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***Weathering the Storm: Effects of the National Recession and
Statewide Property Tax Caps in Northwest Indiana****

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ABSTRACT

This paper outlines the economic health of Northwest Indiana communities following the latest national recession and the passage of statewide property tax reforms in 2008. This paper identifies the communities with the highest concentrations of economically distressed residents as measured by poverty, unemployment, and participation in the free- and reduced-lunch program during the time period from 2008 to 2012. These communities historically have had the highest property tax rates in the region. In the past, these high tax rates may have served as a disincentive for residential and business investment, but now, with the passage of statewide tax restructuring, the high rates have resulted in a new type of disparity in the form of significant funding losses for local government. For purposes of this paper, Northwest Indiana is defined as consisting of Lake, Porter, and LaPorte counties.

KEY WORDS Northwest Indiana; Lake County; Porter County; LaPorte County;
Indiana Property Tax Caps

In “The Price of Inequality,” Gary native and Noble prize-winning economist Joseph Stiglitz presents a finding that the poor were the most disproportionately affected by the 2007–2009 national recession, with African Americans and Hispanics losing a greater proportion of their wealth than other groups (Stiglitz 2012). The recession, Stiglitz writes, worsened the nation’s economic inequality gap, which has been widening in recent decades. The same situation could very well apply to communities in Northwest Indiana. Data on unemployment, poverty, and family participation in the school lunch-assistance program suggest that economic woes in communities with already high levels of distressed populations worsened during the recent recession. At the same time that the recession’s effects spilled over into 2010 and subsequent years, local government units in Indiana began to feel the full effects of major property-tax reforms enacted by the Indiana

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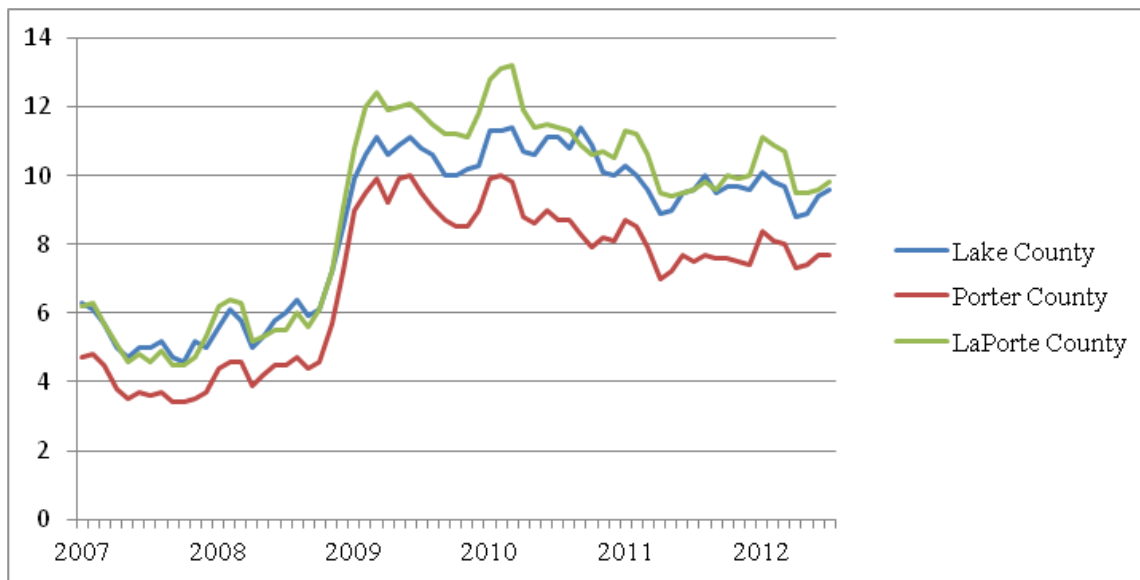
This paper was presented at the 83rd Annual Meeting of the Indiana Academy of the Social Sciences, Indiana University Northwest, Gary, on October 12, 2012.

General Assembly in 2008. This paper first outlines the increases in economic distress signals in the years during and after the recession and then turns to the topic of property taxation.

