

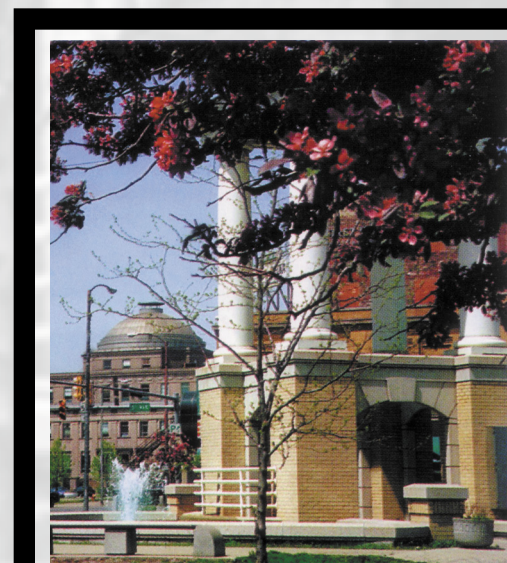


Lake County

Government Finance Study

Efficiency and Effectiveness in Government

A Study of Municipal and County Government in Lake County, Indiana



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Lake County Government Finance Study

Efficiency and Effectiveness in Government

A Study of Municipal and County Government in Lake County, Indiana

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Foreword

In spring 2004, new assessments of property values were released in Lake County, Indiana. Changes over time in the uses and market values of land and a new method of assessment mandated by the Indiana Supreme Court caused the assessed value of some properties—especially in the northern portion of the county—to rise by unprecedented amounts. These property assessments were used in calculating property tax bills for the 2002 tax year.

In addition, beginning in the 2002 tax year, 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 significantly higher than they had been in the past—in some cases, 700 to 800 percent higher. Some residents and business owners expressed 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. Some observed that the most direct way to reduce taxes would be to reduce local government budgets. Turning this simple proposition into reality, however, is a very complicated and long-term undertaking.

In the view of the authors of this report, any comprehensive effort to address the challenge of financing local government should be based on credible data and careful analysis, not on simplistic assumptions. The study described in the pages that follow was based on this principle.

The Study Team

A study team was assembled with expertise in taxation, government finance, economics, and data analysis to carry out the needed research. The team members, who are identified in the acknowledgments section of the report, were drawn from Partners for Good, LLC (a Gary, Indiana, consulting firm), the Indiana Business Research Center (a unit of Indiana University’s Kelley School of Business), and two units at Indiana University Northwest: the Center for Sustainable Regional Vitality and the Northwest Indiana Local Government Academy.

The Project

The team developed a comprehensive proposal that was presented to the business community, professional organizations, community groups, and local governments in search of funds to carry out the work. The planned research would generate data and comprehensive analyses to guide policy recommendations for consideration by taxpayers and by business and government leaders committed to equitable property taxation.

Newspaper Articles, Report, and Website

As the team pursued its research, early findings were published in a series of twenty articles that appeared in local newspapers, authored principally by Dan Lowery. Several of the articles explored different aspects of local government spending, while the others addressed such topics as tax relief and tax rates.

The report that follows presents the ultimate findings and conclusions of the study. Some detailed data and analyses were too voluminous to be included in the printed report, but are available on the study website: www.ibrc.indiana.edu/lakegov.

Just a Beginning

This report is by no means the conclusion of study of the local government finance in Lake County. Quite the contrary, it provides a foundation for further discussion and action on the part of local and state taxpayers and leaders who want governments that operate efficiently and deliver good value for the tax

dollar collected. As noted above, improving government efficiency and achieving an equitable property tax system will require a long-term commitment on the part of many.

Thus, the Lake County Government Finance Study should be viewed as a continuing project to illuminate the costs and funding of local government. This work will be continued by the study team and by others, including a new initiative led by Congressman Pete Visclosky to examine municipal spending in Lake County in greater depth. The work to engage the public of the region in discussion of this study's findings and recommendations, both now and over the long term, will be led by IUN's Local Government Academy. The findings of the study will also be shared with the Indiana General Assembly to use as that body contemplates property tax reform in the 2005 session and beyond.

Perhaps this work will inspire similar efforts in other parts of Indiana. The data collected for this project will be maintained and updated in the future by the Indiana Business Research Center, which aims to compile similar data for all parts of the state. Over time, we hope to build a comprehensive database that will enable citizens and policy makers to be fully informed as they strive to make Indiana governments as effective and efficient as possible.

Indiana Business Research Center
 Center for Sustainable Regional Vitality
 Northwest Indiana Local Government Academy
 Partners for Good, LLC

Abbreviations and Terms Used in This Report

2001p2002	Taxes assessed in 2001, payable in 2002.
ABC	Activity Based Costing
Big Four	BP Products, U.S. Steel, Ispat Inland, and ISG
BPR	Business Process Re-Engineering
Deduction	A property tax deduction reduces the assessed value of taxable property.
DLGF	Department of Local Government Finance
Exemption	All or part of a building is exempt from property taxation if it is owned, used, and occupied by a person for educational, literary, scientific, religious, or charitable purposes.
FTE	Full-Time Equivalent Employee
GAV	Gross Assessed Value
HEA	House Enrolled Act
NAV	Net Assessed Value
PTRC	Property Tax Replacement Credit
Personal Property	All tangible property, other than real property, used in business.
Real Property	Land and improvements considered permanent fixtures.

Acknowledgments

A study of this complexity required a collaborative effort involving several areas of expertise. A team of researchers representing a variety of disciplines was thus assembled to conduct the study. In addition, several individuals and organizations outside of the research team contributed valuably to the success of the study. All these parties are identified below.

Research and Report Team

Indiana University Northwest

- Christopher Antonio, Research Analyst
- Ed Charbonneau, Executive Director, Northwest Indiana Local Government Academy
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Partners for Good, LLC

- Tracey Foreman, President
- Michael Greenwald, Partner
- Morton J. Marcus, Partner

Communications Support

The two major daily newspapers of the region—*The Post-Tribune* and *The Times of Northwest Indiana*—provided a significant service to the community by publishing our weekly tax and finance articles over a five-month period during the summer and fall of 2004.

Funding Support

Financial support for this study, without which it would not have been possible, came from a broad base of private and public sector entities, associations, and local chambers of commerce:

- Bank Calumet
- Bank One
- BP Products
- City of Whiting
- Greater Northwest Indiana Association of Realtors
- Horseshoe Casino
- International Steel Group
- Ispat Inland
- Lakeshore Chamber of Commerce
- Mercantile Bank: A member of the Harris group of companies
- Miller Citizens Corporation
- NIPSCO
- Sand Ridge Bank
- The Times of Northwest Indiana
- Tugtel Communications
- United States Steel Corporation

Advisory Council

An Advisory Council was established at the onset of the study to provide counsel, review, and support for the study. Their commitment and guidance in promoting clear, objective analysis of a complex array of data are gratefully acknowledged.

- Larry Acheff, Director, Lake County Library
- Gene Ayers, Ayers Realty
- Tom DeGiulio, Munster Town Manager
- Tom Galovic, President, Mercantile Bank
- Michael Griffin, Highland Clerk-Treasurer
- Tom Keilman, Director of Public Affairs, BP Products
- Joe Kosina, former President, Lakeshore Chamber of Commerce
- Jim Martin, Miller Citizens Corporation Spokesman
- Mary McShane, Dyer Town Council Member
- Nancy Smith, Executive Vice President, Greater Northwest Indiana Association of Realtors
- Will Smith, President, Lake County Council
- Bill Timmer, Highland Fire Chief
- Garnett Watson, Gary Chief of Police

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Special thanks are due to the many individuals, governmental units, and organizations that made information accessible and assisted in the interpretation of data. We gratefully acknowledge the generous support of these and many other individuals and organizations.

In addition, the study team would like to thank the following organizations for providing significant insights that facilitated the work of this study:

- Lake County Assessor
- Lake County Auditor
- Lake County Surveyor
- Lake County Treasurer
- Town of Highland
- Indiana Department of Local Government Finance
- Indiana Legislative Services Agency
- Center for Urban Policy and the Environment, IUPUI

Accessing This Report

Copies of this report may be viewed and downloaded at www.ibrc.indiana.edu/lakegov. This document was produced by the Indiana Business Research Center with support for printing from the Northwestern Indiana Regional Planning Commission.

Executive Summary

In 2004, property assessments issued for Lake County, Indiana, caused much concern among citizens who feared that their property tax bills would increase greatly compared to past years. Much public discussion ensued about the impacts of court-ordered property reassessment and the concomitant changes in tax policy that were enacted by the legislature in an effort to address perceived inequities and buffer taxpayers from the shock of big tax bill increases. Questions were raised as to who benefited and who suffered from reassessment and from changes in deductions, credits, and tax levies. This led to additional questions about whether the cost of local government in Lake County is too high.

The Lake County Government Finance Study was initiated to answer these questions. The study was conducted by an interdisciplinary team of researchers from the Indiana Business Research Center at Indiana University's Kelley School of Business, the Center for Regional Sustainable Vitality at Indiana University Northwest (IUN), the Northwest Indiana Local Government Academy at IUN, and the consulting firm Partners for Good.

Conducting the Study

The **revenue** aspect of local government finance was studied by examining real property tax data covering the year before and the year after reassessment, compiled for each of the quarter-million parcels in Lake County. These data were analyzed to determine how and why tax bills changed from one year to the next for the county as a whole and for each unit of local government. In addition, the impact of various demographic factors on changes in the bills was examined, as was the application of the 2 percent cap on property taxes that was enacted to soften the blow to residential taxpayers.

To more fully understand property tax changes and their role in funding local government, the study also investigated the **spending** side of the fiscal picture—that is, the efficiency and effectiveness with which local government units carry out their functions. Budget and operational data were analyzed for the county itself as well as for Lake County's cities, towns, townships, school districts, and various special taxing districts. These analyses looked for, and found, meaningful differences across local government units in the costs of providing their services.

Before and After Reassessment

Data were analyzed at both the county and the sub-county levels. Looking at the county as a whole, the basic change occurring in conjunction with reassessment was that a 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. Additional findings at the county level include:

- Levies rose by \$9.6 million or 1.2 percent.
- Gross assessed value of property rose by \$13.5 billion or 97 percent.
- Number of parcels increased by 1,083 or 0.4 percent.
- Gross assessed value of real property rose by \$13 billion or 127 percent.
- Exemptions and deductions increased by \$4.3 billion or 142 percent.
- Net assessed value of real property grew by \$8.7 billion or 120 percent.
- Taxes billed for real property rose by \$52.5 million or 12 percent.
- Average tax bills went up \$203 or 11.5 percent.
- Effective tax rates declined by 51 percent.
- The 2 percent tax cap applies to more than 31,000 homes and reduces residential tax bills by over \$16 million.

Some of these patterns appeared different, however, when examining individual cities, towns, and townships. Key findings at these sub-county levels include:

- Levies rose in all but three incorporated places.
- Personal property's share of gross assessed value declined in every community and township.
- Net assessed values doubled everywhere except Gary and East Chicago.
- Taxes billed increased by widely differing rates.
- Average residential tax bills increased by less than \$250 in nine of nineteen communities.
- The effective tax rate for residential properties exceeds 2 percent in five of nineteen communities.
- The 2 percent cap affects mainly just three communities.

Assessing Local Government Performance

The study examined a variety of issues pertaining to the challenging matter of how to evaluate the performance of local government units. Attention then turned to analyzing data on local government efficiency and effectiveness, which was done both by function (schools, libraries, public safety, the courts, poor relief, and parks and recreation) and by taxing unit (cities and towns, townships, school districts, and special taxing districts).

The analyses by function found substantial variations among government units in how efficiently they carried out specific functions. These findings are explored in depth in the report of the study; some highlights of interest include:

- 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. Additionally, Whiting is a special case. High costs there appear to be attributable to the school district's small size rather than to high overhead costs.
- On a per capita basis, the East Chicago Library has the highest personnel costs of all the state's 239 public libraries, Whiting has the second highest, and Gary has the twenty-ninth highest personnel costs in the state.
- With two exceptions, operating costs in police departments in Lake County and crime rates appear to be roughly in balance. Whiting's police department, however, does stand out as a high-cost department, while expenditures appear to be low in Gary, given the level of criminal activity reported there.
- Due to a wide variety in services performed and data tracked, comparisons across different fire departments are difficult. However, firefighting costs appear substantially above average in Hammond and East Chicago.
- The cost of running the Lake County jail facilities is somewhat higher than for many comparable Indiana counties. The relative costs of police services provided by the Lake County sheriff's department vary, depending on how they are measured.
- Lake County's courts consume a significant portion of public funds (\$18.6 million in 2003). However, on a per-case basis, they are relatively low in cost compared to several peer counties, although this figure varies greatly with the type of court.
- Expenditures on parks and recreation programs in Whiting and East Chicago were exceptionally high in 2003.

Analyses of the efficiency and effectiveness of different taxing units led to many additional findings of interest, most of which are too detailed to enumerate in this executive summary. The full report provides detailed breakdowns of 2003 municipal budgets; some interesting observations include:

- Excluding police and firefighter pensions, towns and cities in Lake County spent, on average, \$359 per resident. Two cities greatly exceeded this average: the City of Whiting spent \$1,071 per person and the City of East Chicago spent \$634 on a per capita basis.
- The per-capita costs charged to the Whiting mayor's offices are double the level in any other city in Lake County. Similarly, Cedar Lake's per capita costs for its town council are double the next-highest city or town in the county.

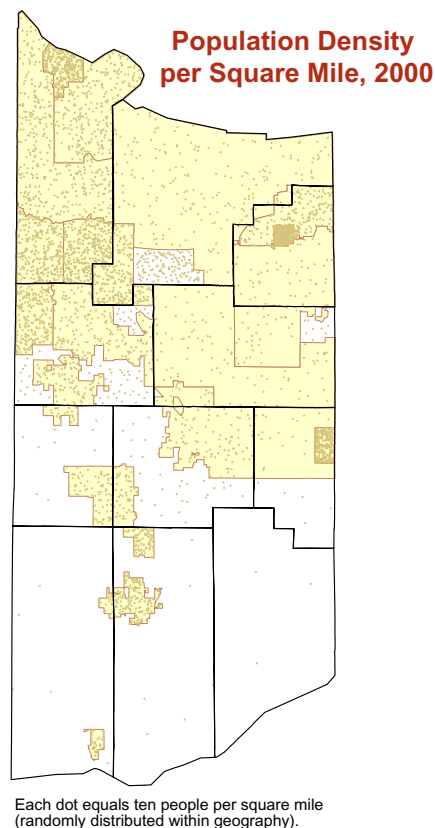
Recommendations for Action

After extensive analysis of both property tax changes and local government efficiency and effectiveness, the study team developed a set of recommendations stemming from the findings of its research. These recommendations are summarized briefly below:

1. All units of local government in Lake County should participate in the business process re-engineering (BPR) initiative being developed at the prompting of Congressman Peter Visclosky and others.
2. The Indiana Department of Local Government Finance should encourage—if not require—the use of activity-based costing procedures by local governments.
3. The General Assembly should permit units of local government to develop and submit biennial budgets.
4. The Northwestern Indiana Regional Planning Commission should sponsor the creation of several functional task forces (e.g., police departments, fire departments, the courts, township trustees, etc.) and charge them with developing common sets of performance indicators for tracking performance of various kinds over time.
5. Improve efficiencies and consolidate services in East Chicago and Whiting.
6. Examine county sheriff and jail expenditures.
7. The Lake County courts should initiate a study of their high caseloads and costs with an eye toward improving efficiencies.
8. The Lake County Council should establish three new departments: (1) a human resources department, (2) a management information systems office, and (3) an administrative services department. These new units should be professionally staffed and develop policies and procedures, accountability tools, and performance and spending reports for the county council and the county commissioners. Departments not headed by elected officials should be required to engage the services of these new entities; elected officials should be encouraged to use their services.
9. Action should be taken by the State to consolidate township assessor services at the county level.
10. Action should be taken by the State to shift the responsibility for poor relief programs from the townships to the State.
11. Promote efficiency and effectiveness in all units of local government. School systems and libraries, in particular, which account for a significant portion of the property tax bill, should be encouraged to take part in the BPR initiative proposed above.
12. Public employees should be barred from serving on decision-making bodies, such as town councils, in communities in which they serve.

13. The Big Four firms that benefited from tax changes adopted by the General Assembly should publicize information concerning any capital projects attributable in whole or in part to the improved tax positions they enjoyed as a result of special legislative treatment.
14. Promote economic development through the adoption of a local option income tax.
15. The tax cap enacted on a temporary basis in 2004 should be extended through fiscal year 2008. It should, however, be amended in two ways: (1) it should be applied to rental units and commercial properties as well as to residential properties; and (2) in order to finance this broader coverage, the cap should be increased to 4 percent of GAV from the current 2 percent. Additionally, the shift in the tax burden resulting from the application of the property tax cap should be borne by taxpayers within the taxing units in which those benefiting from the cap reside.
16. All nongovernmental property holders, including nonprofit organizations, should be required to pay a modest fee for municipal services (refuse collection, road maintenance, public safety, etc.) if they are otherwise exempt from paying property taxes.
17. Casino revenues should not be used to provide property tax relief.
18. The General Assembly should acknowledge the principle that all Hoosiers should share equally in the costs of federal welfare programs.
19. Property tax bills should be revised, as needed, to show how much of the tax bill is allocated to each taxing unit in the taxpayer's tax district. Moreover, the state should develop mandatory standards for providing detailed information on property tax bills that clearly shows taxpayers how all the information was applied in determining the final tax due.

For a more exhaustive analysis of local government finance issues in Lake County, the reader is directed to the full report of this study which, along with additional materials, is available on the Web at www.ibrc.indiana.edu/lakegov.



Introduction: A Crisis in the Making

In mid-2004, a seismic event struck Lake County and certain other areas of the state of Indiana, causing major repercussions for the homes and businesses of many Lake County residents.

2002 Property Tax Bills

The “event” was the issuance by the Lake County township assessors of the reassessed value of every parcel of real estate in Lake County. The reassessed values provided the basis for property tax bills for the year 2002, payable in 2003 (2002p2003). These were the first tax bills calculated using a new reassessment formula. (Delays in completing the Lake County reassessment and in the calculation of the tax bills by the Lake County Treasurer caused the 2002p2003 tax bills to be issued substantially later than usual.)

As soon as the reassessed values were published, rumblings were heard about the potential for alarmingly high property tax bills. The rumblings spread when the tax rates for 2002 were certified, and when the actual 2002 property tax bills hit, the impact became shockingly real.

For some Lake County property taxpayers, the 2002 tax bills were nothing special—a few dollars more (or even less) than they had been. But other property owners saw their tax bills soar. One out of ten Lake County homeowners received tax bills at least 335 percent higher than they had been the year before. Some homeowners in Gary, Hammond, East Chicago, and Whiting saw increases of as much as 700 percent, as did some owners of retail and commercial properties. To these property owners, the affordability of owning real estate in Lake County suddenly seemed threatened.

Aftershocks

Homeowners

Some home-owning families who had paid their property taxes via mortgage companies or banks found that their monthly payments were increased by hundreds or even thousands of dollars. Citizens of limited means may have had to choose between paying the higher taxes and paying for other necessities such as health care or clothing. Some chose to sell their homes and move away. At the same time, the specter of soaring tax bills seemed to reduce the number of buyers in the real estate market. With growing urgency, sellers lowered their asking prices and ended up selling their houses for much less than they had expected. Some home sales fell apart when buyers realized that they were facing huge tax payments.

Retail and Commercial Owners

Owners of retail, commercial, and apartment properties hit with big tax increases felt compelled to raise rents significantly, which in turn imposed new burdens on their tenants and, in some cases, evictions. Some were unable to find new tenants willing to pay enough rent to cover the higher tax payments. In some cases, retail and commercial landlords were forced into foreclosure.

Beyond Taxpayers

Property owners were not the only ones whose pocketbooks suffered. As business owners who leased space saw their rents rise when lessors passed along the tax increase, some of them raised their own prices to cover the higher costs of doing business. In some cases, businesses failed because patrons could not or would not pay higher prices or fees.

The Community

Public concern about property taxes does not develop at a single moment. It moves in waves as different groups see the effects of tax changes over time. Homeowners may not see their tax bills, which are sent

to mortgage companies, and may not realize the impact of higher levies or assessments until they are notified of higher monthly payments to cover escrowed accounts.

Renters of residential and commercial properties may not perceive how higher taxes are affecting them until notice comes of higher monthly amounts in lease renewals. Or they may see only reduced maintenance of the property as owners try to reduce costs when they find themselves unable to obtain higher rents.

Finally, the influence of property taxes may be realized only by the persistent vacancy of lots and buildings. When new owners are unavailable and existing owners are unwilling to invest in properties, the community can enter a period of long-term decline. Structures become unsafe and unsightly. Lots are left empty and untended. These long-term effects often are not anticipated and may be difficult to reverse.

Why? How? Who's to Blame?

Lake County residents naturally started to ask, “Why is this happening? How did this happen to us? Who is to blame?” The questions were often as emotional as they were complex. Threatened with loss of shelter, livelihood, or property, taxpayers looked for someone to blame—usually elected officials or big industry.

In response to voters’ accusations, elected officials—who often seemed as bewildered about cause and effect as their constituents—sought politically acceptable, even if inaccurate or incomplete, explanations of the crisis. In response to the outcries of owners of commercial property and homes, the so-called “Big Four” industrial corporations—U.S. Steel Corporation, Ispat Inland, Inc., International Steel Group, Inc., and BP Products North America, Inc.—pointed to historical tax inequities and the 1990’s insolvency of the steel industry to explain their support of state legislation that contributed to the high tax bills. One community organization filed suit seeking a ruling that a law mandating a special reassessment process for Lake County was unconstitutional. (On January 13, 2005, the Indiana Supreme Court ruled against the community organization.)

No Scapegoats

In the view of the authors of this report, “Who’s to blame?” is not a useful or meaningful question. True, blame-laying is a tempting exercise because the alternative—organizing a comprehensive investigation, asking the right questions, gathering the essential data, performing appropriate analyses, and crafting explanations that are understandable and meaningful—is hard work. In contrast, identifying scapegoats, while simple, will neither uncover facts nor point the way to practicable solutions.

Shedding Light

Economic Trends

Useful answers to “Why?” and “How?” are complicated. At the most fundamental level, the answers have to do with changes in Lake County’s economy during the past hundred years, primarily a shift from agriculture in the south and industry in the north to commercial and residential activity throughout the county. Changes in the global and national economics of steel and oil, agricultural decline, residential development, population shifts, and employment patterns all underlie changes in the use and value of Lake County property.

Litigation, Laws, and Agency Action

We must also examine actions taken independently by the courts, the state legislature, and state, county, and municipal agencies because these also shed light on how this situation came about. In 1998, the

Indiana Supreme Court declared unconstitutional the manner in which Indiana property had been assessed and mandated that all property in Indiana property be reassessed at fair market value.¹

The state legislature then enacted “reassessment statutes,” mandating that all property in Lake County be reassessed by an outside contractor and that industrial facilities owned by the Big Four be reassessed separately and taxed according to “special rules,” not by the local township assessors as was historically the case, but by the State Board of Tax Commissioners or its contractor.² The legislature also increased the homestead deduction to \$35,000 from \$6,000. (The homestead deduction, up to \$35,000, is granted upon application by homeowners for their primary residence. It reduces the net assessed value and thus the homeowner’s tax bill, while shifting a corresponding portion of the overall tax burden back onto businesses.) Significantly, the legislature also effectively mandated a reduction in the value of business personal property and equipment owned by the Big Four.³

At the same time, U.S. Steel and the Calumet Township Assessor were feuding over property tax disputes going back to 1994 and involving tens of millions of dollars. In late December 2004, the Indiana Supreme Court approved a settlement of these disputes.

The Boehm decision and the reassessment of Lake County properties carried out under HEA 1902 (2001) resulted in dramatic increases in the assessed values of non-industrial Lake County properties that historically had been under-assessed using old, unconstitutional assessment methods. The higher reassessed values of non-industrial properties, combined with the separate reassessment of the Big Four’s real property and the Big Four’s low assessment of their business personal property, led to substantial reductions in the Big Four’s 2002p2003 property tax bills. Meanwhile, the costs of government in Lake County generally continued to rise. All these factors together created a recipe for a property tax crisis.

Net Assessed Value Times Tax Rate Equals Tax

To understand the Lake County tax crisis, one must grasp the following formula that determines the tax bill for each parcel of real property:

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

The net assessed value of a property is the gross assessed value placed upon the property by the assessor minus applicable deductions, such as the homestead deduction. Applicable credits may further reduce the tax bill.⁴

The property tax rate for a given taxing district is calculated by dividing the budgeted net cost of government for the district (that is, its levy, or total cost less any revenues not derived from property taxes) by the total net assessed value of all taxpaying properties within the district:

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

Using these formulas, it is somewhat easier to understand more specifically what has happened:

- Where net assessed values have risen, taxes collected have gone up even if the tax rate remained steady.
- Where net assessed values have risen and tax rates also have risen, taxes have gone up substantially.
- Where the cost of government has risen, tax rates (and therefore taxes) have gone up even if total net assessed value has remained steady.
- Where the cost of government has risen and total net assessed value has remained steady or decreased, taxes have gone up substantially.

In taxing districts where legislative action caused large reductions in the net assessed value of the Big Four's industrial facilities, and where the higher homestead deduction reduced many residential tax bills, the total net assessed value of all property decreased (even taking into account the substantial increase in the net assessed value of some non-industrial properties). For these taxing districts, the net result was a substantial reallocation of the tax burden from the Big Four to non-industrial taxpayers along with a large increase in the district's tax rate.

Focus of This Study

In light of these tax-burden shifts, some have questioned the fairness of the legislature's tax reductions for the Big Four. However, detailed investigation of the history and origins of the relevant statutes are beyond the scope of the present report. The broader questions have to do with the financing of local government and how efficiently and effectively local governments use their resources.

This study examines in detail the two main influences on local government budgets—the revenues raised through property taxes and the expenditures on local government functions and activities. Property tax data were collected for every one of the quarter-million parcels in Lake County for the year prior to and the year subsequent to reassessment of property values (2001p2002 and 2002p2003). These data were then analyzed thoroughly to evaluate the impacts on property tax bills of property reassessment, changes in government units' levies, and legislated "remedies" to reduce the pain of large increases in property owners' tax bills.

In addition, data were compiled on the expenditures, by function, of Lake County government and each of its cities, towns, townships, and school and library districts. Analyses of these data enabled comparisons across jurisdictions in the cost of providing the local services for which property owners pay their taxes.

Organization of the Report

The report that follows presents key data and analyses, together with implications and policy recommendations relating to property taxation and local government efficiency in Lake County. It is organized into four main sections:

Section I provides a background for understanding the rest of the report, including developments leading up to the property tax crisis, an overview of Lake County's local governments, and explanations of the workings of local government finance and property tax bills.

Section II examines the changes in property tax bills and in the levies set by local governments in Lake County before and after reassessment. It also explores the potential impacts of imposing a cap on annual increases in property tax bills.

Section III analyzes the effectiveness and efficiency of Lake County's local governments by function (e.g., public safety, courts, and libraries) and by taxing unit (cities and townships). This section also presents demographic profiles of the county's taxing units.

Section IV of the report presents concluding observations and policy recommendations emanating from this research. Finally, the appendix offers recommendations regarding data that should be compiled regularly for Lake County and its taxing units to facilitate monitoring local government efficiency and property tax effects over time.

Disclaimer

The task of assembling this document has been challenging, time consuming and very rewarding. However, the most stimulating part of the process has been developing the recommendations contained in Section IV of the report, many of which involved spirited debate. While we feel comfortable as a team

publishing these recommendations, we must note that we did not reach consensus on every one of them. Most of us agreed with all of them, but a few of us disagreed with a few of them.

The recommendations we've published are those of the team, and the team alone. No input regarding their content (other than with respect to specific data or questions of fact) was sought from anyone else. Thus, the opinions and recommendations expressed in this report do not necessarily represent the views of the study's sponsors, its advisory board members, Indiana University, or anyone else outside the study team. Readers who would like to know these other parties' views about the study findings are encouraged to ask them directly.

Notes

1. *Boehm v. Town of St. John*, 675 N.E.2d 318, 324 (Ind. 1996). Full-text versions of cited cases, statutes and documents may be found at www.ibrc.indiana.edu/lakegov.
2. *House Enrolled Act 1902 (2001)* adding IC 6-1.1-4-32 to the Indiana Code. This legislation was enacted to address the unique nature of these industrial properties within the county's total property mix.
3. *House Enrolled Act 1858* adding IC 6-1.1-3-23 to the Indiana Code (effective January 1, 2003 (retroactive)).
4. Credits are reductions applied to tax bills after calculating the initial tax due. They provide tax relief to the property owners affected without redistributing the tax burden to other property owners. The two main credits are the Property Tax Replacement Credit and the Homestead Credit.

Components of Local Government in Lake County

Through most of Indiana’s history, units of local government had only the limited powers granted to them by the General Assembly. Over the past quarter-century, however, local governments have been imbued with broader powers as a result of home-rule legislation. As a result, today’s cities, towns, townships, and special districts are responsible for many of the functions of government that impact everyday life for Indiana citizens.

County Government

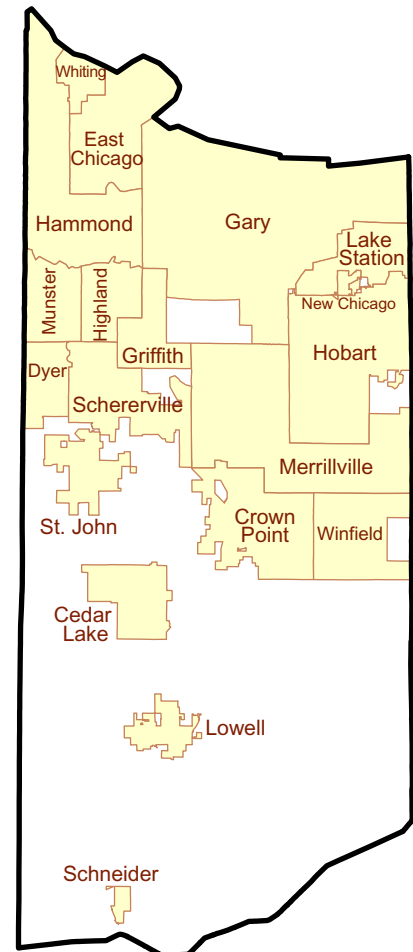
Counties administer functions such as enforcing laws in rural areas, maintaining county highways, operating county institutions, collecting taxes, operating courts, conducting elections, operating landfills, providing public health services, and so on. As Indiana’s second-largest county with 487,476 residents (2003 estimate), Lake County’s government employs nearly 2,000 full-time equivalent employees (FTE) in many different departments to carry out these responsibilities.

The functions of Lake County government employing the largest numbers of personnel are shown in the table below. The total monthly payroll for employees of Lake County (in March 2002) was \$4,608,528.

Lake County Government Employment by Major Function, 2002

Function	FTE Employment
Judicial and Legal	640
Financial and Other Governmental Administration	462
Police	311
Correction	193
Parks and Recreation	116
Other Functions	261
Total FTE Employees in Lake County	1,983

Source: U.S. Census Bureau, 2002 Census of Governments (Vol. 3, No. 1).



Cities and Towns

Cities in Indiana are responsible for police and fire protection, maintaining city streets, traffic regulation, operation of recreational facilities, public health programs, and sewage and sanitation systems. In addition, some cities operate their own school systems. Towns have similar responsibilities. Since they’re generally (but not always) smaller than cities, however, towns tend to have somewhat simpler administrative structures.

Lake County contains seven cities and twelve towns, shown in the following table and adjoining map. Given their wide range in land area and population, these places vary greatly in the size of municipal government and the scope of functions it carries out.

Lake County Cities and Towns: Population, Housing, Land Area, Density, and Municipal Employment

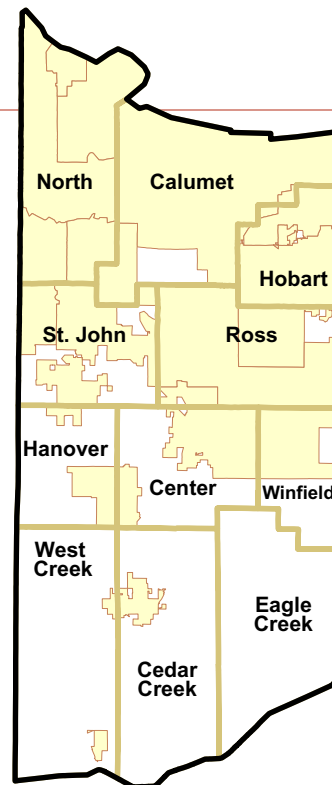
Geographic Area	2000 Population	Housing Units	Occupied Housing—% Owner	Land Area (sq. mi.)	Population Density (per sq. mi.)	Local Gov. Employees (FTE) in 2002
Lake County	484,564	194,992	69%	497.0	975.0	1,983
Cedar Lake town	9,279	3,681	73%	6.8	1,366.3	56
Crown Point city	19,806	8,166	75%	16.6	1,191.7	141
Dyer town	13,895	4,900	92%	6.0	2,331.3	NA
East Chicago city	32,414	13,261	45%	12.0	2,706.3	853
Gary city	102,746	43,630	56%	50.2	2,045.5	1,690
Griffith town	17,334	6,990	67%	7.2	2,417.7	78
Hammond city	83,048	34,139	63%	22.9	3,630.0	NA
Highland town	23,546	9,925	79%	6.9	3,428.3	140
Hobart city	25,363	10,299	80%	26.2	967.5	265
Lake Station city	13,948	5,328	79%	8.3	1,681.0	83
Lowell town	7,505	2,809	78%	4.1	1,839.2	64
Merrillville town	30,560	12,303	71%	33.3	918.2	133
Munster town	21,511	8,339	89%	7.5	2,852.8	156
New Chicago town	2,063	876	78%	0.7	3,071.3	20
St. John town	8,382	2,847	97%	6.7	1,246.6	53
Schererville town	24,851	10,006	73%	13.6	1,825.9	160
Schneider town	317	125	76%	0.9	361.0	4
Whiting city	5,137	2,313	54%	1.8	2,914.1	134
Winfield town	2,298	748	91%	12.3	186.9	NA
Lake County Unincorporated Areas	40,561	14,307	NA	253.1	160.2	NA

Source: U.S. Census Bureau. Population, housing units, land area and densities from Census 2000; Government employment from 2002 Census of Governments (Vol. 3, No. 1). Calculations by the Indiana Business Research Center. NA indicates cities or towns that did not respond to the Census of Governments or previous years' surveys of employment.

Townships

The responsibilities of townships include assessment of real and personal property for taxation purposes, administration of relief to the poor, operation of township school systems (if any), fire protection outside of cities and towns, as well as other minor functions.

Lake County is divided into eleven townships, shown in the adjoining map. The townships nearer Lake Michigan are much more populous and urbanized than those in the rural southern part of the county.



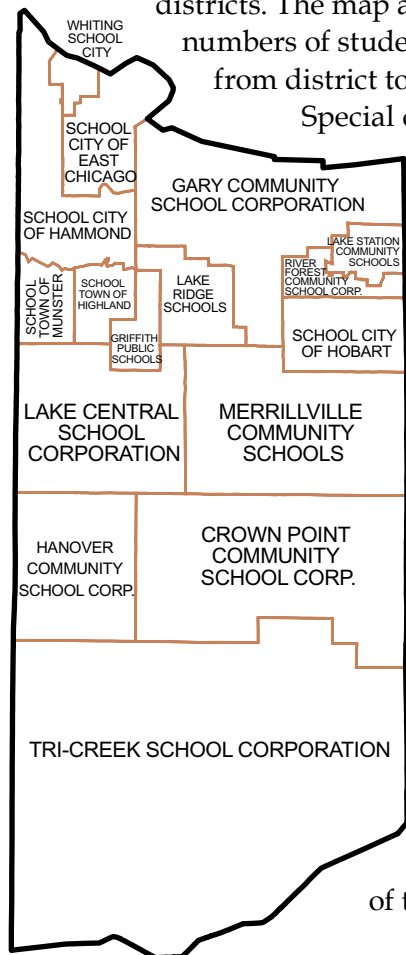
Lake County Townships: Population, Housing, Land Area, Density, and Township Employment

Geographic Area	2000 Population	Housing Units	Occupied Housing—% Owner	Land Area (sq. mi.)	Population Density (per sq. mi.)	Township Employees (FTE) in 2002
Lake County	484,564	194,992	69%	497.0	975.0	1,983
Calumet township	127,800	53,698	58%	61.8	2,067.4	196
Cedar Creek township	10,649	3,993	83%	60.0	177.4	2
Center township	26,191	10,117	79%	39.3	665.9	6
Eagle Creek township	1,695	666	91%	55.8	30.4	<1
Hanover township	8,692	3,254	81%	28.6	303.9	5
Hobart township	39,636	15,817	79%	25.4	1,561.5	11
North township	165,656	67,977	65%	51.0	3,246.4	61
Ross township	38,685	15,507	73%	49.1	788.3	16
St. John township	53,701	19,762	83%	39.2	1,370.3	<1
West Creek township	4,981	1,857	87%	62.0	80.4	2
Winfield township	6,878	2,344	93%	24.8	277.8	3

Source: U.S. Census Bureau. Population, housing units, land area & densities from Census 2000; Government employment from 2002 Census of Governments (Vol. 3, No. 1). Calculations by Indiana Business Research Center.

School and Special Districts

Although some school systems are operated by cities or towns, many are operated by independent school districts. The map at left shows the location of the sixteen school districts in Lake County. The numbers of students served by these districts and the scale of their operations vary greatly from district to district.



Special districts, established to provide specific governmental services, overlie the structure of cities, towns, and townships. Such districts manage operations of airports, sanitary districts, hospitals, libraries, courts, capital improvement projects, and a wide range of other functions. Several special districts have been established throughout Lake County.

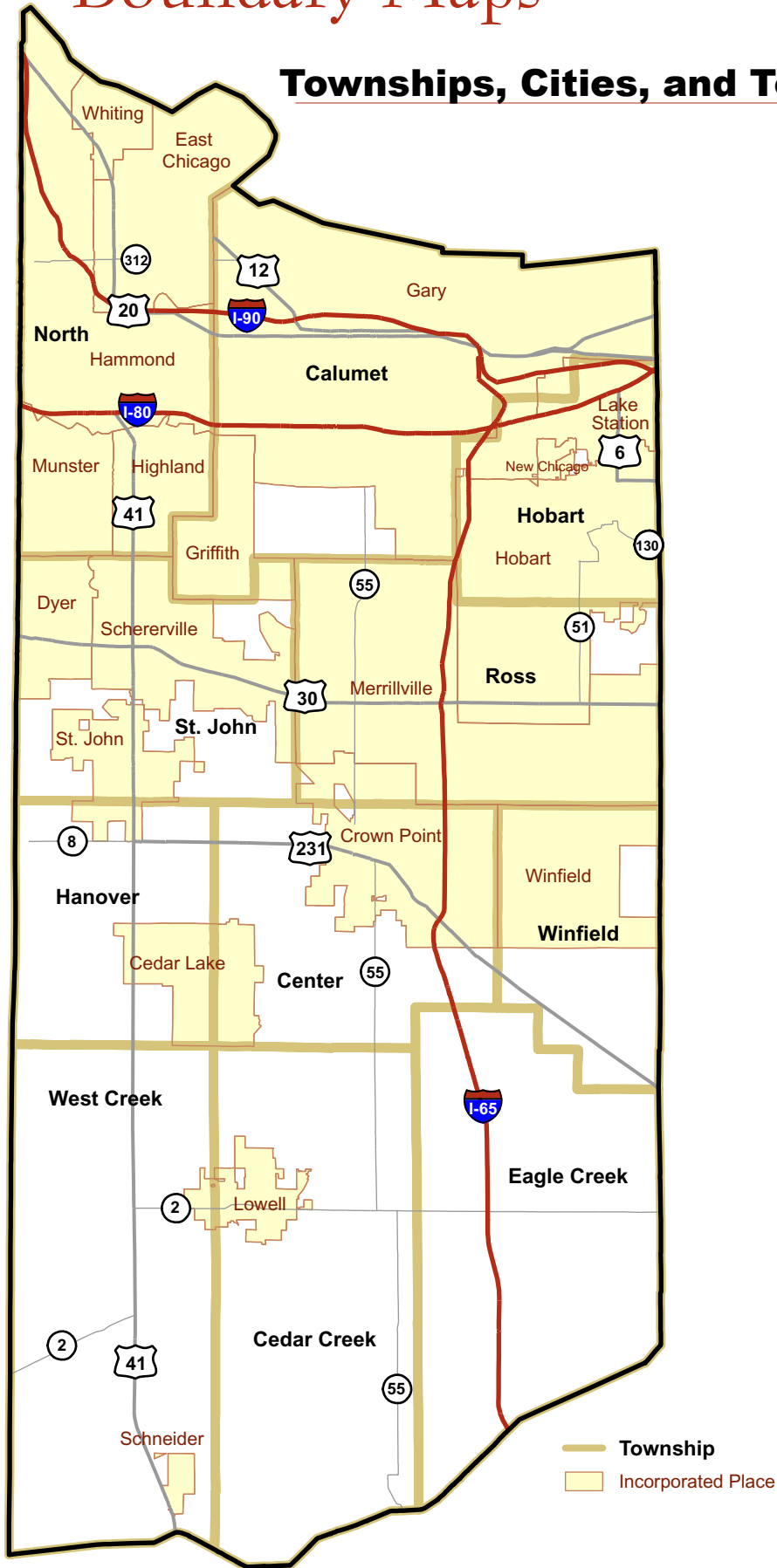
Defining the Taxing Unit

All of the governmental units described above—Lake County, its cities and towns, its townships, its school districts and special districts—receive funds for their costs of operation through the property tax system. Each governmental unit sets a budget that is approved by the state, and that determines the levy, or amount of money to be raised for the unit through property taxes.

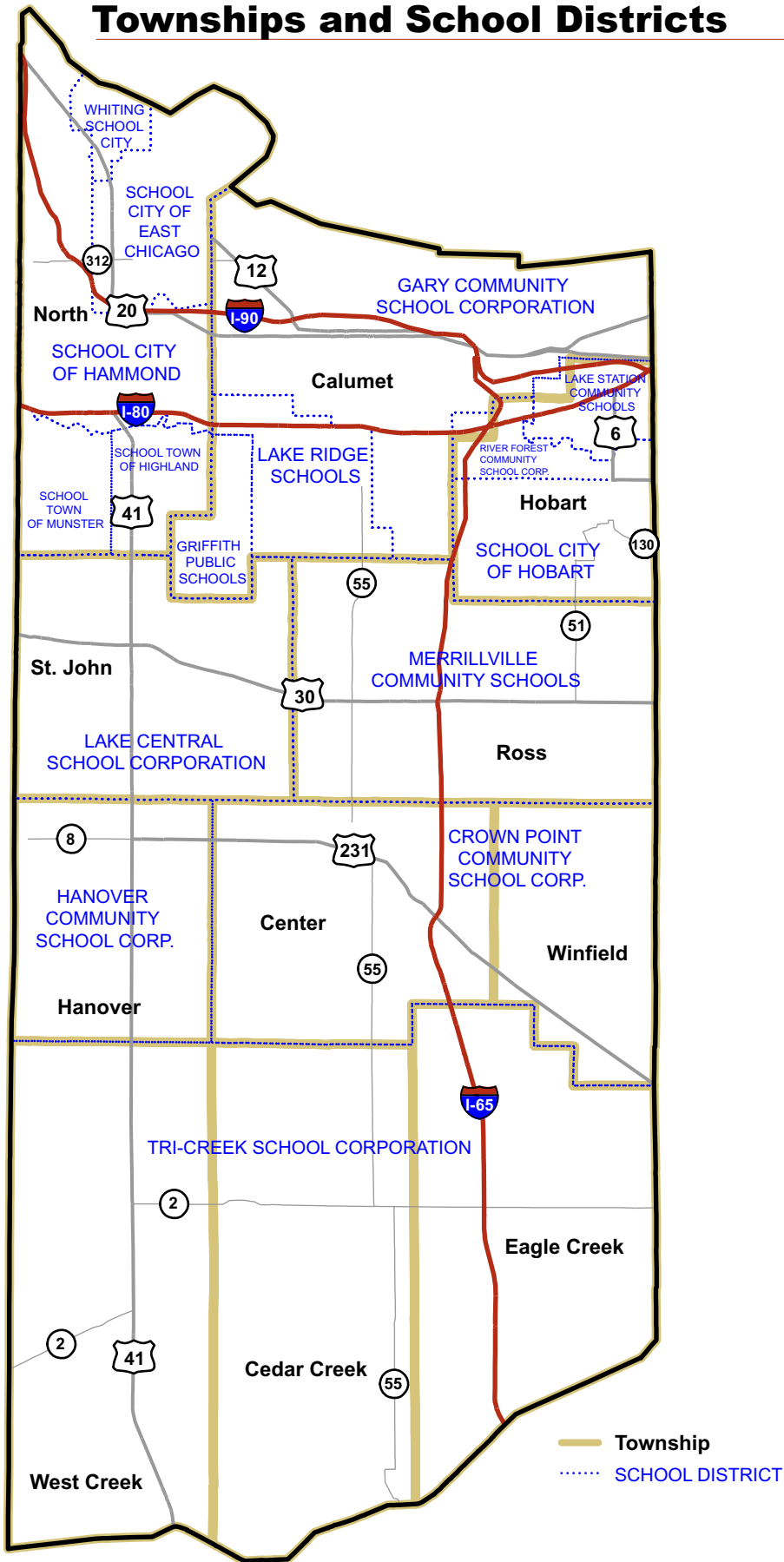
A given parcel of property will be located in multiple governmental units concurrently—at a minimum, it will be in the county, a particular township, and a particular school district. Many parcels are also in a city or town and various special districts. The property tax rate that applies to a specific parcel is thus an aggregation of the tax rates of all the governmental units in which the parcel is located. A more detailed explanation of how parcel rates are derived may be found in the section of this report titled “The ABCs of Property Tax.”

Boundary Maps

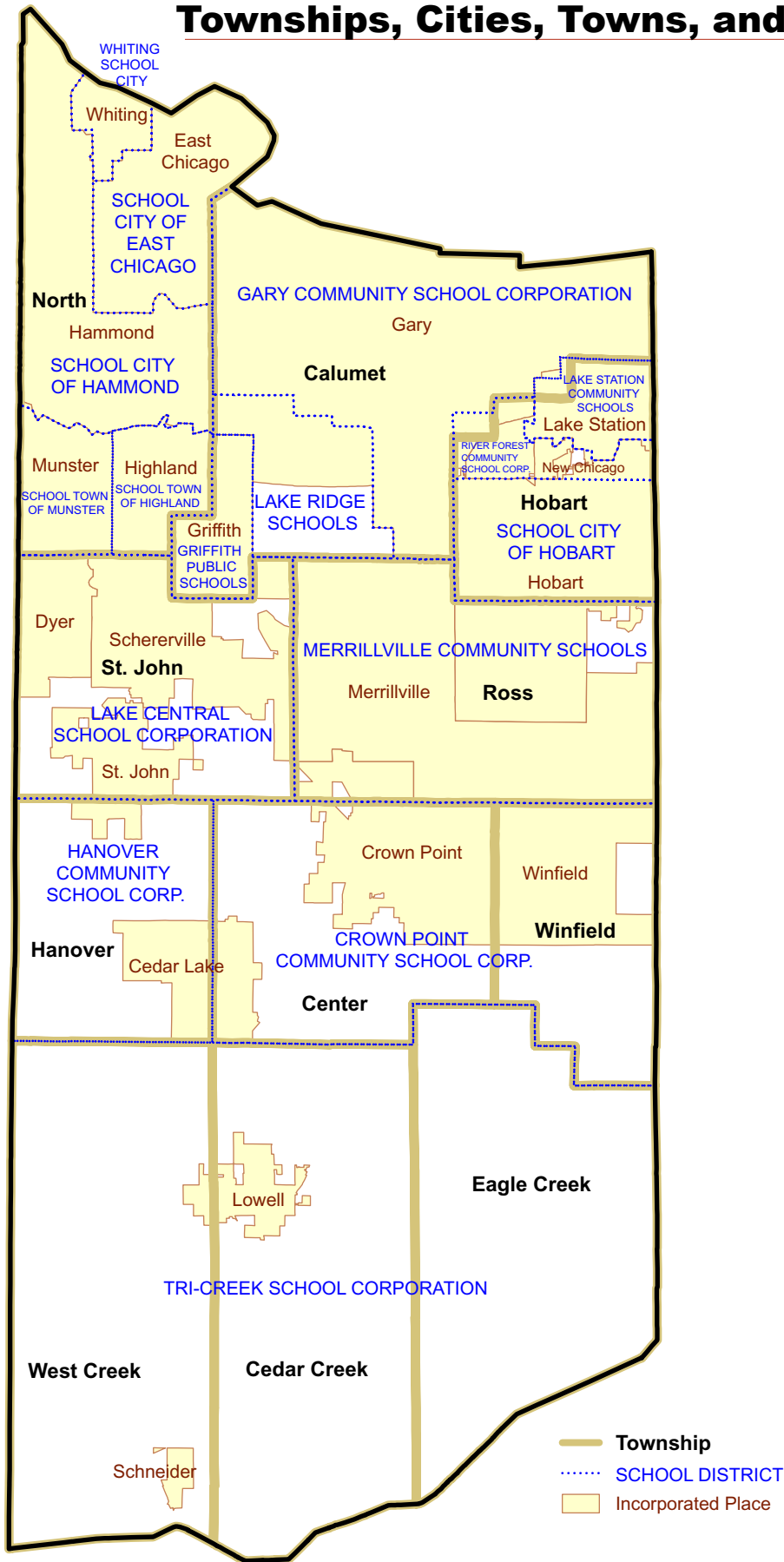
Townships, Cities, and Towns



Townships and School Districts



Townships, Cities, Towns, and School Districts



The ABCs of Property Tax

This chapter explains how property taxes are determined in Indiana and, to some extent, why the 2002 reassessment caused so many problems.

How the Process Usually Works

Determining Property Values

Assessment is the process of placing a value on property. There are two major classes of property in Indiana: real and personal. Real property consists of land, buildings, and other major permanent structures. This is what most people think of when they think of property tax. 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. However in Lake County, the 2002 assessment for most properties was conducted by a private company, Cole Layer Trumble.

