Indiana Public Library Funding and the Tax Control Program: A Retrospective

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Indiana in the early 1970's found itself faced with one of the same problems its sister states was facing, increasingly higher property taxes. Concerned with the possibility of even higher rates and well aware of the political repercussions that could arise if something wasn't done, the Indiana General Assembly in 1973, with the approval of the administration of Governor Otis R. Bowen, passed into law several new bills that were to have substantial effect upon local units of government and which dramatically halted the rise in property taxes paid by Indiana citizens.

The program called the 1973 Tax Package was designed to provide "substantial, visible and lasting property tax relief." To accomplish this, the state sales tax rate was doubled from two to four percent, a supplemental tax on corporate net income was

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imposed and strict controls on school and civic property tax levies were implemented. The revenue raised from the increased sales tax and the corporate supplemental tax was placed into a Property Tax Relief Fund (PTRF), and from this distributed to the counties of the state twice a year.[1]

Local units of government were affected because one, their property taxing authority had new limits placed upon it, and two, the availability of a new revenue source was created through the adoption of a local option income tax subject to the approval of the county council.

These two provisions placed different property tax limits on the individual counties depending upon whether the local option income tax was adopted or not. In nonadopting counties, the local governments were "limited each year to levying a property tax no greater than their 1973 property tax levy increased by the percentage of increase in the taxable assessed valuation since 1973. Local units in adopting counties [were] limited in their property tax levies, for years in which the county receive[d] local option tax distributions, to the amount of their 1973 property tax levy minus the amount of property tax replacement credits to be received by the government."[2] *

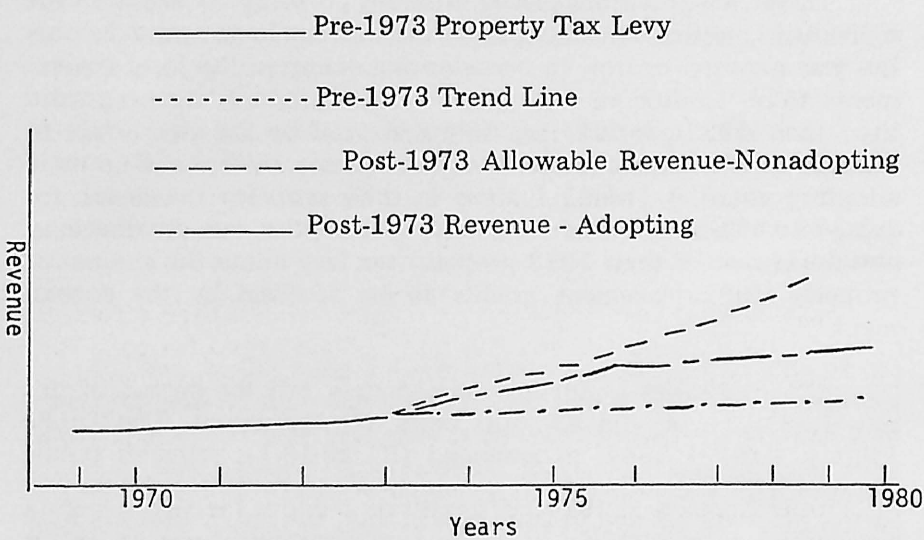
Public libraries in Indiana immediately felt the impact of this new legislation, as did all local units of government. The Public Library Law of 1947, as amended (IC 20-13-1), provides public libraries with the authority of an independent governmental unit to levy a property tax and to issue bonds; thus, the public libraries were affected by the new property tax restrictions and guidelines. Those in non-adopting counties found their tax rates "frozen" at the 1973 level, while those in adopting counties "had to freeze their property tax levies in order to receive the local income tax revenue."[3] At this time, increases in the cost of library materials were averaging 16%-18% as compared to 1973 levels, due to the highly inflationary increases in paper, binding, and shipping experienced during this period. Given the escalating fixed costs for utilities and fuels, personnel benefits and the like, libraries were indeed 'squeezed' between rising operating costs and a ceiling on revenues. No matter which system was used by the county, public libraries and other units were forced to subsist on less money than had the tax package not been adopted. This is clearly demonstrated in Figure 1, which while apply-to all units of local government, clearly relates to public libraries as well.

*Definition of terms can be found at end of article.

As can be evidenced by the projections in the accompanying chart (Figure 1), the amount of revenue that would have been received had the 1973 tax package not been adopted would have been substantially higher than was realized with the "freeze" in effect.