UNEMPLOYMENT

From 2007 to mid-2012, unemployment in Northwest Indiana hit a low in September and October of 2008, bottoming out at 4.6 percent in Lake County, 2.4 percent in Porter County, and 4.5 percent in LaPorte County (Indiana Department of Workforce Development 2012). One year later, near the official end to the US recession, unemployment rates surged, with joblessness more than doubling in Lake County and roughly tripling in both Porter and LaPorte Counties (Figure 1). Both Lake and LaPorte Counties have generally had higher unemployment rates than the state average. This is evident in the period from 2008 to 2012 as well as from 2000 to 2004. With some exceptions, most of the monthly unemployment rates show that the total Lake and LaPorte County rates have been within 2 percentage points above the Indiana average. Porter County, in comparison, has typically enjoyed below-average unemployment rates, during both the 2007–2012 and 2000–2004 periods.

Figure 1. Countywide Monthly Unemployment in Northwest Indiana, 2007–2012



Extracting Northwest Indiana’s unemployment data from the statewide totals shows how the region’s unemployment has tipped the statewide rate upward. As shown in Table 1, Indiana’s annual average unemployment rate for 2010 was 10.1 percent. By excluding the three Northwest Indiana counties, the statewide average fell to 10 percent

while the Lake–Porter–LaPorte annual rate averaged 10.6 percent (Indiana Department of Workforce Development 2013).

Table 1. Extracting Northwest Indiana (NWI) from Indiana’s Annual Average Unemployment Rates

	<i>Indiana Annual Average</i>	<i>Indiana Average with NWI Excluded</i>	<i>NWI Annual Average</i>	<i>Lake Only</i>	<i>Porter Only</i>	<i>LaPorte Only</i>
2008	5.8	5.8	5.8	6.1	4.7	6.2
2009	10.4	10.3	10.6	10.7	9.4	11.9
2010	10.1	10.0	10.6	11	8.8	11.9
2011	9.0	8.9	9.5	9.9	7.8	10.4
2012	8.4	8.3	9.2	9.5	7.7	10

Among individual Northwest Indiana communities, a different story emerges. As shown in Figure 2, East Chicago, Gary, Hammond, Portage, and Michigan City have consistently experienced unemployment rates higher than the state average. In July 2010, unemployment in Gary was 25 percent higher than in Lake County and 40 percent greater than in Indiana. Two years later, the city's unemployment gap worsened, at 48 percent higher than the county's rate and 71 percent higher than the state's. In East Chicago, the disparity was even greater: The city's unemployment was 49 percent higher than the county's in 2010 and 64 percent in 2012. Compared to the statewide rate, East Chicago's joblessness was 67 percent higher in 2010 and 90 percent in 2012.

As with the state and the nation overall, unemployment rates have begun to decline in Northwest Indiana. The three-county average rate hit a high of 11.47 percent in March 2010, but two years later, in March 2012, the region's average rate fell a full 2 percentage points to 9.47 percent; however, several individual communities, most notably Gary and East Chicago, did not experience the same improvement. Unemployment rates in Gary and East Chicago in 2012 were approximately twice as high as at the start of 2007. A review of the unemployment rates in January and July from 2007 to 2012 shows that the gaps between the city rates and those of the county and state worsened in Gary, East Chicago, Portage, Michigan City, and LaPorte (Table 2). Gary's and East Chicago's unemployment rates as of July 2012 stood at 71 percent and 89 percent, respectively, above the statewide rate. This was the largest gap for East Chicago in the time period analyzed. The only time Gary had a greater disparity with the state's rate occurred in July 2011, when the city's rate was 73 percent higher than the state's. The lack of improvement in the unemployment rates during this period suggest that the economic troubles of the region's most struggling communities deepened with the recession and hindered progress toward recovery.

Figure 2. Unemployment in Select Northwest Indiana Cities Compared to State Average

