and (3) changes to the renter's deduction, earned income tax credit, and exemption for lottery winnings. These expenses presumably can be absorbed given the DOR's existing budget and

resources.

Headquarters Relocation Tax Credit: Under the bill, the Department of State Revenue (DOR) would be required to calculate the credit allowed and determine if the expenditure made by the taxpayer was the result of relocation of a corporate headquarters. The DOR would be required to consider whether the expenses made by a taxpayer would have occurred regardless if the taxpayer's business headquarters had relocated or not. Additionally, tax forms, instructions, and computer programs will need to be revised in order to incorporate the new credit. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Certified Technology Parks: The bill requires the Indiana Department of Commerce (IDOC), the Department of Revenue (DOR), and the State Treasurer to perform functions relating to the technology parks. Since the bill limits the number of technology parks that may be certified to three statewide, these agencies should be able to perform these functions under current budget and resource levels.

The bill requires the IDOC to certify technology parks proposed by local redevelopment commissions and specifies an application and review process to be followed by the IDOC. The bill also requires the DOR to determine the base gross retail and income tax base period amounts for a certified technology park. Every October, the DOR is required to calculate the incremental income and sales tax revenues for each technology park for the preceding state fiscal year. The bill also requires the State Treasurer to establish an Incremental Tax Financing Fund for each certified technology park. The bill limits the aggregate amount of income and sales tax that can be deposited in a particular incremental tax financing fund for a certified technology park to \$5 M over the life of the park. Each month, money in a technology park's Incremental Tax Financing Fund is distributed to the redevelopment commission operating the park for deposit in its Certified Technology Park Fund.

Explanation of State Revenues:

Gas Tax Increase: The bill increases the Gasoline Tax by three cents per gallon to a total of 18 cents per gallon, effective January 1, 2003. The bill transfers \$2.5 M of the increase to the Public Mass Transportation Fund (PMTF) for the period January 1, 2003, to June 30, 2003. \$5 M of Gasoline Tax revenue are transferred to the PMTF each fiscal year thereafter. After the above transfers are made, the remaining amounts are distributed through the Motor Vehicle Highway Account (MVHA).

The table below shows the additional revenues resulting from the increase in the Gasoline Tax provided in this bill.

FY	Total	PMTF	State (MVHA)	Local (MVHA)
2003	\$48.1 M	\$2.5 M	\$24.4 M	\$21.2 M
2004	97.2 M	5.0 M	49.3 M	42.9 M
2005	99.0 M	5.0 M	50.3 M	43.7 M

Background Information for Gas Tax:

The estimated additional revenue raised from each penny increase in the Gasoline Tax is provided in the table below.

CY	One Cent Raises:
2003	\$32.1 M
2004	\$32.7 M
2005	\$33.3 M

The PMTF is a state fund that receives 0.76% of the state's Sales and Use Tax revenue. These funds are allocated on a calendar year basis using a performance-based formula to eligible grantees (as defined in I.C. 36-1-2-10). Operating expenses, passenger trips, total vehicle miles, and locally derived income data are utilized to compute the formula allocations. Locally Derived Income (LDI) is used to measure local financial commitment and is defined as follows:

- 1) System revenues, including fares, charter, advertising, and all other auxiliary and non-transportation revenues.
- 2) Taxes levied by, or on behalf of, a transit system.
- 3) Local cash grants and reimbursements including general fund receipts, property, local option income, license, excise, and intangible taxes, bank building and loan funds, local bonding funds, and other locally derived assistance.

Awards are limited to an amount equal to 100% of the project's Locally Derived Income or the system's total allocations, whichever is less. LDI does not include contra-expenses such as expense refunds from motor fuel tax, or in-kind volunteer services.

In FY 2001, \$28.5 M of PMTF funding was allocated to transit systems in Indiana.

Tax Restructuring Provisions:

Personal Property Tax Credit: This bill would change the existing \$37,500 AV credit against state tax liability for personal property (PPTRC). Under current law, beginning with property taxes paid in 2003, business taxpayers will receive a credit against state tax liabilities in the amount of the property tax paid on the first \$37,500 assessed value of business personal property (depreciable assets plus inventory). Under the bill, beginning with property taxes paid in CY 2004, the credit would be provided against the first \$37,500 AV of inventory only (as measured after the inventory deduction found elsewhere in this bill).

The cost of the credit under current law is estimated at \$96.0 M in FY 2004 and \$97.9 M in FY 2005. The cost of the credit under this bill is estimated at \$123.5 M in FY 2004, \$79.7 M in FY 2005, \$60.8 M in FY 2006, and \$38.7 M in FY 2007. The cost of the credit will be eliminated beginning in FY 2008 because inventory assessed value will be fully phased out by CY 2007 under the bill.

The cost of the credit will be increased, and revenues reduced, by about \$27.5 M in FY 2004. The credit will be reduced, and revenues increased, by an estimated \$18.1 M in FY 2005.

Corporate Taxes: This bill eliminates the Supplemental Net Income Tax and establishes a Corporate Adjusted Gross Income Tax at a rate of 8.5% applied to apportioned Indiana AGI.

Background: Currently the Indiana Adjusted Gross Income (AGI) Tax is at a rate of 3.4% and the Supplemental Net Income Tax (SNIT) is at a rate of 4.5%. The effective tax rate for a taxpayer paying Adjusted Gross Income Tax and Supplemental Net Income Tax is 7.747%.

Methodology: The increased tax rate, from an effective rate of 7.747% to 8.5%, on apportioned Indiana AGI applies for taxable years beginning after December 31, 2002. Therefore, it would take effect mid-way through state FY 2003. If corporations adjusted tax payments immediately, the impact is estimated to be an additional \$28.6 M in FY 2003. It is likely that taxpayers will not adjust on time and that most taxpayers will not remit the full amount for the higher rate until filing after the end of their fiscal year. In that case most or all of the \$28.6 M will be shifted into FY 2004. Adjusted Gross Income Tax revenue collections would increase by an additional \$58.9 M in FY 2004 and \$60.7 M in FY 2005. (This estimate excludes the impact on utilities which are included below.)

