

Indiana Business Review



CLAIM FOR HOMESTEAD PROPERTY TAX CREDIT/STANDARD DEDUCTION

State Form 5473 (R6 / 4-03)
Prescribed by the Department of Local Government Finance

INSTRUCTIONS: See reverse side for filing instructions

FORM 104

I (We) _____
 I (We) occupied as our principal place of residence
 I (We) owned Are buying under contract
 Have a beneficial interest in the entity that is liable

_____ if buying on contract, Fee Simple owner's name
 _____ Recorder's office where contract is recorded

_____ County _____ Township _____
 _____ Legal description _____



BUSINESS TANGIBLE PERSONAL PROPERTY RETURN

STATE OF INDIANA
State Form 10068 (R10 / 1-03)
Prescribed by the Department of Local Government Finance

INSTRUCTIONS: This form must be filed with the Township Assessor not later than May 15 unless an extension is granted in writing.

_____ Name of taxpayer (Please type or print) County _____
 _____ Name under which business is conducted
 _____ Address where property is located (Street and number, city)
 _____ Nature of business
 _____ Name and address to which assessment and tax notice to be mailed (if different than above) County _____
 _____ Street and number, city

REQUIREMENTS AND PENALTIES

FILING REQUIREMENTS:
 Taxpayers with more than one Taxing District - A taxpayer who has property in two or more taxing districts must file this form in duplicate including the confidential returns and schedule attached to the return in each district covering only property located in that district. This is necessary to ensure that the correct amount of tax is assessed on the property.



NOTICE OF ASSESSMENT OF LAND AND STRUCTURES - FORM 11 C/I

State Form 45650 (R4 / 1-02)
Prescribed by Department of Local Government Finance

This notice indicates the assessed value of your property. Information on the valuation of your property and a copy of the property record card can be obtained from the Township Assessor at the telephone number and address below. You have the right to appeal this assessment by filing a Petition For Review Of Assessment (Form 130) with the County Assessor within forty-five (45) days of the date this notice was mailed. You may obtain a copy of Form 130 at the County Assessor's office. For more detailed information, you may obtain copies of your property record card from your local assessor.

_____ Name and address of property owner

_____ Legal description _____
 _____ Parcel or ID number _____
 _____ Property address _____

Previous Assessment _____

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Lake County Courthouse | Jerry N. Conover

Who Shoulders the Cost of Local Government?

Jerry N. Conover

Director, Indiana Business Research Center, Kelley School of Business, Indiana University

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

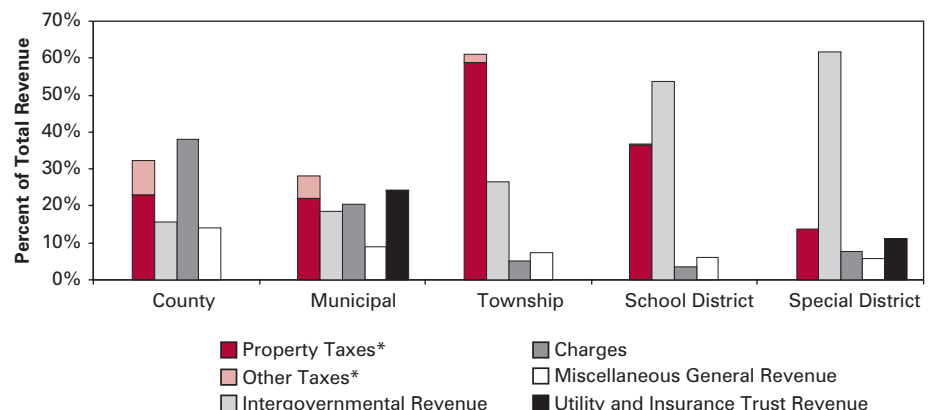
local government efficiency and effectiveness.

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

The New Age in Indiana Property Tax Assessment

Carol O. Rogers

Associate Director, Indiana Business Research Center, Kelley School of Business, Indiana University

Property assessment is the process of placing a value on property. Pretty simple process, right?

Two types of property are taxed in Indiana: real and personal. Real property consists of land, buildings, and other major permanent structures. Personal property is almost exclusively that of businesses and includes equipment for farming, manufacturing, and product inventories.

The assessment of personal property is conducted every year, while real property assessment is performed less frequently (before 2002, the last real property assessment was conducted in 1995). Normally, assessments are conducted by elected township assessors and by an elected county assessor (except in Lake County, where the 2002 assessment for most properties was conducted by a private company).

The full value determined for a property is called the gross assessed value (GAV). But in most cases this is not the value taxed, since most properties qualify for exemptions or

deductions that will reduce taxable value. The most common deduction is the homestead deduction for owner-occupied residences. Other common exemptions and deductions include those for disabled veterans, government property, and depressed economic areas. The assessed value after all exemptions and deductions are subtracted is called the net assessed value (NAV).

Units and Districts

Taxing units—entities such as townships, municipalities, school districts, sanitary districts, libraries, and the like—have the authority to receive taxes on real estate within the area they serve. The boundaries of these taxing units overlap and, in overlapping, they form **taxing districts**. In other words, a taxing district is a geographical area in which all of the properties are taxed by the same set of taxing units. Depending on where the parcel is located (geography is very important), a home or business will pay taxes toward a school district, library district, city or town, and township.

The property tax bill for a given parcel lists each taxing unit to which its property taxes are allocated. In addition, a portion of the property taxes goes to the individual county (for parks and recreation, welfare, and other county funds) and a portion goes to the State of Indiana.

