

New Research, New Reality

Understanding SEA 1 and the Changes Shaping Indiana School Funding



Purpose and Agenda

Objective

- **Understand** the changing context of school finance and the current state of the fiscal environment.
- **Identify** areas of local concern and issues that are relevant to your school corporation.
- **Prepare** for future discussions with school administration, board members, constituents and legislators.

1 SEA 1: Where are we now?

2 Cost to Run a School District

3 Misconceptions in School Finance

4 Assessed Value/Legislative Update

5 Panel Discussion

Financial Impact of SEA 1

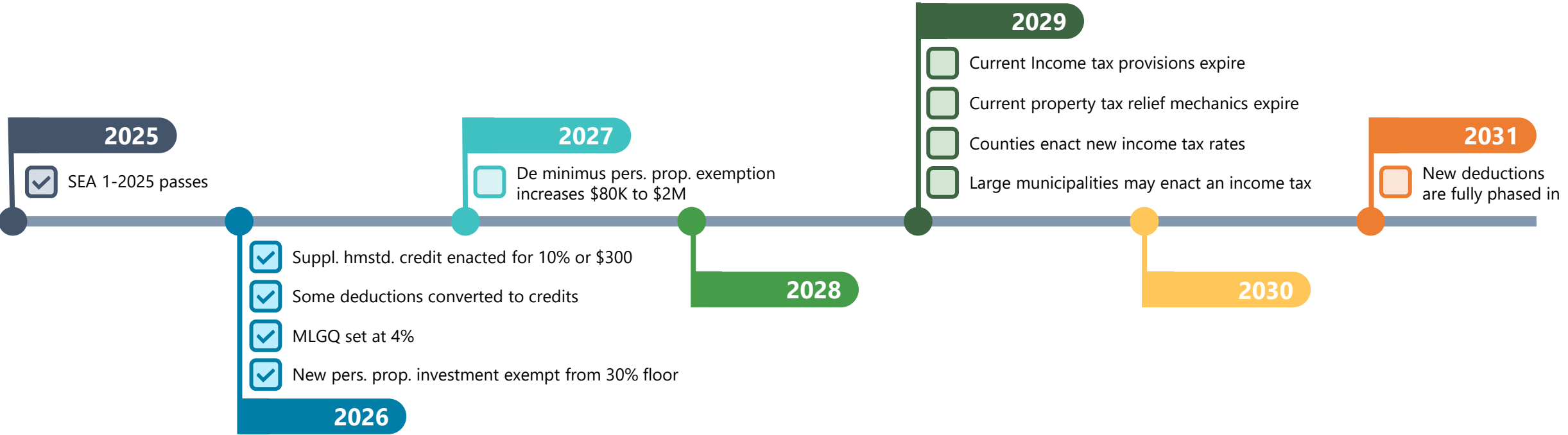
Where are we now?

Introduction

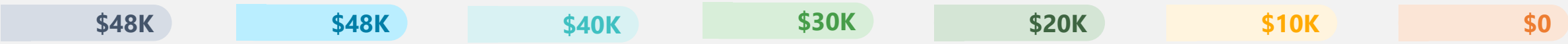
Outline

- **Revisit** early SEA 1-2025 projections to understand the policy context and extent.
- **Evaluate** actual changes in the 2026 tax year, the first year of SEA 1 implementation
- **Forecast** future fiscal impacts – for taxpayers and taxing units

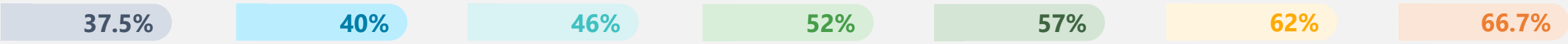
Timeline of SEA 1-2025



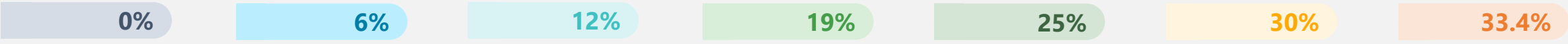
Standard Deduction



Supplemental Homestead Deduction



Non-Homestead Residential Deduction



Initial SEA 1-2025 Estimates

Flashback to 2025

Original SEA 1-2025 Fiscal Estimates

Net Property Tax Liability by Property Class

Property Type	CY 2026	CY 2027	CY 2028
Homesteads	-\$443.8M	-\$488.5M	-\$390.4M
Farmland	-\$53.5M	-\$56.0M	-\$7.0M
Other Residential	-\$9.8M	-\$11.4M	-\$46.6M
Apartments	-\$0.5M	-\$1.0M	-\$23.5M
Agricultural	\$14.9M	\$21.7M	\$26.4M
Other Real	\$93.2M	\$216.0M	\$407.8M
Personal Property	\$68.0M	-\$81.2M	\$5.7M
Total	-\$331.5M	-\$400.4M	-\$27.6M

LSA Fiscal Impact Statement – SEA 1; HEA 1427 (2025)

Original SEA 1-2025 Fiscal Estimates

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Homesteads receive property tax relief through the 10% credit

New deductions shift taxes to non-residential

De minimis personal property exemption

** SEA 1-2025 originally ended LIT property tax replacement in 2028*

Original SEA 1-2025 Fiscal Estimates

Net Property Tax Levy by Unit Type

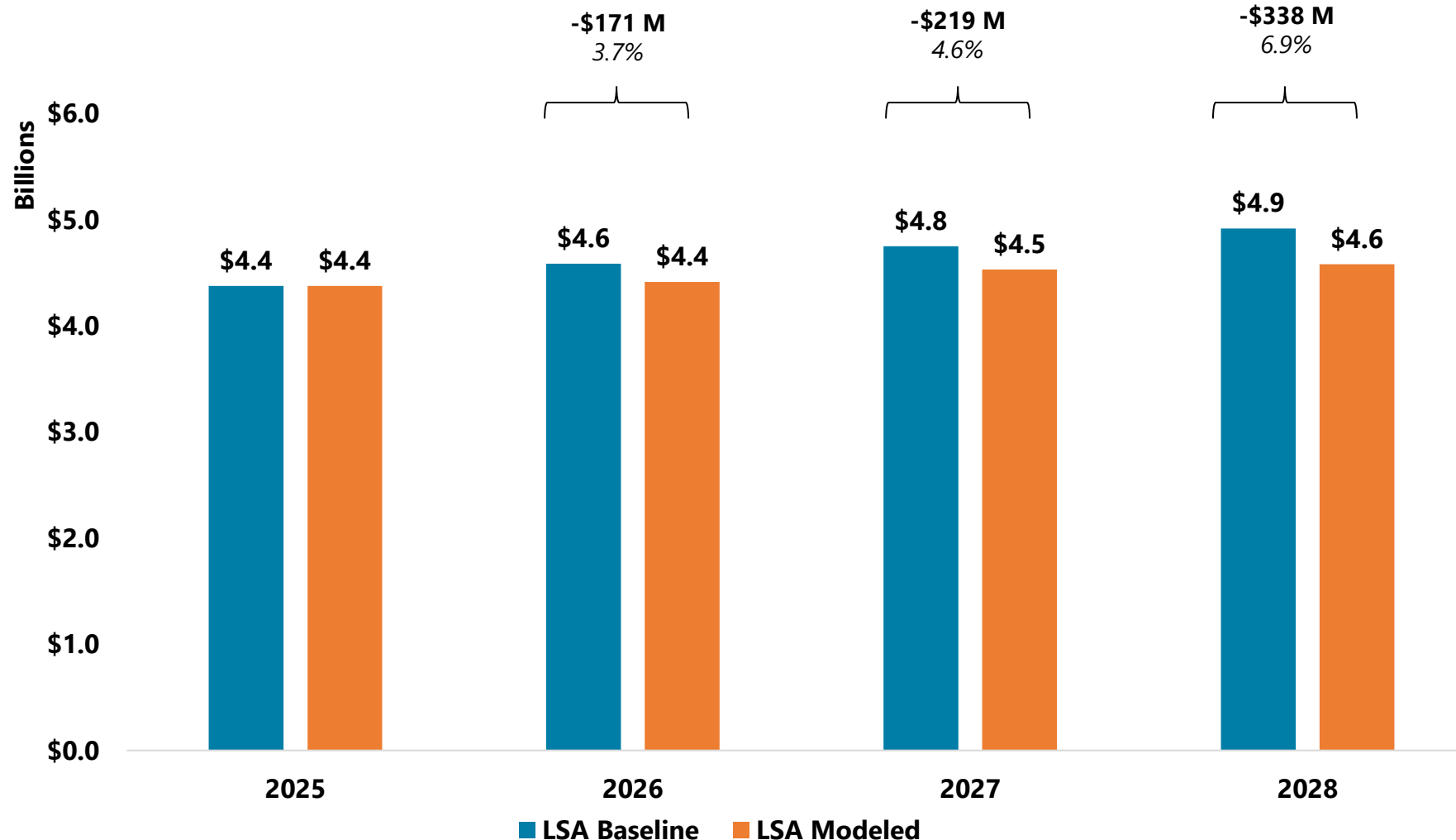
Unit Type	CY 2026	CY 2027	CY 2028
Counties	-\$91.5M	-\$119.9M	-\$185.0M
Townships	-\$17.4M	-\$21.3M	-\$25.7M
Cities and towns	-\$86.6M	-\$116.6M	-\$233.1M
Schools	-\$171.7M	-\$219.6M	-\$338.1M
Libraries	-\$16.5M	-\$18.3M	-\$24.3M
Special Units	-\$25.2M	-\$26.4M	-\$10.1M
TIF Districts	\$77.4M	\$121.8M	\$125.6M

Total	-\$331.5M	-\$400.3M	-\$690.7M	<i>Increase due to PTR elimination</i>
<i>Total Without TIF</i>	<i>-\$409.0M</i>	<i>-\$522.2M</i>	<i>-\$816.3M</i>	

LSA Fiscal Impact Statement – SEA 1; HEA 1427 (2025)

Original SEA 1-2025 Fiscal Estimates – Compared to Baseline

School Net Property Tax Levy

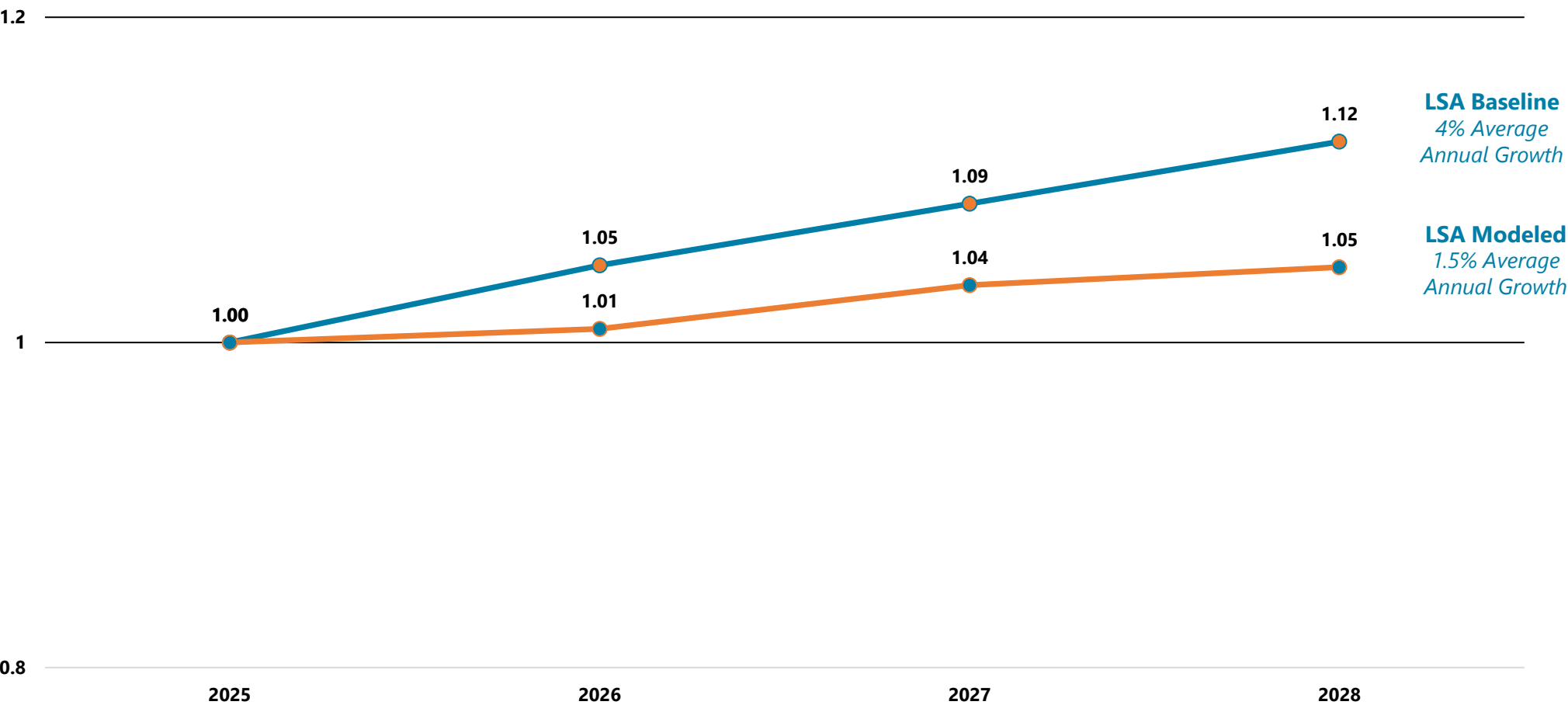


- The initial fiscal estimates showed revenue decreases (from baseline) of 3.5% - 7.0% by 2028.
- The projection showed revenue increases in each future year – but at a slower rate than under the baseline projections.