Taxation of Public Utilities Income: This bill increases the corporate Gross Income Tax rate on gross receipts of utilities from 1.2% to 1.6% and eliminates the Gross Income Tax as a credit against their Adjusted Gross Income Tax liability. Therefore utilities will effectively be paying both the Gross and Adjusted Gross Income taxes. Utilities would no longer pay the SNIT and would not be subject to the Business Supplemental Tax. The interaction of these tax changes will effectively increase revenue from public utilities by approximately \$99 M in CY 2003. Based on estimated payments, an additional \$49.5 M would be generated in FY 2003, \$102.0 M in FY 2004, and \$105 M in FY 2005.

Expansion of Earned Income Tax Credit: The bill eliminates the current Earned Income Tax Credit (EITC) and establishes a credit equal to 8% of the federal Earned Income Credit beginning in tax year 2003. The current EITC is scheduled to sunset after tax year 2003. The bill is estimated to increase the cost of the EITC above the current base cost of the credit by approximately \$14.0 M in FY 2003, \$34.3 M in FY 2004, and \$36.2 M in FY 2005.

Federal income tax data for tax year 1999 indicates that the federal credit was claimed on 356,503 income tax returns filed by Indiana residents. These credits totaled \$556.6 M. The estimates are based on the 1999 total inflated by 3.5% to reflect recent annual growth in the credit total. The net revenue loss assumes a base cost equal to \$17.5 M for the current EITC. Data from 1999 state income tax records indicates that approximately 105,000 taxpayers were eligible to claim the EITC under current law. The credit amount available to these taxpayers is estimated to total \$17.5 M. The FY 2003 total assumes that the change to the EITC will affect monthly withholding during the second half of the fiscal year.

Investment Tax Credit for New Production Equipment: This provision creates an income tax credit available for owners of new business personal property used for production. The property would have to be a newly purchased depreciable asset, be used in the production of goods, and have a useful life of at least three years. The income tax credit would equal 30% of the net property tax paid on the property in its first taxable year and 20% of the net property tax paid on the property in its second taxable year.

The income tax credit may be taken against the taxpayer's liability under the Corporate Gross Income Tax,

Corporate Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. If the amount of the credit exceeds the taxpayer's liability, the taxpayer would be entitled to a refund. The Investment Tax Credit would reduce state revenues.

The credit would first be claimed for tax years beginning 2003. Adjusting for estimated quarterly payments, revenue collections would be impacted beginning in FY 2003 with the full cost of the credit beginning in FY 2004. The cost of the credit is estimated in the following table.

Production Equipment Investment Tax Credit State Revenue Reduction Estimate			
Tax Year	Credit Amount	Fiscal Year	Credit Amount
2003	\$ 77.7 M	FY 2003	\$ 38.9 M
2004	65.4 M	FY 2004	71.6 M
2005	70.9 M	FY 2005	68.2 M

The Investment Tax Credit would not be available for property on which the taxpayer received a Capital Investment Tax Credit (in Shelby County) or a Refined Lubrication Oil Facility Credit.

Research Expense Credit: This bill eliminates the apportionment factor for the Research Expense Credit and increases the credit from 5% to 10% for tax years beginning January 1, 2004. It is currently set to expire December 31, 2002. This bill also makes the credit permanent beginning January 1, 2003.. It is estimated that these changes will result in a revenue loss of approximately \$23.95 M in FY 2004 (due to changes in estimated quarterly payments) and \$51.5 M in FY 2005.

Over the past four years, the current Research Expense Credit has ranged from \$9.2 M in FY 1996 to \$24.2 M in FY 1999. It is difficult to estimate the exact impact of continuing this tax credit since it is dependent on both the amount of research expenses individual taxpayers make during the year and their total tax liability.

Apportionment Provision: This modification would mean that the credit is based on the taxpayer's Indiana qualified research expenses, rather than the lesser of its Indiana qualified research expenses or its apportioned research expenses for the tax year beginning January 1, 2004. Currently, only businesses that do not have income apportioned to the state for a taxable year may calculate their credit based on only Indiana research expenses.

This change would lower the tax liability for multi-state, Indiana-domiciled companies that conduct a significant proportion of their research in Indiana, compared to the research conducted through their non-Indiana operations. Elimination of the apportionment factor will allow all companies to compute their tax credit based on the amount of research actually conducted in the state. It is unknown how many Indiana businesses would be affected by this change.

Rate Change: The bill also increases the percentage of credit which may be taken for research and development activities from 5% to 10%.

Elimination of Expiration Date: This bill also eliminates the December 31, 2003, expiration date for

the current credit and effectively makes this a permanent credit available to taxpayers.

With additional incentives created for research and development activity based in the state of Indiana, the revenue loss from this credit could increase by an indeterminable amount. The credit provides \$100,000 for each \$1 M in new research expenses. Increased expenditures on research activities could also generate additional Adjusted Gross Income and Sales Tax revenue if these expenses are used to hire additional employees or purchase related equipment.

Research expense tax credit affects revenue collections deposited in the General Fund.

Increase in Renter's Deduction: The bill increases the renter's deduction from \$2,000 to \$4,000 beginning in tax year 2004. The revenue loss from this change is estimated to total \$44.4 M in beginning in FY 2005. Under current law, a taxpayer may deduct from his or her state taxable income an amount equal to the total rent paid during a tax year up to \$2,000. The rent deducted must be paid on the taxpayer's principal place of residence. In 1999, 637,500 taxpayers deducted rent totaling approximately \$1,187.9 M under the renter's deduction. The estimated impacts are based on the 1999 deduction total inflated to account for trends before 1999 in the average deduction amount and number of taxpayers claiming the deduction.

Sales & Use Tax: This bill increases the Sales and Use Tax from 5% to 6% effective December 1, 2002. The bill also makes changes in the manner in which Sales and Use Tax revenue is distributed. The bill changes the distribution of the revenue so that revenue generated as a result of the tax increase is deposited into the Property Tax Replacement Fund.

The increase is expected to generate approximately \$393.0 M in FY 2003, \$806.4 M in FY 2004, and \$827.4 M in FY 2005 in increased Sales Tax revenue. This estimate assumes that the Sales Tax revenue will grow 2.6% annually over FY 2003, FY 2004, FY 2005. (This is the same rate forecast for FY 2002 by the Revenue Technical Committee on November 14, 2001.)

The bill also changes the distribution of Sales Tax revenue so that the funding levels of the Public Mass Transportation Fund, the Commuter Rail Service Fund, and the Industrial Rail Service Fund will remain at their current levels.