The full value determined for a property is called the gross assessed value (GAV). In most cases however, this is not the value your tax is based on. Usually a property will also qualify for exemptions or deductions that further reduce its taxable value. The most common deduction is the homestead deduction for owner occupied residences. Other examples of 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

Lake County includes eighty-three **taxing units**—entities such as townships, municipalities, school districts, sanitary districts, libraries, and the like—each with the authority to receive taxes on real estate within the area it serves. The boundaries of these eighty-three taxing units overlap and, in overlapping, they form forty-five **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. For example, a home or business in Hobart might be located in an area (taxing district) that pays taxes for Hobart, Hobart Township, and Hobart City Schools (taxing units); or it might be in a different area (taxing district) that pays taxes for Hobart, Hobart Township, Hobart City Schools and the Gary Sanitary District (taxing units); or it might be located in an area (taxing district) that pays taxes for Hobart and Ross townships (taxing units).

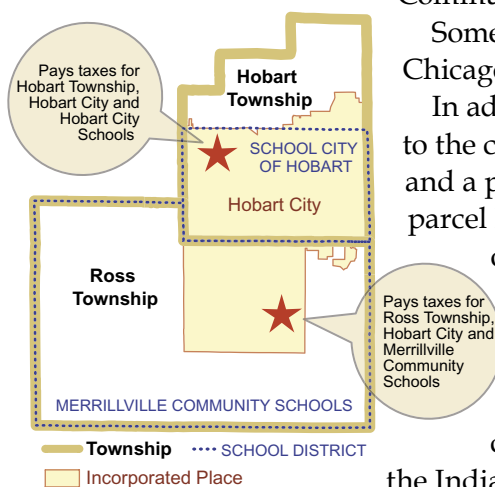
Similarly, a home or business in Lowell might be subject to taxes for Cedar Creek Township or for West Creek Township. Depending on where it is, a home or business in Gary might pay taxes for Gary Community Schools, Lake Ridge Schools, or River Forest Schools.

Some taxing units (Munster, Merrillville, Hammond, Whiting, and East Chicago) are contained in a single taxing district.

In addition, a portion of the property taxes paid in Lake County goes to the county (for parks and recreation, welfare, and other county funds) and a portion goes to the State of Indiana. The property tax bill for a given parcel lists each taxing unit to which its property taxes are allocated. All of the tax bills for property in a particular taxing district will list the same taxing units.

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). The DLGF



calculates the levy for districts by subtracting other non-tax revenues from the budgeted amount needed. Other revenues include items like vehicle excise taxes, license fees, and user fees or fines. In most other counties, the levy would also be lowered by local income taxes, but Lake County is one of just three counties (with Posey and Sullivan counties being the two others) currently without such a tax. Budget amounts not reduced by other revenues are paid for by property tax levies.

The table below 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.

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

Determining the Rates

After the levy is calculated, the DLGF can set the rate to be used in the tax bills. The basic rate equation is:

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

A rate is thus set for each taxing district. 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. An example of tax rate calculations for three hypothetical districts appears below.

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

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.

Determining Tax Bills

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:

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

The amount of property tax that you pay is calculated by multiplying the tax rate by the net assessed value of your property. 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 net assessed value (that is, gross assessed value minus deductions, such as the homestead deduction) of \$100,000, your gross property tax would be \$9,841. You would then subtract the property tax replacement credit ($\$9,841 \times 0.234399$) and the homestead credit (which is determined after subtracting the PRTC: $\$7,534 \times 0.161506$) for an annual bill of \$6,318.

Why Did the 2002 Reassessment Cause So Many Problems?

Reassessment is actually 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 reassessment caused so many problems 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, if one person pays less, someone else must pay more. To see why this is, look at the basic tax rate equation:

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

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.

Field = \$500

Tractor = \$500

15 percent = $150 / (500 + 500)$

The field owner and the tractor owner would both pay \$75 in taxes. This is what happens if you raise the assessed value of the field by \$500. The rate decreases, but the field owner ends up paying \$100 and the tractor owner now pays only \$50.

$$10 \text{ percent} = 150 / (1,000 + 500)$$

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 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 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.

Knowing that the tax burden would mainly shift to homeowners (voters), 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. 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.

There were several other events that happened at the same time as reassessment that impacted property tax bills, including levy increases, separate assessments for the Big Four industries, and special property tax relief for homestead-eligible parcels with taxes above 2 percent of their gross assessed value. These issues will be examined more closely in the next section.

Anatomy of a Tax Bill

Below is an example of a typical residential property tax bill, with explanations of each key piece of information found on the bill.

TAXPAYER COPY		DUPLICATE NUMBER		SEE TAX BILL INSTRUCTIONS & IMPORTANT CREDIT INFORMATION ON REVERSE SIDE					B SECOND INSTALLMENT (FALL)			
1/25/05 4:13:16PM 2003 PAYABLE 2004 MAKE ALL CHECKS PAYABLE TO LAKE COUNTY TREASURER 232 RUSSELL ST HAMMOND IN 46320		86325		REAL PROPERTY TAX STATEMENT APPROVED BY THE STATE BOARD OF ACCOUNTS FOR LAKE COUNTY COUNTY 2003*  +00045200313419606472					TAX RATE 5.26640			
6 PARCEL NUMBER 26-36-0133-0017		7 TAXING UNIT NAME Hammond							3 HOMESTEAD CREDIT 12.61630		4 STATE PTRC 20.84230	
8 GROSS VALUE 52700		9 EXEMPT/DED 29350							10 TAXABLE VALUE 23350		5 BUSINESS PTRC 8.35880	
11 GROSS TAX 614.85		12 HOMESTEAD REPL. CREDIT 61.40		13 NET TAX 425.30		14 OTHER TAX, FEES & PENALTIES 0.00		15 DELINQUENT TAX 0.00				
16 R 0		N 0		17 SPECIAL ASSESSMENTS		TOTAL 425.30						
16 DEDUCTIONS BREAKDOWN		17 CURRENT TAX BREAKDOWN		DESCRIPTION		NET TAX EACH INSTALLMENT		DELINQUENT TAX OR PENALTY				
Mortgage 3000 Homestead 26350		PEOPLES BANK 9204 COLUMBIA AVE Munster IN 46321		CoGeneral 2.36 CoPark 3.71 County2 77.60 City-LCSW City-NIRPC City-SiWelf 39.05 State 0.19 Twp-NO 6.11 Corp-HA 145.07 Sch-HA 151.21 TOTAL 425.30								
LEGAL DESCRIPTION		MAP NUMBER		DUE DATE		TOTAL DUE		C copy - Adjusted Bill				
STAFFORD & TRANKLE'S 2ND SO. CENTRAL CALUMET ADD. N.28 FT. OF L.17 BL.2 S. 13 1/2 FT. OF L.18 BL.2		0000000000		04/08/2005		425.30		If less than \$25, then all due in 1st installment				
DEEDED OWNER		ACRES										

- Installment** – bills are sent out twice a year. The example presented here is the second installment
- Tax Rate** – this amount multiplied by the net assessed value is the gross tax
- Homestead Credit** – percent deducted from the gross tax after the State PTRC is deducted
- State PTRC** – the State Property Tax Replacement Credit: This percentage is deducted from the gross tax
- Business PTRC** – the Property Tax Replacement Credit for business personal property. It is not used on this bill
- Parcel Number** – the unique identifying number for real property
- Taxing Unit Name** – the taxing district where the parcel is located

For the following four items, the row marked R means the residential portion; the row marked N is the non-residential portion.

- Gross Value** – assessed value before any deductions or exemptions
- Exempt/Ded** – sum of exemptions or deductions for this parcel
- Taxable Value** – gross value minus exempt/ded. Same as net assessed value
- Gross Tax** – equals tax rate times ½ taxable value. The tax due before credits are subtracted
- Homestead** – homestead credit applied to the gross tax after the SPTRC is subtracted out
- Repl. Credit** – State PTRC percent applied to the gross tax
- Net Tax** – gross tax minus any credits
- Total** – amount of tax due (second installment)
- Deductions Breakdown** – deductions or exemptions received are listed here
- Current Tax Breakdown** – lists taxes paid by unit and in some cases the fund within the unit

Before and After Reassessment: How Lake County Property Tax Bills Changed from 2002 to 2003

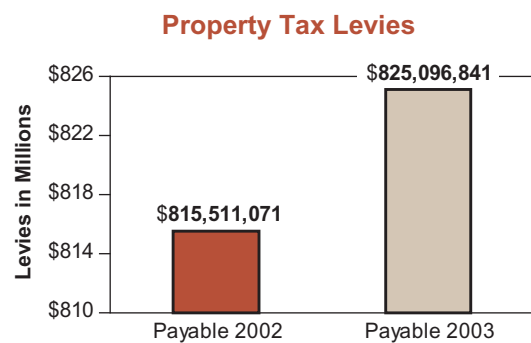
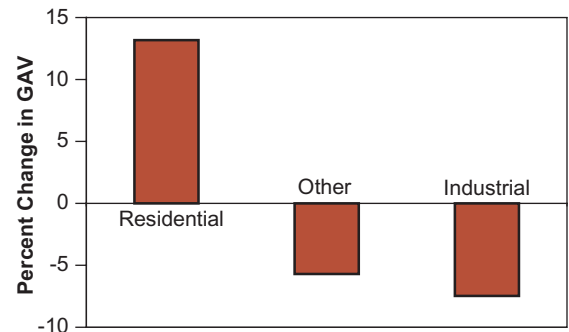
The following pages describe what happened in Lake County to bring about the tax shifts that have been of such great concern. The fact that these shifts took place does not, per se, allow us to declare them “unfair” or “long overdue.” Before such judgment can be rendered, we need to know what happened.

Lake County Summary

Data for Lake County as a whole both hides and distorts what happened within the county. Although we will review the county aggregates, the full story will be seen only as we get into the details by city, town, and township. Nonetheless, the basic pattern is 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.

Summarized below are key observations regarding changes that occurred in conjunction with reassessment of Lake County properties. These include changes in levies, the number of parcels, gross and net assessed values, exemptions and deductions, taxes billed, tax rates, and so on. These changes are discussed first for the county as a whole and then with respect to differences among cities, towns, and townships.

Shift of Tax Burden, Payable 2002 and 2003



1. Levies rose by \$9.6 million or 1.2 percent.

The modest increase of 1.2 percent in property tax levies for all governments in Lake County hides great 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.

2. Gross assessed value of property rose by \$13.5 billion or 97 percent.

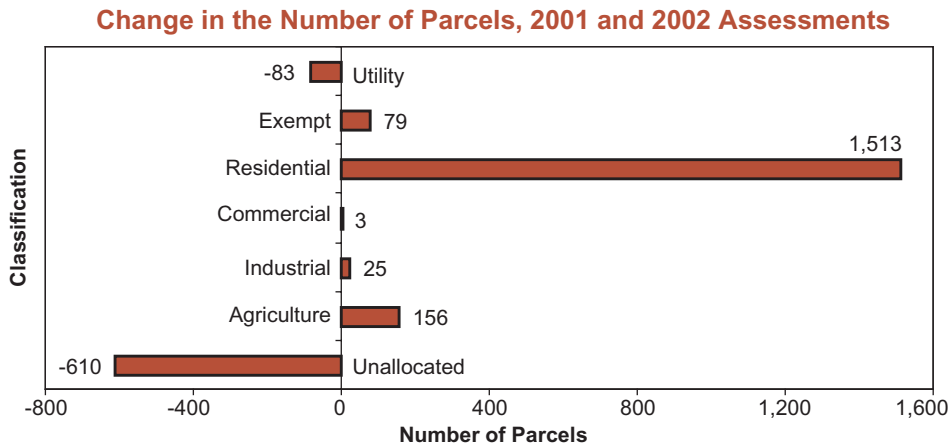
Although both personal and real property values increased, the balance between the two sectors shifted. GAV for real property rose 127 percent while GAV for personal property increased by only 15 percent. The growth in real property GAV accounted for 96 percent of the increased GAV of the county and 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.

Share of Total Gross Assessed Value



3. Number of parcels increased by 1,083 or 0.4 percent.

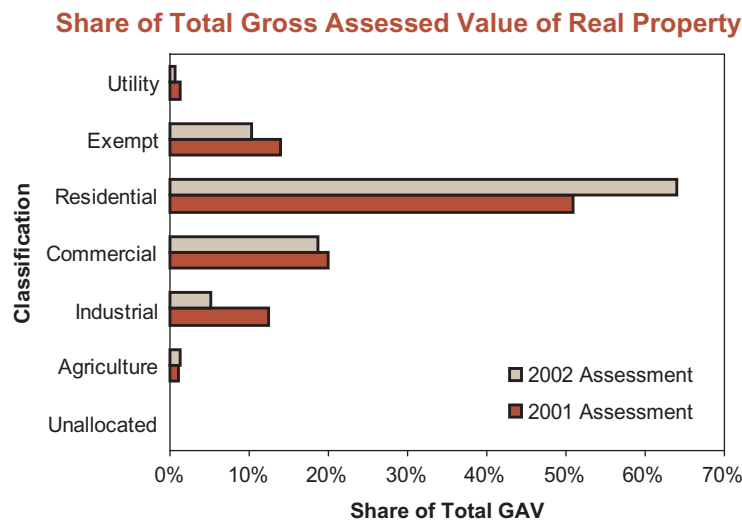
Reassessment and economic development together increased the number of parcels in the county. The number of parcels not identified by type of use (unallocated) fell a dramatic 27 percent as those parcels were more properly identified in the reassessment process. At the same time, new housing units on 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.



4. 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 industry’s share from 12.5 percent to 5 percent.



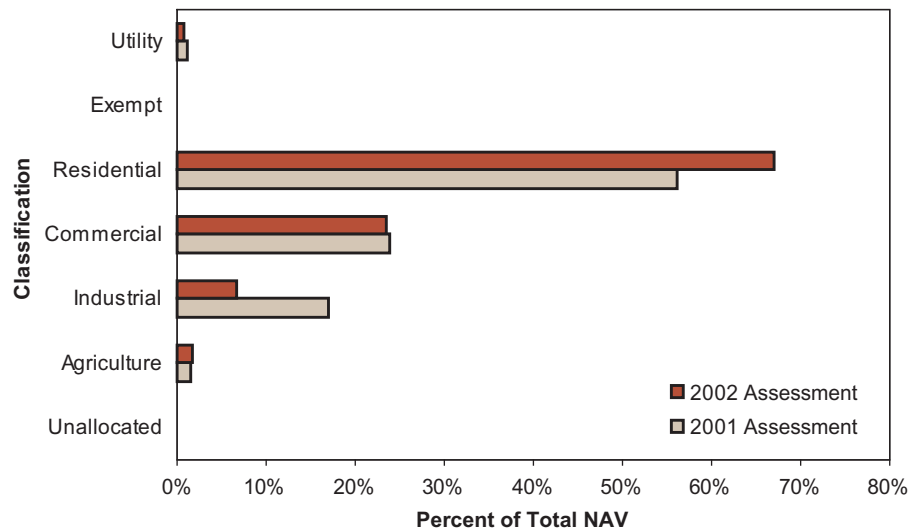
5. Exemptions and deductions increased by \$4.3 billion or 142 percent.

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.

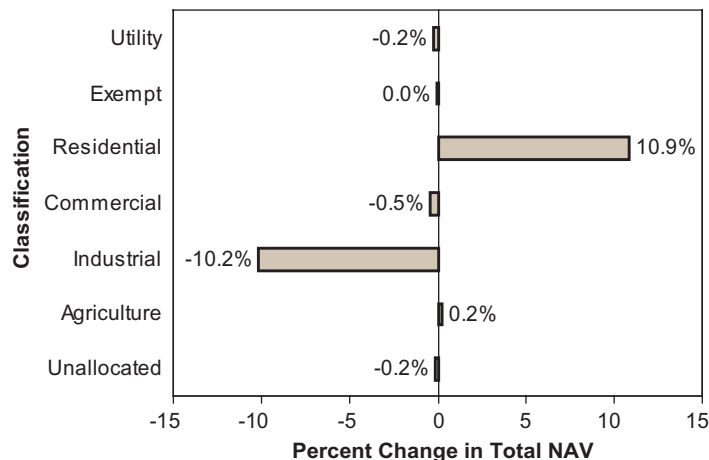
6. Net assessed value of real property grew by \$8.7 billion or 120 percent.

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.

Share of Net Assessed Value of Real Property



Shifts in Shares of Net Assessed Value of Real Property, 2001 and 2002 Assessments



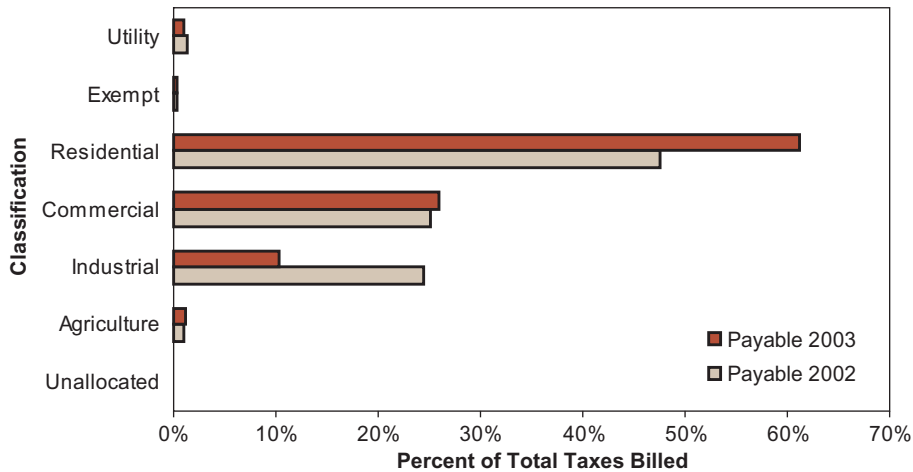
7. Taxes billed for real property rose by \$52.5 million or 12 percent.

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.

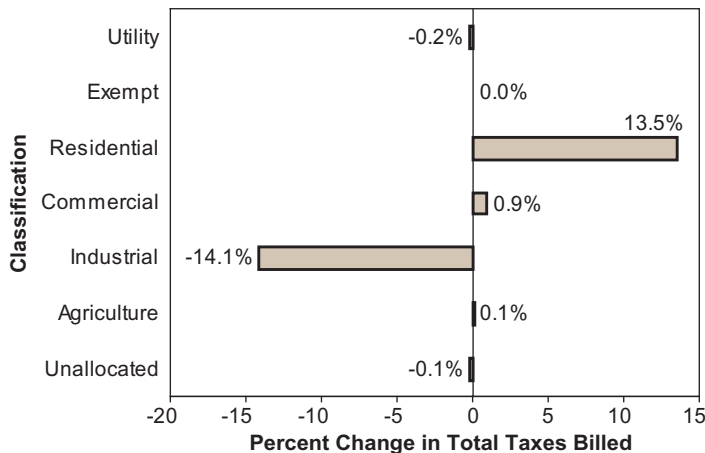
The overwhelming factor causing taxes billed in Lake County to increase by \$52.5 million was not an increase in the levies (just \$9.6 million). Governments set their levies long before they knew what their assessed value was to be. Hence, unexpectedly higher reassessments gave local governments an 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.

Shares of Taxes Billed for Real Property

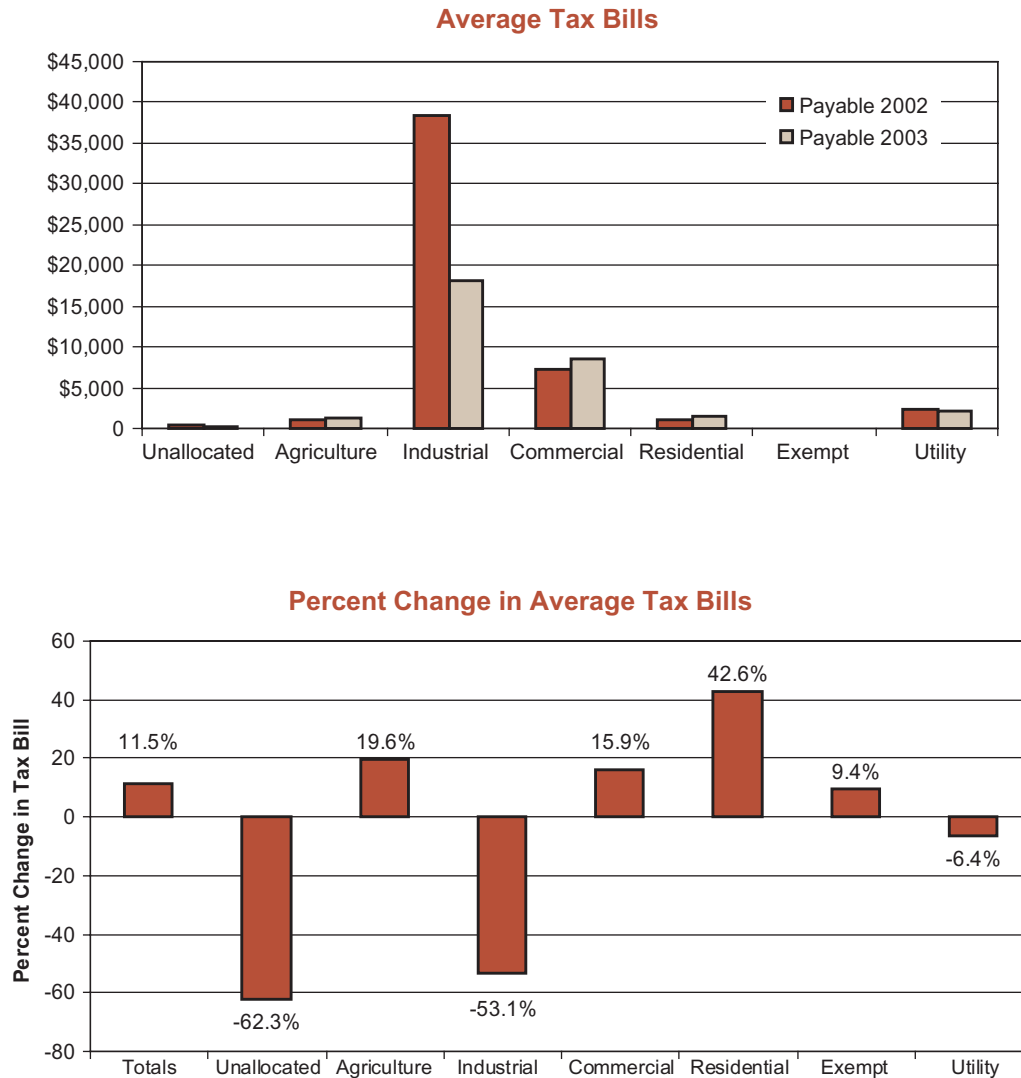


Shifts in Shares of Taxes Billed for Real Property, Payable 2002 and 2003



8. 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.

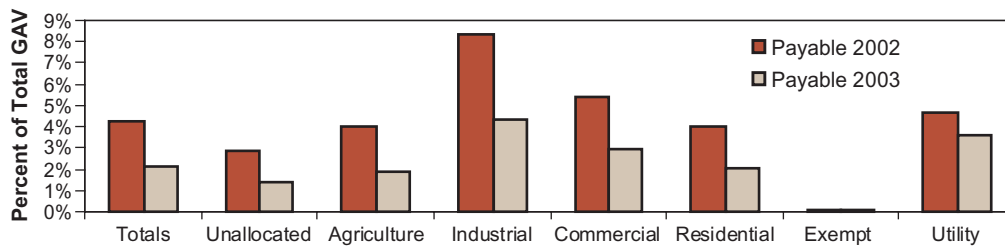


9. Effective tax rates declined by 51 percent.

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.

Taxes Billed as a Percent of Total Gross Assessed Value



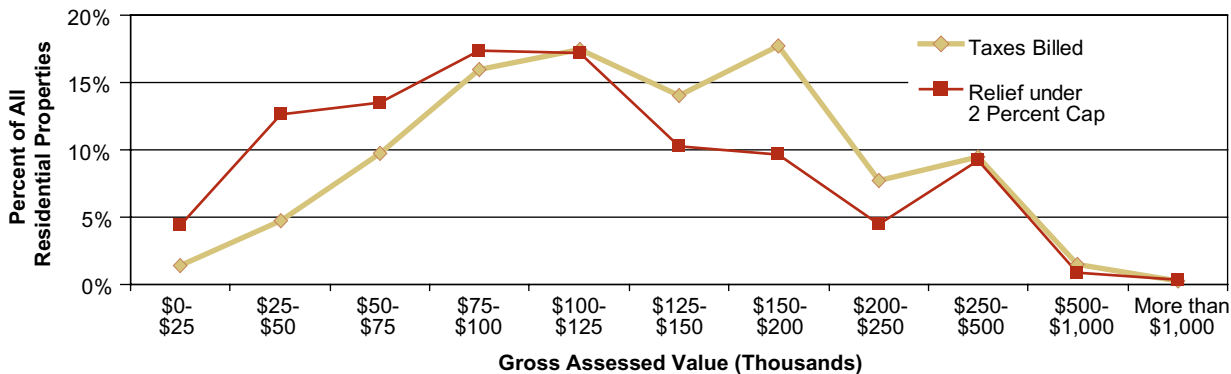
10. The 2 percent cap applies to more than 31,000 homes and is worth over \$16 million.

Because average tax bills rose in a single year by 11.5 percent, taxpayers were aroused. To assuage their concerns and provide some relief, Governor Kernan proposed a 2 percent cap on the tax bills of owner-occupied properties. This would mean that the tax bill, after applying any credits, could not exceed two percent of the GAV for that property. Thus, on a property valued at \$100,000, the property tax bill could not exceed \$2,000.

With an effective tax rate (taxes billed divided by GAV) of 2 percent on residential property, we would expect to find only a few homes in Lake County eligible for the proposed 2 percent cap on owner-occupied dwellings. However, the distribution of properties among the communities was such that 25.7 percent of all 123,700 properties with homestead deductions qualified for the 2 percent cap. The value of the cap would be 7.5 percent of the \$225 million due from all homestead properties and 23.4 percent of the tax due from those eligible for the cap.

Up to a value of \$125,000, the 2 percent cap provides a higher percentage of relief than the amount of taxes billed, as seen in the following figure. For example, homes in the \$50,000 to \$75,000 range were billed for 9.8 percent of the taxes on homestead properties, but they would receive 13.5 percent of the relief afforded by the 2 percent cap.

Distribution of Taxes Billed for 2003 and Relief under the 2 Percent Cap



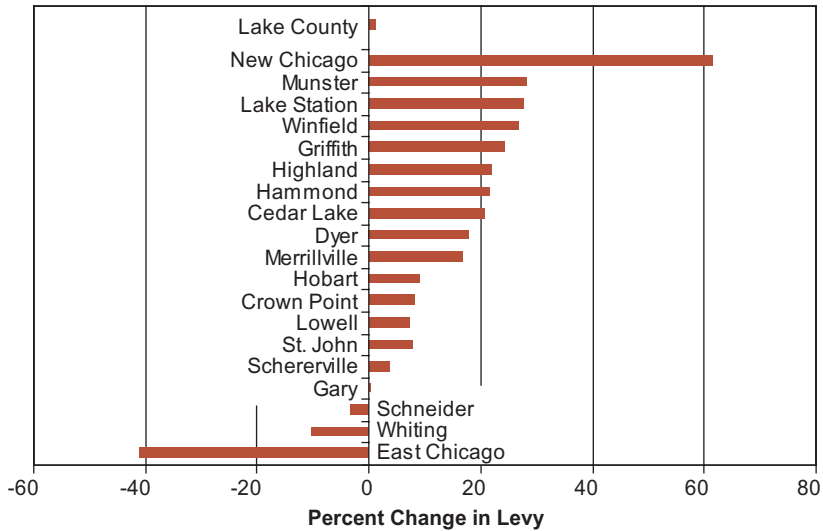
Cities, Towns, and Townships

In this section, we analyze the changes in tax bills for cities, towns, and townships. Again, there are difficulties of interpretation since a single city may lie in several tax districts. For example, Gary is spread across two townships and three school corporations.

1. Levies rose in all but three incorporated places.

Ten of the nineteen cities and towns in Lake County saw increases in their levies of 15 percent or more.

Percent Change in Levy for Cities and Towns, Payable 2002 and 2003



It should be noted that the observed increase (or decrease) may not be part of the city or town budget. It could have originated in the school corporation or some other taxing unit. For example, Gary had a \$501,280 increase in its levy (0.3 percent), which was a combination of three separate changes as seen in the following table.

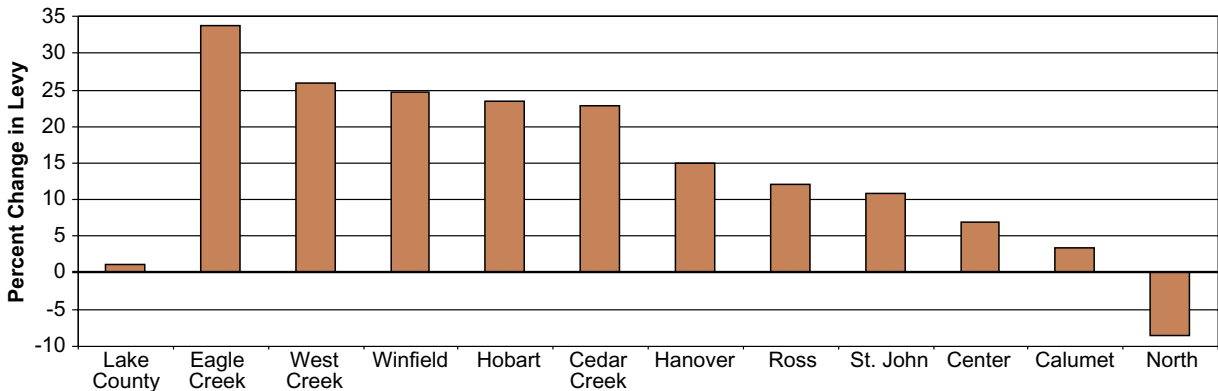
Tax District Change in Levy

City–Township–School Corporation	Dollar Change	Percent Change
Gary City–Calumet Township–Gary School Corp.	\$-1,461,600	-1.0%
Gary City–Calumet Township–Lake Ridge School Corp.	\$1,840,836	28.0%
Gary City–Hobart Township–River Forest School Corp.	\$122,044	56.2%

Where one taxing unit cut its levy by \$1.5 million, another had an offsetting \$1.8 million increase. Hence, citizens in different parts of Gary had very different experiences with their tax bills.

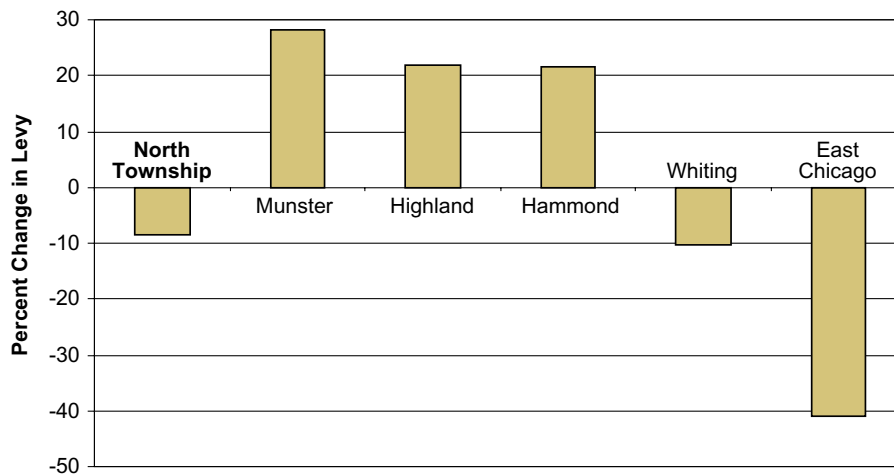
At the township level, aggregate levies ranged from an increase of 34 percent in rural Eagle Creek Township to a decrease of 8.5 percent in highly urbanized North Township.

Percent Change in Levy for Townships, Payable 2002 to 2003



But within North Township, the range was dramatic—from a 28 percent increase in Munster to a 41 percent reduction in East Chicago.

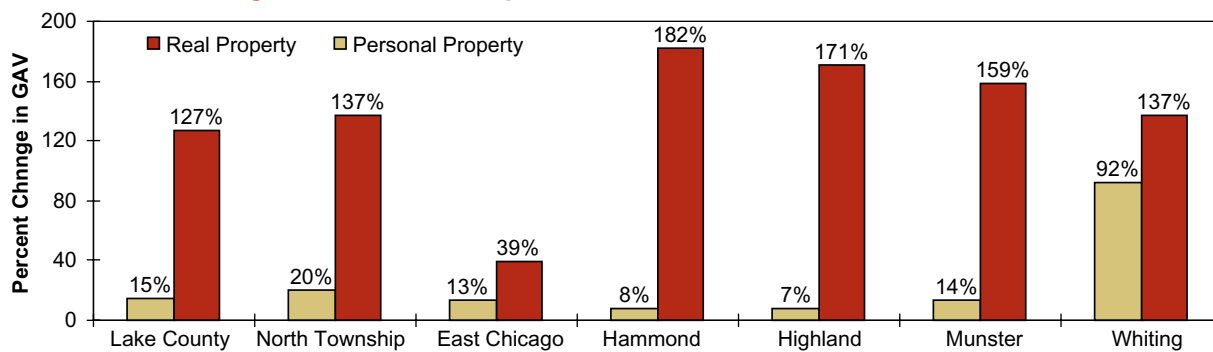
Percent Change in Levy within North Township, Payable 2002 and 2003



2. In every community and township, personal property's share of gross assessed value declined.

Although there was significant growth in the assessed value of personal property in many communities and townships, the growth in GAV for real property was far greater. This resulted in major shifts between personal and real property taxpayers. The disparities in growth can be seen by looking at the following figure, focusing on North Township and its cities and towns.

Percent Change in North Township's Gross Assessed Value, 2001 and 2002 Assessments



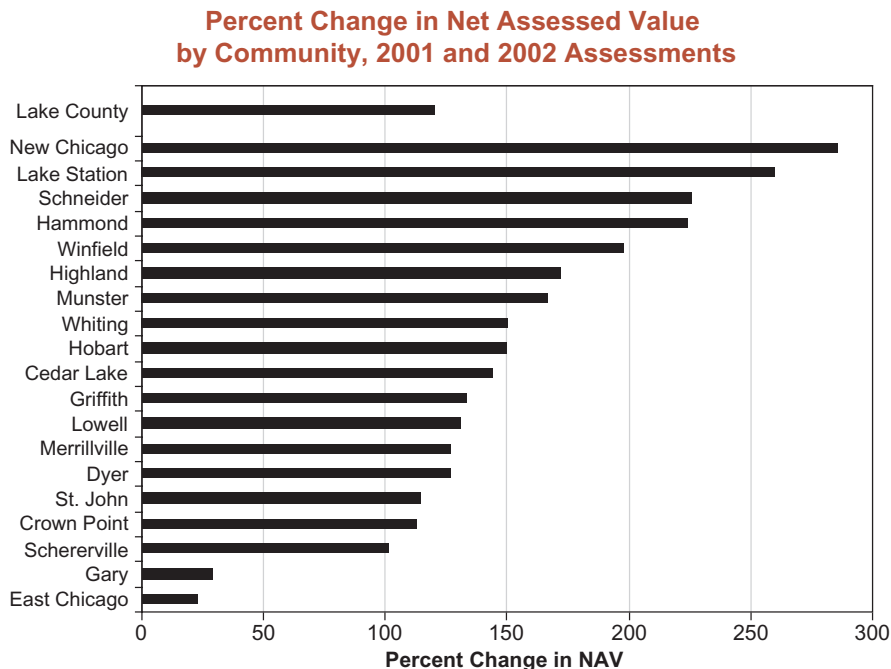
As shown in the table below, personal property became a smaller part of each community's total GAV, shifting the tax burden more toward real property.

Personal Property as a Percent of Total GAV

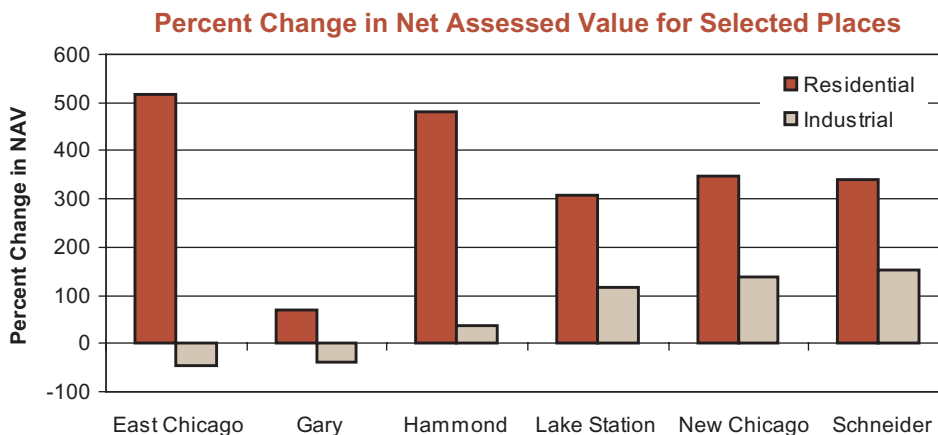
Area	2001p2002	2002p2003	Change
Lake County	26.2	15.3	-11.0%
North Township	37.7	23.5	-14.2%
East Chicago	53.0	47.9	-5.2%
Hammond	35.9	17.7	-18.2%
Highland	15.4	6.7	-8.7%
Munster	12.9	6.2	-6.8%
Whiting	70.7	66.2	-4.6%

3. Net assessed values doubled everywhere except Gary and East Chicago.

Reassessment for real property and changes in exemptions and deductions had widely different effects through Lake County. At one extreme were Gary and East Chicago where NAV rose less than 30 percent. These modest increases were contrasted with more than a tripling of the tax base (NAV) in New Chicago, Lake Station, Schneider, and Hammond.



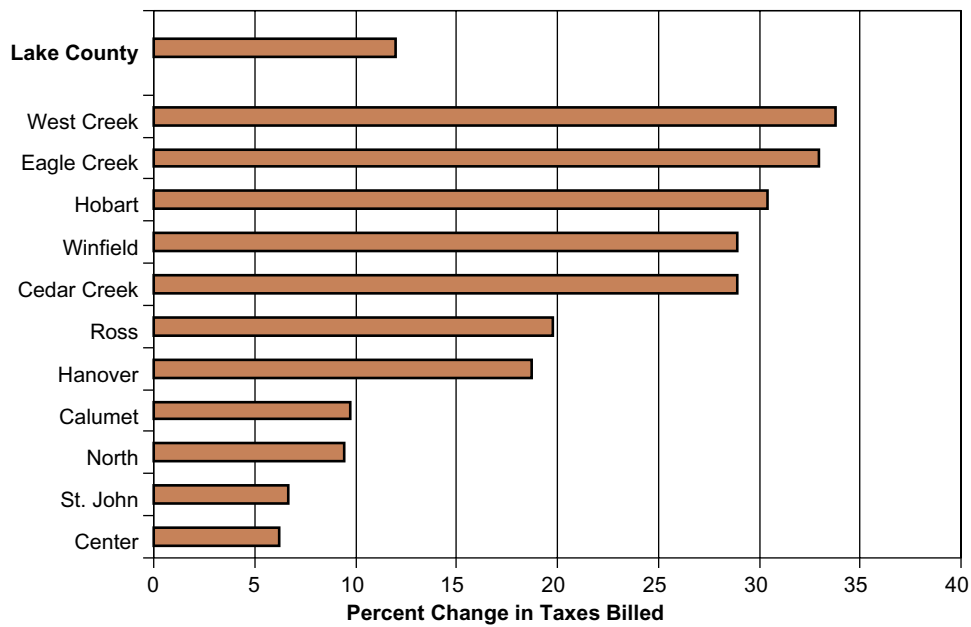
Let's look inside the NAV changes for those six incorporated places. Two sectors (residential and industrial) illustrate what happened. In the following figure, we see that industrial properties did not increase in NAV as fast as residential properties. In some instances this may reflect previous under-assessment in residential properties (e.g. Hammond and East Chicago), while industrial properties were assessed closer to their market values. At the same time, legislation explicitly designed to assist certain industries led to decreases or small increases in industrial NAV for East Chicago, Gary, and Hammond.



4. Taxes billed increased by widely differing rates.

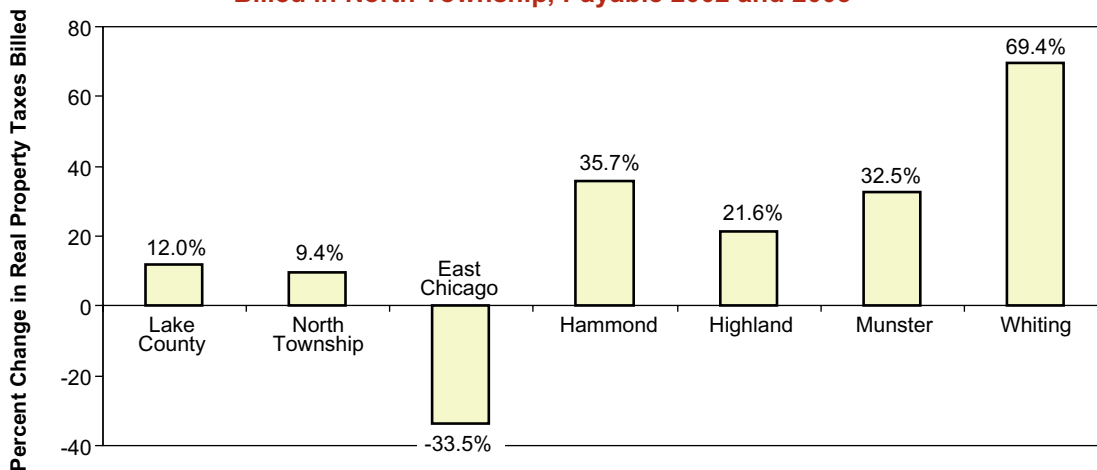
The change from 2001p2002 to 2002p2003 in amount of taxes billed varied from a high of 34 percent in West Creek Township to a low of 6 percent in Center Township.

Percent Change in Real Property Taxes Billed by Township, Payable 2002 and 2003



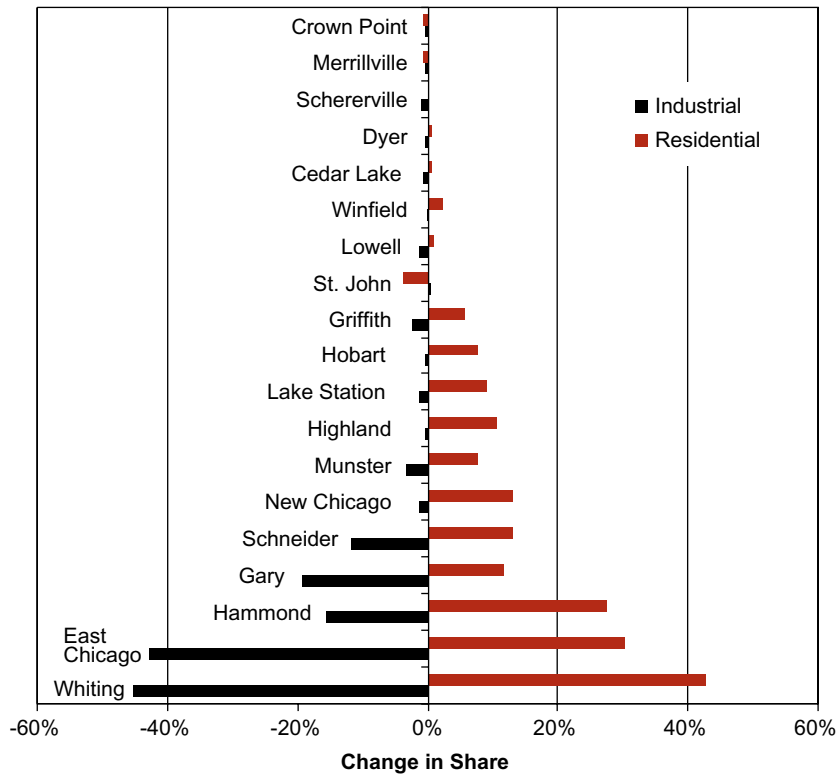
Moreover, the differences within townships can be startling. The following figure shows what happened in North Township, where real property taxes billed in East Chicago decreased significantly while taxes billed increased by 20 percent or more in each of the township's other four communities.

Percent Change in Amount of Real Property Taxes Billed in North Township, Payable 2002 and 2003



Shifts among categories of real property also differed widely, as shown in the following figure where the shifts of industrial and residential real property taxes are shown. Recall that other property categories (agricultural, utility, etc.) are involved, so that it is possible, as in the cases of Merrillville and Crown Point, for both industrial and residential property to have contributed a smaller percentage of total real property taxes in 2003 than in 2002. The greatest shift occurred in Whiting, where the share of taxes billed to industrial real property owners fell by 45 percent while residential property owners had a 43 percent increase in their share of the total billed.

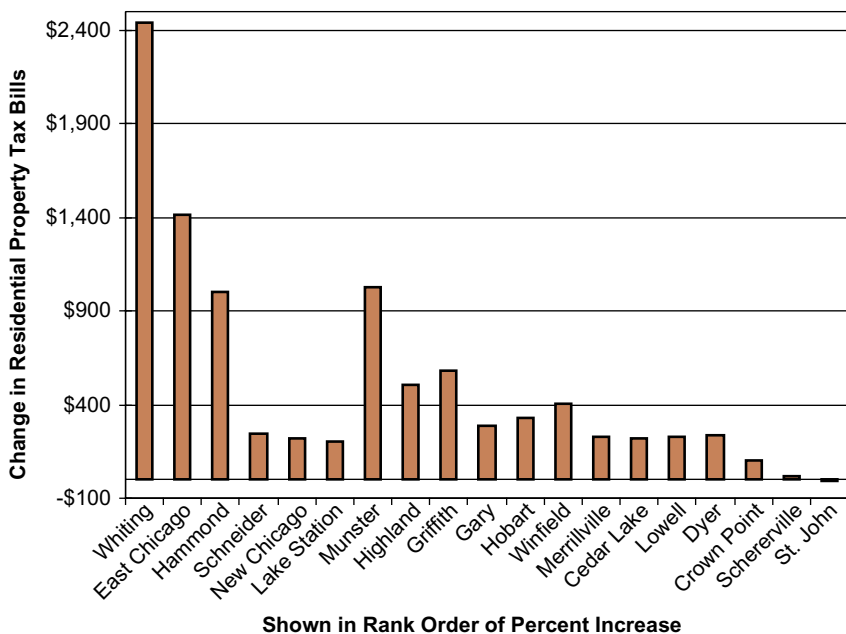
Change in Share of Real Property Taxes Billed, Payable 2002 and 2003



5. Average residential tax bills increased by less than \$250 in nine of nineteen communities.

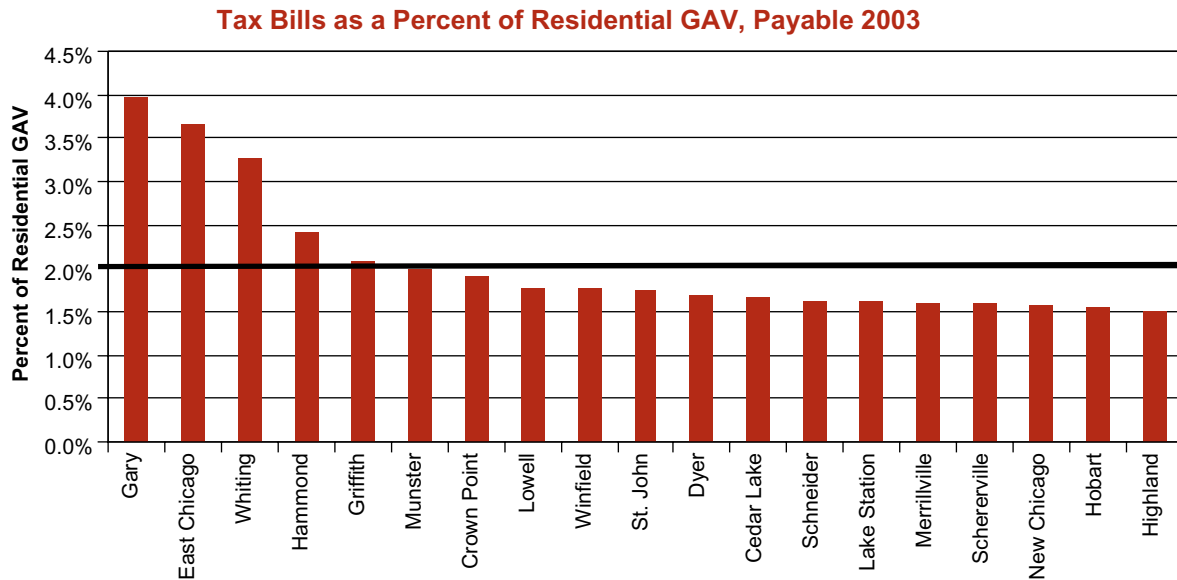
Average residential property tax bills increased in all communities except St. John where they decreased by \$6. Whiting led with a \$2,440 increase, a dramatic 648 percent rise. East Chicago's bills rose by \$1,411 (242 percent), Munster by \$1,030 (45 percent) and Hammond by \$1,003 (147 percent). But in twelve of the eighteen communities with increases, the tax bills rose by less than 50 percent. In six of those places, the average increases were less than \$250 and under 20 percent.

Changes in Residential Property Tax Bills, Payable 2002 and 2003



6. The effective tax rate for residential properties exceeds 2 percent in five of nineteen communities.

The figure below shows that residential property tax bills for 2002p2003 were under 2 percent of GAV in fourteen of the nineteen communities of Lake County. Gary topped the list at nearly 4 percent, followed by East Chicago, Whiting, Hammond, and Griffith. Lowest on the list was Highland at 1.5 percent.

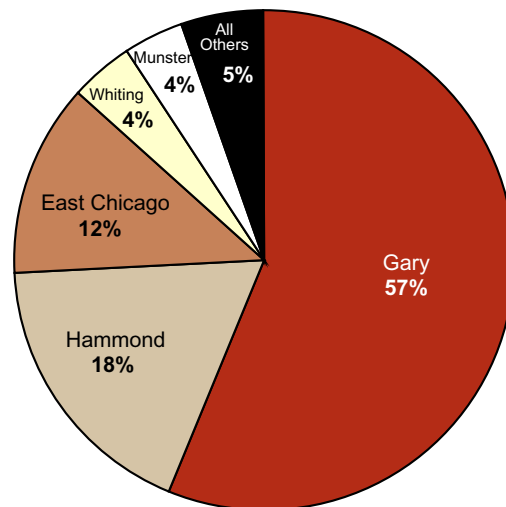
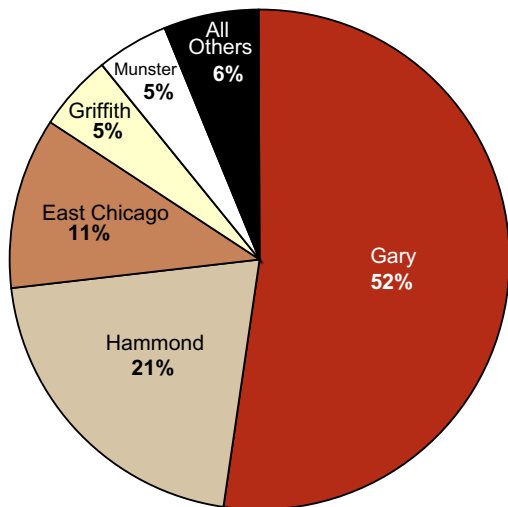


7. The 2 percent cap affects mainly just three communities.

The next two figures show that most of the benefits of a 2 percent cap on residential taxes would go to Gary, Hammond, and East Chicago. For the 2002p2003 year, these three cities had 84 percent of the parcels eligible for the 2 percent cap, and they would receive 87 percent of the \$16.9 million the cap would generate.