Original SEA 1-2025 Fiscal Estimates – Annual Change

School Net Property Tax Levy

Total School Net Property Tax Levy (Indexed to 2025)



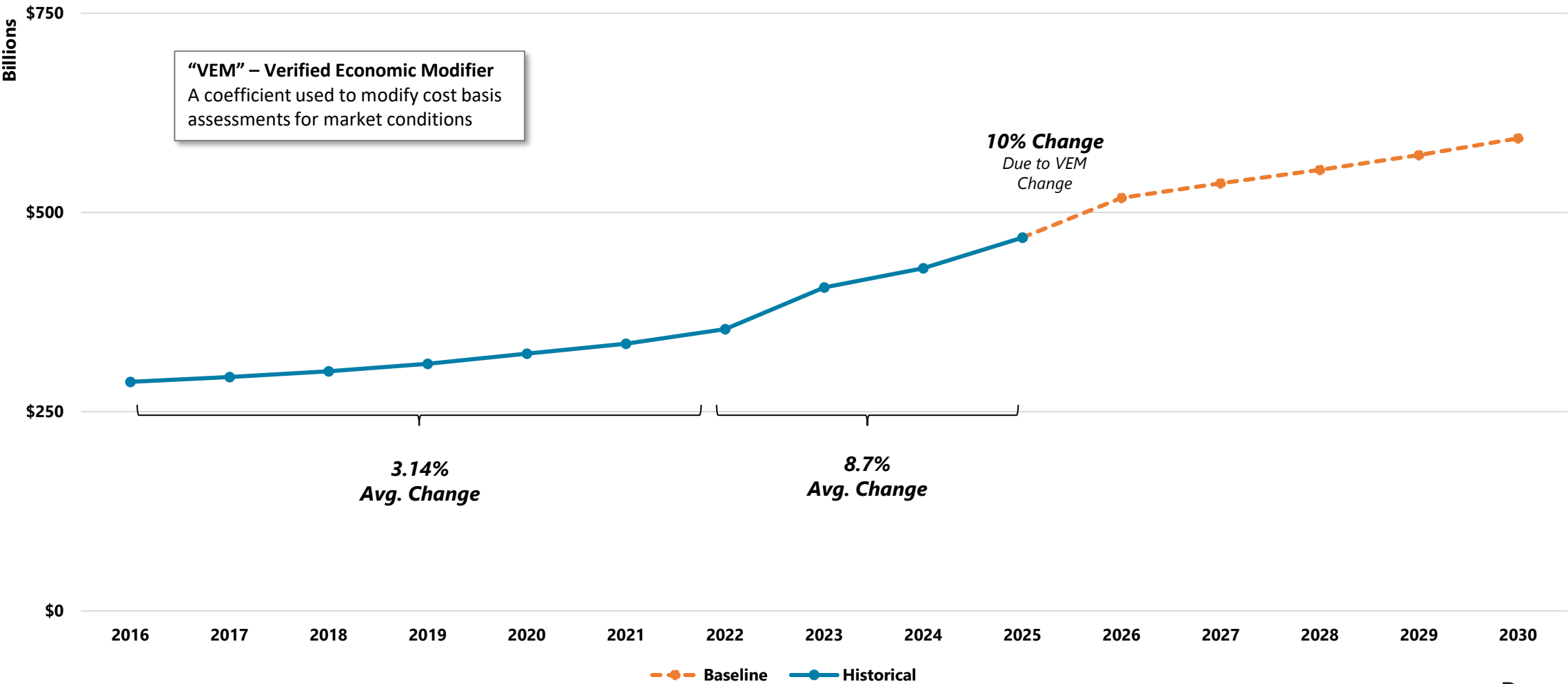
Summary of Prior Modeling

- SEA 1 – 2025 was intended to provide near-term relief to homeowners, and long-term relief to personal property taxpayers.
- Homestead tax liability was expected to decrease by approximately 10% against the baseline, due to the supplemental homestead credit.
- School property tax revenue was expected to continue to increase on an year-over-year level, but slow substantially (4.0% to 1.5% average annual change through 2028).

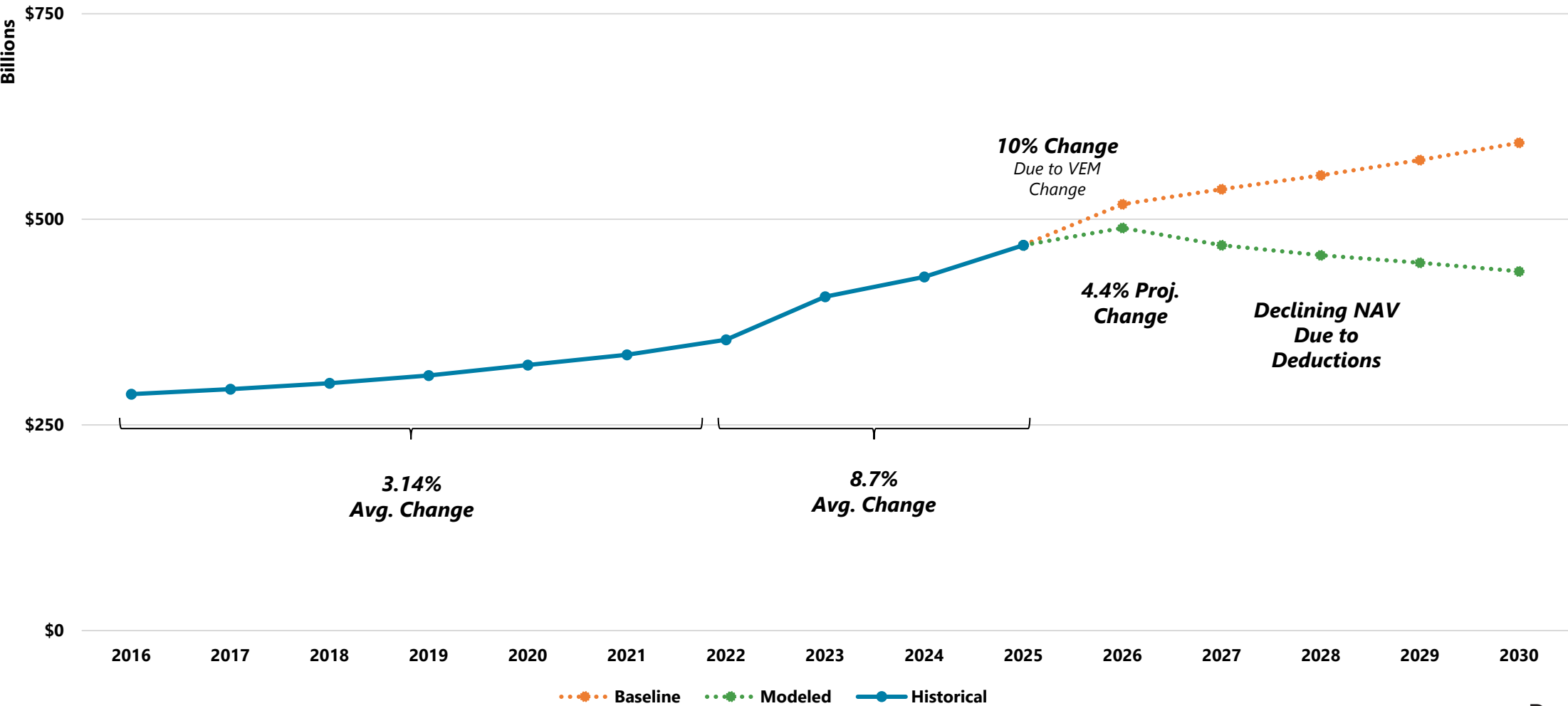
Progress to Date (through 2026)

Where are we now?

