

**FINAL REPORT
OF THE
COMMISSION
ON
STATE TAX AND FINANCING POLICY**



**Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana 46204-2789**

November 2007

INDIANA LEGISLATIVE COUNCIL

2007

Senator David Long

Chairman

Fort Wayne

Speaker B. Patrick Bauer

Vice-Chairman

South Bend

Senator Richard Young

Milltown

Representative Brian Bosma

Indianapolis

Senator Brandt Hershman

Monticello

Representative Charlie Brown

Gary

Senator Connie Lawson

Danville

Representative Dale Grubb

Covington

Senator Teresa Lubbers

Indianapolis

Representative Scott Pelath

Michigan City

Senator James Merritt

Indianapolis

Representative Russell Stilwell

Boonville

Senator Vi Simpson

Bloomington

Representative William Friend

Macy

Senator Samuel Smith

East Chicago

Representative Kathy Richardson

Noblesville

John M. Ross
Executive Director
Legislative Services Agency

Commission on State Tax and Financing Policy

Membership Roster

Senators

**Luke Kenley, Chair
Noblesville**

**Brandt Hershman
Monticello**

**John Broden
South Bend**

Representatives

**Peggy Welch
Bloomington**

**Eric Turner
Marion**

Advisors

**Robert Meeks
LaGrange**

**Lindel Hume
Princeton**

**John Grew
Indianapolis**

**Steven Johnson
Indianapolis**

**William Crawford
Indianapolis**

**Jeffrey Espich
Uniondale**

**Katrina Hall
Shelbyville**

Legislative Services Agency Staff

**Diane Powers, Fiscal Analyst
George Angelone, Attorney**

November 2007

FINAL REPORT

Commission on State Tax and Financing Policy

I. STATUTORY AND LEGISLATIVE COUNCIL DIRECTIVES

The Commission on State Tax and Financing Policy is established under IC 2-5-3. Specifically, IC 2-5-3-5 directs the Commission to study and investigate the following:

- (1) the present state, county, and city tax structure of the state of Indiana;
- (2) its revenue-producing characteristics and effects upon the economy of the state of Indiana;
- (3) its equalities and fairness;
- (4) the enforcement policies and administrative practices related to that tax structure; and
- (5) the costs of collection in relationship to the burden of the tax.

IC 2-5-3-5 also authorizes the Commission to examine overall administrative matters, fiscal matters, and procedural problems of the various departments of the state, county, and city governments as they relate to tax and financing policy.

In addition, IC 2-5-3-5 authorizes the Legislative Council to refer by resolution any tax or financing problems and correlated matters to the Commission for study and research. Under Legislative Council Resolution 07-01 (as adopted June 6, 2007), the Legislative Council assigned the following additional topics to the Commission:

- (1) Evaluate the impact of economic development incentives enacted since 2001. (HCR 43-2007)
- (2) Study Marion County government reorganization with regard to its taxing and financing structures, including issues of elimination of layers of government, possible equalization of the burden of separate taxing districts, and creation of an Office of Financial Management and Budget to address all finances of Marion County. (Senator Merritt)
- (3) Study whether the Gaming Commission has the authority to grant permission for riverboats to operate on barges. (Senator Simpson)
- (4) Explore options for funding technology for local government. (SR 45-2007)
- (5) Study the means of conducting an economic analysis of Indiana's tax system.

(HR 105-2007, HB 1236-2007, and HB 1001-2007 Feb. 23 printing)

(6) Study issues relating to property taxes. (Senator Dillon)

(7) Study the methods and organizational structure used to assess property. (SCR 8-2007)

(8) Study the issue of ensuring that the rules and laws with respect to the assessment of personal property and the assessment of real property are uniform and equal to each other, including study of the auditing process, the corrections process, and the appeals process with regard to the assessment of personal property and the assessment of real property. (HR 99-2007)

(9) Study property tax elimination. (HB 1539-2007)

Furthermore, the Indiana General Assembly directed the Commission to do the following:

(1) Study the real property sales disclosure system to determine ways to improve the efficiency of the system and decrease the administrative burden on parties to a property conveyance, as well as study the role of DLGF in the system. (SEA 287-2007)

II. INTRODUCTION AND REASONS FOR STUDY

As homeowners began receiving their 2007 property tax bills, there was a public outcry for change to the current property tax system. The substantial tax increases realized by some homeowners in various parts of the state caused many government leaders to urge immediate action by this Commission during the 2007 interim. Therefore, the Commission chose to concentrate all of its resources on the task of studying the current property tax system and hearing from any taxpayer who wished to testify. This led to the appointment of several advisory members, over 35 hours of public meetings, and over 300 public statements submitted by email.

The Commission's work concentrated on a variety of issues related to the property tax system. Due to the volume of public discussion concerning recent developments in property taxation in many parts of the state, the Commission's work focused on the property tax issues assigned by the Legislative Council as listed above, as well as many other issues concerning the current property tax system. This focus on property tax issues, as well as time restraints, resulted in no hearings, findings, or recommendations by the Commission on issues (1) through (5), above, as assigned by the Legislative Council. Please note that issue (3) was examined by the Administrative Rules Oversight Committee.

