

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington St., Suite 301
Indianapolis, IN 46204
(317) 233-0696
iga.in.gov

FISCAL IMPACT STATEMENT

LS 6566

BILL NUMBER: HB 1121

NOTE PREPARED: Jan 25, 2024

BILL AMENDED: Jan 25, 2024

SUBJECT: Local Income Taxes.

FIRST AUTHOR: Rep. Thompson

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *LIT Councils:* This bill extends the expiration of provisions concerning a county with a single voting bloc and the allocation of votes for a local income tax (LIT) council.

Correctional Facilities LIT: This bill specifies the amount of revenue from a local income tax rate imposed for correctional facilities and rehabilitation facilities in a county that may be used for operating expenses of those facilities.

Acute Care Hospital LIT: This bill allows a county fiscal body to adopt a LIT rate for an acute care hospital located in the county.

Mile Square LIT: This bill allows the adopting body in Marion County to adopt a LIT rate for improvement and services projects located within the boundaries of the Mile Square area.

LIT Allocations for Taxing Unit Merger or Consolidation: This bill provides that, for the purpose of distributing the LIT, if two or more school corporations or civil taxing units merge or consolidate to form a single school corporation or civil taxing unit, the school corporation or civil taxing unit is entitled to the combined pro rata distribution of the LIT revenue allocated to each applicable school corporation or civil taxing unit in existence on January 1 of the immediately preceding calendar year prior to the merger or consolidation.

FIT Allocations for Taxing Unit Merger or Consolidation: This bill provides, for purposes of calculating distributions of the financial institutions tax to local taxing units, how to calculate distributions for a taxing unit that did not receive distributions in 2012 because the unit was subsequently established from the merger

or consolidation of two or more taxing units that received distributions from the financial institutions tax fund in 2012.

CVET Allocations for Taxing Unit Merger or Consolidation: This bill provides, for purposes of calculating qualified distributions of the commercial motor vehicle excise tax to local taxing units, how to calculate base revenue distributions for a taxing unit that did not receive a base revenue distribution in 2001 because the taxing unit was subsequently established from the merger or consolidation of two or more taxing units that received base revenue distributions in 2001. It provides that, for purposes of determining the apportionment or distribution of the motor vehicle excise tax, that the county auditor may make adjustments to reflect the merger or consolidation of two or more taxing units.

Highlander Fire Protection District: This bill provides that the Department of Local Government Finance (DLGF) shall make certain adjustments pertaining to the distribution of LIT for Floyd County in 2025, which provide that the Highlander Fire Protection District (district) shall receive an amount equal to the combined distribution that would have been distributed to the Greenville Fire Protection District (FPD) and the Lafayette Fire Protection District (FPD) in 2024, but for their elimination resulting from the merger to establish the district. The bill requires corresponding adjustments in 2025 to reduce the distribution for each applicable civil taxing unit and school corporation in Floyd County, excluding the district, by an amount that equals the proportionate share of the amount of LIT received in 2024 of the combined distribution that would have been distributed to the Greenville FPD and the Lafayette FPD in 2024, but for their elimination.

City of Hammond Food and Beverage Tax: This bill authorizes the city of Hammond to impose a food and beverage tax.

Town of Cicero Food and Beverage Tax: This bill authorizes the town of Cicero to impose a food and beverage tax.

Effective Date: (Amended) Upon passage; July 1, 2023 (retroactive); July 1, 2024; January 1, 2025.

Explanation of State Expenditures: (Revised) *Department of Local Government Finance (DLGF):* The administrative workload for the DLGF may increase as a result of the following:

- Computing and reporting the revised/updated revenue allocations of LIT and commercial vehicle excise tax revenue, should two or more civil taxing units or school corporations consolidate or merge into one unit.
- Making the applicable adjustments to the CY 2025 LIT distribution allocations to account for the newly created Highlander Fire Protection District in Floyd County.
- Counties choosing to adopt a LIT rate for paying for acute care hospitals within their jurisdictions, based on eligibility requirements specified in the bill.
- Marion County choosing to adopt a LIT rate for improvement and services projects located within the boundaries of the Mile Square area.