Figure 1

Spendable Revenue from Local Taxes
for a Hypothetical Indiana County



Source: Kiefer, Donald W. "The Indiana Tax Package After Three Years" *Indiana Business Review* 51; Sept./Oct., 1976, 6.

From the beginning librarians and trustees had been aware of the implications of these tax measures but had insufficient clout (as had all the other local units of government) to prevent its passage. As the chairperson of the joint Indiana Library Association - Indiana Trustee Association (ILA-ILTA) Legislative Committee later commented ". . . all the committee could do was watch to see that public libraries were not affected differently from other local governmental units. This required much effort even after the end of the session."[4]

In 1973, the same year the Tax Package was enacted, public library districts in Indiana were determined by federal and state officials to be ineligible for participating in the federal revenue sharing program (State and Local Assistance Act of 1972) which was to become a source of additional revenue for cities, townships and counties. Acting with good intention to provide access to revenue sharing funds through other units, the legislature enacted P. L. 101, (Acts of 1974) to enable "a government which receives revenue sharing funds to give all or a portion of the revenue to a library taxing district."[5] This, however, was to meet with disappointment as it was later ruled by the State Board of Tax Commissioners and the Attorney General that this did not constitute a statutory provision for these units to appropriate their own revenues to libraries, except in the instances of townships having contractual agreements with libraries for the provision of services. Since the property tax was the primary source of income for most public libraries, and an alternative source, revenue sharing funds, was not available, legislative efforts to achieve state funding assistance was renewed. Proposals for state aid had been initiated in the past, but now this effort was substantially increased. One remedy proposed in 1974 was for per capita funding for public libraries with each library district to receive $.50 per capita; however, this measure failed to pass the General Assembly.[6]

Hoosier librarians and trustees continued with their efforts to persuade the Indiana General Assembly of their need for some aid. Legislative proposals by the ILA-ILTA Joint legislative committee for the years 1974, 1975, and 1976 clearly reflect this effort. A "Current Assessment" survey of Indiana Libraries dated January 6, 1976 was used by the legislative committee to document experiences of Hoosier libraries in 1974-1975 with projections for 1976. Among the findings were that while there was tremendous increase in use by the general public, many libraries were being forced to cut their hours of operation either by closing evenings or on weekends, branches were shut down and bookmobile services were being curtailed. None of the libraries surveyed had been able to increase services and many had cut back in materials budgets and in repair and maintenance expenditures. While the study did not claim to represent all of the public libraries in the state, it did demonstrate the problems and concerns that were being experienced.[7] The plea for assistance was based upon the need for some relief from the frozen tax levy provisions, and appropriateness of correcting the inequity of the exclusion of public libraries from federal and state revenue sharing distributions.

Finally, the legislative efforts of the library community were rewarded with the appropriation in 1976 of $800,000 to be distributed among the public libraries. Although less than the $2 million requested, it was a major breakthrough toward the goal of achieving recognition of a state responsibility to assist public libraries financially.

Distribution of the state funds was determined by the State Board of Tax Commissioners as follows: The amount distributed to each library was equal to "the produce of $800,000, multiplied by a fraction - the numerator of which (was) the dollar amount of the library's 1976 budget, and the denominator (was) the total dollar amount of the 1976 budgets of all the public libraries in the state:

$$\$800{,}000 \times \frac{\$\text{ amount of individual library's 1976 budget}}{\text{total }\$\text{ amount of 1976 budgets of all public libraries}}$$ "[8]

The amounts distributed ranged from a low of $64.68 to the York Township Library in Raub, Indiana to a high of $121,142.80 to the Indianapolis-Marion County Public Library. In 1977, Public Law 43 amended the law governing the Indiana Library and Historical Board (IC 4-23-1) to define an eligible public library and to revise the denominator to equal the total budgets of all eligible public libraries.

The Bowen administration, The General Assembly leadership, property owners and the general public remained supportive of the property tax control program, for by 1976 the average property tax rate was $7.48 per $100 assessed valuation, representing a 32% reduction from the projected $11.00 level based on pre-1973 trends.[9] The optional income tax at the local level was less popular, for only 38 of the 92 counties had adopted the income tax.

It was becoming apparent, however, that changes were going to be needed in the 1973 program because of forthcoming reassessment of real property. If the legislature didn't make some revisions, "those units in non-adopting counties potentially would be able to increase their property tax receipts by the same percentage as the increase in assessed value. In some areas that increase could be as much as 100%. Units in non-adopting counties would thus be allowed to double their expenditures without increasing tax rates. Governments in non-adopting counties would, on the other hand, have to reduce the tax rate by one-half to live within the 1973 levy limitations. A general reevaluation of property would allow nonadopting counties to have more property tax revenues to spend, while adopting counties would function with the same amount of property tax revenues as before the reevaluation."[10]

After a great deal of deliberation, a second generation property tax package was adopted in a special session of the 1977 legislature.