III. SUMMARY OF WORK PROGRAM

The Commission met eight times in Indianapolis. The following is an outline of the meeting dates and the topics discussed at each meeting:

1. Meeting on July 23, 2007.
 - a. Chronology of Major Events in the History of Property Taxation.
 - b. Review of HEA 1478-2007.
 - c. Testimony on Property Tax Issues.
2. Meeting on July 30, 2007.
 - a. The Assessment System.
 - b. The 2007 Homestead Rebate.
3. Meeting on August 13, 2007.
 - a. Tax Increment Financing (TIF), Abatements, and Exempt Property.
 - b. Petition, Remonstrance, and Referendums.
 - c. Property Tax Limits in Other States.
4. Meeting on August 27, 2007.

Elimination of Property Taxes:

 - a. Presentation of Alternative Revenue Sources and Issues Related to Replacement of Property Taxes by the Legislative Services Agency (LSA).
 - b. Explanation of Other State Plans.
 - c. Repeal of Property Taxes Proposal
5. Meeting on September 17, 2007.
 - a. West Lake Expansion Project.
 - b. Assessment of Real Property.
 - c. Local Option Income Tax (LOIT) Revenue.

6. Meeting on October 1, 2007.
 - a. Sales Disclosure Statements.
 - b. Lake County LOIT.
 - c. State Assumption of School General Fund and Child Welfare Costs.
7. Meeting on October 15, 2007.
 - a. Controls on Property Taxes.
 - b. Debt Issuance.
 - c. Circuit Breakers.
 - d. Exemptions for Seniors, Disabled, and Second Homes.
8. Meeting on November 13, 2007.
 - a. Presentation of Proposed Final Report.
 - b. Presentation of Proposed Recommendations.
 - c. Vote on adoption of the Proposed Final Report.

IV. SUMMARY OF TESTIMONY

This section is a general summary of the testimony received by the Commission. For a more detailed record of the testimony, please refer to the minutes of the Commission's meetings.

Meeting 1

Indiana's Property Tax System: Dr. Larry DeBoer, Professor of Agricultural Economics at Purdue University, gave a presentation on Indiana property taxes. This presentation provided a timeline of property tax changes from the 2002-2003 tax restructuring through the 2007 legislative session. Dr. DeBoer reviewed changes such as the elimination of property taxes on inventory, the shift in property tax burden due to market value assessments, local option income tax adoption to offset shifts, and the implementation of trending to annually adjust assessed value for changes in market values.

Review of HEA 1478: William J. Sheldrake, President of Policy Analytics, LLC, gave a presentation on property tax relief legislation from the 2007 session of the Indiana

General Assembly. Mechanisms for direct relief included \$550 million in Homestead Credits in 2007 and 2008; retention of the \$45,000 Homestead Deduction; and three new local option income taxes to serve as local government tools. The Homestead Credit includes funding from licenses at "Racinos" (slot machines at racetracks), provides \$300 million as rebate of the 2007 property taxes and \$250 million as a credit on 2008 property tax bills, and applies only to homeowners. The Homestead Deduction of \$45,000 of assessed value was scheduled to drop to \$35,000, but the legislation kept the deduction at \$45,000 through 2008. The deduction will phase out by \$1,000 increments beginning in 2009. The three new local option income taxes available include the following: (1) a local option income tax to freeze certain property tax levies (maximum of 1%); (2) a local option income tax to provide property tax relief (maximum of 1%); and (3) a local option income tax for public safety (maximum of 1%, except in Marion County where it is 0.5%).

Further Testimony: Sen. Teresa Lubbers spoke to the Commission about the problems with the current property tax system, and she presented options for amending the system, including eliminating property taxes, limiting the annual increase in assessed value, and increasing the state sales tax and/or the state adjusted gross income tax to offset property taxes. Her recommendations for reform included: (1) the elimination of property taxes, replacing them with an increase in sales tax, income tax, or a combination of these to fund local government; and (2) moving to a system like California or Massachusetts where property taxes are limited to a percentage of a home's assessed value (1-1.5%). Sen. Lubbers suggested the local budgeting process be reversed. Local governments should live within a budget rather than adopting higher and higher levies and then setting tax rates to fund that budget.

Sen. Patricia Miller addressed the Commission with her concerns about the property tax system. Sen. Miller also introduced a constituent, Mr. Greg Meyer, to testify. Mr. Meyer expressed his concern that the entire property tax system is broken. Mr. Meyer stated that there is a lack of consistency in assessing from house to house, township to township, and county to county. The current system creates no incentives for improving homes or communities. He testified about the impact of the current property tax system on disabled people and people on fixed incomes. Mr. Meyer's suggestion for immediate relief was to implement a flat 1% property tax based on purchase price or other methods that do not require property to be assessed and to give local government relief from welfare costs and the school general fund. Finally, he urged the Commission to replace the revenue from property taxes through other means - income tax, sales tax, or user fees.

Sen. Kenley, Chairperson, allowed public testimony on the issue of property taxes. In all, there were over 35 witnesses who testified about property tax issues and their own personal experiences as property owners and taxpayers. The Commission heard over six hours of public testimony during this meeting.

Meeting 2

The Assessment System: Rep. Milo Smith testified on the assessment system. Rep.

