

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6907
BILL NUMBER: SB 192

DATE PREPARED: Jan 11, 1999
BILL AMENDED:

SUBJECT: Elimination of School General Fund Property Taxes.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State & Local

| STATE IMPACT | FY 1999 | FY 2000 | FY 2001 |
|--------------------------------|----------------|----------------------|----------------------|
| State Revenues | | | |
| State Expenditures | | 161,000,000 | 495,000,000 |
| Net Increase (Decrease) | | (161,000,000) | (495,000,000) |

Summary of Legislation: This bill eliminates the authority of a school corporation to impose a school General Fund property tax levy for the general operation and maintenance of the school corporation beginning in 2004. It provides a property tax replacement credit for school General Fund property taxes in 2000 through 2003 beginning at 20% and increasing by 20% each year. It terminates the authority of: (1) Lake County to impose a property tax for a County Supplemental School Distribution Fund; (2) Dearborn County to impose a property tax for a County School Distribution Fund; and (3) a school corporation in Lake County to impose a property tax for a Supplemental School Operating Reserve Fund.

The bill continues the authority of a school corporation to impose a school General Fund property tax levy for certain public libraries, nursery schools, historical societies, art associations, cultural institutions, public playgrounds, and the Children's Museum in Marion County.

This bill provides an alternate method for calculating the amount of financial institution taxes and auto excise taxes to be distributed to school corporations after the elimination of the school General Fund property tax.

This bill also recodifies provisions of current law concerning emergency loans to school corporations and the duty of a school corporation to raise sufficient property tax revenues to repay outstanding bonds and other debt payable from the Transportation Fund, Capital Projects Fund, or Debt Service Fund.

This bill provides that the maximum amount of money that a school corporation can authorize for an emergency loan to its school General Fund, be computed based on the amount of money available in the school General Fund rather than on the amount of property tax revenue in the school General Fund. It also makes other related and conforming changes.

Effective Date: July 1, 1999; April 1, 2002; July 1, 2002; January 1, 2003; January 1, 2004; March 1, 2004.

Explanation of State Expenditures: Under current law, the State pays property tax replacement credits (PTRC) in the amount of 20% of the school General Fund levies, with some exceptions. The state would no longer have a PTRC obligation on school General Fund levies under this proposal, beginning in CY 2004. PTRC on school General Fund levies is estimated at \$372.7 million in CY 2004 and \$387.4 million in CY 2005.

State homestead credits would also be reduced by the elimination of school General Fund levies. State homestead credit on school General Fund levies is estimated at \$31.6 million in CY 2004 and \$32.9 million in CY 2005.

The total reduction of state expenditures under this proposal is projected at \$404.3 million in CY 2004 and \$420.3 million in CY 2005 or \$202.2 million in FY 2004 and \$412.3 million in FY 2005. Both PTRC and state homestead credit are paid from the Property Tax Replacement Fund which is annually supplemented by the State General Fund.

Under this proposal, the General Assembly declares that sufficient tax revenues and distributions would be provided to school corporations each year beginning in CY 2004 so that each corporation would receive at least as much revenue as it did in the previous year. Based on the estimated CY 2003 statewide school General Fund gross levy, the minimum replacement revenue would amount to approximately \$1,803 million. This amount, reduced by the savings from the current PTRC and state homestead credit obligations results in a net guarantee of approximately \$1,414 million for CY 2003. For FY 2004, the net guarantee is estimated at \$707 million.

ADDITIONAL PROPERTY TAX REPLACEMENT CREDIT

Under the provisions of this bill, the State would be required to provide additional PTRC on school General Fund levies beginning in CY 2000 and ending in CY 2003. The following table illustrates the amount that the State would be required to distribute in addition to current PTRC obligation under State law:

| CALENDAR YEAR | PERCENTAGE OF SCHOOL G.F. LEVY | ADD PTRC AMOUNT |
|----------------------|---------------------------------------|------------------------|
| 2000 | 20% | \$321 M |
| 2001 | 40% | \$668 M |
| 2002 | 60% | \$1,040 M |
| 2003 | 80% | \$1,442 M |

The additional PTRC would amount to approximately \$161 M in FY 2000, \$495 M in FY 2001, \$854 M in FY 2002, \$1,241 M in FY 2003 and \$721 M in FY 2004.