Basically, the provisions of the 1973 program which had imposed frozen rates and levies were changed and the 1978 levy was established as the new base levy. Previously a different formula was used for governmental units in adopting and non-adopting counties. With the new provisions however, the same formula would be used regardless of whether a county had adopted the local option income tax or not. "Under the old controls, the 1978 property tax in an adopting county would have been equal to the 1973 property tax levy minus the portion of the local option income tax returned as property tax relief (PTR) credits. The remainder of the local option income tax revenues constituted certified shares. In nonadopting counties, the 1978 property tax levy would have been equal to the 1973 property tax levy multiplied by the percentage increase in assessed value from 1973 to 1978."[11]

The new formula adopted, for both adopting and non-adopting counties, was to add the 1977 property tax levy and the 1977 certified shares, if any, and multiply by the greater of 1.05 or the percentage increase in assessed value from the 1976 to the 1977 tax year. From this was subtracted the 1978 certified share. The 1978 property tax levy resulted. Table 1 better illustrates this computation.

TABLE 1:	1978 levy =	(1977 levy + 1977 certified shares) X 1.05 or (1977 assessed valuation/1976 assessed valuation) - 1978 certified shares
	Adopting levy =	1973 levy or (preceding year's levy + certified shares) X 1.05 - ensuing year's certified shares.
	Non-adopting levy =	1973 levy X (ensuing year assessed value/1973 assessed value) or (preceding year's levy + certified shares, if any) X 1.05

Source: Lloyd, Scott S. "The New Local Property Tax Controls" *Indiana Business Review* 53, January/February, 1978, 3.

Both adopting and non-adopting counties were guaranteed at least a 5% potential revenue increase for 1978 and, with minor adjustment, 8% for 1979.[12]

While this helped some, most libraries, and other units found that inflation and rising utility costs far exceeded any increase they could get from this change. Therefore, continued efforts were maintained by the library community to increase state aid. The 1977-1978 budget included a 4% increase of $32,000, but for the second year of the biennium, the 1977-1978 distribution was funded for the same amount. Librarians felt that since most other agencies had received at least a 4% increase for the second year of the biennium, libraries should have faired as well; the proposal urged that in order to obtain adequate funding, 4% of public library income, $1,411,500, was needed.[13] Also proposed was that the $.45 maximum tax rate imposed upon public libraries in the Public Library Law (IC 20-13-6) be removed. This was needed because some library units were near the maximum rate and without revision or removal of this ceiling, they would have been ineligible to receive the 5% increase that had been allowed in the second generation tax controls "due to the fact that assessed valuations (had not) increased sufficiently for the maximum tax rate to generate a 5% increase in levy."[14] While the proposed increase in state funding was not approved, the maximum tax ceiling was raised from $.45 to $.55 in the 1978 session of the General Assembly, providing some leeway for a few libraries. Meanwhile, efforts continued toward gaining access to revenue sharing funds through other units. In 1977, Public Law 199 was passed to allow a township to appropriate its funds, including general revenue sharing funds, for community services, including library services.

In 1978, a similar measure was approved, to "allow a county, city or town to appropriate funds, including its general revenue sharing funds, to a public library. The library [could] receive funds for operating and capital expenditures if it serve[d] all or part of the geographic territory within the borders of [those] units of local government."[15]

Indiana was not the only state concerned with property taxes in 1978. California adopted the controversial Proposition 13 and twelve other states had some form of tax limitation proposals on their ballots in the fall elections of that year.[16] However, Indiana did not feel it was necessary to go to the drastic measures of some of these other states, and instead noted with pride that property tax reductions had been achieved with the passage of its 1973 tax package. It was obvious that the prevailing mood of the state and nation was to maintain control on this method of achieving government revenue.

Indiana legislators could not entirely rely on their past laurels; however, the second generation tax package mentioned earlier had provided for 5% tax increases in 1978 and 8% in 1979, but none for 1980. Therefore, it was necessary for the 1979 General Assembly to come up with some adjustments in order for local units to have a buffer against the high inflation economy and not revert back to the frozen rate or levy system of the first generation tax controls.

"Instead of dictating a flat percentage [as they had in the previous package] . . . the legislature allowed units to use a three - year average in their growth of assessed value as their tax-levy growth rate. In addition, for slow-growing units, the legislature guaranteed that if the unit's growth rate was below the average statewide assessed value growth rate, the statewide figure of 4.56% could be used instead. On the other hand, fast-growing units could not increase their levies by more than twice the statewide average, or 9.12%."