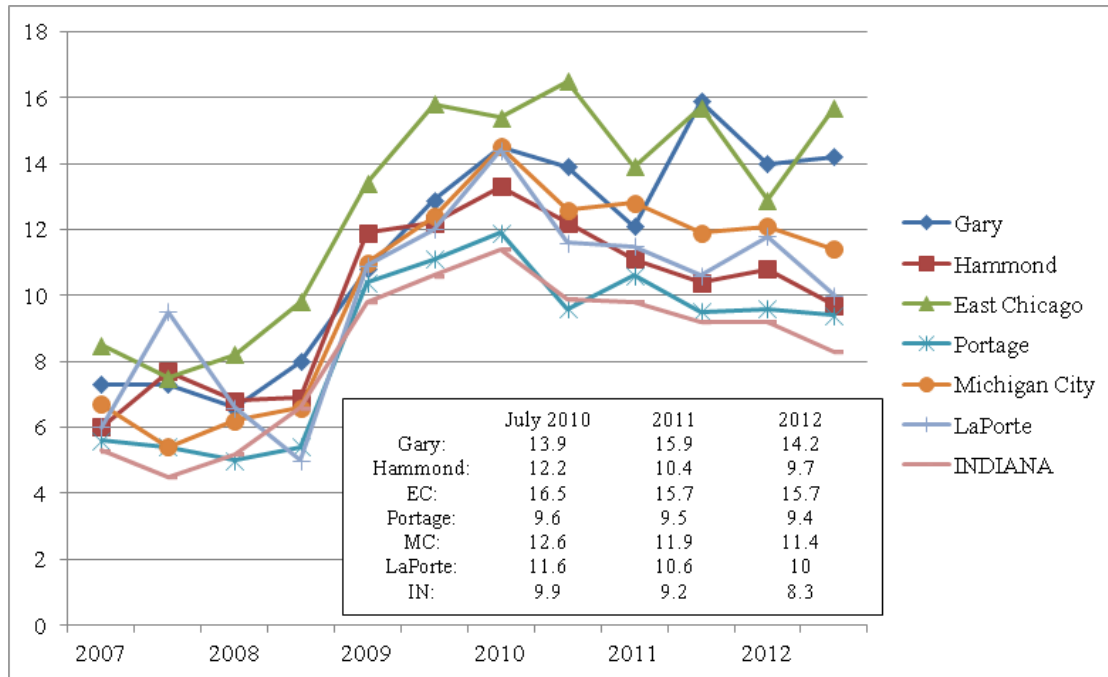


Table 2. Comparison of Northwest Indiana and State Unemployment Rates

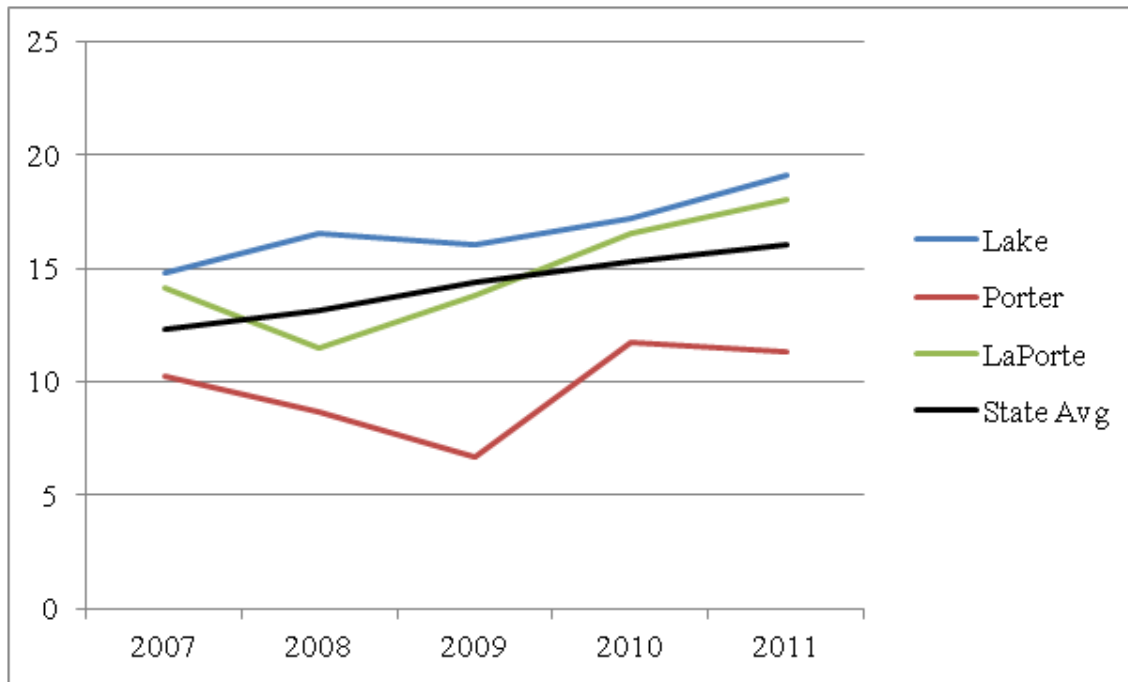
	July 2007 Rate	% above IN Rate	July 2012 Rate	% above IN Rate
Gary	7.3	62%	14.2	71%
Hammond	7.7	71%	9.7	16.9%
East Chicago	7.5	67%	15.7	89%
Portage	5.4	20%	9.4	13%
Michigan City	5.4	20%	11.4	37%
LaPorte	4.6	2%	10	20%