It is assumed that the DLGF will be able to implement these provisions using existing resources and not require additional appropriations to implement this bill's provisions.

(Revised) *State Department of Revenue (DOR):* The administrative workload for the DOR may increase as a result of the following:

- The city of Hammond and/or the town of Cicero implementing a food and beverage tax. (The food and beverage taxes would be collected and remitted to the DOR in the same manner as the state Sales Tax.)
- Counties choosing to adopt a LIT rate for paying for acute care hospitals within their jurisdictions, based on eligibility requirements specified in the bill.
- Marion County choosing to adopt a LIT rate for improvement and services projects located within the boundaries of the Mile Square area.

It is assumed that the DOR will be able to implement these provisions using existing resources and not require additional appropriations to implement this bill's provisions.

(Revised) *State Comptroller*: The State Comptroller may experience a minor increase in administrative workload as a result of computing and transferring to the county auditor the revised/updated revenue allocations of financial institutions tax, should two or more civil taxing units or school corporations consolidate or merge into one unit. It is assumed that the State Comptroller's office will be able to implement these provisions using existing resources and not require additional appropriations.

(Revised) *State Budget Agency*: The State Budget Agency may experience an increase in administrative workload should counties choose to adopt a LIT rate for paying for acute care hospitals within their jurisdictions, based on eligibility requirements specified in the bill, and/or if Marion County chooses to adopt a LIT rate for improvement and services projects located within the boundaries of the Mile Square area. The agency's current level of resources should be sufficient to implement these provisions.

Explanation of State Revenues:

Explanation of Local Expenditures: *LIT Councils*: The bill's provisions extend the current expiration date by one year - from May 31, 2024, to May 31, 2025 - for those counties where the county adopting body is the LIT council and the county has a single voting bloc. These provisions should not have any significant impact for the local units since they're simply extending current functions already in place.

(Revised) *CVET Allocations for Taxing Unit Merger or Consolidation*: The administrative workload for county auditors may increase as a result of making any necessary adjustments to the current taxing unit apportionment and distributions of motor vehicle excise tax revenue in the county, should two or more civil taxing units or school corporations consolidate or merge into one unit.

(Revised) *Acute Care Hospital LIT*: The bill allows a county fiscal body to adopt an ordinance that imposes a LIT rate for paying for acute care hospitals within their jurisdictions, based on eligibility requirements specified in the bill. A county fiscal body should have sufficient resources to pass the required ordinance, and the county auditor should have sufficient resources to establish and administer the specified fund.

(Revised) *Mile Square LIT*: The bill allows the city county council in Marion County to adopt an ordinance before January 1, 2027, that imposes a LIT rate for paying for improvement and services projects located within the boundaries of the Mile Square area of the consolidated city. The city county council should have sufficient resources to pass the required ordinance, and the county auditor should have sufficient resources to establish and administer the specified fund.

(Revised) *City of Hammond Food and Beverage Tax*: The Hammond city council could potentially incur a one-time increase in costs if it holds an additional public hearing to discuss a proposed ordinance to impose

a food and beverage tax.

If the city imposes a food and beverage tax, the city fiscal officer would establish a food and beverage tax receipts fund, in which all revenue from the tax would be deposited. Money in this fund may only be used for the following purposes:

- Development related to the Northern Indiana Commuter Transportation District's construction of the West Lake Corridor Commuter Rail Project.
- Development in the city's downtown area.
- Expansion and improvement of the Hammond Sportsplex and Community Center.
- Expansion and improvement of the Pavilion at Wolf Lake Memorial Park.
- The pledge of money for bonds, leases, or other obligations incurred for a purpose listed above.

(Revised) *Town of Cicero Food and Beverage Tax*: The Cicero town council could potentially incur a one-time increase in costs if it holds an additional public hearing to discuss a proposed ordinance to impose a food and beverage tax.

