

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

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6441**

**BILL NUMBER: SB 187**

**DATE PREPARED:** Feb 22, 2000

**BILL AMENDED:** Feb 21, 2000

**SUBJECT:** Property tax abatements.

**FISCAL ANALYST:** Bob Sigalow; Brian Tabor

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**FUNDS AFFECTED:**     **GENERAL**  
                           **DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) ***Development Assistance Disclosure:*** This bill provides that before a granting body may provide development assistance, the granting body must adopt criteria for awarding the assistance and enter into an agreement with the person that will receive the assistance. The provision applies only to projects of more than \$100,000. The bill provides that the agreement must include certain employment and wage goals and provisions specifying the obligation to repay the assistance if the goals are not met.

This bill requires the Department of State Revenue to publish a tax expenditure report. It requires each county auditor to report certain information. The bill requires the Department of Commerce to adopt a standardized information form that must be completed by any person applying for development assistance.

***4-H Deduction:*** This bill increases the acreage of property that may be exempt from 50 to 200 acres if it is owned by a 4-H association.

***Residential ERA:*** The bill also allows property tax abatement for residential property that is located in the unincorporated area of a county if the designating body makes a finding that the facility is needed to serve elderly persons or disabled persons.

***ERA Property Movement:*** The bill provides local designating bodies the option of allowing new manufacturing equipment to be moved without losing the assessed value deduction.

***ERA Limit:*** This bill specifies that the provision limiting a property tax abatement for new manufacturing equipment to the extent that it would cause the assessed value of all personal property of the owner in the taxing district in which the equipment is located to be less than the assessed value of all personal property of the owner in that taxing district in the immediately preceding year does not apply to new manufacturing equipment located in a particular township if the total original cost of all new manufacturing equipment

placed into service by the owner during the preceding 60 months exceeds \$50,000,000, and if the economic revitalization area (ERA) in which the new manufacturing equipment was installed was approved by the designating body before September 1, 1994.

***ERA Compliance:*** The bill also grandfathers in the abatement of property taxes in a consolidated city if the property owner and city complete all required procedures before July 1, 2000 (retroactive to 1997).

***Airplane Exemption:*** This bill provides an exemption from personal property tax for commercial passenger airplanes located in St. Joseph County for maintenance.

**Effective Date:** January 1, 1998 (retroactive); January 1, 1999 (retroactive); January 1, 2000 (retroactive); Upon passage; July 1, 2000; January 1, 2001.

**Explanation of State Expenditures:** (Revised) ***Development Assistance Disclosure:*** This bill would require the state, local government, and recipient taxpayers to adhere to a set of approval and reporting procedures when applying for and granting development assistance worth more than \$100,000. Development assistance includes property tax abatements (ERA), Enterprise Zone credits, training grants, loans and guarantees, Tax Increment Financing (TIF), grants, fee waivers, land price subsidies, infrastructure, matching funds, and industrial development bonds.

The bill would require the granting body to hold a public hearing and adopt the criteria for awarding assistance by rule or resolution. The granting body would be required to hold a public hearing concerning each proposal for assistance if the value of the assistance exceeds \$100,000 for a local granting body or \$500,000 for the state. The recipient would be required to enter into a development assistance agreement with the granting body. The agreement would describe the type and amount of the assistance, the purpose, the goals, and the taxpayer's financial obligations if the goals are not met. The bill requires the granting body to monitor the taxpayer's progress in meeting the goals in the agreement.

This bill also requires the Department of State Revenue (DOR) to produce an annual report containing the amount of uncollected revenues associated with development assistance, including tax credits and deductions. The DOR may incur some additional expenses as a result of this provision, but it is expected that these costs could be absorbed within the Department's budget.

Each county auditor must annually provide the State Board of Tax Commissioners certain information concerning property tax deductions and credits claimed during the preceding year. The Tax Board must compile and publish all data in the report in both written and electronic form and must also adopt a standardized disclosure form for use by the county auditors. The Tax Board may incur some additional expenses as a result of this provision, but it is expected that these costs could be absorbed within the Board's budget.

The bill requires the Indiana Department of Commerce (IDOC) to adopt a standardized information form that must be completed by any person applying for development assistance under any program or fund operated or administered by the state or a political subdivision. The bill also requires the IDOC to monitor development assistance provided by itself, other state agencies, and local entities. The IDOC would also be required to prepare annual reports regarding recipients' assistance. It is estimated that the Department would need one additional PAT II level employee in order to meet the provisions of this bill. Annual salary, fringe, and indirect expenses for a PAT II level employee are estimated at \$41,733 in FY 2001 and \$41,588 in FY 2002.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; or (5) New appropriations. As of February 1, 2000, the Lieutenant Governor's Office had 21 vacant positions. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

**Explanation of State Revenues:** (Revised) *Development Assistance Disclosure:* State entities granting development assistance may receive repayment of all or a portion of the assistance granted if recipients do not comply with the goals and requirements stated in a development agreement.

The bill also provides that if a recipient of development assistance does not submit the required form to the IDOC by the date the information is due, the recipient must pay a civil penalty of \$100 (up to a maximum of \$1,000 per year) for each day past the due date.