POVERTY

The number of people deemed to be living in poverty in Northwest Indiana rose approximately 27 percent from 2007 to 2011, from 102,407 people to 130,142 (American Community Survey 2012). Poverty in Lake County increased 30 percent from 2007 to 2011. In that same period in Porter County, poverty rose 14.7 percent, and in LaPorte County, 26.3 percent. As of the American Community Survey (ACS) 2011 one-year survey, nearly one in five Lake County residents was deemed to be living in poverty. The poverty level in LaPorte County stood at 18 percent, and in Porter County, 11.3 percent

(Figure 3). While Porter County has consistently been below the statewide poverty level, Lake and LaPorte Counties were above the statewide levels during the 2007–2011 period (American Community Survey 2013).

Figure 3. Northwest Indiana County and State Poverty Levels



A look at three poverty classifications measured by the ACS—all families with related children under the age of 18, married couples with children, and female-headed households with children—shows that poverty in Lake County has worsened in all three categories since 2007. As of 2011, 24 percent of all families with related children were categorized as living in poverty in Lake County, compared with 19 percent in 2007. Among married couple families, poverty rose from 7.2 percent to 10.6 percent. Poverty among female-headed households with children rose from 39.7 to 48.4 percent—an increase from 19,721 persons to 21,830. The ACS one-year estimate for 2011 shows that 42.2 percent of all Gary residents were deemed to be living in poverty, with 58.3 percent of all Gary families with children and 71.3 percent of female-headed households classified in poverty status. In the counties to the east of Lake County, Porter County has shown decreases in family-level poverty, except among married couples with children, while in LaPorte County, only the married-couple poverty classification now is worse than in 2007.

Each of Northwest Indiana’s three counties contains a highly diverse mix of communities, with large, urbanized areas located just a few miles away from affluent and

rural communities. Such diversity is reflected in various socioeconomic statistics for the region. Perhaps some of the most glaring differences among the various communities that make up Northwest Indiana can be seen in poverty statistics. The ACS five-year estimates show that 35.9 percent of all Gary residents and 35 percent of all East Chicago residents were living below the poverty level during the 2007–2011 timeframe. The same poverty estimates for more-affluent communities to the south in Lake County were a mere 3 percent in St. John, 3.6 percent in Munster, 7 percent in Crown Point, and 7.5 percent in Schererville. Likewise, in neighboring Porter County, 12.4 percent of all residents in the county’s largest city, Portage, were deemed to be living in poverty, compared with 0 percent for the nearby town of Dune Acres. Table 3 presents the ACS three-year poverty estimates for various Northwest Indiana communities. From these multiple-year estimates, one can see that poverty levels dropped in Hammond and Valparaiso in 2010.

Table 3. Poverty in Select Cities Compared to Respective Counties

	2007	2008	2009	2010	2011
Gary	33.2	34	33.6	35.3	42.2
Hammond	21.9	21.9	21.3	20.1	28.1
East Chicago	29	31.4	33.1	36.5	NA
Merrillville	11.7	10.6	8.8	12	NA
Crown Point	5	5.8	4.7	7.2	NA
Lake County overall	15.7	16	16.1	16.3	19.1
Portage	11.8	11.4	12.6	12.8	NA
Valparaiso	15.7	16	13.6	12.4	NA
Porter County overall	9.7	9.6	8.6	9.3	11.3
Michigan City	19.8	21.1	21.2	21.1	NA
LaPorte	11.9	12.9	17.7	20	NA
LaPorte County overall	12	12.7	13.6	14	18

FREE AND REDUCED LUNCHES

The free- and reduced-lunch program, funded by the US Department of Agriculture, reimburses schools for providing lunches at no cost or at reduced cost for qualifying families. For children to be eligible for free lunches, family income must be no higher than 130 percent of the federal poverty guidelines; for reduced lunch prices, the limit is 185 percent. Under the US Department of Health and Human Services guidelines, this means that a family of four with an annual income of \$29,055 would qualify for free lunches or with an income of \$41,348 for reduced lunches in 2011. Not all families who qualify necessarily sign up for the program. Still, the lunch statistics are included in this report because they give a good indication of Northwest Indiana families with school-aged children who are poor, working poor, and lower middle class. Further, the data suggest that because of a decline in family income, the number of families transitioning

from the reduced-lunch program to free lunch status increased during the 2007–2011 period.