Determining the Levy

Each taxing unit creates a budget and a revenue estimate for the coming year. This and other financial information is submitted to the Indiana Department of Local Government Finance (DLGF) for certification (and is called a certified budget). The DLGF calculates the levy for districts by subtracting other non-tax revenues (such as vehicle excise taxes, license fees, and user fees or fines) from the budgeted amount needed. In all but three counties, the levy is also lowered by local income taxes. **Table 1** shows the relative contributions of different sources of revenue to the funding of various types of local government. “Intergovernmental” refers to funds received from federal, state, or other local governments; “charges” include fees received for school lunches, public hospitals, parking facilities, and so on; and “miscellaneous” includes interest earned, receipts from sale of government property, and various other sources. Budget amounts not reduced by other revenues are paid for by property tax levies. **Figure 1** shows these levies as a percent of total net assessed value at the county level.

Calculating Property Tax Rates

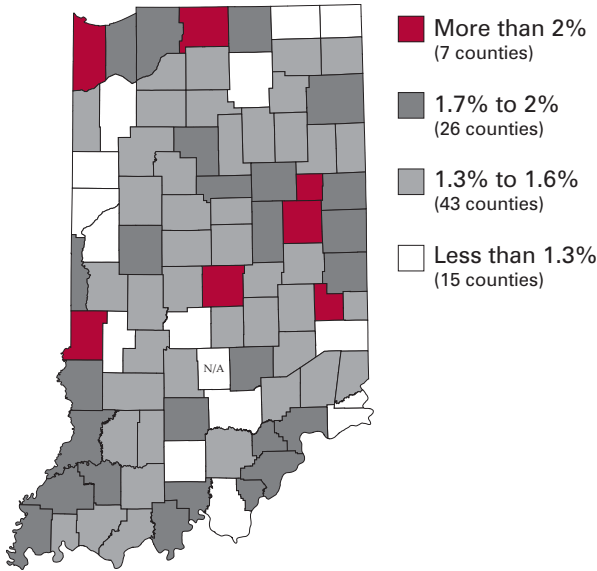
After the levy is calculated, the DLGF sets the rate for each taxing district to be used in the tax bills. The basic rate equation is:

Table 1
Breakdown of Revenue for Lake County, Indiana, and the Nation, 2002

Types of Revenue	Lake County		Indiana		United States	
	Revenue (000)	% of Total	Revenue (000)	% of Total	Revenue (000)	% of Total
Charges	\$218,184	11.6	\$3,475,169	16.2	\$153,381,745	14.1
Tax Revenue	\$671,764	35.8	\$6,786,047	31.6	\$369,730,209	34.0
Intergovernmental Revenue	\$664,535	35.4	\$7,629,892	35.6	\$398,496,939	36.7
Utility Revenue	\$63,221	3.4	\$1,719,987	8.0	\$90,386,981	8.3
Miscellaneous Revenue	\$260,696	13.9	\$1,836,075	8.6	\$74,247,072	6.8
Total (sum of above)	\$1,878,400	100	\$21,447,170	100	\$1,086,242,946	100
Property Tax	\$637,736	34.0	\$5,969,912	27.8	\$269,419,295	24.9
Property Tax as a Percent of Total Tax Revenue	94.9		88.0		72.9	

Source: U.S. Census Bureau; calculations by the Indiana Business Research Center

Figure 1
Levy as a Percent of Net Assessed Value for
Taxes Payable 2003



Source: State Auditor's Comprehensive Annual Financial Report; data not available for Brown County

$$\text{TAX RATE} = \frac{\text{AGGREGATE TAX LEVY}}{\text{AGGREGATE NET ASSESSED VALUE}}$$

A share of each unit levy is assigned to each district in the unit. The district levy is then divided by the net assessed value of all property in the district. **Table 2** provides an example of tax rate calculations for three hypothetical districts.

DLGF also calculates the property tax replacement credit (PRTC) and the homestead credit. These credits, funded by the state, reduce taxes owed after the initial tax is calculated. The credits are only applied against certain types of levies though, so the amount of relief depends on how the units spend the money. Since the levy mix varies by district, the rates must be calculated for each district.

Finally, the Tax Bill

After receiving certified rates from the state, the bills can be calculated for each property. Bills are sent out by the county treasurer twice a year and are normally due May 11 and November 11 (or the next business day). The amount of the bill is figured using the following formula:

$$\text{TAX BILL} = (\text{TAX RATE} \times \text{NET ASSESSED VALUE}) - \text{CREDITS}$$

Table 2
Example of How Property Rates Are Calculated

Units	Total Unit Levy	District 1	District 2	District 3
County	\$1,000,000	\$500,000	\$250,000	\$250,000
Library	\$300,000	\$200,000	\$100,000	
Town	\$75,000	\$75,000		
School 1	\$1,500,000		\$750,000	\$750,000
School 2	\$3,000,000	\$3,000,000		
Sum of Levies	\$5,875,000	\$3,775,000	\$1,100,000	\$1,000,000
NAV	\$200,000,000	\$100,000,000	\$50,000,000	\$50,000,000
Rate		3.7750	2.2000	2.0000

The amount of property tax paid is calculated by multiplying the tax rate by the net assessed value of the property. An example from the Lake County study: If you live in the taxing district served by the City of

Gary, Calumet Township and the Gary Community Schools, your tax rate is 9.8412 percent, the highest in Lake County. If you live in a house with a NAV of \$100,000 (that is, GAV minus deductions, such as the homestead deduction), your gross property tax would be \$9,841. You would then subtract the property tax replacement credit (\$9,841 × 0.234399) and the homestead credit (which is determined after subtracting the PTRC: \$7,534 × 0.161506) for an annual bill of \$6,318.

