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

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## FISCAL IMPACT STATEMENT

**LS 7061** | **NOTE PREPARED:** May 2, 2005
**BILL NUMBER:** HB 1001 | **BILL AMENDED:** Apr 29, 2005

**SUBJECT:** Budget Bill.

**FIRST AUTHOR:** Rep. Espich | **BILL STATUS:** Enrolled
**FIRST SPONSOR:** Sen. Meeks

**FUNDS AFFECTED:** X GENERAL | **IMPACT:** State & Local
X DEDICATED
X FEDERAL

**Summary of Legislation:** *Biennial Budget:* This bill appropriates money to carry on state government and make various distributions to schools and other political subdivisions.

*Professional Standards Board:* The bill provides that the Department of Education rather than the Professional Standards Board governs education, licensing, and professional development of teachers. The bill retains the Professional Standards Board as an advisory board.

*Office of Management and Budget:* The bill establishes an Office of Management and Budget (OMB). The bill requests that the OMB do a thorough review of executive department budgets and functions. It also establishes the Government Efficiency Commission. The bill voids a Gaming Commission rule concerning fees.

*Department of Local Government Finance:* This bill also makes the appointment of a deputy commissioner of the Department of Local Government Finance (DLGF) permissive rather than mandatory.

*State Board of Finance:* The bill allows the State Board of Finance to transfer appropriations to the Indiana Economic Development Corporation (IEDC).

*Integrated Steel Mill Equipment Property Tax Valuation:* The bill provides that special integrated steel mill equipment property tax valuation applies only if the mill produces steel in a blast furnace in Indiana.

*Earned Income Tax Credit Extension:* The bill extends the earned income tax credit (EITC) through December 31, 2011.

*Disposal of Surplus Property:* The bill allows the Budget Agency to prescribe policies for the disposal of surplus property by the state.

*Lake County Income Tax Credit:* The bill provides that the Lake County income tax credit for certain homesteads is paid back after the 2002 base-year guarantee.

*Internal Revenue Code Reference Update:* This bill also provides that for taxable years beginning after December 31, 2004, references in Indiana law to the Internal Revenue Code (IRC) and related regulations refer to the law and regulations in effect on January 1, 2005. It requires that: (1) "Section 179 property" deductions in excess of $25,000 per year: and (2) "Section 199" domestic production activities deductions allowed for federal income tax purposes be added back for state income tax purposes.

*GARVEE Bonds:* The bill provides that if federal transportation revenues increase by 18%, the Transportation Finance Authority, or its successor, may issue bonds or notes secured by lease rentals relating to highway improvement projects and anticipated to be paid by the Department of Transportation from federal transportation revenues received in the current federal fiscal year or to be received in a future federal fiscal year.

*Airport Development Zones:* The bill grandfathers a resolution regarding airport development zones and allows the airport authority board to determine the portion of tax proceeds that will be allocated to a debt service fund and dedicated to the payment of principal and interest on bonds of the airport authority with the remainder dedicated to the reimbursement of expenditures made for a qualified airport development project.

*Child Protection Caseworkers:* The bill establishes maximum caseload ratios for child protection caseworkers. The bill also requires local child protection services to maintain sufficient staff to comply with the maximum caseload ratios. It also requires certain studies and reports.

*First Steps, Medicaid, and CHOICE Program Provisions:* The bill makes changes in the First Steps Program, Medicaid Program, and C.H.O.I.C.E. Program. The bill increases a fee charged to certain providers of community-based services to individuals with developmental disabilities.

*BMV Technology Fund:* The bill extends the deposit of $0.50 of the BMV service charge for vehicle registration in the BMV Technology Fund.

*Natural Resources Commission:* The bill transfers powers to set fees under the natural resources laws to the Natural Resources Commission.

*Higher Education Provisions:* This bill also changes the names of all the campuses of the school of medicine. The bill increases various higher education capital project thresholds with respect to Budget Agency approval and Budget Committee review. The bill also requires the Commission for Higher Education to establish standards for the transfer of courses between state educational institutions. It also requires a state educational institution to set tuition rates on a two-year cycle. The bill provides bonding authority for higher education construction projects.

*Pension Provisions:* The bill restores the $30 M per year of lottery surpluses to the Pension Stabilization Fund (PSF). It also provides that members of the Teachers' Retirement Fund (TRF) who were members of the Pre-1996 Account but because of reemployment before July 1, 2005, are in the 1996 Account remain in the

1996 Account. The bill provides for an allocation from the PSF to cover the liability for these members. It also provides that current Pre-1996 Account members are not be transferred to the 1996 Account even if they are reemployed or employed by a different school corporation after June 30, 2005. The bill requires the Public Employees' Retirement Fund (PERF) board and the TRF board to set the employer contribution, including projections for cost-of-living increases, at the actuarial rate using normal cost plus 30-year amortization or a shorter amortization period if requested by the Budget Agency or Governor. The bill also extends the minimum monthly pension benefit of $180 for certain retired members of PERF to members who retired before December 1, 2004 (instead of December 1, 2003). It also provides certain retired members of PERF a supplemental "thirteenth check" in 2005 and a cost-of-living adjustment in 2006. The bill provides a cost-of-living adjustment for members, survivors, and beneficiaries of TRF in 2006.

*School Finance Provisions:* The bill provides that a child must be at least five years of age on August 1 of the 2006-2007 school year or a subsequent school year to enroll in a school corporation's kindergarten program for that year. It establishes a school funding formula and makes certain other changes concerning education finance. The bill changes the allowable uses for school technology grants. The bill also allows the Common School Fund interest balance to be used to provide a state match for federal grants for charter school facilities. The bill allows a school corporation to increase its transportation fund levy to replace state revenues previously distributed to the transportation fund. It also requires a school corporation to use money received as an academic honors diploma award for expenditures directly related to the school corporation's academic honors diploma program and program for high ability students. The bill repeals obsolete provisions and a provision limiting charter school funding. The bill also allows a school corporation to adopt a resolution before September 21, 2005, to transfer part of the general fund levy attributable to a referendum passed before 2002 to the referendum tax levy fund. It allows a school corporation obligated to repay a loan extended under IC 6-1.1-28.1 to make loan payments from the school corporation's debt service fund. It also allows schools to levy a property tax to pay unreimbursed textbook costs for students eligible for a free or reduced lunch.

*Senior Judge Per Diem:* This bill increases from $100 to $200 the maximum amount of per diem a senior judge may receive after serving the first 30 days of service in a year.

*Abandoned Property Fund:* This bill also transfers abandoned property proceeds and the Abandoned Property Fund balance over $500,000 to the state General Fund instead of the Common School Fund.

*PTRC/Homestead Credit Provisions:* This bill sets both a minimum distribution and an appropriation amount (maximum) for Property Tax Replacement Credits (PTRC) and Homestead Credits.

*HCI Property Tax Levy:* The bill extends the current formula for computing the county Hospital Care for the Indigent property tax levy.

*Payment Delay Reduction:* This bill would require the State Budget Agency to make early payments of tuition support, PTRC/homestead credits, state universities, and the Indiana Higher Education Telecommunications System (IHETS) in order to reduce the payment delay balances by 50% over the biennium. If there are insufficient balances to fund payments equal to 50% of the delay balance, the Budget Agency may reduce the percentage that is to be repaid under this provision.

*Local Homestead Credit Option:* The bill provides a general local homestead credit option for political subdivisions. It also establishes an additional local option tax, subject to approval by the county fiscal body, for a credit for property taxes on qualified residential property in the amount by which the taxes exceed 2%

of the assessed value of the qualified residential property. The bill also provides that the total amount of property tax replacement credits and homestead credits that are eligible for state distributions to replace the revenue lost from the granting of the credits must exceed the sum of $1,121,700,000 plus the amount of revenue forecast to be collected in the year from a 1% sales tax rate. The bill establishes the maximum amount that may be distributed to replace revenue lost to political subdivisions from the granting of state property tax replacement and homestead credits.

*PTRC Intercept Provisions:* The bill provides for quarterly (versus semiannual) billings by the state for incarcerating juveniles. It makes the rate $60 per day. The bill provides that after June 30, 2005, the state may intercept PTRC distributions to pay the amount owed if a county fails to pay within six months after being billed. It also allows counties to enter into a repayment plan with the state for amounts owed as of June 30, 2005, that permits repayment through the issuance of bonds or through installment payments over four years.

*New Courts and Magistrates:* The bill adds a superior court in Vigo county. It adds a magistrate in Madison and Perry counties.

*State Examiner:* The bill also changes the experience requirements for the State Examiner of the State Board of Accounts.

*Riverboat License Transfer Fee:* The bill voids an emergency rule adopted by the Indiana Gaming Commission (IGC) on April 21, 2005, to impose a transfer fee when the controlling interest in a riverboat license is transferred. Under the emergency rule, the transfer fee would be equal to 1% of the adjusted gross wagering receipts (AGR) generated during the preceding fiscal year by the riverboat being transferred. The bill also voids any other rule adopted after April 1, 2005, by the IGC that establishes a transfer fee for riverboat licenses, including operating permits.

*Home Ownership Education Account:* This bill requires the Auditor of State to deposit in the state General Fund the $1.25 that currently is to go into the Home Ownership Education Account.

*Government Efficiency Commission (GEC):* The bill establishes a 22-member Government Efficiency Commission for the purpose of making recommendations to improve efficiency and reduce unnecessary costs associated with boards and commissions and to reform K-12 education funding and budgeting related to non-classroom expenditures.

**Effective Date:** Upon Passage; July 1, 2003 (retroactive); July 1, 2004 (retroactive); January 1, 2004 (retroactive); January 1, 2005 (retroactive); July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** *Biennial Budget -* This bill establishes the state budget appropriations for FY 2006 and FY 2007. Total General Fund and Property Tax Replacement Fund appropriations are $11,874.8 M for FY 2006 (a 5.2% increase over FY 2005) and $12,044.2 M for FY 2007 (a 1.4% increase over FY 2006).

Of this amount, total operating appropriations are $11,649.7 M for FY 2006 (a 5.0% increase over FY 2005) and $11,819.0 M for FY 2007 (a 1.5% increase over FY 2006). Appropriations for capital projects represent $450.3 M for the biennium.

Appropriations from the General Fund and the Property Tax Replacement Fund are provided by functional category in the following table.

| General Fund and Property Tax Replacement Fund: FY 2006-FY 2007. | | | |
|---|---|---|---|
| **Functional Category** | **FY 2006** | **FY 2007** | **% Change** |
| **General Government** | 380,432,972 | 382,039,709 | 0.4% |
| **Corrections** | 623,820,843 | 624,102,731 | 0.0% |
| **Other Public Safety** | 93,850,461 | 93,648,483 | -0.2% |
| **Conservation and Environment** | 85,317,632 | 85,358,398 | 0.0% |
| **Economic Development** | 40,945,539 | 40,952,617 | 0.0% |
| **Transportation *** ** | 0 | 0 | |
| **Mental Health** | 250,471,632 | 250,539,066 | 0.0% |
| **Public Health** | 74,600,245 | 74,638,707 | 0.1% |
| **Medicaid** | 1,455,253,790 | 1,525,157,653 | 4.8% |
| **Family and Children** | 186,013,699 | 186,020,057 | 0.0% |
| **Social Services and Veterans** | 325,007,692 | 349,160,296 | 7.4% |
| **Higher Education** | 1,543,517,870 | 1,588,306,980 | 2.9% |
| **Education Administration** | 51,192,277 | 52,491,359 | 2.5% |
| **Tuition Support - General Fund** | 2,102,629,408 | 2,099,725,241 | -0.1% |
| **Tuition Support - PTR Funds** | 1,654,753,925 | 1,651,849,759 | -0.2% |
| **Social Security - Teachers** | 2,403,792 | 2,403,792 | 0.0% |
| **Teachers Retirement** | 552,827,438 | 585,997,084 | 6.0% |
| **Other Local Schools** | 186,263,917 | 186,264,273 | 0.0% |
| **Other Education** | 11,855,306 | 11,858,339 | 0.0% |
| **PTR and Homestead Credits** | 2,028,509,197 | 2,028,509,197 | 0.0% |
| **Distributions - General Fund** | 0 | 0 | |
| **Subtotal - Operating** | 11,649,667,635 | 11,819,023,741 | 1.5% |
| | | | |
| **Higher Education Construction** | 30,421,437 | 30,421,437 | 0.0% |
| **Other Construction** | 194,743,844 | 194,743,826 | 0.0% |
| **Subtotal - Capital Projects** | 225,165,281 | 225,165,263 | 0.0% |
| | | | |
| **Grand Total** | 11,874,832,916 | 12,044,189,004 | 1.4% |

* Appropriations “for the biennium are apportioned 50% for each fiscal year.
** The appropriations in this table represent only those appropriations provided in HEA 1001-2005.
*** All appropriations for this functional category are from dedicated funds.