Smith shared his experience with the assessment system as the owner of a tax consulting business. His recommendations included the following: (1) every county that has not mailed tax bills to taxpayers by September 1 must use the previous year's assessed value to determine their first installment tax bill; (2) the rebate check should be applied as a credit to the second installment of taxes usually due and payable in November, reducing the amount of tax owed by the taxpayer; (3) the circuit breaker should be redefined to limit the increase in property taxes a taxpayer will pay from one year to the next; and (4) every county ordered to reassess should complete their assignment by using the 2002 Real Property Assessment Manual after they update their land values and the Marshall & Swift Schedules.

Other testimony included individual taxpayers from around the state. They testified about the financial burden of property taxes, and the administrative problems with the current property tax system. There was also testimony from representatives of cities, towns, and counties expressing the time and human resource strain that the current tax system places on their respective offices.

Meeting 3

TIF, Abatements, and Exempt Property: LSA Staff presented reports that summarized the amount of property tax abatements, TIF allocations, and tax-exempt property in 2006.

According to the reports, which are derived from county-supplied data, 6.3% of real and personal property valuation, statewide, was exempt in 2006. Exemptions ranged from 1.3% in Newton County to 15.3% in Knox County.

The reports showed that 1.8% of real and personal property valuation, statewide, was abated in 2006. Total abatements ranged from 0% in six counties to 15.0% in Gibson County. The net tax benefit was \$177 M.

The reports also showed that 2.4% of real and personal property valuation, statewide, was allocated to a TIF district in 2006. Total TIF amounts ranged from 0% in 30 counties to 9.8% in DeKalb County. The net tax allocated to the TIF districts was \$229 M.

Individuals representing taxpayers and school districts expressed their concerns in regard to tax abatements and TIF. The view was that the tax burden shifted from businesses and corporations to individual taxpayers and school corporations. Testimony from school districts described the outdated infrastructure in place in many rural and urban schools, the high costs associated with building new schools due to population growth in the suburbs, and the low achievement rates in school districts with high rates of poverty.

Petition, Remonstrance, and Referendums: LSA staff made a presentation concerning (1) approaches taken by various states to petitions, remonstrances, and referendums for approval or rejection of certain bond issues and (2) property tax

controls used by various states. Indiana is currently the only state using a petition and remonstrance system, 47 states use the referendum process; and Hawaii and Connecticut use none of these methods. Tax controls may impact either a taxing unit's authority to issue general obligation bonds or the ability to raise revenue to prepay principal and interest on bonds.

Meeting 4

Property Tax Replacement Options: The Commission heard testimony from LSA staff in regard to options for eliminating property taxes. Schools accounted for 48% of the 2007 estimated net property tax levy, and 22% and 18% was accounted for by counties and cities/towns, respectively. Special taxing units, libraries, and townships accounted for 5%, 4%, and 3%, respectively. The 2007 property tax uses included operating expenses (55%), debt service (24%), capital expenses (16%), and child welfare (5%). LSA reported that the two largest state revenue sources were sales tax and individual adjusted gross income tax. Three property tax replacement options were presented: (1) increasing the individual income tax rate; (2) increasing the sales tax rate; and (3) expanding the sales tax to include services. The required increases for each are presented in the table below.

Individual Income Tax Current Rate: 3.4%			
Replace 50% of Levy		Replace 100% of Levy	
Additional Rate:	2.6%	Additional Rate:	5.6%
New Total Rate:	6.0%	New Total Rate:	9.0%
Additional Revenue:	\$3,070 M	Additional Revenue:	\$6,146 M
Sales Tax Current Rate: 6.0%			
Replace 50% of Levy		Replace 100% of Levy	
Additional Rate:	3.5%	Additional Rate:	7.2%
New Total Rate:	9.5%	New Total Rate:	13.2%
Additional Revenue:	\$3,039 M	Additional Revenue:	\$6,150 M
Expansion of Sales Tax to Services Current Rate: N/A			
Replace 50% of Levy		Replace 100% of Levy	
Additional Rate:	2.0%	Additional Rate:	5.1%
New Total Rate:	8.0%	New Total Rate:	11.1%
Add'l Nonservice Revenue:	\$1,748 M	Add'l Nonservice Revenue:	\$4,397 M
Add'l Service Revenue:	\$1,300 M	Add'l Service Revenue:	\$1,736 M

Eric Miller, Advance America, testified concerning a proposal to repeal property taxes. Mr. Miller testified that this proposal included the following:

- Limiting all government spending to the rate of inflation and population growth.
- Convening a special session of the General Assembly, with no payments of legislator compensation.
- Changing the timing of the property tax rebate passed in HEA 1001-2007.
- Passing a constitutional amendment to repeal property taxes effective 2012.
- Using portions of the state surplus to provide property tax relief.
- Requiring approval of certain capital projects by referendum.
- Increasing other taxes now to offset future revenue losses due to a repeal of property taxes.

Other topics that were discussed in relation to this presentation were the following: (1) the effects of the underground economy and/or cash payments on estimated revenue collections from an increase in the sales tax rate; (2) the regressive versus progressive nature of certain taxes; (3) liability to current bondholders of debt funded by property tax revenue; and (4) possible changes to interest rates that could be obtained by local units of government due to the elimination of property taxes.