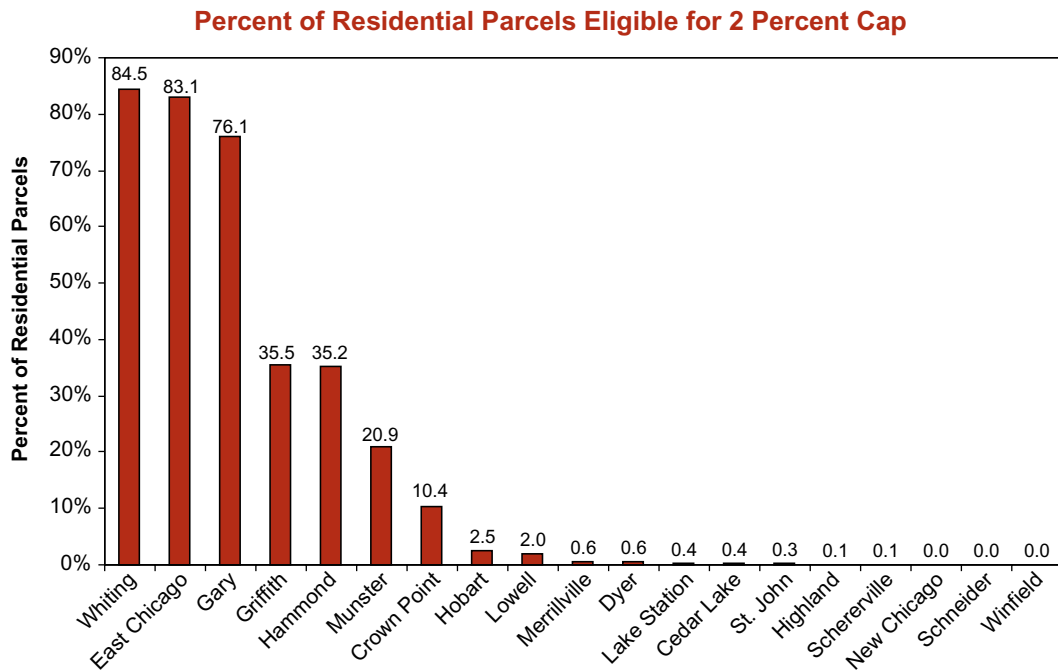
Distribution of Parcels Eligible for 2 Percent Cap Relief

Distribution of 2 Percent Cap Relief Dollars

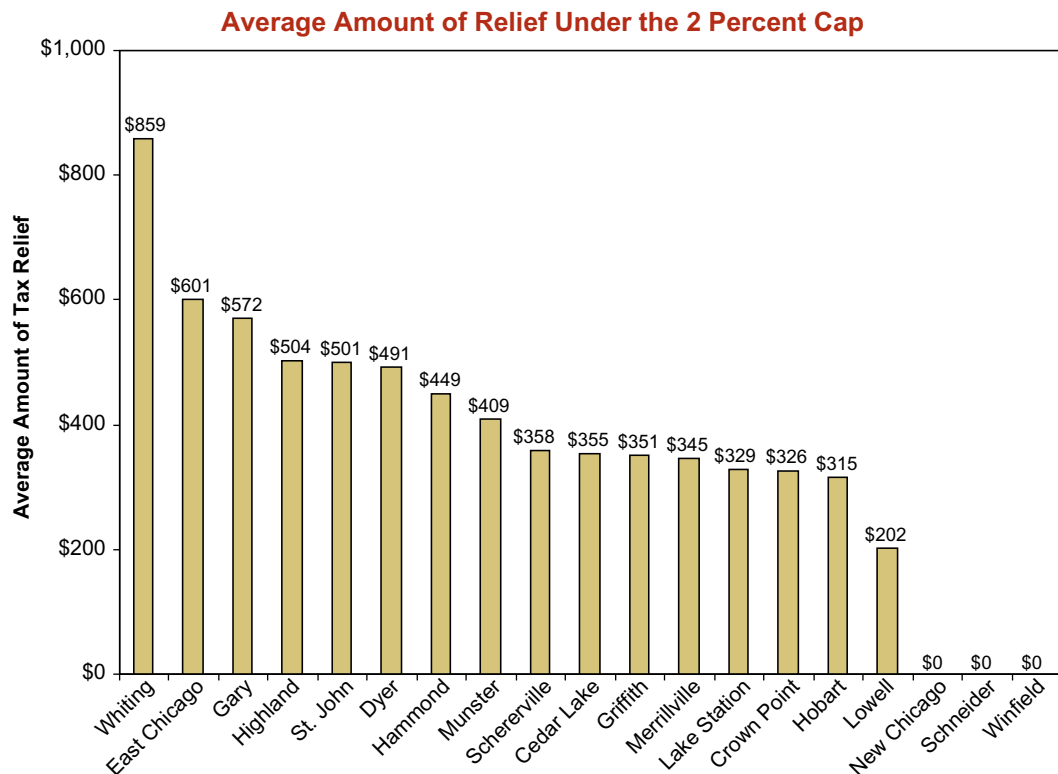


The reason these three cities dominate the distribution of the 2 percent cap is seen in the following figure. In each of these cities, the percent of residential parcels eligible for the 2 percent cap exceeds 75 percent, with more than 80 percent eligible in both Whiting and East Chicago. Griffith and Hammond at

35 percent each are the next closest communities. In ten communities, the percent of homesteads eligible for relief is less than one percent.

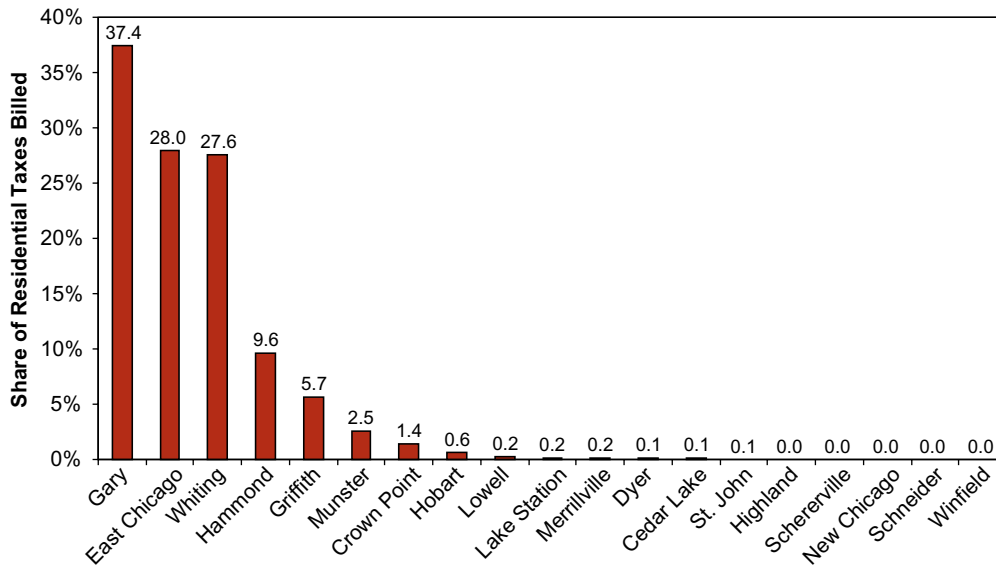


The 2 percent cap would provide an average of \$859 of relief for those eligible in Whiting, with lesser amounts in other communities—down to a low of \$202 in Lowell. No homesteads in New Chicago, Schneider or Winfield qualify for the 2 percent cap.



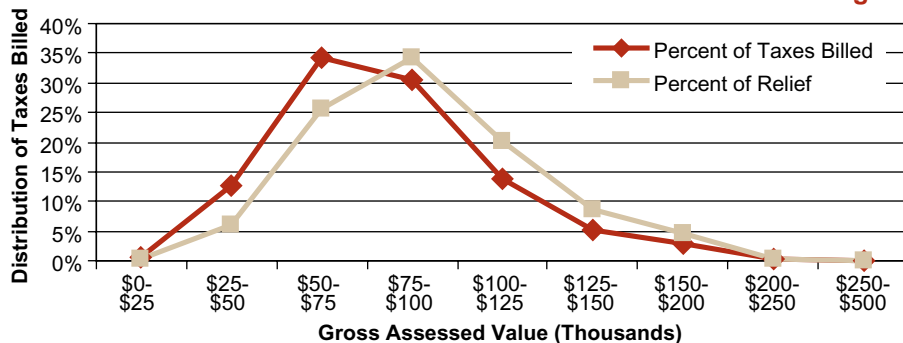
How much of the total property tax due from owner-occupants would the 2 percent cap relieve? In Gary the figure is 37 percent, while East Chicago and Whiting are both at 28 percent. The next highest value is in Hammond where the cap would relieve less than 10 percent of the total taxes due. In twelve of the remaining cities and towns, the 2 percent cap represents less than 1 percent of homeowners' total tax bills.

Share of Total Residential Property Taxes Billed Subject to 2 Percent Cap Relief

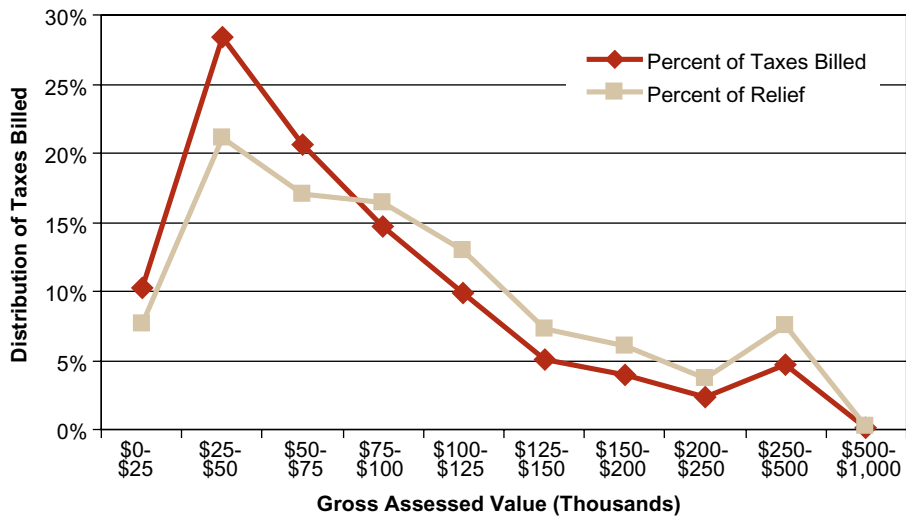


When previously discussing the 2 percent cap in relation to the entire county, we showed that lower-valued homes were beneficiaries of the program. What is true for the county as a whole does not necessarily hold for each community. The next three graphics present the data for East Chicago, Gary, and Whiting, respectively. While they are not identical, it is clear that in each city the relief for the lowest-valued housing under the 2 percent cap is below their share of taxes billed. The proportion of the total relief offered by the cap is higher in each city for higher-valued properties than their share of taxes billed. In East Chicago and Gary, the crossover points are above \$75,000; in Whiting that point is reached at \$100,000.

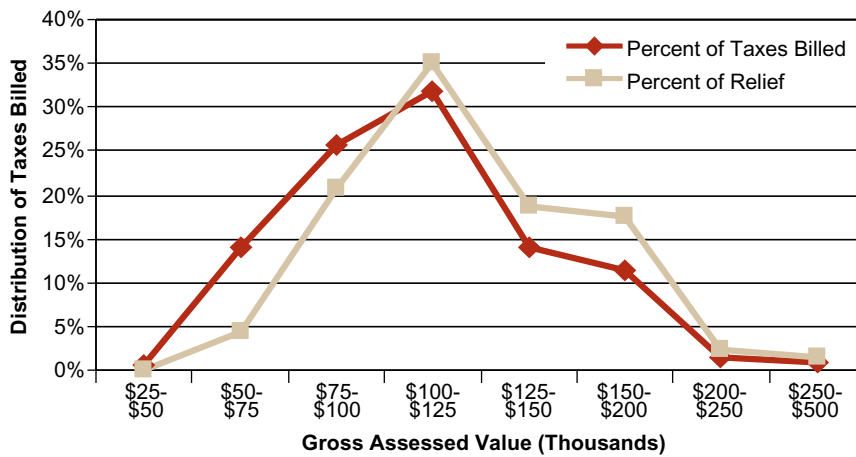
Percent Distribution of Taxes Billed and Relief: East Chicago



Percent Distribution of Taxes Billed and Relief: Gary

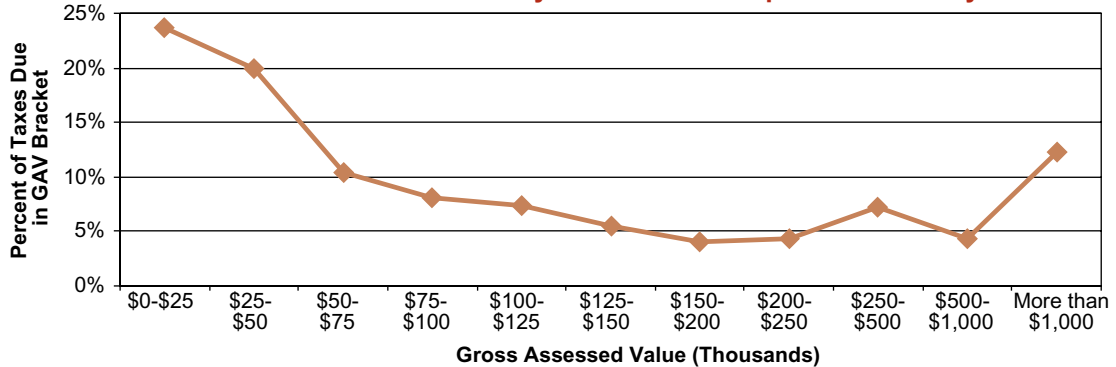


Percent Distribution of Taxes Billed and Relief: Whiting

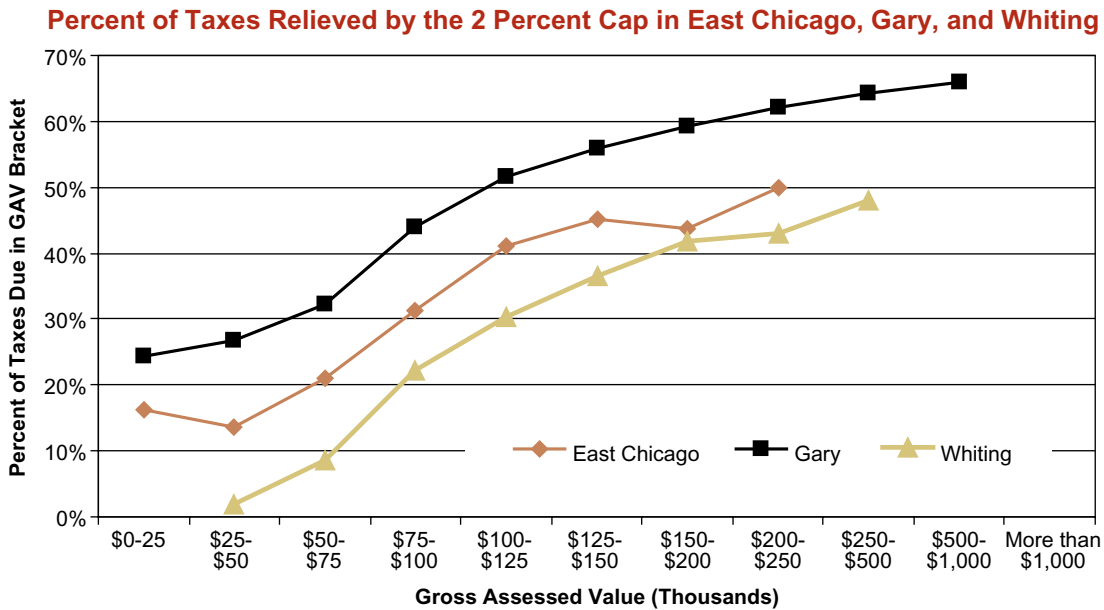


This evidence suggests that, if the purpose of the 2 percent cap is to provide relief to occupants of the lowest valued housing in preference to those who reside in higher-valued housing, the system is flawed. Although the next figure shows that, for the county as a whole, relief as a percent of the taxes due from households declines as the value of the property rises (except at the highest range), the pattern is very different for each community.

Percent of Taxes Relieved by the 2 Percent Cap in Lake County

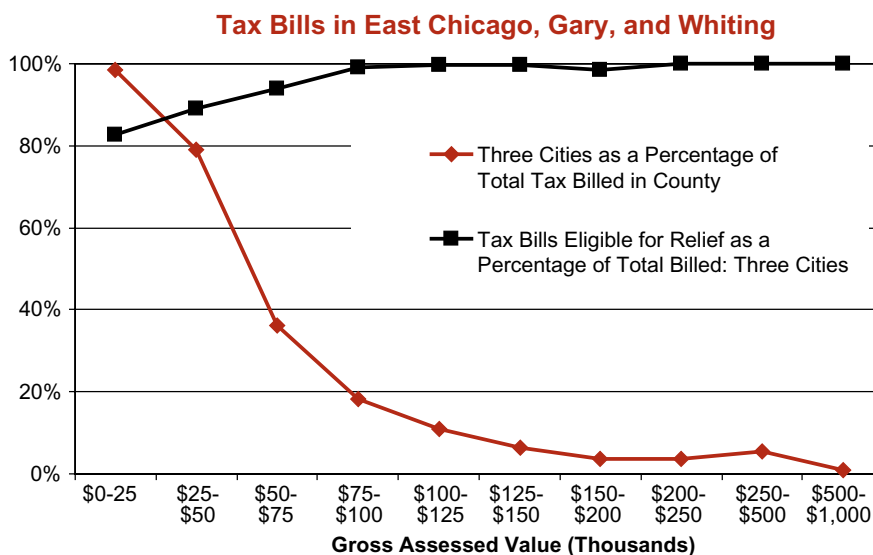


The same graph for East Chicago, Gary and Whiting is shown next, where it is clear that the amount of relief (expressed as a percentage of total residential property tax due in a given GAV bracket) increases with higher property values.

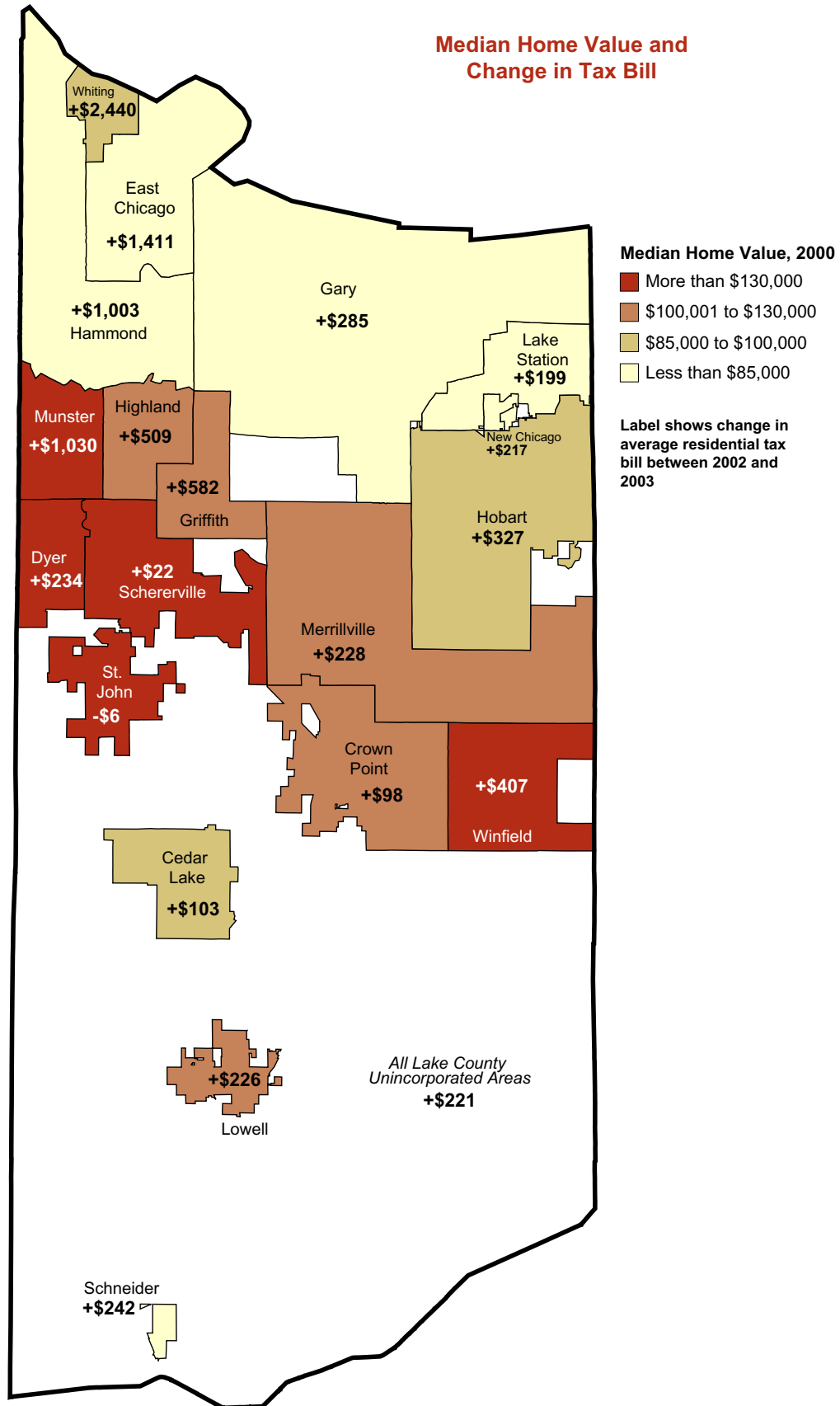


Why does the 2 percent cap show decreasing percentages of relief as home values increase, while the opposite is true for the cities where the 2 percent cap is most applicable? This seems to be a contradiction, but it is not. On a percentage basis, the \$35,000 homestead deduction helps low-valued homes more than high-valued homes (\$35,000 is 50 percent of a \$70,000 home while it is only 20 percent of a \$175,000 home). Hence, many low-valued homes fall below the 2 percent cap level. This explains why the black curve in the graph below slopes upward.

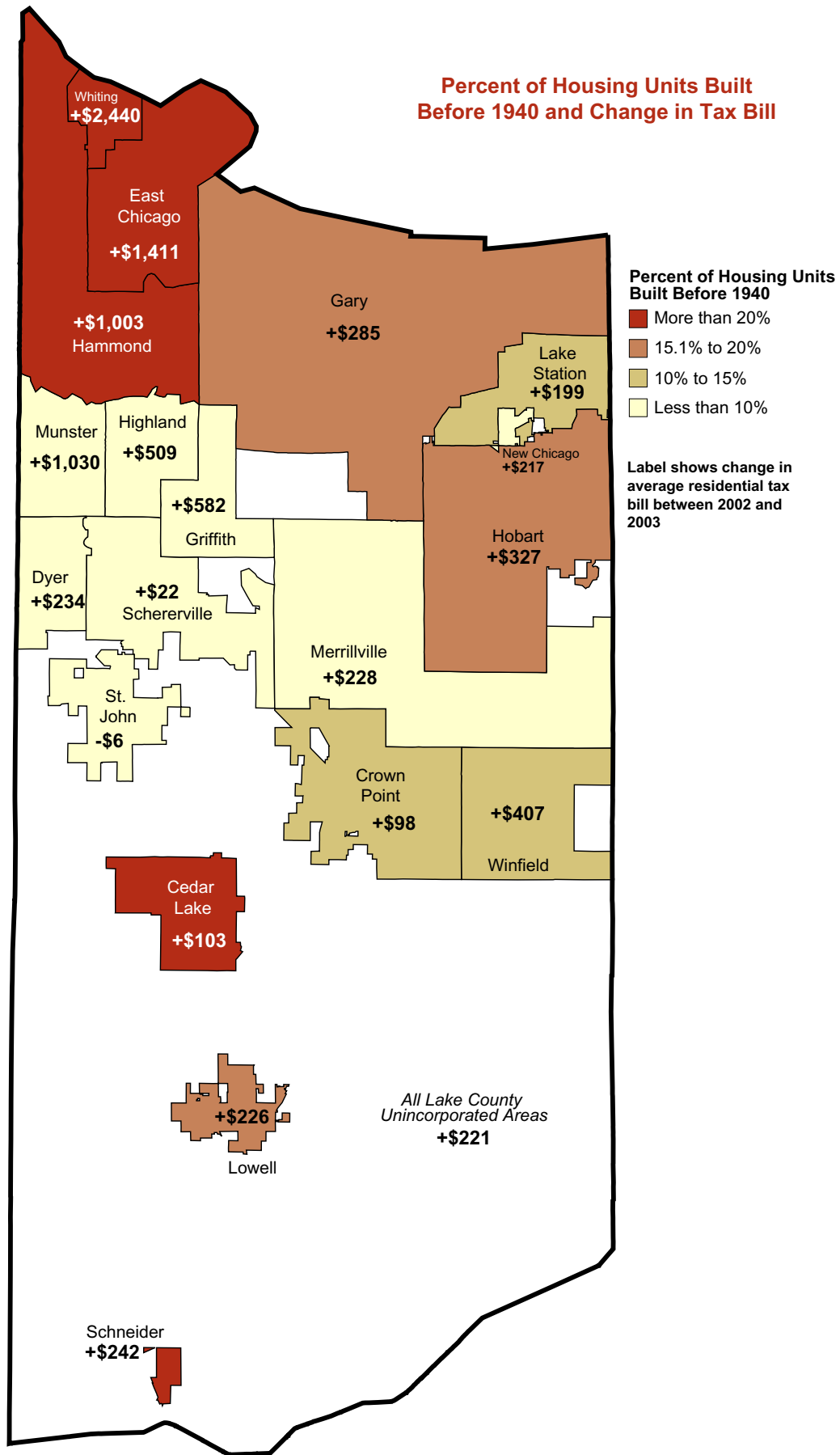
Nonetheless, many low-valued homes remain eligible for the 2 percent cap, and these are primarily in the few cities of the northern part of the county where there are high tax rates. Once we add in all homes in the county, middle- and high-valued homes are much more prevalent than in the northern area where they would be eligible for the relief of the 2 percent cap. This is evident in the largely downward-sloping red curve in the graph.



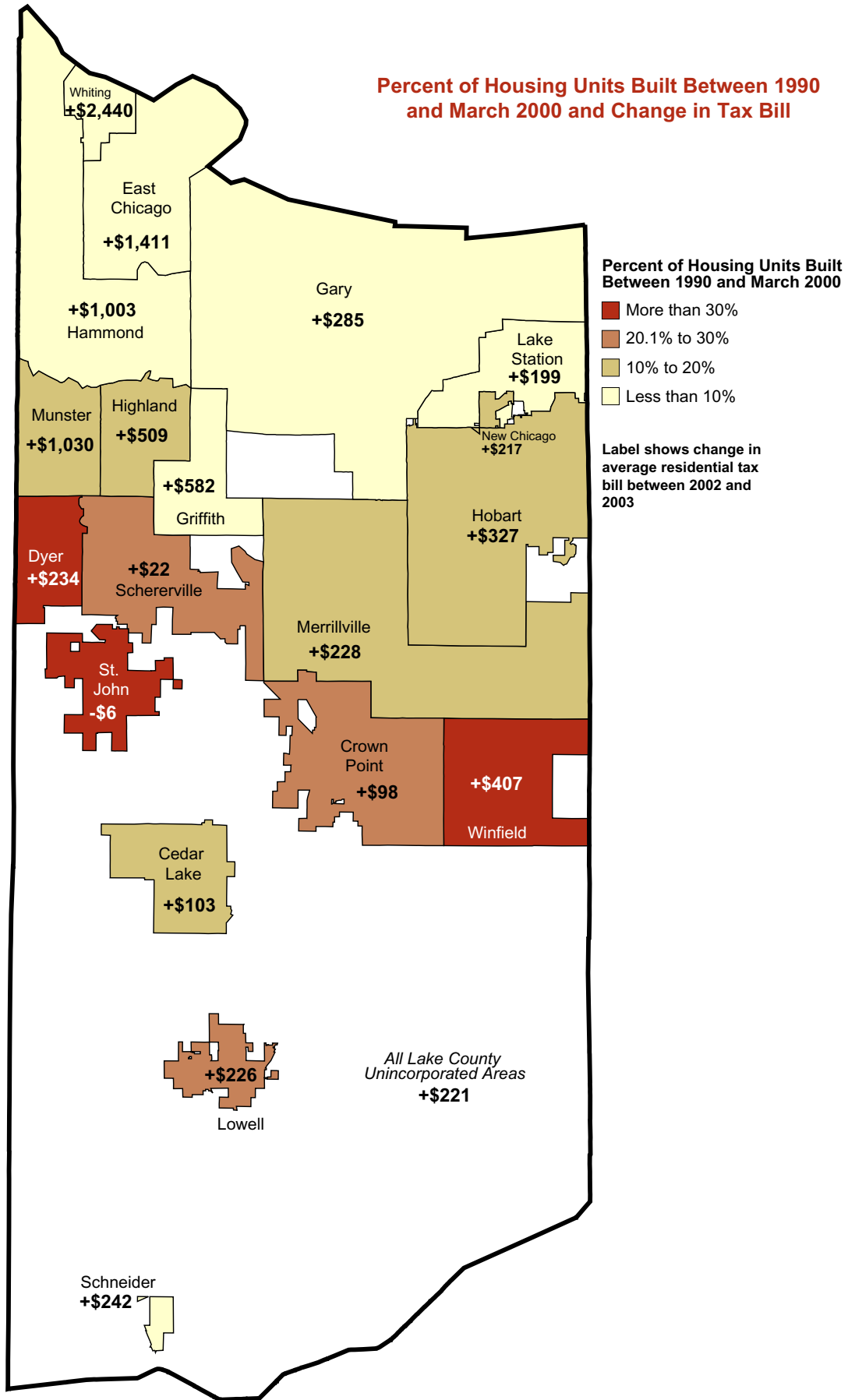
The next four maps show how changes in tax bills were distributed across communities differing substantially in their demographic makeup.



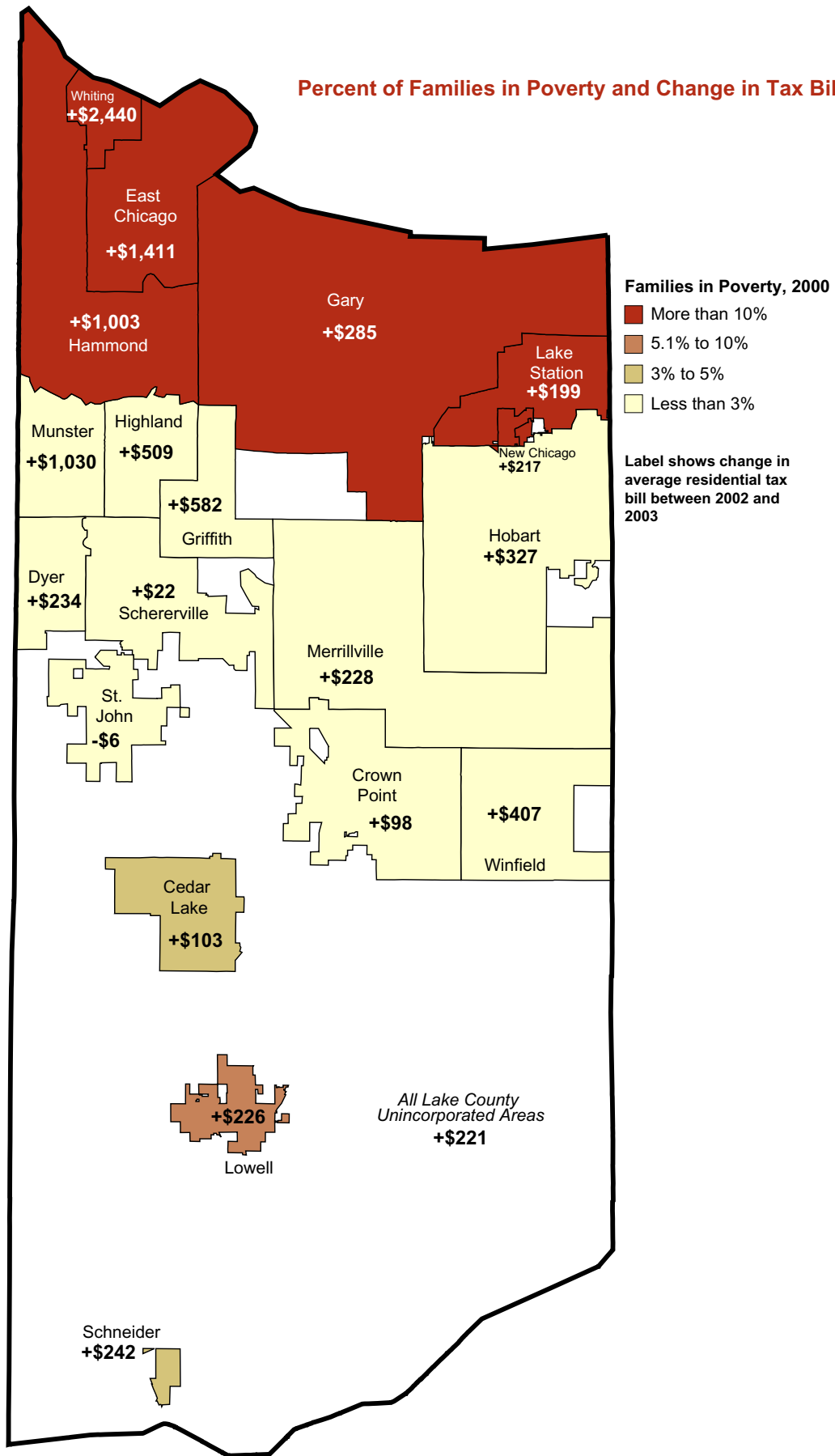
Percent of Housing Units Built Before 1940 and Change in Tax Bill



Percent of Housing Units Built Between 1990 and March 2000 and Change in Tax Bill



Percent of Families in Poverty and Change in Tax Bill



Measuring the Efficiency and Effectiveness of Local Government

We provide a bit of theoretical background in this chapter. In turn, we examine the concept of measurement, the changing nature of performance tracking in the public sector, three options pertaining to comparisons now available to units of local government, and several challenges that typically confront those who wish to develop more complex measures of public sector performance. Finally, we close with several recommendations for improved performance.

Measuring Efficiency and Effectiveness

“Efficiency” is generally understood as a ratio: the amount of goods or services produced per unit of resources (e.g., raw materials, people, and money) employed. Examples of efficiency measures in local government include tons of garbage collected per tax dollar consumed, number of homes protected per firefighter, cost per home assessed, and dollars expended per student.

Although ratios of this kind are helpful, they do not fully encompass the concept of “effectiveness.” The number of fires prevented and the speed with which fires are extinguished are also important, indeed, probably more so than a straightforward accounting of expenditures. Similarly, it doesn’t matter how much we’re spending on students if they cannot pass a standardized test or gain entry to a college or university.

For the most part, the measures of performance included in this report address efficiency rather than the much broader concept of effectiveness. The widespread belief that the public sector in Lake County is wasteful and inefficient prompted us to focus on measures of efficiency. (As we shall see, the data do not justify such a broad indictment.) Further, effectiveness data are hard to come by. They generally require a precise stipulation of outcomes, something that is rarely done in local government.

That being said, we recognize that the various measures of performance presented in this section are incomplete. They are but a starting point for what we hope will evolve into a broad commitment to the development and adoption of comprehensive measures of performance in all units of local government in Lake County and elsewhere.

Performance Measurement in the Public Sector

We know that some may question the need for performance measures of any kind. Shouldn’t people simply “do their jobs”? And shouldn’t traditional performance management techniques, such as performance appraisal, employee discipline, and awards and recognition programs, be sufficient to ensure that government is accountable and responsive? Perhaps. But the private sector has demonstrated to the satisfaction of many that a sustained focus on performance monitoring systems can complement an ongoing focus on individual performance.

Nationally, interest in this topic has been growing over the course of the last twenty-five years. This interest was initially prompted by the remarkable success of the total quality management (TQM) movement and other quality-assurance programs in the private sector. Dramatic changes adopted in manufacturing, in particular, since 1980 are credited by many to TQM, a comprehensive management strategy that is closely associated with W. Edwards Deming (1986), Joseph Juran (1974), and others. Most importantly, TQM recognizes the importance of ongoing measurement. In Juran’s view, “You cannot improve what you do not measure.”

Problems were encountered early on in transferring TQM to settings in the public sector. In the private sector, the purchaser of a good or service typically “consumes” or experiences it. In the public sector, taxpayers do not benefit directly from some of the most important goods and services produced by

government. Additionally, most but not all interactions in the private sector are transactional in nature. They involve exchanges rather than fundamental transformations. Education, job training, the courts, and health care are examples of transformational services. Peoples' lives change because of them. They are educated, prepared for employment, sent to jail, and cured. Finally, concerns pertaining to equity and social justice play an important role in government. These concepts come into play less often in the private sector.

Nevertheless, under the rubric "the New Public Management," the public sector has followed suit in developing strategies designed to engender improved performance, responsiveness, and accountability. At the federal level of government, the Clinton Administration's National Performance Review (NPR) promised to "cut red tape, put customers first, empower employees to get results and cut back to basics" (Gore 1993). The following achievements have been attributed to the NPR: (1) a decrease in federal employment by more than 240,000 positions; (2) the closure of more than 2,000 obsolete field offices; (3) the elimination of nearly 200 programs and agencies; and (4) savings of \$118 billion (Gore 1996, 1). Although the exact size and scope of these accomplishments has been disputed, it is broadly accepted that the NPR accomplished many of its objectives (Kamensky 1996, 252; Light 1994, 65).

This strategy is also reflected in the Government Performance Results Act of 1993 (GPRA), which requires federal agencies to stipulate programmatic outcomes and to track performance against established targets over time. The GPRA is now recognized as a key element in the federal government's ongoing effort to reinvent itself (Gore 1993, 73; Kravchuk and Schack 1996, 349).

Similar efforts involving local government have tended to reflect the concept of "reinvention" more than total quality per se. *Reinventing Government* (1993) by David Osborne and Ted Gaebler has been described as a modern day version of Thomas Paine's *Common Sense*. Using Sunnyvale, California, as a model, Osborne and Gaebler demonstrated the use of a broad range of municipal performance measures. Other exemplars include Green Bay, Wisconsin, and Baltimore, Maryland.

Initially derided by some in the public sector, influential professional associations like the American Society for Public Administration (ASPA) and the International City/County Management Association (ICMA) now recognize program assessment as a critical management function. ICMA, for instance, publishes an annual report (2002) that includes data pertaining to services performed by ninety-two units of local government. Over the years, the need for performance measures has even achieved standing in the academic community. *Municipal Benchmarks: Assessing Local Performance and Establishing Community Standards* (2001) by David N. Ammons is a case in point.

Points of Comparison

Points of comparison are essential in assessing public sector performance. Typically, one, two, or three points of comparison are employed. Performance can be assessed against (1) a unit of local government's own performance in prior time periods; (2) an established target or goal; or (3) the performances of other units of local government.

Previous Performance

Trend data—our first point of comparison—are often reported using charts and graphs. The display of raw numbers is recommended as well, however, so that a reader can conduct his or her own analysis. 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).

Target or Goal

A comparison against a target or goal—our second point of comparison—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.

Goals and targets also make it easier to establish priorities. Although unit-specific data tracked over time can contribute to discussions of this kind, a trend line that advances forever is not necessarily “good.” The speed with which various public sector services are provided typically comes at a cost; and choosing to expend funds in one department generally means that less can be spent in another. Conversely, a trend line that dips on occasion is not necessarily “bad.” Variation occurs in all such phenomena (e.g., the number of library books borrowed over the course of a year, the number of fires that occur in a calendar quarter, etc.). Priorities need to be set, in part, on the basis of an indicator’s “criticality” (e.g., police protection versus a holiday parade), the distance of current performance from an established goal or target, and the relationship of the performance to other outcomes. Priorities cannot be “divined” from trend data alone.

Finally, goals and targets facilitate tracking over time. Progress, or lack thereof, can best be assessed against an established benchmark (Besleme and Mullin 1999).

Other Units of Government

Comparisons over time or against goals and targets are employed in most reports pertaining to public sector efficiency and effectiveness. Our third point of comparison—community-to-community comparisons—tend to be more problematic. Some resist the “natural human tendency (perhaps taken to new heights in our culture) to want to ask (and want to answer) the question, ‘who’s better, who’s worse?’ or even ‘who’s best, who’s worst?’” (Murphey 1999, 79). 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 difference or special circumstances need to be addressed when comparative data are used.

Challenges

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 concerns will be addressed in turn.

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 (e.g., 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, data pertaining to libraries, 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.

Further, 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 or town or an individual department unfairly. This further complicates the data gathering process. Indeed, data gathering can be a time-consuming and costly affair.

Balance

Performance data must be effectively “balanced” as well. This typically leads to the development of “dashboard indicators.” If every bit of information that could be provided by the computerized systems now integrated into our cars’ various systems was, in fact, displayed on a real-time basis, we would be overwhelmed. Important information would be lost, and we would be distracted from the task at hand, that is, maneuvering our vehicle from point A to point B. Instead, we rely on a small number of indicators (i.e., speed, temperature, battery charge, etc.), which are displayed prominently on our dashboards. In the same way, 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. They certainly don’t tell us everything we need to know. They can, however, 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.

A lot thus depends on the selection of a particular set of dashboard indicators. While admittedly less than comprehensive in nature, indicators should, nonetheless, paint a fair picture. In the next chapter, cost data pertaining to libraries is balanced by circulation data for this reason. With respect to education, cost per student is balanced by ISTEP scores. And per capita expenditures in police departments are balanced by crime rates. Displayed in pairings of this kind, measures of efficiency can shed light on departmental effectiveness as well.

In some cases, additional steps must be taken to ensure fairness. For instance, we elected not to include pension data as a cost in calculating the efficiency of police departments. These costs were incurred in the past. There is nothing that a municipality can do about them now; they in no way reflect on the current efficiency or effectiveness with which a police department is currently being managed. In fact, including these costs would seriously distort comparisons.

Explanatory notes are often required as well. This is particularly true when the relationship between cost and efficiency is not linear in nature. For instance, housing starts can be viewed both positively and negatively. In the short term, new construction can bring jobs to a community. In the long term, housing starts can engender the kind of suburban sprawl that may be antithetical to a community’s vision for itself.

Selection of Ratios

A third challenge pertains to the use of ratios. Towns and cities come in different sizes. We typically overcome differences in size through the use of ratios. In many cases, calculating a cost per capita is sufficient. In other cases, another denominator may be more appropriate. For instance, we used the number of households in the community as a denominator in the case of the property assessment function and fire protection. Homes rather than people are being assessed in the former case; houses are

being protected in the latter. Similarly, a per capita cost in the case of the courts would have suggested that Lake County's expenditures are high relative to other counties in the state. Because more court cases are filed and processed in Lake County, however, we used a per transaction cost, in this instance, a per case cost. The opposite conclusion about court efficiency was thus indicated.

Choosing a denominator can be more difficult than it may seem. For instance, should a per capita or per transaction denominator be used in the case of the county clerk? In fact, a strong argument can be made for each of these approaches. This explains, in part, why performance measurement systems tend to evolve over time. It may take a cycle or two before an optimum set of indicators can be assembled.

Cause and Effect

A fourth concern pertains to cause and effect relationships. The link between a particular indicator and a particular outcome cannot be assumed. For instance, spending per pupil does not correlate well with ISTEP scores. Other factors are involved, including poverty level, the education level of adults living in a school district, and the incidence of single parent households. Indeed, there may be little or no correlation between a particular indicator and a desired outcome. And, as was noted above, a trend line can indicate both desirable and undesirable outcomes. For these reasons, additional research may be needed to establish the precise relationship that exists between a data set and a particular outcome. Again, this is why performance measures in the public sector are often viewed as a starting point in a broader conversation. More often than not, extensive deliberations will be required to determine the precise meaning of any data that are gathered.

Need for Prompt Action

A final challenge pertains to the need for action. McKiernan and Plantz (1999) draw a sharp distinction between "community status reports" and "community interventions." In doing so, they acknowledge the value of community-based indicator reports. In and of themselves, however, such indicators cannot ensure that action will be taken; they can only serve as a catalyst for change. Besleme and Mullin thus note: "The belief that indicators, in and of themselves, can mobilize change in our nation's communities is one that we must disavow" (1997). Whereas indicator reports provide information about a community, interventions "change selected conditions in the community." Further, the selection of "conditions of interest" serves as a starting point in the development of indicators. In contrast, community interventions begin with the identification of desired outcomes (McKiernan and Plantz 1999).

McKiernan and Plantz (1999) identify four steps that are essential to community interventions: (1) a comprehensive plan for achieving specified outcomes must be developed; (2) a detailed action plan has to be drafted; (3) specific indicators showing the extent to which outcomes and milestones are being achieved or not achieved have to be selected; and (4) an implementation plan for improving performance has to be developed and implemented.

Unfortunately, this study can do little to ensure that action is taken in any department or jurisdiction. Nevertheless, several recommendations follow that could prove helpful in this regard. At the end of the day, positive action will depend on engaged citizens and responsive elected and appointed officials.

These several cautionary notes in no way undermine the potential value of performance indicators in the public sector. Again, it is best to think of performance measures pertaining to local units of government as a starting point for discussion. At best, they can only provide a foundation on which further deliberation and research can be constructed and action plans can be developed.

Recommendations

As the region's Council of Governments, the Northwestern Indiana Regional Planning Commission should facilitate the creation of a series of functional task forces (e.g., police departments, fire

departments, the courts, township trustees, etc.) and direct them to develop sets of performance indicators to be used in common by the region's local government entities for tracking performances over time. The present report could provide baseline data for an initiative of this kind.

Individual units of local government should gather and publicly display data pertaining to the common sets of indicators recommended by these task forces.

The Northwest Indiana Local Government Academy, together with the Indiana Business Research Center, should post and maintain online the government efficiency data included in this report. Additional funding and staff support should be secured so that data pertaining to Porter and La Porte counties can be added as well.

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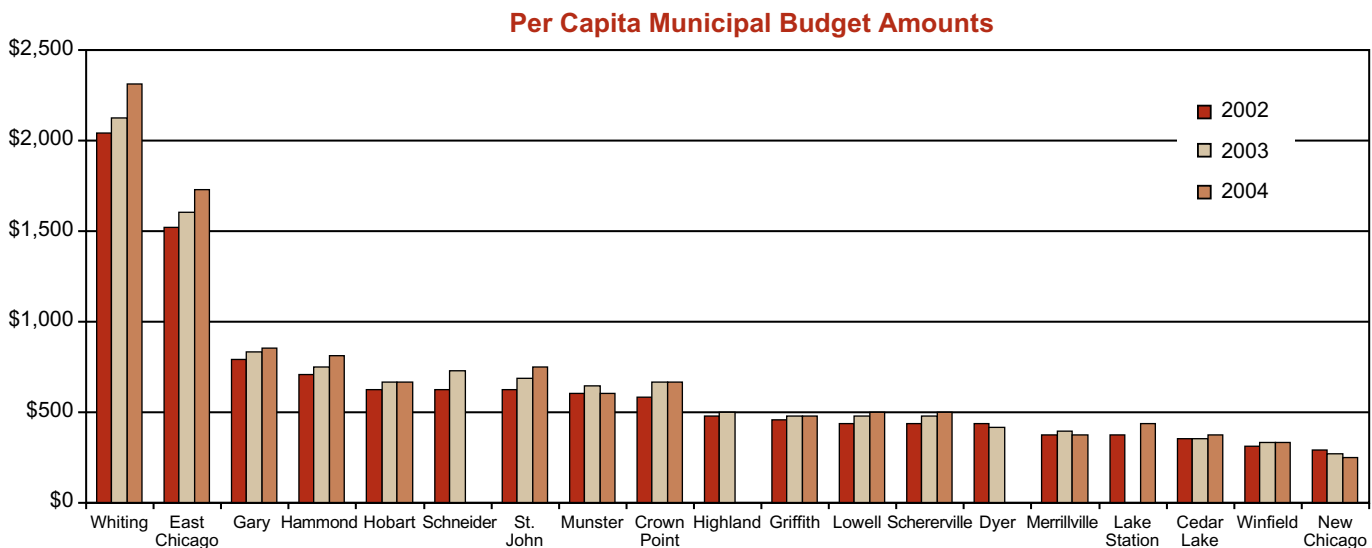
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By Function

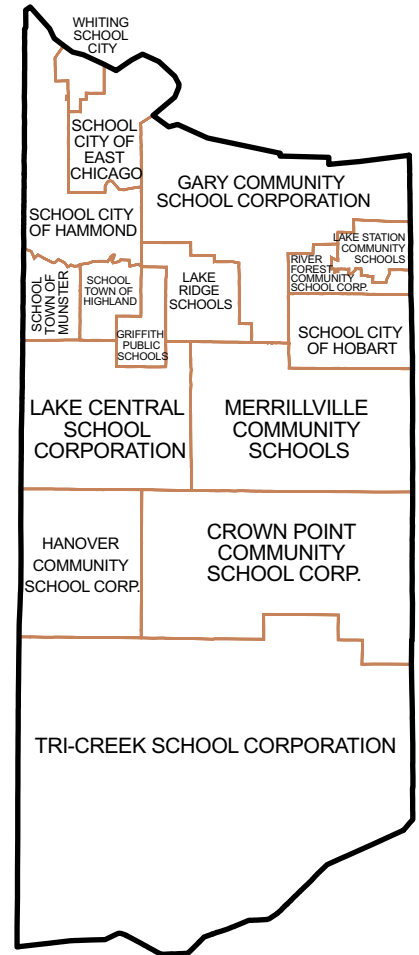
Our attention now turns to comparisons across local governments in the efficiency and effectiveness with which they carry out key government functions. The reader will note that the specific cities and towns featured in these comparisons vary somewhat across functions. Unless otherwise noted, this reflects the availability of relevant data for the individual jurisdictions.