Appropriations from dedicated and federal funds for the biennium are presented in the following table.

| Dedicated and Federal Appropriations: FY 2006 -FY 2007. | | | |
|---|---|---|---|
| **Functional Category** | **FY 2006** | **FY 2007** | **% Change** |
| **BIF & Lottery /Gaming Surplus** | 4,750,001 | 4,750,001 | 0.0% |
| **Other Dedicated - Operating** | 1,173,652,729 | 1,165,745,575 | (0.7)% |
| **Other Dedicated - Construction** | 24,481,307 | 24,481,305 | 0.0% |
| **Tobacco Settlement** | 191,800,368 | 195,717,879 | 2.0% |
| **Federal Funds** | 639,522,452 | 639,522,452 | 0.0% |
| **Total Dedicated** | 2,034,206,857 | 2,030,217,212 | (0.2)% |

Tobacco Master Settlement Agreement Fund Appropriations are presented in the following table.

| Appropriation Name | FY 2006 | FY 2007 |
|---|---|---|
| Attorney General | 250,000 | 250,000 |
| Value Added Research Program | 600,000 | 600,000 |
| Rural Development Administration | 2,400,000 | 2,400,000 |
| Rural Development Council | 1,203,480 | 1,203,483 |
| 21st Century Research & Technology Fund | 37,500,000 | 37,500,000 |
| Technology Development Grant Program | 4,500,000 | 4,500,000 |
| Commission on Latino/Hispanic Affairs | 124,188 | 124,235 |
| IN Prescription Drug Program | 8,000,000 | 8,000,139 |
| Children's Health Insurance Program | 29,935,718 | 33,835,718 |
| DDARS Administration | 3,012,462 | 3,012,462 |
| Residential Services - Case Management | 2,050,626 | 2,050,626 |
| Residential Services for DD Persons | 22,300,000 | 22,300,000 |
| State Department of Health | 27,325,612 | 27,341,425 |
| Cancer Registry | 253,651 | 253,803 |
| Minority Health Initiative | 2,091,224 | 2,091,224 |
| Sickle Cell | 232,500 | 232,500 |

| Appropriation Name | FY 2006 | FY 2007 |
|---|---|---|
| Aid to County Tuberculosis Hospitals | 107,397 | 107,397 |
| AIDS Education | 699,804 | 700,099 |
| HIV/AIDS Services | 2,325,004 | 2,325,004 |
| Test for Drug Afflicted Babies | 62,496 | 62,496 |
| State Chronic Diseases | 544,847 | 544,917 |
| Women, Infants, & Children Supplement | 176,700 | 176,700 |
| Maternal & Child Health Supplement | 176,700 | 176,700 |
| Cancer Education & Dx - Breast Cancer | 93,000 | 93,000 |
| Cancer Education & Dx - Prostate Cancer | 93,000 | 93,000 |
| Minority Epidemiology | 500,000 | 500,000 |
| Community Health Centers | 15,003,071 | 15,003,197 |
| Community Mental Health Centers | 2,000,000 | 2,000,000 |
| Independent Living Transitional Services | 1,000,000 | 1,000,000 |
| Tobacco Health Programs | 2,461,400 | 2,461,400 |
| Prenatal Substance Use & Prevention | 150,000 | 150,000 |
| Local Health Maintenance Fund | 1,400,000 | 1,400,000 |
| Local Health Department Account | 3,000,000 | 3,000,000 |
| Tobacco Use Prevention & Cessation Program | 10,858,441 | 10,859,308 |
| Regional Healthcare Construction Account | 9,369,047 | 9,369,046 |
| **Total Tobacco Funds Appropriated** | **191,800,368** | **195,717,879** |

| Tobacco Master Settlement Agreement Fund | FY 2005 | FY 2006 | FY 2007 |
|---|---|---|---|
| Beginning Balance, July 1 | $ 238.1 M | $ 150.6 M | $ 93.3 M |
| * Plus: Estimated Revenue, April 10. | $ 132.4 M | $ 134.5 M | $ 136.5 M |
| Less: Appropriations | $ 173.4 M | $ 191.8 M | $ 195.7 M |
| Less: Prior Year Carryover Appropriations | $ 46.5 M | $0 | $0 |
| Ending Balance, June 30 | $ 150.6 M | $ 93.3 M | $ 34.1 M |

* Estimated revenue includes the additional dollars known to be associated with the Vibo entry to the Master Settlement Agreement.

*Professional Standards Board:* The impact to state expenditures is expected to be minimal and will depend on the administrative actions taken by the Department of Education (DOE).

Under the bill the following would be transferred from the Professional Standards Board to the Department: all real and personal property of the Board; all powers, duties, assets, and liabilities of the Board; and all appropriations to the Board.

The General Assembly appropriated $6.8 M to the Professional Standards Board for administration and programs and $443,900 for teacher licensing in FY 2005. For FY 2005, the Board had 41 funded positions: 39 full-time, one temporary, and one intermittent. As of November 2004, the Board had 34 filled positions. Of these positions, 30 employees were full-time and 4 were on leave.

The bill would allow the 19 members of the Professional Standards Board to be transferred into the Advisory Board for the Division of Professional Standards within the DOE. The members of the Advisory Board would receive the same per diem, travel reimbursement, and payment for services rendered in relation to direct duties to the Advisory Board. Under the bill, the Superintendent of Public Instruction would appoint the director of the Advisory Board. The Advisory Board would be given rule-making authority (with the approval of the Superintendent of Public Instruction) to set standards for teacher licensing and the administration of a professional licensing and certification process.

The bill would also establish the Division of Professional Standards within the DOE. The Division would essentially assume the duties of the Professional Standards Board.

The bill creates the Professional Standards Fund, which would consist of fee revenue. The fund would be administered by the DOE. Money in the fund would not revert to the state General Fund at the end of the state fiscal year. The DOE would use the fund revenue for the administrative expenses to carry out the provisions of the bill.

The Professional Standards Board was established by P.L. 46-1992 to train, license, and professionally develop teachers, school superintendents, and school psychologists. The Board also holds hearings and has the power to revoke the license of a licensed individual. Prior to 1992, the State Board of Education, via the Department, held the responsibility for licensing of teachers.

*Office of Management and Budget:* The bill establishes an Office of Management and Budget. The bill also establishes a Division of Government Efficiency and Financial Planning within the OMB. The OMB will have direct responsibility for the functions of the Budget Agency, the Department of State Revenue, the Department of Local Government Finance, and the Indiana Finance Authority. The bill appropriates $1.007 M for FY 2006 and $1.008 M for FY 2007 for the OMB.

*Department of Local Government Finance:* Under current law, the Commissioner of the DLGF is required to appoint a deputy commissioner. Under this bill, the appointment would be optional.

*Earned Income Tax Credit Extension:* The refundable portion of the EITC that goes to participants in the Temporary Assistance to Needy Families (TANF) Program qualifies as maintenance of effort (MOE) expenditures and contributes toward the state's annual MOE requirement under the TANF Program. It is estimated that refunds of the 6% EITC could potentially total about $8.0 M to $10.0 M annually. This is based on a simulation utilizing state taxpayer data and federal Earned Income Credit (EIC) data.

*Disposal of Surplus Property; State Contracting:* The provisions of the bill relating to disposal of surplus property will result in an indeterminable savings to state agencies. These provisions will have an administrative cost impact on the Budget Agency. It is presumed that the Budget Agency will be able to cover the increased costs through the use of existing staff and resources.

The bill provides that the Budget Agency may adopt policies and procedures for the disposal of surplus property by state agencies. The bill allows the policies to specify the circumstances under which and the manner in which property will be offered for sale to another governmental entity before offered to the public. The bill also requires the head of the agency transferring the property to first request to the Budget Agency, in writing, that the Governor approve the transfer of the property. This bill also requires that the Commissioner of the Department of Transportation obtain approval from the Budget Agency before selling surplus real property that is owned by the Department that is no longer being used and is to be sold at or above fair market value. Any savings realized from these provisions will ultimately depend upon the actions of the Budget Agency. The savings will depend on the extent to which the Budget Agency is able to develop procedures that allow easier disposal and sale of surplus property. Savings may also be realized if the policies adopted by the Budget Agency encourage agencies to look first to utilize surplus property instead of making new purchases.

*State Contracts:* This bill eliminates the requirement that a business attempting to contract with a state agency must register with the Secretary of State 45 days prior to the issuance of the solicitation for the purchase. The fiscal impact of this provision is indeterminable. It is estimated that loosening this requirement will promote competition among bidding businesses and allow for a possible reduction in contracting costs to state agencies. Therefore, the ultimate impact of this provision will be determined by agency administrative action.

*GARVEE Bonds:* The bill establishes the Grant Anticipation Fund to be administered by the Department of Transportation (INDOT) for the purpose of constructing and reconstructing state highways. Money in the Fund does not revert at the end of a state fiscal year. The Grant Anticipation Fund is to receive federal transportation revenue apportioned or allocated to Indiana by the U. S. Department of Transportation under 23 U.S.C. or other federal money available that may be used for a project under this program.

The Department may use the money in the Fund only to pay (1) the cost of construction or reconstruction of a highway improvement project; (2) the cost of acquisition of all land, rights-of-way, property, etc.; (3) the cost of demolishing or removing buildings, structures, etc.; (4) engineering and legal expenses and the costs of plans; (5) and payment of rentals and performance of other obligations under contracts or leases relating to highway improvement projects securing grant anticipation revenue bonds or notes. A holder of grant anticipation bonds or notes issued under IC 8-14.5-7 may not compel the payment of federal transportation revenues to the INDOT.

The bill allows the Transportation Finance Authority (TFA) to issue grant anticipation revenue bonds. This bond program permits states to pay debt service and other bond-related expenses with future federal-aid highway apportionments. Before the bonds are issued, INDOT must prepare a revenue declaration providing specific information on the amount or percentage of federal transportation revenues received by the state during a state fiscal year to be deposited in the Grant Anticipation Fund and the number of years those deposits shall be made. This declaration is subject to the approval of the Budget Agency and TFA. The bill limits the total amount of the lease rentals securing grant anticipation bonds or notes during any state fiscal year to 25% of any increase in federal funds over the FFY 2004 level of $734.8 M. The term of the bonds may not exceed 12 years.

The specific impact will depend upon the number of proposed projects to be financed, the amount of federal transportation revenue available, and market conditions.

*Background on GARVEE Bonds:* The table below contains information on the last seven years of Federal Highway Trust Fund (FHTF) apportionments.

| **Federal Fiscal Year** | **$ Amount** |
|---|---|
| FFY 1998 | $530 M |
| FFY 1999 | $661 M |
| FFY 2000 | $670 M |
| FFY 2001 | $735 M |
| FFY 2002 | $716 M |
| FFY 2003 | $621 M * |
| FFY 2004 | $752.2 M |
| *Congress authorized states to use FHTF balances to flatline spending authority from FFY 2002 to FFY 2003. | |

*Child Protection Caseworkers: Caseworker Data Reports:* The bill requires DFC to submit a report to the Legislative Council and the Health Finance Commission that contains statistics concerning the education levels and salaries of all child protection caseworkers, child welfare caseworkers, and supervisors. It is assumed that DFC should be able to comply with the reporting requirements within existing budget levels.