Understanding Reassessment

Reassessment is a revenue-neutral process. Tax levies were not raised by reassessment and local governments did not get any increase in revenue directly from the reassessment process. The reason this particular reassessment caused difficulties and confusion was due to the major shifts in the tax burden among different properties. When setting property values, almost any change in one property or group of properties affects all other properties in the same unit. In other words, it is your basic zero sum game: if one person pays less, someone else must pay more. To see

why this is, look at the basic tax rate equation:

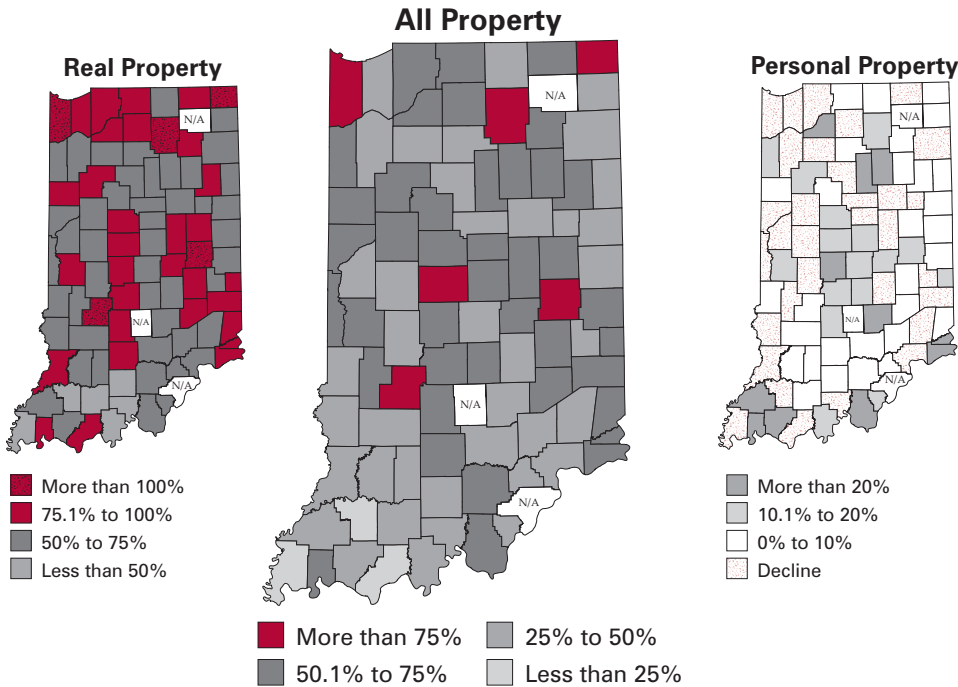
$$\text{TAX RATE} = \frac{\text{LEVY}}{\text{NET ASSESSED VALUE}}$$

The tax levy is not affected by changes in the NAV, so the tax rate must go up or down. Here is an example with a fictional two-property district whose levy is \$150. If a barn and a combine are valued at \$500, the barn owner and the combine owner would owe \$75. However, if the assessed value of the barn is raised to \$1,000, the tax rate decreases. Sound good? Well, the barn owner wouldn't think so since his or her tax bill goes up to \$100 while the combine owner now pays only \$50.

Personal to Real and Back Again

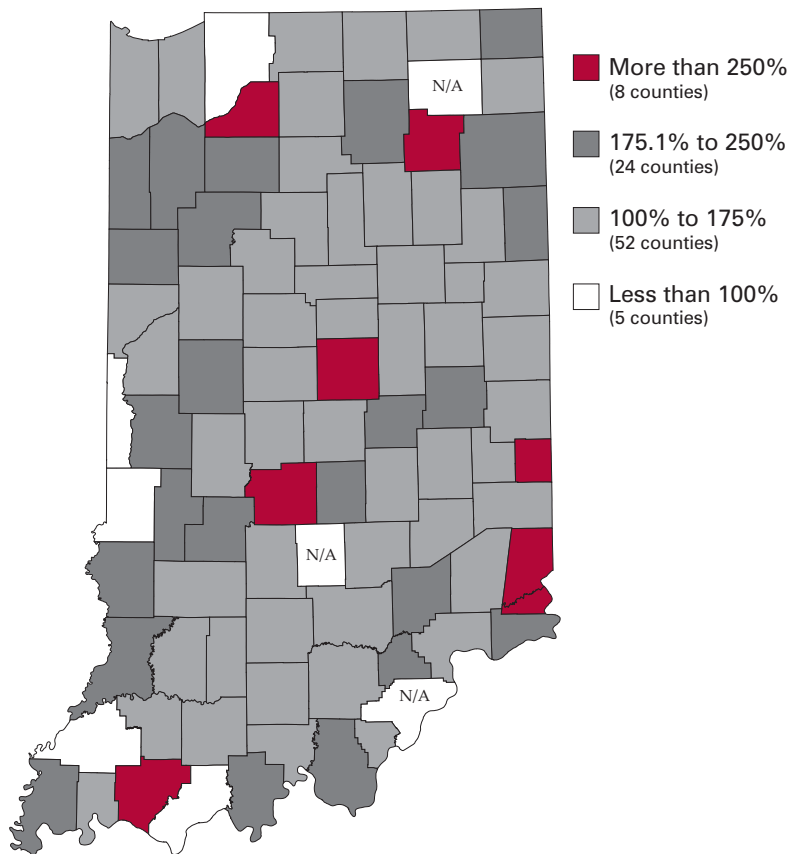
The most important shift with the 2002 reassessment was the change from "true tax value" to market-based assessment. In the past, real property was assessed based on the value of land and reproduction cost minus depreciation. Depreciation was factored in regardless of the condition of the property. As a result, property values were almost always significantly lower than market value. Older properties were particularly under-assessed because they had so many years of depreciation. The result was a continual shift of the tax burden to business, personal property (mostly businesses), and newer homes. In a series of decisions from 1996 to 1998, the Indiana Supreme Court mandated that the state use a more equitable system for a 2002 reassessment. As a

