

CAPS IN THE CONSTITUTION

Should voters permanently lock in property tax limits?

In 2007, many property owners saw their tax bills double or triple as the state was forced by the courts to shift to a market-based system of assessing property values for taxation. The subsequent taxpayer revolt resulted in the 2008 legislature capping property tax bills at 1 percent of a home's assessed value, 2 percent of rental and farm property and 3 percent of business property. Lawmakers also voted to allow the public the option to permanently amend the caps into the state constitution. Voters will decide the out-

come on Nov. 2.

To make up for the lost revenue to local government units, the legislature raised the sales tax from 6 to 7 percent and transferred funding of schools, police and fire pensions and some other items to the state.

Although the caps have cut property taxes by about a third, on average, some units of local government have had to cut services as revenues shrank.

Kristen Brown, Columbus, offers reasons why voters should approve the property tax cap amendment. She is on the

board of the Hoosier Property Tax Reform Alliance, whose members include the Indiana Manufacturers Association, Indiana Builders Association, Indiana Association of Realtors, Indiana Apartment Association and Eli Lilly and Co. Gov. Mitch Daniels is honorary chair.

Justin M. Ross of the Indiana University School of Public & Environmental Affairs cautions, however, that transferring the most reliable source of local government income could compromise local autonomy.

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ONE MORE STEP: VOTE YES

By Kristen Brown

Now that property taxes in Indiana are much lower, certain and stable, it's easy to forget the summer of 2007. This summer's temperatures reached record highs, but just three years ago, homeowner tempers reached record highs because of extremely unfair property tax increases. Homeowners in most counties received bills with increases of 30 percent to 40 percent.

Rightly, they were outraged. Tax protests and class-action lawsuits followed. More than half of Hoosiers labeled it a crisis. It was a call to action for elected officials.

Gov. Mitch Daniels studied the facts and took all immediate actions he could. Counties were directed to extend due dates and offer installment-payment plans; in those with obvious and egregious errors, reassessments were ordered. The governor proposed a plan to reduce property taxes and keep them down, and in March 2008 the Indiana General Assembly passed the governor's proposal into law.

That plan shifted more than \$1 billion in expenses previously paid for with property taxes to the state budget, created a new 35 percent deduction for homeowners, established voter input on spending decisions by local units, eliminated 1,000 township assessors, and provided property tax caps for homeowners, renters and businesses.

The result: stability and certainty to our property taxes. Property taxes paid by homeowners have been reduced by 36 percent this year compared to 2007. In dozens of counties, the reforms have cut bills by more than half. The single-largest tax cut in state history — more than \$1.65 in cuts for every dollar of new taxes — has delivered property tax relief of more than \$1.3 billion to families and businesses. Indiana property taxes are now the eighth lowest in the country. Many homeowners remain in their homes today because of these reforms.

But one more step is needed or these successes will be eroded. History says so. Previous actions to lower



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property taxes have worked only for a short time. A few years later, state taxes were higher and property taxes were too. Gaping loopholes were created, spending controls were watered down and needed reforms were deferred. And without permanent protection in the state constitution, a judge may decide the caps are illegal, and a future legislature could take these protections away.

The opponents to caps will argue against permanent protection. The spenders will always look for ways to extract more tax dollars. What they won't report is that nearly 70 percent of local government units have experienced a decrease of only 1 percent or less of their budget because of the caps. The school operating budgets that pay for teachers, classroom expenses and other operations are not impacted at all by the caps because those budgets are funded entirely by the state.

Now, for the first time, thanks to the protection of the caps, taxpayers are not at the mercy of those who are always eager to spend someone else's money. Importantly, the law has a highly flexible safety valve allowing voters to approve taxes above the caps through referendum. Local government bodies can spend above the caps, but they must ask for taxpayer permission first.

Gone are the days where local government could set its spending to whatever level it desires and then just dial up taxes to pay it, regardless of whether taxpayers could afford the bill. Replacing it is a system where local government must adapt spending, just like Hoosier families and businesses do.

What started as a call to action by citizens concerned about unpredictable, out-of-control and unaffordable property taxes is approaching the finish line with one final fair and far-reaching step to be taken by the people — placing the permanent protection of property tax caps in our state constitution.

Vote yes on Public Question No. 1.