If the town imposes a food and beverage tax, the town fiscal officer would establish a food and beverage tax receipts fund, in which all revenue from the tax would be deposited. Money in this fund may only be used for the following purposes:

- To reduce the town's property tax levy for a particular year at the discretion of the town.
- Economic development.
- To create new parks and amenities and to expand and enhance existing parks and amenities.
- To upgrade, expand, and otherwise improve the town's water, sanitary sewer, and stormwater utilities.

Explanation of Local Revenues: Correctional Facilities LIT: The bill's provisions clarify the percentage of revenue generated from a county's LIT rate imposed for correctional facilities and rehabilitation facilities in a county that may be used for operating expenses of those facilities. Under current law, the amount of a county's correctional facilities LIT revenue that can be used towards operating expenses is equal to the amount of revenue attributable to 0.2% of the tax rate. Under this bill's provisions, if an increment of the tax rate does not exceed 0.2%, 100% of the revenue collected from the total tax rate can be used towards operating expenses. This bill's provisions will allow those counties that impose a LIT rate for correctional and rehabilitation facilities to use more of the revenue generated from the rate towards operational costs at these facilities (as opposed to capital construction costs and debt costs associated with the construction of the facilities).

The Appendix A table shown at the end of this fiscal note provides a list of counties that have imposed a LIT rate in CY 2024 for correctional and rehabilitation facilities. The table also includes the CY 2024 certified distributions amounts, certified rates, and estimated amounts of revenue that could be used toward operating expenses under the current statute (Baseline) and under this bill's provisions (Policy). A difference (between Policy vs. Baseline amounts) column is also included.

(Revised) *Acute Care Hospital LIT*: Under this bill's provisions, counties may choose to adopt a LIT rate for paying for acute care hospitals within their jurisdictions, based on eligibility requirements specified in the bill. The adopted tax rate must be in increments of 0.01% and may not exceed 0.10%. The revenue attributable to the rate is distributed to the county unit and must be maintained in a separate dedicated county

fund and used only for the purposes of covering costs related to acute care hospitals in the county.

Should counties choose to adopt a LIT rate for the purpose previously noted, the county unit could receive their first certified distribution of this revenue in CY 2025 if the county fiscal body passes an ordinance before November 1, 2024. The Appendix B table at the end of the fiscal note contains CY 2025 and CY 2026 revenue estimates for each 0.1% of a rate a county may impose. Ultimately, the fiscal impact depends on local decisions.

(Revised) *Mile Square LIT*: Under this bill’s provisions, the city county council in Marion County may adopt an ordinance before January 1, 2027, that imposes a LIT rate for paying for improvement and services projects located within the boundaries of the Mile Square area of the consolidated city. The adopted tax rate must be in increments of 0.01% and may not exceed 0.02%. The revenue attributable to the rate is distributed to the county unit and must be maintained in a separate dedicated county fund and used only for the purposes of covering costs related to the improvement and services projects within the Mile Square area.

Should the city county council choose to adopt a LIT rate for the purpose previously noted, the county unit could receive their first certified distribution of this revenue in CY 2025 if the council passes an ordinance before November 1, 2024. It is estimated that a LIT rate of 0.02% in Marion County could generate approximately \$6.2 M in CY 2025 and approximately \$6.4 M in CY 2026. Ultimately, the fiscal impact depends on the decision of the city county council.

(Revised) *LIT, FIT, and CVET Allocations for Taxing Unit Merger or Consolidation*: These provisions should have a neutral impact on total overall LIT, financial institutions tax, and commercial and motor vehicle excise tax revenues in a county where two or more civil taxing units or school corporations have merged or consolidated. The allocations of these revenues to certain taxing units will be revised so that the pro rata distribution to the applicable taxing units (pre-merger or pre-consolidation) is combined and distributed to the newly merged or consolidated taxing unit. This bill’s provisions would eliminate the potential of any re-distribution of these revenues to the other taxing units in the county that may occur in the first year immediately following the creation of the newly merged or consolidated taxing unit.

