

Who Shoulders the Cost of Local Government?

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The subject of property taxes and the costs of local government that they support has long been a thorn in the side of many Hoosier taxpayers, business owners, government officials, and legislators. Public attention to the subject increased greatly when the Indiana Supreme Court declared in 1998 that properties had been assessed in an unconstitutional manner, mandating that all properties must be reassessed to reflect their fair market value.

Reassessment raised concerns among many that property tax bills would rise precipitously. Many taxpayers living in older homes had enjoyed relatively low taxes for years because their assessments were based on old valuations that were further reduced by accumulated depreciation. Sudden reassessment to reflect current market values could cause large increases in tax bills. In fact, when the bills for tax year 2002 were issued, these fears came true for many property owners, while for many others the bills did not change appreciably, and some even declined.

In an effort to lessen the impact of big hikes in property tax bills, the Indiana General Assembly increased the assessed-value deduction granted to homeowners, thereby lowering their taxable property value. But this action tended to reallocate the tax burden among taxpayers in unforeseen ways. Additional state legislation had the effect of shifting a portion of the tax burden from certain industrial taxpayers to the owners of residential and commercial property.

The cumulative effect of these changes was that some of the new property tax bills were as much as 700 percent to 800 percent higher than they had been in the past. Some residents and business owners voiced concern that they might lose their properties as a result of the higher

taxes. The subject of what to do about high property taxes—customarily a low-level concern—moved to the front burner.

This was especially true in Lake County, which saw some of the biggest changes that occurred with reassessment. Responding to these concerns, the Indiana Business Research Center, partnering with others in the Lake County area, undertook an in-depth analysis of tax bills before and after reassessment to determine which areas and types of properties were most affected and whether the changes in tax bills were attributable to factors other than reassessment (such as changes in the budgets of local governments occurring concurrent with reassessment).

Some observers suggested that the most direct way to reduce property taxes would be to reduce local government budgets. Thus, our study also examined the budgets of Lake County's 83 local government units (the county, cities, towns, townships, school districts, library districts, etc.) and compared performance across those units on a variety of measures. This analysis sheds light on important opportunities for improving

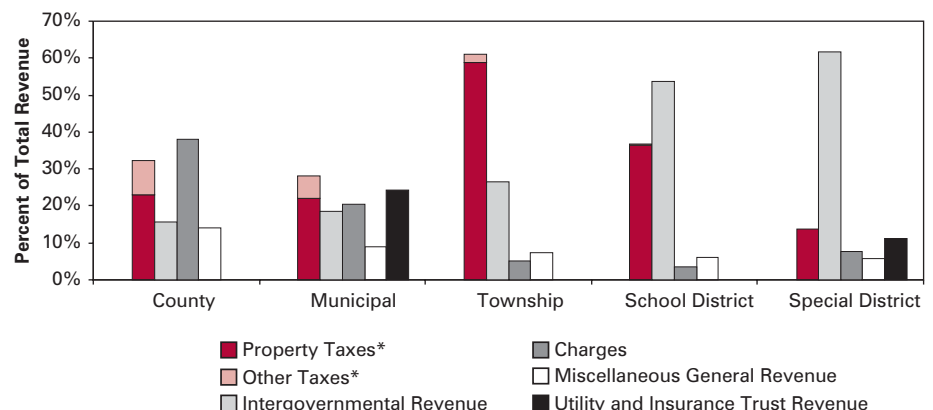
local government efficiency and effectiveness.

The articles that follow highlight lessons learned from the Lake County government efficiency study. Detailed findings of the study are available at www.ibrc.indiana.edu/lakegov.

The recently-concluded session of the General Assembly has once again brought to light concerns about property taxes, as the new state budget effectively increases reliance on local property taxes to fund schools. Clearly, Indiana taxpayers and government leaders need to understand the costs of local government and how property taxes work to cover a large portion of those costs (see **Figure 1**).

The lessons learned in Lake County, and the efforts currently underway to address property tax burdens and local government efficiency, are pertinent to many other parts of Indiana. In carrying out this study, the IBRC compiled a comprehensive database that can be used for analyses in other counties as well. Our ultimate goal is to enable citizens and policy makers to be fully informed as they strive to make local governments in the Hoosier state as effective and efficient as possible. ■

Figure 1
Indiana's Local Government Revenue by Type, 2002



*Tax bars are stacked to show percentage of total revenue contributed by all taxes combined.
Source: Census of Governments, 2002