Public Education

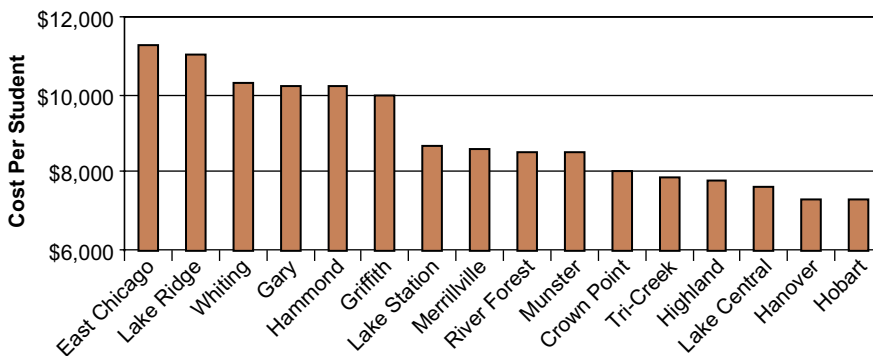
Schools account for a significant share of our property tax bill, as much as 50 percent in some taxing districts. Judging whether or not these dollars are well spent can be challenging. We have found four sets of data to be revealing, however: cost per student, ISTEP scores, student-teacher ratio, and administrative overhead expenditures.

Cost per Student

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: 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).



Per Student Cost, 2003-2004



ISTEP Scores

“Efficiency” in the classroom means little, however, if students are not learning. In fact, education should be viewed as an investment. We should assess the return on our investment—i.e., our tax dollars—in terms of learning. ISTEP scores, Indiana’s approach to standardized testing, provide a useful, albeit incomplete, measure of learning. During the 2002-2003 school year, 63.4 percent of sophomores statewide exceeded the state’s math and English standards. With a pass rate of 78 percent, Munster led all school districts in the county, followed closely by Lake Central at 76 percent. Five school districts fell well short of the mark, with Gary at 30 percent, East Chicago and Hammond at 37 percent, the Lake Ridge Schools at 40 percent, and the Lake Station Schools at 45 percent.

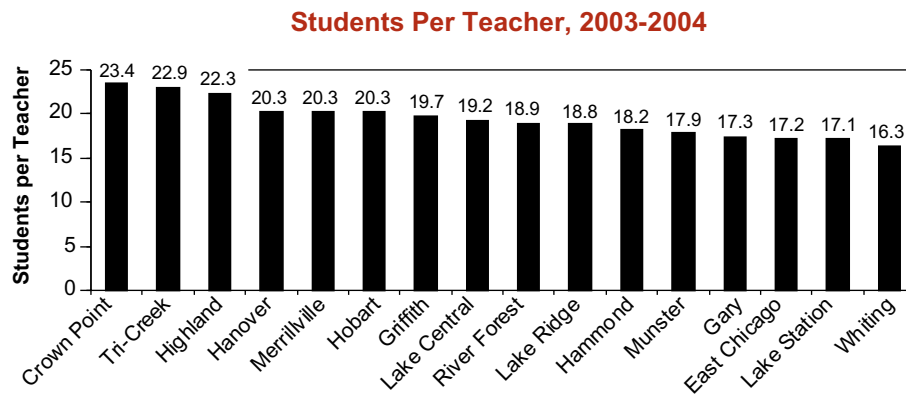
It is important to note that assessing performance solely on the basis of test scores can be misleading. In general, students living in our urban core have fewer family and community resources upon which to

draw and greater needs than do their counterparts in mid- and south-Lake County. In Munster, only 7 percent of adults lack a high school diploma, compared to 39.4 percent in East Chicago. Only 2.1 percent of families in the Lake Central Schools live below the federal poverty level; in Gary, 32.1 percent of all families are poor. Only 14.5 percent of students in the Crown Point Schools come from single parent households; in Gary, 64.2 percent of students live in single parent homes. For these reasons, ISTEP scores alone are a poor barometer of educational efficiency.

In general, education is best assessed on a school-by-school basis. We can, however, go a bit further than cost per student and ISTEP scores by examining student/teacher ratios and the amount of money dedicated to classroom instruction versus support and administrative functions (i.e., overhead). All things being equal, low overhead costs tend to indicate “lean” budgets.

Student-Teacher Ratio

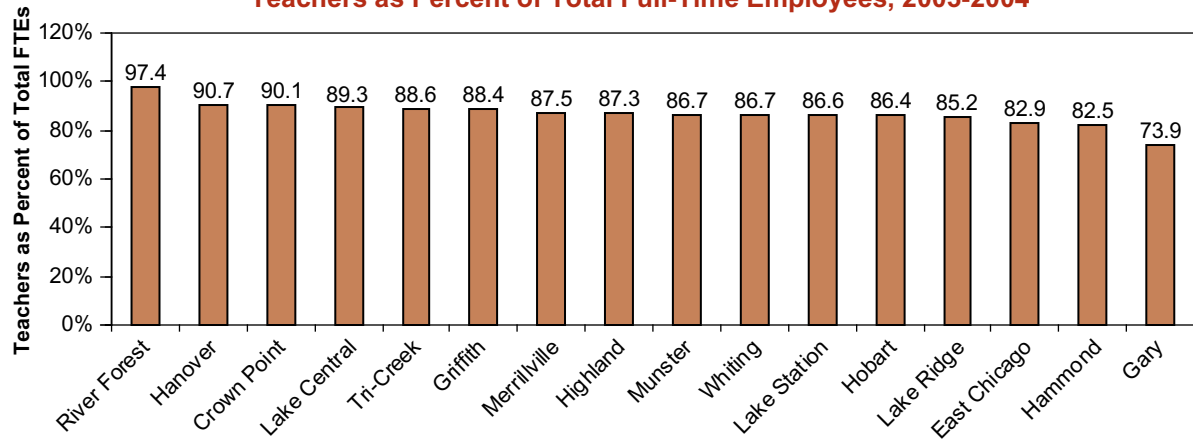
During the 2003-2004 school year, school districts statewide reported an average student-teacher ratio of 18.9 to 1. Led by the Crown Point Schools at 23.4 students per teacher, nine school districts in Lake County exceeded this average. Four had substantially fewer students for each teacher, however, 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. Further, 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.



Administrative Overhead

In general, it is easier to justify low student/teacher ratios in urban schools. Again, educational challenges are greater in the urban core. It is harder to explain high percentages of overhead costs. Statewide, 87 percent of all full-time public school employees (FTEs) work in the classroom. During the 2003-2004 school year, eight school districts in Lake County exceeded this average and eight reported lower values. Three school districts assigned significantly lower percentages of their staff resources to the classroom: East Chicago (82.9 percent), Hammond (82.5 percent), and Gary (73.9 percent).

Teachers as Percent of Total Full-Time Employees, 2003-2004



So what should we make of these numbers? Although overall costs are higher in some school districts than in others, this alone cannot be used to assess educational efficiency. A broad range of performance measures, including ISTEP scores, should be considered as well. Additionally, it is important to consider 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. Additionally, Whiting is a special case. High costs there appear to be attributable to the school district's small size rather than to high overhead costs.

Library Services

A relatively small share—between 2 and 4.3 percent—of the total property tax bill in Lake County is spent on library services. However, library costs can tell us a lot about the nature of inefficiency and waste in local government. They can also point out some of the difficulties we face in comparing the performances of various units of local government. There are seven independent library systems in Lake County: Crown Point, East Chicago, Gary, Hammond, Lowell, Whiting, and the Lake County Library, which provides services to citizens not served by one of the other six districts. Our libraries serve populations with very different needs. Some are poor; others are not. Some have high levels of educational attainment, some low. Some libraries serve large geographical areas; others are relatively compact.

So how should we assess the efficiency and effectiveness of our seven library systems? We can begin by dividing the cost of library services by the number of residents in the library district. That gives us a per capita cost. But that is not enough. Per capita cost alone ignores demand for service, community need, service satisfaction, and other important measures of performance. A library with ten books that opened for just two hours each week would have a very low per capita cost, but few would argue that it can meet the needs of the community.

The International City/County Management Association recommends that we also consider circulation (i.e., the number of books loaned) per visitor and circulation per capita (i.e., the number of books loaned divided by the library district's population). It is hard to use circulation per visitor in Lake County because some libraries are located in community centers, where all visitors are counted, not just those who use library services. Circulation per capita is a more useful measure, even though data from some libraries may be more valid than data reported by others.

In Lake County, circulation per capita ranges widely, from a low of 2.2 in East Chicago—237th among the state's 239 libraries—to a high of 28.1 in Whiting, which ranks third in the Hoosier state. Lowell scored eighteenth and Gary, Crown Point, and Lake County are among the top hundred libraries in the state with respect to per capita circulation.

Now back to cost: When we consider only operating expenses (i.e., personnel, materials, supplies, and some equipment) per capita, the Whiting Library is the most expensive in the state. On a per capita basis, the East Chicago Library is the second most expensive, and operations in the Gary Library are the eleventh most costly in the state. On a per capita basis, operational costs in our four other library systems rank between the 101st and the 172nd most expensive.

Lake County Libraries

Lake County Library Districts	2000 District Population	2002 Operating Expenditures Per Capita	Operating Expenditures Rank (Among Indiana's 239 Library Systems)	2002 Circulation Per Capita	Circulation Per Capita Rank (Among Indiana's 239 Library Systems)
Crown Point	33,069	\$29.10	172	10.4	92
East Chicago	32,414	\$125.22	2	2.2	237
Gary	92,849	\$75.30	11	12.6	63
Hammond	83,048	\$41.44	107	4.2	214
Lake County	220,722	\$35.46	134	10.2	99
Lowell	17,325	\$42.04	101	19.9	18
Whiting	5,137	\$157.68	1	28.1	3

Personnel costs are particularly interesting. In East Chicago, Whiting, and Gary, personnel expenditures account for a significant proportion of these high operating costs. On a per capita basis, the East Chicago Library has the highest personnel costs in the state, Whiting has the second highest, and Gary has the twenty-ninth highest personnel costs in the state.

These data raise certain questions. Let us start with the East Chicago Library. It has the third lowest circulation rate in the state; at the same time, its operating expenditures are the second highest in the state, and its personnel costs are the highest. It may be difficult to justify spending so much—particularly on personnel—when so few books are checked out to patrons.

Further, Whiting enjoys the highest circulation rate in Lake County, but its operating costs are very high as well. Significantly, the Whiting Library serves only 5,137 citizens. So, it seems reasonable to ask: Can Whiting continue to support an independent library system when taxes on residential properties have risen so dramatically?

As we noted at the outset, library services make up only a small part of the property tax equation, ranging from a high of 4.3 percent of the property tax in East Chicago, to 4.1 percent in Whiting and Gary, down to a low of 2 percent in Crown Point. But small savings add up. Controlling library costs, particularly personnel costs, is important. And savings in operating costs, together with some targeted consolidations, could point the way for other units of local government as well.

Public Safety

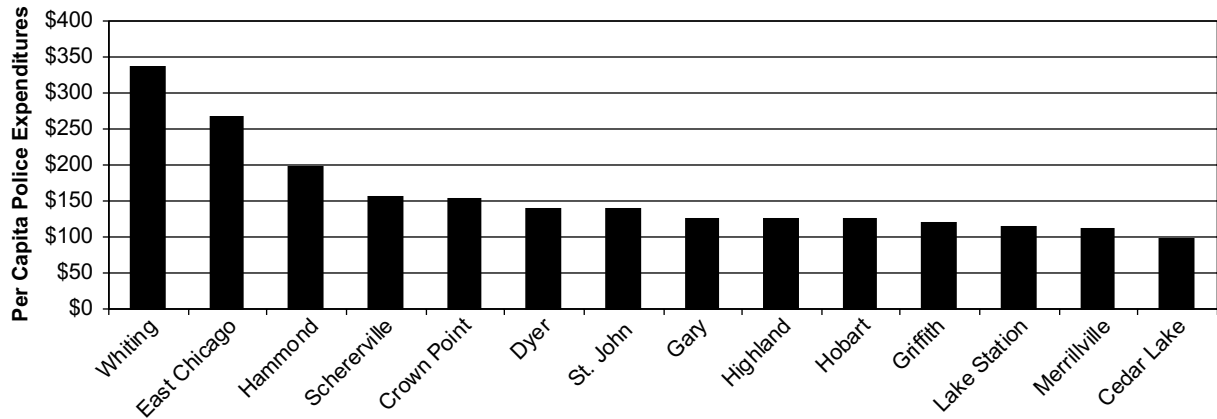
Police Departments

Here we look at police departments, more specifically at their non-capital expenditures. In other words, 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 the amounts of money spent on police officers, civilian employees, and the supplies they use.

Public safety expenditures are typically assessed in one of three ways: (1) cost per resident (2) cost per household or (3) cost per square mile. We used cost per resident. (An analysis using cost per household would have produced similar results. Cost per square mile tends to be useful only in the case of rural

communities.) 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).

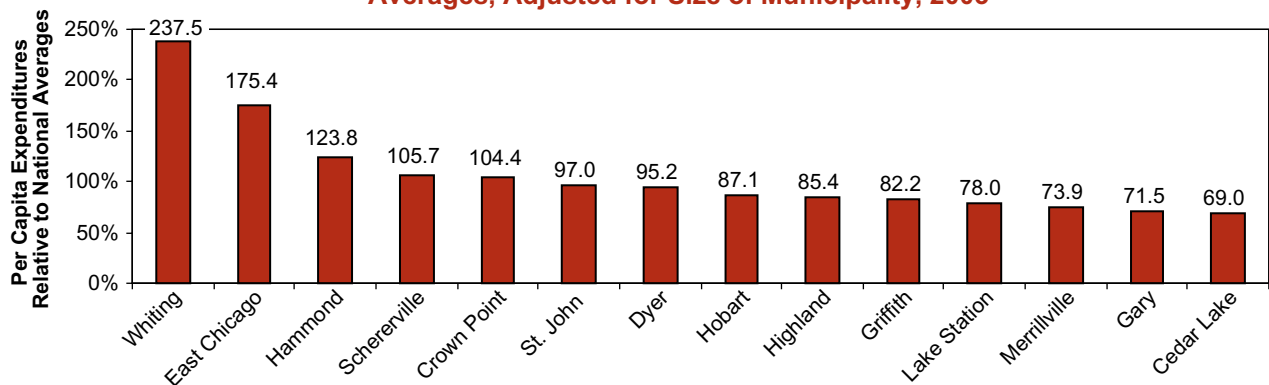
Per Capita Police Expenditures, 2003



It is important to remember that police departments in communities of different sizes have different cost structures. Above a certain minimum population, 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 (less than 2,500; 2,500 to 9,999; 10,000 to 24,999; and so on). 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 percent. Other towns and cities in Lake County were below the average for their peers.

Police Expenditures Per Capita in Relation to National Averages, Adjusted for Size of Municipality, 2003



In 2003, four towns and cities spent less than 80 percent of the average for towns and cities of the same size: Cedar Lake (69 percent of average); Gary (72 percent of average); Merrillville (74 percent of average); and Lake Station (78 percent of average). Gary is a particularly interesting case: Having reduced its total police force from 427 officers in the early 1960s to 296 today, the city's budget for police services, at \$125 per resident, appears—at least on the surface—to be a real bargain.

It is not enough, however, to look only at the spending side of the equation. We really need to answer three questions.

- How much public safety is the community willing to pay for?
- How much public safety is now being “purchased”?
- And how much could be “purchased” if alternative public safety strategies were employed?

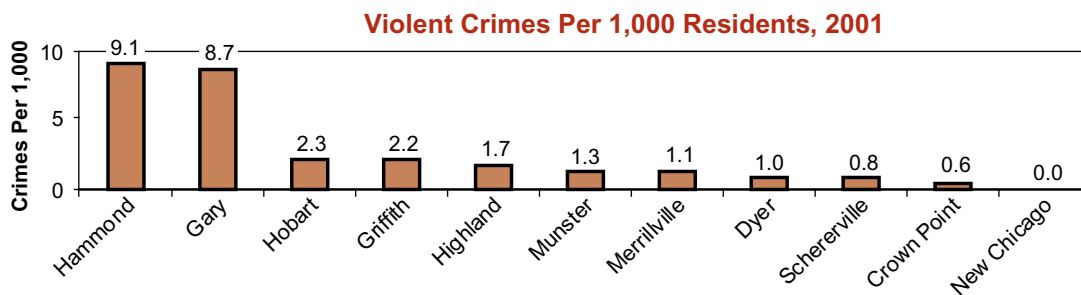
These are very challenging questions. Few communities are particularly effective in assessing or measuring public safety. Nevertheless, lacking answers to these questions, we cannot know precisely what we are getting, in terms of public safety, in return for our property tax dollars.

Measuring Public Safety

Crime rates are an important indicator of public safety. A low crime rate generally means that a community is safe. At the same time, we know that high levels of spending cannot guarantee a low crime rate. Crime tends to flourish in communities with high levels of poverty, low levels of educational attainment, few job opportunities, and high levels of substance abuse. It takes more than police officers and squad cars to make a community safe.

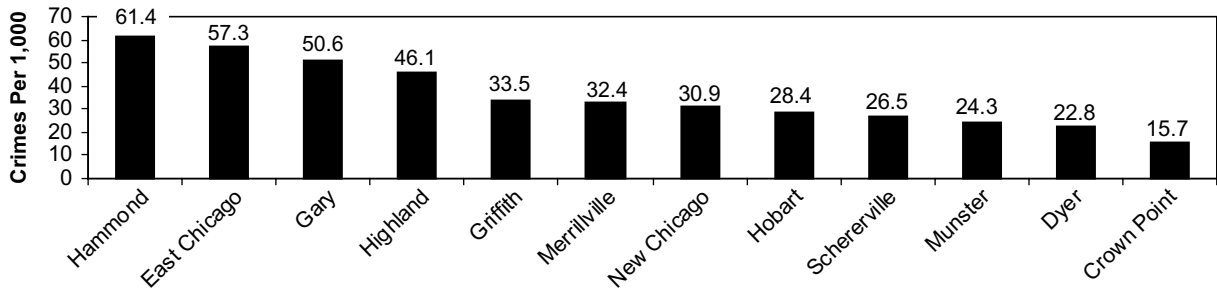
Still, it is useful to consider the relationship of crime rates to public safety expenditures. High spending per resident and a low crime rate could indicate too much spending. Conversely, low expenditures and a high crime rate could suggest the need for more spending.

We have looked at crime data reported for twelve communities in Lake County. We used 2001 data because the U.S. Department of Justice has not yet published local statistics for 2002 and 2003. Violent crimes include murders and non-negligent manslaughters, forcible rapes, robberies, and aggravated assaults. In 2001, 3.7 violent crimes were reported for every 1,000 Hoosiers. Hammond and Gary exceeded this rate at 9.1 and 8.7 per 1,000 residents, respectively. (We do not have data for East Chicago because of a reporting problem involving the definition of aggravated assault.) Four communities reported one violent crime per 1,000 residents or less in 2001: Dyer, Schererville, Crown Point, and New Chicago.



Property crimes include burglaries, larcenies, and motor vehicle thefts. In 2001, 34.6 property crimes were reported for every 1,000 Hoosiers. Four towns and cities in Lake County exceeded this rate: Hammond at 61.4, East Chicago at 57.3, Gary at 50.6, and Highland at 46.1. Crown Point was the only community in Lake County for which we have data that reported less than twenty property crimes per 1,000 residents in 2001.

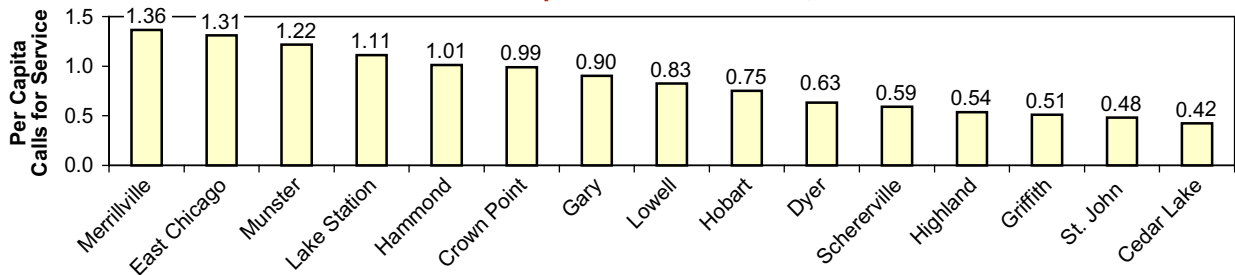
Property Crimes Per 1,000 Residents, 2001



With two exceptions, operating costs in police departments in Lake County and crime rates appear to be roughly in balance. Costs are higher in communities with higher levels of criminal activity. They are lower in communities with lower crime rates. Whiting’s police department, however, does stand out as a high-cost department; also, expenditures appear to be low in Gary, given the level of criminal activity reported there.

Other measures of performance can be telling as well. Although we are concerned about the uniformity with which calls-for-service (police reports requiring an action of one kind or another) are tracked, this indicator can be useful. At 1.4 calls per resident, Merrillville recorded the highest call-for-service rate in Lake County in 2003; at 1.3 calls per resident, East Chicago reported the second highest rate. In contrast, ten communities, including Gary at 0.9 calls per capita, reported less than one call per resident.

Per Capita Calls for Service, 2003



Average response time, the number of tickets and citations issued per resident, the ratio of police officers engaged in non-administrative work to all calls-for-service can also tell us a great deal about public safety. Police departments in Lake County do not routinely report these numbers. The raw data are available, however, and could be converted rather easily into meaningful measures of performance.

We encourage all police departments in Lake County to participate in the development of a common set of performance indicators. The resulting data could then be published on municipal websites. If this was done, citizens would be better able to evaluate public safety efficiency and effectiveness themselves. An initiative of this kind would also provide a model of cross-jurisdictional collaboration for other units of local government.

Fire Departments

Fire departments serve an essential function in all of our communities, and they do more than fight fires. Incidents of various kinds are reported in seven categories: (1) fires; (2) ruptures, explosions, and overheating; (3) rescue and emergency medical services; (4) hazardous conditions not involving fire; (5) service calls; (6) “good intent” calls in which firefighters are mobilized but not engaged; and (7) false alarms and false calls.

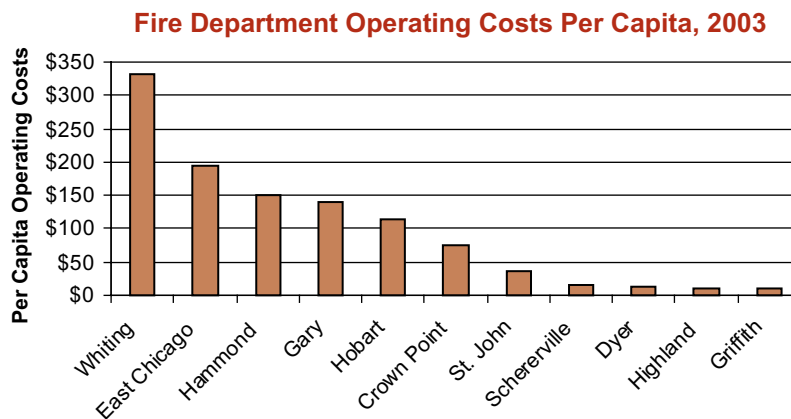
Unlike police departments, which tend to be organized similarly in most towns and cities, fire departments are structured differently in large and small communities. Lake County cities have

professional fire departments, while volunteer fire departments serve Lake County’s 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 was not an issue, the cost of property insurance would skyrocket in cities lacking professional firefighting capacity.

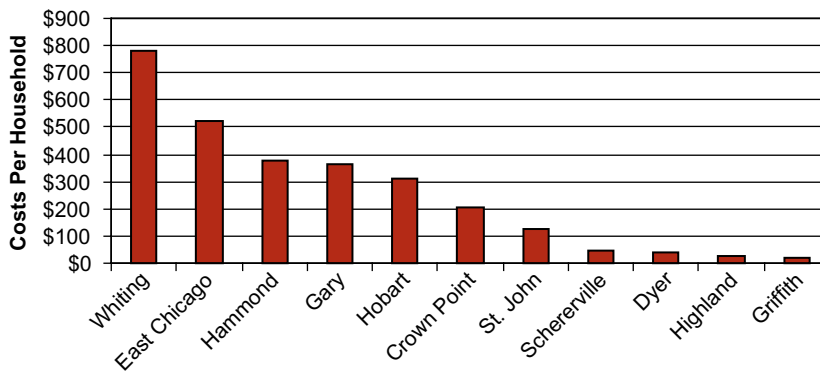
We focused our analysis on the six professional fire departments for which data were available, although data for volunteer fire departments are also shown below. Expenditures on fire protection are typically assessed in one of four ways: (1) cost per resident, (2) cost per household, (3) cost per incident, or (4) cost per square mile. The first three measures are useful in Lake County; our cities do not sprawl to a significant extent. We used 2003 appropriations and incident data to assess overall efficiency, and again found significant city-to-city differences.

In 2003, the average cost for fire protection among the cities was \$168 per resident. 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.



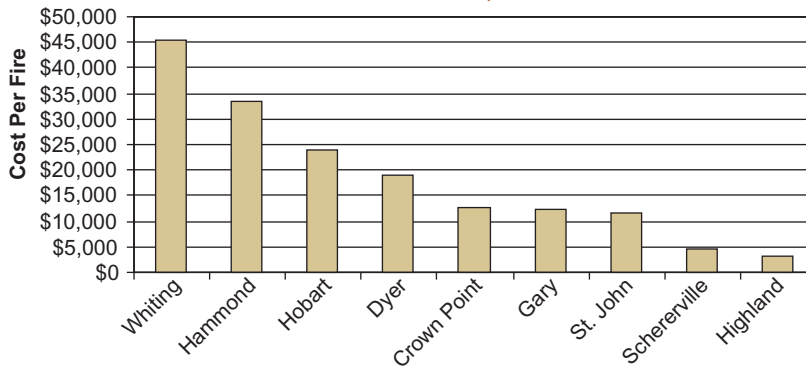
Whiting and East Chicago exceeded the average household cost of \$427 by more than 20 percent, by 82 percent (\$778 per household) in the case of Whiting and by 23 percent (\$523 per household) in the case of East Chicago. Average household costs in Hammond, Gary, Hobart, and Crown Point were reported at \$380, \$367, \$310, and \$203, respectively.

Fire Department Operating Costs Per Household, 2003

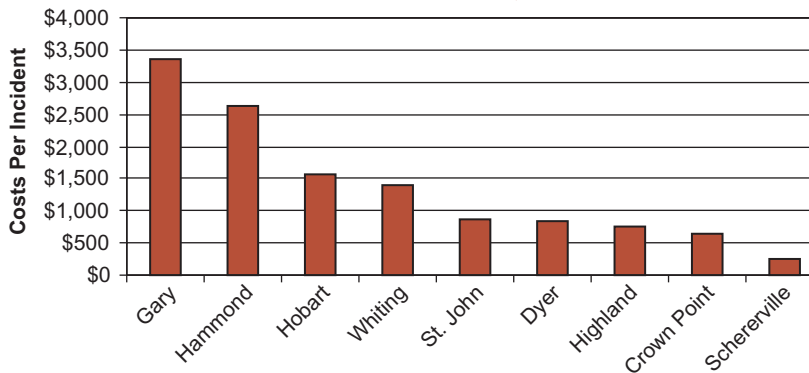


Assessing cost per incident is a bit trickier. Ideally, we would count all incidents, not just fires. Data provided by the State Fire Marshal’s Office indicate that some types of non-fire incidents may be reported differently from city to city. For this reason, we used cost per fire since it is the most clearly defined type of incident. (That being said, it is important to keep in mind that firefighters perform a number of other critical functions.) We divided all operational costs by the number of fires reported in each community. The average cost per fire in Whiting was \$45,326 in 2003. In Hammond, the average cost per fire was \$33,464. The average costs in Hobart, Crown Point, and Gary were \$23,931, \$12,524, and \$12,465, respectively. (Incident data pertaining to East Chicago have not yet been reported.)

Cost Per Fire, 2003

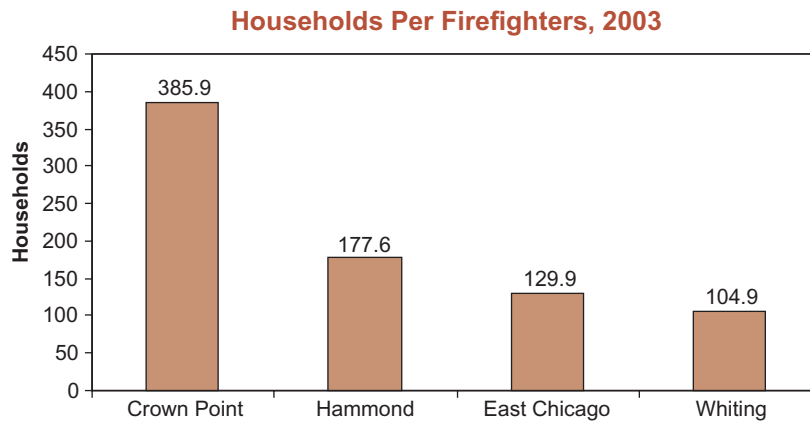


Costs Per Incident, 2003



It is not hard to understand why these costs differ so much. Again, firefighting is a labor-intensive business and per household staffing differs greatly from fire department to fire department. In Crown

Point, there is one firefighter for every 386 households. The ratio is 1 to 178 in Hammond, 1 to 130 in East Chicago, and 1 to 105 in Whiting. (We do not have staffing data for Gary or Hobart.) To a certain extent, a higher ratio can be justified in older communities. Buildings are older and more vulnerable to fire. Abandoned buildings can be a problem as well. Still, this does not explain why Whiting’s ratio of firefighters to households is 41 percent lower than Hammond’s or why East Chicago’s ratio is 27 percent lower. Overall, the data indicate that costs are high in both Hammond and East Chicago.



Lake County Sheriff’s Department

The Lake County Sheriff’s Department has a large budget, accounting for almost 12 percent of the county’s budget. In 2003, \$13.4 million was needed to jail prisoners and \$11.8 million was spent on other services.

It is difficult to assess efficiency and effectiveness in law enforcement on a per capita basis. Some services provided by county sheriffs overlap with services provided by municipal police departments and crime rates differ dramatically from county to county. We focused instead on two measures: (1) the amount of money needed to house prisoners in the county jail; and (2) the average cost of police services provided to residents living in areas of the county not served by municipal police departments.

With respect to jails, we examined six counties in Indiana that house 300 or more prisoners on a daily basis. (We excluded Marion County because its unique municipal-county structure—Unigov—tends to confound comparisons.) We calculated how much it costs each day to house a single prisoner. The Indiana Department of Corrections found 818 prisoners in the Lake County jail when it conducted its 2002 “snapshot” review. Assuming this count over the course of the entire year, the average daily cost was \$33.

Prisoner counts can vary dramatically from month to month, however. For instance, the Indiana Department of Corrections recorded only 731 prisoners in its 2001 “snapshot” review; a prisoner census of 941 was cited in a recent press report; and a daily count of 1,000 prisoners is noted on the Sheriff’s website. Using the 941 figure, the average cost per day for housing a prisoner in the Lake County jail was \$29 in 2003; it was \$28 using the 1,000 prisoner figure.

Per diem costs are reported very differently across local, state, and federal jurisdictions, however, ranging from as low as \$18 per day to over \$50 per day. We have to be careful to compare “apples to apples.” Still, Lake County’s costs seem high in comparison to other Hoosier counties. Based on its “snapshot” count, the average cost per day for housing a prisoner in Porter County was only \$21 in 2002; and in Vanderburgh County—the one county that regularly houses more than 300 prisoners for which we were able to secure complete data—the average cost per day was only \$19. Given Sheriff Roy Dominquez’ recent request for more overtime funds, closer scrutiny of the jail’s cost structure would seem to be in order.

The Sheriff's Department also provides police services. On a per resident basis, the department's operational costs compare favorably with those of departments in other populous counties. At \$23 per resident, Lake County's 2003 per capita expenditures for police services were lower than those in Elkhart County (\$42) and Allen County (\$28); they were slightly higher than Hamilton County's per capita cost (\$22).

Most municipalities have their own police forces. A different picture thus emerges when we consider only unincorporated areas. With just over 42,000 residents living in unincorporated jurisdictions, Lake County's per capita expenditures for police services jump to \$270, far exceeding the costs for providing police services in unincorporated jurisdictions in Elkhart (\$85), Allen (\$98), and Hamilton counties (\$66). When we use the 80,000-resident count noted on the sheriff's Web page—which includes certain under-served municipalities—the cost falls to \$143 per resident, a level of expenditure that is still high in comparison to other Hoosier counties.

It is important to note that the Sheriff's Department provides other services as well, including some that may not be provided in other counties. Some employees are assigned to court security. The Sheriff's Department administers a highly acclaimed work release program. And in recent years, it has participated in several high profile collaborations with federal and municipal law enforcement authorities. Nevertheless, the data point to a need to more closely examine costs.

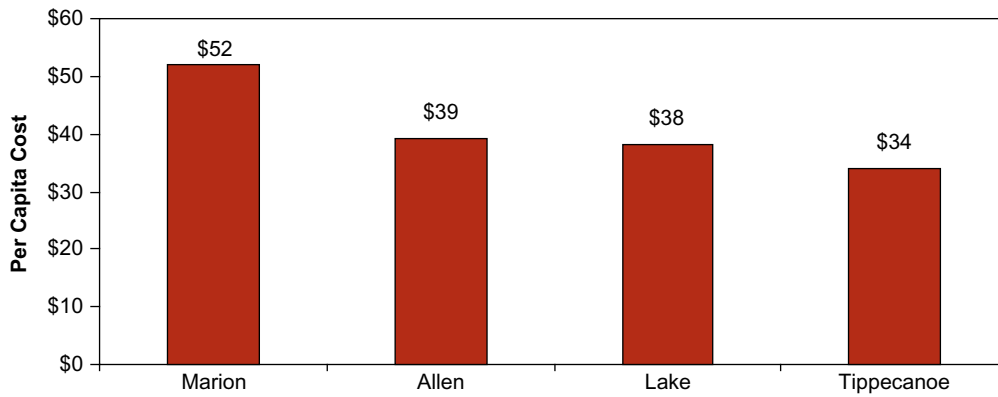
A larger implication pertains to the broad strategy employed by the Lake County Council in controlling expenditures. For the most part, the council now relies on historical costs and the ongoing scrutiny of line item expenditures. The council might do well, instead, to require departments to compare their operating budgets per capita, per incident, or on any other basis that might be appropriate to all other counties in the state, or to three to five counties that the department can clearly establish to be appropriate for this purpose. This would give greater control over line item expenditures to department heads and, at the same time, introduce a series of benchmarks against which efficiency could be more readily assessed.

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 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 that is equal with the legislative and executive branches. As a result, the County Council approves budgets, but has no direct power to impose fiscal discipline over the courts.

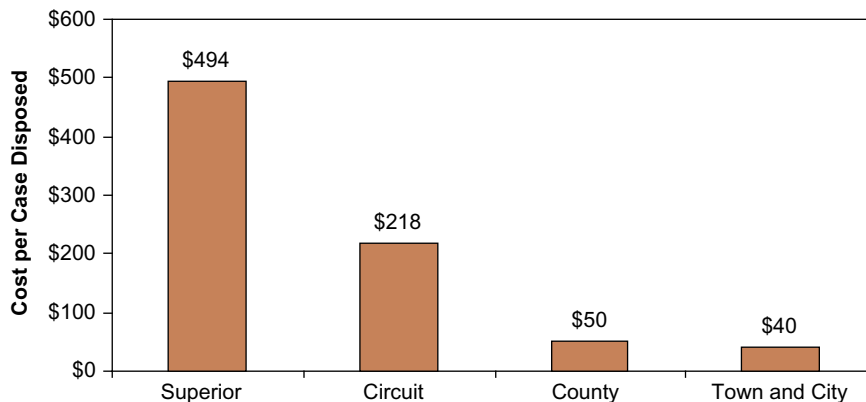
To assess efficiency in court administration, we gathered data pertaining to costs and caseloads. We compared Lake County data with data from Allen County, Marion County, and Tippecanoe County. We found that costs per case in Lake County are not out of line. Nevertheless, the high volume of cases that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

Per Capita Cost of Cases Disposed, 2003

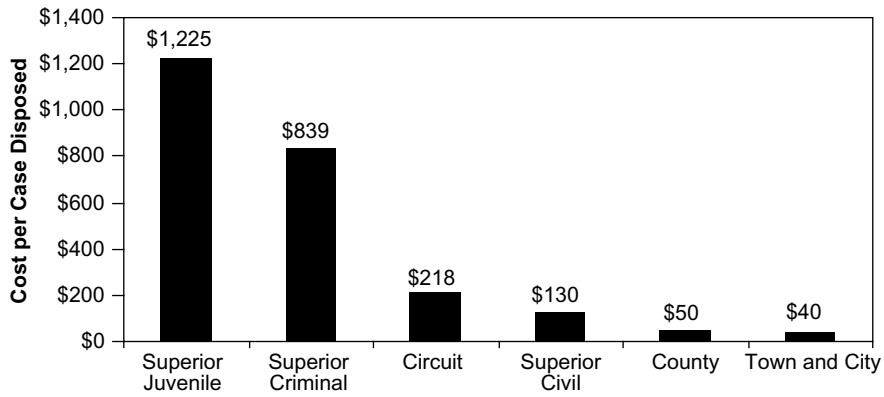


To the uninitiated, the court system can seem quite complex, particularly in Lake County, where a number of specialty courts hear cases. The circuit court is the chief trial court in the county. In 2003, the circuit court disposed of 1.7 percent of all cases at an average cost of \$218. Superior courts enjoy many of the same powers. Unlike most counties, different kinds of cases are assigned to highly-specialized superior courts in Lake County. In 2003, seven superior courts processed civil cases representing 7 percent of the county's total caseload at an average cost of \$130. Four superior courts heard criminal cases, 1.6 percent of all cases, at an average cost of \$839. And the county's sole juvenile court, also a superior court, processed 2.7 percent of all cases at an average cost of \$1,225. In 2003, four other "county courts" disposed of 38.1 percent of all cases processed in Lake County, all of which involved civil cases in which damages claimed fell short of a \$10,000 ceiling, class-D felonies, misdemeanors, or violations of local ordinances. Finally, ten city and town courts heard 48.9 percent of all cases processed in the county at an average cost of \$40. Cases heard in these courts tend to involve violations of local ordinances and civil cases in which the amounts in dispute do not exceed \$500.

Cost per Case Disposed, 2003

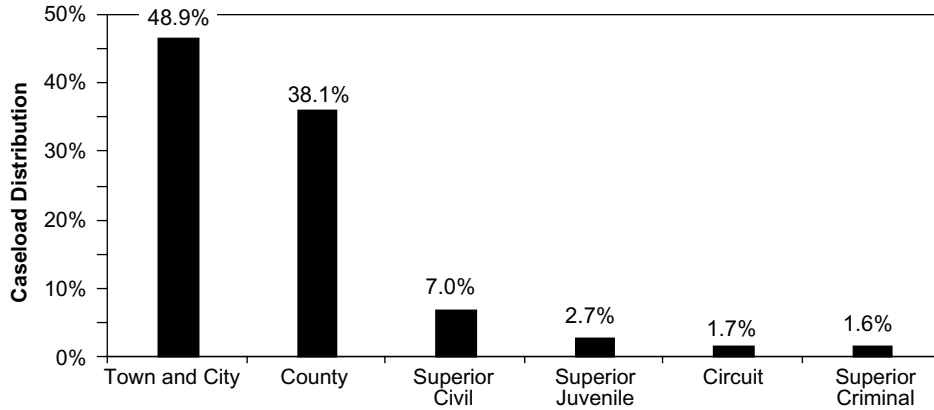


Breakdown of Cost per Case Disposed, 2003

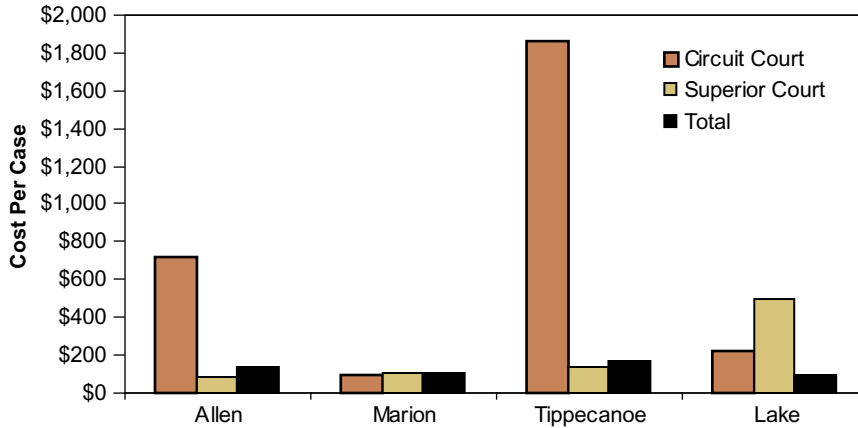


Because different courts exercise different responsibilities from county to county, cross-county comparisons can be difficult. We know, however, that the high volume of civil cases processed in our four “county courts” and in our city and town courts keeps the average cost per case quite low in Lake County: \$98 per case compared to average costs in Allen (\$136), Marion (\$110), and Tippecanoe (\$174) counties.

Distribution of Court Caseload, 2003

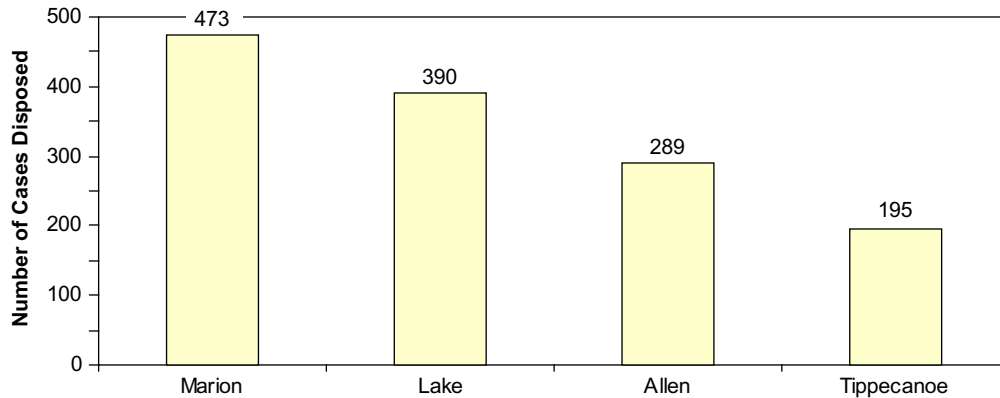


Cost per Case Disposed, 2003



Lake is a litigious county. In 2003, the judicial system in Lake County processed 390 cases for every 1,000 residents. This exceeded the number of cases processed for every 1,000 residents in Tippecanoe County by 200 percent and in Allen County by 35 percent. (Marion County’s volume of cases was even higher.) Assuming that a direct or linear relationship exists between the number of cases processed and overall cost, Lake County would have saved \$5.7 million in 2003 if the number of cases processed in our courts system mirrored Allen County’s per capita case count. Our high volume of cases keeps costs high.

Number of Cases Disposed per 1,000 Residents, 2003



In 2003, Lake County’s courts accounted for an average tax burden of \$38 per resident. This exceeded the tax burden attributable to Tippecanoe County’s various courts by \$4 per resident despite its higher average cost per case. Similarly, the portion of the property tax bill attributable to Allen County’s courts averaged \$39 in 2003, just \$1 more than in Lake County despite Allen County’s significantly higher per case cost.

As it now stands, significant reductions in the overall cost of the judicial system in Lake County may only be achievable through a concerted effort to reduce the need for court action. Less substance abuse, less crime, and fewer instances of child abuse and neglect—all of which involve high court costs—would contribute to a lower tax burden as well as to an improved quality of life.

What if the State Funded Schools and Welfare?

In recent months, elected officials in Lake County have noted that they alone are not responsible for high property taxes. They point, in particular, to welfare costs, which are controlled at the federal and state levels of government, and public education, for which local school boards are responsible. To determine the impacts of these services, we compared property tax rates now in place in all forty-five of Lake County’s taxing districts. We found that welfare and education do, in fact, account for large shares of our property tax bills. Their relative impacts vary, however, across taxing districts.

Comparisons of this type can be a bit tricky, of course, since the tax rate is only one of three variables used to calculate property taxes. The levy—or the cost of all services provided in a taxing district that are underwritten by property taxes—and the NAV of all property in the taxing district are equally important. In effect, the tax rate is determined by dividing the cost of all property tax-supported services by the taxing district’s NAV. (For a more detailed discussion concerning the calculation of property taxes, see section, “The ABCs of Property Tax.”)

At 9.84 per \$100 of net assessed value, the taxing district served by the City of Gary, all units of Calumet Township government, and the Gary Schools has the highest rate in Lake County; at 2.37 per

\$100 of net assessed value, Hanover Township has the lowest. The median tax rate in the county is 3.29, meaning that half of the county's taxing districts have lower and half have higher rates.

If TANF, the federal welfare program administered by the state, and the township-run poor relief program were deleted from the levy, the average decrease in tax rates among our forty-five taxing districts would be 17.6 percent. (Indiana is one of only a handful of states that passes the non-federal portion of TANF along to county governments.) Fourteen taxing districts would experience drops of 20 percent or more.

If the state assumed responsibility for all education programs now paid for with property taxes, the average drop in tax rates among our forty-five taxing districts would be 17.2 percent. Rates would fall by more than 20 percent in nine districts.

Interestingly, on a percentage basis, those taxing districts with the highest rates would benefit the least from the removal of welfare and public education from the property tax levy. If both were removed, the average drop in property tax rates among the county's forty-five taxing districts would be 34.8 percent. Nine taxing districts, led by unincorporated St. John Township, would experience decreases of more than 40 percent, but only one of the nine—unincorporated Calumet Township—has a property tax rate that exceeds \$3 per \$100 of NAV. At the same time, ten taxing districts would experience drops of less than 30 percent, including six with tax rates among the ten highest in the county. The five taxing districts that would benefit the least, again on a percentage basis, include the Gary-Hobart Township-River Forest Schools taxing district (14.7 percent), East Chicago (19.6 percent), the Gary-Calumet Township-Lake Ridge Schools taxing district (20.1 percent), the Gary-Calumet Township-Gary Community Schools taxing district (23.6 percent), and Hammond (25.8 percent).

How should we interpret these data? First, we cannot assume that a high tax rate means that local government is inefficient or wasteful. As is noted above, municipal, township, and county governments do not have control over certain expenditures, most notably welfare and education. Additionally, cities and larger towns provide some services (i.e., water, sewers, and professional fire fighting) not provided in smaller towns and rural communities. As a result, their rates will be higher simply because they do more things. Further, property values tend to be lower in poor communities, thus requiring higher tax rates in order to raise the same amount of money on a per capita basis.

Having said this, it would be incorrect to say that welfare and education alone are responsible for high property tax rates. Even if the state assumed responsibility for all such costs tomorrow, only a handful of taxing districts would experience tax rate decreases in excess of 40 percent. The cost of township, municipal, and county government would still account for a significant portion of our property taxes in Lake County.

Impact of Schools and Welfare on Tax Rates, Payable 2003

Taxing District	Total Tax Rate	Change in Tax Rate with Education General Fund and Preschool Special Education Removed	Change in Tax Rate with Welfare and Poor Relief Removed	Tax Rate with Education General Fund, Preschool Special Education Fund, Welfare and Poor Relief Removed
Median Value	3.29	-17.2%	-17.6%	2.17
Gary–Calumet Township–Gary Community Schools	9.84	-13.3%	-10.2%	7.52
Gary–Calumet Township–Lake Ridge Schools	8.85	-8.7%	-11.4%	7.07
Gary–Hobart Township–River Forest Schools	7.77	-7.3%	-7.3%	6.63
East Chicago	7.09	-11.2%	-8.4%	5.70
Whiting	6.49	-20.3%	-9.2%	4.57
Hammond	5.24	-14.4%	-11.4%	3.89
Calumet–Gary Sanitary	4.75	-16.2%	-21.2%	2.98
Hobart–Hobart Township–Hobart City Schools–Gary Sanitary	4.26	-17.1%	-13.4%	2.96
Calumet Township Balance	4.22	-18.3%	-23.8%	2.44
Lake Station–Calumet Township	4.19	-10.8%	-24.0%	2.73
Griffith–Calumet Township	4.15	-12.1%	-24.3%	2.64
Lake Station–Hobart Township–River Forest Schools	3.95	-14.4%	-14.4%	2.81
Hobart–Ross Township	3.94	-16.4%	-14.1%	2.74
Merrillville–Gary Sanitary	3.81	-16.9%	-14.6%	2.61
Hobart–Hobart Township–Hobart City Schools	3.72	-19.5%	-15.3%	2.42
Hobart–Hobart Township–River Forest Schools	3.70	-15.4%	-15.4%	2.56
Crown Point–Ross Township	3.69	-17.5%	-15.0%	2.49
Lake Station–Hobart Township–Lake Station Schools	3.57	-12.6%	-16.0%	2.55
Lowell–Cedar Creek Township	3.46	-13.5%	-16.1%	2.44
Lowell–West Creek Township	3.44	-13.6%	-16.3%	2.41
Crown Point–Center Township	3.41	-15.9%	-16.3%	2.31
New Chicago	3.30	-17.3%	-17.3%	2.16
Munster	3.29	-15.8%	-18.2%	2.17
Merrillville	3.28	-19.7%	-16.9%	2.08
Griffith–St. John Township	3.21	-17.4%	-17.2%	2.10
Schneider	3.20	-14.6%	-17.6%	2.17
St. John–St. John Township	3.18	-17.6%	-17.3%	2.07
Cedar Lake–Center Township	3.16	-17.2%	-17.6%	2.06
St. John–Hanover Township	3.07	-16.1%	-18.4%	2.01
Dyer	3.03	-18.4%	-18.1%	1.92
Highland	3.01	-19.3%	-19.8%	1.83
Schererville	2.95	-19.0%	-18.6%	1.84
Cedar Lake–Hanover Township	2.91	-17.0%	-19.4%	1.85
Ross Township Balance	2.84	-22.7%	-19.5%	1.64
Winfield–Winfield Water	2.83	-19.2%	-19.5%	1.73
Winfield	2.72	-20.0%	-20.3%	1.62
Cedar Creek	2.72	-17.2%	-20.4%	1.70
Eagle Creek Township Balance	2.70	-17.3%	-20.9%	1.67
West Creek Township Balance	2.67	-17.5%	-21.0%	1.64
Center Township Balance	2.65	-20.5%	-21.0%	1.55
Winfield Township Balance	2.65	-20.5%	-20.9%	1.55
Hobart Township Balance	2.61	-21.8%	-21.8%	1.47
St. John–Schererville Water	2.49	-22.4%	-22.1%	1.39
St. John Township Balance	2.48	-22.6%	-22.2%	1.37
Hanover Township Balance	2.37	-20.9%	-23.8%	1.31

Parks and Recreation Programs

Open spaces, recreation facilities, and youth programs contribute substantially to public well-being and a high quality of life. It is not surprising, therefore, that virtually all communities set aside property tax dollars for parks and recreation programs.

