

FUNDING LOCAL GOVERNMENT

by

Don Fluke and Jeanie Tittle

Kosciusko Leadership Academy III
April, 1984

INTRODUCTION

It has been said that there are only two certainties about life--death and taxes. Many people speculate on what happens after we die. Many believe in life after death. But what about taxes? What happens to our tax money once it has gone to the almighty tax collector? This paper attempts to clarify the uncertainties of the after-life of our tax money. It focuses on the methods and sources of funding of local government and explores the different ways in which revenues are spent.

APPROPRIATION

The Budgeting Process

The appropriating of funds and spending of tax dollars begins with the development of detailed budgets by the various local taxing units. These taxing units are governmental bodies: school boards, township trustees, county commissioners and town or city councils. Each of these units appoints an individual or individuals to estimate expenditures for the upcoming year for items such as salaries, office supplies, insurance, utilities, etc. The appointees then estimate revenues (other than property taxes) that the unit expects to receive and deducts these from the estimated expenditures. This remaining balance then is the amount which must be raised by levying the property tax.

Indiana law provides county property owners with several layers

of protection against excessive and burdensome property taxes. Once budgets have been developed, a review process is begun to insure this protection. At each stage of the review process, public hearings are held which allow for taxpayer input into the budgeting process.

The first step in the review process is a review by the governing body of each taxing unit. The county council, school board, township advisory board, city council, and other taxing units review the budgets developed by the appointed members of each respective unit. The development of a budget and the review by the governing body is a painstaking and lengthy process which normally begins around June and must be completed by early September.

The second step of budget review is the responsibility of the County Board of Tax Adjustment. This board is comprised of seven members only four of which may be from the same political party. The work of this board begins on the second Monday of September when the county auditor presents the adopted budgets and the tax rates for each of the taxing units in the county. The duties of the Tax Adjustment Board include review of the various budgets to insure, if possible, that the tax rates remain at or below the limits set by the state legislature. The board cannot raise any appropriation or tax rate. They can only change or reduce budget classifications for a given department or office. The board may find that it can't lower tax rates below the prescribed limit for

a taxing unit or the county as a whole. It then submits its recommendations to the county auditor who in turn submits the budgets and tax rates to the State Board of Tax Commissioners. This is an automatic appeal provided by law. Other appeals may be made by any group of ten or more taxpayers or by the actual taxing unit. Again, the public is kept informed through public notices in the newspaper of the actions of the board.

The final phase of budget review rests with the State Board of Tax Commissioners. Along with budget review, the State Board also supervises the general property tax system in the state. When an appeal has been made (whether automatic, due to higher than allowed tax rates, or by taxpayer group or taxing unit), the tax board rules on the action. The board has authority to confirm the decision of the lower board or to increase or decrease the budget classifications and tax rates as it deems necessary. Once again, the public is given due notice and hearings are held for any taxpayer input before a decision is made. The action of this board is final.

When the review process is complete, the county auditor applies the appropriate tax rate to the assessed value of real and personal property for each property owner in the county. The auditor then prepares tax statements and turns them over to the county treasurer for collection.

SOURCES OF REVENUE

Local Sources

Property Tax

In Indiana, the principal source of revenue for local government has always been the property tax. This tax is levied against land and buildings, business equipment and inventories, livestock and other tangible property. Although in recent years the state has developed programs to ease the burden on property owners for the funding of local government, the property tax still remains the major source of revenue.

Each township in the county has an assessor responsible for placing a value for taxing purposes (assessment) on all real and personal property. In townships with a population of more than 5,000 the assessor is an elected official. Where the population of a township is less than 5,000 the township trustee acts as the township assessor. Two townships in Kosciusko county have elected assessors--Wayne (Warsaw/Winona Lake) and Turkey Creek (Syracuse). Township assessors work under the direction of the county assessor. However, a township assessor may only be removed from office for failure to discharge his or her duties, and that is done by the State Board of Tax Commissioners.

Each year personal property is assessed for taxing purposes. Personal property consists of boats, motors, trailers, campers,

snowmobiles, and the like. It is the responsibility of the owner of such property to inform the assessor's office of such ownership in order that this property may be assessed. Real property (buildings and land) is reassessed approximately every eight years. According to Kosciusko County Assessor, Avis Gunter, reassessment in the county will begin during the summer of 1987 in order that the valuations may be placed on the books by March, 1989. Assessment of real property is based upon certain features of the property. For example, the number of square feet contained in a house, the number of bathrooms in the house, whether or not there is a fireplace, whether or not there is a garage, are just a few of the things the assessor looks for when assessing the property. Based upon a standardized set of guidelines and procedures developed by the State Board of Tax Commissioners the assessor determines a valuation of the taxpayer's personal and real property. Except in the case of periodic reassessment, the taxpayer is responsible for informing the assessor's office of any change in the status of real property during the year. For instance, if a garage is added to a home, or a building on the property is burned down, the office of the assessor should be notified so that the valuation of the property can be adjusted. After the taxpayer has been informed of the assessed value of the property owned, he or she has thirty days to appeal the assessment to the County Board of Review. This board may increase or decrease assessments but must do so only in order to bring them into line with the true cash value of the property. The decision

of the County Board of Review may be appealed to the State Board of Tax Commissioners and may then be further appealed to the court system if the taxpayer so requests.