Assessed Value Deductions: The state levies a small tax rate for State Fair and State Forestry. The AV deductions will reduce the property tax revenue for these two funds.

Rainy Day Fund: The Budget Director shall determine the unused 21st Century Tax Plan balance to be transferred into the Rainy Day Fund (RDF). Based on the above estimates, it is anticipated that approximately \$451.2 M could be transferred to the RDF in FY 2003 and \$310.9 M could be transferred in FY 2004.

Budget Deficit Reduction Provisions:

Riverboat Gaming: The bill makes several changes that will affect revenue and distributions from taxes on riverboat casinos.

(1) The bill permits a riverboat owner to commence flexible boarding operations allowing for continuous boarding of riverboat patrons. The change to flexible boarding is expected to increase both wagering and

admissions on riverboats and, thus, is expected to increase revenue from the Riverboat Wagering Tax.

(2) The bill imposes a graduated Wagering Tax on adjusted gross wagering receipts (AGR) (total wagers minus winnings paid to bettors and uncollectible receivables). The tax is 28% on the first \$100 M in annual AGR and 31% on annual AGR exceeding \$100 M.

(3) The bill eliminates the Admission Tax and replaces state and local distributions from this tax with revenue from the Wagering Tax. The bill establishes annual replacement distributions from Wagering Tax revenue totaling \$26 M for the Horse Racing Commission, \$4 M for the state Mental Health Division, and \$6 M for the State Fair Commission.

(4) The bill caps the distribution of Wagering Tax revenue to the Build Indiana Fund (BIF). Under the bill, the annual Wagering Tax distribution to the BIF is \$250 M minus the annual amount distributed to the BIF from surplus lottery revenue, the Pari-mutuel Wagering Tax, and surplus charitable gaming revenue. Based on the current State Budget Agency forecast for the BIF, these three sources are expected to generate approximately \$102.5 M annually. Thus, the annual Wagering Tax distribution to the BIF is estimated to total about \$147.5 M.

(5) The bill also establishes additional annual Wagering Tax distributions totaling \$1.5 M to the “Barn” and \$1 M each to the School for the Deaf and School for the Blind beginning in FY 2003; and \$3.5 M in FY 2004 and \$7 M beginning in FY 2005 to the Shoreline Environmental Trust Fund.

The estimated impacts of these changes are presented in the table below. This assumes that all of the existing riverboats will begin dockside gaming operations beginning in July 2002. It is important to note that the base Wagering Tax revenue will exceed the amount necessary to fund the earmarks specified above in (3), (4), and (5) beginning in FY 2003. As a result, the bill would shift \$90.6 M of base Wagering Tax revenue to the state General Fund in FY 2003. This amount is expected to increase to \$96.8 M in FY 2004 and \$103.4 M in FY 2005.

	FY 2003	FY 2004	FY 2005
Total New Revenue	\$345.7 M	\$357.8 M	\$370.3 M
State Share to GF (75%)	259.3 M	268.4 M	277.7 M
Local Share (25%)	86.4 M	89.4 M	92.6 M
Base Revenue Shifted to GF	90.6 M	96.8 M	103.4 M
Total GF Impact	\$349.9 M	\$365.2 M	\$381.1 M

Pari-mutuel Pull Tabs: The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, the Marion County satellite facility operated by Hoosier Park, Indianapolis Downs (to be located in Shelby County), and a Marion County satellite facility operated by Indianapolis Downs. The bill limits the number of electronic pull tab terminals or devices that may be installed to 700 per facility.

Wagering Tax: The bill imposes a graduated Wagering Tax on pari-mutuel permit holders selling pull tabs at racetracks or satellite facilities. The tax is imposed on the permit holder’s combined adjusted gross

wagering receipts (AGR) from pull tab sales. The tax is 32.5% on the first \$150 M in annual AGR and 37.5% on annual AGR exceeding \$150 M. Annual revenue from the tax on pull tab sales at Hoosier Park and the Marion County satellite facility operated by Hoosier Park could potentially total \$44.7 M annually beginning in FY 2004. Under the bill, 70% of this revenue would be distributed to state. The first \$26 M annually would be distributed to the Horse Racing Commission for support and operation of horsemen's associations and for promotion and operation of horse racing. The remainder would be distributed to the state General Fund. This distribution is estimated to total about \$5.3 M annually beginning in FY 2004. These estimates are based on actual admissions, and admissions estimates derived from betting handles at Hoosier Park and existing satellite facilities. Since admissions and betting handle for Indianapolis Downs is unknown at this time, no estimates are provided for the impact of pull tab sales at its facilities.

County Revenue Sharing: The annual distribution of Pull Tab Wagering Tax revenue to the Horse Racing Commission would replace Riverboat Wagering Tax revenue otherwise distributed to the Commission. The distribution from the Riverboat Tax is set at \$26 M annually. Annually, the Riverboat Tax revenue that is replaced would be distributed based on population to the counties that do not have a riverboat, horse racetrack, or satellite facility selling pari-mutuel pull tabs. Cities and towns would receive a pro rata share of each county's money based on population.

Purse Money/Breed Development Fee: The bill imposes a Purse Money and Breed Development Fee on pari-mutuel permit holders who sell pull tabs. The fee would be imposed on the "net receipts" from such sales defined as the adjusted gross receipts from pull tab sales minus the amount paid in wagering tax on pull tabs. The fee would be imposed as specified in the table below beginning the third year in which the permit holder sells pull tabs. Revenue from the fee would be distributed to the Horse Racing Commission for purses and breed development. The revenue impact is based on potential pull tab receipts at Hoosier Park and its Marion County satellite facility.

Year of Selling Pull Tabs	Fee	Revenue (\$)
3 rd year	2%	\$1.9 M
4 th year	2%	\$1.9 M
5 th year	5%	\$4.6 M
6 th year	7%	\$6.5 M
7 th year	8%	\$7.4 M
8 th year	9%	\$8.4 M
9 th year	10%	\$9.3 M
10 th year and each year thereafter	12%	\$11.1 M

Annual Supplemental Fee: The bill requires the Horse Racing Commission to impose an annual fee of \$250,000 on each horse racetrack owner. The fee paid by Hoosier Park is to be used for training facilities and capital improvements, including stall improvements. The fee paid by Indianapolis Downs is to be used to promote live racing at county and 4-H fairgrounds.