Testimony Favoring Elimination: Testimony from individuals representing taxpayers who favored the elimination or reform of property taxes included the limiting of all government spending to the rate of inflation and population growth; the use of portions of the state surplus to provide property tax relief; the savings realized from eliminating property assessment costs; the reinstatement of the 2% circuit breaker, including residential rentals; the effect of spending limits on growing communities; characteristics of certain communities where property taxes may be preferred to local option income taxes; shifts in tax burden if property taxes are eliminated; county versus city needs; and decisions to adopt local option income taxes for property tax replacement.

Testimony Opposed to Elimination: Testimony from individuals opposed to the elimination of property tax included discussion about those counties that have high assessed value, small populations, and low per capita income. Their perspective was that property tax is the most stable and equitable tax to fund local government.

Indiana Farm Bureau: Testimony from individuals representing the Indiana Farm Bureau echoed previous presentations and made the following recommendations: (1) eliminate certain levies entirely rather than eliminate all property taxes; (2) change the caps and limits on capital project review requirements; (3) provide property tax replacement options; and (4) tax land and buildings at two separate rates.

Meeting 5

West Lake Expansion Project: Rep. Chet Dobis and United States Rep. Peter Visclosky explained that the goals of expanding the commuter rail system in Northwest Indiana are to reduce traffic, reduce fuel consumption and dependency on foreign oil, reduce pollution, and increase the mobility of Northwest Indiana residents toward the economic and occupational benefits of the Chicago area. Rep. Visclosky discussed the

ability of Indiana to leverage federal funds to accomplish this expansion project and attempt to improve the quality of life for Northwest Indiana residents. Rep. Visclosky estimated that the expansion project will create 26,000 new jobs and increase disposable personal income by \$600 million.

Other testimony included the macro-economic and environmental effects of mass transit being constructed in Northwest Indiana. It was claimed that land values would increase along with retail transactions in Indiana due to commuters from the Chicago area. In addition, mass transit would reduce the number of cars on the road annually as well as gallons of gasoline used per year.

Rental Property: A number of witnesses representing rental property owners testified on the following: (1) constitutional distinction between the homestead deduction and all other deductions; (2) constitutional issues with inequity between assessments of homesteads in different taxing districts but close to each other geographically; (3) issues facing rental properties with a small number of units as compared to issues of rental properties with a large number of units; (4) different application of the circuit breaker depending on location of the property; (5) providing a deduction to rental properties similar to the homestead deduction; (6) providing incentives for investment and maintenance of rental properties; (7) the correlation between property tax increases and investment in property rehabilitation by rental owners and developers; and (8) allowing a 2% circuit breaker for rental properties.

Annexation: The expressed problems with annexation included the following: (1) creation of landlocked cities; (2) annexation efforts related to tax base and not service delivery needs; (3) annexation taking income tax, excise tax, and road dollars away from county government; and (4) increased service delivery, infrastructure, and debt financing costs to the county. Solutions presented included the creation of an arbitration panel which would require an interlocal agreement in regard to how LOIT will be distributed. The panel would consist of a representative of the city, the county, and a financial advisor ensuring that the money is shifted in an equitable manner.

LOIT Distribution: LSA Staff presented a report that included various details and summaries of the LOIT through 2007. The LOITs include the County Adjusted Gross Income Tax (CAGIT), County Option Income Tax (COIT), and County Economic Development Income Tax (CEDIT).

In 2007, there were 56 CAGIT counties, 28 COIT counties, and 74 CEDIT counties. These include 49 with CAGIT and CEDIT, 19 with COIT and CEDIT, 7 with only CAGIT, 9 with only COIT, 6 with only CEDIT, and 2 with no LOIT at all. Sullivan County has adopted CEDIT for 2008, leaving Lake County as the only county without any LOIT after 2007.

Certified distributions in 2007 were \$399 M in CAGIT, \$524 M in COIT, and \$251 M in CEDIT, for a total of \$1,174 M. Of these amounts, \$55 M in COIT and \$61 M in CEDIT were used for county homestead credits. Additionally, \$100 M in CAGIT was used for local property tax replacement credits.

LOIT distributions have grown by an average of 6.0% over the last five years. When adjusted for changes in LOIT rates, the revenue base grew by 3.4% annually over the same period.

In 2007, certified shares of LOITs were distributed as follows: 40.3% for counties, 5.7% for townships, 34.7% for municipalities, 7.2% for libraries, and 12.1% for special taxing units. These shares have changed somewhat over the years due to changes in property tax levies.

Meeting 6

Sales Disclosure Statements: The Commission reviewed the current process for filing sales disclosure statements. There was testimony from various sources concerning the lack of uniformity of these filing processes in the various counties throughout Indiana. There was also testimony concerning problems with sales disclosure filings such as the following: (1) failure to file; (2) incomplete filings; and (3) delays in certifying assessments due to incorrect or incomplete filings. There were questions by the Commission members on the actual severity of the problem and on the need for data concerning the number of missed and incorrect filings.

