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FISCAL IMPACT STATEMENT

LS 7706

BILL NUMBER: HB 1616

NOTE PREPARED: Jan 27, 2005

BILL AMENDED:

SUBJECT: Local school funding.

FIRST AUTHOR: Rep. Buck

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill eliminates the authority of a school corporation to impose a property tax for the school corporation's general fund that is due and payable after December 31, 2006. It imposes an income tax for schools. The bill requires taxes collected in a school corporation to be distributed to the school corporation. It also establishes an expenditure limit for school corporations. This bill provides that a school corporation's income tax distributions may not exceed its expenditure limit. It provides for distributions to school corporations that are unable to raise the revenue permitted by their expenditure limits. The bill establishes a fiscal year budget cycle for school corporations. It requires the state board of accounts to establish a standardized accounting system for schools.

Effective Date: July 1, 2005; January 1, 2007.

Explanation of State Expenditures: The bill eliminates the property school General Fund property taxes for CY 2007 and later. The state currently pays about 68% of school General Fund property taxes in the form of Property Tax Replacement and Homestead Credits. The bill requires the transfer of the amount that would have been paid on school General Fund property tax levies from the Property Tax Replacement Fund to the Supplemental Distribution Fund. The transfer would be about \$434 M for FY 2006 (33.4% of about \$1.3B) and about \$1.3 B for FY 2007. The future transfers would depend on what the levies would have been if they had not been eliminated.

Department of State Revenue: The Department of State Revenue, (DOR), is to determine the Local Income Tax for Education, "LITE", rate to replace the school General Fund Levy. The rate is the statewide rate necessary to raise the school 2005 General Fund Levy time 1.03. Before December 16 of each year, DOR after

reviewing the recommendations of the Budget Agency has to estimate and certify to each school the amount of revenue the school can expect from LITE. DOR and the Budget Agency would have some additional expenses associated with the estimating and certifying of the revenue.

Treasurer: The state Treasurer is to maintain separate LITE accounts for each school. If the amount to be distributed exceeds the school expenditure limitation, the excess revenue is deposited into the Supplemental Distribution Fund. The Treasurer may incur additional expenses with the administration of more than 300 accounts. The increase cost would probably be minor.

State Board of Accounts: The bill requires the State Board of Accounts to establish a uniform system of accounts and accounting for schools. The system must:

1. Promote the development of financial reports that are consistent with general government accounting principles.
2. Facilitate the comparison of annual revenues and expenditures among schools.
3. Assist schools in meeting all special reporting requirements.
4. Provide adequate internal controls.
5. Assist the agency and other auditors in auditing schools.

The system of accounts provides for the above requirements so the provisions would probably not increase the agency's cost.

Interim Study Committee: This bill establishes an Interim Study Committee on School Property Tax Reductions. The Committee is to operate under the policies governing study committees adopted by the Legislative Council. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of \$8,000 per interim for committees with fewer than 16 members. The committee shall prepare legislation for introduction in the 2006 Legislative Session to bring all laws in conflict with the bill into conformity.

Explanation of State Revenues:

Explanation of Local Expenditures: The bill changes the school budget cycle from a calendar year to a fiscal year basis. Schools would have some one time costs associated with converting current budget software from a calendar year to a fiscal year reporting time frame.

The bill limits the growth in school expenditures to the change in the population of the school corporation and the growth in the implicit price deflator for the gross national product. The implicit deflator for the gross national product is projected to grow by about 2.5% for Indiana over the next two years. From FY 2002 to 2004, school General Fund expenditures increased by about 2% approximately statewide. The bill could potentially limit the growth in school operating expenditures in the future. The school General Fund expenditures for FY 2004 were about \$5.8 M.

The bill would set a limit on the amount of school bonding. Payment of principal and interest in any year would be limited to 20% of the average total revenue of the school corporation for the three years before the debt was incurred. Total revenue includes the total receipts received by a corporation, including state distributions but excluding the proceeds from loans, sale of property, sale of bonds, or the issuance of other debt. For CY 2004, about 20 schools would be over the limitations in the bill and another 25 schools are within 5% of the 20% limit.

Explanation of Local Revenues: The bill would eliminate the school General Fund property tax levy and replace it with an education income tax. The LITE rate is the statewide rate necessary to raise the school 2005 General Fund Levy time 1.03. The school General Fund Levy for CY 2005 is estimated to be about \$1.9 M. The approximate income tax to raise \$1.9M would be about 1.78%. Since income is distributed differently than assessed valuation, some schools would receive more and some less in local revenue from the income tax than they receive from property taxes. The data is not available to estimate what LITE would generate from school to school compared with the current property tax levy.

State Agencies Affected: Department of State Revenue, Department of Local Government Finance, State Board of Accounts, Treasurer, State Auditor.

Local Agencies Affected: Local Schools.

Information Sources: Department of Education Databases.

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