*Child Welfare Caseload Standards Summary:* This bill requires that a child protection caseworker or a child welfare caseworker not be assigned a caseload that exceeds: (1) for caseworkers assigned only initial assessments, 12 active cases per month, (2) for caseworkers assigned only ongoing cases, 17 active children per caseworker, or (3) for caseworkers assigned a combination of initial assessments and ongoing cases, 4 investigations and 10 active ongoing cases per caseworker. The bill allows for a phase-in period and is to be fully implemented by June 30, 2008. According to the Department of Child Services, sufficient funds are appropriated in this bill to hire 200 caseworkers and supervisors in FY 2006 and an additional 200 caseworkers and supervisors in FY 2007.

The cost for full implementation that would achieve these caseload standards, which includes equipment and office space for an estimated 880 new caseworkers and 106 new supervisors, would be approximately $41.7 M in the first year of full implementation and $35.6 M in subsequent years. These numbers are based on the assumption that caseworkers would hold a maximum of 12 investigation cases or 17 ongoing cases at any one time. If actual work assignments fall under the more restrictive maximum caseload combinations, costs would be greater.

Training: It should be noted that training costs are not included in the overall expenditure estimates for the new caseworkers or supervisors. FSSA recently implemented a new training program for new staff. Average costs have not been established at this time, and the total cost for training new employees is currently unknown.

*Background Information on Child Protection Caseworkers* - Current Numbers: Indiana currently employs 861 child welfare caseworkers, however, 60 of these persons are considered “just-in-time workers. The state has created 60 “just-in-time positions to fill slots throughout the state when vacancies arise. These workers would have already completed training prior to the position opening up and are able to begin work immediately. Indiana also employs approximately 130 child welfare supervisors. Under the Bayh administration, a court agreement was reached which prohibited Marion County child protective services from raising worker caseloads above 35. FSSA has extended this agreement statewide, however, caseload numbers vary across the state. FSSA reports that each ongoing case represents one child.

<u>*First Steps Program Provisions:*</u> *Elimination of the $3,500 Insurance Billing Cap:* This provision would eliminate an existing $3,500 insurance billing cap for covered early intervention services. A provision remains that exempts First Steps billed services from lifetime or aggregate limits under the health benefit plan. The bill also specifies that the state is the payor of last resort under the First Steps Program. The fiscal impact of these provisions is dependent upon the number of individuals with health insurance coverage who had billed services that exceeded the cap. An additional impact may result if any First Steps families are also state or local government employees. The health insurance benefit expenditures for these units could increase, depending upon whether First Steps billed claims increase as a result of this provision. At this time, no information has been reported on the number of families that may have reached or exceeded the $3,500 cap. Anecdotal evidence indicates that the program may not have been routinely billing services to insurance carriers.

*Revisions to the First Steps Copayment Schedule:* This provision would extend and modify the copayment schedule to require copayments from more individuals that receive services. The modified schedule would provide for a copayment cap per family, regardless of the number of participating children. FSSA has estimated that collections of copayments for the 2005 fiscal year will be approximately $725,730. Increases in collections of copayments may increase as a result of enhanced efforts to collect from families as well as from the revised copayment schedule. Sufficient data to determine the impact of the two factors has not been reported.

*Financial Data Reporting Requirement:* The bill requires the Budget Agency to annually report information to the Health Finance Commission regarding the expenditures of the First Steps Program by state and federal funding sources, including Medicaid, TANF, CHIP, and other any funding sources for direct services and administrative expenses.

<u>*Medicaid Program Provisions:*</u> *Community Spouse Income and Asset Limitations:* This provision specifies how allowable assets and income are to be determined for an institutionalized spouse when the other spouse remains in the community. This provision brings the state program into compliance with federal law. The Office of Medicaid Policy and Planning (OMPP) reports that it is currently following the federal requirements, consequently, there is no fiscal impact for this provision.

*Community-Based Developmental Disability Provider Assessment:* The bill would allow OMPP to increase the amount of an assessment on providers of supported living services and support to individuals with a developmental disability to 6% of all service revenue included on the annual plan of care, excluding the residential living allowances. The current statute allows an assessment of 2.5% on these providers although FSSA reports that the Office has never implemented the assessment. In 2003, the 2.5% assessment was estimated to raise a maximum of $10.7 M in revenue to be available as the state match for federal funds. The bill requires that funds raised from the assessment be used to provide community services for persons with developmental disabilities. This is an expansion of the potential uses for the revenue raised by the assessment. The current statute limits the use of the funds to licensing, certification and quality assurance activities of the Bureau of Quality Improvement Services. The fiscal impact of the provision will be dependent upon administrative actions taken for implementation of the assessment and decisions regarding how the increased funding will be used.

*Mail-Order/Internet Pharmacy Designation:* This provision would allow OMPP to designate a mail-order pharmacy or Internet pharmacy from which a Medicaid recipient may obtain a maintenance drug. Any potential savings would be dependent on administrative actions.

*Background:* Medicaid pays for drugs on a defined formula using the lowest cost of several factors. The most commonly quoted is "AWP less 13.5%". If mail-order or Internet-based pharmacies charge less than that amount, the state could anticipate some savings in the cost of drugs. Without a revision of the payment rules, Medicaid may pay the same amount for drugs from an Internet pharmacy as from a local provider. If drugs used for chronic conditions are supplied on a 90-day or greater basis, there may be savings realized by avoidance of dispensing fees. Currently, Medicaid pays a $4.90 dispensing fee for prescriptions, with some limitations. Commercial carriers encourage the use of mail-order or Internet pharmacies by limiting the copayments required of their insureds. This provision does not address how the dispensing fees or required copayments might be addressed.

*Medicaid Recoveries - Liens:* The bill would eliminate a limitation on the ability of the Office to collect from the estate of a surviving spouse only in the amount of the deceased Medicaid recipient's probate estate. The bill provides an exception for subsequent spouses of a surviving spouse. The Office estimates that increased estate recoveries could have an annual fiscal impact of $2 M (federal share of approximately $1.24 M and a state share of $752,000). Medicaid recipients who are married at the time of death are not subject to estate recovery. OMPP reports that in most cases, the estate of a surviving spouse is exempt from estate recovery, as well, unless the estate of the predeceased spouse was probated.

The bill also repeals an existing section of code that limits the Office's enforcement of a lien to real property in which a Medicaid recipient has an interest value of at least $75,000. The bill also changes from 30 to 60 days the deadline in which OMPP has to foreclose on a lien. OMPP estimates the annual fiscal impact of the elimination of the $75,000 lien exemption on the real estate assets of recipients to be approximately $2.87 M ($1.77 M in federal funds and $1.1 M in state funds).

*Recoveries from Annuity Payments:* The bill would allow the Office to recover Medicaid expenses from annuity payments purchased with the assets of a Medicaid recipient or the Medicaid recipient's spouse. OMPP estimates that this provision could result in annual recoveries of $750,000 (federal share of $467,400 and $282,600 in state funds). Recoveries may decline over time as applicants attempt to shelter assets elsewhere.

*Adult Dental Benefits:* The bill requires OMPP to apply to amend the State Medicaid Plan for approval to specify the dental services provided to individuals over age 21 that will be covered under the State Plan without prior authorization. The bill would require prior authorization for services that aren't specified. OMPP reports show that total dental claims paid in FY 2004 were $115 M. This total includes services to adults of about $42.3 M, or $16.1 M in state general funds. The savings to the state would be some portion of the $16.1 M in state general funds that was expended depending upon the specific services eliminated. The current dental benefit for recipients 21 years of age and older is limited to $600 per recipient per 12-month period. 405 IAC 5-14-1 further states that the procedure codes that will be included within the limitation will be listed and published in a provider bulletin. The $600 per recipient limit precedes all other limits in the rule. The Office has the ability through rules to reduce the benefit available to a lower dollar amount as well.

CHOICE Program Provisions: *Asset Limitation:* This provision would limit eligibility for the CHOICE Program to persons with assets of $500,000 or less. Potential savings that may be attributable to this provision would be dependent on administrative actions regarding the definition of countable assets and the level of assets available to current recipients.

*Background on Asset Limitation:* Currently, in the Medicaid program where the level of assets available to an applicant is applied, countable assets do not include an applicant's home and a defined value for a car and other items such as burial trusts. There is currently no asset limitation with regard to eligibility for CHOICE services. No data is known to be collected that would allow a determination of the number of individuals receiving CHOICE services that may lose eligibility as a result of this provision.

*Centralizing CHOICE Reimbursement Rate Setting:* This provision requires FSSA to set the reimbursement rates for the CHOICE Program in consultation with the local Area Agencies on Aging (AAA). Currently, AAAs set the CHOICE rates and, as a result, the rates differ by AAA region. Currently, some of the AAAs are reported to reimburse at Medicaid waiver rates, which are statewide rates. Some level of savings would be anticipated if the centralization of the rate-setting process would result in lower standardized rates. The fiscal impact of this provision would vary by AAA region, depending on administrative actions taken.

*Background on Equalizing Rates:* In 2003, a comparison was prepared of the individual AAAs' locally negotiated CHOICE rates for specific common services. A comparison showing the variation in CHOICE rates for three of the most commonly provided services is presented below.

| | Low CHOICE Rate | High CHOICE Rate |
|---|---|---|
| Skilled Nursing | $ 22.50 | $115.00 |
| Homemaker | $ 9.50 | $ 20.00 |
| Home Health Aide | $ 8.23 | $ 25.00 |

*FSSA Report to the Health Finance Commission:* This provision requires the Office of the Secretary to study and submit a report to the Health Finance Commission concerning the agency's progress towards implementing SEA 493-2003; information concerning home- and community-based services provider reimbursement rates; and eligibility standards and procedures used for state-administered home- and community-based services programs.

*Provision of CHOICE Data:* This provision requires the Secretary of Family and Social Services to provide specified data concerning the individuals participating in the CHOICE Program to the Legislative Services Agency in an electronic format no later than July 1, 2005. The Legislative Services Agency is required to report on the compliance of the information provided to that specified in the bill to the Health Finance Commission and the Budget Committee no later than September 1, 2005.

Natural Resources Commission: The bill provides that the Natural Resources Commission, as opposed to the DNR, may adopt rules to establish fees for programs, licenses, inspections, and facilities of the DNR. This provision will have little, if any, impact because the Commission currently approves fees proposed by the DNR.

Higher Education Provisions: *Higher Education Commission Courses:* The Higher Education Commission is required to establish a statewide core transfer library of at least 70 courses that have transfer equivalents on all campuses. The Commission also is to establish at least 12 degree programs for which articulation agreements apply to any Ivy Tech State College campus and to Vincennes University. The library and degree programs can likely be developed within the Commission's current budget.

*Higher Education Tuition:* State colleges and universities would be required to set tuition and fees for a two-year period after the state budget is passed. The universities would be required to have public hearings, and the rate could only be changed if the appropriations were reduced or withheld. The change would have no state impact. The impact on universities would depend on how they estimate their tuition increase over the two-year period. If tuition grows faster than estimated, then they could lose revenue, and if it grows slower than estimated, then a university may experience a net gain.

*Bonding Authority:* The bill authorizes universities to issue the following bonds.

| Institution | Project | Authority |
|---|---|---|
| Ivy Tech - Valparaiso | New Campus - Phase II | $20,000,000 |
| Ivy Tech - Madison | Main Campus Expansion | $19,144,000 |
| Ivy Tech - Marion | New Campus | $21,015,000 |
| University of Southern Indiana | Education/Science Building, Complete SOB/GCB A&E | $6,600,000 |
| Indiana State University | University Hall Renovation for College of Education | $26,880,000 |
| University of Southern Indiana | Recreation and Fitness Center Expansion Phase II (ineligible for fee replacement) | $7,250,000 |
| Purdue University- North Central | Parking Garage No. 1 (ineligible for fee replacement) | $5,000,000 |
| Indiana University-Bloomington | Central Heating Plant Renovation Phase I | $45,000,000 |
| Purdue University-West Lafayette | Infrastructure and Utilities Improvement | $43,600,000 |
| Ball State University | Boiler Plant Replace. and Chilled Water Improvement | $48,000,000 |
| Total | | $242,489,000 |

The annual fee replacement payment on the eligible bonds over 20 years at an interest rate of 5% would be about $18.5 M when all the bonds are issued.