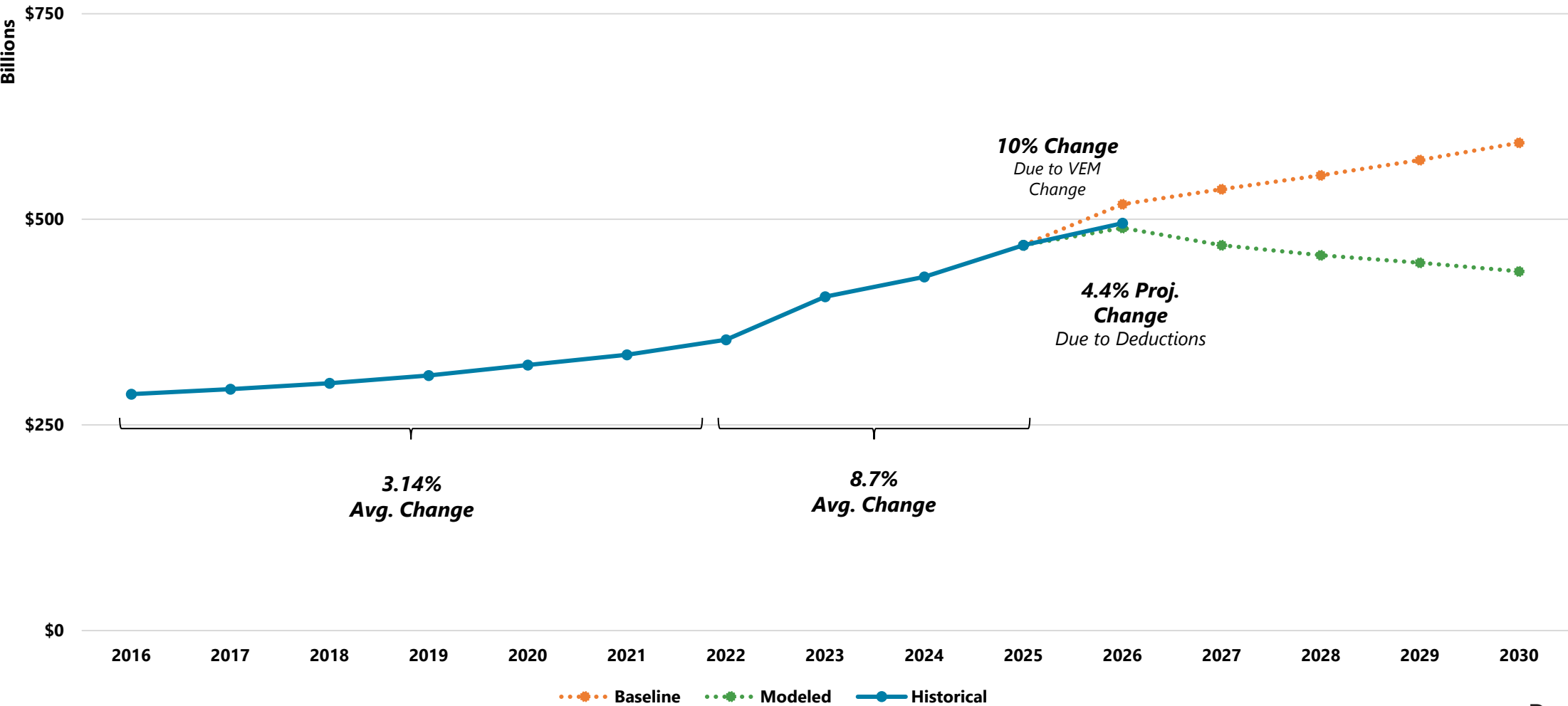
Statewide Certified Net Assessed Value



Certified Assessed Value

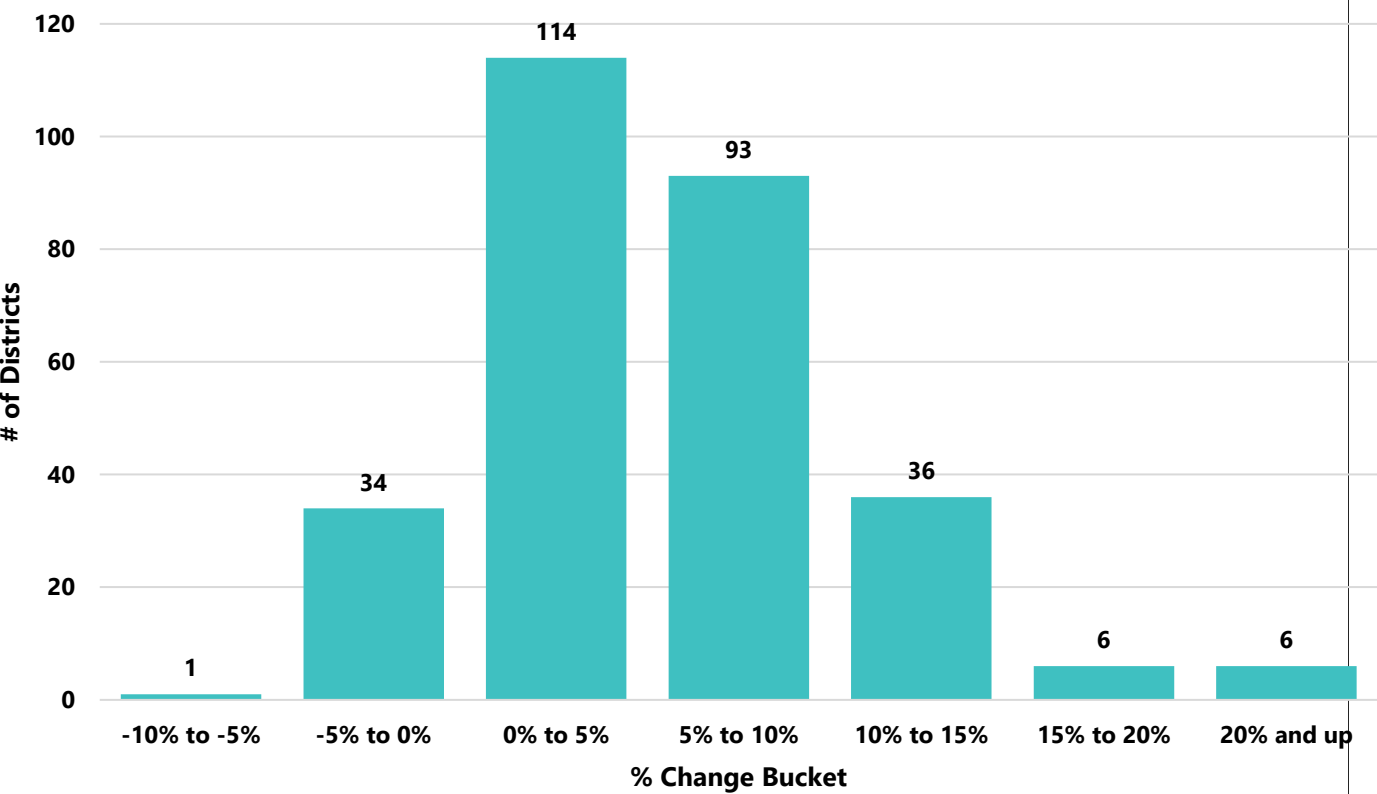


Certified Assessed Value

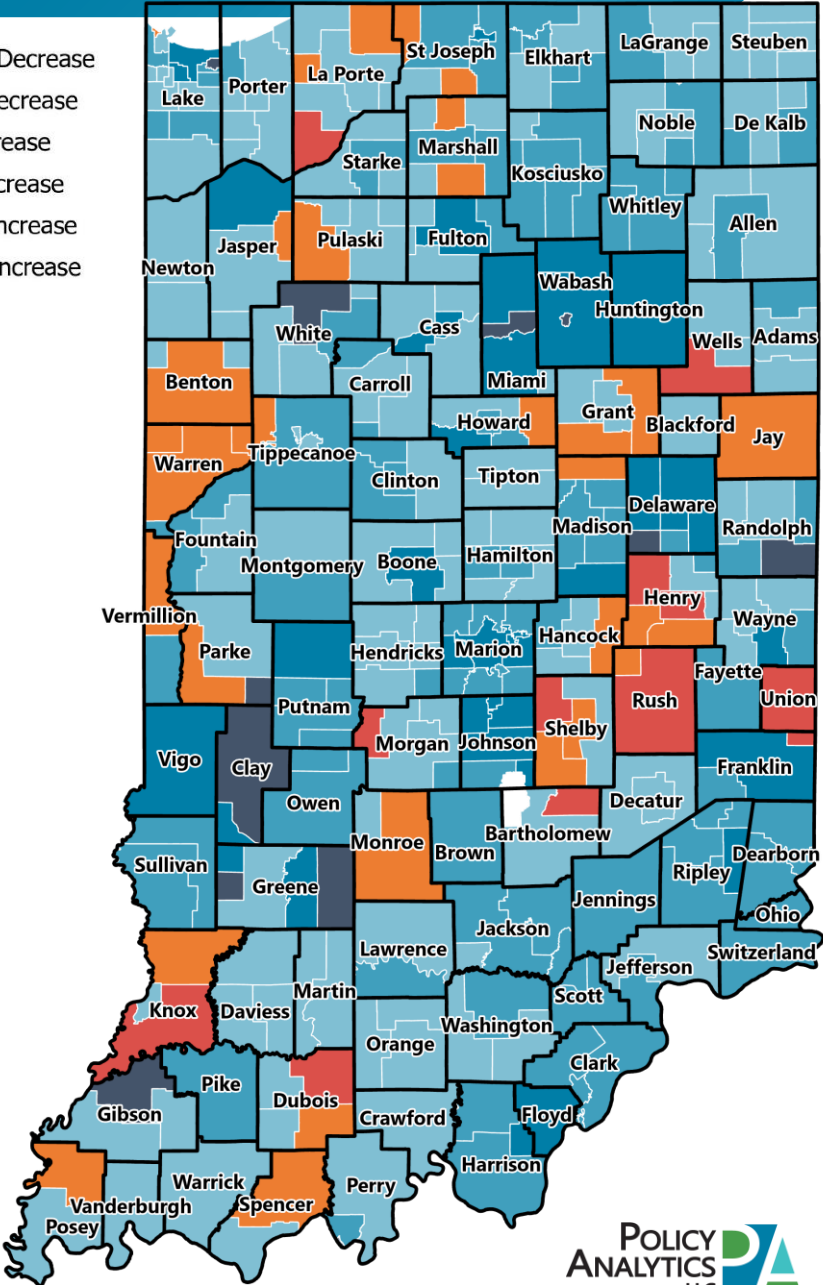


Actual CNAV Change: Pay 2025-26

Distribution of % Change (Certified NAV, Pay 2025 → Pay 2026)



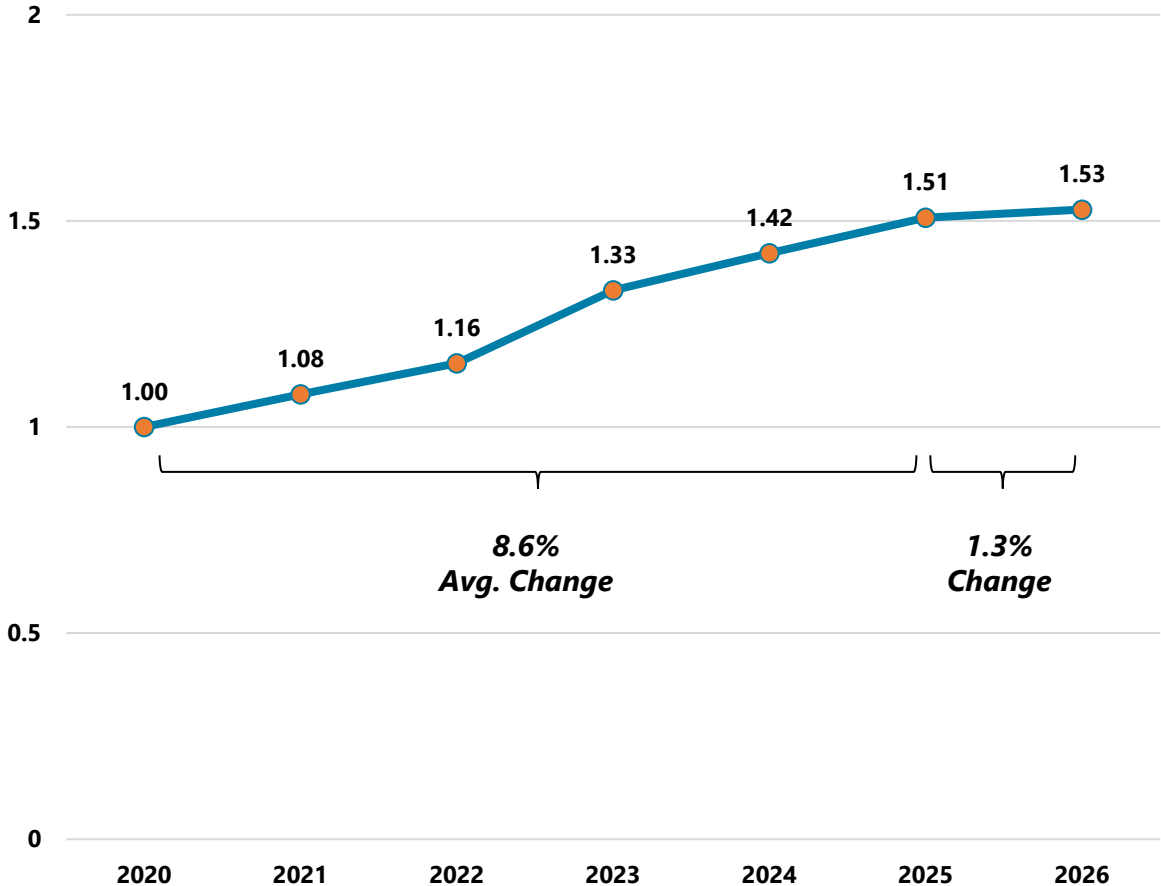
- 2.5% or More Decrease
- 2.5% to 0% Decrease
- 0% to 5% Increase
- 5% to 10% Increase
- 10% to 15% Increase
- 15% or More Increase



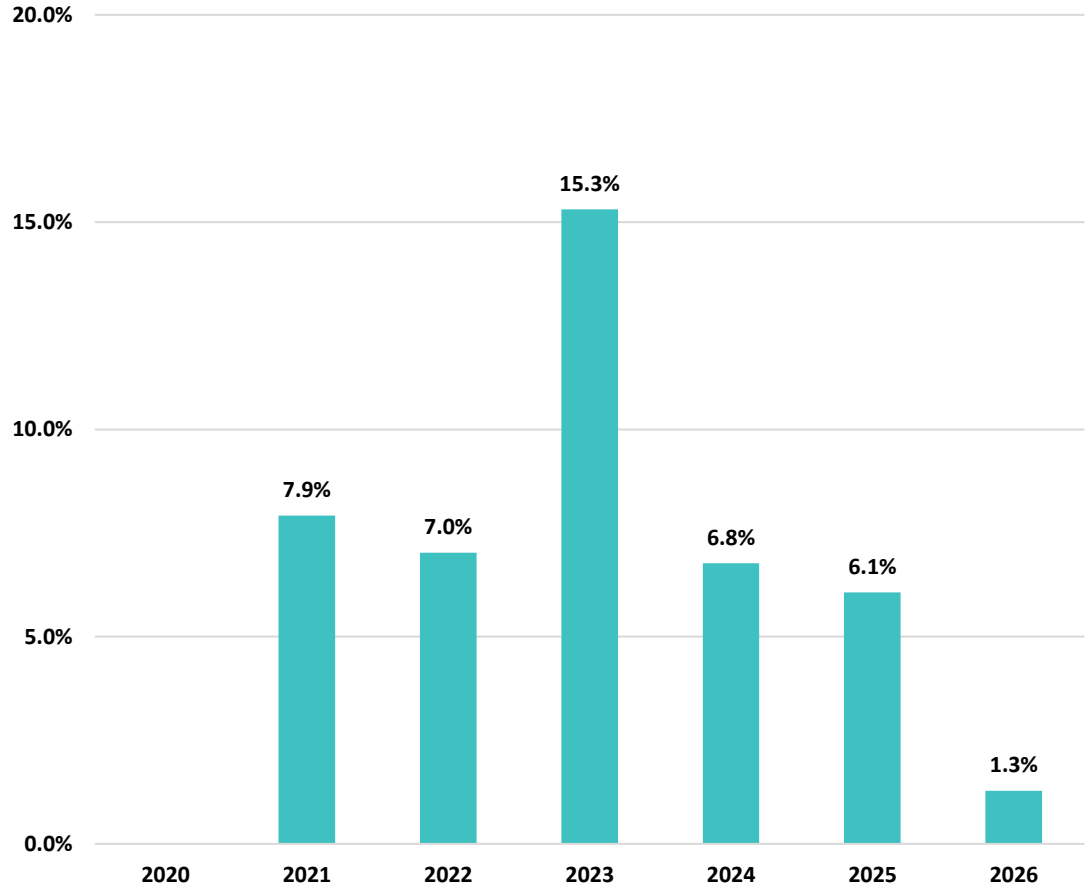
Residential Tax Liability Change

Residential Property Tax Liability [Stable Parcel Filter]

Change in Net Tax Liability (Indexed to 2020)



