REPLACE DON'T ERASE

Senate Bill 1
Property Taxes
Senator Travis Holdman

TALKING POINTS

CHANGES TO HOMESTEAD DEDUCTIONS EXPEDITE CAP LOSS

Current law provides a standard homestead deduction of $48,000 and a supplemental deduction of 35% on AV up to $600,000 and 25% on AV above $600,000.

In SB 1, homesteads below $125,000 in AV would be able to take the standard deduction of $48,000 plus 60% of the remaining AV as a supplemental deduction.

Homesteads above $125,000 in AV would only take the 60% deduction on their property.

This would cause significant shifts in property taxes to all other property classes e.g. rental housing, agriculture, and businesses, until their growth caps are reached.

The decrease in taxable AV would also create increased circuit breaker impacts, especially for communities with 2% and 3% properties near the current tax caps.

NEW GROWTH CAPS WILL RESULT IN SERVICE CONSEQUENCES

Under current law, property tax growth caps are only for those over 65 with AV below $240,000 and under minimal income requirements. These individuals are capped at 2% growth each year with the remainder credited in the same way property tax caps are credited.

Counties currently can also cap the growth of specified areas of the county for individuals over 55 on their homesteads at a rate of 2-5%.

Under SB 1, growth of property tax liability for seniors, low-income Hoosiers, and families with children under 18 is capped at 2%.

The bill caps growth of property tax liability for all other taxpayers at 3%.

SB 1 offers an exemption from these caps for changes of use and structural improvements to the property.

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LSA estimates the impact of the homestead deduction and the new tax cap to be around $1.6B by 2028.

This is one of the largest proposed cuts to local government budgets ever introduced. The roll out of the property tax caps is the only comparable proposal with similarly wide-scale, compounding impacts. The tax cap enshrinement in the State Constitution boosted Indiana into the top twenty most favorable states for homeowner taxes and in the top five to ten most favorable for business taxes.

Cuts in revenue this extensive will have catastrophic consequences for local ability to deliver basic services, bring in new economic growth and preserve small businesses, provide public safety, maintain adequate infrastructure, and invest in proven quality of place initiatives.

As taxpayers and businesses have experienced the impact of rising inflation, municipal road projects and other core municipal cost centers have not been immune to the same inflationary effects. It is unrealistic to surmise that the costs of goods and services are not increasing for everyone. Simply eliminating revenues will result in fewer or less effective local services, not simple belt-tightening. Local belts are fully cinched following decades of revenue reduction.

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GROWTH CAP IMPACT ON TAX INCREMENT FINANCING

TIF is currently the most valuable financing and economic development tool available to municipal governments.

TIF captures the incremental AV that grows because of economic development investment and then uses the increment to pay the debt used to finance those investments.

If incremental AV is subject to the same growth caps as AV in the TIF base, less revenue would be available to finance the TIF bonds and this critical financing tool would be less useful in financing economic development projects.

TIF is among the few local government tools remaining that can have a meaningful impact on talent attraction, redevelopment, housing, infrastructure, and the kinds of projects that can transform both the look, function, and feel of a community.

While the proposal allows development to circumvent the 3% cap in the first assessment year where there is a change of use or structural improvement, the 3% cap on liability increases over the 25-year lifespan of the TIF and would greatly reduce the available revenue to both pay off bonds and invest in economic development/quality of place projects.

DEBT SERVICE RECEIVES PRIORITY – CREATES FALSE CHOICE

Debt service levies are protected from property tax cap impacts and would be protected from the impacts of the property tax growth cap.

When units experience losses from tax caps, these are applied only to their general fund levies and never to their debt service levies.

This is intended to ensure that required bond obligations can always be met at the guaranteed amount.

New debt issuances that increase the tax rate may not be able to capture new tax revenue because the growth in the tax rate could trigger the growth cap and all the tax cap impact would be realized in the general fund.

Property tax backed general obligation (GO) debt has first-priority in terms of general fund allocations. This would make GO debt financing a much less feasible tool for funding key projects going forward without massive service cuts.

In short, GO debts would have to be covered before local operating obligations, like police, fire, EMS, public works, and parks, could be funded.

NEW CAP ON GROWTH WILL HAVE TANGIBLE PUBLIC SAFETY CONSEQUENCES

Many communities are going through the process of consolidating fire services by creating fire territories or districts to more efficiently fund fire protection as one entity comprised of multiple units of government.

Part of the process of creating the new fire units is resetting the fire tax levies to amounts sufficient to fund the costs of the department that will be serving the area.

If a new fire rate cannot significantly raise new revenue for the department due to growth caps on tax liability, this may disincentivize consolidation because the new entity won't be able to raise sufficient revenue to serve the consolidated area.

Consolidation of these vital public safety services are done not only for fiscal reasons, but to allow for better response times or more comprehensive services.

Restrictions such as these not only pose fiscal consequences, but they also endeavor to take local decision making away on hyper-local activities such as fire suppression and prevention, and incident response, and emergency medical services. Slow response times or ambulance unavailability will have tragic consequences.