License Fees: The bill provides for a pari-mutuel pull tab license and a pari-mutuel pull tabs supplier's

license. The initial pull tab license would be effective for 5 years. The annual renewal fee would be determined by the Indiana Gaming Commission. The annual fee for a supplier's license would be \$5,000. The bill requires a person to obtain a supplier's license to furnish pari-mutuel pull tab terminals or devices in Indiana. The license fee revenue will be minimal as there will be only two pull tabs licensees and the number of suppliers necessary to provide 2,800 pull tab terminals to four facilities is minimal.

Existing Pari-mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance to live horse racing at Hoosier Park. The total impact could potentially total \$78,000 to \$166,000 annually. Under current law, 50%, or \$39,000 to \$83,000, would be distributed to the state General Fund.

Orange County Riverboat: The bill would eliminate the Patoka Lake riverboat license and instead authorize licensing a casino located in Orange County within a Historic Preservation District that consists solely of the real property owned by the historic resort hotels in French Lick and West Baden. The owner's license for the casino would be issued to the Historic Preservation District operated jointly by French Lick and West Baden. The District would contract with a person holding an Operating Agent's License to operate and manage the casino. The Operating Agent's License would be issued by the Indiana Gaming Commission. The bill limits the Orange County casino to a total of 500 electronic gaming devices (EGD), with no limit placed on table games. An Orange County casino with 500 EGDs is estimated to generate about \$14.0 M in additional annual revenue from the Riverboat Wagering Tax. Under the bill, 24% of the Wagering Tax revenue from the Orange County casino would be distributed to the state General Fund. This distribution is estimated to total \$3.36 M annually beginning in FY 2005.

The revenue impact is based on the average Wagering Tax receipts in recent years from (1) the three smallest riverboats with respect to casino square feet and gaming positions and (2) the three riverboats having the lowest admissions totals. This average is also adjusted to account for the 500 EGD limit at the Orange County casino. The casino likely will not have an impact until late in FY 2004 or FY 2005. This conclusion is based on the start-up times for the ten existing riverboat casinos as well as the fact that the bill would require voters in French Lick and West Baden to pass a referendum allowing riverboat gambling in the county. It has taken an average of 17 months from the time the certificate of suitability was issued by the Gaming Commission for the ten existing riverboats to commence gaming operations. (The certificate of suitability is issued by the Gaming Commission to a person who has been chosen to receive a Riverboat Owner's License.)

License Fees: The bill also would affect revenue to the state from the Occupational License Fee and would establish an Operating Agent's License Fee. The bill excludes the Historic Preservation District from paying application and license fees relating to the Owner's License. Given that there are already a number of licensed supplier's operating in the state, supplier's licenses may not be affected by the bill. License fee revenue is distributed to the State Gaming Fund. The Occupational License Fee is imposed on individuals employed in certain riverboat gambling occupations. The Application Fee is dependent on the type of license obtained, ranging from \$75 to \$1,000. The Annual License Fee is also dependent on the type of license obtained, ranging from \$25 to \$100. Revenue from the Application Fee totaled approximately \$1.26 M in FY 2001; and revenue from the Annual License totaled \$202,975 in FY 2001. There would be one operating agent licensed for the Orange County casino. The bill requires an application fee to be determined by the Gaming Commission for an Operating Agent's License. The initial license fee for an operating agent is \$25,000, with an annual renewal fee of \$5,000.

Taxation of Lottery Winnings: The bill scales back the Adjusted Gross Income (AGI) Tax exemption for

winnings on Hoosier Lottery tickets. Under current law, all winnings on Hoosier Lottery tickets are exempt from AGI Tax. Under the bill, prize money received from a winning Hoosier Lottery ticket is taxable if the total value of the prize is \$1,200 or more. In addition, the bill requires that the AGI Tax due on taxable lottery prizes be withheld and remitted to the Department of Revenue even if federal withholding is not required. The change in the lottery winnings exemption is estimated to generate about \$4.1 M annually in income tax revenue beginning in FY 2003. This estimate is based on the average of annual winnings totals for prizes of \$1,200 or more awarded by the Hoosier Lottery from 1999 to 2001.

Under the bill, revenue from the tax on lottery winnings must be segregated in a state employee pay raise account in the state General Fund. The account is non-reverting. Money in the account is to be used to provide a 2% pay increase for employees of state agencies on July 1, 2002, except employees whose salary is set by statute or employees of the state judicial department, state legislative department, a political subdivision, or a state educational institution.

Withholding on Gambling Winnings: The bill requires riverboat casino owners to withhold and remit to the Department of Revenue (DOR) Adjusted Gross Income (AGI) Tax on gambling winnings if the net amount or value paid, after deducting the amount wagered, is at least \$600. The bill requires withholding even if federal tax withholding is not required. The bill requires payment of withholdings on a next (business) day basis. This requirement is estimated to generate about \$15 M annually in income tax revenue from nonresidents gambling at Indiana riverboats beginning in FY 2003. This estimate is based on (DOR) data from federal withholding statements for gambling winnings. The statements were filed by Indiana riverboats during 1999 and 2000 for nonresident gamblers winning at least \$600.

Note: The revenue impact of the bill could be reduced since it requires withholding when the net winnings (winnings - wager) are at least \$600. According to the DOR, the federal reports are based on gross winnings of \$600 or more. However, the revenue impact also could be increased as the bill may require withholding on some gambling winnings that are not reported for federal tax purposes. Such winnings would not be reflected in the federal reports data.

Cigarette Taxes: This bill increases the Cigarette Tax on packs of 20 cigarettes to \$0.55 from the current rate of \$0.155 and adjusts the statutory percentage distribution of Cigarette Tax revenue. Based on data from the *November 14, 2001, Revenue Forecast Update*, the proposed Cigarette Tax rate and distributional changes will generate an additional \$269.2 M in FY 2003, \$294.7 M in FY 2004, and \$296.4 M in FY 2005. The additional revenue is to be deposited into the Property Tax Replacement Fund.

