Updated February 12, 2025

SB 1 – Property Tax Relief

(As amended in Senate Tax and Fiscal Policy Committee on February 11, 2025)

Senator Travis Holdman

MLGQ

Summary

As amended, the bill:

- Caps the MLGQ at:
    - 0% in 2026
    - 1% in 2027
    - 2% in 2028
- Starting in 2029, the new MLGQ will be calculated as follows:
- Creates a new MLGQ calculation for each county.
    - The calculation uses a composite of the following four metrics with the following weights:
        - (A) County non-farm personal income: 20%
        - (B) Indiana average pay in all industries: 30%
        - (C) US non-farm business productivity: 30%
        - (D) Indiana personal consumption expenditures: 20%
    - A 6-year rolling average is calculated for each metric and then multiplied by weight.
        - (A) The full written formula would be: 0.2(6 year average of A) + 0.3 (6 year average of B) + 0.3(6 year average of C) + 0.2(6 year average of D)

Aim Talking Points

- The fiscal impact on the MLGQ freeze is expected to start out at over $300M statewide in the first year and grow to over $800M in the third year of the freeze. An updated fiscal analysis from the Legislative Services Agency was prepared on February 11, 2025.
- Changes in the MLGQ not only have an immediate fiscal impact but the impact grows over time as levies are permanently adjusted down from how they would normally grow, reducing the base for growth in perpetuity.

- Fast-growing communities are already greatly limited in their ability to grow their tax levies along with their assessed value and service needs and SB 1 would greatly exacerbate that problem.
- The funds within the levy controls are not the parts of the tax levy that have increased significantly. Much of the property tax increase during the period of growing AVs came from referendum and debt service levies.
- This approach is greatly preferred to the new property tax caps in the introduced version of SB 1 as this caps the levy and not the tax bill, thus not creating a new circuit breaker. The new version of the bill will, however, limit the ability of local units to grow along with service needs and economic conditions.

Referendum

Summary

As amended, the bill:

- Moves local referenda to even numbered years in line with the general election.
- Eliminates the excess levy 3-year growth appeals.
- Creates a new operating referendum for cities, towns, and counties:
    - Referenda must be based on levy and define an amount of money targeted to be collected
    - Referenda can be initiated to fulfill public obligations or replace cap loss
    - Referendum rates are outside the property tax caps
    - Referendum rates can only be imposed for one year at a time
    - If a referendum fails, it cannot be brought back for two years unless a petition is signed by citizens to bring it back the next year
- Changes the referendum language to specify both the proposed rate and the proposed amount of money to be raised for a specific purpose.
- A school cannot place a controlled project referendum on the ballot the year a current referendum is expiring.

Aim Talking Points

- Moving the referenda to the general election means that there is only one opportunity to pass a referendum every two years. This could create problems timing capital referenda for controlled projects as the current referendum timelines already sometimes create project delays.
- Eliminating excess levy appeals for growth removes one of the few release valves for fast-growing communities to right-size their tax levies with their actual service needs.
- Replacing this with a 1-year referendum will not solve the problem:

- The referendum can only be attempted once every two years due to the timing change so communities will have to forecast at least two years of revenue requirements to be collected in a single referendum year. This could cause spikes in tax rates.
- Requiring local units to consistently go through referenda to cover the needs of growing communities is onerous on the unit and on the taxpayer.
- The referendum would not permanently increase the levy so growing communities would still not be able to right-size their levies to capture their growth.

Targeted Property Tax Relief

<u>Summary</u>

As amended, the bill:

Agricultural Rates

- Raises the capitalization rate for ag land in the fast-growing periods from 8% to 9%, lowering agricultural assessments while the base rate is growing.

First Time Home Buyer Property Tax Credit

- Creates a first-time home buyer property tax credit of up to $2,500.
- Applies to homeowners who have a household income not greater than $75,000 and an AV not greater than $250,000.
- Allows the credit to be claimed for up to 4 years.
- Adjusts the credit each year based on the median home price change.

Senior Tax Relief

- Raises the income limit for the over 65 property tax deduction and credit:
  - Single: up to $60K from $30K
  - Couple: up to $70K from $40K
- Raises the AV limit for the over 65 property tax deduction and credit to $300K, adjusted annually.
- Raises the amount of the over 65 property tax deduction to $20K from $14K.

Veteran's Tax Relief

- Raises the amount of the disabled veteran's deduction to $20K from $14K.
- Raises the AV limit for the disabled veteran's deduction to $300K from $240K adjusted annually.

Property Tax Deferral Program

- Allows a county option property tax deferral program.

- Allows property owners to defer between $100–$500 of their property tax liability in a given year up to $10,000 total.
- Provides that the property tax proceeds return to the local units when the property is sold or transferred to a trust.
- Allows the program to target certain age groups, AV limits, income limits, or other parameters decided by the county.

<u>Aim Talking Points</u>

- Aim supports targeted property tax relief for taxpayers that need it most.
- Strategic relief is more appropriate than sweeping reforms that would be accompanied by serious service cuts.

General Obligation Bonds

<u>Summary</u>

As amended, the bill:

- Requires a city, town, county, township, or school to wait two years before issuing a bond if the entity has issued a general obligation bond with a term of 5 years or less between December 31, 2024, and May 1, 2025, unless there is an emergency.

<u>Aim Talking Points</u>

- This provision could impact municipalities but appears targeted at school corporations that have used short-term borrowing to keep their debt service rate constant.

Budget Procedures

<u>Summary</u>

As amended, the bill:

- Requires that public notice for the budget hearing must include the proposed increase in the tax rates and tax levies in proposed budgets.
- Requires an additional public hearing prior to the budget adoption wherein the only item on the agenda must be the amount the tax rate and tax levy are increasing from the prior year.

<u>Aim Talking Points</u>

- The local budget process already requires the local unit to have public hearings and adopt a new tax levy and tax rate publicly each year.
- This procedure adds an additional public hearing onto the process wherein just the change in rate from the prior year is discussed, which will make the process excessively bureaucratic.

Transparency

Summary

As amended, the bill:

- Directs DLGF to maintain a property tax transparency portal through which they can compare property tax liability versus proposed property tax liability and provide feedback on the proposed rates.

Aim Talking Points

- Adding new features to the public Gateway website and making it more user-friendly and transparent is a good thing.

Closing Aim Talking Points

- Aim appreciates the efforts of Chairman Travis Holdman and the members of the Senate Tax and Fiscal Policy Committee. While the bill as amended is certainly a step in the right direction, more work remains.
- We look forward to working with Senate and House leaders, as well as Governor Braun and his legislative team, to craft a workable, balanced solution.
- A comprehensive, state-implemented replacement revenue source is not included in SB 1, and those discussions must be moved to the center to ensure the session does not include taxpayer remedies that do more harm than good.