

## Economic Development Insight

### Property Tax Caps – Saving or Reshuffle?

*By Joan Bethell*

Most Hoosiers have heard about the HEA 1001 Property Tax Caps (a.k.a. Circuit Breaker) state legislation that was enacted in March of 2008. This law involved property tax reforms that limited the amount of property tax that could be levied which, on the surface, seems to be a wonderful concept. The flip side to it, though, is reduced revenues for Indiana counties, cities and towns.

Don't get me wrong. I like tax cuts just as much as anybody but, sooner or later we have to accept that this legislation was not truly a tax cut but a reshuffle. Local governments are now trying to figure out how to cut budgets and provide vital public services with less. Their options are varied but fall into one or other of the following categories: alternate revenues, expenditures, services, personnel/staffing.

The Indiana Association of Cities and Towns is a not-for-profit organization that represents municipalities before state lawmakers, and provides education and information to its more than 460 municipalities that are members. Currently IACT is conducting a survey to determine what alternatives are being considered or implemented by local governments. This survey, called the HEA 1001 Collateral Damage Survey, will show to what extent municipalities are utilizing the various options.

The survey hopes to determine the degree to which municipalities are establishing and/or increasing user fees, such as those for the use of parks, recreation, pools, golf or senior/youth facilities, permits for building or development, and fees for water, sanitary sewer, storm water, solid waste/garbage collection/recycling, fire hydrants, parking, cemetery and emergency medical services.

Additional revenues can also be derived by imposing local option taxes, such as on income or wheel tax/auto surtaxes. Most local governments dislike even the thought of another tax, especially during a recession and even more so, if the community has been hard-hit by company closings and employee lay-offs.

Generally, municipalities are making every effort possible to reduce expenditures by limiting purchases and supplies, reducing or eliminating contractual services, postponing or suspending projects and extending replacement schedules on equipment and vehicles. However, this option is particularly difficult for a municipality that has historically been careful to keep spending to a minimum. Other expenditure cuts can be achieved by the use of Joint Purchasing Programs. Another option is to reduce funding for outside agencies and community groups but, like all options, there are pros and cons. Take the Humane Society as an example. If their funding is cut and it's forced to reduce services, are we prepared for an increase in stray dogs and feral cats in our neighborhood?

Reduction in, or elimination of, services is another area in which costs can be reduced. This can include maintenance of facilities (parks, libraries, golf, pools, government offices), infrastructure

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for roads and utilities (replacement/new capacity needs for water/sewer/storm water), reduced garbage/recycling services or decline in general economic development incentives (ouch!) More creative service cost reductions include consolidation of services with other entities, out sourcing and use of volunteers. (Again, remember the pros and cons of everything, for example, a volunteer fire department means slower response time, greater potential for loss and increased insurance premiums, besides the fact that those fire fighters have added to the ranks of the unemployed.)

As for the personnel issues, fringe benefits are an easier target than the dreaded staff layoffs. Hiring freezes and incentives for retirement are other alternatives. Many mature workers may want to stay in the job market and, even though their lifetime-accumulated skills are valuable, budget constraints will require them to leave their government job and we'll see them when we say 'Hi' to the friendly face who bags our groceries.

Each community will have to decide which combination of alternatives best suits its needs but, no matter what choices are made, someone is not going to be happy. Nevertheless, let's be real, folks – there's no free ride. We can't have our cake and eat it, too. If we want a service, we have to pay for it, one way or another.

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