Re-institution of Property Tax Add Back: The bill temporarily re-institutes the property tax add back for property taxes paid on non-agricultural property. The add back is re-instituted for tax years 2002, 2003, and 2004. The revenue gain from this temporary change is estimated to total \$86.4 M in FY 2003, \$87.0 M in FY 2004, and \$66.5 M in FY 2005. Prior to tax year 1999, business property taxes deducted for federal tax purposes were added back on Corporate and Individual Income Tax returns; and financial institution property taxes were added back on Financial Institutions Tax returns. The estimate is based on: (1) prior simulation estimates of the property tax add back on Corporate and Financial Institutions returns that incorporates an estimate of the add back on Individual Income Tax returns based on 1998 and 1999 tax year data; and (2) prior estimates based on corporate and financial institutions simulations and individual return data. The latter are currently utilized for purposes of adjusting income tax forecasts. The estimates for FY 2004 and FY 2005 reflect percentage reductions in business property taxes under this bill. Estimates of the add back attributable to agricultural property are based on projected agricultural property tax levies and frequency counts of Indiana taxpayers filing federal Schedule F - Profit or Loss from Farming.

Fee Changes

Property Tax Representative Licensing Fee: Under current law, the Department of Local Government Finance (DLGF) must adopt rules that govern the practice of tax representatives before the Indiana Board of Tax Review and the DLGF. As part of those rules, this bill would require the DLGF to establish a licensing program for tax representatives. A license applicant or license holder would be required to pay a \$50 annual fee which would be deposited into the state General Fund. The license and the associated fee would not apply to the property owner, full-time employees of the property owner, representatives of local taxing units, CPAs, or attorneys.

According to the State Tax Board, there are currently between 500 and 1,000 tax representatives in the state who would be subject to the license program. The \$50 annual license fee imposed by this provision would generate approximately \$25,000 to \$50,000 annually beginning in FY 2003.

Non-Governmental Employee Continuing Education Fee: Under current law, the DLGF must conduct a minimum of four continuing education sessions each year for the benefit of local assessing officials. This bill would require an individual who is not a local assessing official or their employee or an employee of the DLGF who attends a session to pay a fee. The fee would equal \$50 for a half-day session or \$100 for a full day. According to the State Tax Board, an average of 57 non-government individuals attend each of the four full-day sessions annually. Assuming continued attendance, the fee imposed under this provision would generate about \$23,000 per year from these individuals beginning in FY 2003.

IDEM Fees: This bill allows the Air Pollution Control Board, Water Pollution Control Board, and Solid Waste Management Board to establish annual fees for active water system permits, municipal separate storm sewer system permits, and National Pollutant Discharge Elimination System (NPDES) general permits effective January 1, 2003. Fees for such permits and any delinquency charges for nonpayment are payable to IDEM for deposit in the Environmental Management Permit Operation Fund. The bill increases the annual permit fees for various NPDES permits. It also increases the following solid waste fees: (1) application fees for solid waste permits; (2) annual operation fees; and (3) disposal fees. The bill also increases the following hazardous waste fees: (1) application fees for hazardous waste permits, and (2) annual operation fees.

Wastewater, solid waste, and hazardous waste fees are increased by 20%. An amount equal to 91.666% of the fee revenue for fees generated under IC 13-18-20 (wastewater), IC 13-20-21 (solid waste), and IC 13-22-12 (hazardous waste) are to be deposited into the Environmental Management Permit Operation Fund and 8.334% are to be deposited in the State General Fund. However, for the period beginning July 1, 2001, and ending June 30, 2003, all fee increases (for a six-month period from January 1, 2003 (applying the effective date), to June 30, 2003) must be used exclusively for total operating expenses of the Indiana Department of Environmental Management.

The wastewater, solid waste, and hazardous waste permit application and annual operation fee revenue increase estimates are as follows:

- * Wastewater: \$0.367 M annually to IDEM, and \$0.367 M to the General Fund.
- * Solid Waste: \$0.3 M annually to IDEM, and \$0.3 M annually to the General Fund.
- * Hazardous Waste: \$0.167 M annually to IDEM, and \$0.167 M to the General Fund.

The above estimates are based on 20% increase to the FY 2000 fee collections in those programs. The bill increases the amount to be collected by approximately \$834,000. In addition, approximately \$834,000 will

now go the State General Fund as a result of the provision which would deposit 8.334% into the State General Fund except for the six-month period beginning January 1, 2003, and ending June 30, 2003. Fees collected during this period, an estimated \$417,000, could be used by IDEM for operating expenses.

Another provision of the bill directs the fee revenue generated under IC 13-16-1-8 (new fees for public water systems, stormwater permits, and NPDES general permits) to be deposited as follows: 50% in the Environmental Management Permit Operation Fund and 50% in the State General Fund.

The fee schedule for public water supplies authorized by this bill can generate no more than \$2 M annually. Of this amount, 50% would go to the State General Fund. The net impact is a reduction of approximately \$1 M for IDEM.

The new stormwater fee schedule authorized by this bill can generate no more than \$0.5 M annually. Of this amount 50% will go to the State General Fund. The net impact is a reduction of approximately \$0.250 M for IDEM.

The proposal adds several provisions to allow money in the Underground Petroleum Storage Tank Excess Liability Trust Fund (ELTF) to be used to pay the expenses incurred in operating and administering the motor vehicle inspection and maintenance program. The expenses are currently paid from the General Fund, so there will not be a fiscal impact upon IDEM. However, it does help the State's General fund as it would provide \$7.534 M in reversions to the State General Fund.

State Police Fees: (A) For supplying copies of accident reports, the State Police Department currently charges \$3 for each report. The bill provides that the Department may, by rule, charge a fee in an amount greater than \$3 for each report. This fee is deposited in the "accident report account." The fee generated about \$108,000 under the current fee structure in FY 2001. (B) Under IC 20-9.1-4-5, the State Police Department is required to inspect all special purpose and public and private school buses that transport its pupils. The bill authorizes the State Police Department to impose fees for those inspections. In FY 2000, the Department completed 13,947 school bus inspections, 2,121 random or spot inspections, and 647 twelve-year-old or older school bus inspections. In addition, the Department made 450 to 500 special purpose bus inspections. In FY 2001, the Department conducted over 17,700 inspections; roughly 500 more than in FY 2000. This bill authorizes the State Police Department to impose fees for these inspections. (C) Current statute also provides for the collection of a \$3 fee to defray the cost of processing a request for inspection of a limited criminal history and \$7 to defray the cost of processing a request for release of a limited criminal history. This bill allows the State Police to increase the level of fees by rule. This fee generated about \$1.753 M in FY 2001 under the current fee structure. The State Police conducted 265,124 limited criminal history checks in 2001. The additional revenues from these provisions will depend upon administrative action.

