

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6051

BILL NUMBER: SB 21

DATE PREPARED: Jan 31, 2000

BILL AMENDED: Jan 28, 2000

SUBJECT: State expenditures.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill limits increases in state expenditures to an amount based on the increase in inflation and population. The bill allows the General Assembly to authorize additional spending through adoption of a concurrent resolution. The bill also establishes the Excess Tax Fund to receive certain state revenues that exceed the spending limit and provides that the Fund is to be used to provide property tax relief programs enacted by the General Assembly. The bill also provides that the homestead credit percentage will remain at 10%. (Under current law, the credit percentage is scheduled to decrease from 10% to 4% in 2002.)

Effective Date: (Amended) Upon Passage.

Explanation of State Expenditures: (Revised) *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on the sum of the percentage change in inflation (defined as the Consumer Price Index- CPI) and population plus 1%. 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 Excess Tax Fund is established to provide property tax relief under programs enacted by the General Assembly. The Fund is to be administered by the Treasurer of State. The Treasurer shall invest money in the Fund not currently needed to meet the obligations in the same manner as other public money. Interest that accrues shall be deposited in the Fund. Money in the Fund at the end of the fiscal year does not revert to the General Fund.

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 bill applies to appropriations beginning in FY 2002. According to December 15, 1999 Surplus Statement, FY 2001 budgeted appropriations are \$10,052.3 M. The average annual change in CPI for the last five calendar years has been 2.4%. The average annual change in population has been less than 1%. Depending on the level of inflation and change in population in 2001, FY 2002 expenditures could be restricted to approximately a 4% increase. The current Revenue Forecast also projects a 5% increase in General Fund and Property Tax Replacement Fund revenue from FY 2000 to FY 2001. There is no official forecast of revenue collections for FY 2002 and beyond.

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 average annual change in the CPI and population for the last five years as well as the minimal limits set out in this bill are identified below.

<u>CY April Avg Index</u>	<u>% Change CPI</u>	<u>% Change in Pop</u>	<u>Max % (includes +1%)</u>
CY 95	2.75%	.8%	4.55%
CY 96	2.77%	.7%	4.47%
CY 97	2.95%	.7%	4.65%
CY 98	1.88%	.6%	3.48%
CY 99	1.67%	NA	NA

Homestead Credit: In CY 1999, Homestead Credits (at 10%) amounted to about \$175.6 M. The cost of the current 4% credit in CY 2002 is estimated at \$91.4 M. An increase to 10% would bring the total cost in CY 2002 to about \$228.5 M.

The increase in homestead credits under this proposal is estimated at \$137.1 M in CY 2002, \$146.6 M in CY 2003, and \$156.7 M in CY 2004. On a fiscal year basis, the increase would amount to **\$68.6 M in FY 2002, \$141.8 M in FY 2003, and \$151.7 M in FY 2004.**

Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). In the event that the PTRF falls short, a transfer is made from the State General Fund to cover the difference. Since these transfers are needed each year to cover PTRF expenditures at current rates, the funding for this proposal will ultimately come from the State General Fund.

Explanation of State Revenues:

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

Homestead Credit: Local revenues would remain unchanged under this proposal. Net property tax bills for homeowners would be reduced by 6% in CY 2002 and thereafter.

Explanation of Local Revenues:

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly, Treasurer of State.

Local Agencies Affected: County Auditors; Courts.

Information Sources: GF & PTRF Statement of Combined Estimated Unappropriated Reserve, December 15, 1999 - State Budget Agency; December 15, 1999 State Revenue Forecast- Revenue Forecast Technical Committee; Dan Bastin, Auditor of State's Office (232-3300); 1999 Statistical Abstract of the United States, Census Bureau.