*Capital Projects Threshold:* The bill changes the dollar amount of projects requiring review by the Higher Education Commission and approval by the Governor upon recommendation by the Budget Agency. The following are the current and new limits.

| | Current Limit | New Limit |
|---|---|---|
| Construct Buildings and Facilities | $200,000 | $500,000 |
| Purchase or Lease Purchase Land, Buildings, or Facilities | $100,000 | $250,000 |
| Repair and Rehabilitation Projects | $500,000 | $750,000 |
| Lease Building or Facility | $50,000 | $150,000 |

The increase may reduce administrative costs since they would not require review by the Higher Education Commission and the Budget Agency and the approval by the Governor.

*School of Medicine Names:* The name changes should have minor if any fiscal impact.

*Reduction of Payment Delays:* The bill requires the State Budget Agency to make an early distribution to state universities and the Indiana Higher Education Telecommunications System (IHETS) in order to reduce payment delay balances by 50% over the biennium. If there are insufficient balances to fund these payments equal to 50% of the delay balance, the Budget Agency may reduce the percentage that is to be repaid under this provision. Based on the higher education budget for FY 2002, a distribution of 50% of the FY 2002 higher education payment delay would equal about $51.7 M.

*Pension Provisions:* The bill provides for a minimum employer-financed pension of $180 per month for members with at least 10 years of service who retired on or before December 1, 2003. The minimum pension would first be paid after December 31, 2003 (one month later). This is to also include members retiring on or before December 1, 2004. The bill also provides certain retired members of PERF a supplemental "thirteenth check" in 2005 and a cost-of-living adjustment (COLA) in 2006.

*Summary of State Fiscal Impact for PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2005, who retired or were disabled prior to July 2, 1990, and 1.5% who retired or were disabled after July 1, 1990, and before January 1, 2005. The minimum increase would be $5 monthly. Current statute has no provision for a COLA in 2006. Consequently, the fiscal impact of the 2006 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of $19.7 M. This represents an additional annual cost of about $1.52 M (about $760,000 for FY 2006 and $1.52 M in fiscal years thereafter, representing approximately 0.11% of payroll).

*Summary of State Budget Impact for PERF COLA:* Although a COLA for 2006 is not provided in current statute, PERF calculates the contribution requirement for the state *in anticipation of passage* of a 2% COLA for CY 2006. Consequently, the budgetary impact from the 2006 adjustment provided in this bill under the contribution rate that is calculated is estimated to result in a reduced unfunded accrued liability of $2.3 M. This would result in a reduced annual funding requirement of about $180,000 (about $90,000 for FY 2006 and $180,000 in years thereafter, representing approximately 0.01% of payroll).

[Note: All estimates for the state impact include, in addition to the cost associated with PERF members, the cost of increases associated with the Excise Police and Conservation Officers' Retirement Plan and the Legislators' Defined Benefit Plan, which are statutorily linked to any COLA increases provided to PERF recipients. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.]

*Summary of Fiscal Impact of 13th Check Provision:* This bill also provides for a 13th check to be paid on or before December 1, 2005, to any member (or survivor or beneficiary) who retired before January 1, 2005, and was entitled to receive a monthly benefit on November 1, 2005. The amount is to be equal to 12 times the monthly pension portion times 2% if retirement was prior to 1990, or 1% if the retirement occurred from 1990 through 1994. This benefit is available only to PERF members and does not become part of the base for pension calculations.

The estimated increase in unfunded accrued liability for FY 2006 is $1.6 M due to the 13th check provision. The increase in annual funding required is $120,000, representing 0.01% of payroll. This impact is in addition to the state fiscal impact for the COLA described above.

All estimates are based on the July 1, 2003, PERF actuarial valuation. The state General Fund contributes about 55% and various dedicated funds contribute approximately 45% of the personal services expenditures of the state budget.

*TRF COLA:* The bill also provides a one-time permanent COLA adjustment to eligible retired TRF members effective January 1, 2006. The amount of the COLA, as a percent of the pension portion of a member's total benefit (including past post-retirement increases), will be as follows:

- 2.0% for members retired before July 2, 1990.
- 1.0% for members retired after July 1, 1990, and before July 2, 2003.
- 0% for members retired after July 1, 2003.

The COLA adjustments effective January 1, 2005, (pursuant to IC 5-10.2-5-37) were taken into account prior to estimating the fiscal impact of this COLA adjustment. It was assumed that no other COLA adjustments would be implemented prior to the proposed COLA effective January 1, 2006.

**TRF COLA Unfunded Accrued Actuarial Liability (UAAL) and Benefit Payouts**

| | Increase in UAAL | Estimated Increase in Projected Benefit Payments | | |
|---|---|---|---|---|
| | **As of 6/30/2004** | **FY 2006** | **FY 2007** | **FY 2008** |
| **Closed Plan** | $44,317,851 | $2,883,089 | $5,582,142 | $5,396,392 |
| **New Plan** | 1,116,923 | 62,297 | 121,670 | 121,670 |
| **Total (Both Plans)** | $45,434,774 | $2,945,386 | $5,703,812 | $5,518,062 |

The fund affected is the state General Fund for the Closed Plan.

*Other Pension Provisions:* The bill eliminates member transfers, after July 1, 2005, from the Pre-1996 Plan (or Old Plan, funded by the state on a pay-as-you-go basis) to the 1996 Plan (or New Plan, pre-funded by school corporation contributions). The bill provides that members of TRF who were members of the Old Plan remain in the Old Plan even if they are re-employed or employed by a different school corporation after June 30, 2005. (Under current practice, the pension liabilities of Old Plan members who are re-employed or employed by a different school corporation are transferred to the New Plan.)

The bill also allows for a transfer from the Pension Stabilization Fund (PSF) of an amount equal to the unfunded liability of any members who were transferred from the Old Plan to the New Plan because of re-employment or employment by a different school corporation. Based on the July 1, 2004, valuation report, the total accrued actuarial liability for the transferred individuals that remains unfunded was estimated at about $611 M. This provision returns the New Plan to being 100% actuarially funded, represents a shift in unfunded liability from the school corporation-funded New Plan to the state-funded Old Plan, and eliminates the annual contributions from school employers toward the unfunded liability that had accumulated for these individuals prior to their transfer to the New Plan. The June 30, 2004, balance for the PSF was reported to be approximately $1.953 billion.

The bill also reestablishes the transfer of $30 M per year of Lottery surpluses to the PSF, removes all language allowing for additional quarterly contributions as needed to maintain the unfunded liability as a percent of payroll for the New Plan, removes certain restrictions on the use of the $30 M deposits, and allows for the deposits to be made directly into the PSF. According to TRF actuaries, these changes provide deposits at least as large as those in the existing statute and are made to bring state law into compliance with current practice. As such, the provisions should have no financial impact on the TRF.

The PERF Board and the TRF Board (for the Pre-1996 Account) are to set the employer contribution at the actuarial rate using normal cost plus 30-year amortization or a shorter amortization period if requested by the Budget Agency or Governor and requires inclusion of the actuarial cost for any cost-of-living increases in determining annual appropriation growth for the Pre-1996 Account. The bill limits the amortization period used to 30 years (previously 35 years as of June 30, 2004). This will allow the actuarial funding requirements to match the accounting requirements of the Governmental Accounting Standard Board. According to the fund actuaries, this change can potentially improve the financial condition of the TRF. The long-term impact of this change would depend on administrative actions.

<u>*School Finance Provisions:*</u> *Primetime:* The bill changes the primetime calculation for CY 2005. Under current law, if the complexity index is greater than 0.2, then the calculations are based on a class size of 15 to 1. Since the value of the complexity index is between 1 and 2, every school is funded at a class size of 15 to 1 (instead of 15 to 1 for schools with a high index and 18 to 1 for schools with a low index). The change reduces the CY 2005 primetime distribution by about $16.8 M.

*Complexity Index:* The 2005 school formula refers to the Census data of adults over age 20 without a high school education. The Census data only has information on the number of adults over age 25 without a high school education. The change in the statutory reference should have no fiscal impact. The complexity index for CY 2006 and CY 2007 is similar to the index for CY 2005 with two exceptions. The dollar amounts of the weights were increased by 5%, and the second tier calculations were modified.

*General School Formula:* The bill authorizes the transfer of $20 M from account 6000/168900 to the state General Fund to fund the tuition support deficiency for FY 2005.

The school formula is a reward-for-effort formula that moves schools to a foundation amount, $4,517 in CY 2006 and $4,563 in CY 2007, multiplied by a school's complexity index over six years. The dollar amount is then multiplied by a school's adjusted ADM to determine a school's regular program funding. The adjusted ADM is the greater of a 5-year average of the school's ADM or 75% of the growth in ADM from the prior year. The formula also has a maximum decrease in the funding for regular programs of 1% per ADM. The funding for the categorical programs, except the Honors Grant, were straight-lined at the CY 2005 level. The Honors Grant was decreased from $930 per student to $900, and the grant can not be used for scholarships for students receiving the diploma. The grant has to be used for staff training, program development, equipment and supply expenditures, or other expenses associated with the honors program.

The bill increases the CY 2005 cap from $3,721,000,000 to $3,759,300,000. The CY 2006 cap is $3,754,700,000 and $3,747,200,000 for CY 2007.

The following chart shows the estimated school formula distribution for schools.

| | CY 2005 | CY 2006 | % Inc | CY 2007 | % Inc |
|---|---|---|---|---|---|
| State Funding | | | | | |
| School Formula | $3,759,300,000 | $3,754,700,000 | (0.01)% | $3,747,200,000 | (0.20)% |
| | | | | | |
| School Formula | | | | | |
| State Regular | $3,082,726,943 | $3,101,773,691 | (0.60)% | $3,077,313,088 | (0.70)% |
| Gross Max Levy | $1,898,518,423 | $1,976,719,913 | 4.10% | $2,057,712,224 | 4.10% |
| Prior Year Auto & FIT | $216,433,646 | $211,055,065 | (2.50)% | $212,828,447 | 0.80% |
| Growing Enrollment | $13,423,630 | $0 | | $0 | |
| Remediation | $28,334,708 | $0 | | $0 | |
| Total Regular | $5,239,437,350 | $5,289,548,669 | 1.00% | $5,347,853,759 | 1.10% |
| | | | | | |
| Categorical Funding | | | | | |
| Special Ed | $424,468,882 | $440,458,309 | 3.80% | $453,099,337 | 2.90% |
| Vocational Ed | $71,691,800 | $72,803,050 | 1.60% | $74,947,175 | 2.90% |
| Prime Time | $122,914,520 | $124,324,429 | 1.10% | $125,768,770 | 1.20% |
| Honors | $15,676,677 | $15,321,600 | (2.30)% | $15,983,100 | 4.30% |
| Total (Reg. + Cat.) | $5,874,189,229 | $5,942,456,057 | 1.20% | $6,017,652,141 | 1.30% |

*Charter Facilities:* The Department of Education would be required to use the interest revenue from the Common School Fund (CSF) to provide a state match if federal funds become available for charter schools' facilities. The impact would be dependent on the availability of federal matching funds. The CSF interest balance at the close of FY 2004 was $16.9 M. Currently, at the end of the state fiscal year, interest earnings on the CSF revert to the state General Fund. Under the bill, any amount of CSF interest used for charter school facility matching funds would reduce funds transferred to the state General Fund. The bill appropriates a maximum of $10 M of interest revenue to match the federal program.