(Revised) *Highlander Fire Protection District*: This bill’s provisions set the local income tax distributions effective CY 2025 - inclusive of any future supplemental distributions - for the newly created Highlander Fire Protection District that would have originally been allocated to the Greenville Township Fire Protection District and Lafayette Township Fire Protection District in Floyd County prior to the merger.

(Revised) *City of Hammond Food and Beverage Tax*: The bill authorizes the city of Hammond to impose a food and beverage tax at a rate not to exceed 1% of gross retail income from food and beverage transactions in the city. If the city adopts an ordinance to impose the tax in July 2024, the tax could go into effect as early as September 1, 2024. The following table shows the estimated potential revenue for CY 2024 through CY 2026.

Estimated Potential Hammond Food and Beverage Tax Revenue, 1%		
CY 2024	CY 2025	CY 2026
\$242,000	\$975,000	\$984,000

These estimates are based on sales data for the food services industry in Lake County, as published in the

2017 Economic Census, and actual revenue of counties that currently collect food and beverage taxes. A portion of the county total was allocated to Hammond based on the city’s estimated share of the food and beverage industry in the county. The Hammond food and beverage tax would expire on July 1, 2047.

(Revised) *Town of Cicero Food and Beverage Tax*: The bill authorizes the town of Cicero to impose a food and beverage tax at a rate not to exceed 1% of gross retail income from food and beverage transactions in the town. If the town adopts an ordinance to impose the tax in July 2024, the tax could go into effect as early as September 1, 2024. The following table shows the estimated potential revenue for CY 2024 through CY 2026.

Estimated Potential Cicero Food and Beverage Tax Revenue, 1%		
CY 2024	CY 2025	CY 2026
\$43,000	\$172,000	\$176,000

These estimates are based on the actual food and beverage tax revenue of Hamilton County. A portion of the county total was allocated to Cicero based on the town’s estimated share of the food and beverage industry in the county. The Cicero food and beverage tax would expire on July 1, 2046.

Additional Information - (Revised) *Acute Care Hospital LIT*: The bill does not increase the maximum possible local income tax expenditure rate. The county rate established in the bill is a dedicated use of the existing expenditure rate capacity. The maximum expenditure rate for all counties other than Marion County is 2.5%. The maximum rate for Marion County is 2.75%. If a county fiscal body imposes this rate, it will reduce the rate capacity of the county's adopting body. In the Appendix B table, counties that are listed as “N/A” under the CY 2025 and CY 2026 column are excluded from the analysis since they do not contain an acute care hospital that meets the criteria defined in the bill.

(Revised) *Highlander Fire Protection District*: The Highlander Fire Protection District was established via an ordinance approved by the Floyd County commissioners on December 30, 2022. The newly created district was the result of a merger between the Greenville Township Fire Protection District and the Lafayette Township Fire Protection District and is to become fully operational on January 1, 2024. The Highlander Fire Protection District adopted a total property tax levy of approximately \$3 M for CY 2024. However, the newly created Highlander Fire Protection District did not receive a levy in CY 2023 and therefore did not have a base for which to calculate CY 2024 LIT distributions. The CY 2024 LIT distributions that would have been allocated to the Greenville Township Fire Protection District in the amount of \$462,687 and to the Lafayette Township Fire Protection District in the amount of \$489,435 were instead allocated to the other taxing units in Floyd County. These CY 2024 distributions will be added as an adjustment for the Highlander Fire Protection District when the DLGF calculates the LIT distribution allocations for CY 2025.

State Agencies Affected: Department of State Revenue; Department of Local Government Finance; State Budget Agency; State Comptroller.

Local Agencies Affected: County fiscal bodies and local income tax councils; County auditors; Civil taxing units and school corporations; City of Hammond; Town of Cicero.