Another feature of the third generation tax package was the added attraction of allowing tax revenues generated by the local option income tax that were in excess of the 1979 receipts to be kept by the adopting county. Also included was a proposal known as the Homestead Credit which allowed for a 10% property tax relief credit, in addition to the existing 20% tax credit, for each owner occupying a home. This credit was to be reduced by 2% each year until 1985 when it would discontinue.[17]

Through these three generations of tax controls, Indiana has managed to provide property owners with substantial and visible property tax relief as was originally intended. However, recent concern has developed about how long the Property Tax Replacement Fund (PTRF) will remain solvent. It is predicted, that unless something is done, the fund will be insufficient by mid-1983 to cover its projected expenditures. Several factors have contributed to this situation. While the PTRF revenue climbed about 9.4% a year property tax payments from the fund increased by about 21%, and funds distributed to local schools rose about 39% annually. Also, additional PTRF monies have been provided to local units, particularly to schools to offset the property tax revenue lost by the homestead exemption credit provided in 1979. Legislators are discussing several remedies for this situation, including a reduced subsidy of school funding, but at the present time, the only thing that is certain is that revisions are necessary to avoid a deficit.[18]

As has been long realized, the dependence of local units of government upon the property tax for their revenues has created undue hardship upon them when remedies are initiated to limit or halt the growth of this tax. While various solutions to this problem have been initiated from Proposition 13 in California to the property tax controls of Indiana, many governmental units are still almost entirely dependent upon this source of income. Public libraries in Indiana are in a similar situation, for while they have been able to acquire a small amount of state aid, and to a limited extent revenue sharing funds, and alternative revenues such as the PTRF and optional income tax have acted to offset some of the burden, their primary support still comes from the property tax. Political realities indicate that legislators are not going to allow the property tax rates to increase substantially; therefore, libraries and other units of local government must investigate alternative sources of revenue.

To analyze the current system of public library funding in Indiana, including the effects of the tax control program, the Indiana State Library has awarded a contract to the University City Science Center, in collaboration with the Center for Information Research, School of Library and Information Science, Drexel University, to document the funding of public library services in Indiana, investigate and evaluate alternative systems, and recommend improvements. The study, to be completed in April, 1982, should provide useful information in preparing for future legislative proposals. While the future remains uncertain, Indiana's libraries are striving to meet the challenges of these times of economic decline in a responsible manner and will continue to work toward building a solid funding base for public library services.

*Definitions:

1. Tax rate: Amount taxed or assessed per $100 of assessed valuation.
2. Tax levy: Amount to be raised by tax rate.
3. Certified shares: Income received by tax units in counties which have adopted the local option tax. (County adjusted gross income tax)
4. Property tax replacement credit: Income received for replacement of property tax by taxing units in counties which have adopted the local option tax.

Source: *Extension Division Bulletin* (Indiana State Library). 27: June, 1977, 10.

Notes

1 Kiefer, Donald W. "The 1973 Tax Package: The Source of Property Tax Relief," *Indiana Business Review* 49: October, 1974, 3.

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3 Lloyd, Scott S. "The New Local Property Tax Controls" *Indiana Business Review* 53: January/February, 1978, 1.

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5 Kiefer, "The Effects . . . ." *Op. Cit.*, 37.

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7 "Indiana Public Libraries: A Current Assessment, January 6, 1976" Part of a packet provided to Indiana Legislators by the ILA-ILTA Joint Legislative Committee dated January 8, 1976. Legislative files, Extension Division, Indiana State Library.

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9 Kiefer, Donald W. "The Indiana Tax Packege After Three Years" *Indiana Business Review* 51: September/October, 1976, 2-3.

10 Lloyd, *Op. Cit.* 1.

11 *Ibid*, 2-3.

12 *Ibid*, 3.

13 Robertson, Linda "1978 Legislative Program" *Focus On Indiana Libraries* 31: September/October, 1977, 3.

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16 Eribes, Richard A. and John S. Hall "Revolt of the Affluent: Fiscal Controls In Three States" *Public Administration Review* 41: January 1981, 107.

17 Lloyd, Scott S. "Property Tax Controls: The Third Generation" *Indiana Business Review* 54: September/October 1979, 19.

18 Schoch, Eric B. and James G. Newland, Jr. "How Can Property Tax Fund Be Saved?" Part 3, The Money Crunch Series. *The Indianapolis Star* November 10, 1981, 1, 4.