A RISK: LOSS OF LOCAL CONTROL

By Justin M. Ross

For many of its proponents, the primary virtue of moving the property tax caps into the state constitution is to shrink the size of government. Though I am sympathetic to this objective more often than not, I do not agree that this is the outcome proponents of smaller government will achieve with the 1-2-3 property tax cap amendment. Instead, it is far more likely we will increasingly observe a shift of government provision of public services away from small local governments to the Statehouse in Indianapolis. We have observed this transition in other states like California, and it has already begun in Indiana.

With respect to the property tax, what gets levied gets collected. This is not the same as taxes on sales or income, from which the revenue is determined both by the rate and the amount of economic activity that occurs. It is not surprising then that the property tax has been the predominant taxing mechanism for local governments, whose responsibilities tend toward the more necessary and critical share of public services.

This is where proponents of smaller government with a "starve the beast" preference are wrong in supporting the property tax caps. The caps push local governments to depend on other more volatile sources of revenue. However, changing the way in which locals pay for their services does not change their demand for them. If local revenues come up short and start retracting services to accommodate, it is more likely that the state will increasingly be called upon to make up the difference or take over provision altogether. This is not starving the beast, but rather feeding it to become a bigger beast.

This has already taken place with the state takeover of the public school operating budgets, which were part of the exchange for the 1-2-3 property tax caps. This is not just some arbitrary change in who pays the bills, but a forfeiture of local autonomy. For instance, when state revenue

shortfalls led to an across-the-board cut in state funds for primary education, the Monroe County Community School Corp. (Bloomington) wound up cutting several programs. With the locals being unable to determine how to deal with these harder times by deciding where and if cuts were to be made, their response was to go clamoring to the state for greater funding.

The great 19th-century economic journalist Frédéric Bastiat once warned that government was the fiction that each could live at the expense of all of us. When the citizens of Monroe County went from deciding for themselves how to make the hard choices over revenue shortfalls to begging the governor, they were implicitly demanding that others pay for their schools.

There is nothing special about schools in this respect; the same chain of events will occur in the event of cuts made to police and fire services. Therein lies the rub for those who think these tax caps will translate into smaller government: When voters think someone else is buying, their response is going to be to belly up to the bar for more government services.

In addition to decisions over the amount of expenditures on different programs as the financing of local public services continues to be outsourced to the state, we should expect further compromises in local autonomy over the manner in which those services are provided. The increasing interest in consolidating school districts to save costs is a symptom of this. Though this discussion is still in its infancy and seems politically stalled for the time being, expect continued future interest coming out of Indianapolis on how your school district borders are drawn.

In short, the property tax permits a great deal of local autonomy and forces voters to really consider what they are willing to pay for in terms of government services. By exchanging the most reliable source of local government income for less reliable sales and income taxes, undermining property taxes will leave voters begging for more state aid and intervention.



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Ailing library eyes new funding source

Lawmaker wants system to get slice of income taxes, but critics say public safety would suffer

By Francesca Jarosz fjarosz@ibj.com

A state lawmaker is pushing for a law that would allow Indianapolis' financially struggling public library system to get a share of local income taxes.

But some elected officials and city financial leaders already are balking at the concept, which they say would divert money from other agencies that need it.

The funding change is contained in one of two bills that Rep. John Day, D-Indianapolis, intends to put forth next year to give the Indianapolis-Marion County Public Library, which has been hard-hit by declining property tax revenue, more financial flexibility.

Channeling a portion of Indianapolis' County Option Income Tax to the county's libraries could generate as much as \$3 million for the system, which has proposed a \$37.9 million budget next year. The \$3 million is based on next year's COIT projections and Day's initial plan to give the libraries 2 percent of that revenue.

Day's other measure would give libraries across the state the power to hold a referendum to raise property tax money for library operating expenses, as school districts can do. That measure, at least initially, appears less controversial.

The COIT change has raised concerns, in part because the lion's share of Indianapolis' COIT revenue—projected to be \$154.5 million next year—goes toward the city's public safety agencies. Some say cutting into that money could hurt police and fire budgets, which already are facing cuts next year in light of declining income-tax revenue.

"You're basically making a priority decision to fund libraries with public-safety dollars," said Ryan Vaughn, a Republican who serves as City-County Council president. "We're asking public safety to do more with less, and with the transfer of the COIT dollars to the library, we'd be asking them to do more with even less."

Day, however, said he thinks it's an issue of fairness.

"The bigger question is, why should a key community service be totally out of the picture with a tax paid by all wage earners in Marion County?" Day said. "In a family with five children, if four eat and one starves, I don't think that's fair."