Figure 2
Change in Net Assessed Value, Payable 2002 to Payable 2003



Source: Department of Local Government Finance; data not available for Brown, Clark, and Noble counties

Figure 3
Change in Exemptions for Taxes Payable 2002 and 2003



Source: Department of Local Government Finance; data not available for Brown, Clark, and Noble counties

result, a “fair market value” system was adopted. The assessed values of property were also artificially low because the last reassessment had taken place in 1995. Although this was not a long period of time compared to the gap between other assessments (the previous assessment took place in 1989), it was sufficient time for a gap to develop between the values of real and personal property. This increased the shift in tax burden toward personal property every year, and made the inevitable readjustment more painful (see **Figure 2**).

Knowing that the tax burden would mainly shift to homeowners, the Indiana General Assembly enacted significant property tax relief in 2002 to help ease the increased burden. This relief included an increase of the homestead deduction to \$35,000. This was meant to reduce homeowner NAV and thus shift some of the tax burden back to business (see **Figure 3**). The legislature also increased the state property tax replacement credit for real property and the homestead credit for those who qualified for the homestead deduction.

The 2005 General Assembly ended with a series of enrolled acts that will have an impact on property taxing, among them the budget bill itself, which:

- ▶ Provides for the repayment to the state of certain income tax credits granted to Lake County taxpayers.
- ▶ Expands local options to provide additional homestead credits to property taxpayers.
- ▶ Limits the application of special valuation rules for certain steel companies.
- ▶ Establishes minimum and maximum limits on the amount of state property replacement credits that may be granted.
- ▶ Includes the 2 percent cap on gross assessed valuation of owner-occupied residential property. ■

Lake County Taxing—A Case Study

Morton J. Marcus

Director Emeritus, Indiana Business Research Center, Kelley School of Business, Indiana University

Parcel-level property data for the years 2002 (before assessment) and 2003 (new assessment practices) were analyzed to examine what happened in Lake County to bring about the tax shifts that have been of such great concern in that part of the state (see **Figure 1**). By examining the county as a whole,

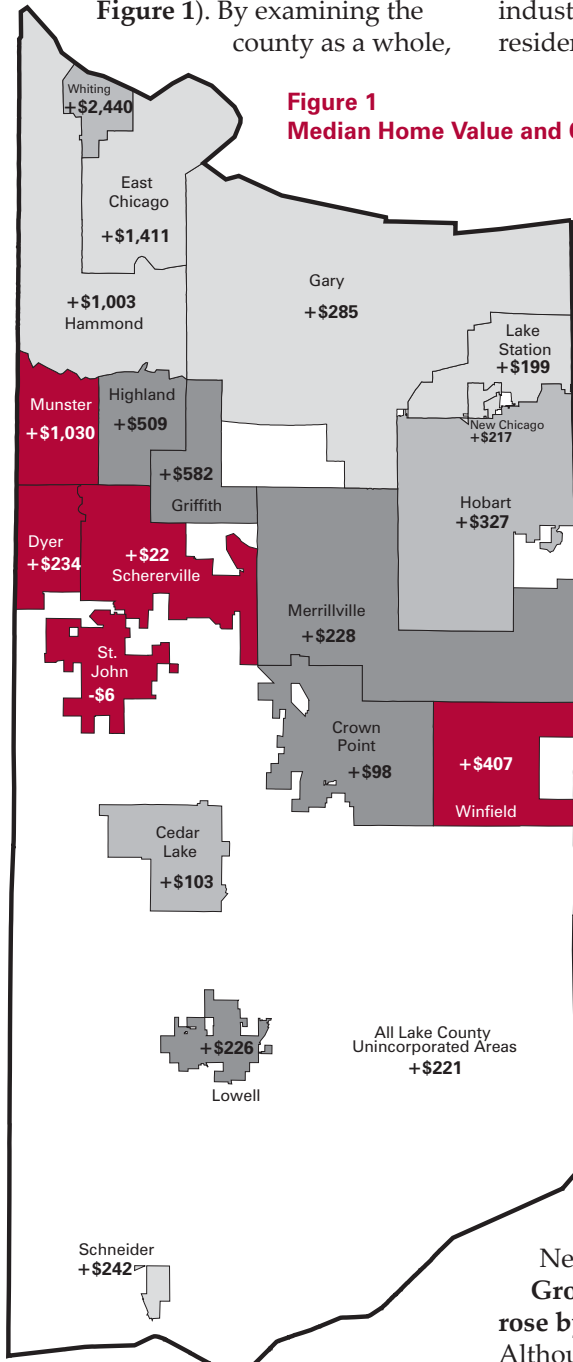
(the aggregation of all taxing units in the county) the basic pattern became clear: The small increase in business personal property values shifted more of the taxes to real property, where there was a major increase due to reassessment. Among real property taxpayers, there was a shift from industrial and other taxpayers to residential taxpayers.