*Senior Judge Per Diem:* Any added costs to state expenditures will depend on how frequently the trial courts and courts of appeal request senior judges, the number of senior judges available, and the amount budgeted for the judicial payroll. The state Supreme Court has the statutory power to adjust the per diem rate if the payroll account is insufficient to pay the per diem. Consequently, the expenditures could be minimal. The per diem costs are paid from the budget of the Supreme Court. If the Supreme Court makes no adjustments to senior judge per diem from that provided in the bill, the minimum amount of added expenditures could range between $142,000 and $196,000, based on experiences of senior judges between 1999 and 2003.

*Background Information on Senior Judge Per Diem:* Senior judges are individuals who have formerly served as trial court judges in Indiana. They are certified by the Indiana Judicial Nominating Commission and may be appointed if requested by a trial court to assist in a certain number of cases.

A senior judge is entitled to the following compensation:

- $50 per day for the first 30 days of service in a calendar year;
- $100 per day from the 31st day up to a maximum of 100 calendar days. This bill would increase this amount to $200 per day.

Senior judges also receive reimbursement for mileage and reasonable expenses incurred in performing service as a senior judge, including but not limited to meals and lodging. Senior judges can serve a maximum of 100 days.

Senior judges are also eligible for health insurance pursuant to the provisions of Administrative Rule 5(B)(8) and as authorized by statute (IC 33-23). When a senior judge serves for 30 days, the judge is considered to be an employee under the state employment statutes and consequently would qualify for benefits.

The Division of State Court Administration reports the following statistics.

| Calendar Year | Sr. Judges Available | Requests for Appointment | Days Worked | Per Diem for Sr. Judges | Benefits Paid[1] | Total Senior Judge Cost |
|---|---|---|---|---|---|---|
| 1999 | 66 | N/A | 3,450 | N/A | N/A | N/A |
| 2000 | 71 | N/A | 3,531 | N/A | N/A | N/A |
| 2001 | 86 | N/A | 4,406 | N/A | N/A | N/A |
| 2002 | 88 | N/A | 4,264 | $209,200 | $695,850 | $905,050 |
| 2003 | 103 | 104 | 5,030 | $273,625 | $830,244 | $1,103,869 |

[1] Includes health insurance and travel and lodging.

[Note: The number of senior judges available represents the pool of available senior judges, but does not necessarily reflect the number of senior judges actually appointed to trial courts to serve or the number of those receiving benefits. For the purposes of this fiscal note, it is assumed that all available senior judges work as senior judges in each calendar year.]

*Added Expenditures:* Under IC 33-23-3-5, the senior judges' per diem is paid from funds appropriated to the Supreme Court for judicial payroll. If the payroll fund is insufficient to pay the per diem payments, the Supreme Court may issue an order adjusting the compensation rate.

If the Supreme Court makes no adjustments in the senior judge per diem, then per diem expenditures for each day paid over 30 days could range between $142,000 and $195,700 based on the experiences of senior judges between CY 1999 and 2003. It is assumed that all available senior judges will work the minimum 30 days to qualify for health insurance. If some of these senior judges work fewer than 30 days and some work more than 30 days, then expenditures will be higher since more senior judges' days will be paid at the higher rate.

| Illustration of Added Expenditures for Senior Judges Based on Data for 1999 through 2003. | | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Average Days Worked | 52 | 50 | 51 | 48 | 49 |
| Days Worked Over 30 Days | 22 | 20 | 21 | 18 | 19 |
| Added $100 Per Day Per Judge | $2,200 | $2,000 | $2,100 | $1,800 | $1,900 |
| Number of Senior Judges | 66 | 71 | 86 | 88 | 103 |
| Added Expenditure | $145,200 | $142,000 | $180,600 | $158,400 | $195,700 |

*PTRC/Homestead Credit Provisions: PTRC/Homestead Credit Minimum and Maximum* - Currently, the state pays property tax replacement credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

This bill sets both a minimum distribution and an appropriation amount (maximum). For all years beginning with taxes payable in CY 2006, the minimum distribution would equal (1) the amount spent in CY 2002 for PTRC and homestead credits ($1,121.7 M), plus (2) the amount of revenue expected to be raised by 1% of current 6% sales tax rate. If the state's total uncapped expenditure for PTRC and homestead credit at the statutory rates is lower in a year than the minimum distribution amount, the Property Tax Replacement Fund (PTRF) Board would be required to increase homestead credit and PTRC rates in the following order:

1. Homestead Credits from 20% to up to 30%.
2. School General Fund PTRC from 60% to up to 70%.
3. Regular PTRC from 20% to up to amount needed to reach the minimum distribution.

The overall distribution would be limited to the fiscal year appropriation in the bill for FY 2006 and FY 2007. If the PTRC and homestead credit rates generate a liability in a year that is greater than the appropriation, then the PTRF Board would proportionately reduce both the 60% school general fund and 20% regular PTRC percentages. The 20% homestead credit percentage would not be reduced.

Under current law, the total "*full cost*" of the PTRC plus homestead credit expenditure is estimated at $2,179 M in CY 2006 and $2,314 M in CY 2007, or $2,079 M in FY 2006 and $2,224 M in FY 2007.

The *minimum* distribution amount in the bill is estimated at $2,008 M in CY 2006 and $2,053 M in CY 2007, or $2,022 M in FY 2006 and $2,023 M in FY 2007.

The *appropriation* in the bill is set at $2,028.5 M in both years of the biennium.

The fiscal year appropriations in this bill are lower than the estimated full cost of the credits by about $50 M in FY 2006 and $195 M in FY 2007.

*Payment Delay Reduction:* Currently, school corporations receive 12 tuition support payments per year from the state. One of these 12 payments was delayed in FY 2002.

The state also currently makes six PTRC/homestead credit distributions to counties each calendar year from the PTRF. Under HEA 1001-2001, the May 2001 distribution was delayed until July 2001. Under HEA 1001-2002(ss), the May-July delay was extended to all years beginning in CY 2002. The payment that was moved is equal to 16.6% of the total annual payment. The original delay in 2001 moved one payment from FY 2001 to FY 2002, and the 2002 legislation continued the delay of one payment from one fiscal year to the next for all following years.

This bill would require the state Budget Agency to make early payments of tuition support and PTRC/homestead credits in order to reduce the payment delay balances by 50% over the biennium. If there are insufficient balances to fund payments equal to 50% of the delay balance, the Budget Agency may reduce the percentage that is to be repaid under this provision. The percentage of repayment must be the same for both tuition support and for PTRC/homestead credits.

Based on the school funding formula in this bill, an early distribution of 50% of the tuition support payment delay balance would equal about $156.5 M. Based on the appropriations for PTRC and homestead credits in this bill, an early distribution of 50% of the PTRC/homestead credit payment delay balance would equal $168.4 M. The total early distributions of 50% of both delay balances is about $324.9 M.

*PTRC Intercept Provisions:* The state could hold back PTRC payments if a county owes the state for juveniles who have been sent to a Department of Correction (DOC) juvenile facility. A county from which a juvenile has been committed to a DOC juvenile facility is required to partially reimburse the state for housing the juvenile.

Currently, the state must forward bills to the counties every six months. This bill would require the billings to be made quarterly. Under the proposal, if a county does not pay the account (as it applies to days served after June 30, 2005) within six months after it has been forwarded to the county auditor, the State Auditor would reduce the next distribution of PTRC to the county and withhold the amount owed on the account, reducing the amount that would be owed to the state. If the state withholds PTRC under this provision, only the county unit's share of the state PTRC would be reduced by the amount withheld.

Under this provision, if a county has an outstanding balance for juvenile offender maintenance on June 30, 2005, the county and the state Budget Agency would be required to attempt to enter into a repayment agreement. If the agreement is not signed before August 15, 2005, then the auditor of state would withhold the amount owed the state from PTRC distributions to the county. The money would be withheld in equal amounts from PTRC payments in FY 2006, FY 2007, FY 2008, and FY 2009. If the state withholds PTRC under this provision, only the county unit's share of the state PTRC would be reduced by the amount withheld.

The payment plan may provide for repayment in either (1) several installments funded by any revenue source or (2) one full payment funded by the proceeds of a bond with a term of up to 10 years. Under current law, a county's outstanding loans (with terms of 5 years or less) may not exceed 5% of the county's total property tax levy. This provision would exempt the debt for juvenile maintenance repayment from this limitation.

According to the State Budget Agency, as of March 18, 2005, 57 counties had outstanding balances totaling $97.26 M. Under current law, the per diem billed to counties by the state is one-half of the cost of housing juveniles in juvenile facilities.

The bill also changes the statutory per diem amount to $60 per day beginning in FY 2006. Based on FY 2004 expenditures, changing the amount billed to counties that commit juveniles to DOC facilities to $60 per day represents a reduced county obligation of $10.38 M annually.

The following table shows the outstanding balance on December 31, 2004, the amount billed to counties between July and December 2004, and payments from counties for these charges between January and April, 2005.

| Juvenile Maintenance Account | | |
|---|---|---|
| Balance as of December 31, 2004 | | $87.32 M |
| Add: Charges for July - December Commitments | + | $16.39 M |
| Subtract: Payments from Counties to Date | - | $6.45 M |
| Balance in April 2005 | | $97.26 M |

The following lists the counties with an outstanding balance owed to the state for committing juveniles to DOC juvenile facilities.

| County | Ending Balance April 2005 |
|---|---|
| Adams | $64,782 |
| Allen | $7,845,192 |
| Benton | $27,234 |
| Blackford | $47,767 |
| Boone | $52,423 |
| Brown | $33,061 |
| Cass | $157,841 |
| Clark | $797,937 |
| Clay | $50,877 |
| Clinton | $846,993 |
| Dearborn | $91,655 |
| Decatur | $97,483 |
| Dekalb | $456,180 |
| Delaware | $184,351 |
| Elkhart | $2,526,492 |
| Fayette | $137,294 |
| Floyd | $319,738 |
| Fountain | $71,706 |
| Grant | $1,209,673 |
| Hamilton | $209,651 |
| Hancock | $65,499 |
| Hendricks | $554,080 |
| Henry | $23,050 |
| Huntington | $165,785 |
| Jackson | $13,368 |
| Jefferson | $23,049 |
| Jennings | $29,656 |
| Johnson | $207,820 |

| | |
|---|---|
| Knox | $296,410 |
| Lagrange | $40,347 |
| Lake | $4,146,857 |
| Laporte | $222,855 |
| Lawrence | $258,301 |
| Madison | $545,089 |
| Marion | $62,584,193 |
| Marshall | $25,155 |
| Miami | $388,846 |
| Monroe | $159,999 |
| Montgomery | $139,121 |
| Noble | $621,660 |
| Owen | $75,900 |
| Perry | $10,955 |
| Porter | $2,969,777 |
| Putnam | $12,273 |
| Randolph | $29,995 |
| Ripley | $46,573 |
| Scott | $54,382 |
| Shelby | $83,849 |
| Starke | $839,158 |
| Steuben | $155,067 |
| St. Joseph | $5,983,388 |
| Sullivan | $25,367 |
| Tippecanoe | $876,684 |
| Vigo | $289,175 |
| Warrick | $59,841 |
| Washington | $5,208 |
| White | $11,864 |
| Statewide Total | $97,268,926 |

*New Courts and Magistrates:* This bill would permit the judges of the Madison Superior Courts to appoint one new magistrate and the judge of the Perry Circuit Court to also appoint one new magistrate. These appointments would be effective July 1, 2005. One new superior court would be created in Vigo County effective January 1, 2006. The added costs to the state over the next four fiscal years is shown below.

| County | Court/ Magistrate | Effective Date | FY 2006 | FY 2007 | FY 2008 | FY 2009 |
|---|---|---|---|---|---|---|
| Madison | One Magistrate | Jul 1, 2005 | $94,394 | $94,394 | $94,394 | $94,394 |
| Perry | One Magistrate | Jul 1, 2005 | $94,394 | $94,394 | $94,394 | $94,394 |
| Vigo | One Court | Jan 1, 2006 | $70,353 | $140,706 | $140,706 | $140,706 |
| Added Expenditures | | | $259,141 | $329,494 | $329,494 | $329,494 |

The estimated costs for a 12-month period are listed in the following table.

| Cost Component | Source of Computation | Judge | Magistrate |
|---|---|---|---|
| Salary | Specified in statute | $90,000 | $72,000 |
| Life Insurance | 0.36% of Salary | $324 | $259 |
| Health, Dental, and Vision | Blended rate (estimated by the State Budget Agency) | $8,291 | $8,291 |
| Social Security | 7.65% of salary | $6,885 | $5,508 |
| Disability Insurance | 2.28% of salary (estimated by State Budget Agency) | $2,052 | $1,642 |
| Judges Retirement Fund | 35% of Salary | $31,500 | |
| PERF | 7% of salary | | $5,040 |
| Leave Conversion | Estimated by State Budget Agency | $654 | $654 |
| Judicial Center | Includes materials & postage, but not possible staffing | $1,000 | $1,000 |
| **Total Cost for New Court:** | | **$140,706** | **$94,394** |

*State Examiner:* This bill provides that an appointee for State Examiner must have 3 consecutive years of active experience as a field examiner with the State Board of Accounts that immediately precedes the appointment as State Examiner. Current law requires the appointee to have 7 years of experience as provided above.