Automobile Excise Tax

The automobile excise tax is based on the original value and age of an automobile. This tax, collected by the local branch of the Bureau of Motor Vehicles, is used wholly within the county in which it is collected. These tax dollars are not sent to the county through the state--the county has total control over them.

Local Option Tax

The local option tax became law in 1973. Through it, local government could impose an income tax on individuals who work in the county of adoption. Proceeds from this tax, which range from 1/4 percent to 1 percent, are distributed to local taxing units in the same proportion as the property tax.

New Option Tax

The new option tax, enacted in February of 1984, is an income tax which may be imposed by cities and towns within the county. It is thought that parts of this law may be unconstitutional so, according to County Auditor J.D. Geiger, Kosciusko County will probably "sit back and watch" what develops in some other counties before making any decisions locally.

Miscellaneous Revenues

Other sources of revenue available to local government include a tax on the capital of banks, buildings and loan associations, and credit unions; an optional motor vehicle excise surtax, wheel tax, miscellaneous permit fees and interest on excess funds.

Sources of Revenue -- State Sources

Since the early 1930s, the state legislature has felt increasing pressure to limit the tax burden on property owners. In 1963, 1973 and again in 1979 the legislature adopted various measures that would prevent sharp increases in property taxes due to rapidly increasing property values. Perhaps most significant to local taxpayers is the 1973 program that provides a 20 percent refund on property tax payments. Through this program, the state reimburses local units for the 20 percent loss of revenue caused by this measure.

In a recent year nearly 53 percent of state-collected revenues were channeled back to local governmental units. Aid to local schools, public and mental health, public welfare, and property tax replacement are a few of the major areas where state money flows back to the local area.

Sources of Revenue -- Federal Sources

The federal government's contribution to local funding is not as extensive as one may think. Revenue sharing is the primary source of federal funds flowing back into local government. In the last

several years, the Kosciusko County Commissioners have chosen to spend revenue sharing money on county highways.

Any other money received from the federal government would be in the form of grants that would be earmarked for special purposes. For example, replacement and upgrading of traffic lights in a community may be a project funded by a federal grant. Certain programs in the public schools and various uses through public welfare are other examples.

DISTRIBUTION OF REVENUE

Distributing Local Government Funds

All tax monies the county collects during a year are distributed to the various taxing units within the county in the same year. The county disburses 100 percent of the money it receives. Tax money collected by the county is distributed twice a year--in June to finance the taxing units from August to December and in December to finance them from January to June. The county uses the money it has collected from the automobile excise tax and the first installment of property taxes (due May 10) for the June distribution. Money collected from the second property tax installment (due November 10) is used for the December distribution. All the money the county has is given out at these times. If taxpayers are delinquent in paying their taxes and the county does not have enough money to cover the payment,

the auditor distributes whatever is available. When delinquent taxes are paid, the money is distributed in the next payment along with the normal amount. A taxing unit can get an advance on the money it has coming by requesting it from the auditor in writing. The amount of the advance is then deducted from the amount that unit will get in July or December.

Six major areas where county-collected funds are distributed are: State, County, Townships, Cities and Towns, Schools, and Libraries. Following is a description of how each taxing unit's allotted dollars are divided into funds. An example of each fund is shown.

STATE

The county will send a little less than two-tenths of one percent of total local funds to the State Auditor's office to help pay for the State Fair and the State Forestry. In 1983 this amounted to around \$20,000. In 1984 this amount will increase to more than \$35,000.

COUNTY

County government will receive approximately 15 percent of funds collected this year. The county has seven funds for which it is responsible: County General Fund, County Welfare Fund, County Health Fund, Cumulative Bridge Fund, County Reassessment Fund, Comprehensive Mental Health Fund, and a Bond and Interest Redemption Fund.

County General Fund

The County General Fund has the largest outlay of money. This fund incorporates all the operating expenses of the county: supplies, electricity, heat, gasoline for police cars, salaries of public officials (except salaries for the highway department which are paid by the state, and welfare and health officials who have their own salary fund), maintenance, postage, and many other operating expenses. County General is the only fund where surplus money is used. The county usually retains money to cover unforeseen expenditures. The county must advertise 10 days prior to appropriating this money and appropriations must be approved by the County Council. In 1984 the county has a \$2,939,000 budget for County General with around \$1,000,000 of that coming from miscellaneous receipts.