State Assumption of School General Fund and Child Welfare Levies: The Commission heard a presentation concerning state assumption of certain local property tax levies. The advantages of funding levies compared to paying for property tax replacement credits (PTRCs) presented to the Commission were as follows:

- Easier for the General Assembly to target top spending priorities.
- Eliminates “automatic” state spending increases resulting from local spending decisions.
- If a levy is eliminated, it cannot grow in future years.
- Adds clarity to state and local budgets - each unit pays for the costs for which it is responsible.
- Simplifies the formula by eliminating the need to calculate a tax rate for each school corporation.
- Significantly reduces the likelihood of a shortfall (and resulting need for a deficiency appropriation) in the school formula.
- Eliminates any concern for “horizontal equity” across school corporations due to uneven tax effort.

The following issues in making the transition from payment of PTRCs to assumption of levies were presented:

- Increased personnel and administration cost for the state Department of Child Services to administer entire levy (no similar cost increase for school general fund levy assumption).
- Decisions made at the county level significantly influence the cost of child welfare programs; approximately 31% of the county child welfare cost is driven by county probation decisions.

- Adjust property tax levy and rate controls (some rates and levies will need to be higher as some disappear).
- Review impact on taxpayers in various taxing districts.
- Account for tax shifts among taxpayer groups.
- Review possible impact on TIFs and abatements.
- May need a “hold harmless” provision to prevent a county from losing its share of state funding.
- Account for distribution of local PTRC to levies that are eliminated.
- Need to fund annual increases in the assumed levies (annual \$75 M increase in school general fund and 3% increase in the child welfare levy).
- Increased requirement for state reserves and balances to match increased base spending level.

A chart was presented listing how each county would be affected by the assumption of the school general fund and the child welfare levies. As well as the estimated change in tax burden resulting from the state assumption of the entire school general fund and child welfare levies. The estimated changes were as follows.

	\$ Change	% Change in tax burden
Homesteads	+ \$15 M	0.7% increase
All Residential	- \$103 M	3.0% decrease
Non-Residential & Personal Property	- \$330 M	12.3% decrease

The Commission also heard testimony that if school general fund levies were assumed by the state, guidelines would be needed for new facility construction costs. Also, it was pointed out to the Commission that the total of the other school levies (excluding the school general fund levies) are actually greater than the total of the school general fund levies, and that a solution to the property tax problem may need to involve these levies as well. The Indiana Association of Counties testified in favor of state assumption of school general fund and child welfare levies.

Representatives of child welfare organizations testified on issues concerning state assumption of child welfare levies and noted their apprehension about losing local control and decision-making power.

Meeting 7

Controls on Property Taxes: LSA staff gave a presentation on the current statutory controls on property taxes.

Debt Issuance: The Commission discussed data presented by LSA staff which presented the statewide average gross property tax levy for debt service and capital projects as representing 29.5% of the total gross levy. The range for counties was from 14.2% in Switzerland County to 45.5% in Hendricks County.

Circuit Breakers: The Commission reviewed the impact of HEA 1001 and HEA 1478 from the 2007 session. The changes in those bills included capping property taxes at 2% for homesteads and 3% for all other property, reducing the homestead deduction, and increasing the funding for homestead credits. The LSA estimate for the overall reduction in property taxes was \$158 M in FY 2008, \$153 M in FY 2009, and \$474 M in FY 2010. The increase in FY 2010 is due to the effective date of the circuit breaker tax credits for all property other than homestead property.

The Commission also heard testimony on the impact of circuit breakers on local government bond ratings. The witnesses said that there was apprehension in the bond market regarding Indiana government bonds due to 2007 legislation capping property taxes at 2% for homesteads and 3% for all other property.

Exemptions for Seniors, the Disabled, and Second Homes: The Commission also heard testimony on the impact of the recent property tax increases on senior citizens. These citizens expressed the need for changes that would allow seniors and disabled people on fixed and limited incomes to remain in their homes despite significant increases in property taxes. There was also testimony from property owners with second homes.

Meeting 8

The Commission presented its proposed recommendations and final report. There were two amendments made to the recommendations. The recommendations and final report were each unanimously adopted by a roll call vote*.

There was testimony from the Indiana School Business Officials Association and the Indiana School Boards Association expressing concerns with the recommendation that the state assume school general fund costs.

Two members of the public submitted plans for consideration by the Commission.

* Please note that the adopted version of the Commission's final report includes all documents distributed to the Commission during any of their eight meetings this interim. An electronic copy of these documents will be made available at www.in.gov/legislative.

V. COMMISSION FINDINGS

The Commission made the following findings.

1. The estimated average statewide increase in property taxes on the average value home in 2007 is 24%.
 - a. The breakdown of this increase is as follows:
 - i. 4% due to inventory tax elimination in 51 remaining counties that had not previously eliminated the inventory tax.
 - ii. 4% due to the cap on state tax relief.