property values increased, the balance between the two sectors shifted. GAV for real property rose 127 percent while GAV for personal property increased by only 15 percent. The growth in real property GAV accounted for 96 percent of the increased GAV of the county and the share of real property rose from 74 percent to 85 percent of total GAV. This shift of 11 percentage points in GAV was a prime factor in increasing the share of the tax burden on real property owners, including residential taxpayers (see **Figure 2**)

Number of parcels increased by 1,083 or 0.4 percent. Reassessment and economic development together increased the number of parcels in the county. The number of parcels not identified by type of use (unallocated) fell a dramatic 27 percent as those parcels were more properly identified in the reassessment process. At the same time, new housing units on previously identified agricultural land increased the number of residential parcels by 1,513. This change in classification alone causes an apparent shift of taxes to the residential sector.

Gross assessed value of real property rose by \$13 billion or 127 percent. The doubling of GAV in the county was due to two factors. First, there had been no reassessment in the past decade. Second, and perhaps more important, was the mandated change in assessment practices to a more objective, market-oriented approach for real property. While GAV for residential properties went up by 185 percent, agricultural properties increased by 163 percent, and commercial properties rose by 112 percent. GAV for industrial properties decreased by 8.6 percent. On balance, reassessment of real property and economic changes in the community increased the residential share of real property GAV from 51 percent to 64 percent in Lake County while cutting

**Figure 1
Median Home Value and Change in Tax Bill**



Median Home Value, 2000

- More than \$130,000
- \$100,001 to \$130,000
- \$85,000 to \$100,000
- Less than \$85,000

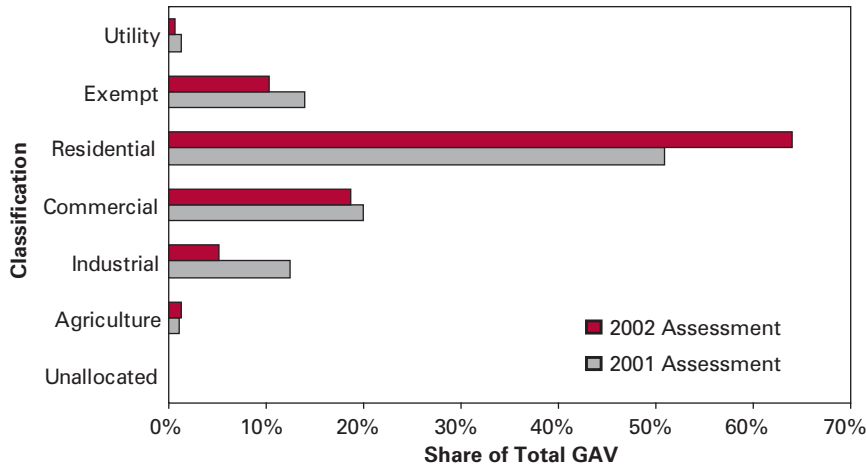
Label shows change in average residential tax bill between 2002 and 2003

Findings

Levies rose by \$9.6 million or 1.2 percent. The modest 1.2 percent increase in levies for all governments in Lake County masks significant differences among the various communities. Of the nineteen cities and towns in Lake County, only four had percent changes less than the countywide average of 1.2 percent. These were Gary (0.3 percent), Schneider (-3.3 percent), Whiting (-10.3 percent), and East Chicago (-41.1 percent). All the rest had increases ranging from 3.6 percent in Schererville to 61.6 percent in New Chicago.

Gross assessed value of property rose by \$13.5 billion or 97 percent. Although both personal and real

Figure 2
Share of Total Gross Assessed Value of Real Property



industry's share from 12.5 percent to 5 percent.

Exemptions and deductions increased by \$4.3 billion or 142 percent. Tax bills are not based on GAV. The legislature permits a wide variety of exemptions and deductions from GAV that lower the value of real property for tax purposes. One of the major changes was an increase in the homestead deduction of \$6,000 to \$35,000 for owner-occupied housing. Where the residential sector alone accounted for 39 percent of all exemptions and deductions in 2001, it was up to 58 percent in 2002.

Net assessed value of real property grew by \$8.7 billion or 120 percent. Just as there was a shift to residential properties from industrial properties in GAV, the same shift also existed in NAV. Residential property accounted for 76 percent of the increase in net assessed value in Lake County, gaining \$6.6 billion, while the NAV for industrial property fell by \$147 million. Where residential property had been 56 percent of total NAV, it rose to 67 percent, while industrial property declined from 17 percent to 7 percent. All other sectors remained about the same. Thus, there was a major shift from industrial to

residential property in the base on which tax bills are calculated.

Taxes billed for real property rose by \$52.5 million or 12 percent. If there had been no increase in levies, there might have been no increase in the total amount of taxes billed. It is possible, however, for real property taxes to rise if other government revenues, such as taxes on personal property, transfers from the state or federal governments, or user fees, were to fall. The overwhelming factor causing taxes billed in Lake County to increase by \$52.5 million was not an increase in the levies (just \$9.6 million). Governments set their levies long before they knew what their assessed value was to be. Hence, unexpectedly higher reassessments gave local governments an excess of tax billings over their levies for the year. As a consequence, constant levies reduced real property tax rates when net assessed values rose. Additionally, the bills of individual taxpayers declined because of the increase in the number of parcels.