*Elimination of the Board of Corrections:* This is a seven-member board that generally meets four times a year and by statute approves several of the decisions that the DOC Commission recommends concerning organization and assignment of superintendents. Eliminating this board will result in a reduction in per diem payments $1,400 (7 members x 4 meetings per year x $50 per diem), travel reimbursement, and postage.

*Government Efficiency Commission (GEC):* Under the bill, the Government Efficiency Commission is to make recommendations to: (1) improve efficiency and reduce unnecessary costs associated with boards and commissions; (2) continue, reorganize, or combine boards or commissions created by executive order or statute, and (3) reform K-12 education funding and budgeting related to non-classroom expenditures. The Governor is to receive final recommendations by October 1, 2006, and from these recommendations submit a report to the Legislative Council by November 1, 2006. The Legislative Council is to review the Governor's recommendations to propose legislation for the 2007 legislative session.

Under the bill, the GEC would consist of 22 members, including two co-chairpersons appointed by the leaders of the House of Representatives and the Senate. Members of the GEC are entitled to travel and other expense reimbursement, but not to a salary per diem. Under the bill, the office of the Governor is to provide staff support to the GEC.

*Background:* A Government Efficiency Study Commission (Commission) was created by P.L. 224-2003 to review all state-funded agencies, departments, and programs and to make recommendations to improve efficiency and reduce waste or other unnecessary costs. The Commission also consisted of 22 members, but there were four subcommittees established in law. Administrative support was incorporated in the workload of the staff of the Legislative Services Agency and other state agencies. The Commission was required to and has submitted its report before December 31, 2004.

The Commission members were not entitled to salary per diem, but did receive travel reimbursement. Between October 2003 and July 2004, the Commission travel reimbursement totaled $3,837. Legislative Council contingency funds paid $3,400 for a contract to complete the report of the Medicaid and Human Services Subcommittee. Private donations to the Commission included reports surveying the state Medicaid Program, the Department of Education, and Higher Education.

**Explanation of State Revenues:**

*Professional Standards Board:* Under the bill, the fee revenue for teacher licensing would be placed into the Professional Standards Fund rather than the Professional Standards Board Licensing Fund established by P.L. 224-2003. Effective January 1, 2002, teacher license fees are $35. The limited license fee is $35, and the fee for a substitute certificate is $15. In FY 2004 the Board collected $1.07 M in teacher license revenue.

*State Board of Finance:* This bill gives the State Board of Finance specific authority to transfer funds to the Indiana Economic Development Corporation. This allows the Board to legally transfer funds to the Corporation as an instrumentality of the state.

*Integrated Steel Mill Equipment Property Tax Valuation:* The state levies a tax rate for State Fair and State Forestry. The increase in the AV base under this provision would similarly change the property tax revenue for these two funds. The increase would be minimal.

*Earned Income Tax Credit (EITC) Extension:* The current EITC is equal to 6% of the federal Earned Income Credit (EIC), but is scheduled to sunset on December 31, 2005. The bill changes the sunset date for the EITC to December 31, 2011. Since the extension of the EITC would begin in tax year 2006, the revenue impact of the extension would begin in FY 2007. It is estimated that the annual revenue loss to the Individual Adjusted Gross Income (AGI) Tax could potentially be $49.7 M in FY 2007, $52.0 M in FY 2008, and $54.4 M in FY 2009.

Under current statute (with the December 31, 2005, sunset date), the EITC is estimated to reduce AGI Tax revenue by $45.4 M in FY 2005 and $47.5 M in FY 2006, with no revenue loss beginning in FY 2007. The FY 2005 and FY 2006 revenue loss is attributable to credits claimed for purposes of tax years 2004 and 2005, respectively. State tax return data for 2003 indicates that the EITC has very little impact on withholdings during the tax year due to advanced credit payments. Federal income tax data for tax year 2002 indicates that the federal EIC was claimed by 414,869 federal income tax filers residing in Indiana. This total was 11.0% above the 2001 total. The credits claimed in 2002 totaled about $692.0 M, increasing by about 13.2% over 2001 credits claimed. Annual growth in credits claimed by Indiana filers averaged 4.6% from 1996 to 2002.

*Disposal of Surplus Property:* The bill also changes the procedure for surplus computer hardware sales. The bill eliminates the requirement that this property first be offered to an educational entity. It is estimated that this provision will increase the number of bidders, and therefore could increase the selling price, as well as increase the volume of surplus computer hardware that is sold. The overall impact of this provision is indeterminable.

*Lake County Income Tax Credit:* The bill requires payment to the state in FY 2006, FY 2007, and FY 2008 by Lake County, East Chicago, Gary, and Hammond for property tax circuit breaker credits claimed against state income taxes in 2001, 2002, and 2003, but not reimbursed in subsequent years pursuant to current statute. Amounts for the unreimbursed credits would be deducted from supplemental Riverboat Admission Tax payments made under current statute from the PTRF. It is estimated that the reimbursement plan would result in an increase to the PTRF totaling about $6.4 M annually in FY 2006, FY 2007, and FY 2008. This is based on income tax return data indicating that credits totaled approximately $5.4 M in 2001; $7.1 M in 2002; and $6.8 M in 2003.

The bill also provides that the reimbursement of the annual cost of the property tax circuit breaker from actual distributions of Riverboat Admission Tax to Lake County, East Chicago, Gary, and Hammond is accounted for in determining the annual supplemental Riverboat Admission Tax payments made to these local units. This provision would begin with supplemental payments made to Lake County, East Chicago, Gary, and Hammond in FY 2006. Based on prior year property tax circuit breaker credits, this would be approximately $6.4 M annually.

*Background on Lake County Income Tax Credit:* Current statute provides for an individual Adjusted Gross Income (AGI) Tax credit for property taxes paid by low-income homestead owners in Lake County (taxpayers whose earned income is less than $18,600). The entire cost of the tax credit is to be reimbursed to the state General Fund from Riverboat Admission Tax revenue distributed to Lake County (one-half of the cost), and to East Chicago, Gary, and Hammond (one-sixth of the cost each).

*Internal Revenue Code (IRC) Reference Update:* The bill updates the reference to the Internal Revenue Code to incorporate all the federal changes made up to January 1, 2005. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2003. The bill would affect tax years beginning with tax year 2004 as a result of the following federal acts:

(1) Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 (P. L. 108-27).
(2) Military Family Tax Relief Act (MFTRA) of 2003 (P. L. 108-121).
(3) Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P. L. 108-173).
(4) Working Families Tax Relief Act (WFTRA) of 2004 (P. L. 108-311).
(5) American Jobs Creation Act (AJCA) of 2004 (P. L. 108-357).

It is important to note that current statute provides for an addback of federal bonus depreciation allowances claimed during the taxable year for federal income tax purposes so any references to this provision in the above acts will not affect the Indiana tax base. The bill specifies that this addback includes the 50% bonus depreciation allowance enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003. In addition, the bill provides for addbacks of the Section 179 property deduction in excess of $25,000 enacted in the JGTRRA and extended under the American Jobs Creation Act of 2004; and the deduction for domestic production activities enacted in the AJCA. The estimated revenue impact of these federal acts is summarized in the table below with a general explanation of the provisions following the table.

| **Provisions (Revenue Impact in $M)** | **FY 2005** | **FY 2006** | **FY 2007** |
|---|---|---|---|
| Military Family Tax Relief Act of 2003 | | | |
| (1) National Guard Travel Expense Deduction | **(0.3)** | **(0.4)** | **(0.4)** |
| Medicare Prescription Drug, Improvement and Modernization Act of 2003: | | | |
| (2) Health Savings Account Deduction & Exclusion | **(0.8)** | **(1.1)** | **(1.3)** |
| Working Families Tax Relief Act of 2004 | | | |
| (3) Educator Expense Deduction | (0.8) | (0.9) | (0.2) |
| (4) Clean-Fuel Vehicle Deduction | (0.2) | (0.1) | 0 |
| (5) Corporate Computer Contribution Deduction | (0.8) | (0.5) | (0.1) |
| (6) Expensing Environmental Remediation Costs | (1.6) | (0.9) | 0 |
| **Subtotal** | **(3.4)** | **(2.4)** | **(0.3)** |
| American Jobs Creation Act of 2004 | | | |
| (7) Repeal of Extraterritorial Income Exclusion | 1.4 | 5.6 | 15.4 |
| (8) 85% Foreign Source Dividend Deduction | 11.9 | (5.1) | (8.4) |
| (9) S-Corporation Tax Treatment | (0.1) | (0.2) | (0.3) |
| (10) Business Tax Incentives and Miscellaneous Business Provisions | (2.2) | (2.6) | (2.4) |
| (11) Revenue Provisions | 5.6 | 10.0 | 12.7 |
| Subtotal | **16.6** | **7.7** | **17.0** |
| Total Impact on State Revenue | **12.1** | **3.8** | **15.0** |

(1) Creates an above-the-line deduction for travel expenses of National Guard troops and reservists, provided the travel exceeds 100 miles and requires an overnight stay. The deductible expenses may not exceed the general federal per diem rate applicable to the particular locality.

(2) Creates an above-the-line deduction for employee contributions to the employee's Health Savings Account

(created by the Act); and creates an exclusion from the employee's gross income for employer contributions to the employee's Health Savings Account.

(3) Extends through tax year 2005, the above-the-line deduction for qualifying expenses incurred by educators for classroom materials (which expired after tax year 2003 under prior law).

(4) Provides for the full value of the existing above-the-line deduction for clean-fuel vehicles placed in service in tax year 2005. Under prior law, the deduction was scheduled to be reduced by 50% for property placed in service in tax year 2005. Pursuant to current law, the deduction will be reduced by 75% for property placed in service in tax year 2006, and will expire after tax year 2006.

(5) Extends through tax year 2005, the corporate deduction for charitable contributions of computer technology or equipment to elementary and secondary schools, and public libraries (which expired after tax year 2003 under prior law).

(6) Extends through tax year 2005, the deduction for expenses relating to the cleanup of hazardous substances in certain qualified areas (which expired after tax year 2003 under prior law).

(7) Phases out the exclusion from gross income for extraterritorial income a U.S. business receives from sales of goods it produces domestically and sells abroad either directly or through a subsidiary. The phaseout of the exclusion begins in tax year 2005 and is generally complete beginning in 2007.

(8) Provides for a one-time deduction from gross income for a U.S. corporation that receives qualified dividends from a foreign corporation it controls, generally, during tax year 2004 or 2005. The deduction is equal to 85% of the amount of qualified dividends paid during the allowed time period. The dividends must be reinvested in the U.S. to fund worker hiring and training, infrastructure, research and development, capital investments, or financial stabilization of the corporation.