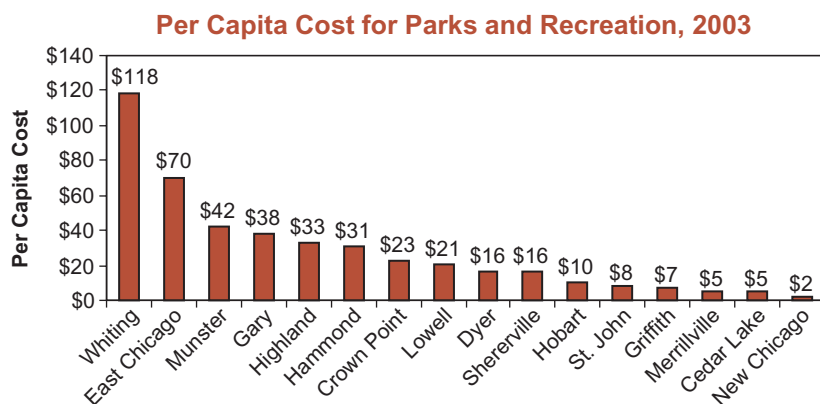
In fact, this category of expenditures accounts for a sizable share of municipal budgets. In 2003, the Town of Highland devoted 13.8 percent of its expenditures to parks and recreation programs, followed by 13.2 percent in Munster and 11.9 percent in Whiting. The comparable shares in East Chicago, Gary, Hammond, Crown Point, Lowell, Dyer, and Schererville ranged between 5 and 8 percent. Other towns and cities in Lake County devoted less than 3 percent of their 2003 appropriations to this purpose.

How should we assess efficiency and effectiveness in the management of parks and recreation programs? Percent of total budget is not particularly useful since cities and towns in Lake County have very different budget structures. In other words, they spend vastly different amounts per resident, per household, and per service. Furthermore, they place different values on parks and recreation programs. For these reasons, we adopted two measures of efficiency: cost per resident and cost per acre of park land.

Neither measure is perfect. Alone, cost per resident does not take into account substantial differences in the sizes of municipal parks. Similarly, cost per acre may not fully capture the value of some kinds of specialized recreation facilities and youth programs. Neither measure tells us much about quality or the public's satisfaction with parks and recreation programs. Still, cost per resident and cost per acre can put a spotlight on communities with unusually high expenditures. Together, they can serve as a first step in evaluating parks and recreation programs in individual communities.

Cost per Resident

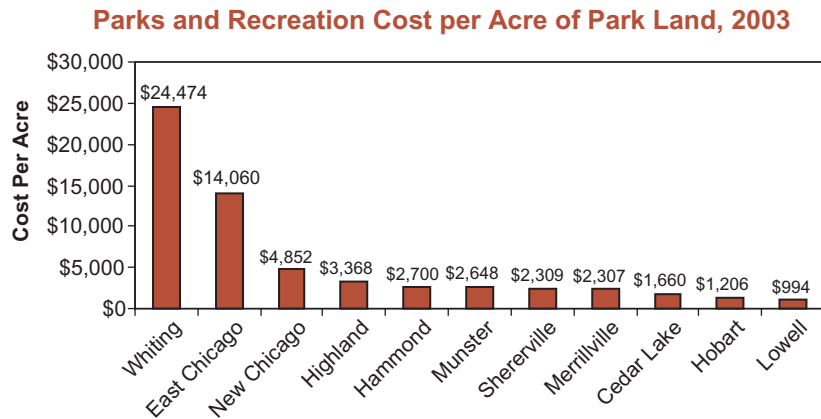
In 2003, the average municipal cost per resident for parks and recreation programs in Lake County was \$28. Whiting's per capita expenditure of \$118 distorts this number, however. If we exclude Whiting, the average falls to \$22 per resident. Six municipalities exceeded this adjusted average: Whiting by 441 percent; East Chicago (\$70 per resident) by 223 percent; Munster (\$42 per resident) by 93 percent; Gary (\$38 per resident) by 73 percent; Highland (\$33 per resident) by 52 percent; and Hammond (\$31 per resident) by 43 percent.



Cost per Acre of Park Land

A somewhat different picture is painted when we look at cost per acre of park land. In 2003, the average cost per acre was \$5,507. Again, Whiting's per acre cost of \$24,474 skews this number. Excluding Whiting, the average cost falls to \$3,610. Only three municipalities exceeded this adjusted average: Whiting by

578 percent, East Chicago (\$14,060 per acre) by 289 percent; and New Chicago (\$4,852 per acre) by 34.4 percent.



Interestingly, even though Hammond spent 43 percent more than the adjusted average cost per resident, it spent 25 percent less than the adjusted average cost per acre. Similarly, Munster spent 93 percent more than the average cost per resident, but 27 percent less than the average cost per acre. This is probably due to the fact that Hammond and Munster devote large tracts of land to open spaces. Together, high cost per resident (lots of dollars) and low cost per acre (lots of land) suggest that Hammond and Munster assign a high priority to parks and recreation programs.

Expenditures on parks and recreation programs in Whiting and East Chicago were exceptionally high in 2003. Whiting has taken significant steps to bring its 2004 costs into line. East Chicago has taken a few tentative steps in this direction as well. Citizens in both communities might well ask whether additional steps may be required.

By Taxing Unit

Budgets for Cities and Towns

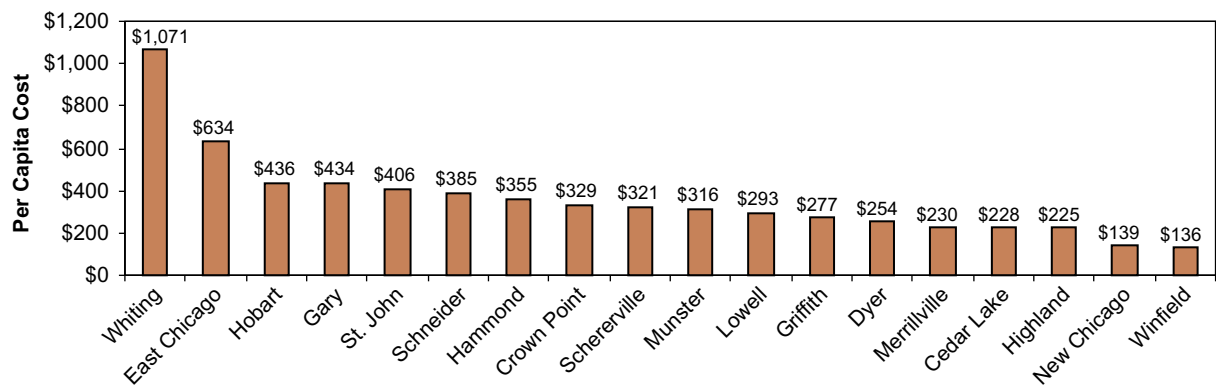
Property taxes underwrite a broad range of governmental services. In addition to libraries and schools, property taxes support township government, county government, and a number of other special districts, including water and sanitary districts. Civil government (cities and towns) accounts for a substantial portion of the property tax bill. Overall, we find that the difference in spending between high- and low-cost cities and towns can be quite large.

Caution must be used in comparing municipal budgets. 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. Crime rates tend to be higher in urban settings; more police are thus required.

Further, many towns get by without professional firefighters, relying instead on volunteer fire departments. Beyond this, it makes sense to entirely exclude one type of cost when comparing municipal expenditures: police and firefighter pensions. Older cities and towns typically finance the pensions of large numbers of retired police officers and firefighters. Newer communities, such as St. John and Winfield, are not yet burdened by these kinds of costs. In fact, pensions represent obligations occurred in prior budgets. There is little that can be done now to reduce expenditures in that cost category.

We examined data pertaining to budgets and appropriations for 2003. (Data for Lake Station were not available at the time the analysis was conducted.) Excluding police and firefighter pensions, towns and cities in Lake County spent, on average, \$359 per resident in 2003. Two cities exceeded this average by wide margins. 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, and the City of East Chicago spent nearly twice this amount on a per capita basis.

Per Capita Cost of Civil Government (Minus Police and Fire Pensions), 2003



Five other towns and cities exceeded the revised average by more than 10 percent: Hobart (37 percent), Gary (37 percent), St. John (28 percent), Schneider (21 percent), and Hammond (12 percent). In 2003, six towns spent less than 80 percent of the \$317 revised average: Dyer (80 percent), Merrillville (73 percent), Cedar Lake (72 percent), Highland (71 percent), New Chicago (44 percent), and Winfield (43 percent).

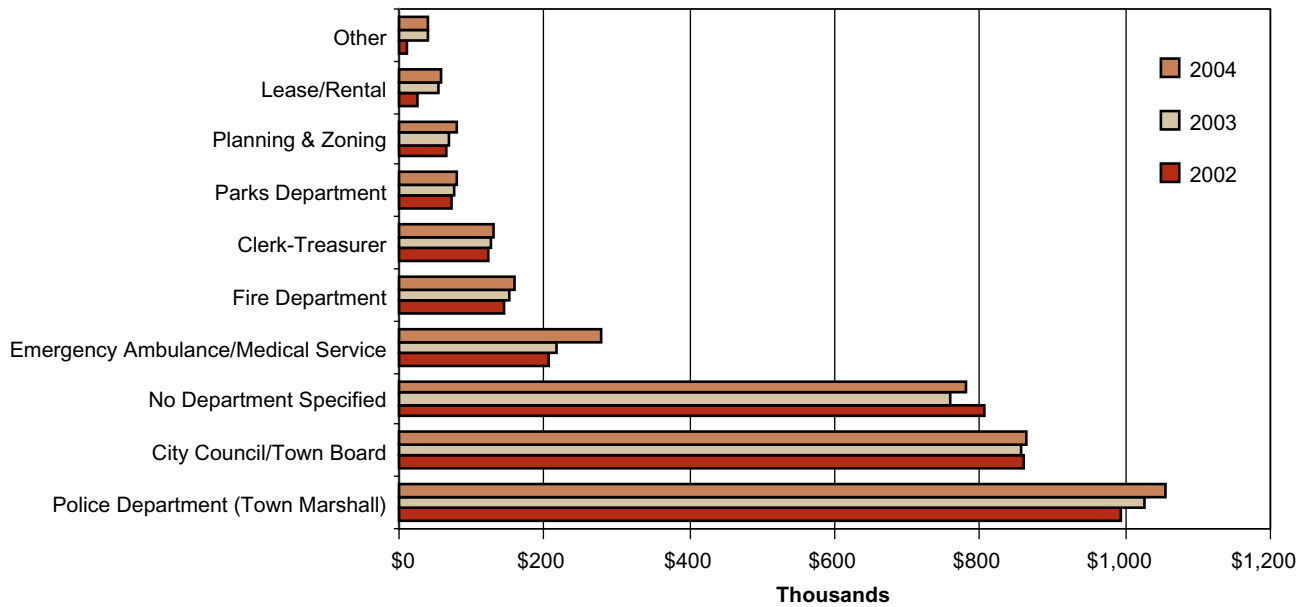
It is important to keep two thoughts in mind as we examine these data. First, it is difficult to assess the efficiency of local government on the basis of a single number. Yes, we have known for some time that per capita expenditures are high in Whiting and East Chicago. And it appears that other towns and cities in Lake County have cost structures that are somewhat high as well. In the long-run, it is more useful to know precisely what kinds of expenditures are higher than average or, in some cases, lower.

Second, the data noted above reflect 2003 appropriations. In 2004 and 2005, we finally became aware of the full impact of changes in the property tax resulting from (1) a Supreme Court ruling pertaining to the formula used to calculate the tax, (2) legislation adopted by the General Assembly in 2002, and (3) an external reassessment of all properties in Lake County, which was completed in 2004. As a result, some towns and cities have taken action to reduce their budgets.

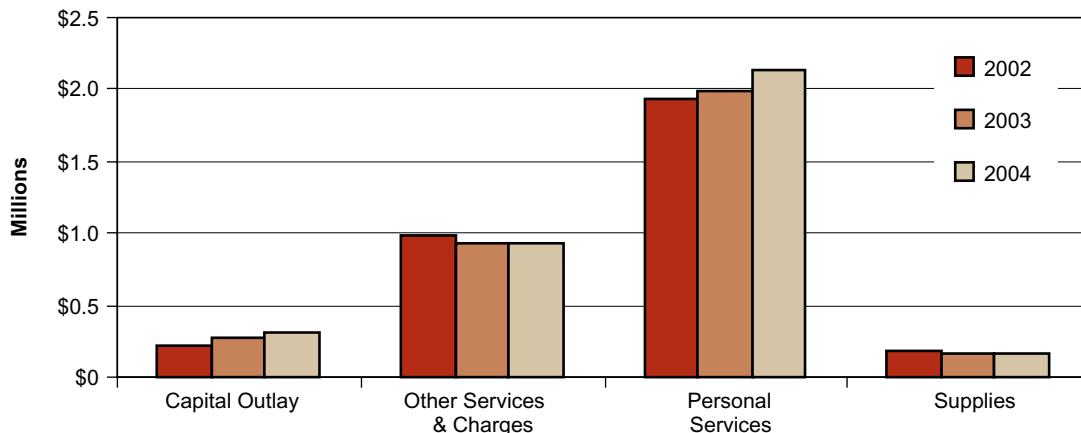
Although some municipalities in Lake County have yet to report their 2005 budgets, elected officials in Whiting have committed to a \$1 million reduction in the size of the city’s budget. In the City of Gary, Mayor Scott King reduced 2004 expenditures by \$5.4 million and submitted a 2005 budget to the Common Council reflecting an \$8.1 million decrease in the size of the city’s budget. In Hammond, the McDermott administration is considering various cost cutting measures including the closing of the city’s health department. And the City of East Chicago is considering an overall budget cut of 5 percent.

Breakdown of Budget Appropriations

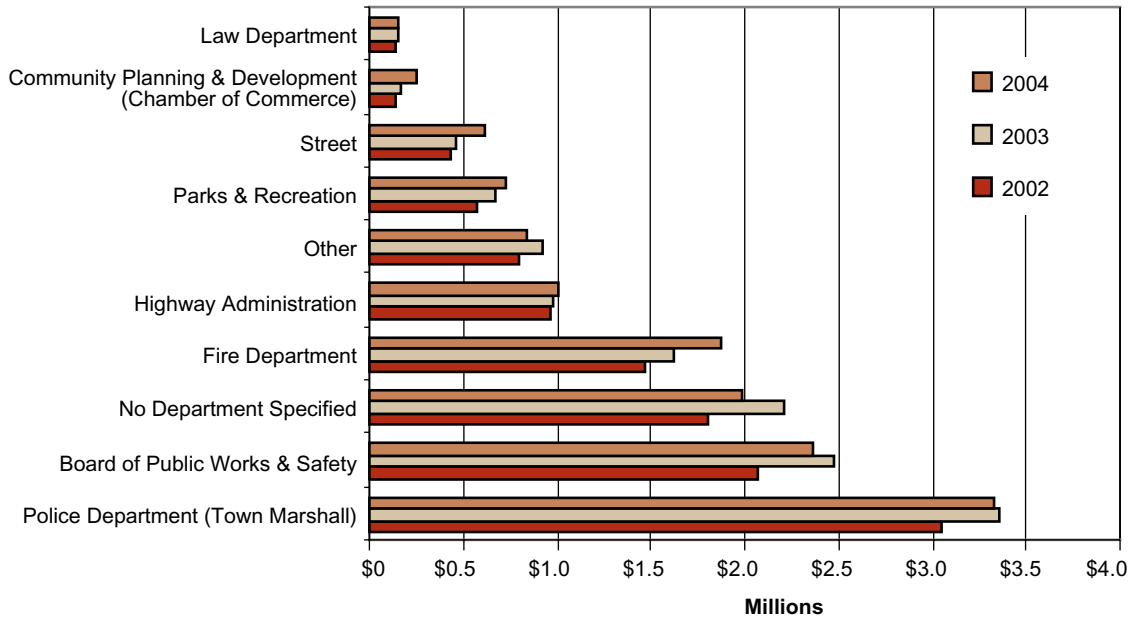
Budget Appropriations by Department - Cedar Lake



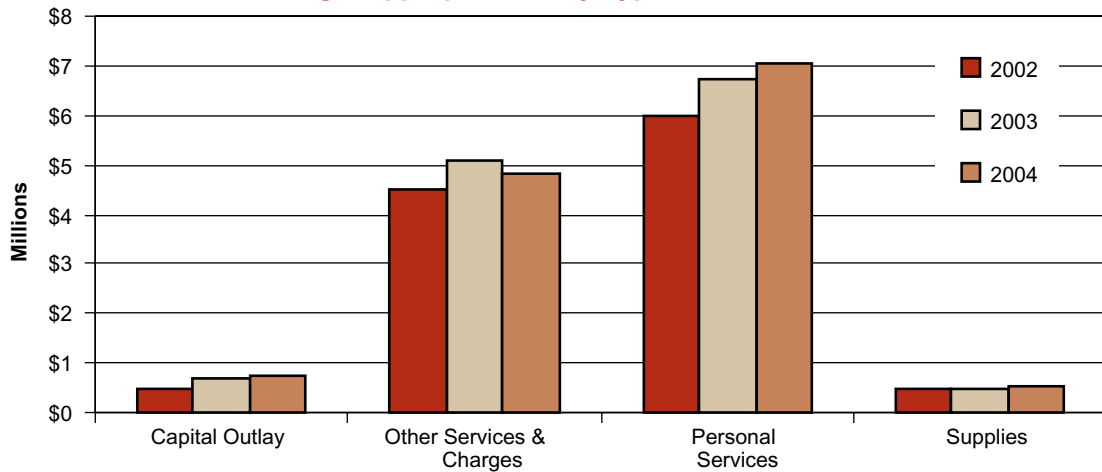
Budget Appropriations by Type - Cedar Lake



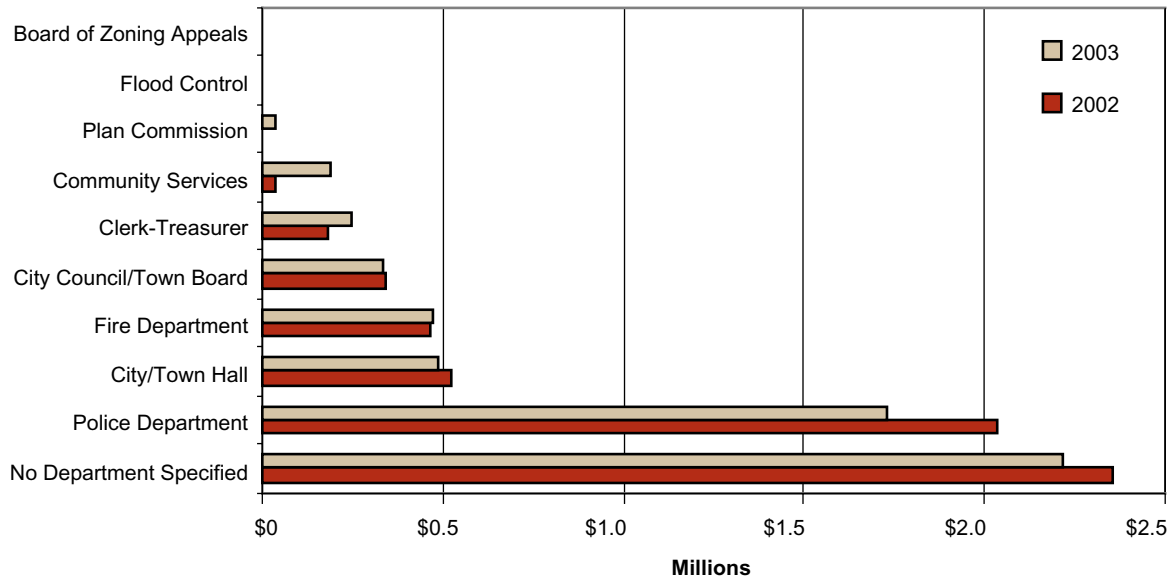
Budget Appropriations by Department - Crown Point



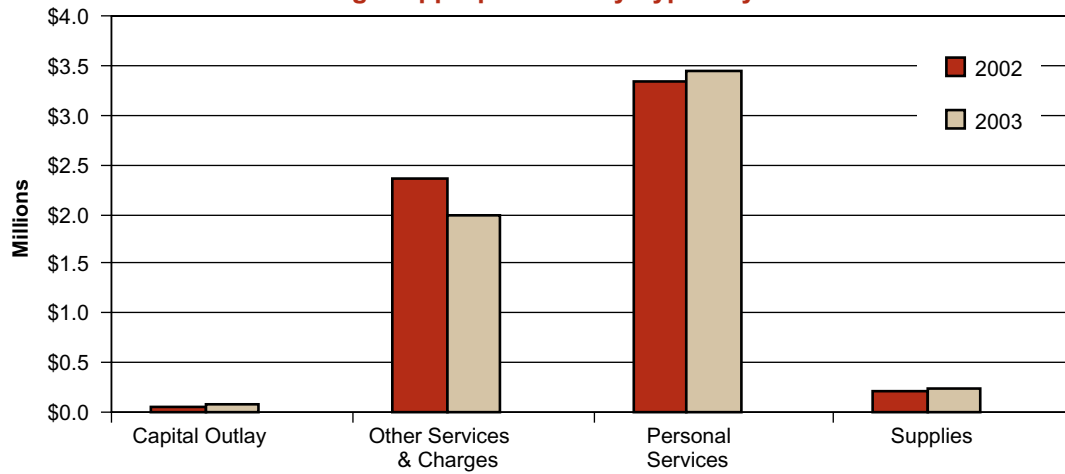
Budget Appropriations by Type - Crown Point



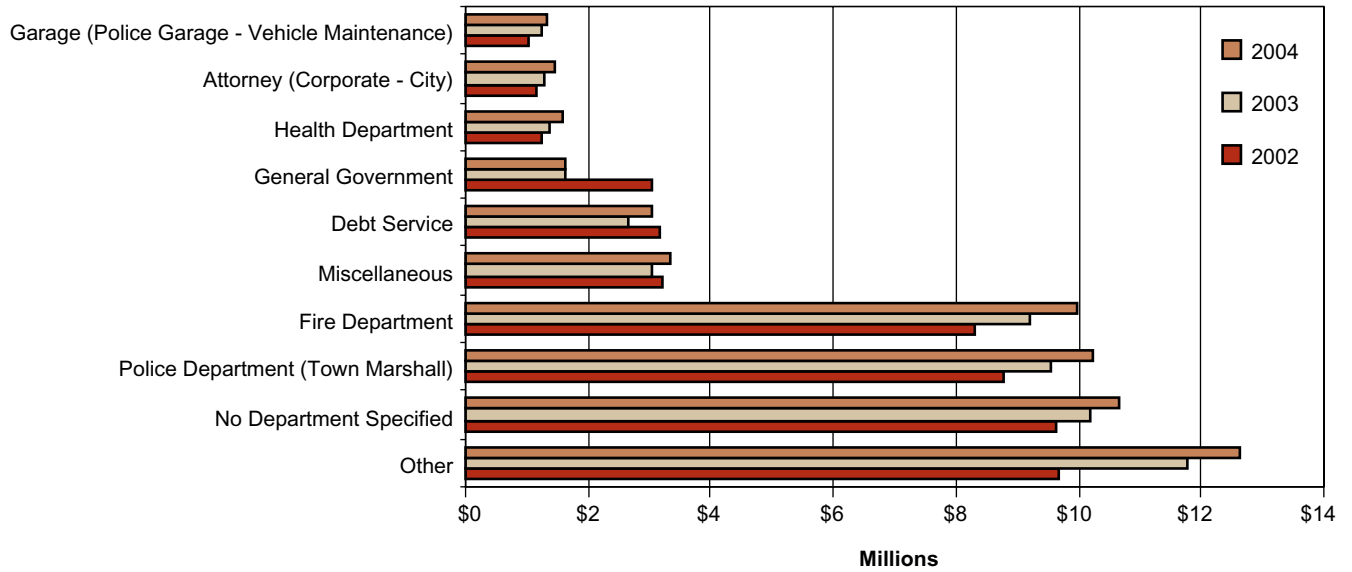
Budget Appropriations by Department - Dyer



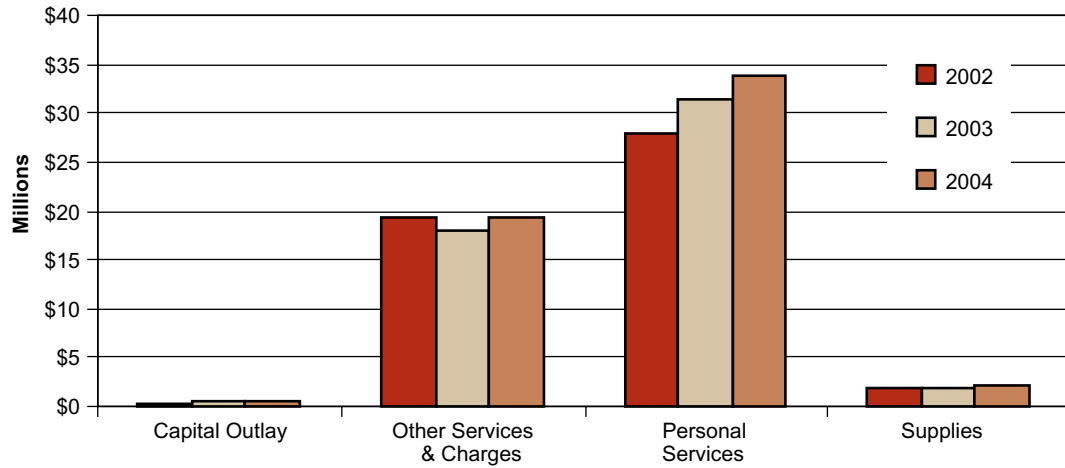
Budget Appropriations by Type - Dyer



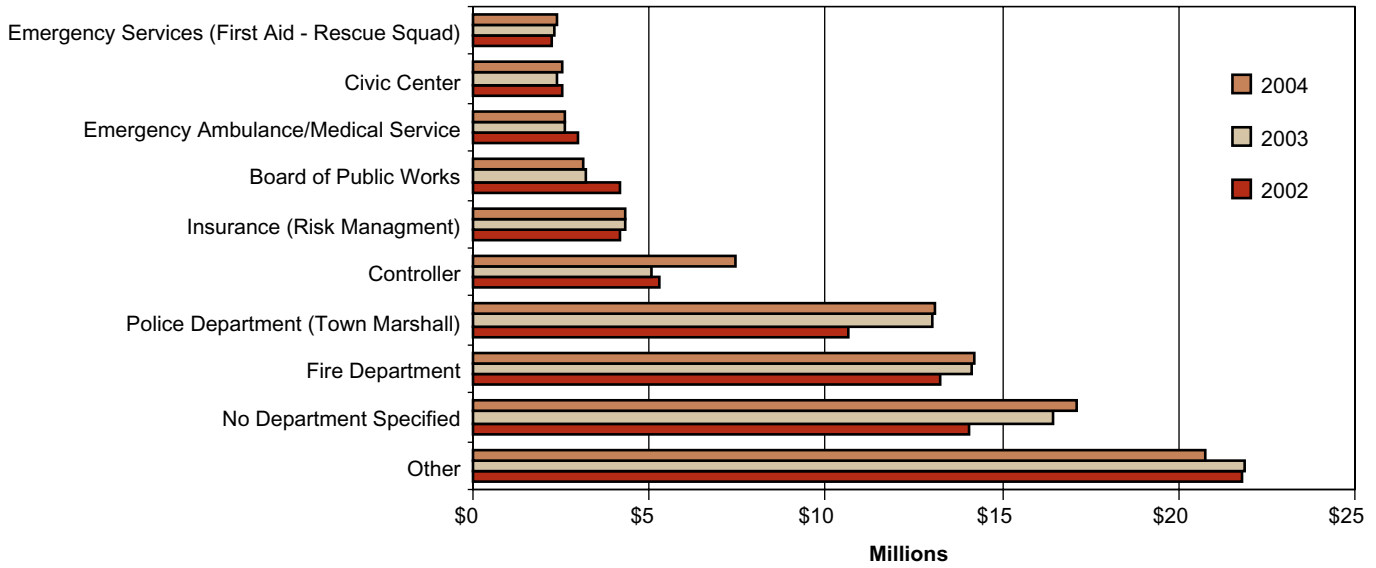
Budget Appropriations by Department - East Chicago



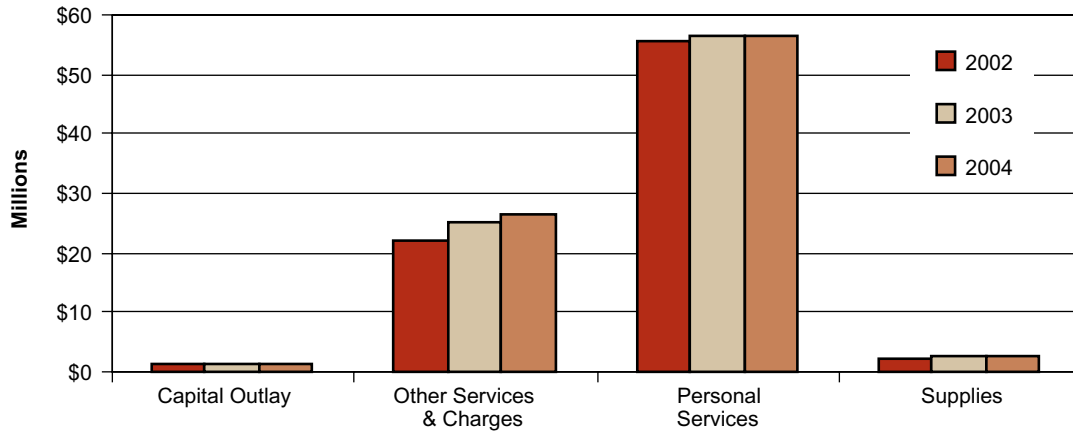
Budget Appropriations by Type - East Chicago



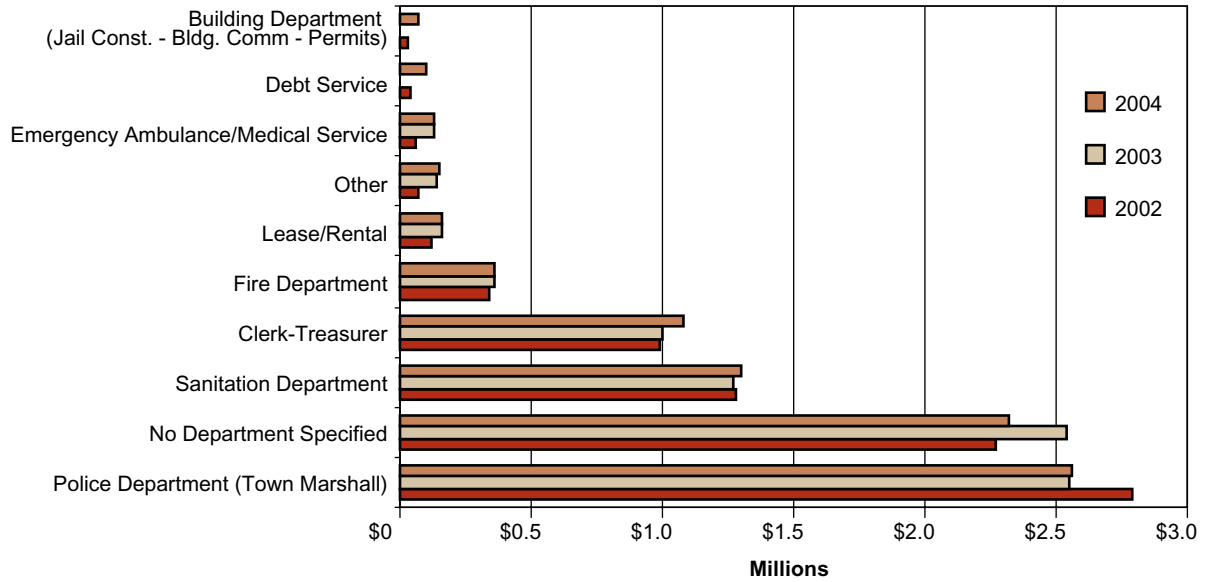
Budget Appropriations by Department - Gary



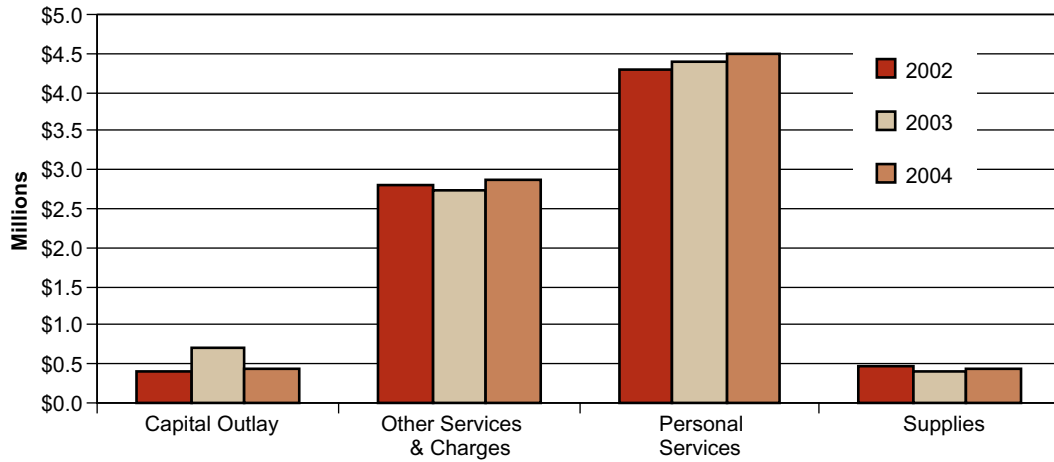
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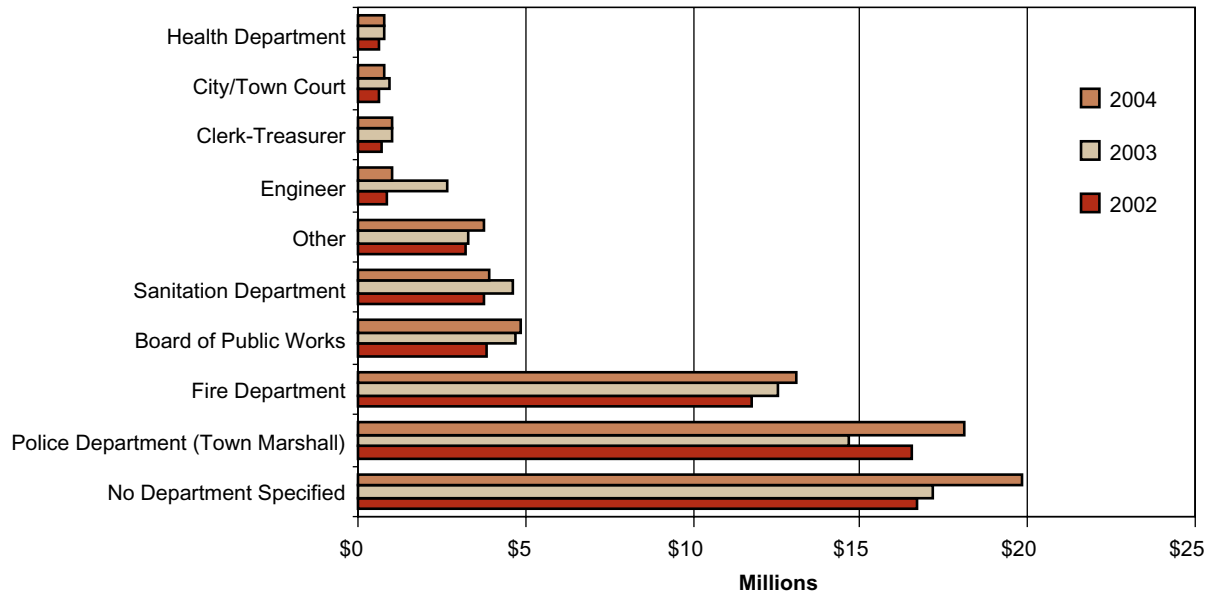
Budget Appropriations by Department - Griffith



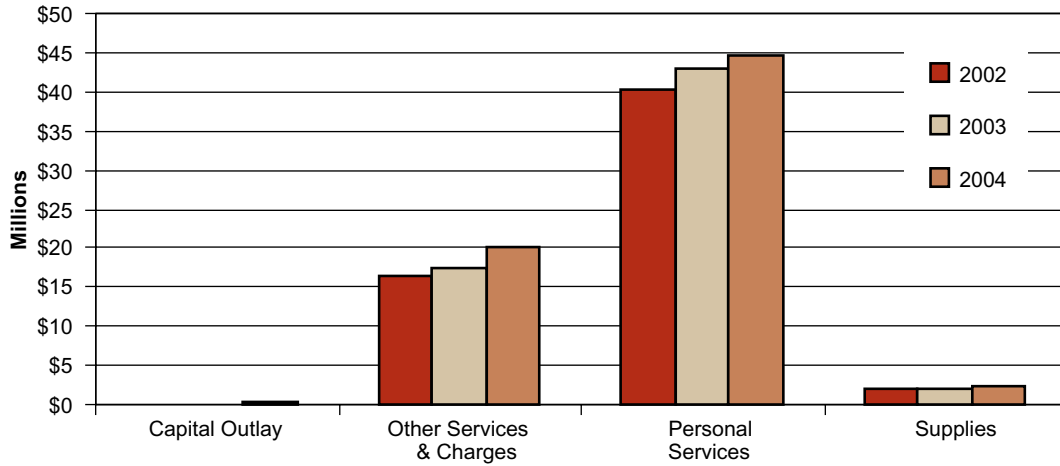
Budget Appropriations by Type - Griffith



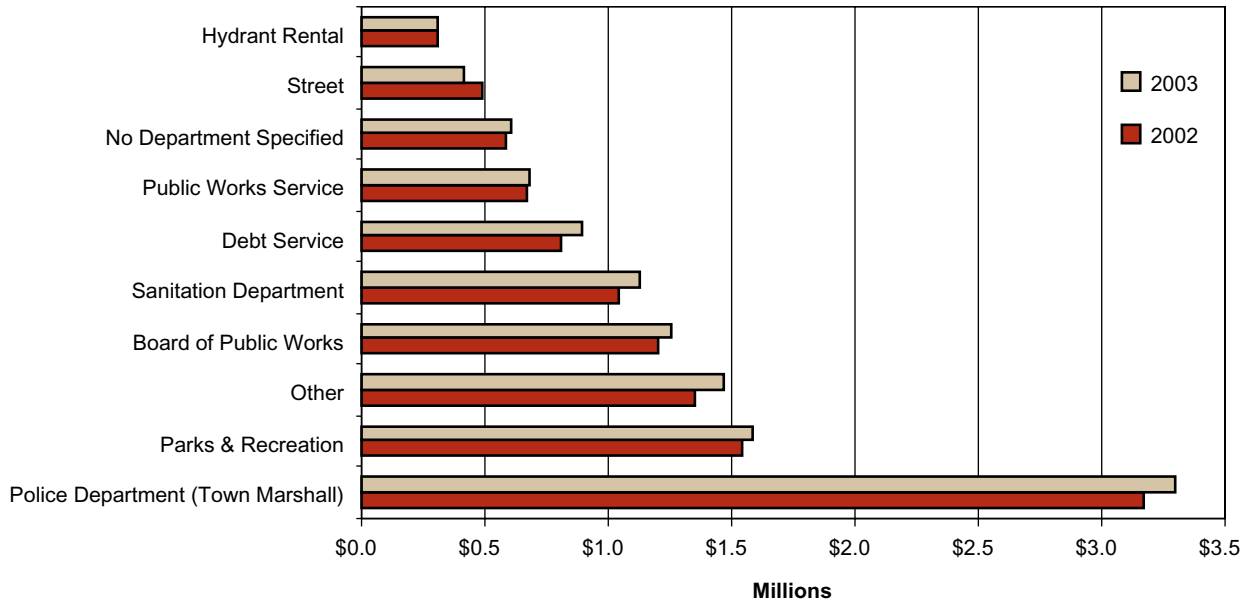
Budget Appropriations by Department - Hammond



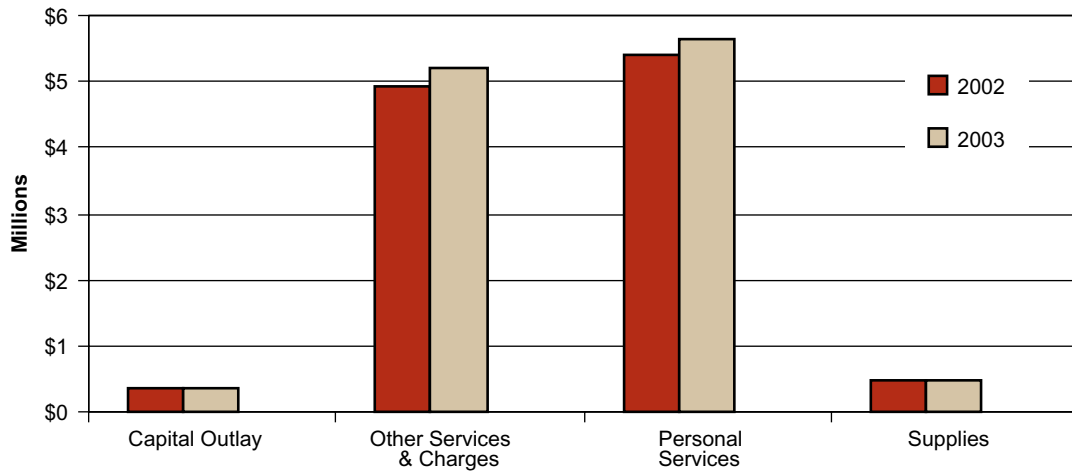
Budget Appropriations by Type - Hammond



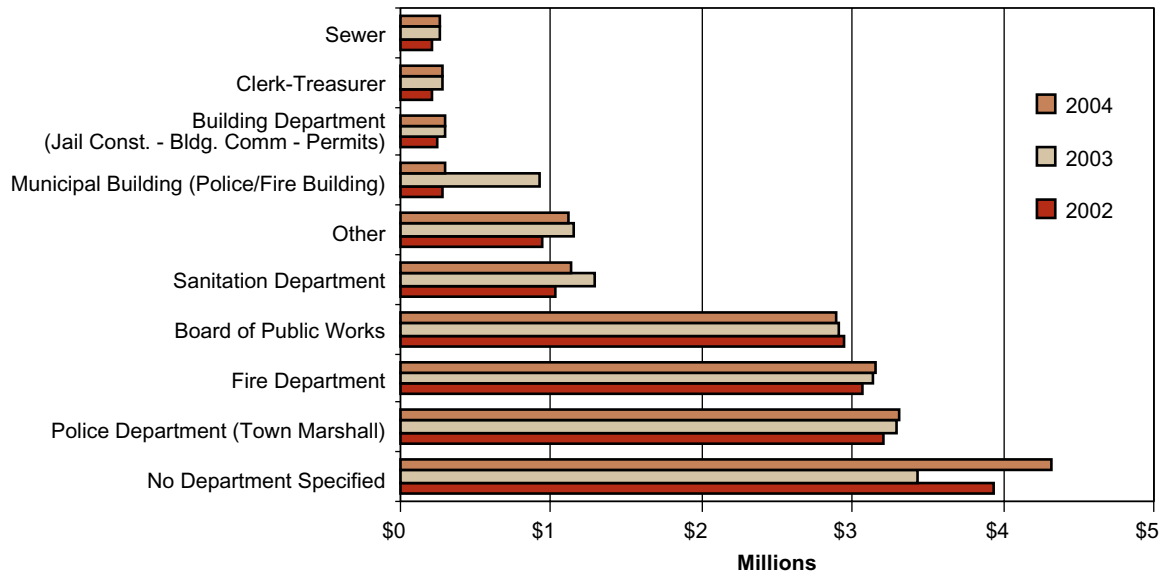
Budget Appropriations by Department - Highland



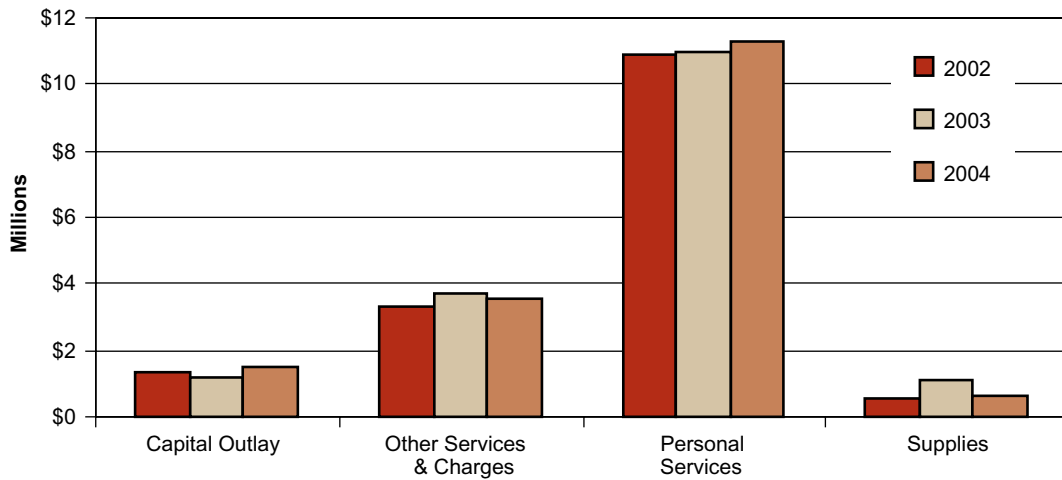
Budget Appropriations by Type - Highland



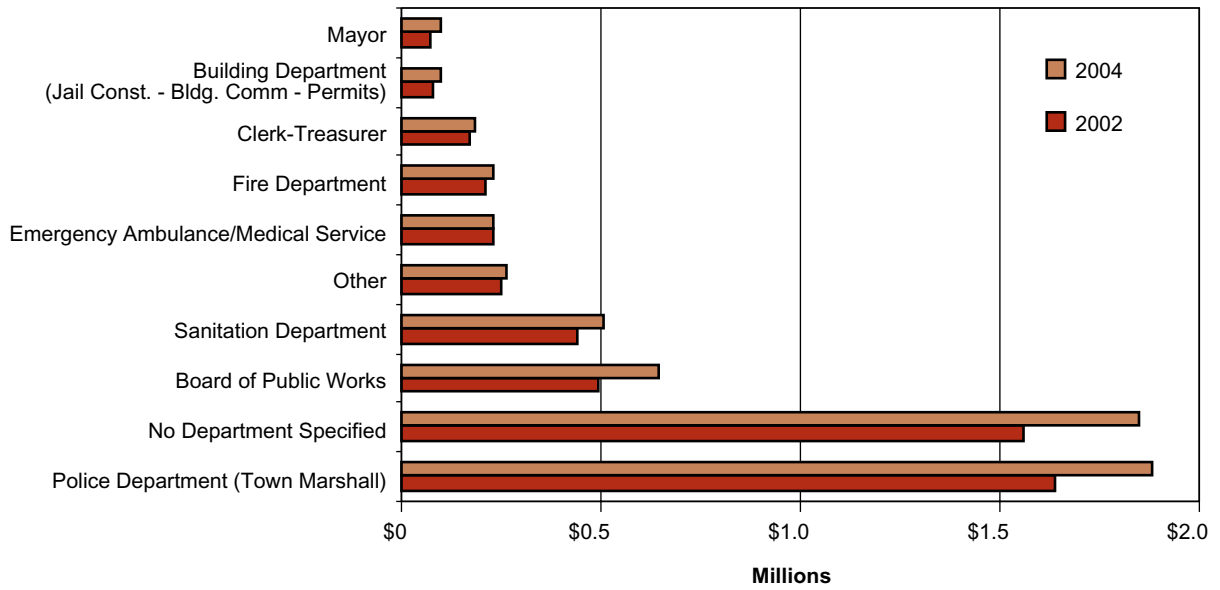
Budget Appropriations by Department - Hobart



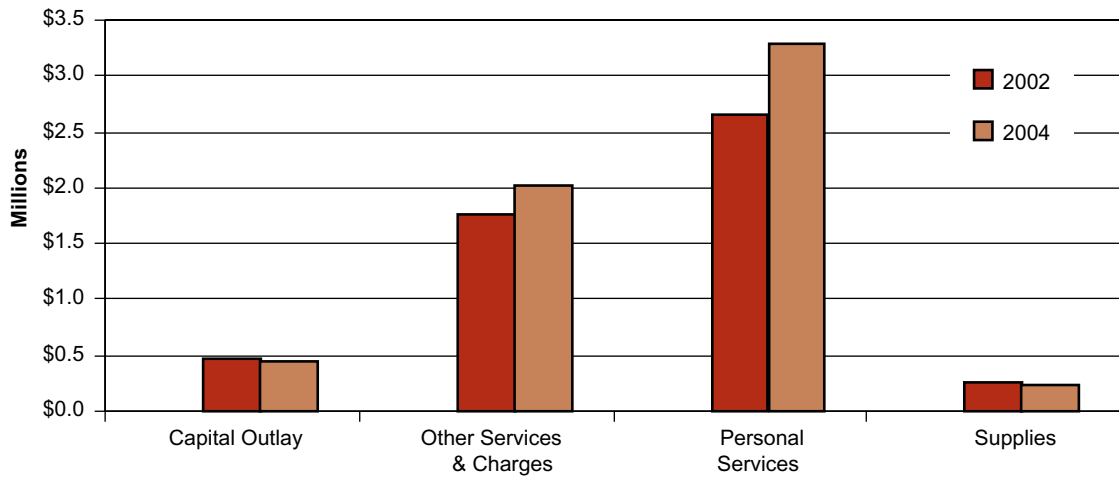
Budget Appropriations by Type - Hobart



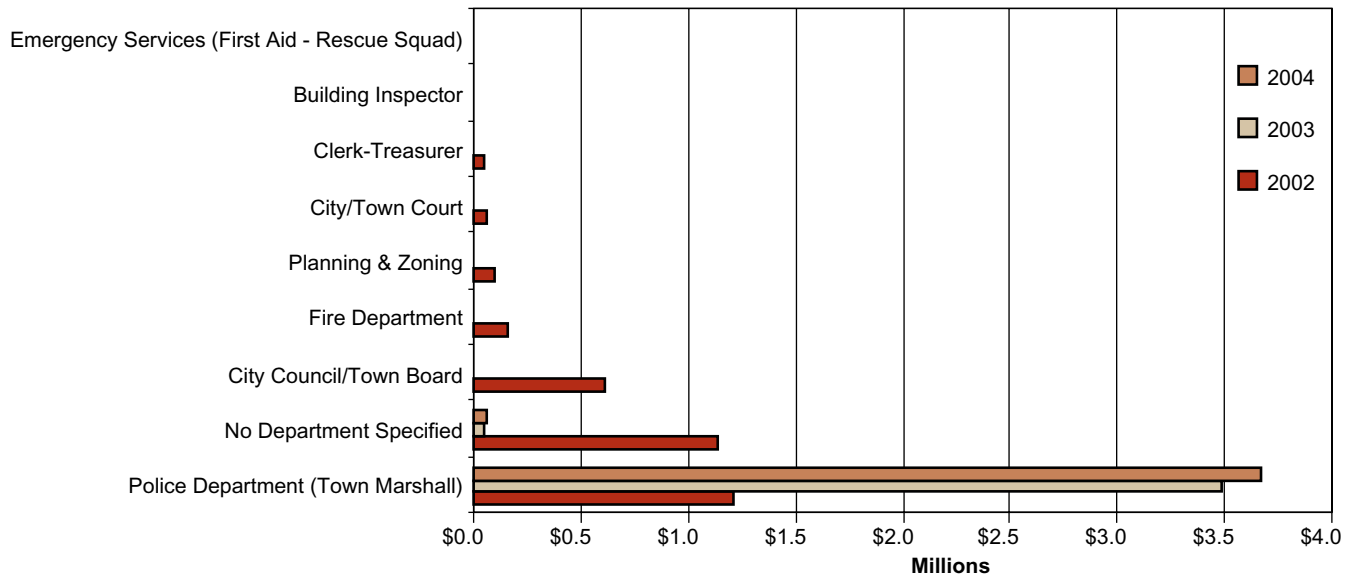
Budget Appropriations by Department - Lake Station