County Welfare Fund

The Welfare Fund expects to receive around \$348,000 from the county this year. The Welfare's total budget for 1984 will run around \$1,211,600, so it is obvious that Kosciusko County's Welfare Department receives most of its funding from the federal and state government. There are also funds paid directly to recipients (such as Medicaid and food stamps) that never go through the county's budget. Basically though, most of Welfare's programs are funded through monies from county, state and federal sources. Depending upon the service provided, different amounts

come from each fund. For example, Aid to Dependent Children is funded with 16 percent county money, 24 percent state money, and 60 percent federal money. The county is responsible for the operating expenses of the Welfare Department, 50 percent of its salaries, and also helps to finance many programs. The money the Department gets from the state is received on a monthly basis. For the first three months of 1984, the county has received \$115,000 from the state and expects to receive as much as \$400,000 by the end of the year.

County Health Fund

The Health Fund is another fund that is supplemented with state and federal money. In 1983 the county contributed around 24 percent of the money used by the Health Department. The fund is used to cover the Health Department's three basic functions: sanitation, nursing, and clerical. Sanitation work includes issuing sewage permits, approving restaurant permits, inspecting restaurants, investigating animal bites, sampling public and private wells, sampling water at bathing beaches, and conducting other routine samplings and inspections. The county nurse's duties include immunization shots for school children, vision and hearing tests at schools, monthly blood pressure clinics for retired citizens, along with many other medical duties. Clerical workers, along with their normal clerical duties, are responsible for all birth and death certificates and accounting for all money spent and received by the Health Department.

Cumulative Bridge Fund

The money that goes into this fund is money that the county is saving to build and/or repair bridges. It is invested and interest is earned until the money is needed. This fund accounts for approximately nine percent of the money spent in the county budget.

Reassessment Fund

The County Reassessment Fund is also a cumulative fund. Money is collected to help pay for the cost of reassessing property in the county. The main expenses of reassessment are paying the salaries of the assessors, buying the enormous amount of forms needed, and completing all the needed paper work.

Comprehensive Mental Health Fund

The Comprehensive Mental Health Fund is another fund that gets some of its money directly from the state. The county will contribute around five percent of the total county revenue to this fund. Money from this fund goes towards family care of patients, mental health clinics, and services for the retarded, just to name a few. Examples of the recipients of this fund are Bowen Center and Cardinal Center.

Bond and Interest Redemption

The Bond and Interest Redemption Fund is used by the county to

pay off the bond it issued to build the new Justice Building and jail. In 1983 the county paid \$208,000 of the principle and interest to the bond holders.

TOWNSHIP

The 18 townships in Kosciusko county will receive around 4.5 percent of total money the county expects to receive. Each township will receive different amounts of money for each of their funds. Each township may have up to eight funds for which it is responsible. They are the township's General Fund, Township Poor Relief, Township Fire Fighting, Township Recreation, Township Civil Bond, Township Cumulative Fire Equipment, Township E.M.S, and Township Debt. The amount of money these funds will receive depends upon the taxing unit rate and if the fund is applicable to that township.

Township General Fund

The townships' General Fund is paid to every township according to their tax rate. The townships which pay more in taxes will get more money back from the county. The townships' General Fund is very similar to the County General Fund. It is used to pay the operating expenses of any township buildings and pay salaries of township officials. One of the differences between the county and the township general fund is that the Township General Fund is used to pay paupers' funerals. In 1983 the townships were given \$80,000. This was 25 percent of the total money given to the

townships.

Township Poor Relief

Township poor relief will be paid to every township except Lake. This fund is used as aid in paying rent and utilities for the poor. Approximately 25 percent of the township's funds goes to this fund. In 1984 this will amount to \$170,400 going to the fund.

Township Fire Fighting

Eleven of the eighteen townships in the county have a fire fighting fund. This money is used to pay the salaries of the firemen and for purchasing various supplies. This fund receives the largest percentage of the money in the township funds. This fund will receive 36 percent of the total amount of money given to the townships.

Recreation

The Township Recreation Fund also goes to 11 of the 18 townships, but not necessarily the same townships as the fire fighting fund. This fund is used for the maintenance and upkeep of any township-run park, football field, baseball diamond, or any other recreational site. This fund will receive around 18 percent of the total township funds.

Civil Bond

There is no money going to the Township Civil Bond Fund this year. If there were, it would go to pay on any bond the township might owe for the construction or renovation of new buildings.

Cumulative Fire Equipment

The Township Cumulative Fire Equipment Fund is only used by three townships--Etna, Tippecanoe, and Turkey Creek. This fund is set up in the same manner as the county cumulative bridge fund in that the money is being saved to purchase fire equipment. Money from this fund may also be used for equipment maintenance.

E.M.S.