Because of the differential credits given to homesteads and businesses, as well as the different credits available for each tax district, the shift in taxes billed does not match identically with the shift in NAV.

The basic shift was from industrial to residential property. Whereas in 2002, residential property paid 48 percent of the taxes billed, that share rose to 61 percent in 2003 while industrial property shrank from 24 percent to 10 percent. All other classifications remained about the same.

Average tax bills went up \$203 or 11.5 percent. Although the amount of taxes billed rose by 12 percent, the average bill rose by 11.5 percent because more parcels were billed. The average residential bill increased 43 percent, or \$453, from \$1,063 to \$1,515. The average commercial bill had the greatest dollar increase at \$1,170, rising 16 percent from \$7,357 to \$8,526. The average industrial bill fell 53 percent or \$20,390.

Effective tax rates declined by 51 percent. When the taxes billed are divided by the gross assessed values of the properties, we get the effective tax rate. For all properties in Lake County combined, this figure fell from 4.3 percent to 2.1 percent between the payable years 2002 and 2003. This occurred because reassessment caused GAV to rise at a proportionally greater rate than did levies. The decline in the effective rate was further propelled by substantial increases in property tax deductions. As seen in the following figure, the effective rates for residential property fell from 4 percent to 2 percent, a decline of one-half. The effective rates for industrial properties fell from 8.4 percent to 4.3 percent while commercial properties went down from 5.4 percent to 3 percent and agricultural properties declined from 4 percent to 1.9 percent. Again, where these properties are located is the most important factor in determining their tax rates. It is not the case that there is systematic discrimination against industrial property nor is this evidence of favoritism to agricultural land. ■

Access the complete Lake County Government Finance Study at www.ibrc.indiana.edu/lakegov

Government Spending and Efficiency

Dan Lowery

Professor, Calumet College of St. Joseph

Overall, the difference in spending between high- and low-cost cities and towns can be quite large. Caution must be used in comparing municipal budgets, however, because urban municipalities are responsible for some kinds of services not incurred by towns and cities located in rural and suburban settings. The cost of police and fire protection, for instance, differs greatly.

Municipal Budgets Per Capita

Excluding police and firefighter pensions, towns and cities in Lake County spent, on average, \$359 per resident in 2003. (Data for Lake Station were not available at the time the analysis was conducted.) Two cities exceeded this average by wide margins (see **Figure 1**). The City of Whiting spent \$1,071 per person in 2003 and the City of East Chicago spent \$634 on a per capita basis. If we exclude these two outliers, the average for all towns and cities falls to \$317 per person. The City of Whiting exceeded this revised average by 338 percent.

Public Education

Schools account for as much as 50 percent of the property tax bill in some taxing districts. Judging whether or not these dollars are well spent can be challenging. Four sets of data are revealing, however: cost per

student, ISTEP scores, student/teacher ratio, and administrative overhead expenditures.

On average, school districts statewide spent \$8,550 per child over the course of the 2003-2004 school year. Six of the sixteen school districts in Lake County exceeded this average by more than 15 percent (see **Figure 2**): East Chicago Schools by 32.1 percent (\$11,300), Lake Ridge Schools by 28 percent (\$11,000), Whiting Schools by 20.5 percent (\$10,300), Gary Schools by 19.3 percent (\$10,200), Hammond Schools by 19.3 percent (\$10,200), and Griffith Schools by 17.1 percent (\$10,000).

During the 2003-2004 school year, school districts statewide reported an average student/teacher ratio of 18.9 to 1. Led by the Crown Point Schools at 23.4 students per teacher, nine school districts in Lake County exceeded this average. Four had substantially fewer students for each teacher, however, including Gary at 17.3 to 1, East Chicago at 17.2 to 1, Lake Station at 17.1 to 1, and Whiting at 16.3 to 1. Furthermore, we found that student/teacher ratios differ little from district to district in the elementary schools. A much higher level of variability was found in the middle and high schools.

Overall costs alone cannot be used to assess educational efficiency. A broad range of performance measures, including ISTEP scores,

should be considered, along with the demographics of the student body. Some students need more attention than others. Having said this, the data point to needed efficiencies in some school districts. Despite having low student/teacher ratios, overhead costs are high in the Gary, East Chicago, and Hammond school districts. In Gary, in particular, declines in enrollment—30.8 percent since 1988—do not appear to have been matched by reductions in overhead costs.

Police Departments

We excluded the costs of equipment and buildings and focused instead on key operating costs, such as personnel and supplies, in the budgets and appropriations for 2003. As expected, we found significant community-to-community differences. In 2003, the average cost for police services among the fourteen towns and cities we examined was \$157 per resident. Three communities in Lake County exceeded this average by wide margins: Whiting by 115 percent (\$337 per resident); East Chicago by 70 percent (\$267 per resident), and Hammond by 25 percent (\$196 per resident).