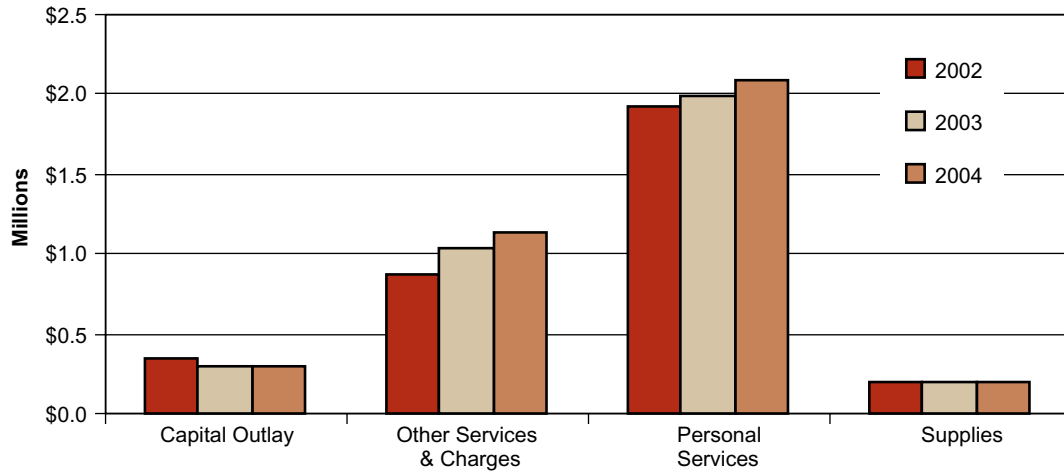
Budget Appropriations by Type - Lake Station



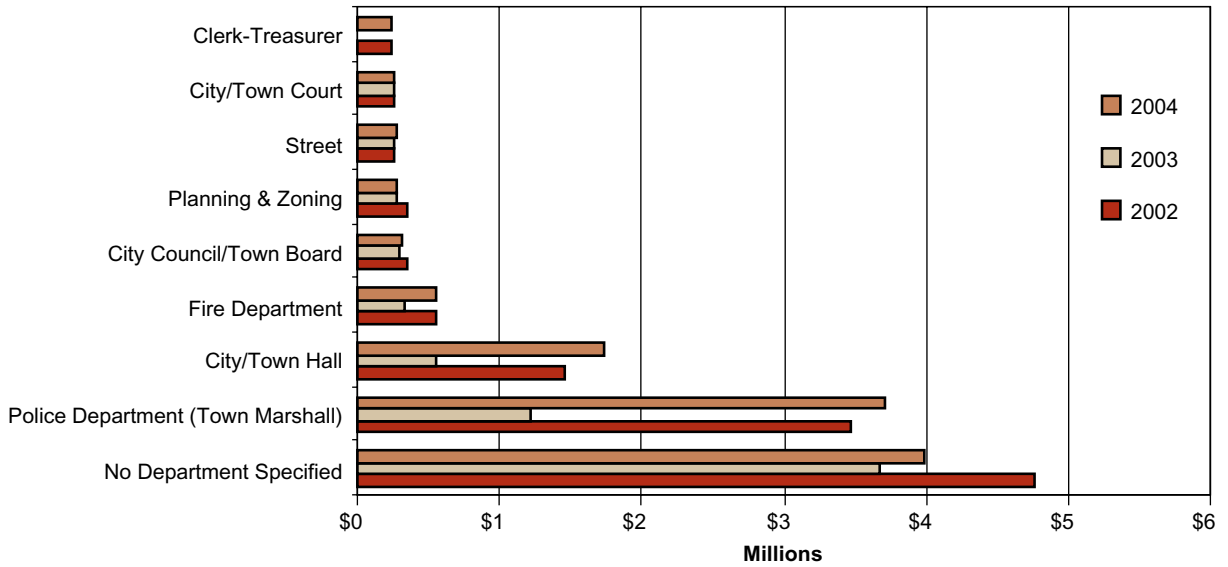
Budget Appropriations by Department - Lowell



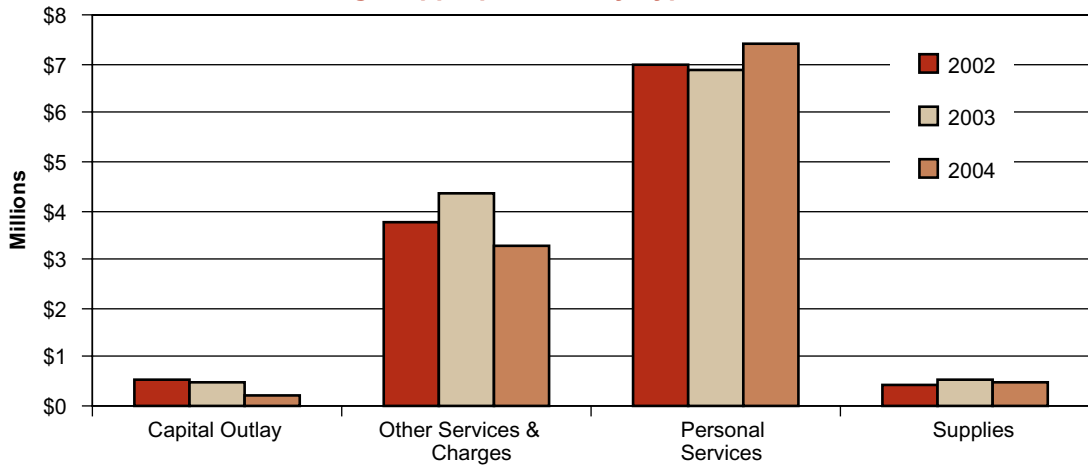
Budget Appropriations by Type - Lowell



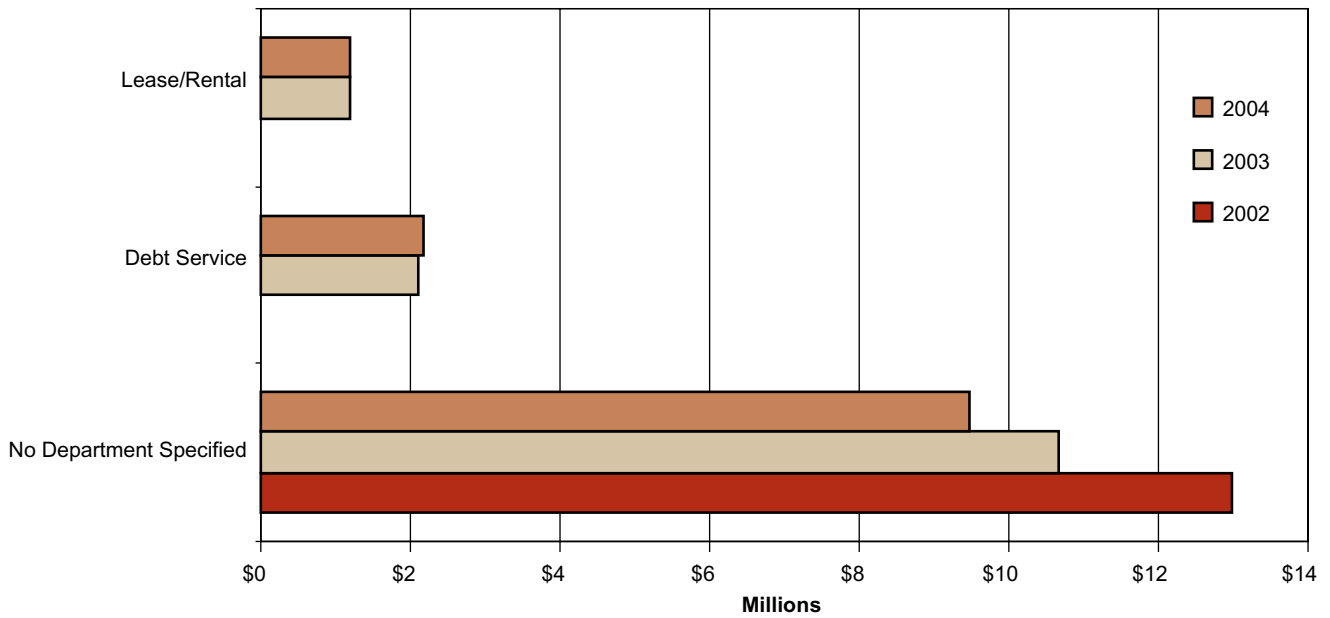
Budget Appropriations by Department - Merrillville



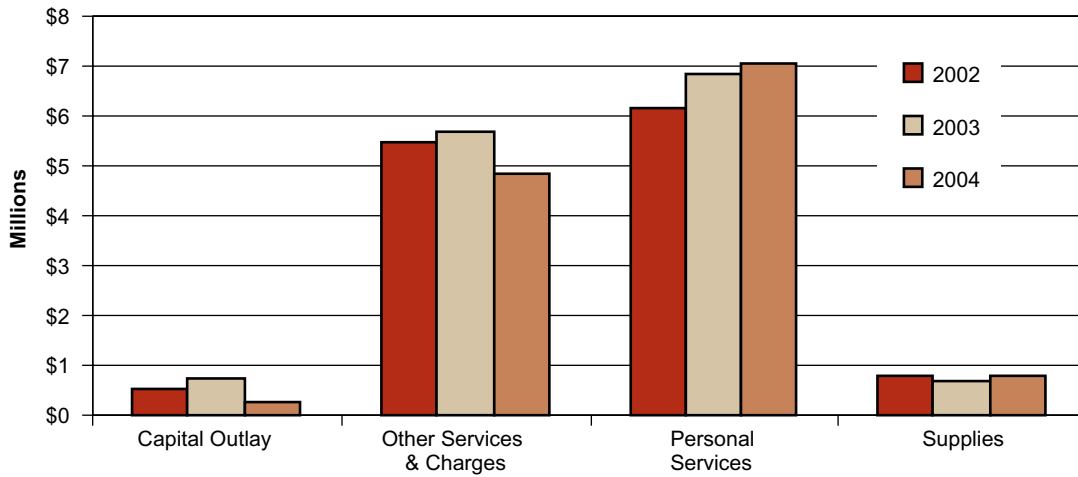
Budget Appropriations by Type - Merrillville



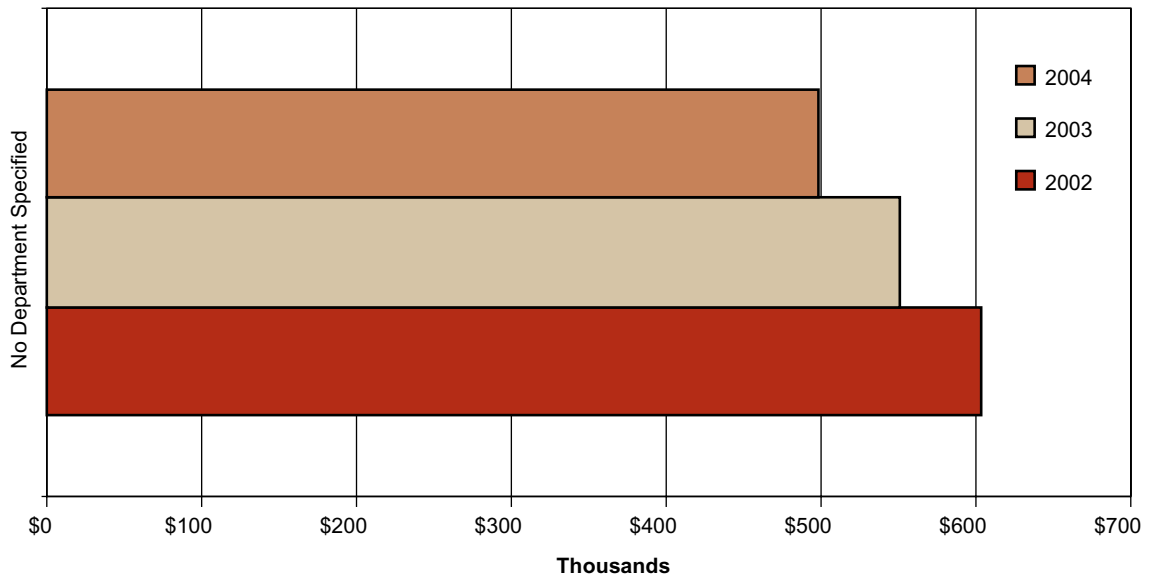
Budget Appropriations by Department - Munster



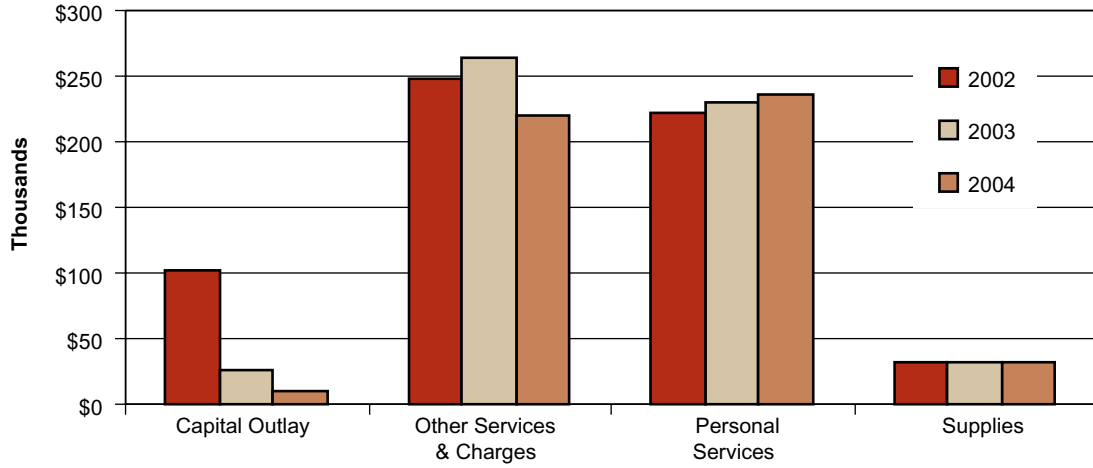
Budget Appropriations by Type - Munster



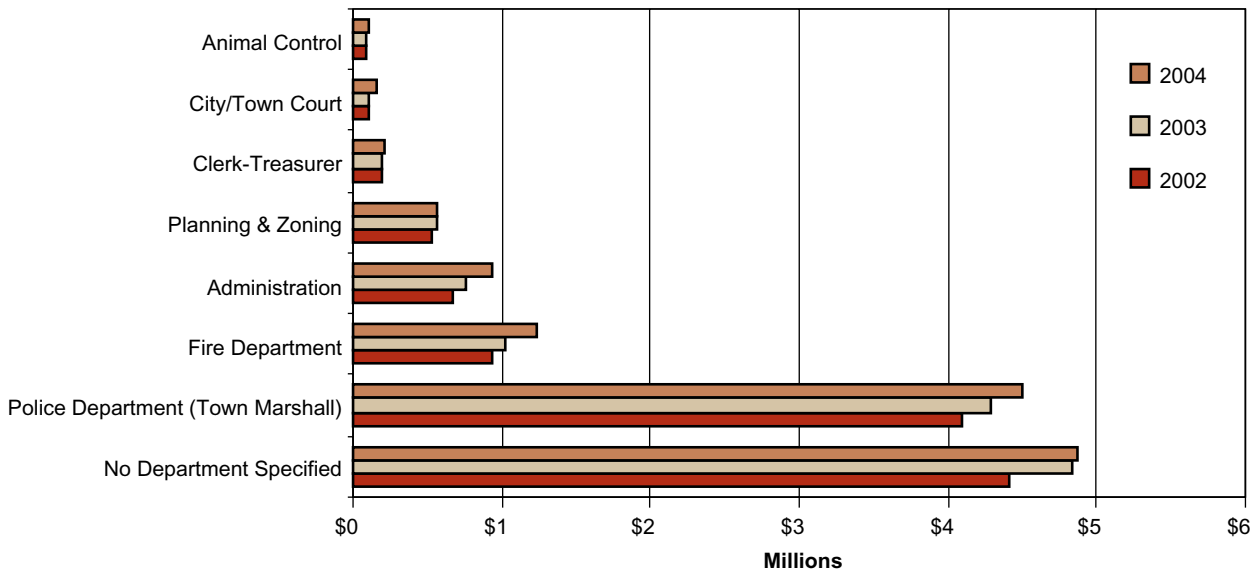
Budget Appropriation by Department - New Chicago



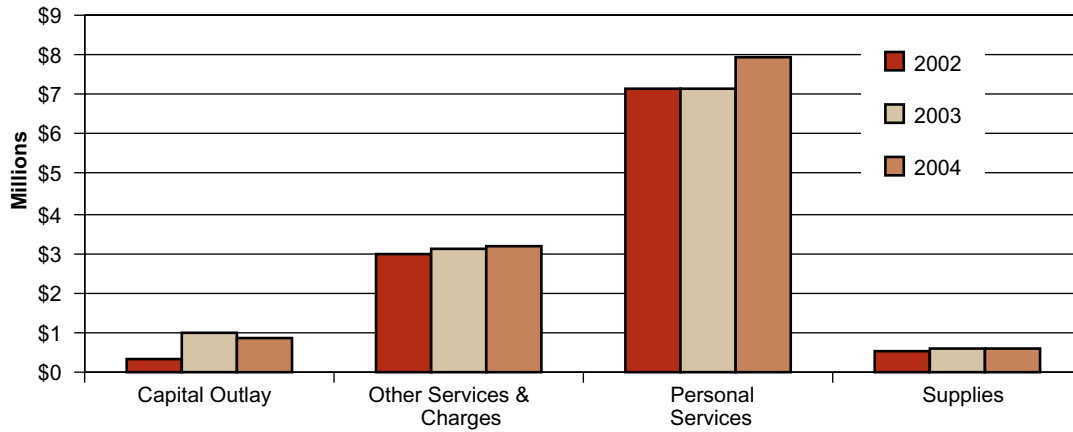
Budget Appropriations by Type - New Chicago



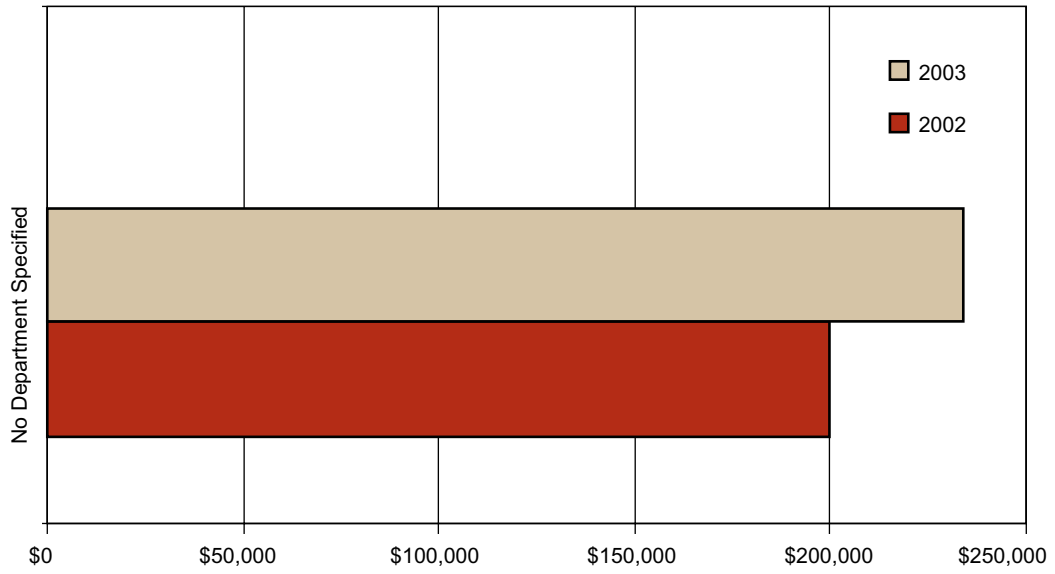
Budget Appropriations by Department - Schererville



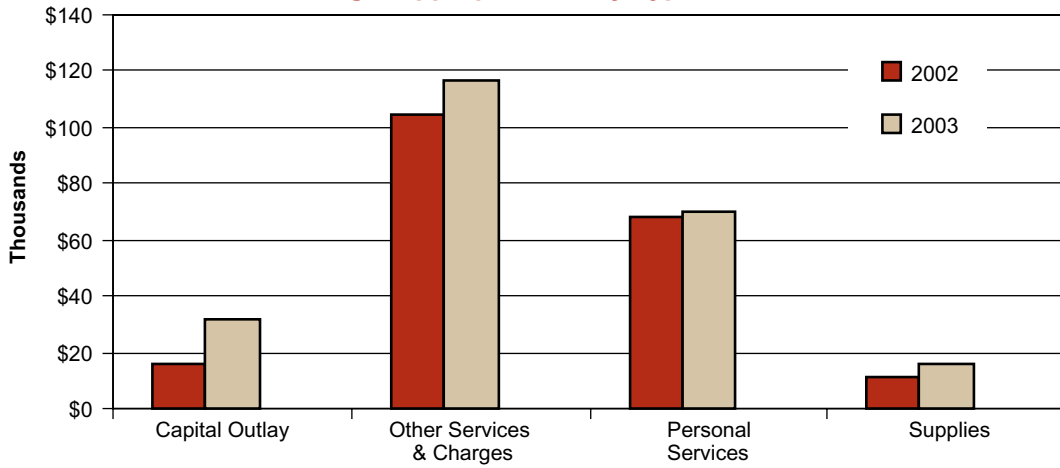
Budget Appropriations by Type - Schererville



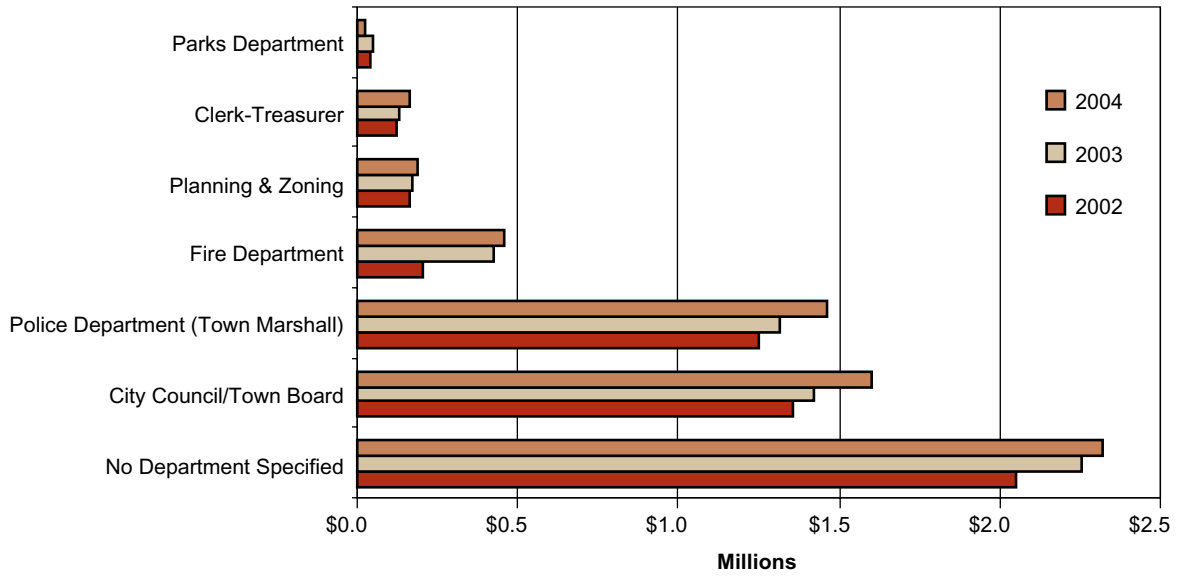
Budget Appropriations by Department - Schneider



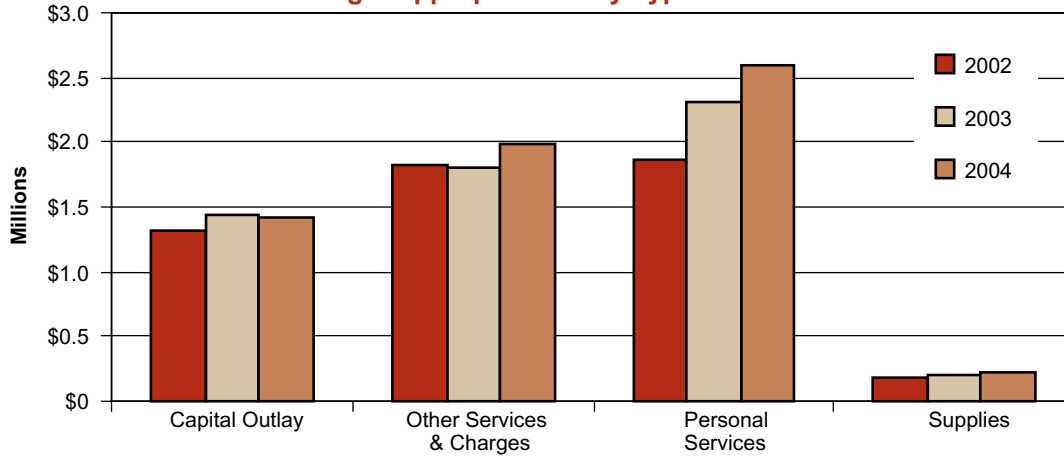
Budget Appropriations by Type - Schneider



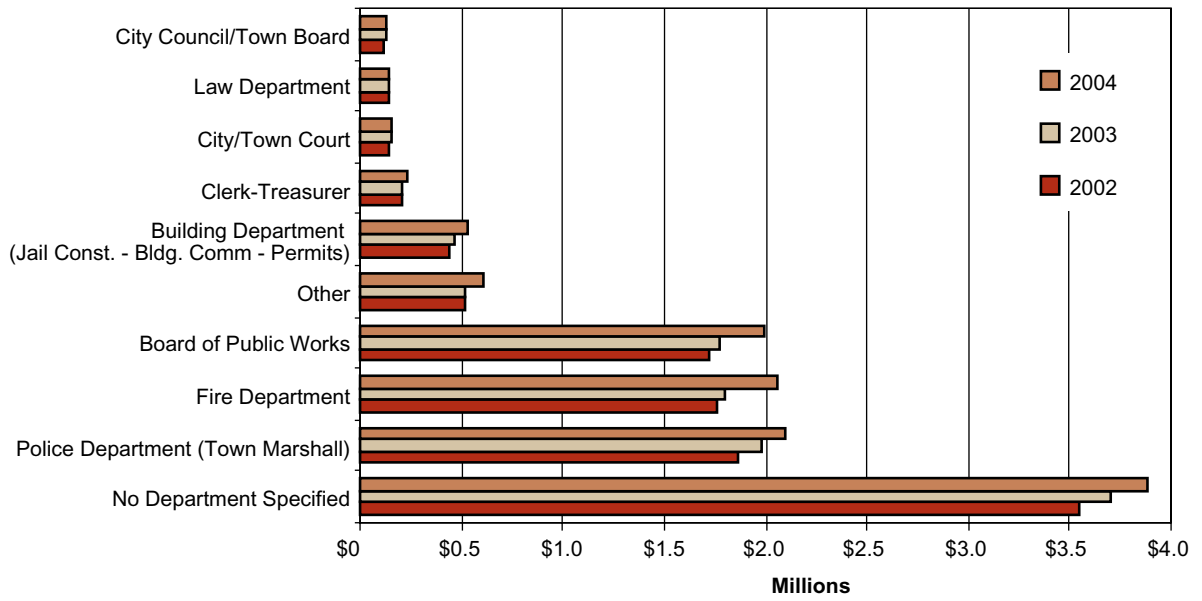
Budget Appropriations by Department - St. John



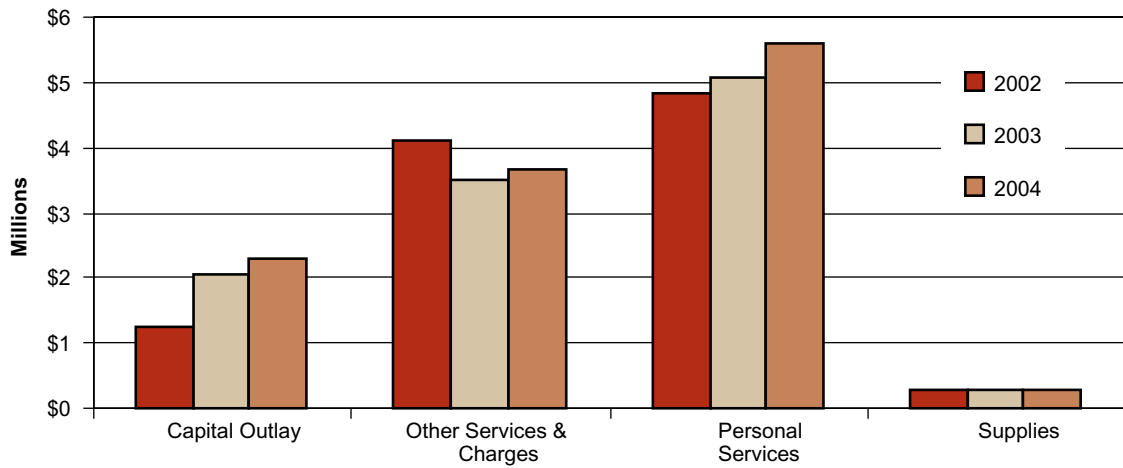
Budget Appropriations by Type - St. John



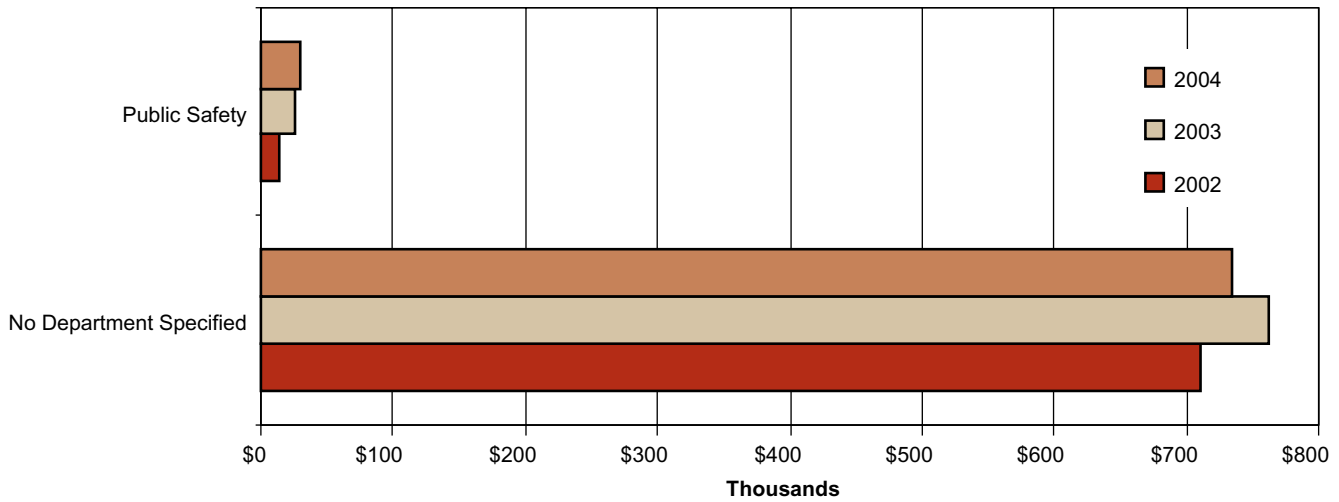
Budget Appropriations by Department - Whiting



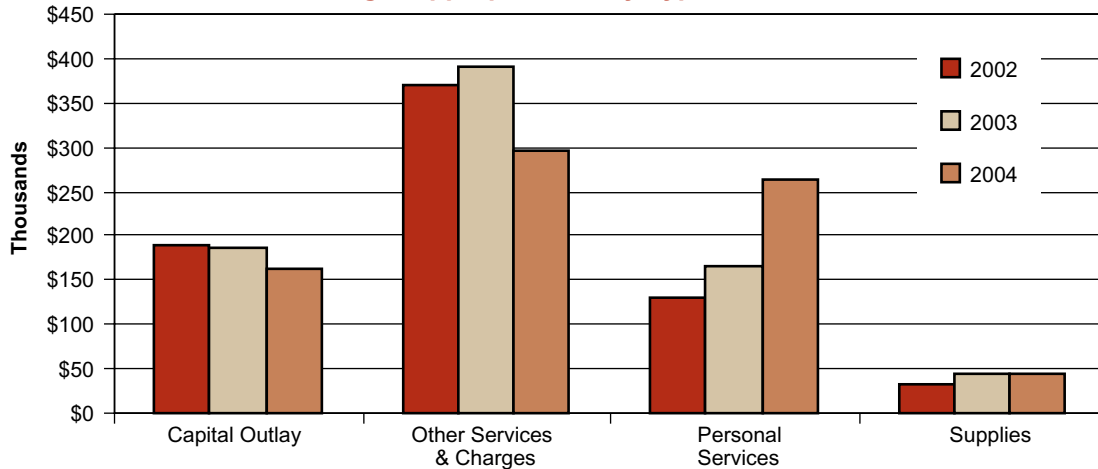
Budget Appropriations by Type - Whiting



Budget Appropriation by Department - Winfield



Budget Appropriations by Type - Winfield

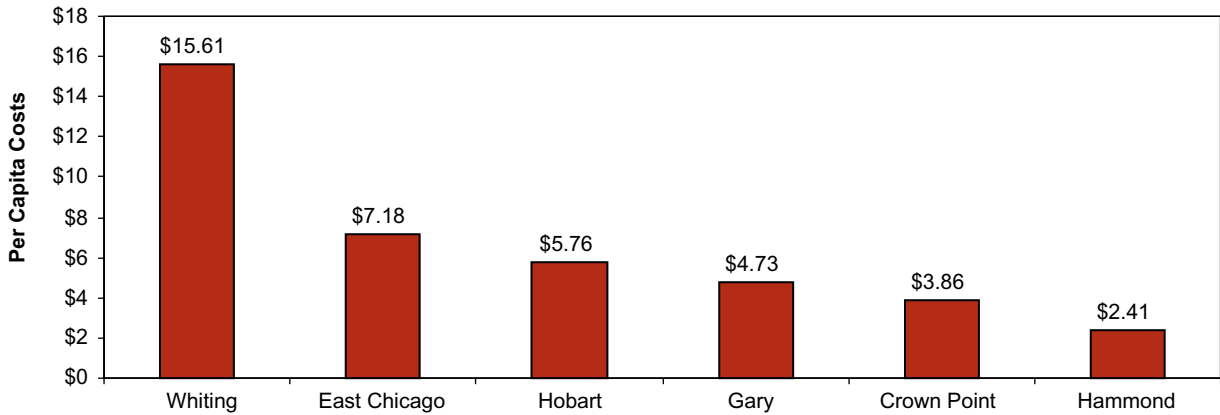


Mayors, Clerk-Treasurers, and City and Town Councils

What are the costs associated with those who develop, approve, and oversee municipal budgets? This includes our mayors and clerk-treasurers and our town boards and city councils.

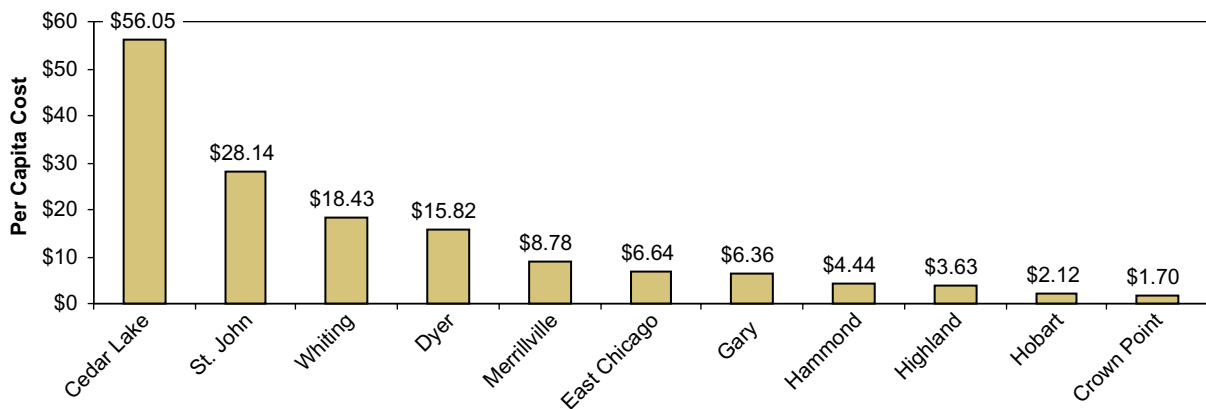
Administrative responsibilities are distributed differently in cities and towns. Mayors serve as the chief administrative officers of cities. They are responsible for developing budgets. They appoint department heads and departmental employees. They oversee many of the functions of local government. Most mayors have staff who report directly to them, including—in some cases—a deputy mayor. Common councils serve primarily as legislative bodies in cities. They approve budgets and oversee expenditures.

Per Capita Mayor's Office Costs, 2003



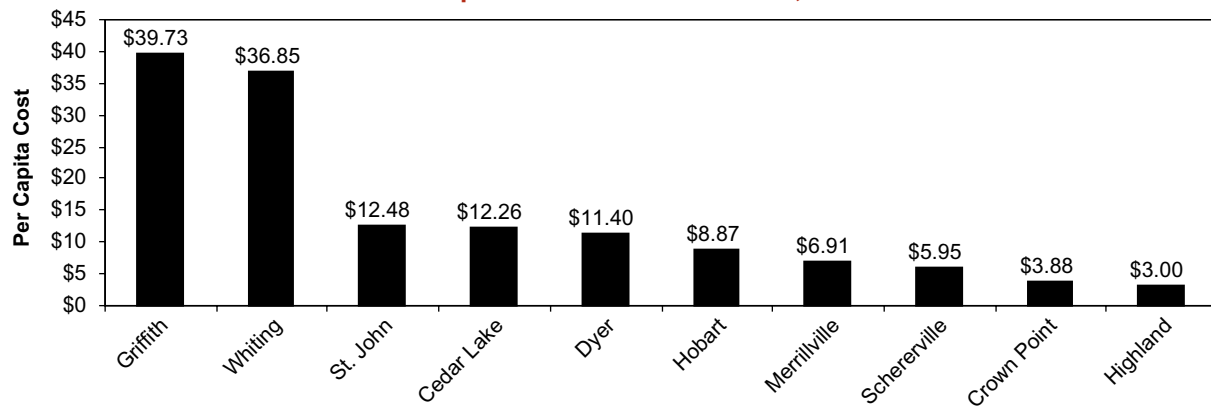
Town councils enjoy the same legislative authorities as common councils do in cities. Additionally, they exercise many of the administrative authorities reserved to mayors, including the development of budgets and the appointment and oversight of department heads. In some towns, some of these responsibilities are delegated to town managers. The town councils in Munster and Merrillville, for instance, have adopted this approach. In other towns (e.g., Highland and Winfield), town councils continue to perform both the legislative and executive functions of municipal government.

Per Capita City Council/Town Council Costs, 2003



It may surprise some readers to know that these elected and appointed positions contribute little to the overall cost of municipal government. The total cost of mayoral offices in Lake County range from 0.4 percent of the budget in Hammond to 1.1 percent of the budget in Hobart and Whiting. Because they do not enjoy certain economies of scale, administrative functions in smaller cities and towns tend to represent a higher percentage of total costs than in larger cities and towns. After all, regardless of population or geographic size, a city can only have one mayor and a town council cannot include more than seven members. Expenditures in smaller cities and towns also tend to be higher on a per capita basis.

Per Capita Clerk-Treasurer Costs, 2003



How then should we assess costs associated with these administrative offices? Three measures are more important than the kinds of per capita, per household, and per service encounter data we have used in assessing other functions of local government. The first includes the size of the municipal budget and the budgets of individual departments. The second pertains to the quality with which these various functions of municipal government are performed and citizen satisfaction. Together, these two categories of performance should play a significant role in how we vote in local elections.

The third measure is equally important, but for a very different reason. In recent years, the media have focused attention on the improper use of cell phones and automobiles, unwarranted travel, and excessive travel expenditures involving local officials. In truth, these kinds of abuses do not account for a significant share of municipal budgets. They do, however, send a powerful message to municipal employees as to what is permissible and what is not. We know that abuses of this kind also promote cynicism among citizens. Indeed, the personal expenditures of elected and highly-placed appointed officials can be viewed either as a sign of frugality and effective stewardship or as a sign of arrogance and waste.

That, of course, is why ethics ordinances are so important. Unfortunately, more than half of our cities and towns in Lake County have yet to adopt robust ethics ordinances.

Township Assessors

Township assessors have come under a great deal of fire in recent months. An external assessment of all properties in Lake County in 2002 and 2003 resulted, in part, from a lack of confidence in procedures employed by the county's eleven township assessors.

In February 2004, the Indiana Chamber of Commerce published a report claiming that the state could save \$11.6 million each year if it consolidated the assessment function at the county level. According to Crowe Chizek, the consulting firm that developed the report, savings could exceed 35 percent in some urban counties.

Citing the Chamber's work, Representative Bob Kuzman (D-Crown Point) introduced legislation in the 2004 session of the General Assembly providing for the dismantling of township government. Although his bill was subsequently withdrawn, Representative Kuzman claimed success in kicking off a long-overdue discussion pertaining to township government. Also citing the Chamber's report, in August 2004 Indianapolis Mayor Bart Peterson called for the consolidation of Marion County's nine township assessors.

Each of these efforts has been roundly criticized by township assessors. The external reassessment of all properties in Lake County proved particularly galling to certain assessors whose efforts have been well-respected over the years. This complaint does not, however, explain why the assessment function should be performed at the township level rather than the county level. Several assessors have claimed that township government is best for the job because it is "closest to the people," but it is not clear what

this means. It is likely, however, that few residents of Lake County could name their township assessor, and it is doubtful that many would be willing to pay more in property taxes in return for the kind of proximity that township assessors promise.

The question thus remains: Are property assessments best performed at the township level of government? Despite the considerable wailing and gnashing of many teeth, an audit of the recently completed external reassessment of all properties in Lake County indicates that it was performed quite accurately. This suggests that assessors may not need to be as “near to the people” as some suggest. It is worth noting that county commissioners in Indiana can abolish a township if petitioned to do so by more than 50 percent of the property taxpayers who reside in that township.

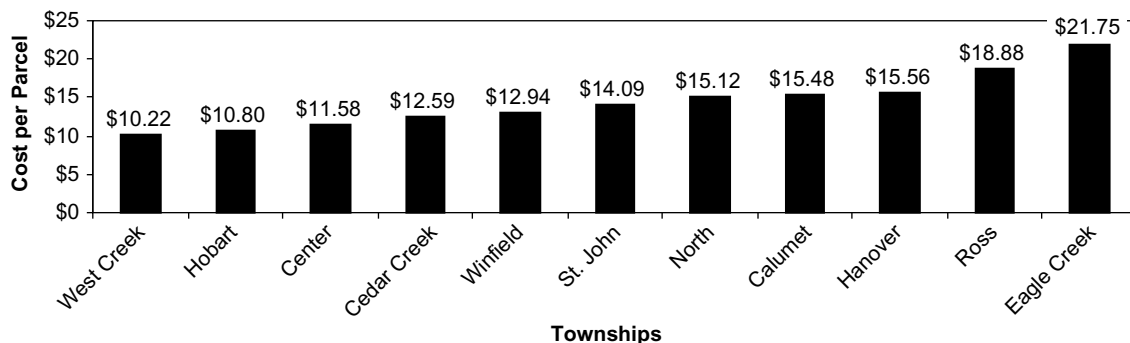
Assuming, however, that township assessors are not going away in the near term, we examined assessment costs on a per parcel basis and asked the question: How do our eleven township assessors stack up in comparison to each other? We divided the 2003 budgets of Lake County’s township assessors by the number of parcels located in each of their respective townships. Although all properties in Lake County were reassessed in 2002 and 2003 by an external party, the budgets of the county’s eleven township assessors were not reallocated elsewhere. In essence, the analysis that follows shows what the assessment function would have cost in 2003 had it been performed by the county’s township assessors rather than by the external assessor, Cole Layer Trumble.

More than \$3.6 million was budgeted countywide for the property assessment function in 2003. This represented an average cost of \$15 per parcel. More than 80 percent of these funds were dedicated to personnel costs. The remainder was used for supplies, contract services, and capital projects.

The budgets of five township assessors exceeded this average cost. At \$19, the per parcel cost in Ross Township exceeded the countywide average by nearly 30 percent. At \$22, the per parcel cost in Eagle Creek Township exceeded the countywide average by nearly 50 percent. Per parcel costs were higher in North, Calumet, and Hanover townships as well, but by less than 10 percent in each instance. The per parcel cost in six townships were lower than the average cost for the county as a whole. The per parcel cost was no more than 80 percent of the average cost in Center, Hobart, and West Creek townships.

In Lake County at least, there does not appear to be any correlation between the number of parcels located in a township and the per parcel cost of assessment. High-workload townships have low per parcel costs and high per parcel costs, and the same is true for low-workload townships.

Township Assessment Costs per Parcel, 2003



Township Trustees

Township trustees provide a broad range of services: general assistance, fire protection in rural communities, burial assistance for the indigent, weed control, the upkeep of abandoned cemeteries, the resolution of fence disputes, property assessment in some townships, and even public education in two

Hoosier communities. In urban and suburban communities, most of these functions have been assumed by other forms of government.

Poor relief or general assistance is, by far, the most important and costly function now performed by township trustees. Most of our need-based assistance programs—TANF (Temporary Assistance for Needy Families), SSI (Supplemental Security Income), Food Stamps, and Medicaid—were started either during the New Deal of the 1930s or during the 1960s. These programs are financed and administered either exclusively by or in partnership with the federal government. Poor relief echoes a much earlier tradition, the English Poor Laws of the early seventeenth century. Reflecting this legacy, township trustees are still identified in the law as “overseers of the poor.” It is not surprising, then, that some consider poor relief to be an anachronism.

Poor relief is non-categorical in nature. You do not have to be a certain age, disabled, or have minor children. To qualify for benefits, you simply have to be poor and unable to work or willing but unable to find work. Benefits are in-kind in nature, usually in the form of vouchers. And eligibility has to be re-certified on a regular basis. In some cases, poor relief benefits serve a stop-gap function. They tide the recipient over until other state and federal benefits kick in. In other cases, eligibility can extend over several months or years.

The way in which poor relief or general assistance is administered in Indiana is unusual, even peculiar. Consider these facts, all drawn from an analysis conducted in 1997 by the Indiana Fiscal Policy Institute:

- Indiana is one of only twenty states that still employ the township form of government.
- Poor relief is administered by township government in only three of these twenty states.
- Indiana is one of only sixteen states that continue to provide poor relief on a non-categorical basis.
- Most programs exclude employable individuals who do not have children. Michigan, Ohio, and Illinois amended their programs to this effect in the late 1980s and early 1990s.

Today, the chief criticism of the poor relief system is its inefficiency. The Indiana Fiscal Policy Institute pegged administrative costs statewide at 44 percent in the early 1990s. The situation has not changed significantly over the course of the last ten years. According to a report developed in 2004 for the Indiana Chamber of Commerce by the accounting firm Crowe Chizek, \$29.2 million (47 percent) of the \$61.6 million in property taxes used to finance poor relief statewide in 2002 was allocated to overhead. In contrast, only 10.9 percent of the funds budgeted for the TANF program are used for administrative purposes. In part, the high costs of administering poor relief are attributable to the more frequent re-determinations of eligibility that are required in general assistance programs. Nonetheless, the overhead costs involved in administering poor relief benefits in Indiana are remarkably high.

How does this antiquated form of government persist in Indiana? It is not efficient, it is not generous, and it costs taxpayers a great deal. Predictably, the survival of township government has more to do with politics than it does with social responsibility. There are 1,008 township trustees in the state. Their professional association is a powerful lobbying force in Indianapolis. Local township trustees wield considerable influence at home as well.

We experienced great difficulty in securing data needed to calculate overhead costs from township trustees in Lake County. Our trustees seem reluctant to share public data that may be used to argue for the reform of township government. We recommend, however, that all township trustees report these costs on an annual basis and that the Indiana Township Association assume the lead in publicizing comparative data pertaining to poor relief benefits.

Taxing Unit Demographics

Lake County, Indiana is the 123rd most populous county in the nation (out of 3,141 such entities) and the second largest in the state of Indiana, holding that rank in the state since the 1920 census. However, Lake County is also one of the slower growing counties in the nation, growing less than 2 percent between the 1990 and 2000 censuses.

Lake County has always been a diverse county, beginning with ethnic diversity brought about by the availability of well-paying jobs in the new steel mills that clustered near the southern shore of Lake Michigan. According to the 1930 census, Lake County had the largest foreign-born population and the second largest number of wage earners working in manufacturing jobs in the state. According to the 2003 population estimates, Lake County ranks 61st out of 3,141 counties nationwide in the number of African American (or black) persons and 103rd in the number of Hispanics, making it one of the nation's more diverse counties in terms of racial and ethnic (Hispanic) diversity.

What a Difference One Hundred Years Makes

Lake County's population in 1900 was less than 40,000. By 1930, more than 260,000 people lived in the county by the lake and more than half of that population lived in the urban portions of the county.