STATE GENERAL FUND SUMMARY TABLES

The following table illustrates a fiscal year projection of the impact to the State General Fund regarding the additional PTRC provision of this bill, as well as the potential State impact regarding the school General Fund guarantee provision of this bill.

**Additional PTRC Impact to State G.F.
School G.F. Guarantee (millions)**

| Fiscal Year | Additional PTRC Impact to State G.F. | School G.F. Guarantee |
|--------------------|---|------------------------------|
| FY 2000 | \$161 | |
| FY 2001 | \$495 | |
| FY 2002 | \$854 | |
| FY 2003 | \$1,241 | |
| FY 2004 | \$721 | \$707 |
| FY 2005 | | \$1,414 |
| FY 2006 | | \$1,414 |
| FY 2007 | | \$1,414 |
| FY 2008 | | \$1,414 |

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill eliminates the property tax levy for school General Funds beginning in the year 2004. Statewide, school General Fund gross levies are estimated at \$1,874 M in CY 2004 and \$1,947 M in CY 2005.

The bill also eliminates the County School Distribution Fund and the Supplemental School Operating Reserve Fund in Lake County and the County School Distribution Fund in Dearborn County. The levy for the Lake County School Distribution Fund amounted to \$3,570,119 in 1998 and the Dearborn County levy was \$560,033 (school corporations in these counties would lose associated revenue under this provision). The Lake County Supplemental School Operating Reserve Fund is not currently in use.

Although this bill eliminates school General Fund levies for the general operation and maintenance of the school corporation, it would allow school corporations to continue to levy a school General Fund property tax for certain public libraries, nursery schools, historical societies, art associations, public playgrounds, and the Indianapolis Children's Museum.

Beginning in the CY 2004, school corporations that successfully appeal to the School Property Tax Control Board could receive emergency relief from the state in the form of grants, loans, authority to borrow money, advances, permission to use unobligated balances in a construction fund, or any combination of these items.

The total amount of reduced property tax levies under this proposal amounts to approximately \$1,878 million in CY 2004 and \$1,951 million in CY 2005. However, the funding guarantee mentioned in State Expenditures provides school funding in some form at a minimum of previous year school General Fund levels.

Under current law, counties that impose the County Option Income Tax (COIT) may provide a locally funded homestead credit of up to an additional 8%. It is estimated that in CY 2004, school corporations will receive \$44 million in COIT homestead revenue to replace school General Fund levies. COIT revenue that is not used to supplement local homestead credit is distributed to counties, cities, and towns. Therefore, the \$44 million that school General Funds will receive in CY 2004 under current law would instead be distributed to counties, cities, and towns as a result of this bill.

Under current law, counties that impose the County Adjusted Gross Income Tax (CAGIT) allocate local property tax replacement credits to civil taxing units and to school corporations. It is estimated that in CY 2004, school corporations will receive \$32 million in CAGIT revenue to replace school General Fund levies. CAGIT revenue that is not used to replace school General Fund levies is distributed to counties, cities, towns, and to other school funds. Therefore, the \$32 million that school General Funds will receive in CY 2004 under current law would instead be distributed to counties, cities, towns, and to other school funds as a result of this bill.

Under this proposal, a tax increment financing (TIF) area would have the ability to place a special assessment on property in the allocation area if the elimination of the school General Fund property tax rate affects the TIF area's ability to repay obligations. The amount of the assessment would be limited to the difference between the total revenues available to pay the obligations and the total amount due on obligations entered into before April 2, 2002.

This bill provides an alternate method for calculating the amount of financial institution taxes and auto excise taxes to be distributed to school corporations after the elimination of the school General Fund property tax. The new calculation will ensure that the school General Funds will continue to receive financial institution taxes and auto excise taxes in the same amounts as they do under current law. For CY 1997, school corporations received a total of \$182,769,760 in financial institution and auto excise taxes.

The additional PTRC paid in school General Fund levies in CY 2000 - CY 2003 would reduce property taxpayers' net tax liabilities. The amount of reduction would be equal to the school General Fund Gross levy times 20%, 40%, 60%, and 80% respectively in those years. Total school General Fund revenues in CY 2000 - 2003 would not be affected by this provision.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: School Corporations.

Information Sources: Local Government and DOE SAS Databases.