The Township Emergency Medical Service Fund is distributed to seven townships. The money is used to pay for salaries, schooling, equipment, and supplies. This fund is the largest of the township funds. More than 33.5 percent of the township funds will go to the E.M.S fund.

Debt

The Township Debt Fund is used by two townships. This fund is used to help townships pay off their liabilities. This fund is the smallest of the township funds.

CITIES AND TOWNS

Fifteen cities and towns get funding through the county. They are Burket, Claypool, Etna Green, Leesburg, Mentone-Franklin,

Mentone-Harrison, Milford, North Webster, Pierceton, Sidney, Silver Lake, Syracuse, Warsaw, Winona Lake, and Warsaw-Plain.

These towns and cities will receive around 19 percent of the total amount of money dispersed by the county. Cities and towns have 12 funds delegated to them. They are the General Corporation Fund, Street, Cemetery, Park and Recreation, Aviation, Police Pension, Fire Pension, Cumulative Sewer, Cumulative Capital Improvement, Cumulative Fire Equipment, Corporation Bond, and City Planning.

General Fund

The Corporation General Fund is the largest of the City/Town funds. It encompasses more than 75 percent of the entire City/Town fund. The fund, like county general and township general, goes to pay the salaries of officials, and pay the operating expenses of City/Town buildings.

Street Fund

The Street Fund is mostly supplemented by state and federal money. The amount the county contributes is minimal compared to the amount of money received from the state. Leesburg, Milford, North Webster, Syracuse and Winona Lake are the only cities that receive money from the county. The rest of the cities or towns receive all their funding through state or federal funding. The state uses the money from the gasoline tax to finance the building and repair of roads and highways. The county will receive money from the state four times a year. For the first three months of

this year, the county has received \$337,000 from the state. Money from the federal government which the county uses for road repair and construction is money received through federal revenue sharing.

Cemetery, Park and Recreation, Aviation

The Cemetery, Park and Recreation, and Aviation funds are all primarily used for maintenance of facilities. Warsaw and Warsaw-Plain are the only cities to receive money for these funds.

Police Pension, Firemen Pension

The Police and Firemen Pension Funds pay retired firemen and policemen their pensions. Again, only Warsaw and Warsaw-Plain use these funds.

Cumulative Capital Improvement, Cumulative Fire, Sewer

The Cumulative Capital Improvement Fund is used for long-term improvement of the city or town. The cumulative fire equipment and cumulative sewer funds are saving funds used to replace old or obsolete equipment or buy new equipment. The Cumulative Capital Improvement Fund and the Cumulative Sewer Funds are used by Milford and Syracuse. The Cumulative Fire Equipment Fund is used by Syracuse, Warsaw, and Warsaw-Plain.

Bond Fund

The Corporation Bond Fund is used to pay bond payments owed by

the city or town. This fund is used by three cities. Winona Lake is using it to pay for a storm sewer and Warsaw and Warsaw-Plain are using it to pay for the fire station, remodeling of city hall, and work on the airport.

City Planning

The City Planning Fund is used only by Warsaw. This fund pays the operating expenses of the City Planning Board.

SCHOOLS

Schools are by far the largest expenditure of the county. In 1984 they will get over 58 percent of the money collected through taxes. Money is divided among four funds: School General Fund, Debt Service, Cumulative Building, and Transportation.

The School General Fund is the largest of the school funds. It will receive more than 60 percent of the money given to the schools. This fund is similar to all other general funds in that it is used to pay teachers salaries, buy supplies, and provide maintenance. The three school superintendents are also paid through this fund.

The School Debt Fund is used to pay any outstanding debt owed by the school system. An example of a debt incurred by the school would be borrowing money to buy buses (in 1985 this would come from the transportation fund) or financing any major renovations.

The Cumulative Building Fund is constructed the same as the

other cumulative funds. Money is being saved to build new schools or build onto existing schools. Money from this fund is currently being used to build the new Freshman High School in Warsaw.

The Transportation Fund is used to provide maintenance and gasoline for the existing buses, and pay the salaries of the bus drivers.

LIBRARY

The Library Fund will be approximately two percent of the total money received by the county. This fund is used to pay the operating expenses of the libraries. This will include utilities, supplies, equipment, and purchase of new books.

CONCLUSION

It can be seen that the money local government collects from its various sources is disbursed in numerous ways throughout the county. In 1984 the county will collect and distribute over \$19,900,000. The process of developing budgets, setting tax rates, assessing county property, and running the various departments and programs within the county requires many hours of diligent service from our public servants. Few taxpayers understand or see this complicated process.

SOURCES

Geiger, J.D. Kosciusko County Auditor

Gunter, Avis Kosciusko County Assessor

Indiana State Chamber of Commerce, Here is Your Indiana
Government

Kosciusko County Health Department 1983 Annual Report

Shively, Peggy Kosciusko County Welfare Department