

TAX CAPS IN CONSTITUTION? VOTERS DECIDE

By Mary Beth Schneider

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Hoosiers who go to the polls Nov. 2 will decide more than which men and women will represent them in office.

They'll decide whether to change Indiana's Constitution to limit how much those and other officeholders can charge in property taxes.

Proponents call that an easy "yes" vote. But people on both sides of the issue say there's more voters should know before they go into the polling booth:

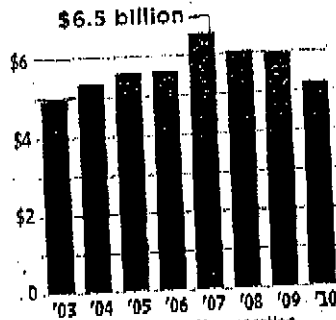
1. How do the caps work?
2. What do the caps mean for my home's property taxes?
3. What if I'm a business owner or farmer?
4. What does it mean for local government?
5. Can local governments exceed the caps if they need more money?

» READ THE ANSWERS, A8-9

TAX CAPS' IMPACT SO FAR

We're paying less ...

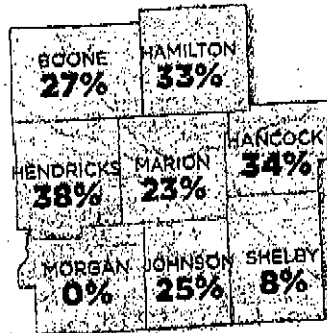
Property taxes began to decrease after 2007 because of a series of reforms, including a cap that limits a homeowner's bill to 1 percent of his or her home's assessed value. Here are the taxes collected each year statewide, in billions of dollars:



*Ninety-one of 92 counties reporting for 2008 and 2009; 90 counties reporting for 2010.

... but bills still can rise

If you're under the 1 percent cap now -- as a majority of homeowners are -- and your property value rises, your taxes could rise, too, as you're brought up to the cap. In addition, your bill could exceed the cap if voters in your area approve a referendum authorizing higher property taxes. Here's the percentage of homes that have reached the cap:



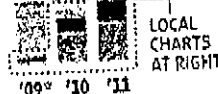
Governments are taking in less

Statewide, local governments will receive \$404.9 million less revenue in 2010 than they would have without the caps, affecting cities, counties, libraries and schools.

HOW MUCH LESS LOCAL GOVERNMENTS GET
\$488.7 million

\$404.9

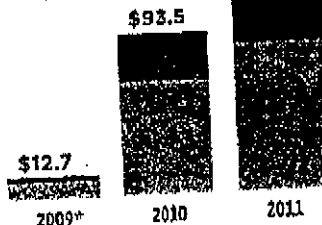
\$134.1



*Numbers for 2009 are lower as the caps were being phased in.

MARION AND SURROUNDING COUNTIES

Marion \$126.7 million
Surrounding counties \$93.5



Sources: Indiana Department of Local Government Finance, impact numbers from a December 2009 analysis by the Legislative Services Agency.

STEPHEN J. BEARD / The Star

FROM A1

VOTERS DECIDE ON CAPS

1. How do the caps work?

Court-ordered changes in how Indiana assesses property for taxation resulted in some Hoosiers' bills skyrocketing earlier this decade, igniting a taxpayer protest that reverberated in the Statehouse. Gov. Mitch Daniels and the legislature adopted a series of reforms aimed at providing immediate relief and long-term controls.

The state shifted some expenses from property owners — including the operating funds of schools, child welfare, health care for the indigent, and police and fire pensions — to the state general fund, and the sales tax was raised to 7 cents on the dollar to pay for that.

The homestead deduction, which lowers the amount of a home's taxable assessed value for a homeowner's primary residence, was increased.

And a new law created property tax caps, limiting a homeowner's bill to 1 percent of the home's assessed value. Rental and farm property is capped at 2 percent, and business property is capped at 3 percent of assessed value.

For homeowners, that 1 percent cap applies to their home, 1 acre of land and one detached building, such as a garage. Anything else, such as more land, a pool or a second garage, gets billed at up to 3 percent of assessed value.

Taken as a whole, the reforms have done what Daniels and the legislators wanted: cut property tax bills for homeowners by about a third since 2007.

Mary Jane Michalak, chief of staff for the state Department of Local Government Finance, said the statewide total taxes on homesteads — government's word for a homeowner's primary abode, which doesn't include farms, apartments and businesses — went down 36 percent from 2007 to 2010. Of that, she said, 11.6 percent is due to the tax caps.

2. What do the caps mean for my home's property taxes?

Proponents say the caps mean certainty. Your tax bill will never be more than 1 percent of your home's assessed value, unless the citizens in your area vote to approve projects that raise taxes.

The state says that, with 90 of Indiana's 92 counties reporting their tax data, 13.4 percent of homeowners statewide have hit that 1 percent cap.

What the caps don't mean, though, is that your bill will never go up, even if you've hit that cap.

"This is not a freeze of property taxes," said Larry DeBoer, a Purdue University expert on property taxes. "This is just a ceiling on your property taxes. Passing the tax caps into the constitution isn't going to lower your property taxes any more than they already are."

As your home value grows, so can your property tax bill.

But Karl Berron, a lobbyist for the Indiana Realtors Association, which is pushing for the caps to be in the constitution, called them an "insurance policy" so that property owners never again see a sudden, unexpected jump in their bills.

DeBoer said that by putting the caps in the constitution, "it not only means the legislature can't erode the caps themselves, but it really restricts other things they can do with property taxes."