This bill waives the fee for the parent locator service of the Child Support Bureau of the Division of Family and Children. The State Police are not able to segregate the number of limited criminal history checks performed for the parent locator service. However, staff in the Child Support Bureau indicate it rarely, if ever, requests limited criminal history checks. The reduction in revenue due to this provision is expected to be minimal.

Tobacco Funds: The bill appropriates funds from the investment trust portion of the Tobacco Master Settlement Agreement Fund for the Office of Medicaid Policy and Planning. The money appropriated is to be used to meet Medicaid expenditure obligations due to court settlements. The transfer and expenditure of the funds are subject to Budget Agency approval and the review of the State Budget Committee. The level

of funding required is not included in the Medicaid budget and is contingent upon the ultimate size of the class eligible to participate in the court settlement and the extent to which individuals incurred actual expense.

Funding for the Minority Health Initiatives Fund: The bill also shifts 0.1% of the total revenue generated from the Cigarette Tax to the Minority Health Initiatives Fund created by this bill. Based on data from the *November 14, 2001, Revenue Forecast Update*, this provision will provide the fund with approximately \$405,000 in FY 2003 and \$422,000 in FY 2004.

Headquarters Relocation Tax Credit: Taxpayers relocating a corporate headquarters could qualify for the Headquarters Relocation Tax Credit. The credit could potentially result in a reduction in state tax revenues, to the extent that qualifying relocations would have occurred in the absence of the credit. Since the credit would be available to companies maintaining a headquarters in another state as of January 1, 2004, the impact would begin in FY 2005. Such a revenue loss also could potentially be offset by increased Adjusted Gross Income and Sales tax revenue generated from the new employment and business activities of the corporate headquarters.

Under the bill, a taxpayer may take a credit equal to 50% of the taxpayer's relocation costs in a given tax year. In order to receive the credit, the taxpayer must relocate the headquarters of a corporation from a location outside of Indiana to Indiana, have at least 250 employees, and have had annual worldwide revenues of at least \$25 B in the previous year.

The credit would be applicable to the taxpayer's state tax liability for any of the following taxes: State Gross Retail and Use Tax, Gross Income Tax, Adjusted Gross Income Tax, Financial Institutions Tax, and Insurance Premiums Tax. The credit would not be allowed to reduce a qualifying taxpayer's state tax liability below the amount of the taxpayer's state tax liability in the tax year immediately preceding the tax year that the taxpayer first incurred relocation costs. Pass-through entities could qualify for the credit. If a pass-through entity does not have state tax liability as listed above, a shareholder, partner, or member of the pass-through entity is entitled to the credit equal to the percentage of the pass-through entity's distributive income multiplied by the credit determined for the entity in a taxable year.

The amount of credit awarded to a qualifying taxpayer would be divided equally over ten years beginning in the year the credit was granted. If the amount of credit exceeds a taxpayer's state tax liability for a tax year, the taxpayer may carry over excess credit to future tax years. The amount of the credit carryover from a taxable year would be reduced to the extent that the carryover is used by the taxpayer to obtain credit in future tax years.

Certified Technology Parks: The bill allows a local redevelopment commission operating a certified technology park to capture up to \$5 M over the life of the park in incremental revenue from the state income and sales taxes generated in the park (income tax revenue paid by employees working in the park and sales tax revenue paid by businesses in the park, in excess of the base amounts for each tax calculated before the establishment of the park).

Financial Institutions Tax: The bill changes the definition of unitary group under the Financial Institutions Tax (FIT). This change could potentially increase the taxable income of certain financial institutions and, as a result, increase revenue from the FIT. The revenue increase is currently indeterminable. Since the change is retroactive to January 1, 2002, the impact of the bill is expected to begin in FY 2003.

Under the FIT law, unitary business operations are financial institutions made up of multiple business entities that may be corporations, partnerships, limited liability companies, or trusts. Unitary business operations are further defined as being of mutual benefit, dependent upon, or contributory to the various entities in transacting the business of a financial institution. The FIT is imposed on these multi-entity financial institutions based on adjusted gross income apportioned or attributable to business transacted by the financial institution in Indiana. The unitary group definition is utilized to attribute income from an out-of-state business entity to a financial institution operating in Indiana when the two entities are engaged in unitary business operations. However, under the current unitary group definition, a subsidiary business entity that does not transact business in Indiana can't be included in a unitary group. Thus, the income of that subsidiary can't be attributed to a financial institution operating in Indiana under the FIT. The bill changes the "unitary group" definition to include a subsidiary with which a financial institution engages in unitary business operations regardless of whether the subsidiary transacts business in Indiana. Revenue from the FIT totaled approximately \$55.6 M in FY 2001. Approximately \$12.8 M in FIT revenue was distributed to the state General Fund in FY 2001.

Explanation of Local Expenditures:

Budget Deficit Reduction Provisions:

Orange County Riverboat: The bill would prohibit the Indiana Gaming Commission from issuing an Owner's License for an Orange County riverboat until voters in French Lick and West Baden pass a referendum allowing riverboat gambling in the county. The bill contains provisions allowing the referendum to be held at a primary, general, or special election.

The bill would require the Orange County riverboat casino to be owned by and located in a historic preservation district that consists of the real property owned by the historic resort hotels in French Lick and West Baden. The District would be established under an interlocal agreement between French Lick and West Baden and would be required to contract with a person to operate the riverboat casino. The bill would require the Commission to hold public meetings and to keep a public record of its resolutions, proceedings, and actions. The Commission would be subject to laws relating to the deposit of public money and would have to deposit money under the advisory supervision of the State Board of Finance. The Commission also would be subject to examination by the State Board of Accounts. The bill establishes a Community Trust Fund for the District. The bill requires the net income derived from the riverboat after all operating expenses to be deposited in the Fund. The bill requires that the Commission manage and develop the Fund and the assets of the Fund. It also provides that expenses of administering the Fund are paid from the Fund. The Commission has the sole authority to allocate money from the Fund for: (1) the preservation, restoration, maintenance, operation, and development of the French Lick and West Baden historic resort hotels; and (2) infrastructure projects and other improvements in the surrounding community. The bill requires that allocations to the two hotels be divided equally.

Expenditure Limits: Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Certified Technology Parks: After entering into the technology park agreement with the IDOC, a redevelopment commission must submit to the Department of State Revenue (DOR) certified copies of the IDOC designation of the technology park and the technology park agreement entered into with IDOC, as well as a complete list of the employers in the park and information on streets in the park. The DOR is then

required to calculate the base amounts for income and sales taxes generated in the technology park.