- iii. 10% due to trending from 1999 to 2005 prices.
 - iv. 6% due to increases in local government and school property tax collections.
- 2. HEA 1478-2007:
 - a. Reduced the statewide increase in property taxes on the average value home from an estimated 24% to 7.8%.
 - b. Provided \$550 M in homestead credits in 2007 and 2008.
 - c. Retained the \$45,000 homestead deduction amount through 2008.
 - d. Provided locals with the option to adopt local income taxes to provide property tax relief.
 - e. Created new county-based capital projects review boards.
 - f. As of November 1, 2007, ten counties had adopted the local option income tax allowed under HEA 1478-2007.
- 3. HEA 1478-2007 and HEA 1001-2007 capped property taxes at 2% for homesteads and 3% for all other property, reduced the homestead deduction, and increased the funding for homestead credits. The estimated overall reduction in property taxes from these two bills was \$158 M in FY 2008, \$153 M in FY 2009, and \$474 M in FY2010. The increase in FY 2010 is due to the effective date of the circuit breaker tax credits for all property other than homestead property.
- 4. For property taxes payable in 2007, there has been in some parts of the state a disproportionate increase in the assessed value of residential property in comparison to the increase in assessments for business property. For property taxes payable in 2007, residential gross assessed value grew by an average of 20% while nonresidential gross assessed value grew by an average of 11%.
- 5. There is a need to address issues with the assessment rules and methods to better ensure uniform assessments of similarly situated property.
- 6. There is a need to address issues with the current assessment practices and the number of assessing officials in each jurisdiction, with an emphasis on uniformity and consistency.
- 7. The impact of abatements and tax increment financing varied between jurisdictions. The impact for property taxes payable in 2006 as a percentage of gross assessed value varied between the counties, from a low of 0.0% to a high of 21.4%.
- 8. For property taxes payable in 2006, property tax exemptions as a percentage of gross assessed value were 6.3% on average statewide, and varied from a low of 1.3% to a high of 15.3% between the counties.
- 9. Many counties throughout the state are late in mailing property tax bills for property taxes payable in 2007 due to delays caused by trending. This delay has

caused some local governments and schools to borrow money for operating expenses.

10. Indiana is the only state in the United States that uses a petition and remonstrance procedure for voter approval of debt issuance. Most states use a referendum procedure. From 1995 to the present there have been 94 petition/remonstrance drives, and the school has been successful in 49, while the remonstrators have been successful in 45.
11. Thirty-two states have constitutional provisions related to voter referendums to create debt.
12. At least thirty-two states impose a tax cap in the form of a circuit breaker. In general, most states apply either an income test or age requirement to be eligible.
13. The 2007 estimated statewide average for the gross property tax levy for debt service and capital projects represented 29.5% of the total gross levy. The range between the counties was from a low of 14.2% to a high of 45.5%.
14. Senior citizens, disabled people, and others on fixed incomes are especially affected by increases in property taxes.
15. Circuit breakers could have an effect on the bond ratings assigned to various units of local government for debt issuance.
16. There has been a significant shift in the property tax burden to residential property from other types of property through the trending process. The average homestead's taxes increased by approximately 10% due to updated valuations.
17. There is a need to address issues concerning uniform and complete filing of sales disclosure forms around the state.
18. The formula used to allocate LOIT to units within each county may present a disincentive for some counties to increase the LOIT tax rate, and therefore that formula may need to be revised.
19. The advantages of state assumption of levies compared to paying for property tax replacement credits are listed below:
 - Easier for the General Assembly to target spending priorities.
 - Eliminates "automatic" state spending increases resulting from local spending decisions.
 - If a levy is eliminated, it cannot grow in future years.
 - Adds clarity to state and local budgets - each unit pays for the costs for which it is responsible.
 - Simplifies the formula by eliminating the need to calculate a tax rate for each school corporation.

- Significantly reduces the likelihood of a shortfall (and resulting need for a deficiency appropriation) in the school formula.
 - Eliminates any concern for “horizontal equity” across school corporations due to uneven tax effort.
20. The issues known in making the transition from payment of PTRC to payment of levies are listed below:
 - Increased personnel and administration cost for state Department of Child Services to administer entire levy (no similar cost increase for school general fund levy assumption).
 - Decisions made at the county level significantly influence the cost of child welfare programs; approximately 31% of the county child welfare cost is driven by county probation decisions.
 - Adjust property tax levy and rate controls.
 - Review impact on taxpayers in various taxing districts.
 - Account for tax shifts among taxpayer groups.
 - Review possible impact on TIFs and abatements.
 - May need a “hold harmless” provision to prevent a county from losing its share of state funding.
 - Account for distribution of local PTRC to levies that are eliminated.
 - Need to fund annual increases in the assumed levies (annual \$75 M increase in school general fund and 3% increase in the child welfare levy).
 - Increases requirement for state reserves and balances to match increased base spending level.
 21. The use of TIFs is a valuable economic development tool that is widely used by local governments, but the scope of some TIFs may have been extended beyond the original legislative intent.
 22. The existing property tax assessment system lacks clarity needed for taxpayers to understand changes in their tax bills and assessments.
 23. Indiana’s large number of elected assessors may have contributed to inconsistency in assessments around the state.
 24. There is a need to address issues in developing plans and determining costs for new construction by units of government.
 25. There is a need to review any possible constitutional issues involved with providing different circuit breakers for different classes of property.
 26. Annexation causes certain tax revenues to be diverted from the county government to the annexing municipality.
 27. The state should provide documentation to assure counties that they are receiving a full return of LOIT revenues.

