LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6530 **DATE PREPARED:** Jan 20, 2000
BILL NUMBER: HB 1006 **BILL AMENDED:** Jan 18, 2000

SUBJECT: Welfare funding.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) ***Local Property Tax Relief*:** This bill provides counties with the option to use county adjusted gross income tax and county option income tax revenue for three types of property tax relief: (1) property tax replacement credits; (2) homestead credits; and (3) property tax reductions for low income homeowners. The bill allows the combined county option income tax rate and the county economic development income tax rate to be up to 1.25% to provide the relief. (This maximum already applies to the county adjusted gross income tax.)

***Riverboat Revenue*:** The bill allows local units to use riverboat revenue for property tax relief.

***Maximum Levies*:** The bill also changes the property tax levy limit provisions to: (1) provide for a maximum increase of 8% (rather than 10%) in property tax levies; and (2) provide for a minimum increase of 4% (rather than 5%) in property tax levies.

***Welfare*:** This bill eliminates the authority of a county to impose a property tax levy for the county Family and Children's Fund, beginning in 2004. It transfers responsibility for funding children's services from the county Family and Children's Funds to the state. It also eliminates the authority of a county to borrow for welfare purposes.

The bill provides that, beginning in 2000, the auditor of state shall annually transfer $50,000,000 from the Lottery and Gaming Surplus Account to the state Welfare Replacement Fund for purposes of funding children's services. It also provides that any additional necessary funding is appropriated from the state General Fund. The bill makes certain conforming amendments.

Effective Date: Upon Passage; July 1, 2000; July 1, 2003; January 1, 2004.

Explanation of State Expenditures: (Revised) ***Local Property Tax Relief*:** If, as explained in local revenues, a county chooses to provide property tax relief by reducing civil unit property tax levies then there would be a reduction in the state's expense for property tax replacement credit (PTRC) and homestead credit. PTRC and Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any reduction in these expenditures would ultimately benefit the state General Fund.

***Riverboat Revenue*:** If, as explained in local revenues, a local unit chooses to use riverboat revenues to replace property taxes then there would be a reduction in the state's expense for PTRC and homestead credit.

***Maximum Levies*:** If, as explained in local revenues, local unit levy growth is reduced by this bill then there would be a reduction in the state's expense for PTRC. The reduction would be equal to 20% of the levy reduction. PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Based on the reduction in maximum levies explained below in local revenues, the state could save approximately $3.6 M in CY 2001, $7.6 M in CY 2002, $11.9 M in CY 2003, $16.7 M in CY 2004, and $21.9 M in CY 2005 in PTRC expenses.

Since property tax bills would be reduced by this bill, the amount needed to fund the state homestead credit would also be reduced. It is estimated that the homestead credit cost would be reduced by $650,000 in CY 2001, $550,000 in CY 2002, $860,000 M in CY 2003, $1.2 M in CY 2004, and $1.6 M in CY 2005.

The total reduction in expenditures for the state under this provision are estimated at $2.1 M in FY 2001, $6.2 M in FY 2002, $10.5 M in FY 2003, $15.3 M in FY 2004, and $20.7 M in FY 2005. These estimated expenditure reductions assume that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the proposal may be slightly less than the above amounts.

***Welfare*:** This bill eliminates the county funding of family and children's services. Beginning in CY 2004, the state would be responsible for the current gross county expenditures for family and children's services which are estimated at $149.2 M for FY 2004 (first half of CY 2004) and $305.4 M for FY 2005. Child welfare expenditures experienced an average annual increase of about 20% between 1987 and 1995. The projections, above, are based on estimated continued growth in child welfare expenditures of about 5% per year reflecting the lower annual increases of the last few years.

The State already contributes to this expenditure in the form of PTRC and homestead credit. Because of the elimination of the gross property tax levies under this proposal, the state payment for PTRC and homestead credit would be reduced by about $25.6 M for FY 2004 and $52.4 M for FY 2005.

The resulting net additional state expenditures (additional expenditures less PTRC and homestead credit) are estimated at $123.6 M for FY 2004 and $253.0 M for FY 2005. **The total net cost to the state (Net expenditures less additional revenues as explained below) is estimated at $112.0 M for FY 2004 and $229.6 M for FY 2005.**

The State Welfare Replacement Fund (SWRF) is established for the purposes of paying the costs of children's services. The bill transfers $50 M annually from the Lottery and Gaming Surplus Account into this fund beginning FY 2001. The Treasurer shall invest the money in the Fund and money in the Fund does not revert to the State General Fund at the end of the State Fiscal Year**.** Amounts necessary to make the transfers are appropriated from the SWRF and, as needed, from the State General Fund.

Before the $50 M transfer proposed in this bill, the Budget Agency projects that as of June 30, 2001, the available balance of the Lottery and Gaming Surplus Account will be $290.6 M. Based on projected transfers for FY 2001 through FY 2004 there would be $200 M plus interest in the SWRF for the estimated $123.6 M in state expenditures for children's services in FY 2004.

The bill also requires each juvenile court judge to annually compile and submit a budget for children served by the probation department. The county welfare director's child services budget must include the judge's budget. The bill further prohibits the total of all approved child services budgets from exceeding the amount appropriated for that purpose. If these budgeting techniques cause spending to be curtailed then the above cost estimates would be reduced.

The bill also contains a provision that requires the state to reimburse each county for the proportionate share of operating costs of the county auditor's and treasurer's offices for support of the Family and Children's Fund. This expense would be in addition to the cost estimate provided above.