Information Sources: State Budget Agency Estimated CY 2024 Certified Distributions (Certified November 28, 2023): <https://www.in.gov/sba/files/2024-Certification-Calculations-2.pdf> ; CY 2024 Certified Local

Income Tax Distributions - Unit Allocations as November 29, 2023; Gateway for Local Government Units - Budget Application: Highland Fire District CY 2024 Budget Form 4; Indiana Department of Health Licensed Hospital Report - July 2023; U.S. Census Bureau; 2017 Economic Census. Legislative Services Agency, Indiana Handbook of Taxes, Revenues, and Appropriations, FY 2023. OFMA Quarterly Census of Employment and Wages Data.

Fiscal Analyst: James Johnson, 317-232-9869; Bob Sigalow, 317-232-9859; Karen Rossen, 317-234-2106; Qian Li, 317-232-967.

Appendix A: CY 2024 Local Income Tax: Correctional Facilities Distributions Amounts & Rates					
County	Certified Distributions	Certified Rate	Baseline: Allowable Amount for Operating Expenses	Policy: Allowable Amount for Operating Expenses	Difference: Policy vs. Baseline
Allen	\$16,294,833	0.1100%	\$3,585	\$16,294,833	\$16,291,248
Bartholomew	\$5,938,249	0.2000%	\$2,375	\$5,938,249	\$5,935,874
Boone	\$8,986,228	0.2000%	\$3,594	\$8,986,228	\$8,982,634
Carroll	\$1,126,768	0.2000%	\$451	\$1,126,768	\$1,126,317
Cass	\$1,700,561	0.2000%	\$680	\$1,700,561	\$1,699,881
Clinton	\$1,607,429	0.2000%	\$643	\$1,607,429	\$1,606,786
Dearborn	\$3,090,722	0.2000%	\$1,236	\$3,090,722	\$3,089,486
DeKalb	\$2,042,601	0.1300%	\$531	\$2,042,601	\$2,042,070
Dubois	\$3,288,224	0.2000%	\$1,315	\$3,288,224	\$3,286,909
Fayette	\$926,083	0.2000%	\$370	\$926,083	\$925,713
Floyd	\$5,850,783	0.2000%	\$2,340	\$5,850,783	\$5,848,443
Fulton	\$1,019,815	0.2000%	\$408	\$1,019,815	\$1,019,407
Gibson	\$2,161,342	0.2000%	\$865	\$2,161,342	\$2,160,477
Greene	\$1,523,400	0.2000%	\$609	\$1,523,400	\$1,522,791
Hancock	\$6,085,164	0.2000%	\$2,434	\$6,085,164	\$6,082,730
Hendricks	\$13,614,448	0.2000%	\$5,446	\$13,614,448	\$13,609,003
Henry	\$2,252,765	0.2000%	\$901	\$2,252,765	\$2,251,864
Howard	\$4,447,663	0.2000%	\$1,779	\$4,447,663	\$4,445,884
Huntington	\$2,215,414	0.2000%	\$886	\$2,215,414	\$2,214,528
Jackson	\$2,357,877	0.2000%	\$943	\$2,357,877	\$2,356,934
Jefferson	\$2,594,555	0.3000%	\$1,557	\$1,729,703	\$1,728,147
Johnson	\$11,830,592	0.2000%	\$4,732	\$11,830,592	\$11,825,860
Knox	\$1,967,254	0.2000%	\$787	\$1,967,254	\$1,966,467
Madison	\$6,282,278	0.2000%	\$2,513	\$6,282,278	\$6,279,765
Monroe	\$424,260	0.0100%	\$8	\$424,260	\$424,252
Morgan	\$860,433	0.0400%	\$69	\$860,433	\$860,364
Owen	\$985,717	0.2000%	\$394	\$985,717	\$985,323
Putnam	\$1,870,558	0.2000%	\$748	\$1,870,558	\$1,869,810
Ripley	\$1,676,952	0.2000%	\$671	\$1,676,952	\$1,676,281
Sullivan	\$952,188	0.2000%	\$381	\$952,188	\$951,807
Vanderburgh	\$2,726,363	0.0500%	\$273	\$2,726,363	\$2,726,091
Vigo	\$5,265,507	0.2000%	\$2,106	\$5,265,507	\$5,263,401
Wabash	\$1,956,048	0.2000%	\$782	\$1,956,048	\$1,955,266
Wells	\$614,635	0.0700%	\$86	\$614,635	\$614,549
Whitley	\$2,300,473	0.2000%	\$920	\$2,300,473	\$2,299,553

