



# SB 1 – Local Government Finance

Author: Senator Travis Holdman

Sponsor: Representative Jeff Thompson

## Executive Summary

- SB 1 provides significant new property tax relief for homeowners by phasing up the homestead deduction to 2/3 of homestead AV and providing a new tax credit for up to \$300 or 10% of their final tax bill, whichever is less.
  - This change represents the bulk of the fiscal impact to local units and will limit property tax revenue growth significantly over the coming years, especially in communities that are heavily residential.
- The bill also raises the BPPT exemption to \$2M and eliminates the 30% depreciation floor on all new equipment.
- This change will reduce revenue on BPPT significantly but does leave the majority of the tax intact, a significant improvement over the complete elimination of BPPT that passed out of the House Ways & Means Committee but then scaled back significantly on 2nd reading. The bill gives the opportunity to offset some revenue losses by restructuring LIT, raising the expenditure rate cap from 2.5% to 2.9% and allowing cities and towns to adopt their own LIT rate.
  - The bill does shift some local tax burden from property tax to income tax as a matter of policy which will require difficult votes and local decisions in the coming years.
- The bill places significant limits on some of the drivers of significant property tax increases in recent years, specifically by limiting short-term

### Comments

- 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.

## **Debt and Excess Levy Appeals**

### Summary

- Eliminates the excess levy 3-year growth appeals.
- Provides a 1-year cooling off period for all short-term debt issuances under 5 years after they expire.
- Provides that all municipal property tax debt-backed projects are controlled projects if the total debt service rate for the unit exceeds:
  - 0.25% for the remonstrance process
  - 0.4% for the referendum process
- Continues the 4% MLGQ cap in 2026.

### Comments

- Excess levy growth appeals are the only mechanism fast-growing communities have to attempt to right-size their property tax levies with their growing service costs.
- Eliminating this tool means that fast-growing communities will only be able to rely on income tax increases to track growing service costs. More conversation with lawmakers on the importance of these appeals will be necessary.
- The new controlled projects debt service rate threshold is relatively low and will capture more municipalities than under current law.
- Limiting the rate impacts of debt from overlapping units, especially school corporations that issue the majority of general obligation debt in the state, may have positive revenue impacts by lowering rates and reducing circuit breaker loss.

## **Budget Procedures**

### Summary

- 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.

### Comments

- 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.

## **Fire Territories**

### Summary

- Caps Fire Territory tax rates at 0.4%
- Requires the county to approve all fire territory LIT distributions

### Comments

- Fire territories are an important tool for consolidation and increasing professional fire and EMS coverage.
- Many fire territories have rates over 0.4% currently and those rates are set based on how much DLGF determines the territory needs to operate when they are formed. Arbitrarily capping this reduces the effectiveness of the fire territory.

## **Transparency**

### Summary

- 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.

### Comments

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