28. The estimated gross property tax levy for 2007 is \$8.4 B. The five-year average annual growth in the gross property tax levy is 6.2%. Total local government and school appropriations, funded from property tax and other revenues, have grown by 5.4% over the same period to a total of \$17.6 B in 2007.
29. The tax rates needed to replace 50% and 100% of the net property tax levy in 2007 are as follows:

a. Individual Income Tax

Current Rate	New Rate Needed to Replace 50%	New Rate to Replace 100%
3.4%	6.0% (additional 2.6% rate)	9.0% (additional 5.6% rate)

b. Sales Tax

Current Rate	New Rate Needed to Replace 50%	New Rate to Replace 100%
6.0%	9.5% (additional 3.5% rate)	13.2% (additional 7.2% rate)

c. Sales Tax (with Expansion to Taxing Services)

Current Rate	New Rate Needed to Replace 50%	New Rate to Replace 100%
6.0% On goods	8.0% (additional 2.0% rate)	11.1% (add'l 5.1% rate)
0.0% On Services	8.0% (additional 8.0% rate)	11.1% (add'l 11.1% rate)

VI. COMMISSION RECOMMENDATIONS

1. PROVIDE FOR MAJOR AND PERMANENT PROPERTY TAX RELIEF

- a. TAX CUTS: AT LEAST 50% FOR HOMESTEAD PROPERTY AND AT LEAST 25% FOR OTHER RESIDENTIAL PROPERTY
- i. Expand tax relief using the major provisions of HEA 1478 as a foundation.
 - ii. Phase in relief beginning with Pay 2008 Taxes using Sales Tax and/or LOIT.

- b. ENSURE TAX RELIEF IS PERMANENT WITH A CONSTITUTIONAL AMENDMENT ESTABLISHING A CIRCUIT BREAKER PROGRAM
- c. ABOLISH SELECTED PROPERTY TAX LEVIES WITH STATE ASSUMPTION OF LEVIES
 - i. Redirect state-paid PTRC and Homestead Credit.
 - ii. Increase and restructure the homeowner's deduction to offset the tax shift from other taxpayers to residential property tax payers.
 - iii. Eliminate the child welfare levies, state assumes the cost.
 - iv. Eliminate the remaining property tax levy for school general fund; state assumes the cost.
 - v. Provide adequate reserves and balances to reflect the increased level of state expenditures.
 - vi. Repeal all state use of property taxes and eliminate levies for the State Fair, State Forestry, and Department of Local Government Finance; state assumes the cost.

2. REDUCE GROWTH IN LOCAL SPENDING AND CLOSE TAX LOOPHOLES

- a. EXTEND CONTROLS ON NON-CONTROLLED LEVIES AND REDUCE LEVY EXCEPTIONS
- b. REFORM TIF AND ABATEMENT PROCEDURES
 - i. Require units to release "excess" AV.
 - ii. Restrict expenditure of "excess" TIF revenue outside TIF area.
 - iii. Curb placement of TIFs in natural high growth area that is being used to raise revenue.
 - iv. Limit time extensions regarding re-TIFing.
 - v. Require additional review and public input when expanding existing TIF areas.
 - vi. Grant schools "standing" by allowing review and comment on new TIF/Abatements.
- c. STRENGTHEN CONTROLS ON DEBT ISSUANCE, OVERSIGHT, AND REPAYMENT
 - i. Consider establishment of overall debt limits regardless of the

- means of financing.
 - ii. Require that savings from refinancing be used to reduce taxes or retire debt.
 - iii. Prohibit extension of maximum terms of the original bonds when refinancing.
 - iv. Require level annual principal retirement except to maintain aggregate level debt service.
 - v. Amend threshold that triggers review by county review board to a percent of levy.
 - vi. Require Indiana Finance Authority reviews of plans of finance for local and school bond offerings.
 - vii. Ensure no action is taken that would impair existing debt or contracts.
- d. REQUIRE REVIEW AND APPROVAL BY ELECTED OFFICIALS FOR DEBT ISSUED BY NON-ELECTED BOARDS AND COMMISSIONS
 - e. CONSIDER RECOMMENDATIONS FROM THE KERNAN-SHEPARD COMMISSION

3. REFORM THE PROPERTY ASSESSMENT SYSTEM TO PROVIDE CLARITY AND TRANSPARENCY

- a. ENACT A TAXPAYER'S BILL OF RIGHTS FOR ASSESSMENTS AND APPEALS
 - i. Clarify that no appraisal or attorney is required to pursue an appeal.
 - ii. Strengthen informal resolution procedure for taxpayers.
 - iii. Simplify procedure for filing for homestead exemptions.
 - iv. Require statewide standardized format for assessment forms and tax bills.
 - v. Improve the budget process to add transparency and provide more meaningful information for taxpayers.
- b. CONSOLIDATE ASSESSING DUTIES TO ONE WELL-TRAINED, APPROPRIATELY COMPENSATED, ELECTED ASSESSING OFFICIAL PER COUNTY WITH ADEQUATE PROFESSIONAL STAFF

- i. Require that official must have minimum education/experience to hold office.
 - ii. Require that each county office must use well-trained professionals to perform the work.
 - iii. Establish a process to replace non-performing assessors.
 - iv. Determine conditions for which contractors may be hired and held accountable for their work.
- c. **ENHANCE STATE OVERSIGHT AND ASSISTANCE**
 - i. Shift the responsibility for assessing the largest, most complex commercial/industrial property to the DLGF.
 - ii. Require DLGF to provide counties with comprehensive assistance and training.
 - iii. Direct DLGF to lead in establishing a common assessment and financial management system for use by all counties.
 - iv. Require an annual review of the assessment process by the Commission on State Tax and Financing Policy.
 - v. Require each county, at a central location with an elected official responsible, to make comprehensive, standardized reports of outstanding debt within the county available for public inspection.