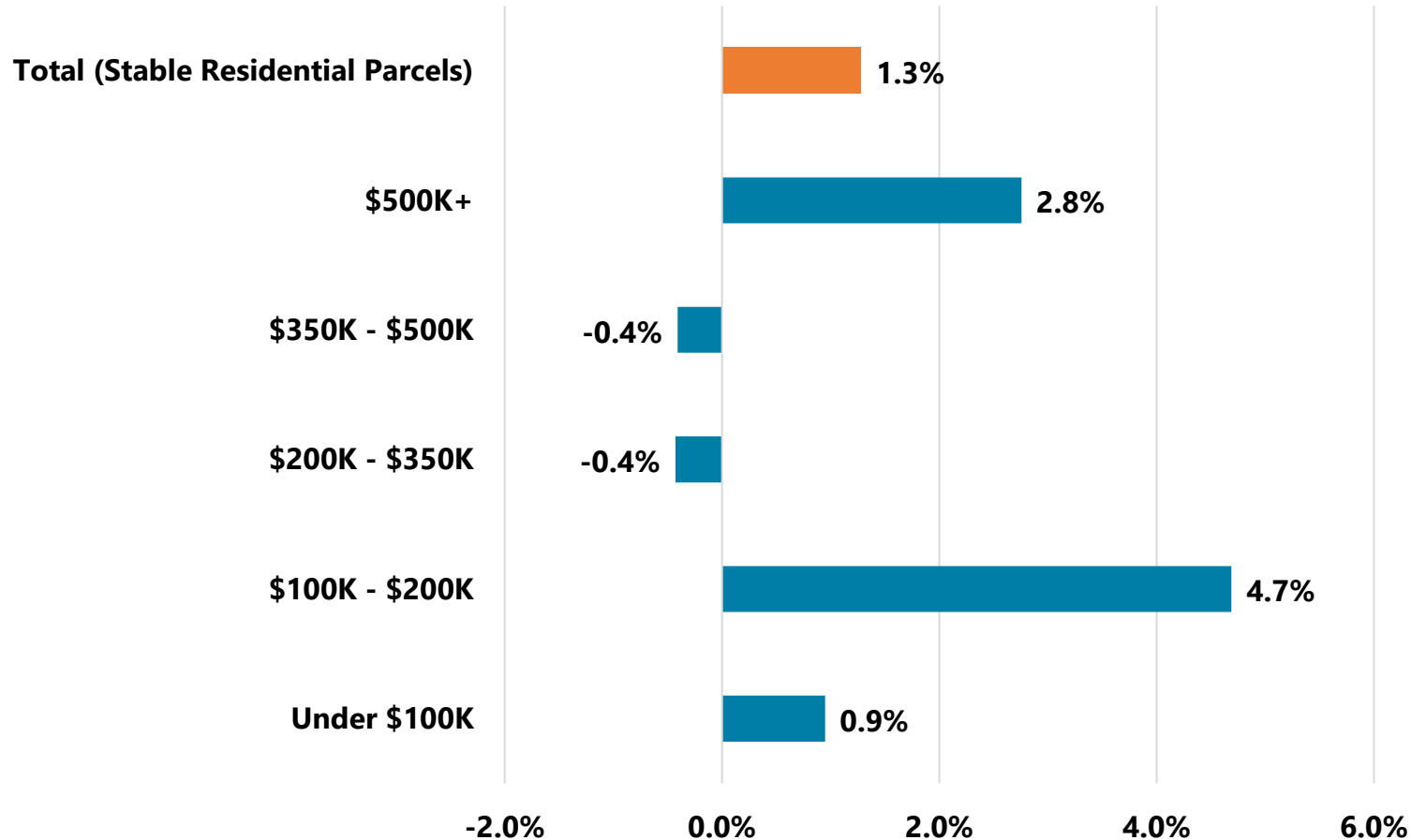
Year over Year Change in Net Tax Liability



Residential Tax Liability Change

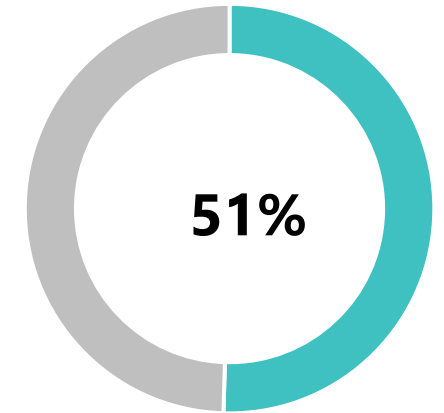
Residential Property Tax Liability [Stable Parcel Filter]

Year over Year Change in Tax Liability

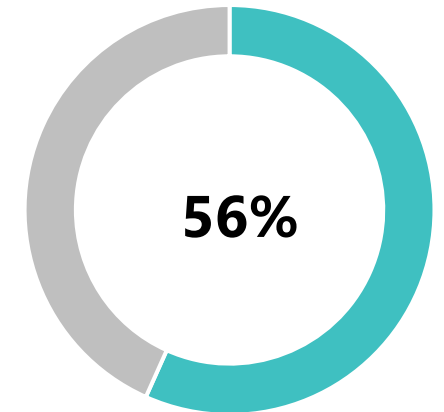


Year over Year Tax Bill Decrease

All Residential

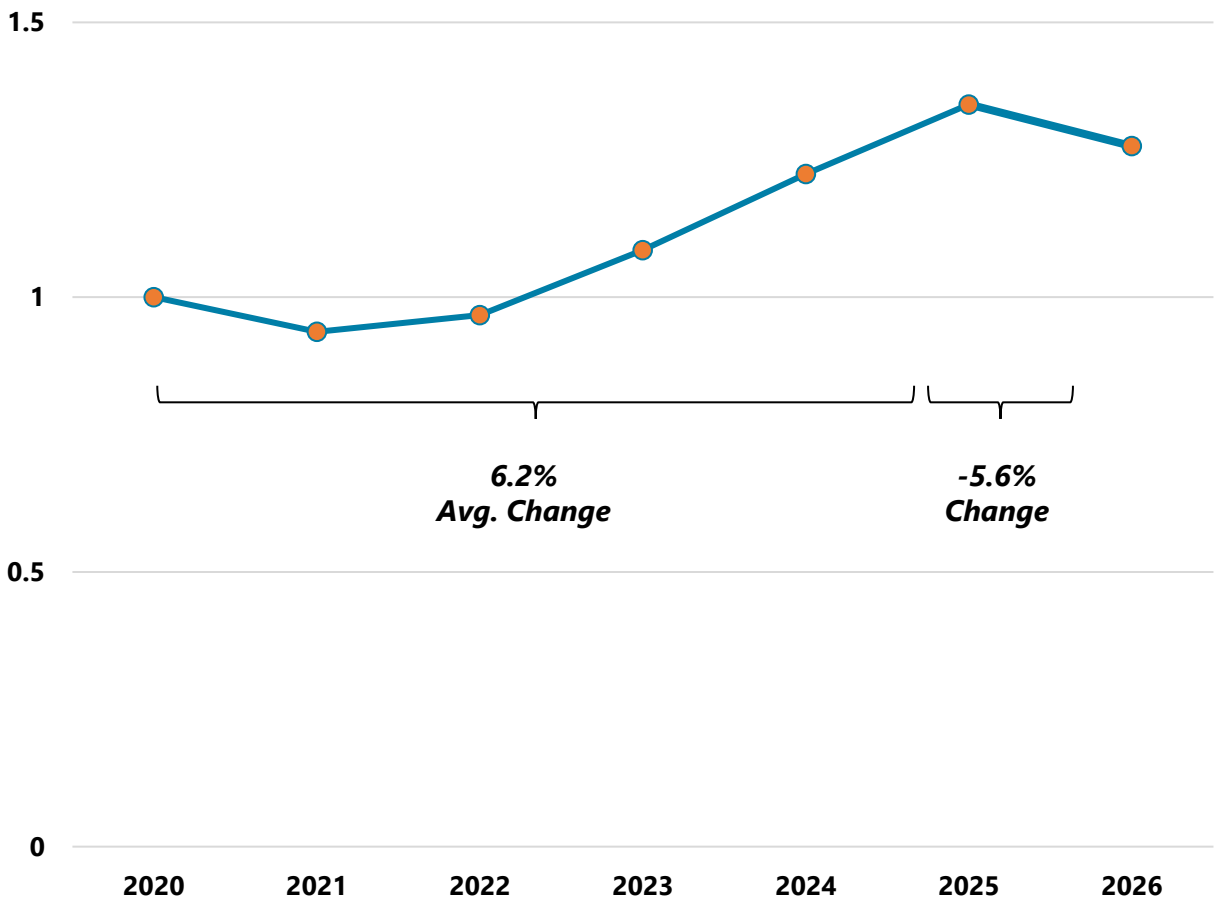


Homesteads (Owner Occupied)