Police departments tend to become more expensive as communities grow in size. Overhead costs go up, and larger communities tend to face more severe public safety challenges than do smaller communities. For this reason, we compared expenditures incurred by municipalities in Lake County to national averages reported for towns and cities of different sizes (see **Figure 3**). Using these benchmarks, we found that five communities in Lake County exceeded the average levels of per capita spending associated with their peer communities: Whiting by 138 percent; East Chicago by 75 percent; Hammond by 24 percent; Schererville by 6 percent; and Crown Point by 4

Figure 1
Per Capita Municipal Budget Amounts

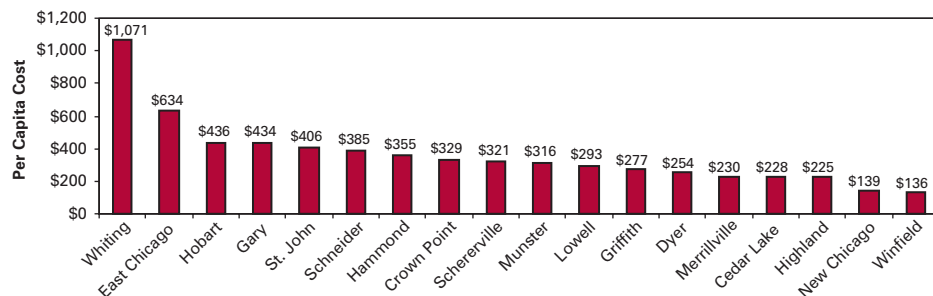


Figure 2
School District Per Student Cost, 2003-2004

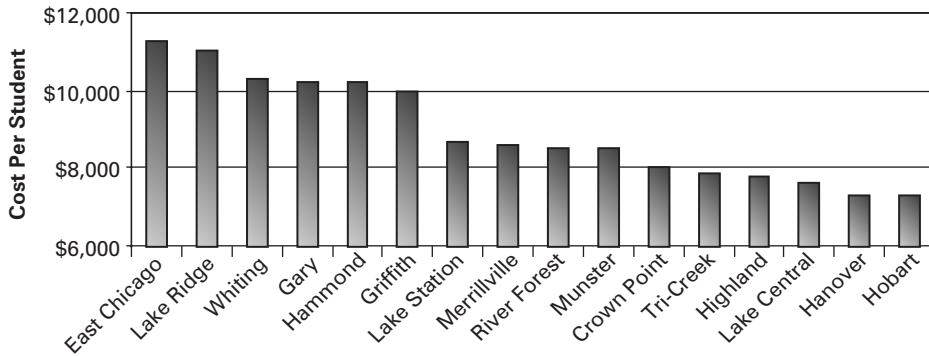


Figure 3
Per Capita Police Expenditures Adjusted for Size of Municipality, 2003

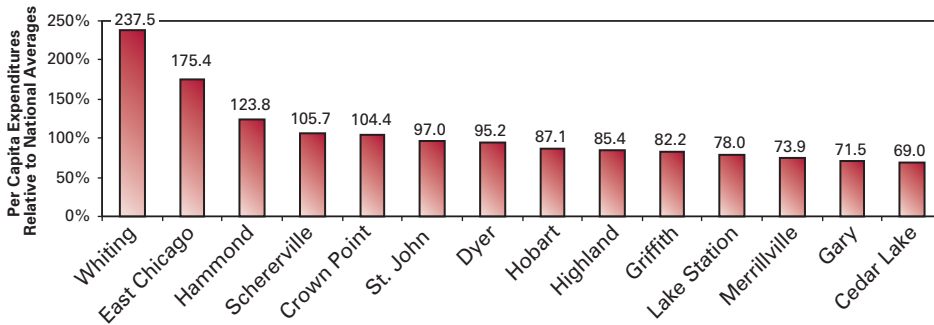


Figure 4
Fire Department Operating Costs Per Capita, 2003

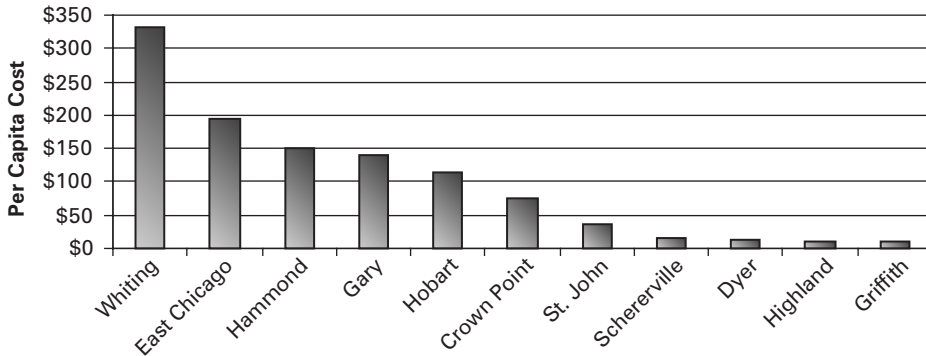
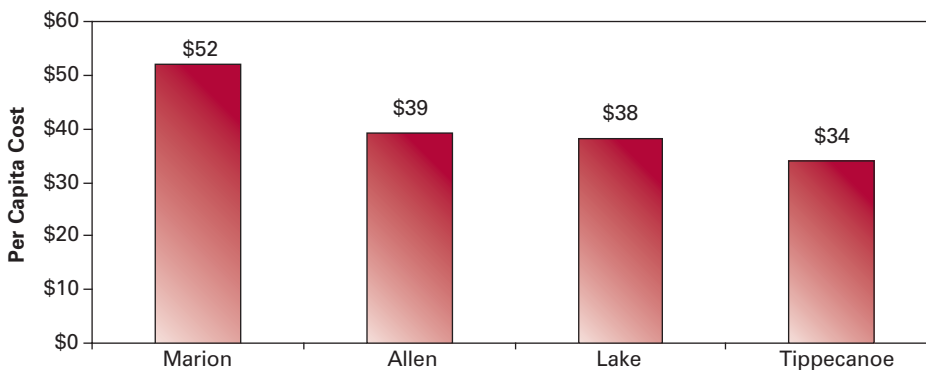


Figure 5
Per Capita Cost of Cases Disposed, 2003



percent. Other towns and cities in Lake County were below the average for their peers.