Additionally, the bill would permit the appropriation for the Division of Family and Children to be augmented from the General Fund to pay for family and children's services. The augmentation could take place only with the approval of the Governor and State Budget Agency.

Explanation of State Revenues: ***Welfare*****:** The state would receive the FIT and Motor Vehicle Excise Tax monies that were apportioned to the counties' Family and Children Funds. The estimated total revenues that would be transferred to the state General Fund is about $23.2 M for CY 2004 and $23.6 M for CY 2005. On a fiscal year basis this would amount to approximately $11.6 M in FY 2004 and $23.4 M in FY 2005.

Explanation of Local Expenditures: ***Welfare*****:** The counties will experience reduced expenditures for family and children's services at an estimated $298.3 M for CY 2004 and $312.5 M for CY 2005.

Explanation of Local Revenues: (Revised) ***Local Property Tax Relief*****:** This bill would allow county income tax councils to pass an ordinance to use County Adjusted Gross Income Tax (CAGIT) or County Option Income Tax (COIT) revenue to provide property tax relief in the county. The property tax relief could include additional property tax replacement credits against civil unit tax levies, additional homestead credits, and property tax reductions for low income homeowners.

In order to qualify for the low income homeowner relief, the taxpayer's income may not exceed $25,000. The maximum tax reduction allowed may not reduce the net tax due to an amount that is less than 2% of the taxpayer's income.

If a county adopts an ordinance to provide property tax relief from COIT revenues, the county may impose a combined COIT plus County Economic Development Income Tax (CEDIT) rate of up to 1.25%. The COIT plus CEDIT rate limit is currently 1%.

The amount of tax relief realized by property taxpayers under this proposal is dependent on local action.

Riverboat Revenue**:** Current law prohibits the use of local riverboat revenue for the reduction of maximum or actual property tax levies. This provision would allow the revenue to be used to reduce actual levies at the discretion of the taxing unit. The unit's maximum levy could not be reduced and the riverboat revenue could not be considered as additional revenue in subsequent years. This means that a unit which chooses to use riverboat revenues to replace property taxes in a year would not be required to use the revenue in this way in a future year if they choose not to.

The following tables contain the direct distributions made to Indiana counties, municipalities, and towns from the Riverboat Admission Tax (Table A) and the Riverboat Wagering Tax (Table B) in FY 1999.

TABLE A: FY 1999 Riverboat Admissions Tax Distributions to Local Units

LOCAL UNIT	DISTRIBUTION
Dearborn County	$7,007,546
East Chicago	4,772,027
Evansville	2,021,299
Gary	7,201,557
Hammond	5,775,837
Harrison County	3,096,046
Lake County	17,749,421
LaPorte County	3,586,227
Lawrenceburg	7,007,546
Michigan City	3,586,227
Ohio County*	3,677,644
Rising Sun*	3,677,644
Vanderburgh County	2,021,299
TOTAL	**$71,180,320**

* 50% of the total Admission Tax distributions to Ohio County and the city of Rising Sun are shared with Ripley County, Switzerland County, and fourteen municipalities within Dearborn, Ripley, and Switzerland Counties.

TABLE B: FY 1999 Riverboat Wagering Tax Distributions to Local Units

LOCAL UNIT	DISTRIBUTION
East Chicago	$8,870,612
Evansville	5,168,341
Gary	12,810,914
Hammond	11,083,582
Harrison County	4,003,642
Lawrenceburg	14,314,769
Michigan City	7,414,146
Rising Sun	7,562,041
TOTAL	**$71,228,047**

Maximum Levies**:** Currently, civil taxing units receive maximum levy increases equal to their three year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would change the 5% minimum to 4% and change the 10% maximum to 8%. This would cause the growth in local civil units' levies and tax rates would slow. The amount by which the levy growth slows is dependent upon (1) the unit's actual three year AV growth quotient, and (2) whether the unit sets the tax levy at the maximum permissible levy.

Under current law, the statewide total maximum levy for civil units (not including schools) is estimated at $2,236 M in CY 2001 and $2,353 M in CY 2002. Under this proposal, the statewide total civil unit maximum levy is estimated at $2,178 M in CY 2001 and $2,233 M in CY 2002. The maximum levy reduction would amount to approximately **$18 M in CY 2001, $38 M in CY 2002, $60 M in CY 2003, $83 M in CY 2004, and $109 M in CY 2005**.

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

***Welfare*:** The counties will experience reduced net levies of an estimated $224 M for CY 2004 and $235.2 M for CY 2005. The reduced net levies are equal to the reduced gross levies less the amount paid by the state for PTRC and homestead credits. The gross levies are estimated to be $275.1 M for CY 2004 and $288.9 M for CY 2005. PTRC and homestead payments are estimated to be $51.1 M for CY 2004 and $53.7 M for CY 2005.

In addition to the elimination of the Family and Children Funds and the shift in responsibility to pay for these services, the FIT and Motor Vehicle Excise Tax monies that were apportioned to the funds would flow to the state General Fund under this proposal. The estimated total revenues that would be transferred to the state General Fund is about $23.2 M for CY 2004 and $23.6 M for CY 2005.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating these family and children's services levies and tax rates, TIF proceeds would be reduced. If these tax rates had been eliminated in CY 1999, TIF districts, statewide, would have lost about $4.9 M. However, this bill permits the 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.

State Agencies Affected: Governor; State Budget Agency; State Board of Tax Commissioners; Family and Social Services Administration

Local Agencies Affected: All civil taxing units.

Information Sources: Family and Social Services Administration; Local Government Database.