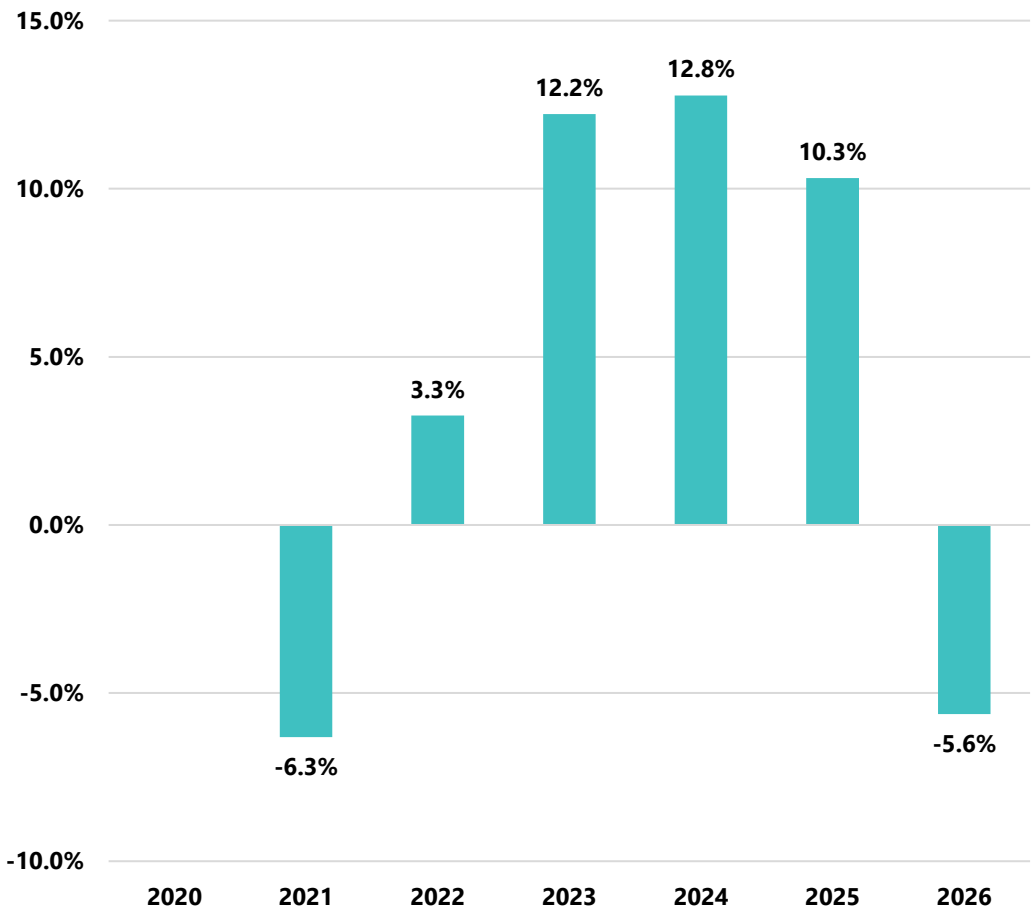


Agriculture Tax Liability Change

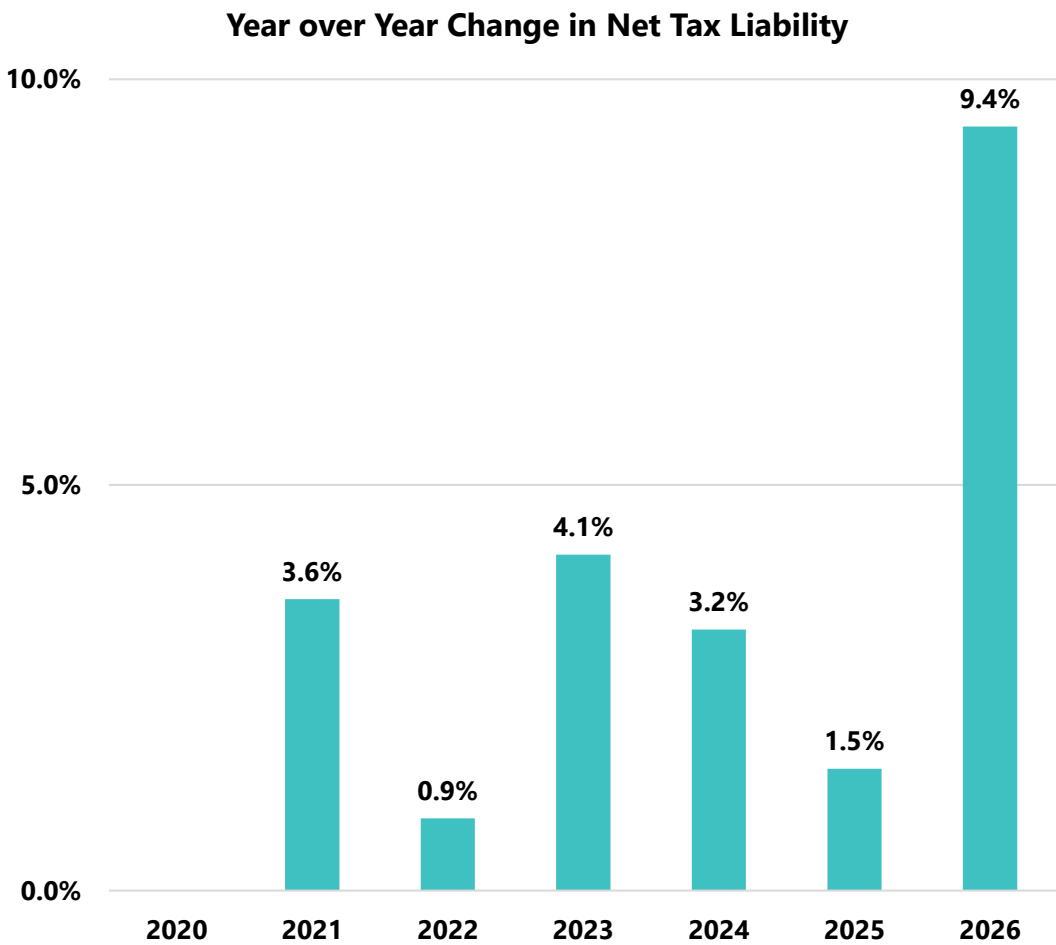
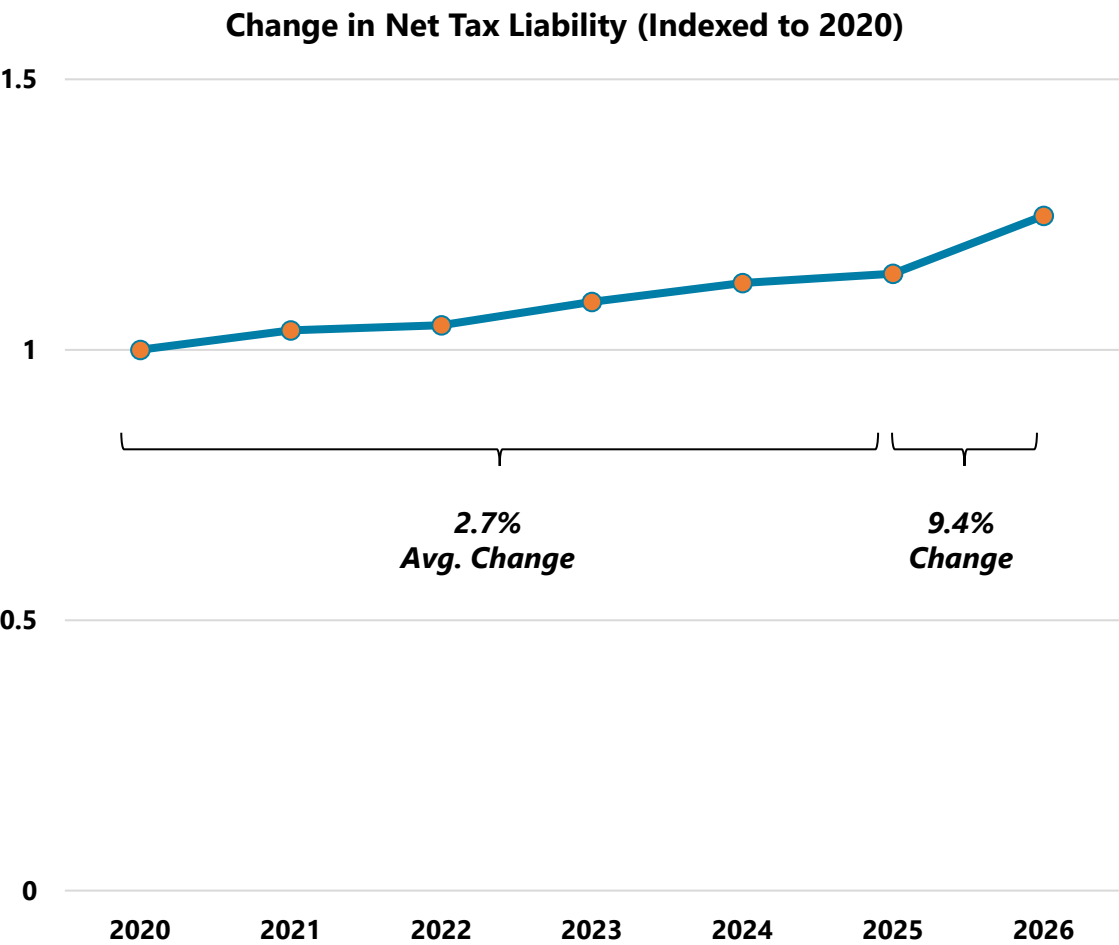
Change in Net Tax Liability (Indexed to 2020)



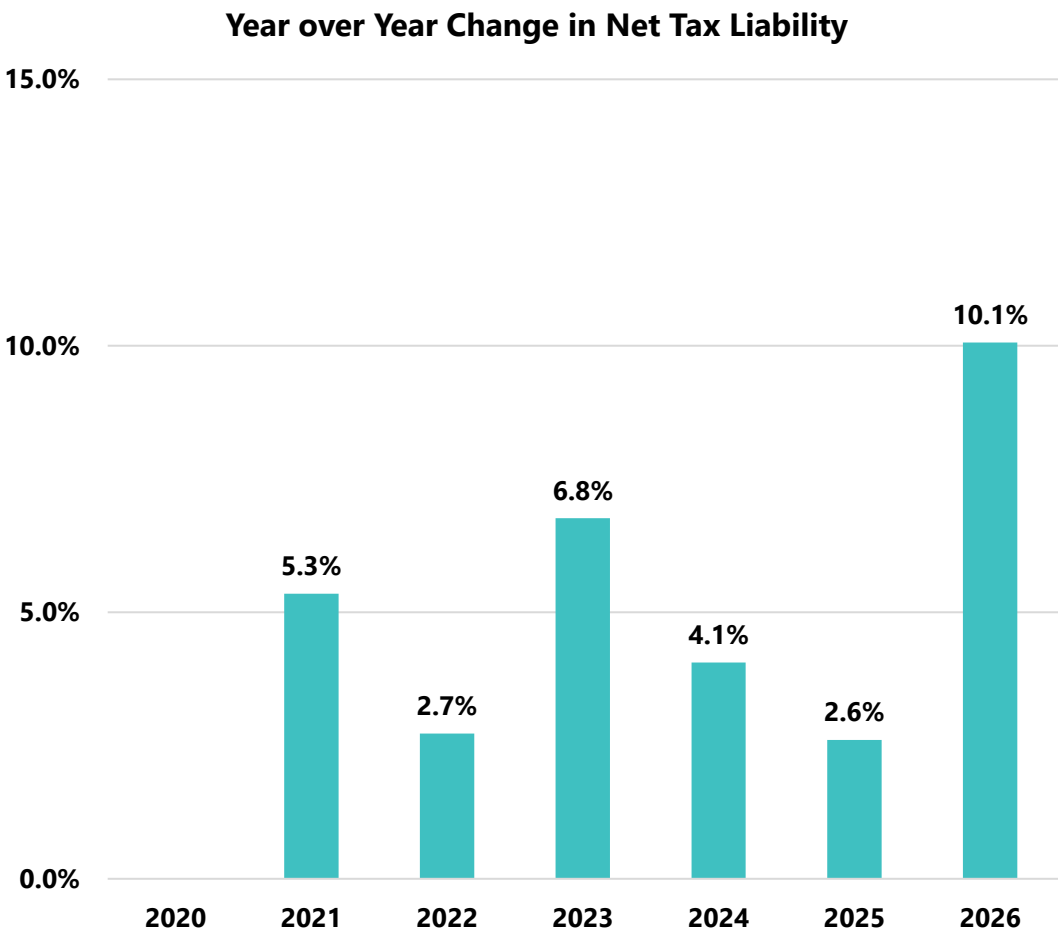
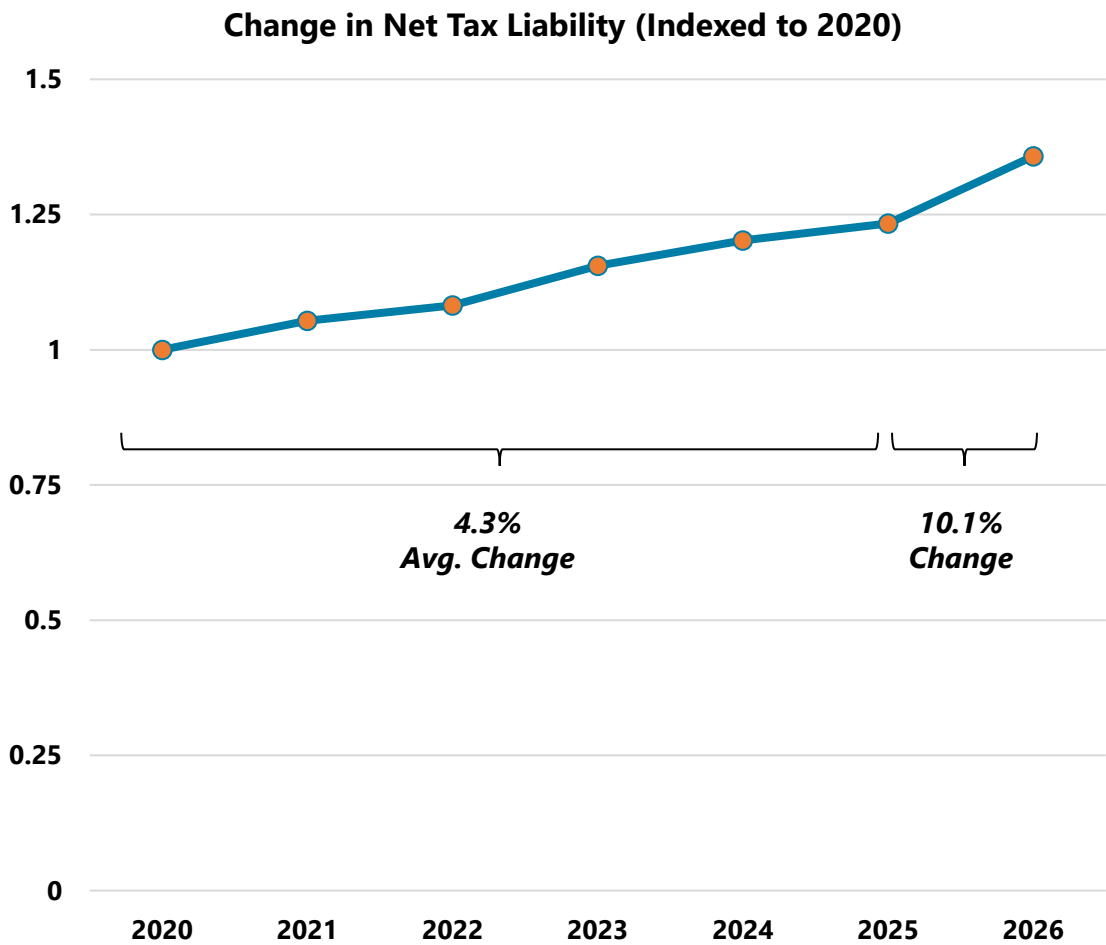
Year over Year Change in Net Tax Liability