(9) Provisions relating to tax treatment of S-corporations, including: (a) increasing the maximum allowable shareholders from 75 to 100; (b) treating family members as one shareholder for purposes of an S-corporation; and (c) permitting IRAs to hold shares in a bank that is an S-corporation.

(10) Provisions modifying certain depreciation and accounting rules, and treatment of certain business income and expenses, including: (a) acceleration of the recovery period for certain leasehold and restaurant building improvements; (b) deduction for certain reforestation costs; and (c) 75% first year expensing (in lieu of annual depreciation deductions) of capital costs incurred by small business refiners to comply with the diesel fuel sulfur controls imposed by the U.S. EPA.

(11) Provisions that increase a taxpayer's federal adjusted gross income or taxable income, including limits on: (a) expatriation of income; (b) deductions for property leased to tax-exempt entities; (c) certain transfers of partnership losses; (d) deductions for charitable contributions of intellectual property; and (e) deductions for certain entertainment expenses relating to use of company aircraft.

*BMV Technology Fund:* This section removes the expiration dates for collection of a BMV service charge. Although the charge was to expire in 2003 by statute, the BMV has continued to collect and deposit the $0.50 into the Motor Vehicle Technology Fund. This part will have no fiscal impact.

_Abandoned Property Fund:_ This bill provides that the balance of the Abandoned Property Fund (AP Fund), less deductions, shall be transferred by the Treasurer of State to the state General Fund. Under current law, the Treasurer would transfer the balance of the fund, less deductions, to the Common School Fund.

The balance of the AP Fund at the close of FY 2004 was approximately $103 M, and approximately $70 M was transferred to the General Fund (under P.L. 224-2003). As of January 31, 2005, the Treasurer's office reported that there was approximately $30 M to be transferred to the General Fund on June 30, 2005. Several demutualized insurance firms have reported unclaimed shareholder proceeds. There are approximately three to five more firms that will be reporting. Since it is unknown when or the dollar amount that these firms will report, it is estimated that the transfer to the General Fund on June 30, 2005, will be approximately $30 M.

The bill also requires that money from certain illegal gambling debts recovered in civil actions initiated by county prosecutors and proceeds from the sale of certain abandoned vehicles are to be deposited in the state General Fund. These proceeds are currently deposited in the Common School Fund.

*Background:* From June 30, 2000, to June 30, 2003, approximately $25 M to $30 M was transferred from the Abandoned Property Fund to either the Common School Fund or the General Fund. Prior to June 30, 2003, the balance of the AP Fund above $500,000 was transferred to the Common School Fund. P.L. 224-2003 required that the balance above $500,000 be transferred to the General Fund on June 30 of 2003, 2004, and 2005.

Under IC 32-34-1-34(f), interest accrued on property in the Abandoned Property Fund is deposited in the state General Fund.

P.L. 224-2003 also decreased the amount of time in which unclaimed property reports from demutualized insurance firms are reportable as unclaimed property. Prior to this change, unclaimed shareholder proceeds from the restructuring of a mutual insurance firm were reportable to the state as unclaimed property five years after the restructuring event. P.L. 224-2003 changed the law so that unclaimed shareholder proceeds may be presumed abandoned and reportable to the state five years after the insurer's last contact with the policyholder or five years after the mutual insurance company's restructuring.

_Riverboat License Transfer Fee:_ The bill voids an emergency rule adopted by the Indiana Gaming Commission (IGC) on April 21, 2005, to impose a transfer fee when the controlling interest in a riverboat license is transferred. Under the emergency rule, the transfer fee would be equal to 1% of the adjusted gross wagering receipts (AGR) generated during the preceding fiscal year by the riverboat being transferred. FY 2004 AGR generated by the Indiana riverboats ranged from a low of $119.4 M to a high of $430.0 M.

The bill also voids any other rule adopted after April 1, 2005, by the IGC that establishes a transfer fee for riverboat licenses, including operating permits.

_Home Ownership Education Account_: According to P.L.73-2004, SEC.33, effective January 1, 2005, county recorders are to pass on $2.50 of a $3.00 mortgage recording fee to the Auditor of State. The Auditor of State is currently required to distribute $1.25 of every $2.50 to the Home Ownership Education Account and the other $1.25 to the Homeowner Protection Unit Account. Both accounts are within the state General Fund.

This bill requires the Auditor of State to deposit in the state General Fund the $1.25 that currently is to go into the Home Ownership Education Account. According to Auditor of State data, no money has been deposited into this account.

According to the Department of Local Government Finance, approximately 200,000 parcels of land are sold or conveyed each year. The U.S. Bureau of Census reports that 21.8 M primary mortgages were originated in the U.S. from 1995-1999. Approximately 2.2% of these, or an average of 96,000 mortgages per year (1995-1999), are attributed to Indiana. If the Census Bureau data were applied to the above DLGF estimate, a little less than 50% of all parcels of land sold or conveyed per year in Indiana would have a mortgage. Of the total number of regular and home-equity mortgages reported by the Census Bureau, approximately 23% were second and third mortgages. Using this percentage with the above Census data, the $1.25 fee is estimated to generate approximately $147,500 to the state General Fund.

[Note: These estimates include second and third mortgages. As of the preparation date of this analysis, data on the number of commercial mortgages made in a year was not readily available. Therefore, the revenue estimate may be conservative.]

**Explanation of Local Expenditures:**

*Pension Provisions: Summary of Local Fiscal Impact of PERF COLA:* The bill provides a 2.0% COLA for members, survivors, and beneficiaries of PERF payable after December 31, 2005, who retired or were disabled prior to July 2, 1990, and 1.5% for those who retired or were disabled after July 1, 1990, and before January 1, 2005. The minimum increase would be $5 monthly. Current statute has no provision for a COLA in CY 2006. Consequently, the fiscal impact of the 2006 adjustment provided in this bill, over what is in current statute, is estimated to result in an additional unfunded accrued liability of $23.5 M. This would result in an additional annual funding requirement of about $1.78 M (representing approximately 0.07% of payroll) over what is provided for in current statute.

*Summary of Local Budget Impact of PERF COLA:* Although a COLA for 2006 is not provided in current statute, future PERF funding requirements are calculated *in anticipation of passage* of a 2% COLA for CY 2006. Consequently, the budgetary impact for the 2006 adjustment provided in this bill, under the contribution rate that is calculated for political subdivisions, is estimated to result in a reduced unfunded accrued liability of $2.8 M. This would result in a reduced annual funding requirement of about $220,000 (representing approximately 0.01% of payroll) under what would be required to support the assumed COLA.

*Summary of Fiscal Impact of 13th Check Provision:* The 13th Check provision results in an estimated increase in unfunded accrued liability for CY 2005 of $1.9 M. The increase in annual funding required is $150,000, representing 0.01% of payroll. This impact is in addition to the fiscal impact to local units for the COLA described above. (See *Explanation of State Expenditures* for details on the 13th Check provision.)

*School Finance Provisions: Property Taxes:* The bill changes the maximum decrease in the property tax rate in the school formula from $0.03 to $0.08 for CY 2006 and 2007 over the current $0.03 decrease in CY 2005. The maximum increase in CY 2006 and CY 2007 continues to be $0.03.

**Outside Provisions Increase over CY 2005 Amount**

| | **CY 2006** | **CY 2007** |
|---|---|---|
| Additional Free Textbook Relief | 13,453,360 | 16,742,352 |
| Additional CPF Transfer | 50,046,238 | 94,670,773 |
| Referendum Adjustment | 3,098,278 | 4,906,461 |
| Additional TRF Contribution Rate Relief | 1,556,248 | 3,904,353 |
| Transportation Fund Levy Adjustment | 16,447,959 | 32,895,918 |
| **Total** | 84,602,084 | 153,119,857 |

*Textbook Reimbursement From Debt Service Fund:* The bill allows public schools to increase their debt service fund levy to pay for unreimbursed costs of providing textbooks to students who are eligible for the free or reduced lunch program. For 2005, the claims to date have been about $28.2 M and the distribution to public schools is about $19.6 M. Schools are allowed to file a supplemental claim, but have not in recent years since their was no funding for the supplemental claim. The increase in debt service levies is estimated to be about $13.5 M for CY 2006 and $16.7 M for CY 2007. Charter schools and nonpublic schools also participate in the free textbook program but do not have debt service levies to recover unreimbursed claims.

*Capital Project Fund (CPF) Expenditures for Insurance and Utilities:* The bill continues to allow schools to pay for utilities and property and casualty insurance from the school's capital projects fund. The amount of utilities and insurance that can be paid from the fund is 2.75% of the 2005 year's school formula revenue for CY 2006 and 3.5% of the 2005 year's school formula revenue for CY 2007. The annual maximum amount is about $50.0 M for CY 2006 and $94.7 M for CY 2007.

*Referendum:* The bill would allow a school to transfer the original amount of a referendum effective before CY 2002 from their General Fund to their Referendum Tax Levy Fund. The change would increase levies by about $3.1 M in CY 2006 and $4.9 M in CY 2007.

*TRF Expenditure Reductions:* The state is using the Pension Stabilization Fund to eliminate the unfunded accrued liability in the 1996 Account of the Teachers Retirement Fund. The elimination of the unfunded accrued liability should reduce the cost to local schools by about 2% of covered payroll. Currently, the state is using the $30 M of lottery revenue for the retirement fund to reduce the schools' retirement costs. It is estimated that the savings to local schools would be about $1.6 M in CY 2006 and $3.9 M in CY 2007 over the $30 M in relief currently being given.

*Transportation Fund:* The bill allows schools to increase their transportation fund levies by the reduction in state transportation funding. The increase is phased in over two years: ½ of the allowable increase in CY 2006 and ½ of the allowable increase in CY 2007. Schools would still be allowed to transfer money from other funds to offset the reduction in state transportation funds if it is not covered by the appeal. The amount of the levy increase in CY 2006 is $16.45 M, and schools could transfer an additional $16.45 M from other funds. The levy increase in CY 2007 is $32.9 M, and no transfer would be needed from other funds. The state would not pay PTRC on the appeal or future growth in the appeal.

*Kindergarten Start Date:* The bill provides that a child must be at least five years of age on August 1 of the 2006-2007 school year or a subsequent school year to enroll in a school corporation's kindergarten program for that year. (Current law provides that a child must be at least five years of age on July 1.) The increase in the enrollment in the 2006-2007 school year is built into the CY 2007 school formula simulations and state calendar year cap.

*Local Homestead Credit Option:* Beginning with taxes payable in CY 2006 (or 2004 or 2005 if tax bills for those years have not been mailed in a county), this bill would give each county the option of providing credits against the property tax liability of residential property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit would equal the amount of tax that exceeds the 2% threshold. Residential property may include any combination of homesteads, apartment complexes, and other residential rental property at the county's discretion. No application is required to receive the credit. The county auditor would identify the eligible property and apply the credit.

The county would be permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county would be required to repay the loan. Civil units and school corporations would be required to impose a property tax levy to repay the debt. This levy would be subject to the unit's maximum permissible levy limit and would not be allowed to serve as a basis for obtaining an excessive levy. So, the bill does not grant any additional levy authority.

If the property tax credits are granted, but not funded through a loan or other revenue source, the credits would reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. So, if the county does not fund the credits, the entire cost of the credit would be a local revenue reduction in the year granted.