Only a handful of cities and towns existed in 1900 when the census was taken that year: the lakefront cities of East Chicago, Hammond, and Whiting and the inland cities of Crown Point, Hobart, and Lowell. By the time the census rolled around one hundred years later, there were nineteen cities and towns throughout the county, the latest addition being Winfield in the 1990s. Winfield is a small town, but is the fastest growing in percentage terms since the census was taken in 2000. East Chicago, Gary, and Hammond remain the largest cities in the county, but they are declining in population. Indeed, eight of the nineteen cities and towns lost population between 2000 and 2003.

The Turn of the Last Century: 1900 Census

Five Cities and One Town	
Place	Population
State of Indiana	2,516,412
Lake County	37,892
Hammond city	12,376
Whiting city	3,983
East Chicago city	3,411
Crown Point city	2,336
Hobart city	1,390
Lowell town	1,275

The Turn of the New Century: 2000 Census

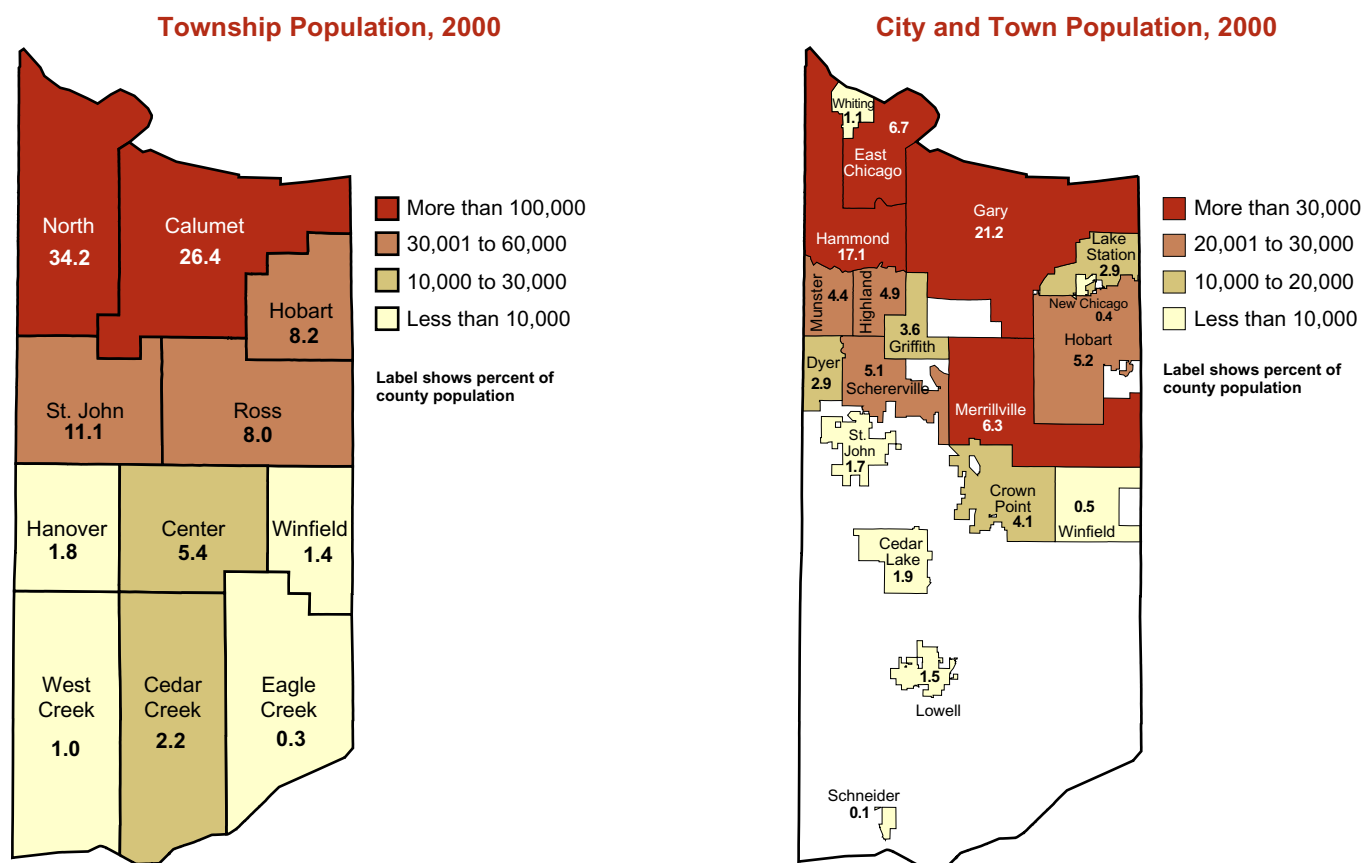
Two More Cities, Eleven More Towns			
Place	2000	2003 Estimates	Change
State of Indiana	6,080,506	6,195,643	1.9%
Lake County	484,564	487,476	0.6%
Gary city	102,746	99,961	-2.7%
Hammond city	83,048	80,547	-3.0%
East Chicago city	32,414	31,366	-3.2%
Merrillville town	30,560	30,990	1.4%
Hobart city	25,363	26,972	6.3%
Schererville town	24,851	26,142	5.2%
Highland town	23,546	23,444	-0.4%
Munster town	21,511	22,135	2.9%
Crown Point city	19,806	20,980	5.9%
Griffith town	17,334	16,961	-2.2%
Lake Station city	13,948	13,818	-0.9%
Dyer town	13,895	14,670	5.6%
Cedar Lake town	9,279	9,509	2.5%
St. John town	8,382	9,545	13.9%
Lowell town	7,505	7,759	3.4%
Whiting city	5,137	4,928	-4.1%
Winfield town	2,298	2,916	26.9%
New Chicago town	2,063	2,074	0.5%
Schneider town	317	306	-3.5%

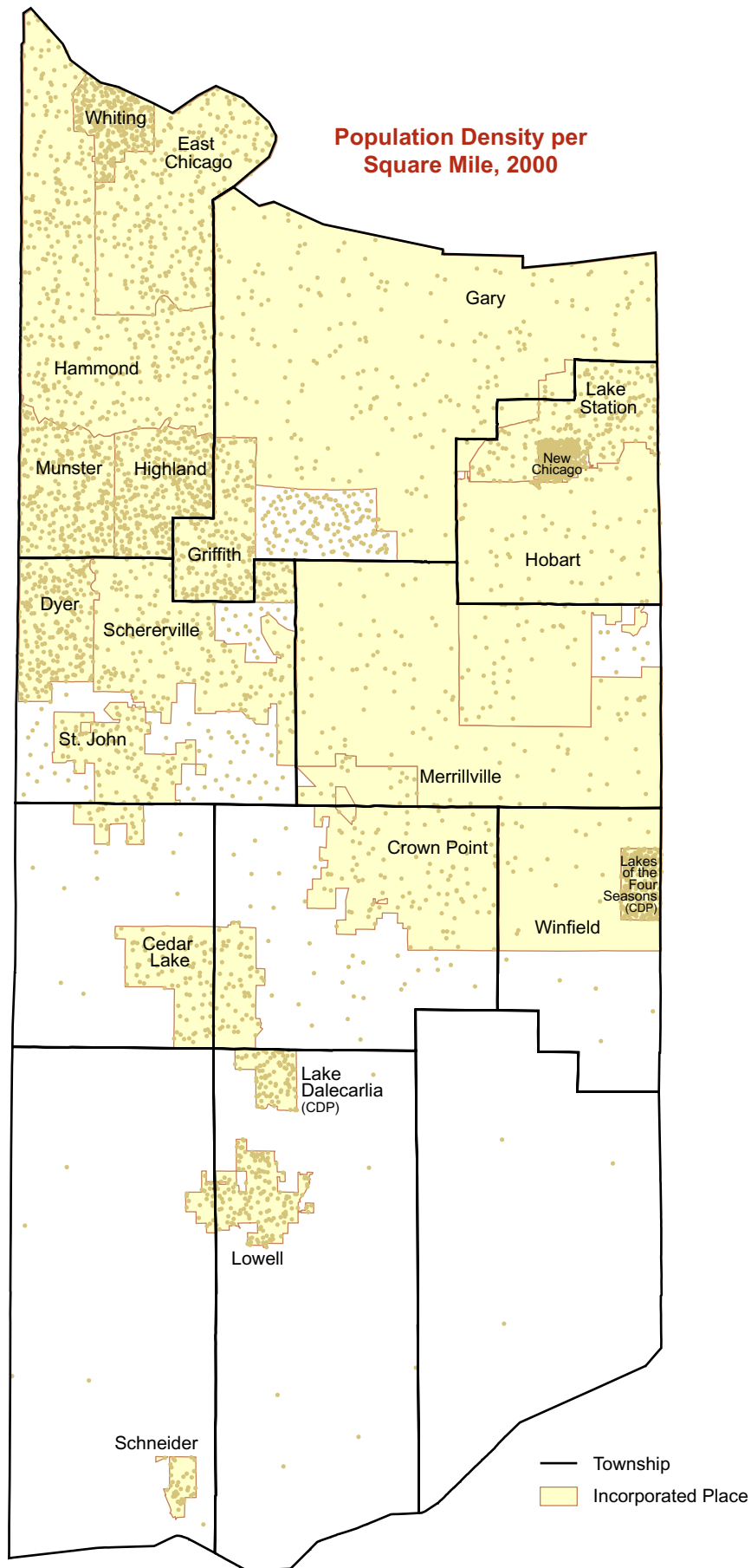
As the fortunes of manufacturing have changed in the nation and the region, so have the residences of many people in Lake County, with new migration expanding the population in the middle to southern portions of the county while the northernmost lake front cities lose population. There is also significant migration of former Lake County residents to Porter and La Porte counties to the east.

Regardless of the tax changes in the county, the dynamics of population and industrial change have buffeted the northernmost cities for decades. More residents must commute to other counties and even other states (primarily Illinois) for work. Personal income in the county has not kept pace with the nation. Indeed, in 1982, Lake County's per capita personal income was 6 percent above Indiana's PCPI and only 5 percent below that of the nation. Two decades later, Lake County's per capita income lags the nation by more than 13 percent. And educational attainment has not kept up with the times either. It is no surprise that the poorest people in the county live in the northern cities of the county and in the county's oldest housing.

The following maps provide a demographic atlas for the county, showing differences among cities, towns, and townships based on a variety of characteristics that are relevant to the issues of property tax and government finance within the county and its economic future. Most of the following maps are presented in pairs for each variable, one showing distribution across townships, and the other showing distribution across incorporated cities and towns.

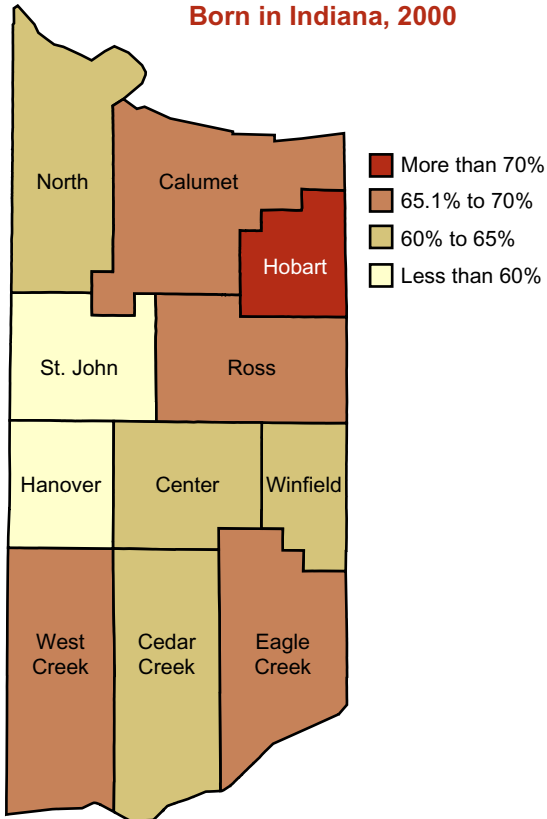
Where People Live



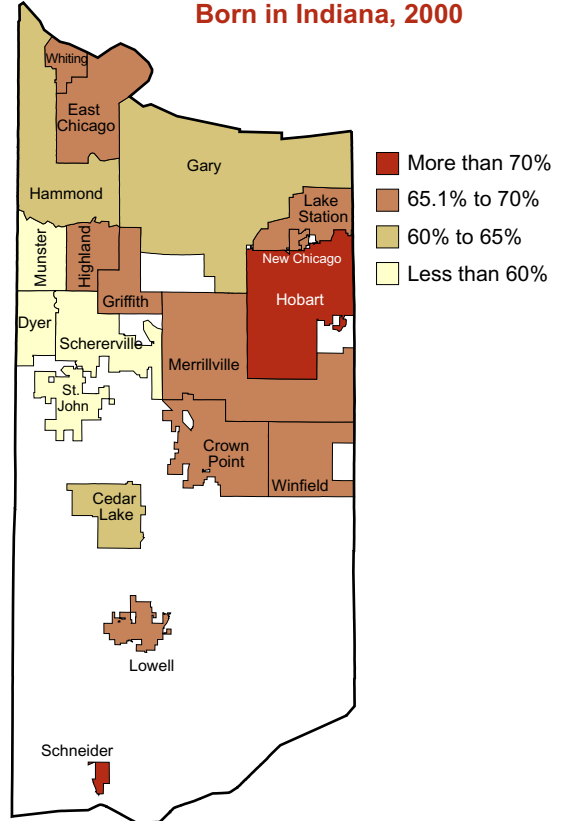


Nativity and Race

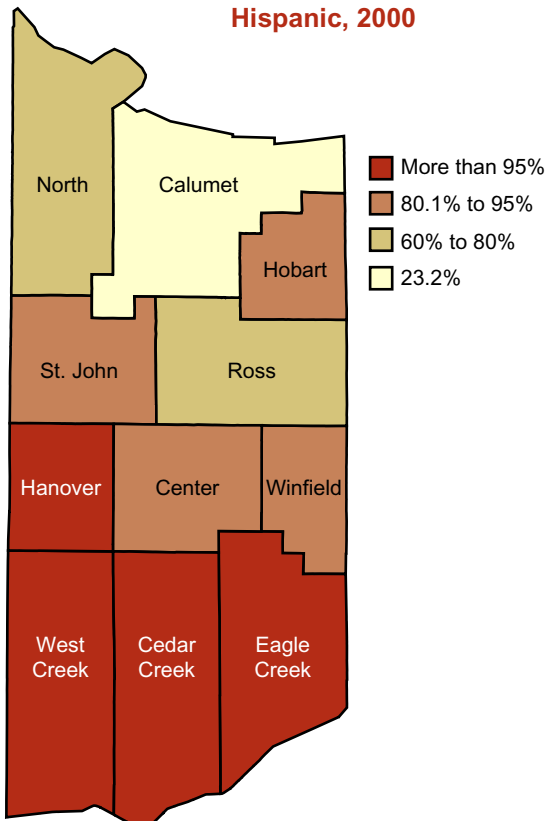
Percent of Population Born in Indiana, 2000



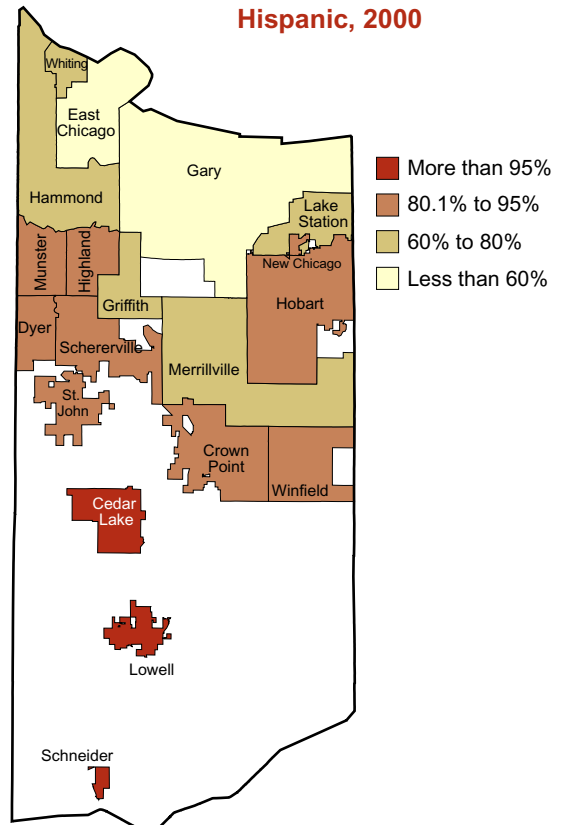
Percent of Population Born in Indiana, 2000



Percent White and Not Hispanic, 2000

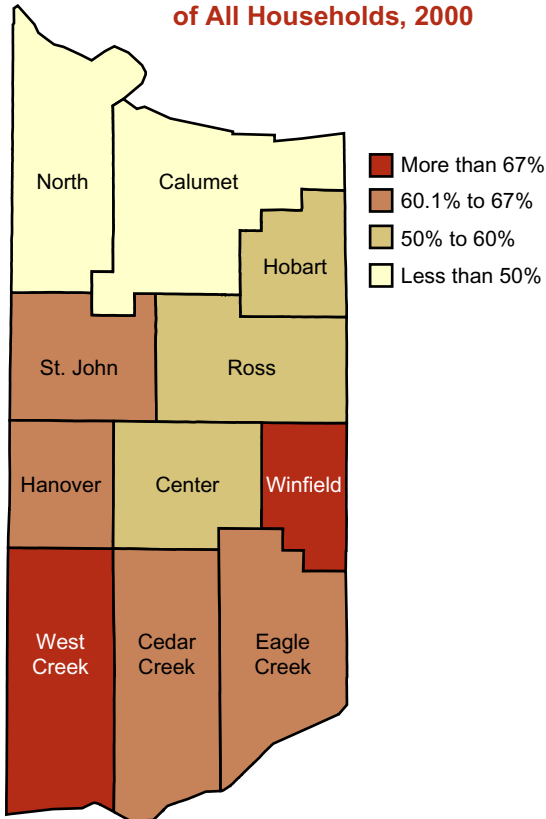


Percent White and Not Hispanic, 2000

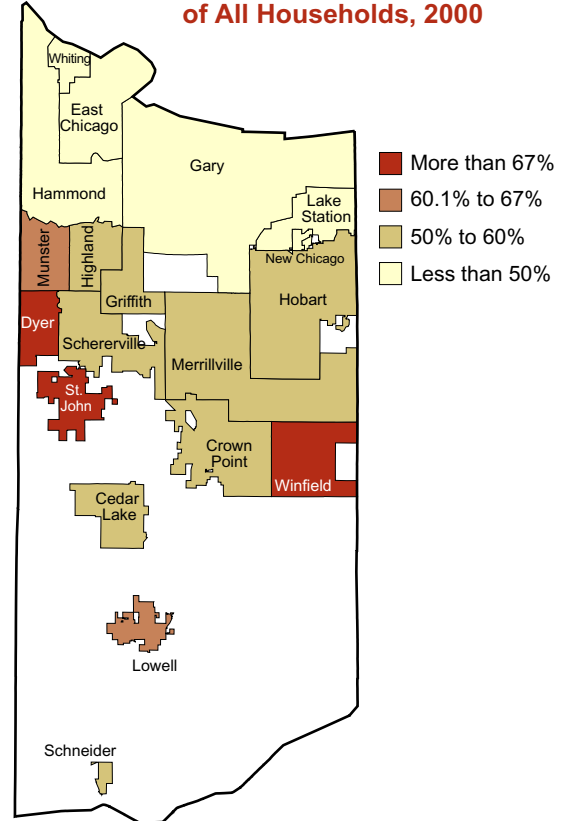


Household Types

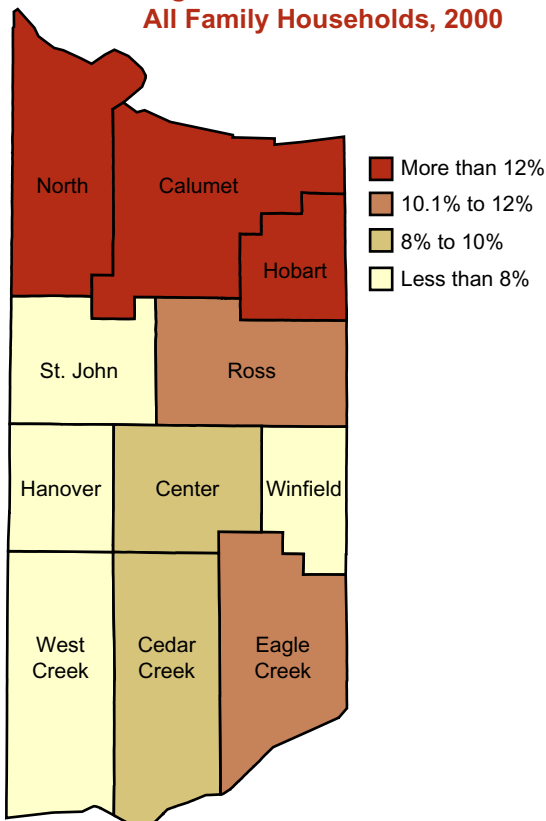
Married Couples as a Percent of All Households, 2000



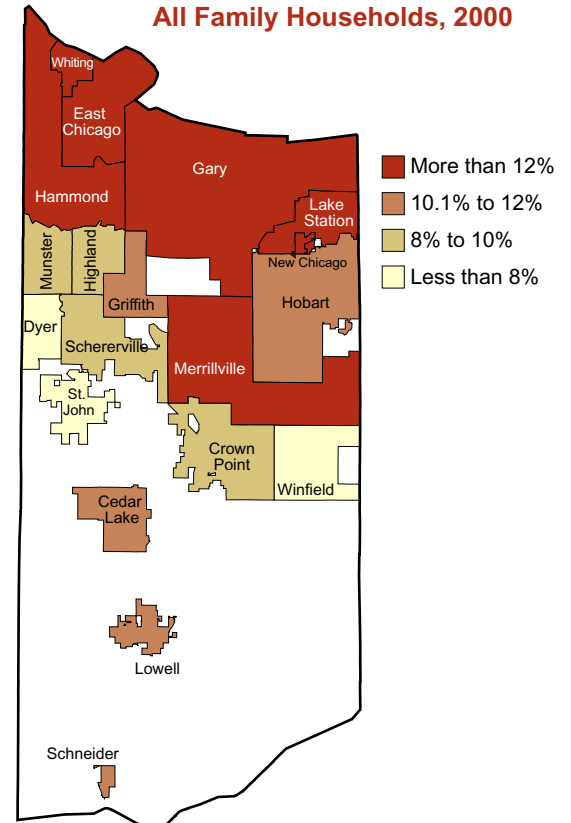
Married Couples as a Percent of All Households, 2000



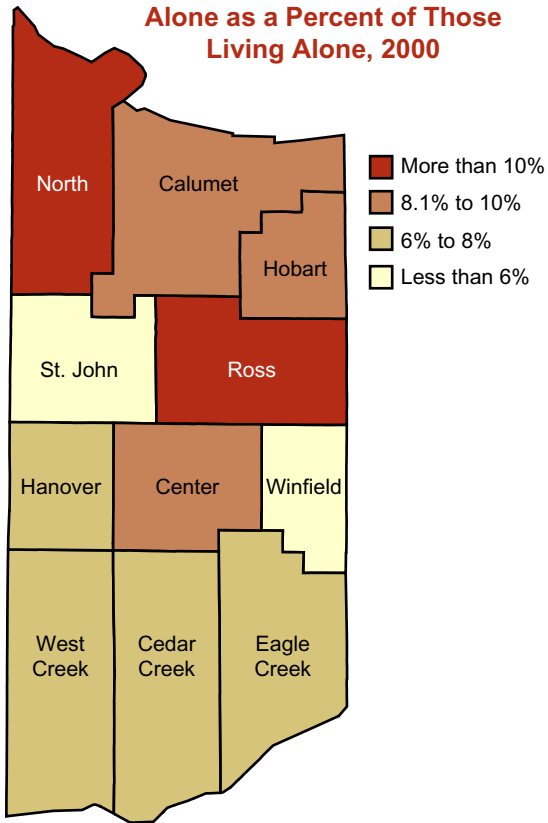
Single Mothers as a Percent of All Family Households, 2000



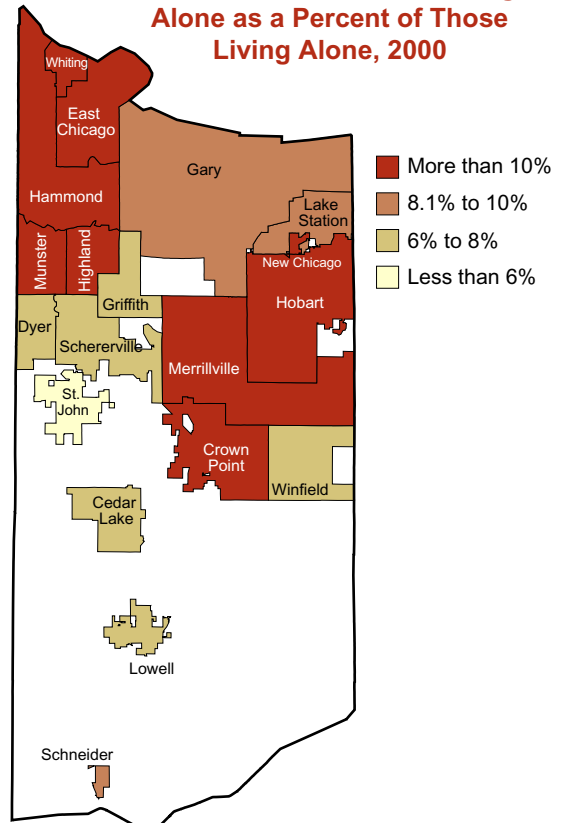
Single Mothers as a Percent of All Family Households, 2000



Individuals 65 or Older Living Alone as a Percent of Those Living Alone, 2000

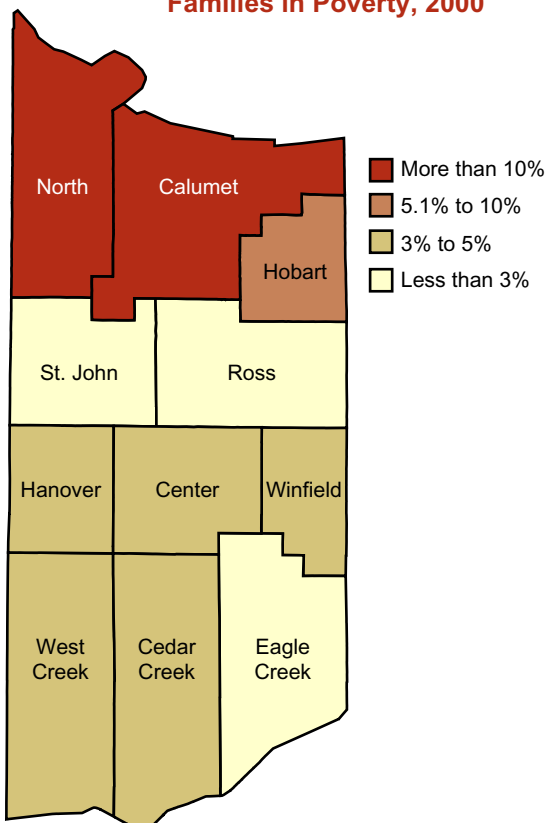


Individuals 65 or Older Living Alone as a Percent of Those Living Alone, 2000

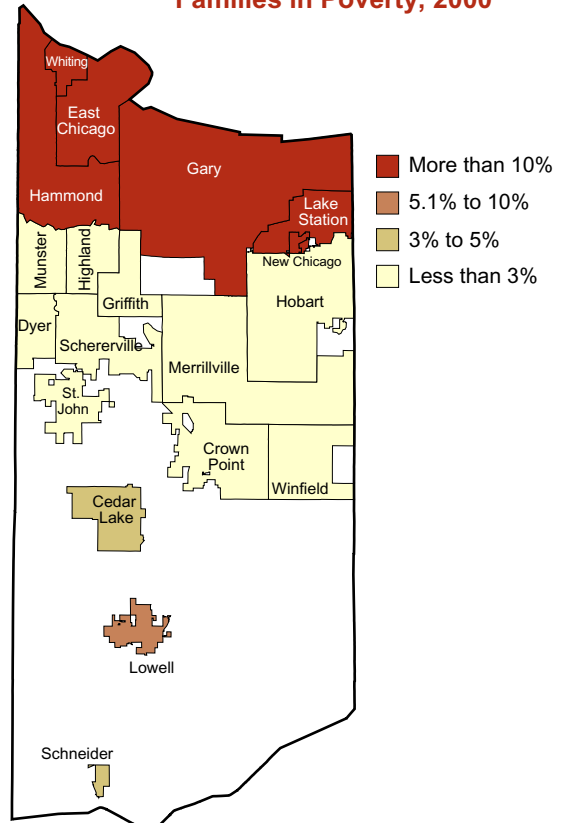


People in Poverty

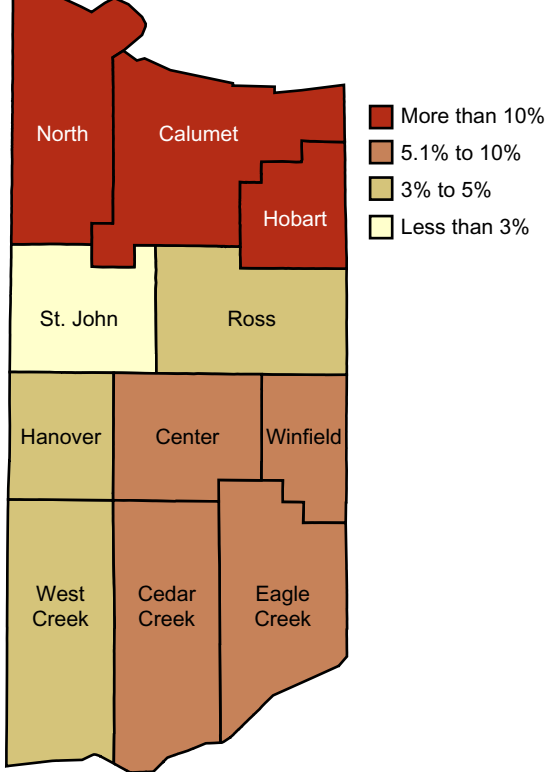
Families in Poverty, 2000



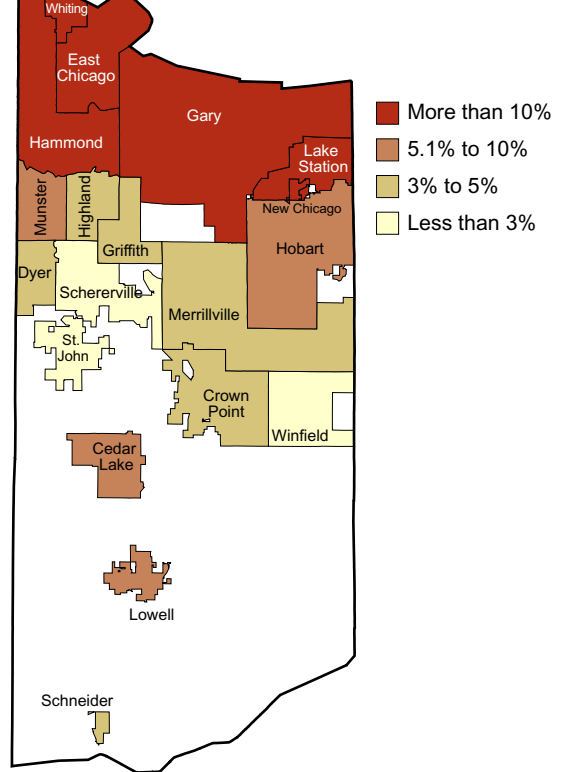
Families in Poverty, 2000



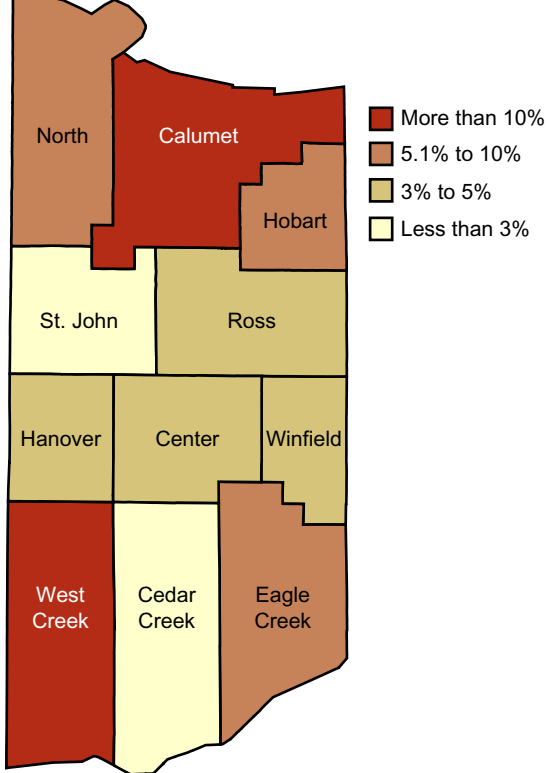
Children Under 18 in Poverty as a Percent of Those in Poverty, 2000



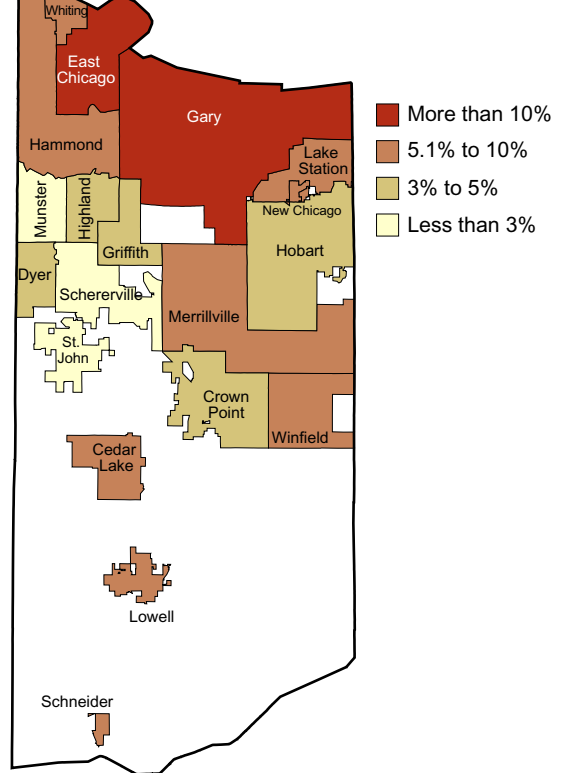
Children Under 18 in Poverty as a Percent of Those in Poverty, 2000



Individuals 65 and Older in Poverty as a Percent of Those in Poverty, 2000

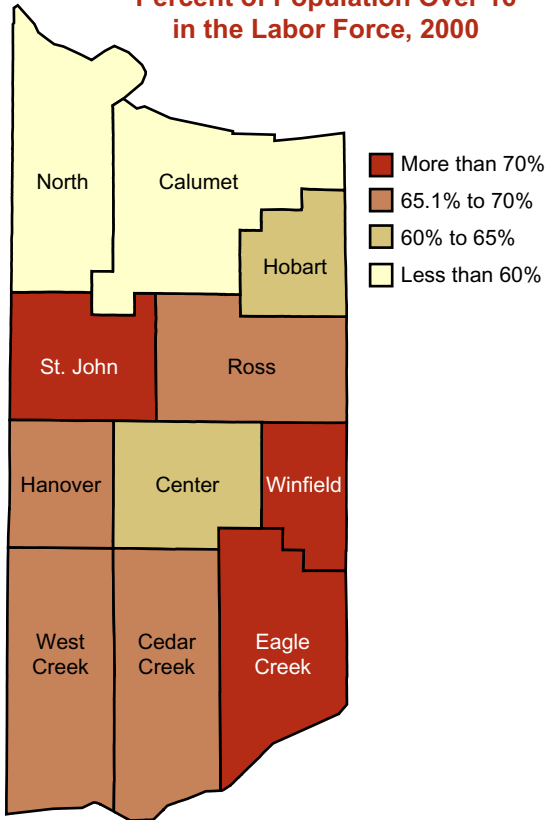


Individuals 65 and Older in Poverty as a Percent of Those in Poverty, 2000

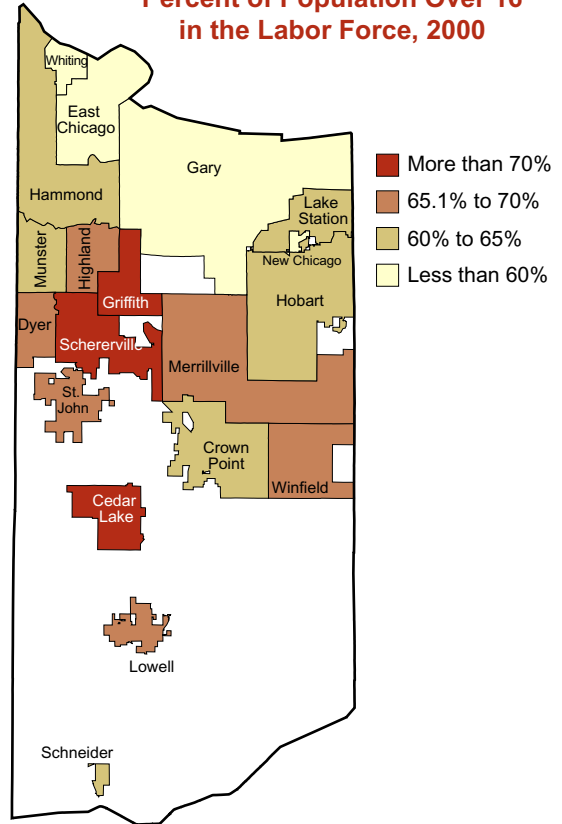


People at Work

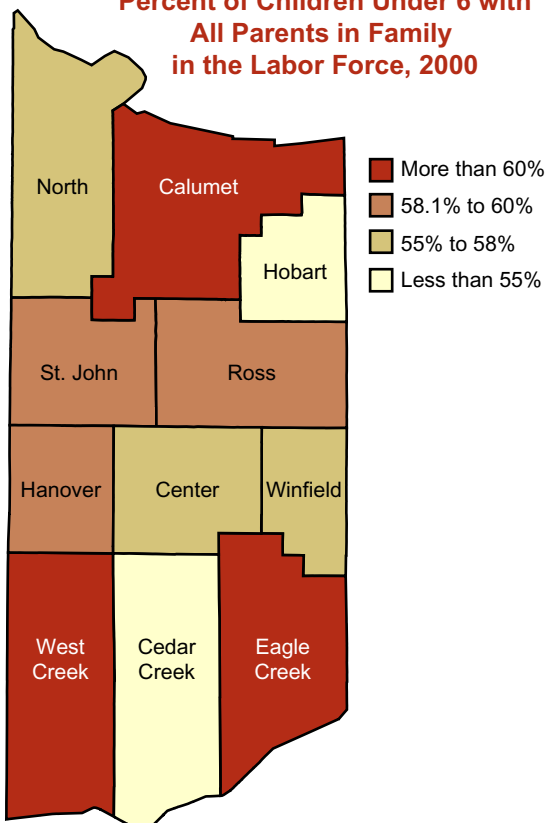
Percent of Population Over 16 in the Labor Force, 2000



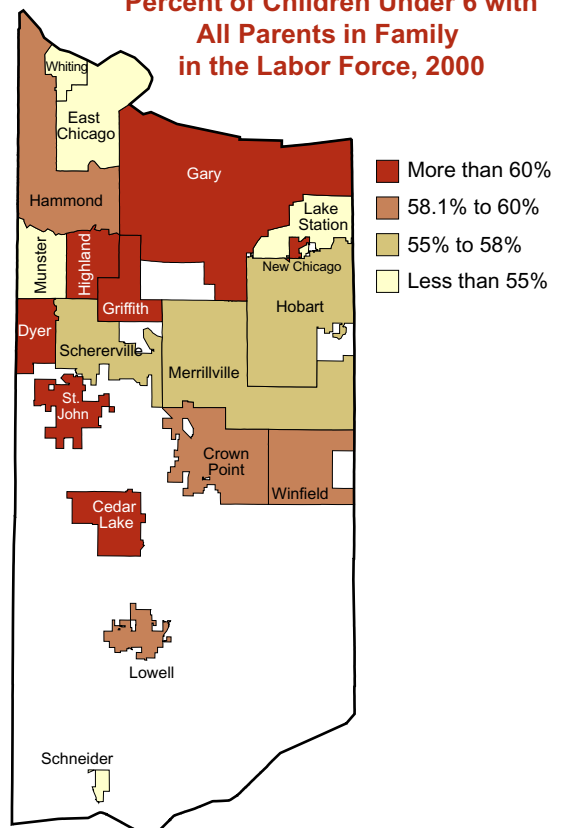
Percent of Population Over 16 in the Labor Force, 2000



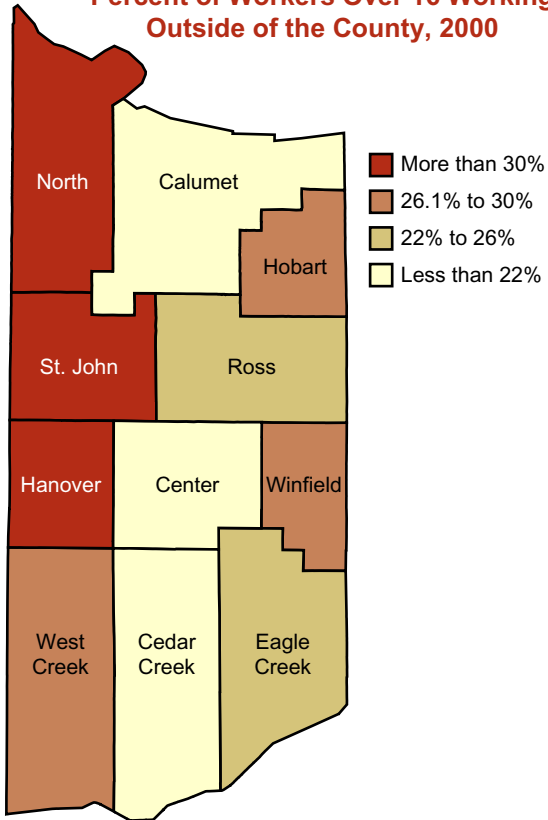
Percent of Children Under 6 with All Parents in Family in the Labor Force, 2000



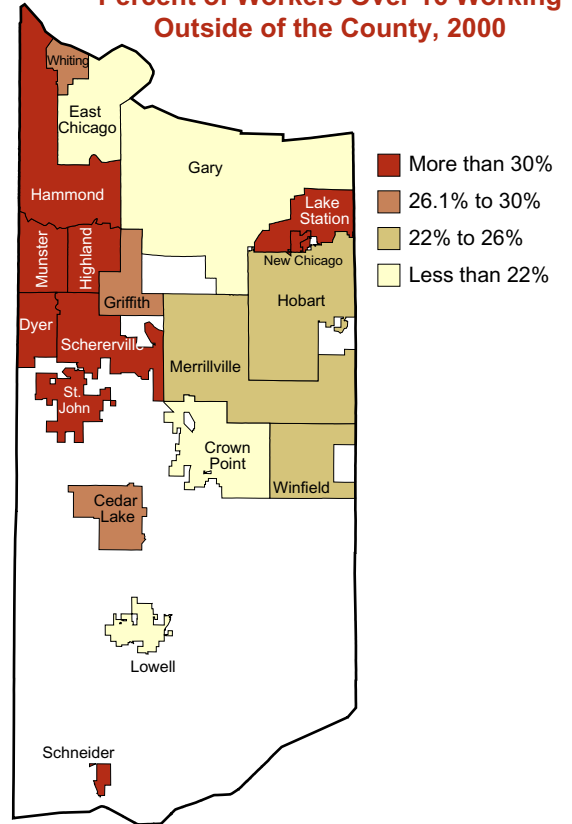
Percent of Children Under 6 with All Parents in Family in the Labor Force, 2000



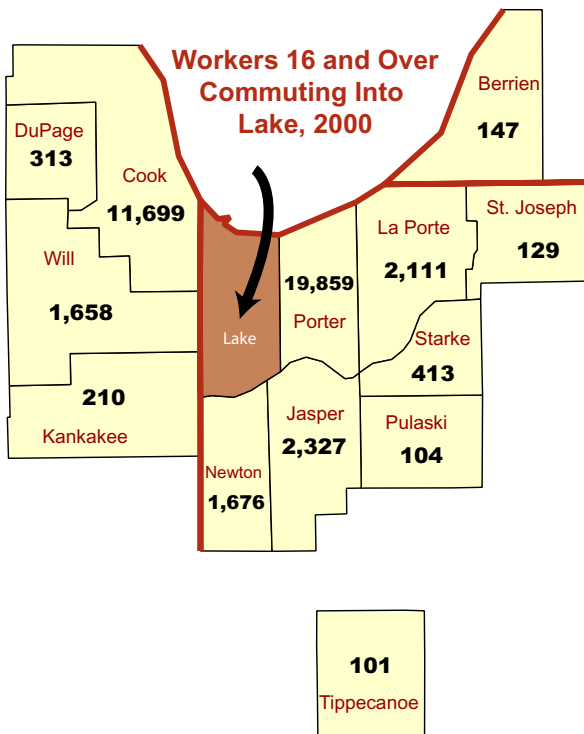
Percent of Workers Over 16 Working Outside of the County, 2000



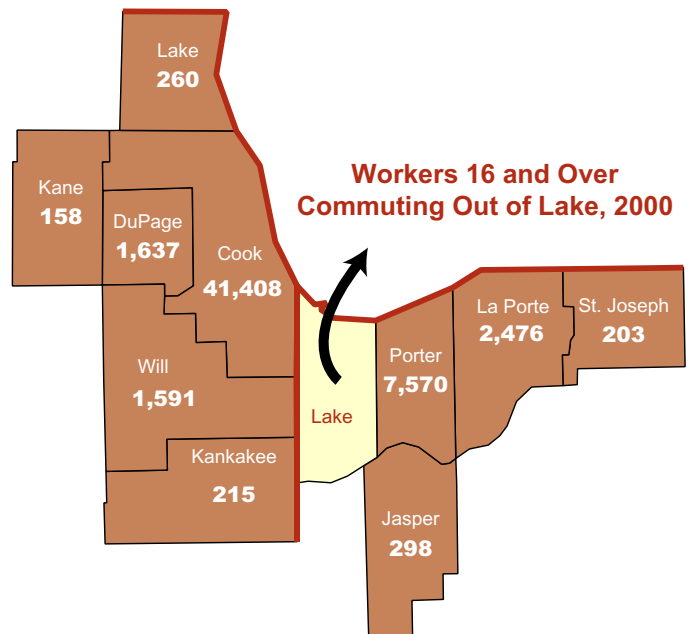
Percent of Workers Over 16 Working Outside of the County, 2000



Workers 16 and Over Commuting Into Lake, 2000

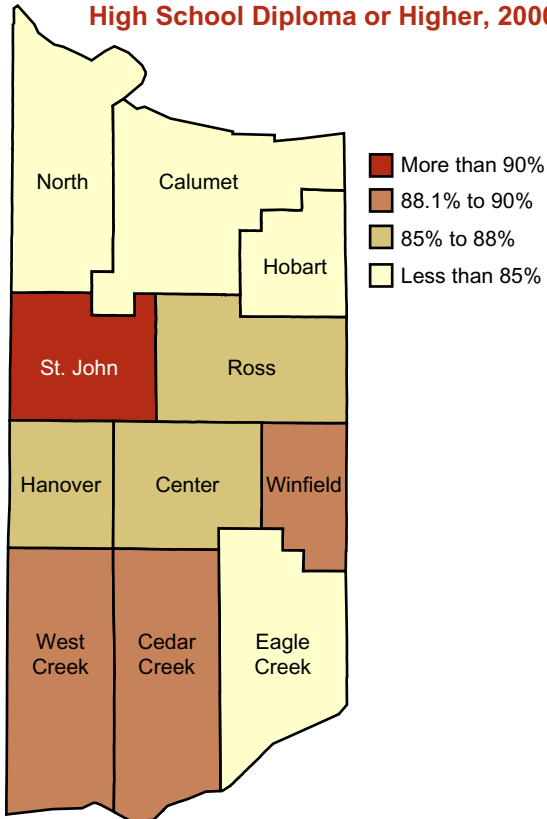


Workers 16 and Over Commuting Out of Lake, 2000

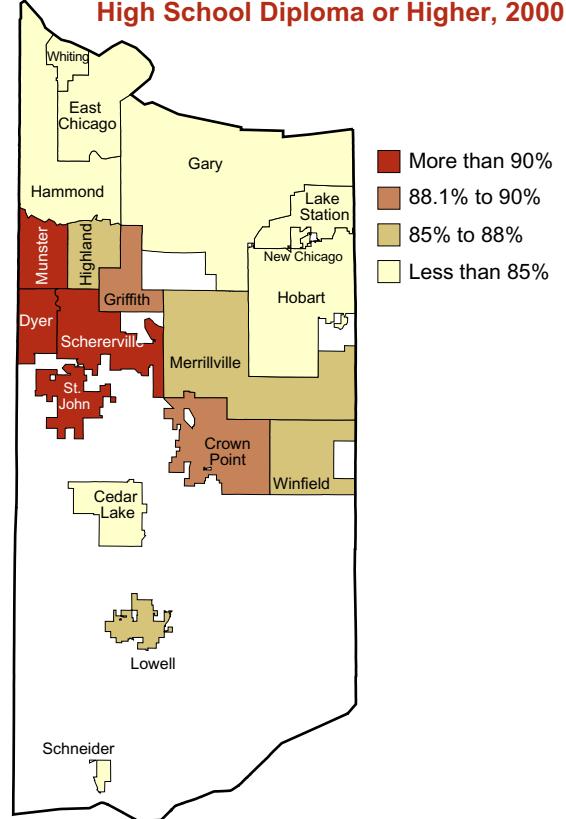


Educational Attainment

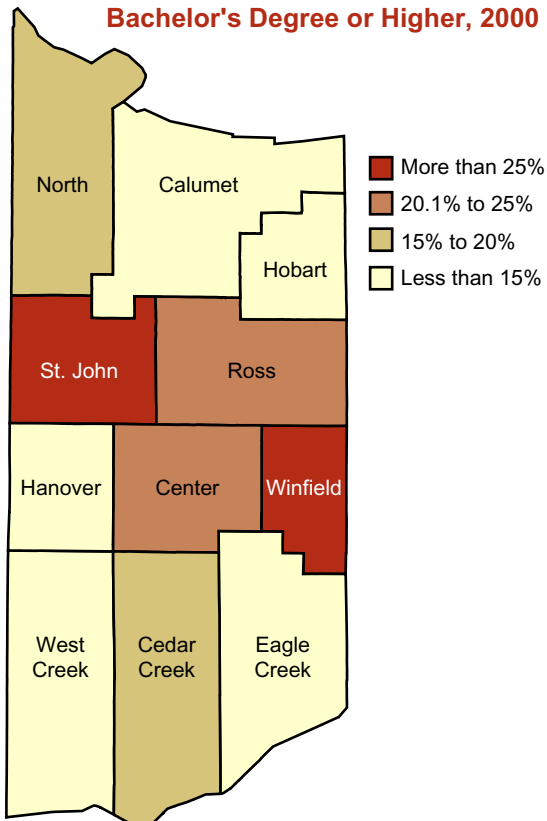
Percent of Those 25 and Over with a High School Diploma or Higher, 2000