If a redevelopment commission designates a certified technology park as a TIF area, it must publish notice of this action and of the public hearing on the subject and accept written remonstrances on this action. The bill also requires that the commission file information regarding the technology park with each taxing unit that levies property taxes in the park. If, after holding a public hearing, the redevelopment commission designates the TIF area, a person who submitted a written remonstrance may appeal the commission's decision to the circuit or superior court of the county.

Explanation of Local Revenues:

Tax Restructuring Provisions:

Homestead Credit Increase: The increase in Homestead Credits would not affect local revenues. Homeowners' property tax bills would be reduced by the additional credits, but the state would reimburse local taxing units for the lost revenue.

Local Option Income Tax Distributions: Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded Homestead Credit up to an additional 8%. COIT revenue that is not used to fund the local Homestead Credit is distributed to civil taxing units (counties, townships, cities, towns, libraries, and special taxing units). A reduction in the net property tax levy would reduce the cost of providing the local Homestead Credit, thereby directing more COIT revenue to civil taxing units.

Personal Property Rules: The Department of Local Government Finance has promulgated new rules governing the assessment of business and utility personal property. These new rules along with their new valuation schedules went into effect for property assessed on the March 1, 2002, assessment date with taxes paid in CY 2003. On average, these rules would have raised business personal property assessments by 34.3% and reduced utility personal property assessments by 5%. This bill would negate the new rules and require personal property to be assessed under the rules in place on January 1, 2001. The only exception to the old rules is that the 30% valuation floor for depreciable property will be removed. The overall effect of using both the old business and old utility personal property rules would be a reduction of the expected AV base. This AV reduction would cause an increase in the property tax rates. These rates were used in all of the estimates made elsewhere in this note.

Inventory AV Phaseout: Under this bill, inventory assessed value will be phased out over a four-year period through use of a tax deduction beginning with taxes paid in 2004. The inventory AV will be fully phased out beginning with taxes paid in 2007. The deduction is estimated at \$3.9 B AV for taxes paid in CY 2004 and rises to about \$17.1 B AV for taxes paid in 2007. The elimination of inventory AV would cause the property tax burden to shift from inventory property to all other types of property through an increased tax rate. This was considered in all of the estimates made elsewhere in this note.

Property Tax Replacement Credit: Total local revenues would not be affected by the change to PTRC. Taxpayers' property tax bills would be reduced by the additional credits, but the state would reimburse local taxing units for the lost revenue.

School General Fund and Transportation Fund Property Tax Levies: Gross school tax levies would not be affected by this proposal. Instead, the state would pay these credits from the PTRF. Since gross levies and gross rates are not affected, there would be no change in the distribution of miscellaneous revenues including

Excise Tax, Financial Institutions Tax, and local property tax relief credits from CAGIT proceeds.

Reassessment Delay: Under this bill, the changes in valuation on real property due to the March 1, 2002, reassessment would be delayed by one year until March 1, 2003. These assessments are payable in CY 2004. This was considered in all of the estimates made elsewhere in this note.

Shelter Allowance/Standard Deduction: Under the new real property assessment rule recently promulgated by the DLGF, homeowners would receive a shelter allowance against the assessment of their principal residence. These allowances vary by county, ranging from \$16,000 to \$22,700 and averaging \$19,000. Under this proposal, the shelter allowance would be replaced by a \$24,000 increase in the standard deduction. This deduction would change from \$6,000 to \$30,000. The amount of the deduction that exceeds the shelter allowance (\$5,000) would cause some of the property tax burden to shift from residential property to all other types of property through an increased tax rate. This was considered in all of the estimates made elsewhere in this note.

Assessment of Rental Housing: Under this proposal, assessing officials would be directed to consider all relevant information in the assessment of rental housing, regardless of whether the information was presented to the township assessor prior to the assessment of the property.

The bill would limit assessors to the use of the capitalization of income method on low income rental housing and would prohibit consideration of tax credits or government subsidies in determining the value of this property. The restrictions on the method of assessment and on the income considered in the assessment of low income rental housing would reduce assessed values statewide by an estimated \$50 M. The AV reduction would cause a shift of the property tax burden from the owners of low income rental housing to all taxpayers in the form of an increased tax rate.

Multi-Dwelling Rental Unit Deduction: Under this proposal, rental property would be eligible for a property tax deduction equal to \$5,000 for each rental unit that is part of a multi-family dwelling complex. According to Census figures there were about 440,000 rental dwellings in buildings containing at least two dwellings. At \$5,000 each, the total statewide deduction is estimated at about \$2.2 B. The deduction would cause some of the property tax burden to shift from rental property to all other types of property through an increased tax rate. This was considered in all of the estimates made elsewhere in this note.

Tax Increment Financing: Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the surrounding taxing district's tax rate. Since the gross property tax rate will not be reduced by the credits in the bill, TIF districts' gross property tax receipts would not be adversely affected by the proposal. However, the effects of the impending reassessment (current law) on assessed values could cause TIF proceeds in some TIF areas to be reduced.

This bill would permit a TIF district's governing body to impose a special assessment on the property in the TIF area in order to meet the district's obligations if the change in assessment rules results in a revenue amount too small to meet obligations. The special assessment would be limited to the lesser of the amount still needed to meet obligations or the proceeds from a 10% tax rate increase. In addition, the DLGF may adjust the base AV in the allocation area.

Renter's Deduction: The bill increases the renter's deduction for purposes of the Adjusted Gross Income Tax beginning in tax year 2004. Because these changes will decrease Indiana taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result of the bill, experience an

indeterminable decrease in revenue from these taxes.

Budget Deficit Reduction Provisions:

Property Tax Add back/Lottery Winnings Exemption: The bill re-institutes the property tax add back in tax years 2002, 2003, and 2004. The bill also scales back the Adjusted Gross Income Tax exemption for winnings on Hoosier Lottery tickets beginning in tax year 2003. Because these changes will increase Indiana taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable increase in revenue from these taxes.

