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FISCAL IMPACT STATEMENT

LS 6387

BILL NUMBER: SB 67

NOTE PREPARED: Jan 15, 2016

BILL AMENDED: Jan 14, 2016

SUBJECT: Supplemental Distributions of Local Income Tax.

FIRST AUTHOR: Sen. Hershman

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Additional Distribution:* The bill requires the State Budget Agency (SBA), before May 1, 2016, to make supplemental distributions from a county's adjusted gross income tax (CAGIT) trust account, county option income tax (COIT) trust account, or county economic development income tax (CEDIT) trust account equal to: (1) the amount of the balance in the county trust account on December 31, 2014, as determined by the SBA; minus (2) any supplemental distribution made under current law to the county in January 2016.

The bill provides that the Office of Management and Budget (OMB) and the Department of Local Government Finance (DLGF) shall determine the allocation of the supplemental distribution, based on that part of the balance in the county's trust account that would be distributed to the county, city, or town. It provides that the county auditor, before June 1, 2016, shall distribute only to a county, city, or town an amount equal to the allocation amount determined for the county, city, or town by the OMB and the DLGF.

The bill provides that at least 75% of the distributions made to a county, city, or town must be: (1) used exclusively for local road construction, maintenance, or repair, or capital projects for aviation, including capital projects of an airport authority; or (2) deposited in a rainy day fund. It provides that any remaining distribution to a county, city, or town may be used for any purposes of the county, city, or town.

Supplemental Distributions: The bill provides that if the SBA determines that the balance in a county's local income tax trust account exceeds 25% (rather than 50%, under current law) of the certified distributions to be made to the county in the ensuing year, the SBA shall make a supplemental distribution to the county.

Effective Date: Upon passage; May 1, 2016; July 1, 2016.

Explanation of State Expenditures: *State Budget Agency (SBA) and Department of Local Government Finance (DLGF):* The SBA will compute the amount of the supplemental distributions, and the DLGF will determine the allocation among the local units. Each agency's current level of resources should be sufficient to implement the provisions within the bill.

Explanation of State Revenues: *Supplemental Distributions:* The combination of large supplemental distributions and the timing of the accounting of collections and distributions may result in negative trust balances for certain counties. If many counties reach negative trust balances, there is a risk that state General Fund revenue may be needed to pay certified distributions. The probability of state General Fund losses will increase if the economy contracts and insufficient funds are held in the local income tax reserve.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Summary* - This bill requires a one-time additional distribution of local income tax revenue to be allocated to county units, cities, and towns in CY 2016. In addition, it lowers the threshold used to determine if a county will receive a supplemental distribution in the years beginning in CY 2017. The total statewide distributions are estimated to be approximately \$430 M in CY 2016, \$79.6 M in CY 2017, and \$135.5 M in CY 2018.

Additional Information -

(Revised) *Additional Distribution:* The bill requires a one-time additional distribution of local income tax revenue to be made before May 1, 2016. Each eligible unit will receive a distribution equal to the county's local income tax trust account balance as of December 31, 2014, allocated using the formula for either local property tax replacement credits, certified shares, or economic development revenue. However, only the county unit and municipalities are eligible to receive an allocation. The total supplemental distribution to be allocated among all eligible units is estimated to be about \$430 M. (Note: A table at the end of this document reports the estimated additional distribution by county.)

At least 75% of this distribution must either be exclusively used for certain local transportation related projects or deposited in a rainy day fund. Any distribution amount remaining can be used for any lawful purpose.

Supplemental Distributions: The bill reduces the threshold for determining a supplemental distribution from 50% for 25% of the certified distribution to be paid to the county in the ensuing year. By reducing the threshold for supplemental distributions, this bill will increase the frequency of supplemental distributions paid to counties. The amount of the supplemental distribution is equal to the amount of the balance in the county's trust account that exceeds 25% of the certified distributions to be made to the county in the ensuing year. The SBA will determine supplemental distributions using the new parameters before November 2, 2016, for distributions in CY 2017. This bill is estimated to trigger \$79.6 M in distributions to 31 counties in CY 2017, and \$135.5 M distributions to 44 counties in CY 2018. (Note: A table at the end of this document reports supplemental distribution estimates by county.)