Commercial Tax Liability Change

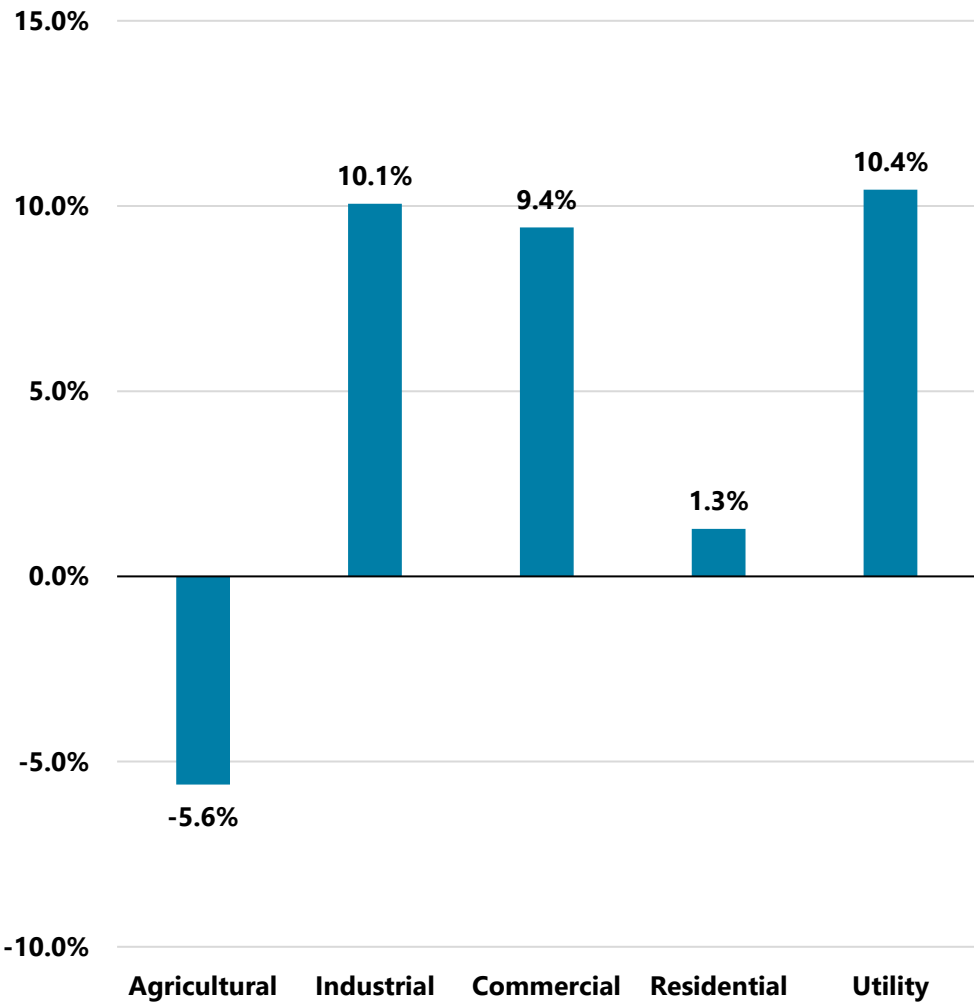


Industrial Tax Liability Change



Total Tax Liability Change by Class

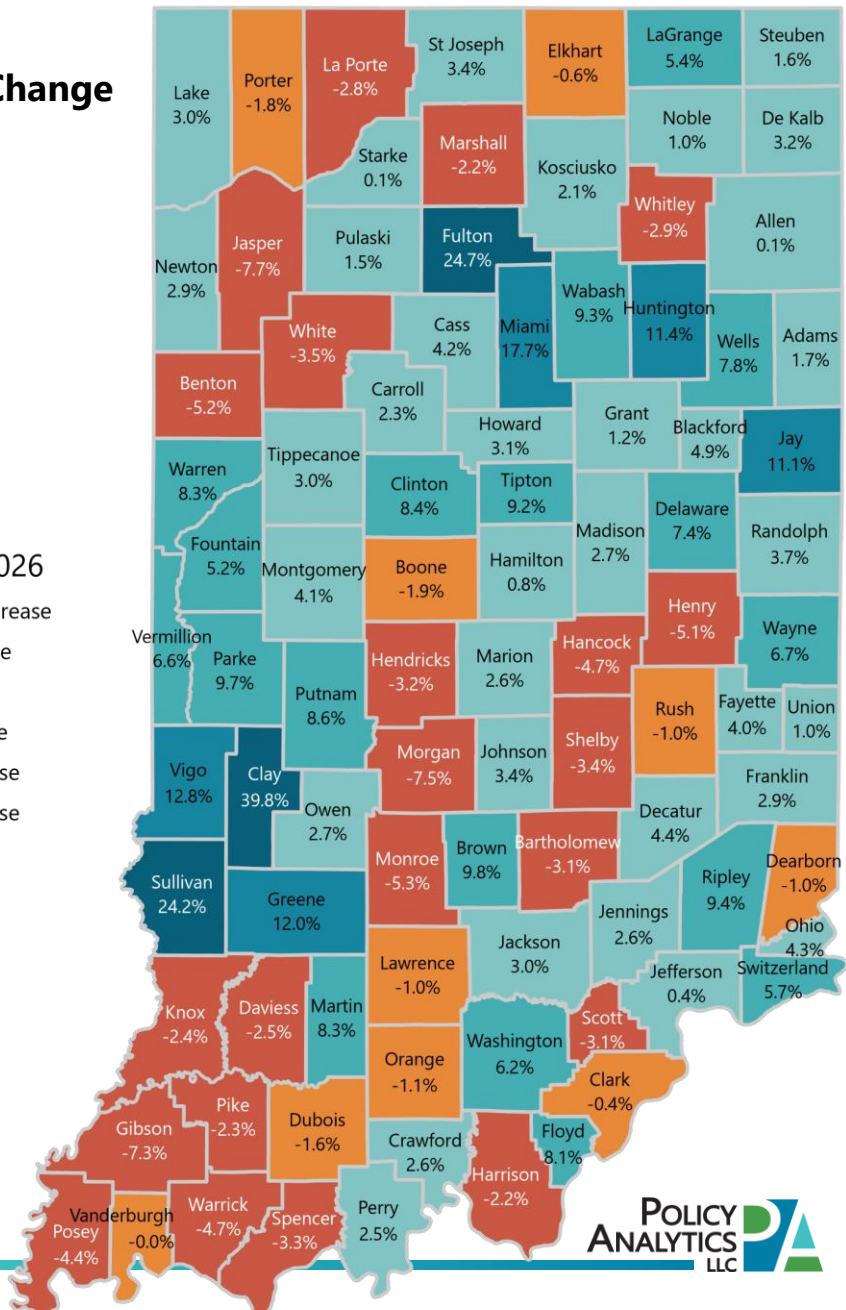
Pay 2025 to Pay 2026



Residential Tax Bill Change Stable Parcel Cohort

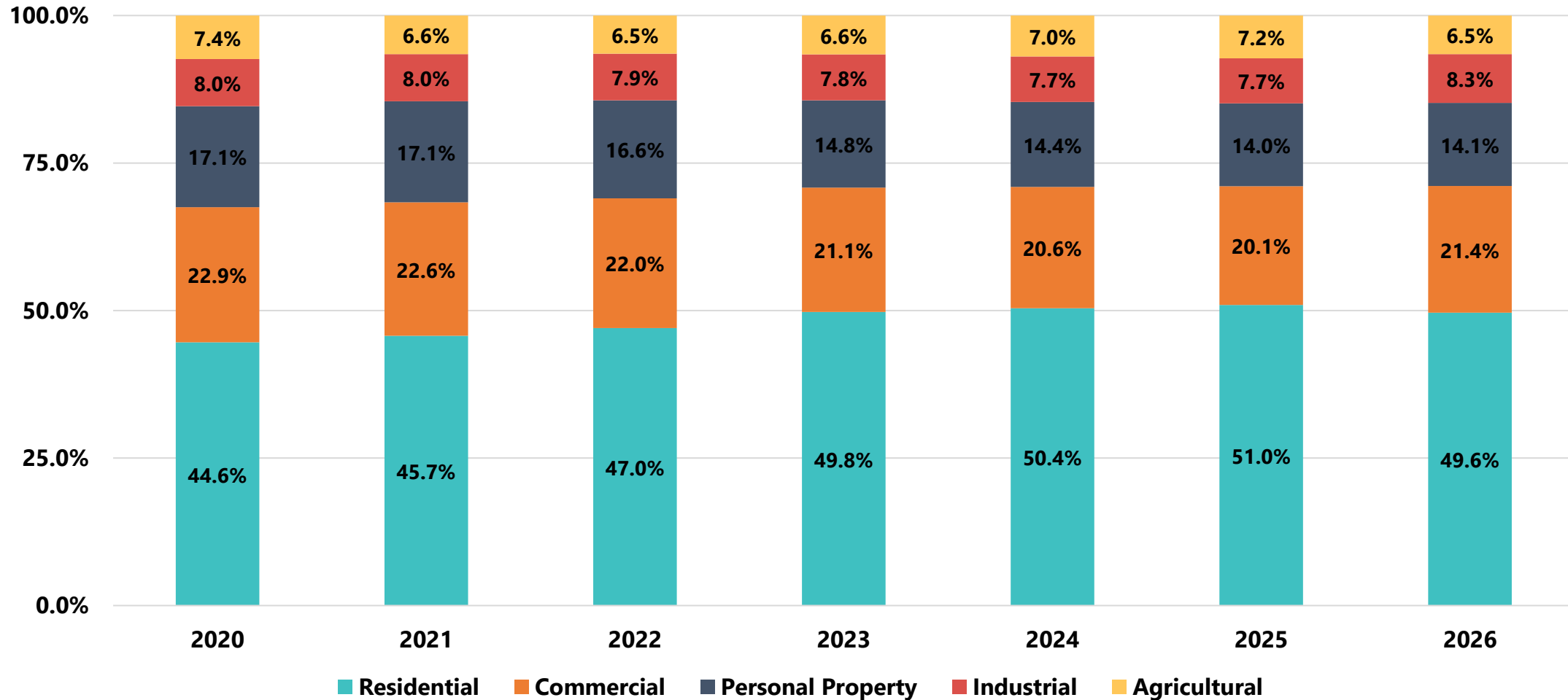
Change 2025 to 2026

- 2% or greater decrease
- 2% to 0% decrease
- 0% to 5% increase
- 5% to 10% increase
- 10% to 20% increase
- 20% to 40% increase