Riverboat Gaming: The bill authorizes flexible boarding on riverboat casinos and increases the Riverboat Wagering Tax. The bill also eliminates the Riverboat Admission Tax and replaces local distributions from the Admission Tax with Riverboat Wagering Tax distributions. Under current law unchanged by the bill, 25% of the Wagering Tax revenue collected from each riverboat is distributed to local units. Under the bill, the local share from a riverboat would be distributed as follows: (1) 25% to the county in which the riverboat is located; (2) 2.5% to the convention and visitor's bureau of that county; and (3) the remainder either to (a) the city where the riverboat is located if it is on Lake Michigan or is the largest city of an Ohio River county or (b) the county where the riverboat is located. The bill is estimated to generate \$86.4 M in FY 2003, \$89.3 M in FY 2004, and \$91.1 M in FY 2005 for Admission Tax replacement to local units. In addition, the bill is expected to generate incremental Wagering Tax revenue to local units totaling about \$182,000 in FY 2004 and \$1.46 M in FY 2005.

Pari-mutuel Pull Tabs: The bill distributes 30% of the Pari-mutuel Pull Tab Wagering Tax revenue to local units. Under the bill, pull tab tax revenue generated at the Marion County satellite facilities of both racetracks would be distributed as follows: (1) 41.7% to Indianapolis; (2) 20.8% to the Indianapolis Housing Trust Fund; (3) 12.5% to Marion County; and (4) 25% to Marion County school corporations. Pull tab tax revenue generated at Hoosier Park would be distributed as follows: (1) five-sixths to Anderson and (2) one-sixth to Madison County school corporations. Pull tab revenue generated at Indianapolis Downs would be distributed to Shelby County. The local share of pull tab tax revenue relating to Hoosier Park and Hoosier Park's Marion County satellite facility is estimated to total \$13.4 M annually beginning in FY 2004.

Orange County Riverboat: The following Wagering Tax distributions from the Orange County riverboat are made to local units: (1) 35% to the French Lick/West Baden Historic District; (2) 5% each to French Lick and West Baden; and (3) 2% each to the French Lick and West Baden town tourism commissions. The local distribution is estimated to total \$10.64 M beginning in FY 2005.

See *Explanation of State Expenditures*, above, regarding use of Motor Vehicle Highway Account funds in the funding of the State Police.

Hospital Care for the Indigent / County Support for Hospitals Program: The local property tax levy and the hospital payment component of the Hospital Care for the Indigent Program (HCI) is replaced by the new County Support for Hospitals levy and program (CSH). The amount of revenue raised by the property tax levy does not change; the revenue is distributed differently under the new program. Under the CSH program, counties will be responsible for distributing funds directly to the hospitals that provide services to indigent patients. The county will then be responsible for certifying to the Office of Medicaid Policy and Planning (OMPP) that the distributions have been made to the hospitals. The OMPP is required to seek a State Medicaid Plan amendment from the Centers for Medicare and Medicaid Services (CMS) in order to

implement this provision. With CMS approval, the state may continue to leverage the county funds as qualifying expenditures for federal Medicaid match. The level of funding for local hospitals may shift somewhat: most hospitals will receive funding at the level provided in FY 2001 under the HCI Program. Two counties, Delaware and Marion, will see funding shortfalls under the CSH program from the level of funding received under the HCI program. The bill provides a methodology for addressing this issue but does not specify a source of funding to provide a hold harmless for the hospitals in these two counties. The HCI Program is left in place (with the exception of the levy) so that the state may continue to process the claims of providers of indigent care that are not hospitals. The expenditures for this program component are capped at \$2 M annually. The source of funds for these expenditures is not specified in the bill.

Headquarters Relocation Tax Credit: If a corporate headquarters locates in a county with a local option income tax, there could be additional revenue generated. The location of a new business entity in the county could also increase the assessed valuation of property and subsequently reduce the property tax rates of other tax payers in the area.

Certified Technology Parks: The bill allows a local redevelopment commission to establish a certified technology park encompassing all or part of the territory under the commission's jurisdiction. The bill allows a redevelopment commission operating a certified technology park to designate the park as a TIF district. This would allow the commission to capture incremental property tax revenue generated from taxable property in the park (revenue from assessed property valuation in excess of the base assessed value calculated before the establishment of the park). The bill also allows a redevelopment commission operating a technology park to capture up to \$5 M over the life of the park in incremental income and sales tax revenue generated in the park. This would include revenue from local option income taxes (CAGIT, COIT, and/or CEDIT). The bill does not specify a capture limit for incremental property tax revenue. However, if the redevelopment commission determines that incremental property tax revenue in a year will exceed the amount necessary to pay the costs of the technology park, the excess incremental tax revenue may be allocated to local units. The bill permits the redevelopment commission to pay a property tax replacement credit against the property tax in the "tiffed" property. This credit would reduce the amount of TIF proceeds received by the commission.

Financial Institutions Tax: The bill makes a definition change that could potentially increase the taxable income of certain financial institutions and, as a result, increase revenue from the FIT beginning in FY 2003. (For discussion of change see *Explanation of State Revenues*, above.) The revenue increase is currently indeterminable. Revenue from the FIT totaled approximately \$55.6 M in FY 2001. Approximately, \$42.8 M in FIT revenue was distributed to the local units in FY 2001. This provision will not affect the amount of the distribution to local units of governments which is set in statute.

State Agencies Affected: Auditor; Department of Education; Department of State Revenue; State Budget Agency; Department of Local Government Finance (State Tax Board); Treasurer; Department of Workforce Development; Department of Environmental Management; Family and Social Services Administration; Indiana Department of Commerce.

Local Agencies Affected: School corporations; Local taxing units; Counties with a local option income tax; Local redevelopment commissions; TIF districts; County auditors.

Information Sources: Department of State Revenue; Department of Education; State Tax Board (Department of Local Government Finance), State Police, Department of Environmental Management; Revenue Technical Committee's November 14, 2001, Revenue Forecast; Property Tax Analysis, various

years, Local Government Database- State Board of Tax Commissioners (Department of Local Government Finance); School Finance Database; Dan Bastin, Auditor of State's Office; National Science Foundation, *Survey of Industry Research and Development*; Statistical Abstract, 2000, U.S. Bureau of the Census; U.S. Bureau of Labor Statistics, *1995 Survey of Employer-Provided Training: Employer Results*, July 10, 1996; Amy Brown, Legislative Director for the Family and Social Services Administration, Allison Becker, FSSA Division of Disability, Aging, and Rehabilitative Services; Wes Bruce, Department of Education.