Fire Departments

Unlike police departments, which tend to be organized similarly in most towns and cities, fire departments are structured differently in large and small communities. Lake County cities have professional fire departments, while volunteer fire departments serve towns and unincorporated areas. Cost structures vary dramatically as a result. For instance, fire protection and other services provided by the volunteer fire department in Schererville cost \$16 per resident in 2003. In Hobart—by no means the most costly fire department in Lake County—the same set of services costs \$114 per resident. The lion’s share of all expenditures in professional fire departments is devoted to personnel costs. Converting a professional fire department into a volunteer operation is not an option, however. Cities are required by law to employ professional firefighters. And even if public safety were not an issue, the cost of property insurance would skyrocket in cities lacking professional firefighting capacity.

In 2003, the average cost for fire protection among the cities was \$168 per resident (see **Figure 4**). Two cities in Lake County exceeded this average by more than 15 percent: Whiting by 98 percent (\$331 per resident) and East Chicago by 16 percent (\$195 per resident). Costs in Hammond, Gary, Hobart, and Crown Point were reported at \$151, \$141, \$114, and \$74 per resident, respectively.

The Courts

The courts are a controversial component of Lake County’s budget for two reasons. First, Lake County’s judicial system consumes a great deal of revenue: \$18.6 million in 2003. Approximately 90 percent of these funds were used to employ judges

Lack of Raw Data

Data pertaining to units of local government can be hard to come by. In a few cases, comparative data are gathered at the national or state level (the FBI's collection of municipal crime statistics, school performance data assembled by the Indiana Department of Education, data maintained by the State Fire Marshal, the State Library, etc.). In other cases, no central repository of data exists. Garbage collection—a critical service provided by local government—illustrates the problem. One cannot simply call an elected or appointed official and secure a municipality's cost per ton of garbage collected. Some towns and cities perform this function themselves; others contract it out. Some organize garbage collection as a stand-alone function; others assign it to departments that perform other services (e.g. street repair, snowplowing, etc.). Municipal accounting systems tend to be organized by object codes rather than by programs, and overhead costs are assigned differently from municipality to municipality. As a result, reliable data are not readily available in the case of garbage collection. Similar difficulties are encountered in assessing the performances of parks and recreation programs, vehicle maintenance programs and some health programs. We know from experience that some elected and appointed officials are reluctant to share information, even though they may be required to do so by law. In part, this is due to the time involved in responding to inquiries of this kind. Further, some elected and appointed officials fear the manner in which data could be used. They are concerned, perhaps correctly in some cases, that requested data could be used to portray a city, town or an individual department unfairly. This further complicates the data gathering process and, as a result, complicates research into the effectiveness and efficiency of local government.

and support personnel. Another 7 percent was devoted to service contracts of various kinds. The remainder was allocated to supplies and capital expenditures. Second, the judiciary constitutes an independent branch of government, so the County Council approves budgets but has no direct power to impose fiscal discipline over the courts.

To assess efficiency in court administration, we gathered data pertaining to costs and caseloads. We compared Lake County data with data from Allen, Marion, and Tippecanoe counties. We found that costs per case in Lake County are not out of line (see **Figure 5**). Nevertheless, the high volume of cases that comes before Lake County courts contributes to high overall costs.

Gauging Government Efficiency: Universal Lessons

Points of comparison are essential in assessing public sector performance. Typically, one, two, or three points of comparison are employed.

- ▶ **Previous Performance:** Three-year, five-year, and ten-year comparisons are often employed in indicators reports. Multiple data points facilitate the identification of patterns (e.g., long-term trends, cyclical swings, and temporary aberrations).
- ▶ **Targets:** A comparison against a target or goal can also be

effective, particularly when used in combination with trend data. In fact, three benefits are associated with the use of targets or goals. They can prompt decision makers to envision more efficient or effective performance. The following kinds of questions can thus be posed: How much crime will the community tolerate? How much is it willing to pay for easier access to various services? To what extent should the community underwrite such “quality of life” services as parks and recreation programs? Answering these kinds of questions can lead to the development of a collective vision pertaining to public sector performance.

- ▶ **Peer Comparisons:** Community-to-community comparisons tend to be more problematic than the trend and goal comparisons. Some communities resist the natural human tendency to ask “who’s better, who’s worse?” Others believe that comparisons of this kind can spur positive action. We concur with the latter position, but recognize that significant differences from community to community are not unusual. These differences or special circumstances need to be addressed when comparative data are used.
- ▶ **Balance:** Performance data must be effectively balanced. A small

number of indicators are typically used to portray the overall efficiency and effectiveness with which a service is performed in the public sector. Such indicators, carefully selected, can suggest the need for additional information. They can also guide elected and appointed officials in setting priorities. And citizens can use this same select set of data to hold public officials accountable, a process that can involve praise and re-election as well as criticism.

Challenges in Measuring Efficiency of Spending

Five difficulties confront anyone attempting to develop a comprehensive set of performance measures pertaining to local government: (1) a lack of raw data; (2) the need to “balance” data in order to create a fair portrayal; (3) the selection of ratios appropriate to each function; (4) the temptation to ascribe inappropriate cause-and-effect relationships; and (5) the need to prompt action based on the data gathered. Each of these challenges must be addressed in any study of local government efficiency if there is any intention of ensuring effective government spending. ■

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