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FISCAL IMPACT STATEMENT

LS 7266

BILL NUMBER: HB 1612

NOTE PREPARED: Jan 26, 2005

BILL AMENDED:

SUBJECT: Option to terminate payment from property tax.

FIRST AUTHOR: Rep. Buck

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill provides that all leases, bonds, and other obligations that are issued after May 15, 2005, and that include a pledge or guarantee of payment from property taxes are subject to an option to change the source of payment from property taxes to income taxes or another equivalent source of revenue.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: The bill could increase the cost of borrowing of local units. Generally property tax backed bonds have the highest rating and bonds backed by other revenue sources have lower rating. The additional cost to the local unit could be from two sources. First, the government unit would have a higher interest rate if the bond rating is lower. Second, in order to get a desired rating a unit may have to leverage more than the amount needed to repay the bonds. According to Standards and Poors, the Sales Tax coverage levels are between 1.25-1.5 of the premiums.

Background Information: The Department of Local Government Finance has approved school construction projects from \$833 M in CY 2003 to \$2.8 B in CY 2002 so the amount can vary a lot for year to year. If an average amount of construction approved is about \$1.8 B and the bonds are financed over 40 year then a .1% of an increase in the rate would be about \$2 M per year in increase costs. If the bonds required more coverage for bond protection then the costs would also increase. A 10% increase in the coverage to assure that sufficient

funds are available to make bond payments in this example would cost about \$10 M.

Explanation of Local Revenues:

State Agencies Affected:

Local Agencies Affected: Local units issuing bonds.

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