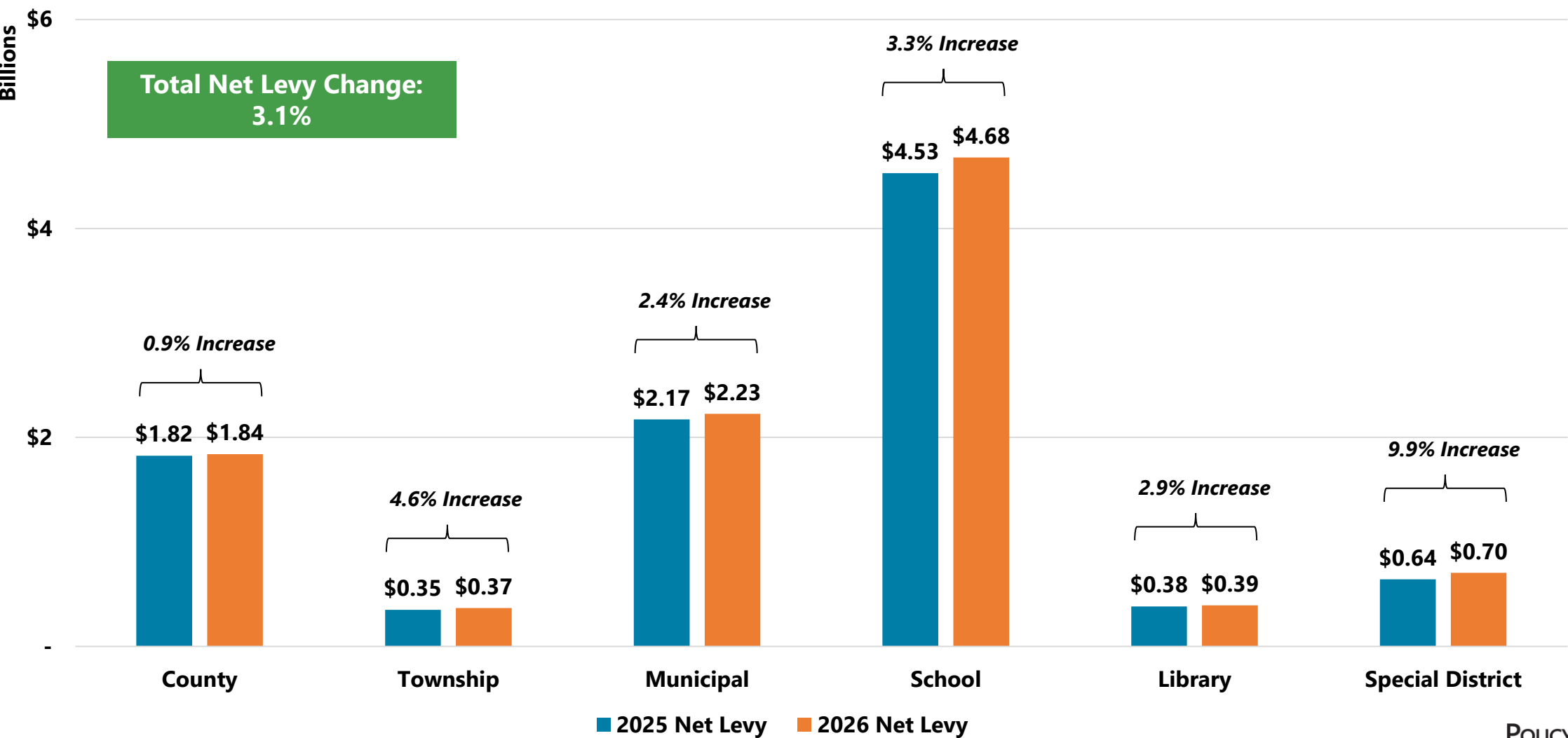


Change in Proportional Share of Tax Liability

Pay 2020 to Pay 2026



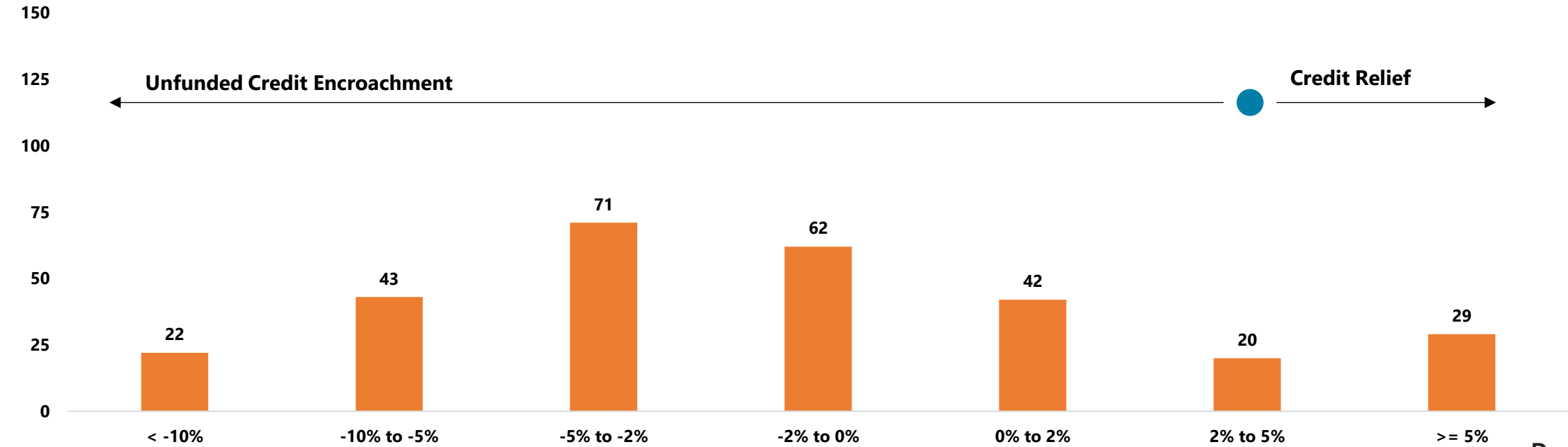
Taxing Units: Change in Net Levy: Pay 2025 to Pay 2026



Change in School Net Levy by Fund Type

Fund Type	2025 Net Levy	2026 Net Levy	Change	Pct. Change
Referendum - Operating	512.29	573.16	60.87	11.9%
Referendum - Capital	266.22	267.44	1.21	0.5%
Debt Service	1,961.36	2,065.26	103.90	5.3%
Operations	1,789.38	1,772.65	(16.73)	-0.9%
Total	4,529.25	4,678.51	149.25	3.3%

Year Over Year Change in Operations Fund Net Levy



Status to Date

- SEA 1 -2025 achieved its objective of delivering property tax relief to homeowners:
 - 56% of homeowners saw a tax bill decrease between 2025 and 2026.
 - Residential tax bills grew at a much lower rate compared to historical years.
- Due to assessed value increases (VEM methodology), commercial and industrial properties saw unusually large tax bill increases.
- These factors combined to provide more revenue in 2026 than preliminary SEA 1 projections (3% vs. 1.5%)
- However, for Schools, revenue increase was concentrated in Operating Referendum and Debt Service, putting significant pressure on the Operations Fund.

Future perspective

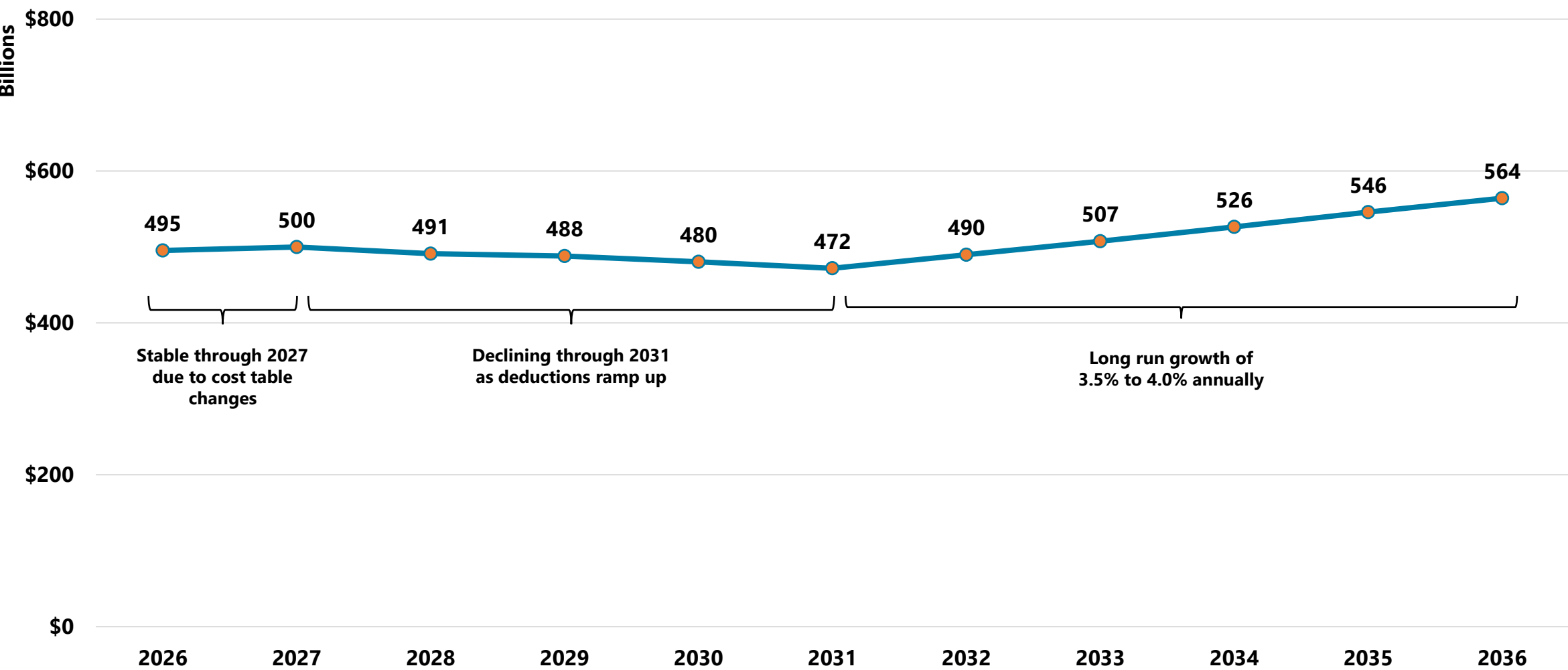
Where are we going?

Changes since SEA 1-2025 was enacted

- The expiration of the local income tax structure shifted from CY 2027 to CY 2028.
- New assessment cost tables, combined with residential AV growth stabilized assessed values for Pay 2027.
- The hard 4% MLGQ cap was not extended, allowing MLGQ to reach 6%+ for taxes payable in 2027.
- Debt service levies were protected from application of the supplemental homestead credit.
- Flexibility in the application of miscellaneous revenues to funds