Tough times

The county's library system has been particularly pummeled by property tax caps that limited homeowners' bills to 1 percent of a home's assessed value starting this year. The libraries typically rely on property tax revenue for more than 80 percent of their funding.

Based on the caps, the system will face a \$2.5 million shortfall this year and could see a drop of \$3.7 million to \$4 million next year, according to library estimates.

On top of that, property tax collections, which typically hover around 97 percent of all property tax money owed to the system, dropped last year to 92 percent, stripping another \$3 million from the library's funding. The collection-rate decline is a reflection of a tough economy with more home foreclosures and more taxpayers who are unable to pay their bills.

Library officials do not know what this year's collection rate will be, but they aren't predicting much change.

To make up its tax-funding gap, the library has made some significant cutbacks, including closing the Central Library on Thursdays as part of a move to reduce hours at that location and the 22 branches by 26 percent. Library officials also have cut back purchases of certain materials and hiked penalty fees.

And the library is in the process of getting clearance from local and state officials to approve a one-time shortfall appeal that would bring in about \$1.5 million in additional property tax revenue from taxpayers who did not meet the cap in 2009.

Even with those efforts, Rebecca Dixon, the library's chief financial officer, anticipates dipping into the system's reserves. The library aims to keep \$3.6 million to \$4 million in reserves—about 10 percent of next year's operating budget.

Dixon and others have warned that, without another funding source or drastic cuts, the library risks depleting its reserves in the next few years.

Getting the COIT may be one of the few solutions.

"There aren't many other options right now," said Laura Bramble, the library's CEO. "I think it would be better for our overall stability if we had more diverse sources of revenue."

City officials, though, face a budget crunch of their own. Indianapolis' take of COIT revenue is projected to drop 16 percent next year as collections reflect the hard-hit economy. The decline has led the city to eliminate one of two police recruit classes, reduce training, and not provide a union-pay increase for police officers and firefighters next year.

Indianapolis will use the first \$21.7 million of its COIT revenue to pay for its emergency dispatchers and a local homestead tax credit next year. The rest is divided among the city, which gets 88 percent of the money (most going to public safety); townships, which get 8 percent; and excluded cities such as Beech Grove and Speedway, which get 3 percent.

Based on how Day's law is written, the library's share could cut into any of those sources or a combination.

City Controller David Reynolds said that, because of the tight city budget, state lawmakers should give local policymakers room to decide how local money is spent.

While he's not in favor of the kind of directive Day plans to propose, he would support the Legislature's giving the council the option of providing the libraries with COIT. Under current law, Reynolds said, the council could set aside a grant to give the libraries more local money but can't directly channel the city's COIT share toward libraries.

"I don't think it's the General Assembly's decision to determine how we spend our money," Reynolds said. "Mandating that dollars have to go to the libraries isn't giving the flexibility that I think locals need."

Some state lawmakers have similar reservations. Phil Hinkle, R-Indianapolis, worries it could set a precedent.

"The minute we take some of that local control," Hinkle said, "we have to look at whether other entities that are not getting their fair share also want their fair share."

Building a case

Library advocates, however, point out that Marion County libraries' lack of COIT funding is unique.

Statewide, all library districts in counties that have a COIT or a similar County Adjusted Gross Income Tax receive a portion of that tax, except for Marion County's districts. That amounts to 213 of the state's 238 library districts, said Jim Corridan, deputy director of the Indiana State Library.

Day hopes that statistic will strengthen the argument for his bill next year, but he knows that—in addition to the early opposition—there will be hurdles to getting it passed.

He faces re-election this fall, but as a Democrat is expected to fare well in his district representing part of downtown and the city's east side.

A more likely risk is that his party would lose control of the Indiana House of Representatives, which would make it tougher for his bill to get a hearing.

But Day remains undeterred. He already has started searching for a Republican to co-sponsor his legislation.

And even if he can't get it passed, he said he hopes the effort will draw attention to the debate and possibly spur more action at a local level.

"I think this is very serious," Day said. "The life and well-being of libraries are at stake."•

Potential library funding, by the numbers

A numerical look at the funding situation facing the Indianapolis-Marion County Public Library and others statewide

\$154.5 million: amount Indianapolis expects to get in County Option Income Tax revenue next year

\$0: COIT revenue libraries in Marion County now receive

\$4 million: library's projected revenue loss due to property tax caps next year

\$2.9 million: estimated amount the library system could bring in by getting 2 percent of the COIT

213: library districts statewide receiving a share of their county's local income taxes

Source: IBI research



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President Ryan Vaughn*