

**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: Mar 8, 2000
BILL AMENDED: Mar 3, 2000

SUBJECT: Property tax abatements.

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FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (CCR Amended) ***Training Assistance Commitment:*** This bill requires a commitment by a business receiving T-2000 training assistance to continue operations at any site where the training assistance is used for at least five years after the date the training assistance expires. It provides that if a business fails to comply with this commitment, the Department of Commerce shall require the business to repay the training assistance provided to it under this chapter.

Public Information: The bill requires the Department of Commerce to establish a public information page on its current Internet site on the World Wide Web to provide information on incentives awarded.

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 provides that, in St. Joseph County, a designating body may, before September 1, 2000, approve a property tax abatement deduction for the redevelopment or rehabilitation of real property consisting of residential facilities that are located in unincorporated areas of the county if the designating body makes a finding that the facilities are needed to serve disabled persons or elderly persons who are predominately low-income or moderate-income, or both. The bill also provides that the designating body may adopt an ordinance approving such a deduction only one time.

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 Allen County or 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) ***Public Information:*** This bill requires the Indiana Department of Commerce (IDOC) to create a webpage on its current Internet site where the public may access information regarding the amount of state incentives granted and the names and addresses of the recipients. The Department must also provide links to further information regarding economic development programs and incentives. It is expected that the IDOC will be able to absorb the costs of developing this webpage given its existing staff and resources.

Explanation of State Revenues: (Revised) ***Training Assistance Commitment:*** Under this proposal, a business receiving T-2000 training assistance must continue to operate at the site where the assistance is used for at least five years after expiration of the T-2000 funding. If a business ceases operation before the five years has elapsed, the IDOC would require repayment of all T-2000 training assistance to the state. The Department was appropriated \$13 M in both FY 2000 and FY 2001 for the T-2000 assistance program.

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:

Explanation of Local Revenues: (Revised) ***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 in St. Joseph County that is not in a city or town and where there is a finding that the facility is needed to serve any combination of elderly persons with low to moderate incomes and disabled persons. The abatement may be granted only once and must be approved before September 1, 2000. The abatement would expire on January 1, 2011.

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 Allen County and 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.

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; 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.