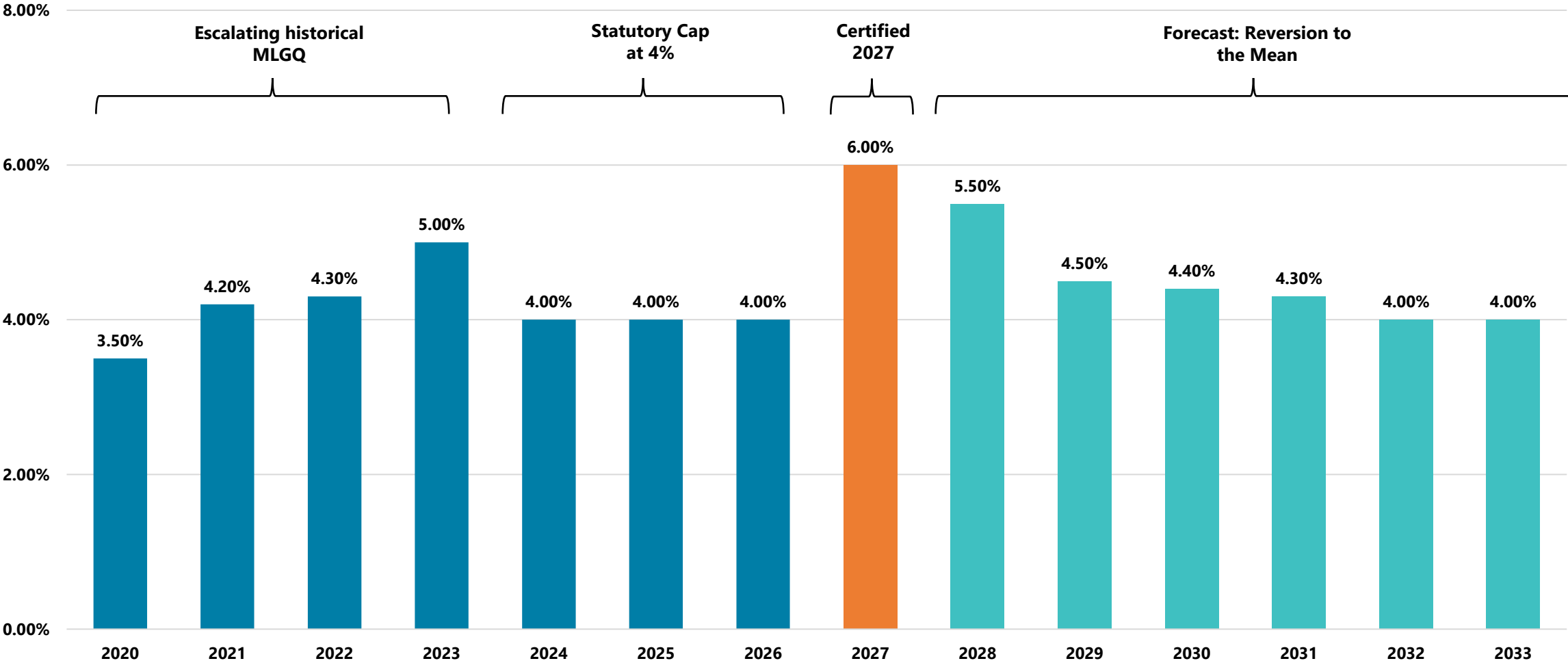
Certified Net Assessed Value Forecast

Statewide Certified Net Assessed Value

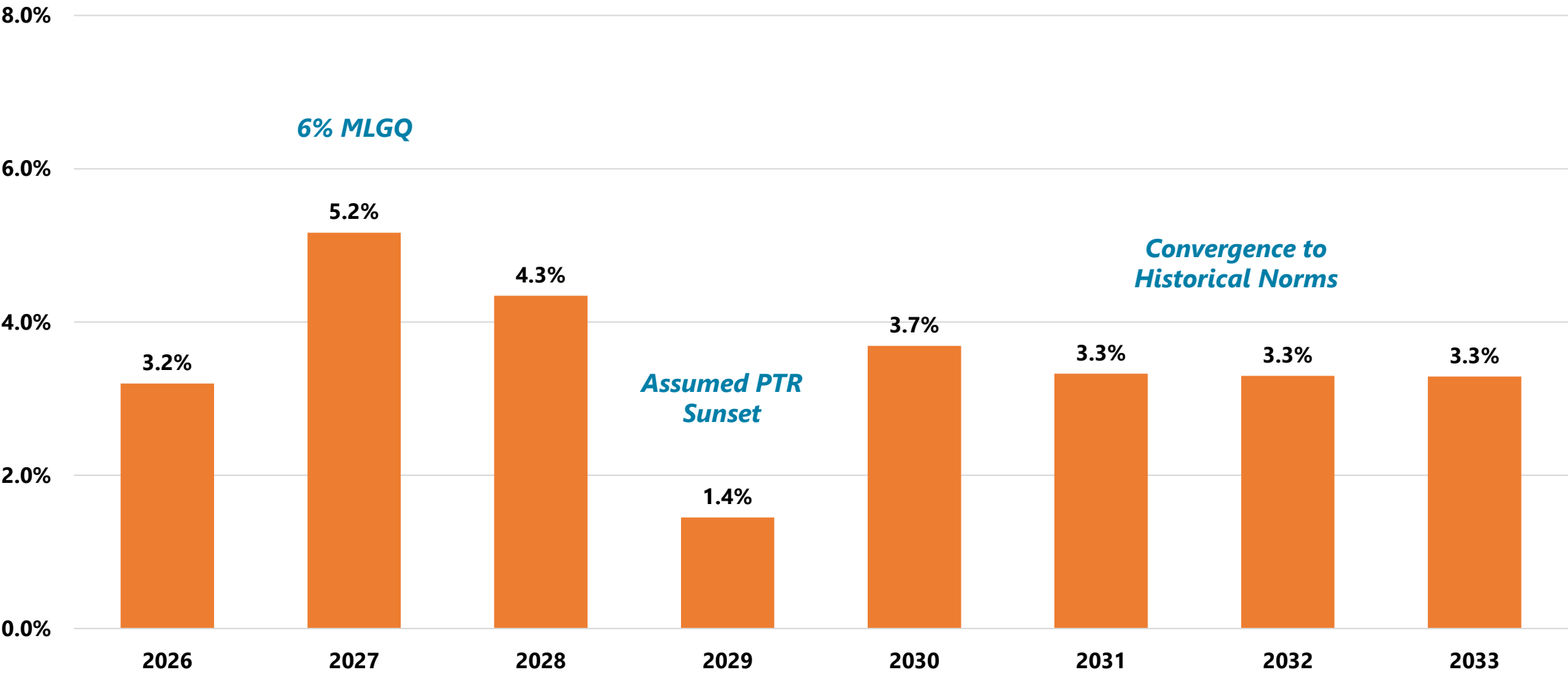


Maximum Levy Growth Quotient

Historical and Projected



Year over Change in Property Tax Net Levy

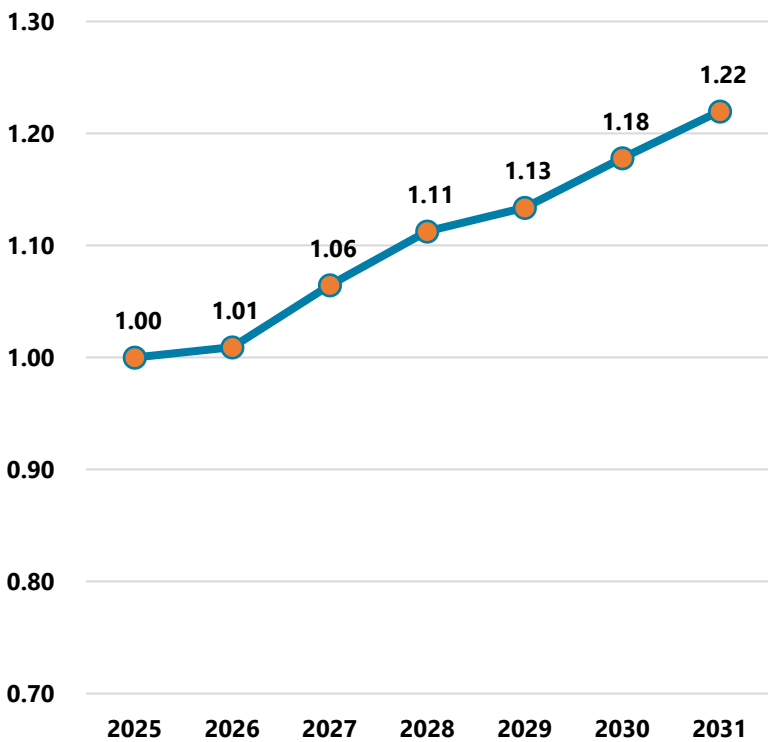


Net Property Tax Levy by Unit Type

Indexed to 2025

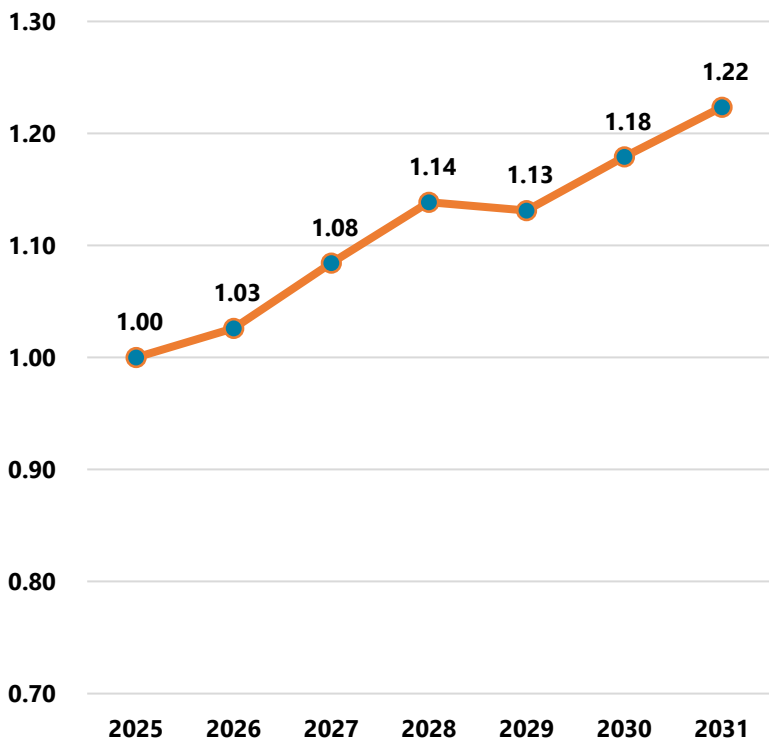
Counties

Avg. Growth: 3.4%



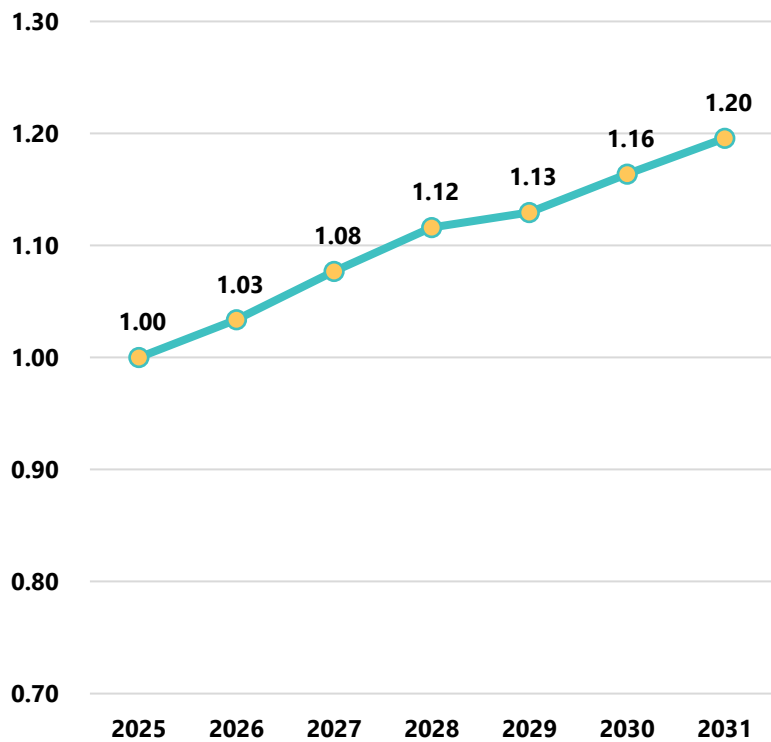
Schools

Avg. Growth: 3.0%



Municipalities

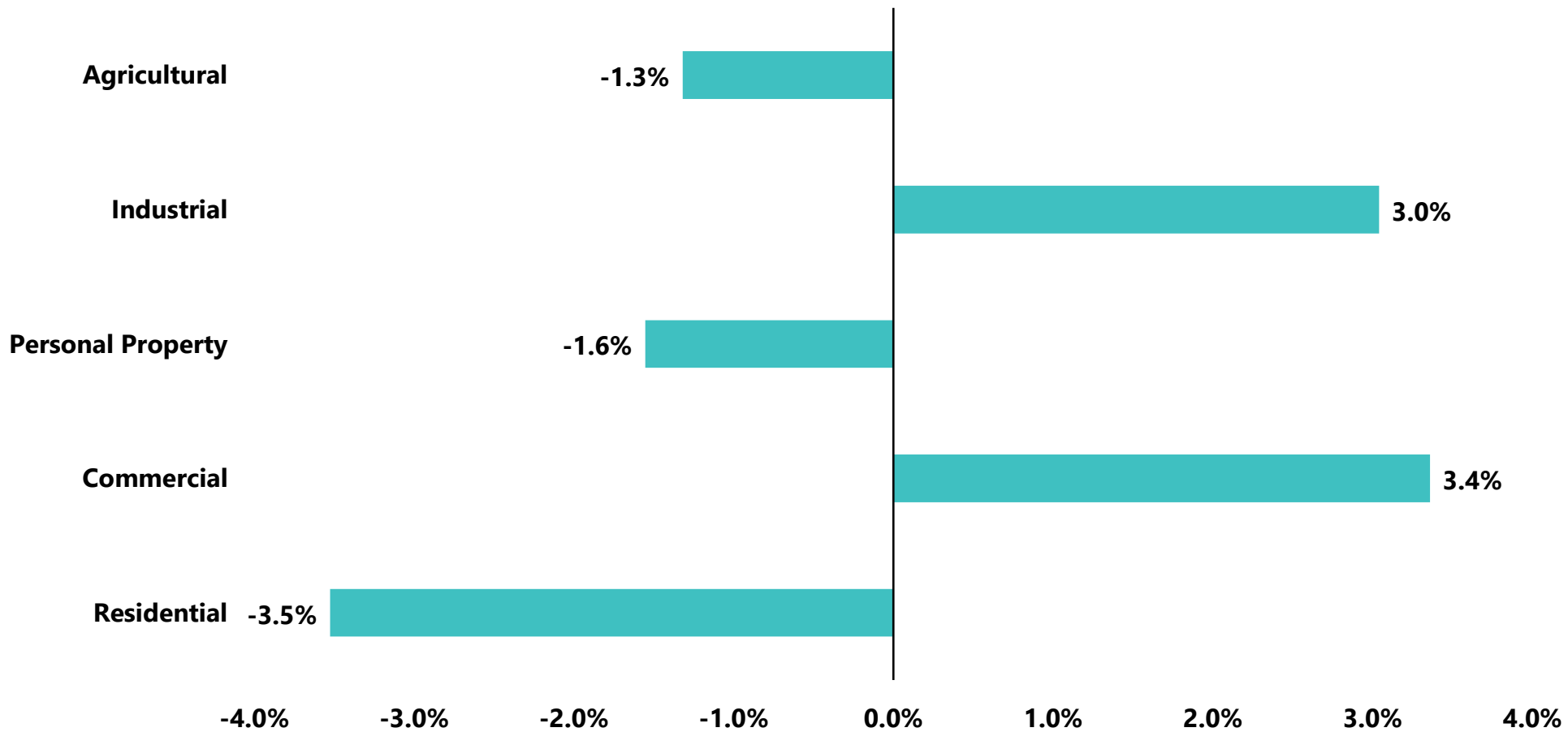
Avg. Growth: 3.4%



Assumes constant rate debt service structure

Shift in Property Tax Revenue Share by Property Class

Estimated Percentage Shares by 3031



Taxpayer Illustration

Assumptions

Assessed Value: 3%
Levy Growth: 6%

Residential Taxpayer

	2026	2027
Gross Assessed Value	\$250,000	\$257,500
Standard Deduction	(\$48,000)	(\$40,000)
Supplemental Deduction	(\$80,800)	(\$100,050)
Net Assessed Value	\$121,200	\$117,450
Certified Tax Rate	\$2.5000	\$2.5728
Gross Tax	\$3,030	\$3,022
Less: Circuit Breaker Loss	(\$530)	(\$447)
Gross Tax Net Circuit Breaker	\$2,500	\$2,575
Less: Supplemental HS Credit	(\$250)	(\$258)
Net Tax	\$2,250	\$2,318
Dollar Change		\$67.50
Percent Change		3.00%

Commercial Taxpayer

	2026	2027
Gross Assessed Value	\$250,000	\$257,500
Standard Deduction		
Supplemental Deduction		
Net Assessed Value	\$250,000	\$257,500
Certified Tax Rate	\$2.5000	\$2.5728
Gross Tax	\$6,250	\$6,625
Less: Circuit Breaker Loss	-	-
Gross Tax Net Circuit Breaker	\$6,250	\$6,625
Less: Supplemental HS Credit		
Net Tax	\$6,250	\$6,625
Dollar Change		\$375.00
Percent Change		6.00%

Where are we now?

- Assessed value growth plus the 6% MLGQ will contribute to net levy increases for Pay 2027.
- The elimination of property tax relief credits significantly impact future net levy growth. These impacts will be variable by county.
- Increasing deductions will change the tax base, and will affect revenue potential for rate capped funds, including debt service and referendum funds.
- Taxpayers, especially commercial taxpayers, will see continued increase in tax property tax liability as assessment changes take effect.