Dispelling Property Tax Myths

Accelerate Indiana Municipalities

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MYTH: Cities and towns control all property tax rates and receive all the revenue.

- Local government includes counties, townships, cities/towns, school districts, libraries, and special districts, such as fire protection, solid waste, conservancy, and airport authorities.
- Breakdown of property tax distribution (statewide average):
  - 42% – Schools
  - 24% – Cities and Towns
  - 19% – Counties
  - 7% – Special Districts
  - 4% – Libraries
  - 3% – Townships
  - Source: Department of Local Government Finance Website
- Each local entity sets its own levy.
- Cities and towns only control their portion and cannot dictate overall property tax rates.

MYTH: Local governments are sitting on massive reserves (slush funds).

- Reserves are necessary for cash flow, financial stability, and creditworthiness.
- Types of reserves:
  - Operating reserves are needed as property tax revenue is received twice a year (June and December). Without reserves, cities cannot pay bills or employees between tax draws.
  - Debt service reserves are required by bondholders to ensure timely bond payments.
  - Capital project reserves are set aside for planned infrastructure projects, such as fire stations, roadwork, etc.
  - Rainy day funds are standard financial best practice for emergency expenses, like the COVID-19 tax delays.

MYTH: Local Income Tax (LIT) reserves can be used to replace lost property tax revenue.

- LIT reserves are held and managed by the state. Local governments do not have direct control over these funds. The state determines the timing and amount of distributions, making it different to plan and budget.
- LIT revenue fluctuates with the economy, being directly tied to employment rates and wages. During an economic downturn, job losses and wage reductions lead to significant declines in LIT revenue.
- Property taxes are stable and do not experience the sharp revenue drops seen with income taxes during recessions.
- Relying on LIT reserves to replace property tax revenue is not a viable long-term solution. Because LIT is unpredictable and controlled at the state level, it cannot provide the stability needed for essential local government operations.

MYTH: The property tax increases in 2021 and 2022 happened because cities and towns want to grab every penny they can from taxpayers.

- The spike in assessed values (AV) was due to inflation and real estate booms. The higher assessed values caused tax bills to increase.
- Local government tax levies are capped by state law, meaning they did not grow at the same rate as AV.
- Higher AVs increased property tax caps, causing some homeowners to pay more. However, this was not a local government decision. It was an effect of the state property tax caps.
- Significant levy growth in debt and school operating referenda was also a key contributor.

MYTH: Municipalities are exaggerating the impact of property tax cuts.

- Cities must cut services if property tax revenue drops significantly.
- For example, under one legislative proposal, Greenwood is projected to lose $4M. This is equivalent to a 20% cut in its budget. Since 75-80% of the city budget goes to personnel, deep cuts would impact police, fire, and roads.

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MYTH: Municipal government officials say the property tax cuts being proposed would cut their funding. This is wrong, the reforms would only keep them from using the excuse of "growth" to raise taxes going forward. Locals simply want to keep raising property taxes and then find ways to spend the money.

- Municipalities need revenue growth to keep up with inflation. Failure to capture growth in an environment where inflation is increasing the cost of nearly everything will result in fewer operating dollars and lead to noticeable cuts to services.
- Without the ability to capture growth, cities and towns, even those that are expanding, would be forced to cut hiring, reduce services, and delay maintenance.
- The Maximum Levy Growth Quotient (MLGQ) does not account for the growth of individual municipalities. It is a statewide calculation that could disproportionately affect fast-growing communities.

MYTH: There is no transparency in determining local budgets and property tax rates.

- The municipal budget process is highly transparent and mandated by state law.
- There are multiple public involvement opportunities. The budget adoption process spans two months of public meetings and allows for public input and information requests. The public meetings must be advertised in advance.
- The budget and levy expectations are mandated to be advertised as well.
- Once approved, budgets are available on the Indiana Gateway transparency portal, which is free to access.

MYTH: Municipal residents do not get adequate returns for their investments.

- Property taxes fund essential services, including:
  - Emergency services (police, fire, EMS);
  - Roads and infrastructure (plowing, pothole repairs, traffic signals);
  - Parks and recreation (trails, playgrounds, sports fields);
  - Zoning and code enforcement (building inspections, property upkeep); and
  - Public safety and disaster response.
- Residents may not notice (or value) these services until they need them. They will notice when they call 911, drive on a plowed road, or visit a public park.

MYTH: Cities and towns oppose property tax relief.

- Local officials support targeted relief for vulnerable groups, including seniors, veterans, and low-income homeowners.
- Instead of across-the-board cuts, targeted relief ensures assistance goes to those who need it most.
- Indiana has already implemented various credits and deductions, and local officials support expanding awareness of these programs. Currently, HB1427 proposes that language must be included on the tax bills detailing how property owners can sign up for credits and deductions.

MYTH: Indiana's property tax system is out of control and not competitive with the rest of the nation.

- Indiana ranks in the top 10 nationwide for property tax affordability.
- The state has both levy limits and property tax caps.
  - Levy limits – caps on how much local governments can collect.
  - Property tax caps – limits on how much property owners can be taxed.
- These policies have made Indiana one of the most taxpayer-friendly states while still maintaining essential services.