An analysis of 2003 parcel-level property tax data for homesteads in 43 counties was performed to estimate the cost of the optional credit for homesteads only. According to the data, homesteads in 9 of the 43 counties could benefit from the credit. The total possible credits for the 9 counties was estimated at $16.4 M, with $15 M of the total amount in Lake County. Besides Lake, St. Joseph is the only other county in the 43 analyzed where the credit would have significance. The full cost of the credits in a county would depend on the type(s) of property for which the county fiscal body approves the credits. The following table is a summary of the estimated credits on homesteads only in the 43 counties examined.

| Estimated Credit for Residential Net Property Tax Over 2%of AV<br>Analysis on Homesteads in 43 Counties Using 2003 Net Tax Data | | | | | | | |
|---|---|---|---|---|---|---|---|
| County | Total # Hmstds | Est. Credit $ | Est. # Credits | County | Total # Hmstds | Est. Credit $ | Est. # Credits |
| Adams | 6,466 | 0 | 0 | Johnson | 25,491 | 0 | 0 |
| Bartholomew | 15,725 | 0 | 0 | LaGrange | 6,137 | 0 | 0 |
| Benton | 2,456 | 0 | 0 | Lake | 114,565 | 15,023,278 | 29,997 |
| Blackford | 4,645 | 926 | 21 | Madison | 33,078 | 1,213 | 19 |
| Boone | 10,208 | 0 | 0 | Marion | 185,990 | 18,710 | 86 |
| Carroll | 4,998 | 0 | 0 | Marshall | 9,953 | 0 | 0 |
| Clay | 7,251 | 0 | 0 | Miami | 671 | 0 | 0 |
| Clinton | 7,187 | 0 | 0 | Monroe | 20,955 | 0 | 0 |
| Decatur | 5,806 | 0 | 0 | Montgomery | 8,436 | 7,384 | 26 |
| Dubois | 9,432 | 0 | 0 | Newton | 3,270 | 0 | 0 |
| Elkhart | 36,990 | 0 | 0 | Pike | 1,506 | 0 | 0 |
| Fayette | 6,547 | 6,410 | 29 | Porter | 31,015 | 0 | 0 |
| Floyd | 16,471 | 0 | 0 | Pulaski | 3,306 | 0 | 0 |
| Fulton | 4,498 | 0 | 0 | Randolph | 6,707 | 3,796 | 7 |
| Grant | 15,416 | 77 | 1 | St. Joseph | 60,814 | 1,288,412 | 2,780 |
| Greene | 7,069 | 0 | 0 | Scott | 5,137 | 0 | 0 |
| Hamilton | 47,175 | 0 | 0 | Tipton | 4,286 | 0 | 0 |
| Hancock | 13,625 | 0 | 0 | Vanderburgh | 40,374 | 0 | 0 |
| Howard | 19,737 | 0 | 0 | Wabash | 8,070 | 0 | 0 |
| Jay | 5,294 | 0 | 0 | Wells | 7,509 | 0 | 0 |
| Jefferson | 7,399 | 0 | 0 | White | 5,603 | 0 | 0 |
| Jennings | 6,883 | 0 | 0 | **Totals** | **844,151** | **16,350,207** | **32,966** |
| | | | | **# Counties** | **43** | | **9** |

*PTRC Intercept Provisions:* The bill changes the statutory per diem amount for juvenile incarceration to $60 a day beginning in FY 2006. Based on FY 2004 expenditures, changing the amount billed to counties that commit juveniles to DOC facilities to $60 a day represents a reduced county obligation of $10.38 M annually.

**Explanation of Local Revenues:**

*Integrated Steel Mill Equipment Property Tax Valuation:* Under current law and DLGF rules, business personal property, except for integrated steel mill and oil refinery equipment, is valued according to a depreciation schedule as specified in the rule. Taxpayers list the cost of depreciable property in one of four "pools," depending on the declared useful life of the property. Each pool has a different set of depreciation rates for each year of age of the property. The cost of equipment is multiplied by the appropriate "percent good" factor in the depreciation schedule to produce the true tax value (TTV) of the equipment. The TTV of all of a taxpayer's depreciable property located in the same taxing district must be at least 30% of the total cost of the property. The rule allows for special valuation of special tooling and for an adjustment for abnormal obsolescence of the equipment.

However, integrated steel mill and oil refinery/petrochemical equipment may be valued under a fifth pool depreciation schedule. The value of property in this pool is not subject to the 30% floor. Taxpayers who choose to use Pool 5 depreciation may not make any adjustments for abnormal obsolescence. A taxpayer may use Pool 5 to value all of their property if at least 50% of the taxpayer's total property cost is attributable to special integrated steel mill or oil refinery/petrochemical equipment.

Under current law, an integrated steel mill is defined as a producer of steel by processing raw materials in a blast furnace. Beginning with taxes paid in CY 2005, this bill would require that the blast furnace be located in Indiana to meet the definition and in order for a taxpayer to use Pool 5 depreciation.

There is currently at least one taxpayer, in Spencer County, that has its blast furnace in another state but used Pool 5 depreciation for its Indiana property. This taxpayer is located in a tax increment financing (TIF) district and currently receives an abatement on its personal property. The TIF was structured so that (1) 10% of the taxpayer's AV is not tiffed, and (2) the taxpayer is responsible for making payments to the redevelopment commission if the TIF proceeds in a year are insufficient to meet annual debt repayment obligations.

According to the county, through its consultant, the taxpayer's total net AV would increase by $9.7 M for taxes paid in CY 2005, $58.7 M in CY 2006, and $117.8 in CY 2007 if the use of Pool 5 is disallowed. Ten percent of the increased AV would be added to the tax base of all of the units that service the taxing district where the property is located. The rest would be tiffed. The addition of AV to the tax base would reduce the tax rate by about $0.0035 in CY 2005, $0.0200 in CY 2006, and $0.0390 in CY 2007. The resulting gross tax shift from all taxpayers to the steel taxpayer is estimated at $17,000 in CY 2005, $100,000 in CY 2006, and $200,000 in CY 2007.

The new tax rate would be applied to the revised tiffed AV to produce the TIF proceeds. Gross TIF proceeds would increase by an estimated $175,000 in CY 2005, $1.0 M in CY 2006, and $2.1 M in CY 2007. The taxpayer's debt guarantee payments would be reduced by this amount. The taxpayer made guarantee payments equal to $2.2 M in CY 2003 and $1.2 M in CY 2004. So far in CY 2005, the taxpayer has made $250,668 in guarantee payments. This amount is more than the 1st of two 2004 payments. The 1st 2004 payment was $221,781.

Total local property tax revenues, except for cumulative funds, would not be affected by this proposal. Cumulative fund revenue would rise by an estimated $2,500 in CY 2005, $15,000 in CY 2006, and $30,000 in CY 2007.

*Lake County Income Tax Credit:* The bill requires payment to the state in FY 2006, FY 2007, and FY 2008 by Lake County, East Chicago, Gary, and Hammond for property tax circuit breaker credits claimed against state income taxes in 2001, 2002, and 2003, but not reimbursed in subsequent years pursuant to current statute. Amounts for the unreimbursed credits would be deducted from supplemental Riverboat Admission Tax payments made under current statute from the PTRF. It is estimated that the reimbursement from Lake County would total about $3.2 M annually in FY 2006, FY 2007, and FY 2008; with East Chicago, Gary, and Hammond each paying almost $1.1 M in each fiscal year. (See *Explanation of State Revenues* for discussion of tax credit and reimbursement.)

*Internal Revenue Code Reference Update:* The IRC reference update could potentially affect taxable income of individual taxpayers. However, the impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) is likely to be minimal.

*Airport Development Zones:* The airport development zone is a property tax allocation area. Currently, these are authorized in Marion, Vigo, Vanderburgh, and Allen Counties, and in Gary. The bill provides that the base AV computation for purposes of an airport development zone includes the net AV of tangible property for the assessment period immediately preceding the date the airport authority adopts its preliminary resolution designating the airport development zone, regardless of the date that the final resolution establishing the airport development zone is adopted by the airport authority. If an airport authority adopted a preliminary resolution, but either never adopted a final resolution or adopted one several assessment periods later so the AV value had changed, the base AV would relate to the adoption date of the preliminary resolution regardless of the second resolution.

Under existing law, except in Vanderburgh County, the incremental property taxes captured in the airport development zone are to be used for airport development projects in the zone. These taxes, upon determination of the airport authority, may be used for employee training for the project, with the remainder allocated to debt service. Any taxes exceeding the amount required for bond principal and interest payments, lease rental or lease payments, or reserve requirements are to be paid to local tax units. The bill provides for a third distribution before payment of excess incremental property taxes to local units.

*Local Homestead Credit Option:* This provision would allow local civil taxing units and school corporations to provide additional homestead credits using revenue received under any law or from any individual or business entity.

The taxing unit would have to adopt an ordinance before December 31 of each year in order for the credit to be applied to property taxes paid in the following year. The ordinance must specify whether the credit would be applied at a uniform percentage or a uniform amount for each homestead. The ordinance would also have to specify the percentage or dollar amount to be applied.

This bill would reduce the net property tax bills on homesteads within the taxing unit's boundaries. The amount of net tax reduction would depend on the number of taxing units that adopt such an ordinance, and on the value of credits granted by each one.

These local homestead credits would be applied after all other deductions and credits. They would have no effect on the state's liability for PTRC or state homestead credits or on the county's liability for county income tax-funded homestead credits in a county that provides them. There would also be no effect on total local revenues.

*Hospital Care for the Indigent (HCI) Property Tax Levy:* Under current law, the HCI tax levy in each county through CY 2006 is equal to the previous year’s levy, multiplied by each county’s actual 3-year assessed value growth quotient (AVGQ). The CY 2007 levy will equal the average annual amount of claims paid in the county in FY 2004, FY 2005, and FY 2006. Beginning in CY 2008, the levy will equal the average annual amount of claims paid in the county in the three most recent completed fiscal years. However, the levies in CY 2007 and beyond are limited to the greater of (1) the CY 2006 levy or (2) the previous year’s maximum levy multiplied by the county’s actual 3-year AVGQ.

Under this proposal, the formula used in CY 2006 would be continued for CY 2007 and CY 2008. The levy formula that, under current law, will go into effect for CY 2007 levies would be delayed until CY 2009.

Under current law, the statewide total HCI levy is estimated at $51.1 M in CY 2005 and $51.5 M in CY 2006. Under the current levy formula, the levy cap is estimated at $56.0 M in CY 2007 and $61.8 M in CY 2008. The larger growth that begins in CY 2007 appears because of the annual assessed value adjustments that are currently scheduled to begin with assessments for taxes paid in CY 2006. These valuation adjustments directly affect the assessed value growth quotient used in the HCI levy formula.

The actual impact on CY 2007 and CY 2008 HCI levies is not known because the previous years' collections which are used in the levy formula are unknown at this time. However, since the CY 2007 and CY 2008 levies under the bill would be about the same as the levy cap under current law, the bill should not result in any increase in the HCI Fund levy.

**State Agencies Affected:** All.

**Local Agencies Affected:** All. Local civil taxing units; County auditors; Lake County, E. Chicago, Gary, Hammond. Counties with local option income taxes.

**Information Sources:** OFMA Income Tax databases, Tax Years 2000, 2001 & 2002. Bob Walls, Department of State Revenue, (317) 232-2104. Tom Conley, Department of State Revenue, (317) 232-2107; Bob Lain, State Budget Agency, (317) 232-3471; Larry Stroble, Barnes and Thornburg, LLP, (317) 231-7248. U. S. Congress, Joint Committee on Taxation, http://www.house.gov/jct/tableofcnts.html. Internal Revenue Services, Statistics on Income, http://www.irs.gov/taxstats; Bob Hill, Professional Standards Board; State of Indiana, List of Appropriations July 1, 2003, to June 30, 2005; State of Indiana, HRM Detail Staffing Report November 4, 2004; Indiana State Budget Agency: BUDSTARS; Indiana Handbook of Taxes, Revenue, and Appropriations FY 2004; Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508. Rick Whitney, Deputy Commissioner of INDOT and Chief Financial Officers, 317-232-1472; Doug Todd of McCready & Keane, Inc., actuaries for PERF, 317-576-1508; Ken Alberts of Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498; Cindy Collier, FSSA; Cathy Smiley, FSSA, 232-7929; Jane Bisbee, FSSA, 232-4423; Sandra Lock, FSSA, 234-0691; Mary Edmonds, FSSA; *FSSA Caseload Report*, January 5, 2005; County auditor's abstracts; Local Government Database; Property tax return data; H.J. Umbaugh for Spencer County; OFMA property tax databases. Department of Local Government Finance; US Bureau of Census: American Housing Survey For the United States In 1999.

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