The bill requires the supplemental distributions made after December 31, 2016, to be allocated only to the civil units that did not receive an additional distribution. Those civil units are townships, public libraries, school corporations, and certain special taxing units that are eligible for a local income tax distribution. This allocation method will continue until the units excluded from the additional distribution receive allocations

equal to the amount they would have received under that distribution. Once all the specified units in the county receive the appropriate allocation amount, the supplemental distributions will be allocated according to current law. Under current law, supplemental distributions are allocated in the same manner as certified distributions.

The supplemental distributions will continue to increase until they begin to reduce county trust balances. An ending balance in a county’s trust account for a given calendar year is determined two years after the distributions for that calendar year are made. For example, the ending balance in a county’s trust account for CY 2017 will be known by January 1, 2019. The supplemental distributions will eventually cease as trust balances of counties fall below the threshold. The trust accounts will likely be depleted faster than the balances can grow and that may result in a negative trust balance for some counties. A negative balance can occur because of the lag between the computation of a supplemental distribution and the accounting of the distributions in a county’s trust account. The likelihood of a negative balance increases if a county receives large supplemental distributions and the annual differences between certified distributions and collections are narrow.

Supplemental distributions are deposited in the civil unit’s rainy day fund except the portion of revenue attributable to a special purpose rate. That revenue is required to be used for the specified purpose.

State Agencies Affected: State Budget Agency, Department of Local Government Finance.

Local Agencies Affected: Counties, cities, and towns.

Information Sources: County local income tax trust balance accounts; County adjusted gross income tax distribution report, 2016 Official Report; County option income tax distribution report, 2016 Official Report; County economic development income tax distribution report, 2016 Official Report.

Fiscal Analyst: Heath Holloway, 317-232-9867.

| County | Additional Distribution | Supplemental Distributions | |
|-------------|-------------------------|----------------------------|-------------|
| | CY 2016 | CY 2017 | CY 2018 |
| Adams | \$2,335,000 | \$0 | \$71,000 |
| Allen | \$14,402,000 | \$0 | \$0 |
| Bartholomew | \$6,099,000 | \$38,000 | \$1,007,000 |
| Benton | \$729,000 | \$173,000 | \$48,000 |
| Blackford | \$400,000 | \$0 | \$0 |
| Boone | \$11,521,000 | \$6,127,000 | \$7,960,000 |
| Brown | \$861,000 | \$0 | \$29,000 |
| Carroll | \$1,428,000 | \$2,000 | \$8,000 |
| Cass | \$2,253,000 | \$0 | \$0 |
| Clark | \$10,434,000 | \$9,000 | \$3,529,000 |
| Clay | \$1,602,000 | \$0 | \$0 |
| Clinton | \$1,884,000 | \$0 | \$0 |
| Crawford | \$159,000 | \$0 | \$0 |
| Daviess | \$3,060,000 | \$572,000 | \$1,321,000 |
| Dearborn | \$1,316,000 | \$0 | \$0 |
| Decatur | \$1,452,000 | \$0 | \$325,000 |