Appendix B: Estimated Local Income Tax Revenue from a 0.1% LIT Rate (\$M)*					
	CY 2025	CY 2026		CY 2025	CY 2026
Adams	\$1.080	\$1.115	Lawrence	N/A	N/A
Allen	N/A	N/A	Madison	N/A	N/A
Bartholomew	\$3.115	\$3.222	Marion	\$31.133	\$31.770
Benton	N/A	N/A	Marshall	N/A	N/A
Blackford	N/A	N/A	Martin	N/A	N/A
Boone	\$4.907	\$5.210	Miami	N/A	N/A
Brown	N/A	N/A	Monroe	N/A	N/A
Carroll	N/A	N/A	Montgomery	N/A	N/A
Cass	\$0.874	\$0.894	Morgan	N/A	N/A
Clark	N/A	N/A	Newton	N/A	N/A
Clay	N/A	N/A	Noble	N/A	N/A
Clinton	N/A	N/A	Ohio	N/A	N/A
Crawford	N/A	N/A	Orange	N/A	N/A
Daviess	\$1.001	\$1.041	Owen	N/A	N/A
Dearborn	N/A	N/A	Parke	N/A	N/A
Decatur	\$0.742	\$0.766	Perry	\$0.500	\$0.520
DeKalb	N/A	N/A	Pike	N/A	N/A
Delaware	N/A	N/A	Porter	N/A	N/A
Dubois	N/A	N/A	Posey	N/A	N/A
Elkhart	N/A	N/A	Pulaski	N/A	N/A
Fayette	N/A	N/A	Putnam	\$0.964	\$1.004
Floyd	N/A	N/A	Randolph	N/A	N/A
Fountain	N/A	N/A	Ripley	N/A	N/A
Franklin	N/A	N/A	Rush	\$0.484	\$0.505
Fulton	\$0.524	\$0.540	St. Joseph	N/A	N/A
Gibson	N/A	N/A	Scott	N/A	N/A
Grant	N/A	N/A	Shelby	\$1.312	\$1.346
Greene	\$0.780	\$0.803	Spencer	N/A	N/A
Hamilton	\$26.406	\$28.381	Starke	N/A	N/A
Hancock	\$3.291	\$3.477	Steuben	N/A	N/A
Harrison	\$1.164	\$1.214	Sullivan	\$0.504	\$0.524
Hendricks	\$7.412	\$7.863	Switzerland	N/A	N/A
Henry	\$1.151	\$1.189	Tippecanoe	N/A	N/A
Howard	N/A	N/A	Tipton	\$0.452	\$0.466
Huntington	N/A	N/A	Union	N/A	N/A
Jackson	N/A	N/A	Vanderburgh	N/A	N/A
Jasper	N/A	N/A	Vermillion	N/A	N/A
Jay	N/A	N/A	Vigo	N/A	N/A
Jefferson	N/A	N/A	Wabash	N/A	N/A
Jennings	N/A	N/A	Warren	N/A	N/A
Johnson	\$6.454	\$6.834	Warrick	N/A	N/A
Knox	\$1.018	\$1.039	Washington	N/A	N/A
Kosciusko	N/A	N/A	Wayne	N/A	N/A

LaGrange	N/A	N/A	Wells	N/A	N/A
Lake	N/A	N/A	White	N/A	N/A
LaPorte	N/A	N/A	Whitley	N/A	N/A

* A county may impose a rate of up to 0.10% for paying for costs pertaining to acute care hospitals that are:
(1) established and operated under IC16-22-2, IC16-22-8, or IC 16-23; and (2) licensed under IC 16-21.