***ERA Limit:*** The State levies a one cent tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

***Residential ERA:*** As explained below in Local Revenues, if there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would be made with or without the abatement, then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

**Explanation of Local Expenditures:** (Revised) *Development Assistance Disclosure:* Each county auditor and local unit granting development assistance must provide annually to the State Board of Tax Commissioners certain information regarding property tax deductions, credits, and other assistance claimed during the preceding year. This provision could increase administrative expenses for county auditors and local units. The specific impact is indeterminable and would likely vary based on a local unit's record-keeping systems. However, the overall impact is not expected to be great.

**Explanation of Local Revenues:** (Revised) *Development Assistance Disclosure:* Local units granting development assistance may receive repayment of all or a portion of the assistance granted if recipients do not comply with the goals and requirements stated in a development agreement.

***4-H Deduction:*** This bill would increase the exemption from property tax of 50 acres of real property owned by 4-H organizations to 200 acres. Additional exemptions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate. The actual fiscal impact depends on the amount of additional property that would qualify for an exemption under this proposal. The impact should be minimal.

***Residential ERA:*** Currently, real property may be abated for any number of years from one year to ten years. Residential real property may not receive abatements unless (1) it is multifamily with at least 20% of units available for low and moderate income individuals; (2) the facility is in an economic development target area; or (3) the area is designated as residentially distressed. This bill would also allow abatements for residential property that is not in a city or town and where there is a finding that the facility is needed to serve elderly persons or disabled persons.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

**ERA Limit:** Under current law, a property tax abatement for new manufacturing equipment may not cause a taxpayer's assessed valuation to be lower than it was in the preceding year. Under this provision, some taxpayers who placed new equipment into service during the past five years with a cost exceeding \$50 M would not be subject to the minimum assessment. The taxpayer must be located in one of several townships and the ERA must have been approved before September 1, 1994. An ERA in Wilmington Township, DeKalb County is the only area to meet the township and approval date qualifications under this bill.

Since tax abatements cannot reduce the existing tax base under current law, an abatement does not cause an increase in the property tax rate. As the abated value is gradually placed on the tax rolls, part of the property tax burden is shifted from all taxpayers to the owners of the abated property in the form of a reduced tax rate.

However, if the abatement reduces the taxpayer's existing assessment under this provision, then the property tax rate for all taxpayers would rise to compensate for the reduced valuation base. The tax rate would still be reduced over time as the property's value is gradually placed on the tax rolls.

This bill would be effective retroactively to property tax assessments made in 1998 and payable in 1999.

One taxpayer has been identified as qualifying for the increased abatement under this provision. In this taxpayer's case, the property is located in a TIF district. As such, all property tax proceeds from the assessment on the personal property left unabated are forwarded to the local redevelopment commission. The reduction in assessed value under this bill would not affect local tax rates, but instead would reduce future TIF dollars received by the commission until such time as the abatement no longer reduces the taxpayer's existing assessment. The retroactivity of the proposal would reduce TIF proceeds for CY 1999. TIF proceeds are generally used to pay for infrastructure improvements and to make bond payments on infrastructure projects.

The CY 1999 AV in question amounts to about \$10 M while the net property tax amounts to \$585,800. The affected taxpayer has not paid the property tax associated with the additional abatement that would be made possible in this bill.

The actual fiscal impact would depend on whether any additional abatements that reduce the existing assessment are granted to this taxpayer or any other taxpayer in Wilmington Township that meets the investment requirements under the proposal.

**ERA Compliance:** This bill would allow the City of Indianapolis to grant property tax abatements to taxpayers retroactively if:

- (1) The city offered to provide the abatement to a property owner before January 1, 1999;
- (2) the owner has met the expectations of the city concerning employment, investment, and other city-imposed requirements;
- (3) the owner and/or the city failed to comply with the all of the filing requirements; and
- (4) both the city and the owner complete the usual filing and approval procedures under current abatement

law before July 1, 2000.

One taxpayer has been identified as meeting the qualifications of this provision. That taxpayer paid approximately \$212,000 more in property tax over the last two years than if the abatement had been granted. The \$212,000 would be refunded without interest to the taxpayer under this proposal. The refund would reduce revenue to the taxing units that serve the taxpayer in the year that the refund is paid. It is not known whether any additional taxpayers could qualify for a retroactive abatement under this proposal.

***Airplane Exemption:*** Under current law, a commercial passenger aircraft is assessable as personal property. The value of the aircraft is apportioned to Indiana on the basis of ground time in Indiana compared with ground time outside of Indiana. This bill would exempt commercial passenger aircraft in St. Joseph County from property taxation if the aircraft is located in the county solely for the purpose of maintenance.

If there is an increase in development because of this proposal, state and local tax collections could increase. However, if one assumes that the investment would be made with or without the abatement, the exemption could negate a shift of the property tax burden from all taxpayers to the owners of the new property.

**State Agencies Affected:** State Board of Tax Commissioners; Department of State Revenue; Indiana Department of Commerce; Department of Workforce Development; Department of Labor.

**Local Agencies Affected:** DeKalb County Auditor and Redevelopment Commission; Civil taxing units and school districts in Wilmington Township, DeKalb County; City of Indianapolis; Certain civil taxing units and school districts in Marion County; ERA designating bodies; Enterprise Zone Boards; St. Joseph County.

**Information Sources:** DeKalb County Auditor's Office, (219) 925-2362; Brenda Harris, State Board of Tax Commissioners (232-3761); John Keeler, Baker & Daniels, 237-0300; Leslie Richardson, Director, Division of Research, Indiana Department of Commerce (317) 232-8962.