4. OFFER REVENUE ALTERNATIVES SOLELY FOR THE REDUCTION OF PROPERTY TAXES

- a. **PROVIDE A REVENUE MIX AMONG STATE AND LOCAL AND AMONG SALES, INCOME, AND GAMING TAXES TO PREVENT OVER-RELIANCE ON ONE LEVEL OF GOVERNMENT OR ON ONE REVENUE SOURCE**
 - i. Increase LOITs as needed to reduce residential property taxes with development of alternatives to allow local units to respond to special circumstances within each county.
 - ii. Increase state tax revenues with a possible combination of a rate increase and/or broadening of the sales tax base to include non-essential services.
 - iii. Eliminate certain sales tax exemptions.
 - iv. Employ wagering tax on slot machines (\$75M per year dedicated to property tax relief but unspent).

- v. Explore establishment of new revenue alternatives to use for payment of debt service.

WITNESSLIST

Roosevelt Allen
Lake County Commissioner

Brian Alvey
Taxpayer

Tracy Anderson
Taxpayer

Pat Andrews
Taxpayer

Kathy Andry
Taxpayer

George Angelone
Legislative Services Agency

Mary Ann Beard
Rush County Treasurer

Thomas Atherton
Indiana Apartment Association

Larry Blanchard
Lake County Council member

Bill Borne
Adams County Auditor

David Bottorf
Association of Indiana Counties

Greg Bowes
Marion County Assessor

Billie Breaux
Marion County Auditor

Mark Brown
Indiana Association of Realtors

Elsie Brown-Franklin
Lake County Council member

David Bursten
Indiana property owner

John Carr
Indiana State Bar Association

Sen. Ed Charbonneau
Indiana Senate

Dan Clark
Indiana State Teacher's Association

Rick Cockrum
Lake County Government Relations

Dennis Costerison
Indiana Association of School Business Officials

Ann Cottongim
Indiana Association of Cities and Towns

Dr. Larry DeBoer
Professor at Purdue University

Sen. Gary Dillon, MD
Indiana Senate

Rep. Chester Dobis
Indiana House of Representatives

Mark Dobson
St. Joseph County Commissioner

Rep. Cleo Duncan
Indiana House of Representatives

Jon Eckert
Department of State Revenue

Steve Faston
Taxpayer

Debbie Folkerts
Hamilton County Assessor

Dee Gibson
CEO, White's Residential & Family Services

Kathy Graham
IARRCA

Neil Handley
Taxpayer

Pat Harrison
Taxpayer

Bill Harter
Taxpayer

Kathleen Hatcher
Taxpayer

Don Henley
Realtor

Bill Hodde
Taxpayer

Ross Hooten
Legislative Services Agency

Ryan Kitchell
Director of the Office of Management and Budget

Dr. Jim Landers
Legislative Services Agency

Margie Lite
Taxpayer

Sen. Teresa Lubbers
Indiana Senate

Carol Maynard
Hancock County Assessor

Ed McKrokin
Retiree

Jim Merten
City Securities

Greg Meyer
Taxpayer

Eric Miller
Advance America

Sen. Pat Miller
Indiana Senate

Ed Mourningham
Taxpayer

Allen Morford
Legislative Services Agency

Lynn Murray, Judge
Indiana Council of Juvenile and Family Court Judges

Cheryl Musgrave
Commissioner, Department of Local Government Finance

Matt Norris
Township Association

Dan Novreske
Senate Majority Fiscal Analyst

Rep. David Orentlicher
Indiana House of Representatives

James Payne, Judge
Director, Department of Child Services

Sharon Peirce
CEO, Villages of Indiana

Charles Pratt, Judge
Family Division of the Allen County Superior Court

John Price
Taxpayer

Michael Price
Marion County Deputy Auditor

Jack Ramsey
Taxpayer

Paul Ricketts
Former Lawrence Township Assessor

Linda Riegend
Taxpayer

Mike Rodman
Marion County Treasurer

Dan Rohaley
Indiana Land Title Association

Dante Rondelli
Administrative Financial Director of the Lake County Council

Chris Ruhl
State Budget Director

Judy Sharp
Monroe County Assessor

Bill Sheldrake
President, Policy Analytics

Bob Sigalow
Legislative Services Agency

Aaron Smith
Watchdog Indiana

Rep. Milo Smith
Indiana House of Representatives

Shane Smith
Taxpayer

Rep. Ed Soliday
Indiana House of Representatives

Sen. Karen Tallian
Indiana Senate

Rep. Peter Visclosky
United States House of Representatives

Mary Walker
Taxpayer

Raymond Wallsman
Taxpayer

Eugene White
Superintendent of Indianapolis Public Schools

Linda Williams
Township Assessor

Becky Williams
President, Indiana's Assessor's Association

Neil Wingate
Taxpayer

Barry Wood
Department of Local Government Finance

Joe Wright
Beech Grove Mayor

Joseph Wszolek
Highland Town Council member