| County | Additional Distribution | Supplemental Distributions | |
|------------|-------------------------|----------------------------|--------------|
| | CY 2016 | CY 2017 | CY 2018 |
| DeKalb | \$3,807,000 | \$0 | \$1,979,000 |
| Delaware | \$1,886,000 | \$0 | \$0 |
| Dubois | \$4,438,000 | \$1,434,000 | \$2,557,000 |
| Elkhart | \$23,444,000 | \$5,033,000 | \$14,520,000 |
| Fayette | \$660,000 | \$0 | \$0 |
| Floyd | \$7,471,000 | \$2,991,000 | \$4,793,000 |
| Fountain | \$654,000 | \$0 | \$0 |
| Franklin | \$1,076,000 | \$0 | \$0 |
| Fulton | \$1,576,000 | \$93,000 | \$455,000 |
| Gibson | \$1,342,000 | \$284,000 | \$190,000 |
| Grant | \$3,921,000 | \$0 | \$0 |
| Greene | \$1,384,000 | \$121,000 | \$101,000 |
| Hamilton | \$57,706,000 | \$29,988,000 | \$43,033,000 |
| Hancock | \$7,138,000 | \$2,043,000 | \$2,082,000 |
| Harrison | \$663,000 | \$0 | \$0 |
| Hendricks | \$18,582,000 | \$8,221,000 | \$12,365,000 |
| Henry | \$488,000 | \$0 | \$0 |
| Howard | \$2,203,000 | \$0 | \$0 |
| Huntington | \$2,276,000 | \$0 | \$0 |
| Jackson | \$2,563,000 | \$0 | \$266,000 |
| Jasper | \$7,637,000 | \$4,504,000 | \$5,568,000 |
| Jay | \$1,485,000 | \$0 | \$0 |
| Jefferson | \$410,000 | \$0 | \$0 |
| Jennings | \$1,084,000 | \$0 | \$0 |
| Johnson | \$10,163,000 | \$4,131,000 | \$7,324,000 |
| Knox | \$2,533,000 | \$852,000 | \$1,166,000 |
| Kosciusko | \$2,679,000 | \$0 | \$1,216,000 |
| LaGrange | \$4,554,000 | \$2,775,000 | \$3,948,000 |
| Lake | \$27,928,000 | \$0 | \$0 |
| LaPorte | \$4,178,000 | \$0 | \$546,000 |
| Lawrence | \$1,784,000 | \$0 | \$0 |
| Madison | \$7,739,000 | \$0 | \$0 |
| Marion | \$52,805,000 | \$0 | \$0 |
| Marshall | \$2,084,000 | \$0 | \$447,000 |
| Martin | \$151,000 | \$0 | \$0 |
| Miami | \$1,812,000 | \$0 | \$0 |
| Monroe | \$6,391,000 | \$0 | \$1,406,000 |
| Montgomery | \$1,716,000 | \$0 | \$0 |
| Morgan | \$3,680,000 | \$0 | \$0 |
| Newton | \$494,000 | \$0 | \$36,000 |
| Noble | \$3,076,000 | \$317,000 | \$1,396,000 |
| Ohio | \$174,000 | \$0 | \$0 |
| Orange | \$405,000 | \$0 | \$0 |
| Owen | \$596,000 | \$0 | \$0 |
| Parke | \$891,000 | \$0 | \$0 |
| Perry | \$934,000 | \$0 | \$0 |
| Pike | \$365,000 | \$27,000 | \$0 |

| County | Additional Distribution | Supplemental Distributions | |
|-------------|-------------------------|----------------------------|-------------|
| | CY 2016 | CY 2017 | CY 2018 |
| Porter | \$4,260,000 | \$0 | \$0 |
| Posey | \$2,280,000 | \$654,000 | \$995,000 |
| Pulaski | \$2,196,000 | \$997,000 | \$314,000 |
| Putnam | \$1,796,000 | \$0 | \$0 |
| Randolph | \$1,423,000 | \$0 | \$0 |
| Ripley | \$1,342,000 | \$0 | \$0 |
| Rush | \$1,715,000 | \$250,000 | \$306,000 |
| St. Joseph | \$13,722,000 | \$0 | \$0 |
| Scott | \$831,000 | \$0 | \$0 |
| Shelby | \$1,539,000 | \$0 | \$0 |
| Spencer | \$1,008,000 | \$160,000 | \$338,000 |
| Starke | \$1,273,000 | \$0 | \$88,000 |
| Steuben | \$3,709,000 | \$1,343,000 | \$1,563,000 |
| Sullivan | \$351,000 | \$74,000 | \$93,000 |
| Switzerland | \$167,000 | \$0 | \$0 |
| Tippecanoe | \$13,989,000 | \$4,399,000 | \$7,346,000 |
| Tipton | \$1,117,000 | \$0 | \$0 |
| Union | \$415,000 | \$0 | \$0 |
| Vanderburgh | \$6,454,000 | \$0 | \$0 |
| Vermillion | \$0 | \$0 | \$0 |
| Vigo | \$3,527,000 | \$0 | \$0 |
| Wabash | \$3,808,000 | \$0 | \$1,430,000 |
| Warren | \$1,408,000 | \$700,000 | \$391,000 |
| Warrick | \$3,291,000 | \$858,000 | \$1,485,000 |
| Washington | \$1,678,000 | \$0 | \$279,000 |
| Wayne | \$1,472,000 | \$0 | \$0 |
| Wells | \$2,128,000 | \$0 | \$439,000 |
| White | \$1,923,000 | \$475,000 | \$775,000 |
| Whitley | \$145,000 | \$0 | \$0 |