"Suppose they want to reduce or eliminate one of the homestead deductions. That would send homeowner property taxes up, but only to 1 percent. So it's a real hard cap on what can be done with property taxes and how much we can rely on property taxes for local government revenue," DeBoer said.

State Sen. Luke Kenley, a chief architect of the caps, said that's the point.

Property values, said Kenley, R-Noblesville, do not reflect a person's ability to pay property taxes. He cited the senior citizen who bought a home for \$40,000 and has seen the value grow to \$200,000. It could take half of that person's monthly income, he said, just to pay the taxes.

And, he said, local governments, including schools, had been dependent on property taxes for 80 percent of their revenue.

"That's not healthy," he said, arguing that the cost of government should be spread among all classes of taxpayers.

3. What if I'm a business owner or farmer?

The Indiana Farm Bureau and the Indiana Chamber of Commerce have protested that the caps treat their property differently from a home.

"It says that your potential tax burden can vary depending on how you use your property, not the value of the property," said Chamber President Kevin Brinegar.

The Indiana Constitution currently requires "a uniform and equal rate of property assessment and taxation."

House Minority Leader Brian Bosma, an Indianapolis Republican who strongly supports the caps, said that provision is a main reason why the caps should be put into the constitution: It will make the current law constitutional and ensure that it can't be overturned by a court.

Brinegar said the homestead deductions — \$45,000 per home, plus 35 percent on the remaining amount for homes valued at up to \$600,000, or 25 percent on the remainder for more expensive homes — already have slashed homeowner bills.

"A \$200,000 home ends up getting taxed the same as a \$100,000 business," he said. "We support property tax caps, but they ought to be uniform and equal."

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Kenley, though, said that argument ignores the many breaks that farms and businesses get. The state eliminated inventory taxes a few years ago, a break that helped push homeowners' tax bills up. And with their property taxes capped at 3 percent, Kenley said, some businesses in high-tax areas, such as Lake County, will see their tax burden tumble.

The state estimates that 37 percent of rental and farm property statewide has hit the 2 percent cap — in Marion County, a whopping 96 percent of rental properties have hit that ceiling — with 40 percent of businesses statewide, and 45 percent in Marion County, at the 3 percent cap.

Not all businesses oppose the caps. Pat Kiely, president of the Indiana Manufacturers Association, said that although it doesn't like having businesses treated differently from homes, it supports the long-term certainty that the caps provide.

"As we move forward, we need the protection more than the homeowners do," Kiely said. "We'd be the ones that would be targeted (for a future tax increase) because we're not the visible face of the voter with the home."

An analysis by Ball State University's Center for Business and Economic Development found that the caps should boost Indiana's economy by increasing homeowners' disposable income and lowering costs for business.

4. What does it mean for local government?

Nothing good, at least at first. Cities, counties, libraries and schools have seen the caps cut into their revenues.

Statewide, local governments will receive \$404.9 million less revenue in 2010 than they would have without the caps, according to a December analysis by the Legislative Services Agency. In 2011, that's expected to be \$488.7 million less.

Noblesville Mayor John Ditslear said his community has lost about 10 percent of its budget. And with the recession, other tax revenue also is down.

"We're obviously going to have to make some decisions about what services we provide our citizens," he said.

So far, he said, the city has not laid off any employees but has left about 18 positions vacant, including two police officers and two firefighters.

Ditslear and other mayors said they're going to have to consider other options, such as cutting hours that offices are open, eliminating recreational activities and charging fees for such things as trash pickup. He said the state shouldn't lock the caps into the constitution before the full impact is known.

Libraries also are in a bind. The board of the Indianapolis-Marion County Public Library recently voted to close most branches two days a week, with the Central Library Downtown closed on Thursdays, to help plug a \$4 million budget

shortfall. It also plans to eliminate 35 to 40 jobs and reduce spending on books and other materials.

Susan Akers, executive director of the Indiana Library Federation, said that although everyone wants lower taxes, people also expect services. She and others argued that the public could find fees and fines proliferating to help make up for the lost property taxes.

"Oh my goodness," DeBoer said. "Everything that can be charged for will be charged for from now on. But on the other hand, there's an ability-to-pay problem here. You raise the price of a library card, if it has a price at all, and you price out of the library the very people who you would most like to serve."

In addition, counties can adopt local option income taxes to raise revenue; so far, DeBoer said, 24 of Indiana's 92 counties have done so.

Cap supporters, including Daniels, say the budget pain is the tough medicine needed to force government to operate more creatively and more efficiently, and to stop treating property owners like an ATM. And, they say, it may spur local governments to adopt reforms, such as eliminating or consolidating townships, that they've resisted in the past.

5. Can local governments exceed the caps if they need more money?

In some cases, yes. The law provides for a referendum process to fund capital projects. If voters give the OK, their property tax bills would rise to cover the debt service on those projects, even for homeowners who have hit the 1 percent ceiling.

Only schools can seek voter approval to raise taxes to cover their operating budgets.

Daniels has called it a "safety valve." But it doesn't always work. Just ask Walter Bourke, superintendent of Franklin Township Schools, where voters last year rejected the district's request for \$9 million to plug its budget. The district, hoping voters will reconsider, will try again in May.

Failure, he said, "would mean, right off the top, the complete elimination of transportation in this school district."

The district tried to add a fee for buses, but Indiana Attorney General Greg Zoeller issued an opinion that that would violate the constitution.

Voters, Bourke said, need to know that "when your property taxes go down, so do your services. And in our school district, the loss of those services will be significant and great if we don't replace them with a referendum."

Daniels said the important thing is that voters get to decide.

"The critical difference about the caps is that when local spending units want to raise more money, they have to get the people's permission to do it," he said.

"That's the way it should be."

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