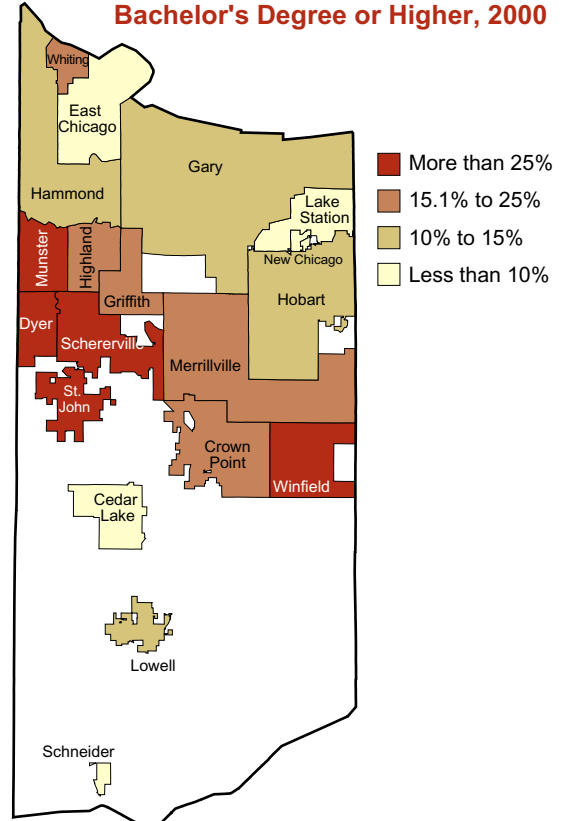
Percent of Those 25 and Over with a High School Diploma or Higher, 2000



Percent of Those 25 and Over with a Bachelor's Degree or Higher, 2000

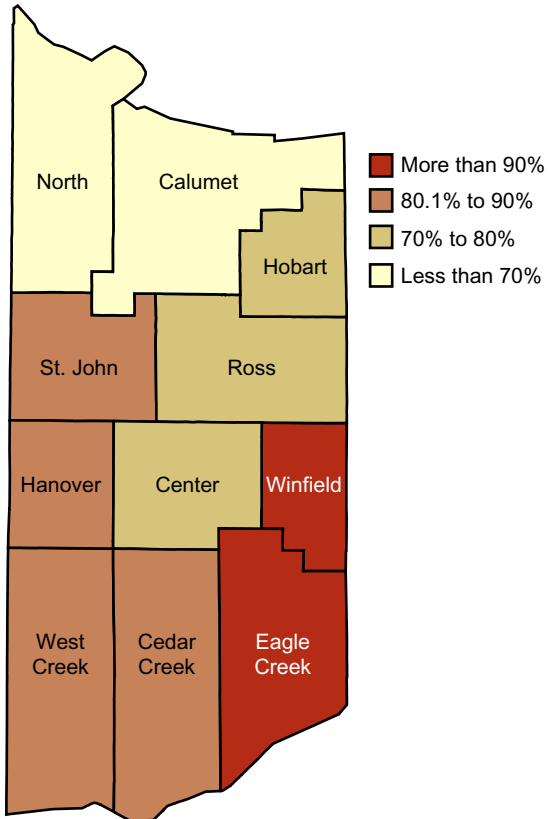


Percent of Those 25 and Over with a Bachelor's Degree or Higher, 2000

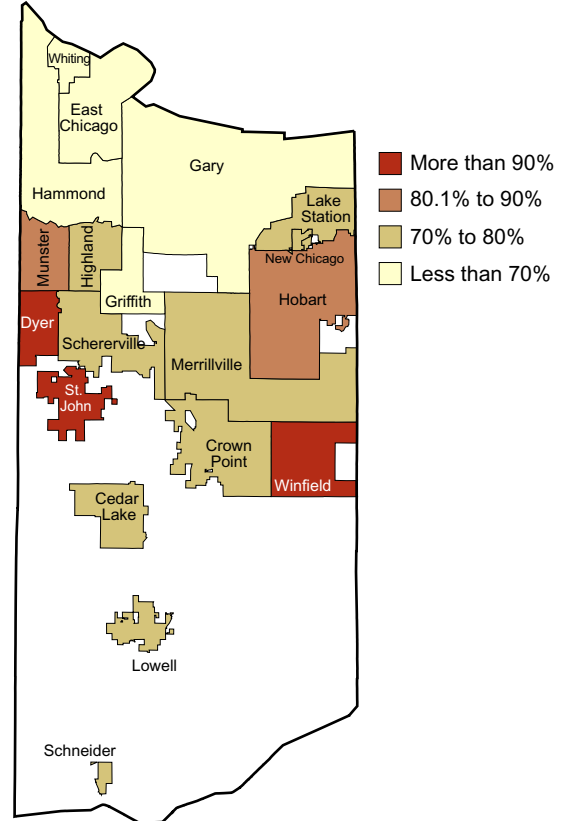


Housing in Lake County

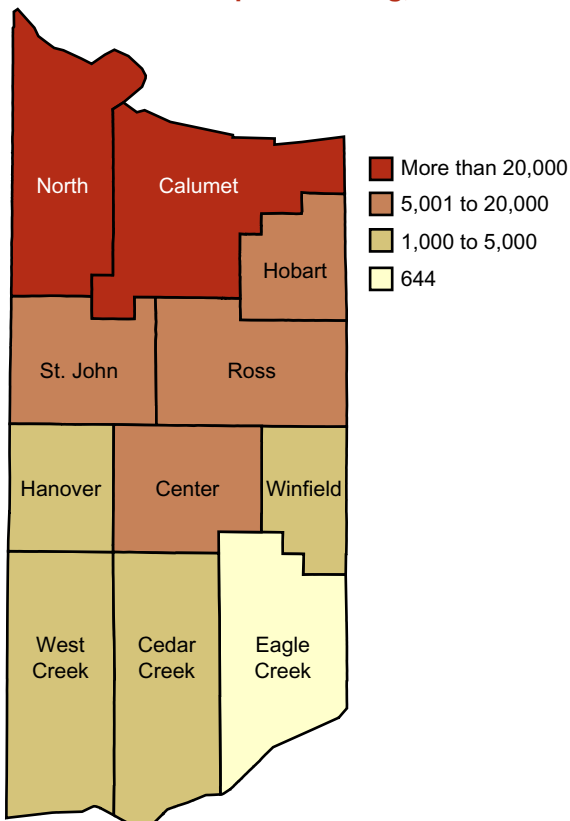
Owner-Occupied Housing, 2000



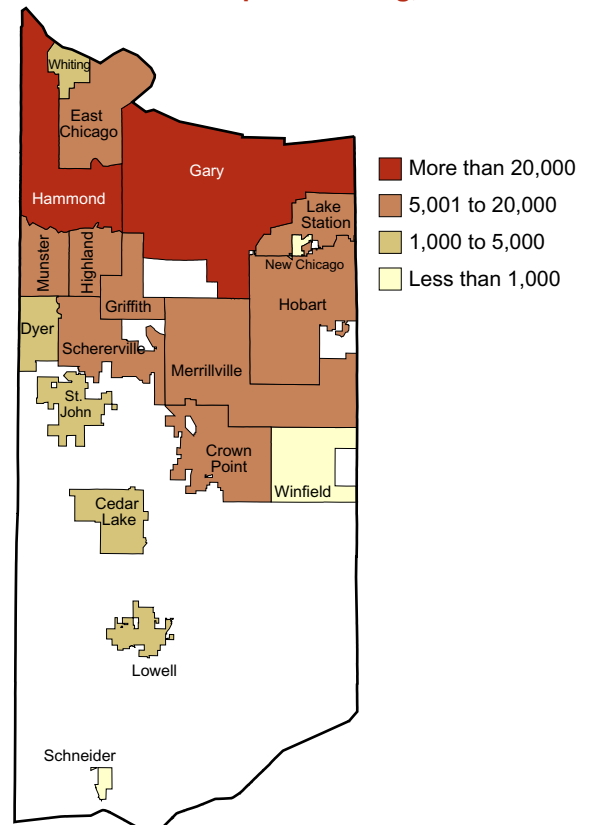
Owner-Occupied Housing, 2000

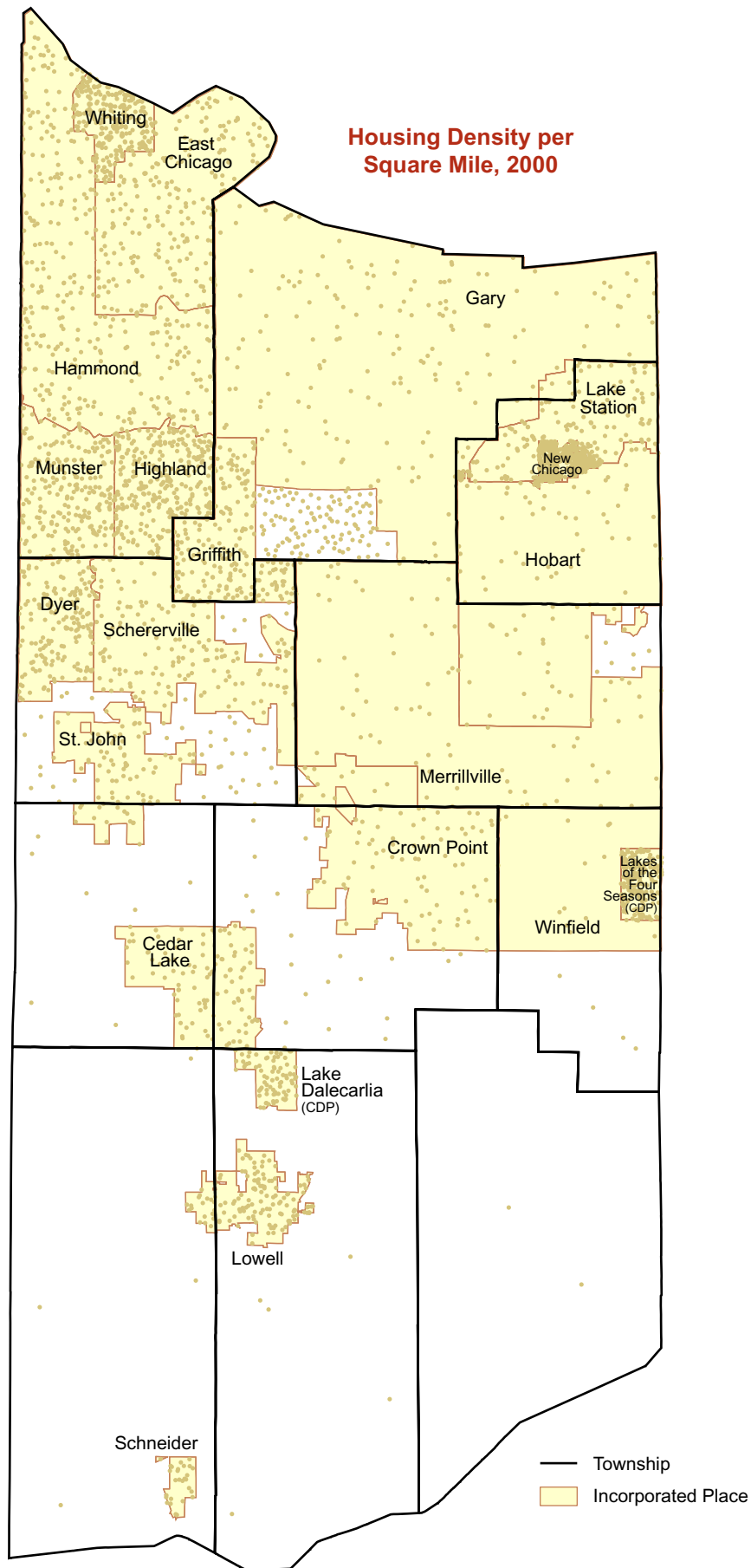


Occupied Housing, 2000



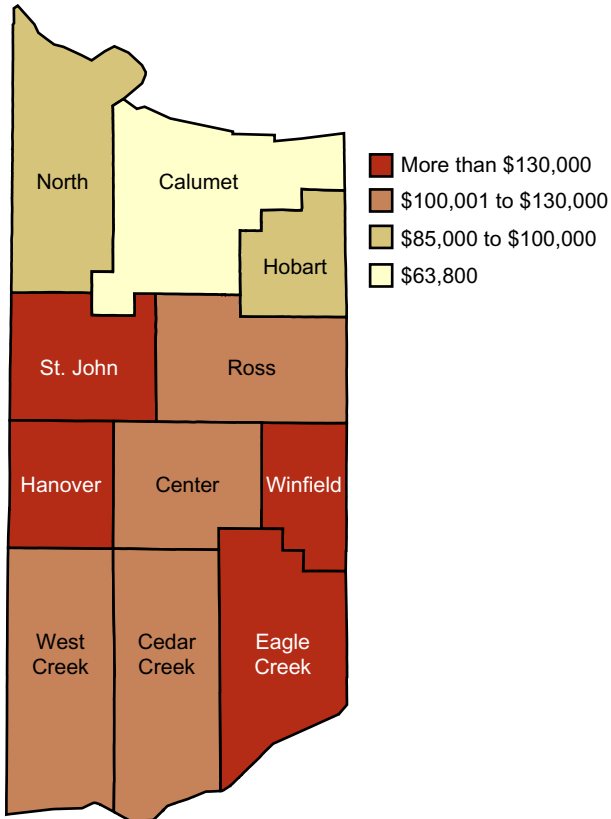
Occupied Housing, 2000



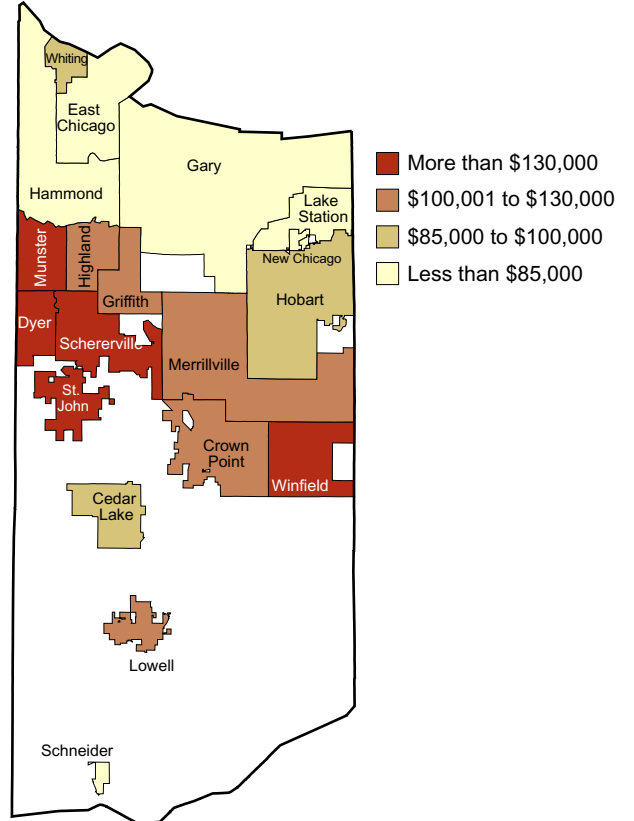


Each dot equals five houses per square mile (randomly distributed within geography).
 Note: CDPs are census designated places, which are not incorporated areas, but are used for data collection purposes by the U.S. Census Bureau.

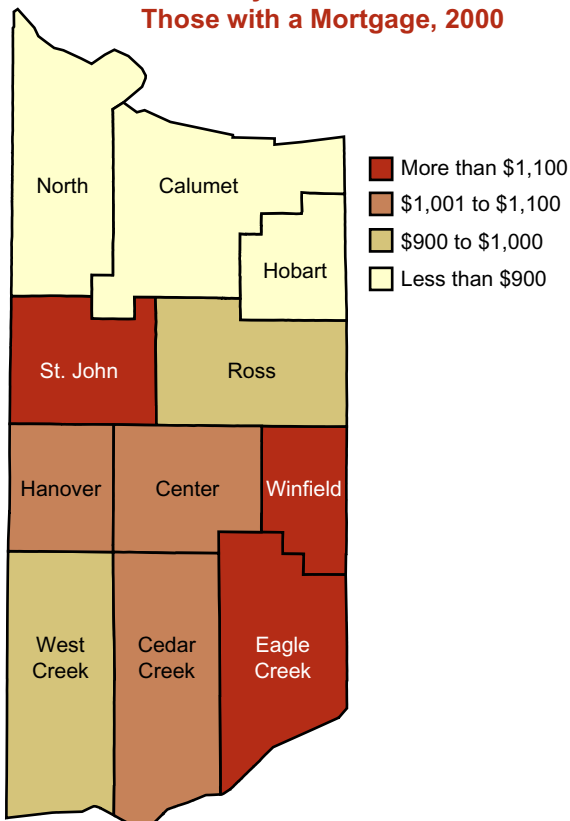
Median Home Value, 2000



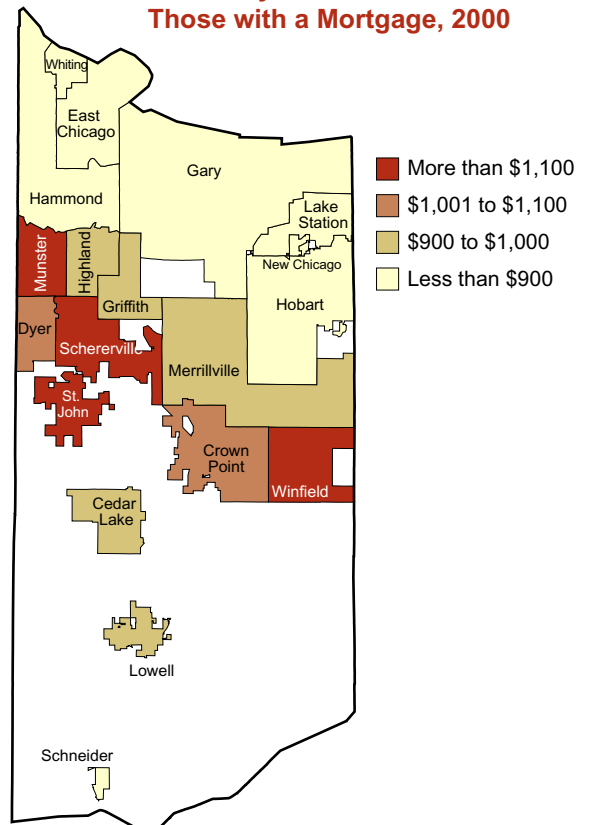
Median Home Value, 2000



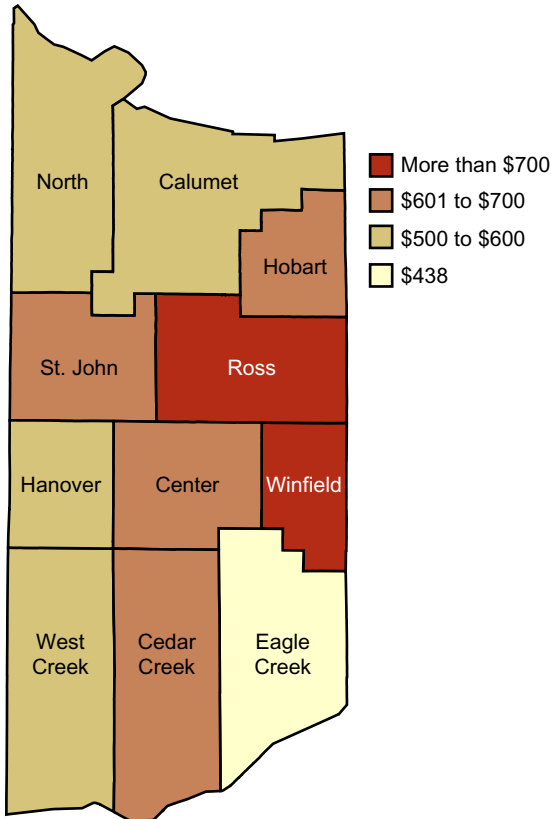
Monthly Owner Costs for Those with a Mortgage, 2000



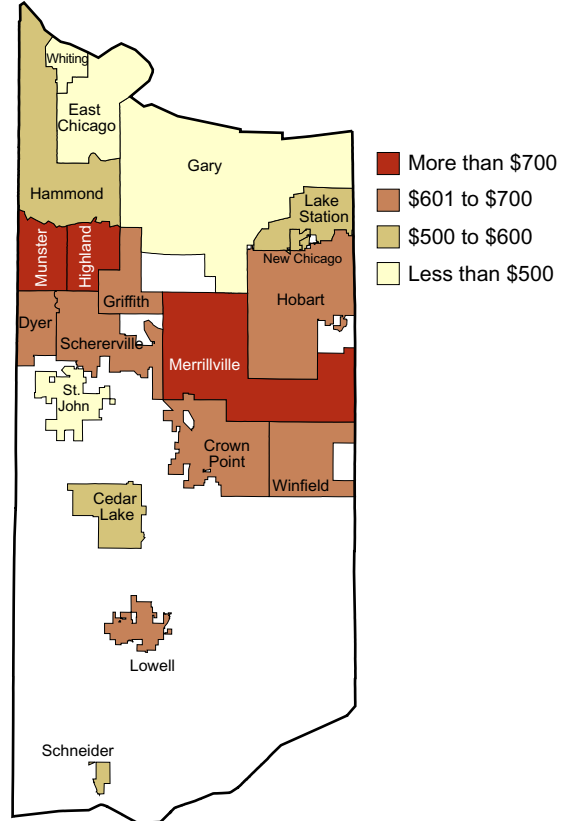
Monthly Owner Costs for Those with a Mortgage, 2000



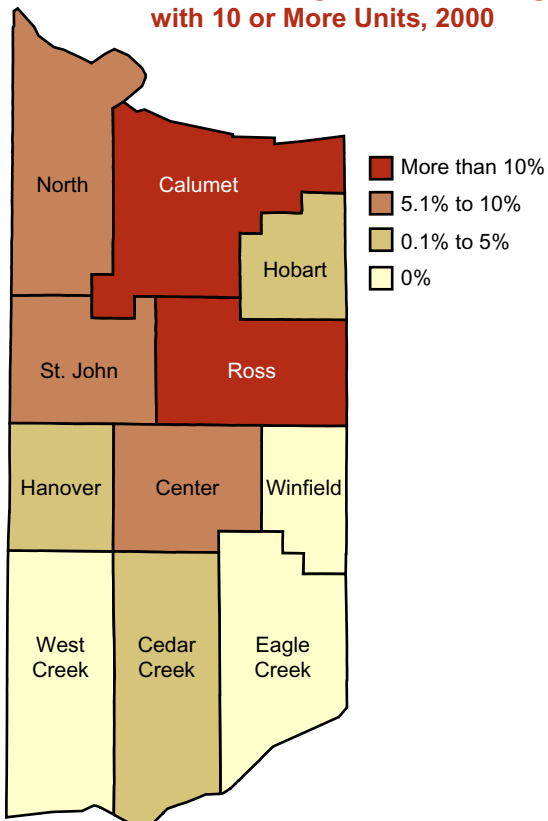
Median Gross Rent, 2000



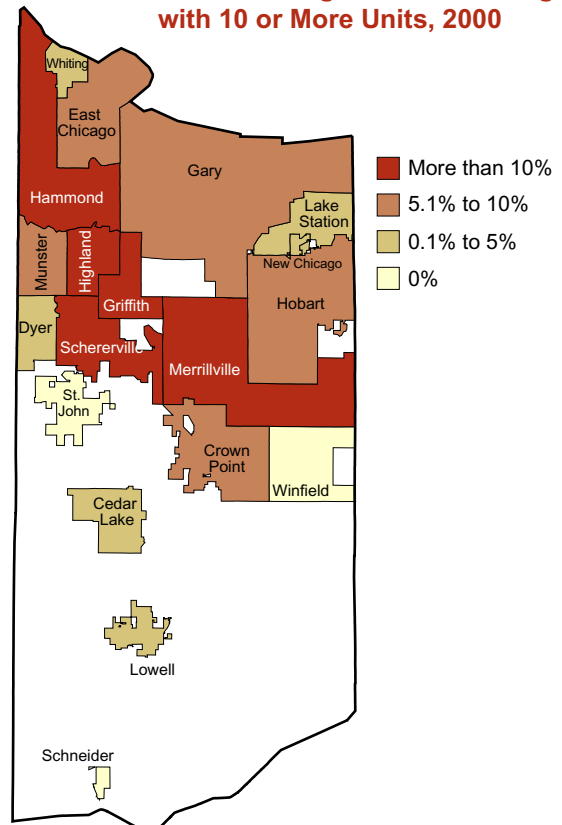
Median Gross Rent, 2000



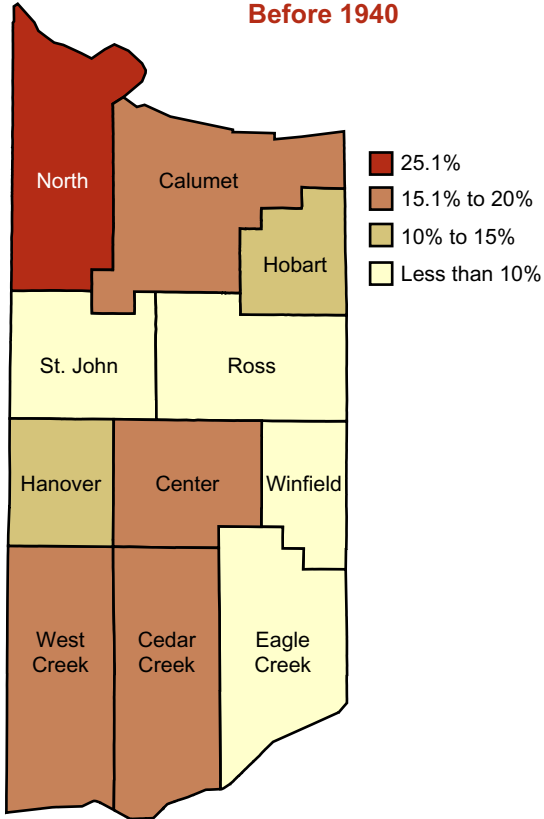
Percent of Housing Units in Buildings with 10 or More Units, 2000



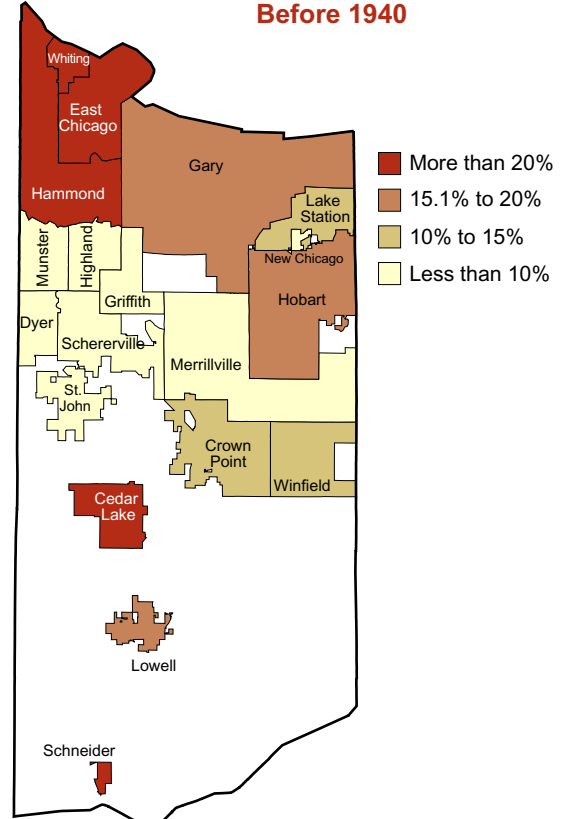
Percent of Housing Units in Buildings with 10 or More Units, 2000



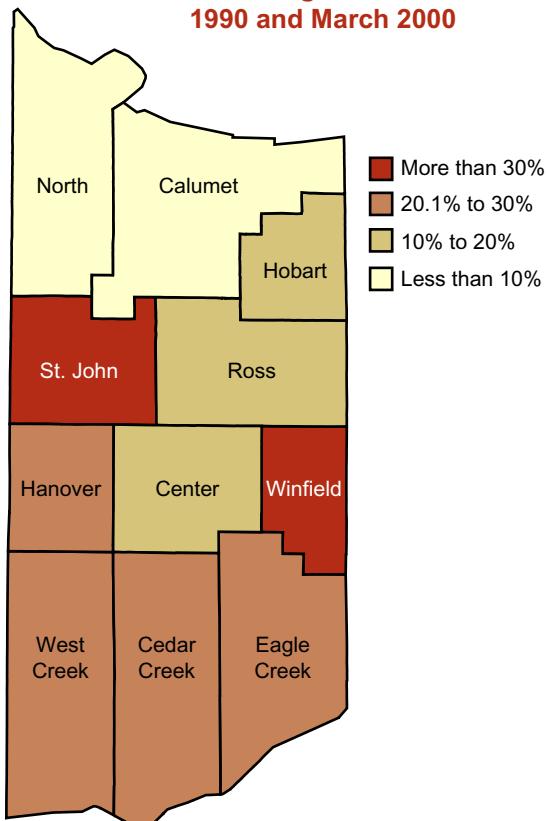
Percent of Housing Units Built Before 1940



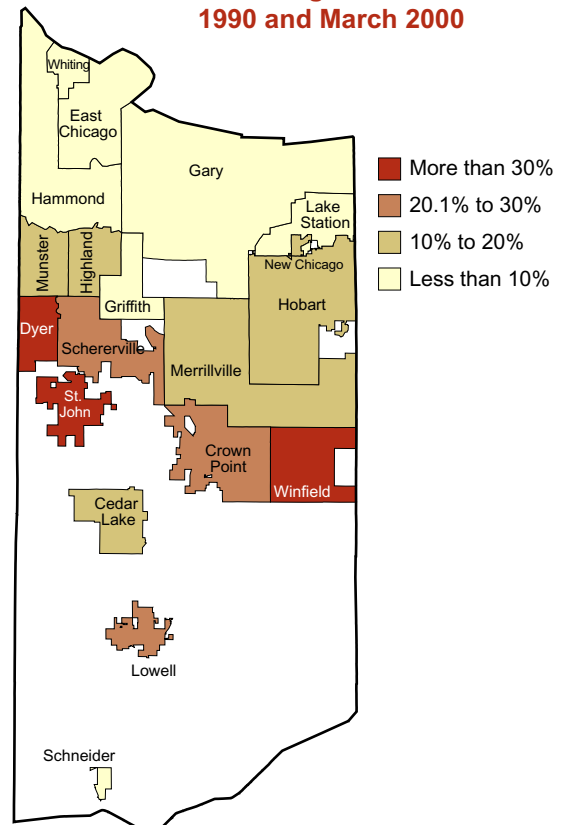
Percent of Housing Units Built Before 1940



Percent of Housing Units Built Between 1990 and March 2000



Percent of Housing Units Built Between 1990 and March 2000



Definitions Use with the Demographic Maps

Population Born in Indiana

This map is based on that portion of the Lake County population that was born in Indiana; not necessarily Lake County, but somewhere in Indiana. It can provide an indication of the migration of people from other states and countries into an area shown on the maps based on how large or small the percentage is.

White and Not Hispanic

This map is based on the number of people in Lake County who selected white (and only white, no other racial group) on their census questionnaire and are also not of Hispanic origin. This can provide a quick indication of diversity and of the minority population within the township, city, or town.

Single Mothers

These are mothers with children under age 18 living with them and no husband lives in the household. It does not indicate whether the mother may be living with another adult relative or unrelated individual, only that no husband is present in the household.

Poverty

These maps are based on persons living in households who met the poverty thresholds as established by the federal government for the year 1999. Each household's income is evaluated in terms of thresholds based on the number of persons in the household.

Labor Force

The labor force is the combination of people 16 and older who were either working or looking for work.

“All” Parents in the Labor Force

It would be misleading to say “where both parents” work, since there are many single parent households. This terminology attempts to describe the fact that the child's (or children's) single parent or both parents are in the labor force (either working or seeking work).

Working Outside Lake County

The data are based on people employed during the reference week (a census term) who indicated a place of work that was outside Lake County.

Commuting Patterns

These maps show the number of workers 16 years of age or older either commuting into Lake County from surrounding counties or who live in Lake County but commute out of the county for work.

Housing Units

All housing that is suitable for residence, be it occupied, seasonal, or vacant.

Occupied Housing

People living in housing units they consider their usual place of residence. By definition, this does not include seasonal or vacant housing.

Owner-Occupied Housing

Occupied by the owner, whether mortgaged or not.

Median Home Value

The middle value of all housing in the area, indicating there is an equal number of owner-occupied homes both below and above that value.

Monthly Owner Costs for Owner-Occupied Homes with a Mortgage

These costs include mortgage, property taxes, utilities (electricity, gas, and water and sewer) and fuel costs for heating or otherwise “powering” the home (oil, coal, kerosene, wood, etc.).

Median Gross Rent

Gross rent is the contract rent plus the estimated average monthly cost of utilities (electricity, gas, and water and sewer) and fuels (oil, coal, kerosene, wood, etc.) if these are paid by the renter.

Recommendations for Action

The following recommendations are derived from both the foregoing report and a broad range of public policy discussions that have taken place in various settings, such as the Quality of Life Council and the Northwest Initiative, over the last several years. Those derived from other deliberations are supported by the data and findings noted above.

Government Efficiency and Effectiveness

- 1. Participate in Business Process Re-Engineering Initiative.** All units of local government in Lake County should participate in the business process re-engineering (BPR) initiative now being developed at the prompting of Congressman Peter Visclosky and others. BPR involves two kinds of activities: (1) an assessment of all core work processes in order to identify bottlenecks, redundancies, and steps that add little or no value; and (2) the benchmarking of best practices employed elsewhere. An aggressive effort of this kind, pursued in partnership with the private sector, should result in dramatically improved efficiencies and an increase in public confidence.
- 2. Require Activity Based Accounting.** The Indiana Department of Local Government Finance should encourage—if not require—the use of activity based costing (ABC) procedures. ABC represents an alternative to traditional object code accounting. In those jurisdictions across the country in which it has been adopted, elected officials and citizens have been better able to assess the true costs and benefits of government.
- 3. Permit Biennial Budgeting.** The General Assembly should take action to permit units of local government to develop and submit biennial budgets for approval by the Indiana Department of Local Government Finance. This would encourage better planning at the local level.
- 4. Establish Performance Measurement Task Forces.** As the region's Council of Governments, the Northwestern Indiana Regional Planning Commission (NIRPC) should sponsor the creation of several functional task forces (e.g., police departments, fire departments, the courts, township trustees, etc.) and charge them with developing common sets of performance indicators for tracking performances of various kinds over time. This report can provide baseline data for an initiative of this kind. Individual units of local government should gather and display data pertaining to the agreed upon sets of indicators electronically together with explanatory notes. The Local Government Academy of Northwest Indiana should also post and maintain these reports on its website.
- 5. Improve Efficiencies and Consolidate Services in East Chicago and Whiting.** Efforts to cut municipal budgets in East Chicago, Whiting, and other taxing units that overlap with these jurisdictions should be accelerated in order to aid these two communities in achieving sustainable economies and an improved quality of life. Expenditures in East Chicago and Whiting are high across the board. In virtually every function of local government that we examined (e.g., libraries, schools, police and fire departments, and parks and recreation programs), spending per capita and spending per transaction in these two communities far exceed spending in other cities and towns in Lake County. Positive steps have been taken to address this concern in Whiting. Budget reform is still needed in the City of East Chicago. The data pertaining to East Chicago suggest that this can only be accomplished with dramatic job cuts enacted as public service levels are maintained or even improved. In Whiting, additional job cuts will be required as well. Given its size, however, we recommend that elected officials in Whiting engage citizens in a broad discussion leading to

the consolidation of some units of local government (e.g., the library system and the schools at a minimum) with their counterparts in adjacent communities.

6. **Examine County Sheriff and Jail Expenditures.** Data indicate that spending in the Sheriff's Department and in the Lake County Jail exceed spending in comparable counties. Both should be invited to participate early on in the BRP and indicators initiatives noted above.
7. **Study Court System.** Data indicate that high spending in Lake County courts is associated with the inordinately large number of cases that are processed through the system and the courts. In 2003, the courts cost almost \$19 million in Lake County. We recommend that the courts themselves sponsor a more detailed study of this phenomenon with an eye toward improving efficiencies.
8. **Streamline County Government.** Control over county budgets is handicapped by a dearth of cross-functional departments providing critical support services. Lacking a human resources department, for instance, job descriptions are not maintained in a uniform fashion, and merit procedures pertaining to hiring, appraising performance, and setting compensation have not been enacted. As a result, it is difficult for members of the county council to assess requests for personnel actions. Similar deficiencies have been noted with respect to management information systems, automobile usage, and cell phone use as well. Addressing this structural flaw is complicated by the fact that some "department heads" are elected officials, with constitutional authority to address concerns of this kind on a departmental rather than a county basis. The Lake County Council should establish three new departments: (1) a human resources department, (2) a management information systems office, and (3) an administrative services department. These new units of county government should be staffed with professionals and charged with developing policies and procedures, accountability tools, and performance and spending reports for the county council and the county's three commissioners. Departments not headed by elected officials should be required to engage the services of these new entities. Elected officials should be encouraged to use their services with a mix of budgetary incentives and disincentives.
9. **Consolidate the Assessment Function.** Action should be taken at the state level to consolidate township assessor services at the county level. A relationship does not appear to exist between the number of parcels of property located in a township and the costs associated with the assessment process. Moreover, the rationale for performing this service at the township rather than the county level of government does not appear to have merit. If it is determined that a change in the constitution is required to achieve this end, a mix of budgetary incentives and disincentives should be adopted to induce counties and other jurisdictions to pursue this action on a voluntary basis.
10. **Administer Poor Relief in a Cost-Effective Manner.** Following the lead of most other states, action should be taken at the state level to shift the responsibility for poor relief programs to the state. The general assistance or poor relief program administered by township trustees in Lake County is highly inefficient. If it is determined that a change in the constitution is required to achieve this end, a mix of budgetary incentives and disincentives should be adopted to induce counties and other jurisdictions to pursue this action on a voluntary basis.
11. **Promote Efficiency and Effectiveness in All Units of Local Government.** Due largely, we suspect, to misconceptions about the property tax system, school systems and libraries have escaped scrutiny with respect to recent shifts in the property tax burden. The public has largely focused on municipal and county government. Nevertheless, these and other units of local government account for a

substantial portion of the property tax bill in all taxing districts in Lake County. Although assessing school performance can be challenging, all school districts in Lake County should participate in the BPR initiative noted above. They should also be invited to participate in the indicators initiative recommended to NIRPC and the Local Government Academy; so, too, libraries. We further recommend that the six school districts in Lake County in which per student spending exceeds the state average by more than 15 percent (i.e., East Chicago, Lake Ridge, Whiting, Gary, Hammond, and Griffith), together with all library systems, be invited to participate early on in both initiatives.

12. **Reduce Conflicts of Interest Involving Public Employees.** The costs of fire protection vary greatly from community to community. The BPR and indicators initiatives noted above could prove helpful in reducing this wide disparity in costs. Having said that, it is widely known that some community fire departments in Lake County have been highly politicized. As a general rule, this is not conducive to good public policy. In fact, the General Assembly should reconsider action taken to permit public employees to serve in elected offices in the same communities in which they work. Public employees should be barred from serving on decision-making bodies, such as town councils, in communities in which they serve.

Tax Policy

13. **Report on Industrial Firms' Improved Tax Position.** To the extent that they can, given the proprietary nature of business decisions, the Big Four firms that benefited from tax changes adopted by the General Assembly in 2002 and 2003 should publicize information concerning any capital projects attributable in whole or in part to the improved tax positions they enjoyed as a result of special legislative treatment. A dramatic shift in the tax burden in Lake County was promoted by the desire to improve the competitive positions of these firms. Some argued that the tax changes were urgently needed in light of recent bankruptcies in the steel industry and the risk that such fate might befall Big Four firms. In the interest of public accountability, anticipated economic impacts associated with these capital projects, including changes in employment, productivity, and equipment life, should be shared as well.
14. **Promote Economic Development through the Adoption of a Local Option Income Tax.** Elected officials should consider adopting a local option income tax that would be dedicated to economic development. Although allocating funds of this kind to property tax relief might be appealing over the short term, the key to lowering tax burdens over the long term will depend on two developments: (1) increasing the net assessed value of taxable property; and (2) reducing the cost of local government (i.e., the levy) while, at the same time, maintaining or improving services of a critical or useful nature. Efforts in other communities have demonstrated that well-targeted investment in a region's assets can contribute in a significant way to economic growth. Legislative action creating a development authority of some kind could contribute in a significant way toward the accomplishment of this goal.
15. **Extend an Amended Property Tax Cap through FY 2008.** The tax cap enacted on a temporary basis in 2004 should be extended through fiscal year 2008. It should, however, be amended in two ways: (1) it should be applied to rental units and commercial properties as well as to residential properties; and (2) in order to finance this broader coverage, the cap should be increased to 4 percent of GAV from the current 2 percent. A 4 percent cap provides an appropriate balance between providing relief for the hardest-hit properties and not shifting too much of the tax burden resulting from the cap to properties that receive no relief. Additionally, the shift in the tax burden resulting from the

application of the property tax cap should be borne by taxpayers within the taxing units in which those benefiting from the cap reside.

Four benefits would follow from this action: (1) a modicum of relief would be extended for three more years to taxpayers and renters hit hard by changes in the property tax system; (2) commercial investment in the urban core would be made more attractive, thereby creating the potential for an expanding tax base; (3) significant pressure would be maintained on units of local government to streamline operations, which could lead to sizable reductions in the tax levy; and (4) units of local government impacted significantly by changes in the property tax would be provided with a transition period over which to achieve these improved efficiencies.

16. **Require All Property Holders to Pay a Minimum Fee for Municipal Services.** All non-governmental property holders, including nonprofit organizations, should be required to pay a modest fee for municipal services (refuse collection, road maintenance, public safety, etc.) if they are otherwise exempt from paying property taxes. The process used to collect property taxes may be used efficiently for this purpose. This action would give all property holders a stake in ongoing efforts to rationalize services provided by units of local government. It would also offset to some extent the unintended tax-shift consequences of the large increase in the size of the homestead deduction.
17. **Ban Use of Casino Revenues for Property Tax Relief.** Casino revenues should not be used to provide property tax relief. These funds were dedicated to infrastructure development. As noted above, economic development represents a key ingredient in efforts to revive Lake County's economy; wisely targeted infrastructure investment promotes economic development. Using casino revenues for property tax relief would also reduce pressure now being exerted on units of local government to operate more efficiently. The enhanced accountability resulting from the current crisis has benefited Lake County; now is not the time to turn the spotlight off.

Other Changes

18. **Share Burden of TANF Equitably.** The General Assembly should acknowledge the principle that all Hoosiers should share equally in the costs of federal welfare programs. Temporary Assistance to Needy Families (TANF) is a state-administered program. The State of Indiana—unlike the vast majority of states—has shifted a significant share of the nonfederal portion of costs associated with this program onto counties. This contributes significantly to the property tax burden in Lake County. Welfare cost the county \$77 million in 2003. It also smacks of differential treatment.
19. **Revision of Property Tax Bill to Include Explanatory Information.** The property tax bill should be revised to include an attachment showing how much of the tax bill, by percentage or real cost, is allocated to each taxing unit in the taxpayer's tax district. Some model jurisdictions use tables and pie charts for this purpose. Although this action step would come at a cost, a need for taxpayer education has clearly been demonstrated over the course of the last two years. Moreover, the state should develop mandatory standards for providing detailed information on property tax bills that clearly shows taxpayers how all the information was applied in determining the final tax due.

Appendix: The Data—Availability, Use, and Recommendations

Recently, a colleague commented about our usefulness as data grubbers. While one might take offense at the implied menial nature of the work we do, it does provide a potent image of the time and hard work required to make data useful. And so it proved with our study of property tax assessment and government finance: the yin and yang of how money flows to local governments, schools, libraries and other taxing units, and how they use money to provide services to their communities.

We used two major datasets for this report. Local governments' certified budget data from the Indiana Department of Local Government Finance (DLGF) and property tax parcel-level data from Lake County and the Legislative Services Agency.

Local Governments Budget Data

This data set was obtained from DLGF for the budget years 2002 through 2004. We were grateful for the support and prompt attention given to our requests by the staff at DLGF. While documentation for these data was severely limited, our questions were always answered promptly while we worked to understand the files' internal coding and structure and to troubleshoot apparent anomalies found within the data. We learned, among other things, that some local government entities have not been able to file their budgets for certification and some that do file don't always file complete budgets.

The reader should be aware that the budget data seen in this report are based on the certified budget of the local entity, not the final expenditures made for a given year. Essentially, the certified budget is what the government unit planned to spend and on what functions. The majority of local budget information was useable for the purposes of this study. The files were in database (MS-Access) format, and the Lake County budget information alone constituted a file size of more than two gigabytes once all years were merged.

Property Tax Parcel-Level Data

Parcel data for tax years 2001 and 2002 (payable in 2002 and 2003, respectively) were obtained from the Lake County Data Processing Department with help from the Auditor's office. There are about 250,000 parcels in Lake County, with fields attached to each parcel record identifying the property type, assessed value, exemptions, deductions, and abatements. Additional parcel information for payable 2003 was provided by the Legislative Services Agency from results of their work on the tax equalization study. These files were used for parcel-level analysis and to create the scenarios and calculations that were critical to understanding the overall impact of reassessment. Because these files were generated at different time periods, figures the reader may find from other sources may not match exactly because the property tax files themselves are dynamic—that is, they are being updated on a continuous basis with corrections and additions.

Efficiency Data

Numerous sources were utilized to obtain necessary variables for calculating efficiency of local government spending. Among those sources were the local governments in Lake County, fire departments, police departments, official state websites and the FBI Uniform Crime reports.

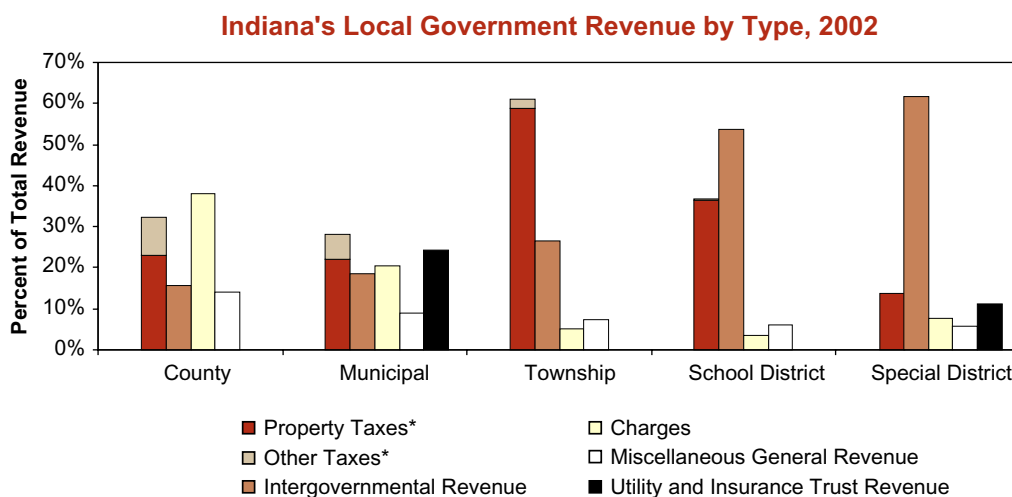
Accessing the Data

The Indiana Business Research Center will maintain the local government certified budgets as new data become available, eventually building a dynamic, Web-accessible database for all local governments' budget data in the state. We will make these data available via the the *STATS Indiana* website, the award-winning information utility for the state of Indiana (www.stats.indiana.edu). Plans are also underway to add parcel data to that database for all counties in the state, thus allowing researchers and local governments to access the combination of budget and parcel data through the easy-to-use Web interface of *STATS Indiana*.

Data Recommendations

Government financial data need to be more widely accessible. The federal Census of Governments, which occurs every five years, provides a good benchmark for comparisons across the state and the nation, but it lacks timeliness and detail. However, certified budget data are available each year for most, if not all, local government units. Those data can be analyzed to understand changes in anticipated spending.

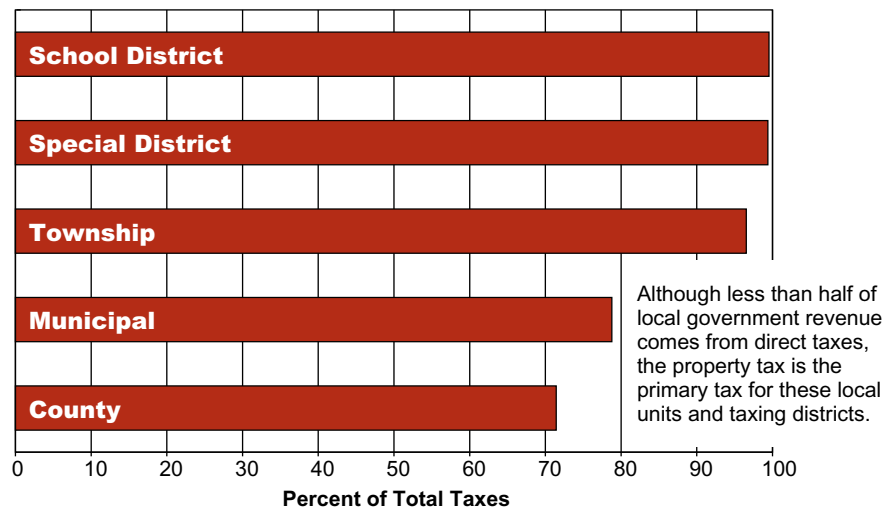
We also need a greater understanding, at the local level, as to what role taxes or charges other than property tax play in our residents' contributions to support government. Statewide, on average, less than 50 percent of local government revenue comes from taxes.



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

However, when it comes to taxes, the property tax is by far the largest of those taxes. Overall, to be properly informed on the entire revenue picture, looking at the broad mix of revenue sources for our local units of government is critically important. To help all of us be better informed citizens and taxpayers, free and convenient access to governmental data—on performance, spending, and revenue collections—is essential.

Property Taxes as a Percent of Taxes Collected by Indiana's Local Governments



Source: Census of Governments 2002

Finally, earlier sections of this report suggested several ways in which the maintenance and reporting of local government performance data could be improved. We encourage local government officials and associations to support the development of common measures and indicators of performance to facilitate the assessment of how local government units are serving the needs of the taxpayers who support them.