Student participation in the lunch-assistance program in Northwest Indiana totaled 61,785 in 2011, an increase of 10,613 students compared to 2007 (Indiana Department of Education 2012). As of 2011, 48.5 percent of all students enrolled in public schools in Lake, Porter, and LaPorte counties received free or reduced lunches, compared with a total of 39.5 percent in 2007.

In the 2007–2008 school year, 42,450 Northwest Indiana schoolchildren received free school lunches, and another 8,772 received reduced-priced lunches. Five years later, the number of students on free lunches had risen to 53,713, while those receiving reduced lunches had fallen to 8,072. During this period, total enrollment also fell from 129,479 in 2007 to 127,519 in 2011.

Statewide, the average percentage of students on the free- or reduced-lunch program has increased in each year from 2007 to 2012. As shown in Figure 4 and Table 4, the participation of students in the lunch-assistance program in the Northwest Indiana schools with the highest percentages of students receiving the assistance far surpasses state averages.

Figure 4. Northwest Indiana School Systems with Greater than 50% Enrollment in Free/Reduced-Lunch Program, 2011

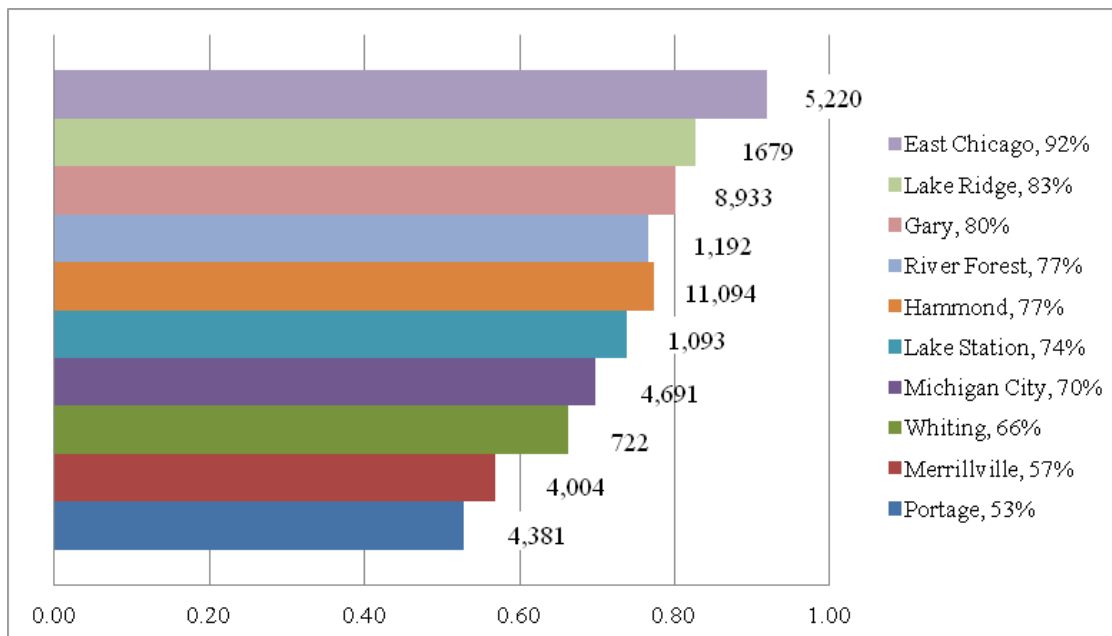


Table 4. Free/Reduced-Lunch Enrollment Percentages, 2008 and 2012

	2008 Free	2008 Reduced	Total		2012 Free	2012 Reduced	Total
State Average	29.3%	7.9%	37.2%		40%	8.2%	48.2%
East Chicago	83.1%	7.1%	90.2%		87.9%	4.5%	92.4%
Lake Ridge	63.9%	10.7%	74.6%		75.6%	10.2%	85.8%
Gary	67.9%	2.5%	70.4%		77.9%	2.5%	80.4%
River Forest	60.4%	11.5%	71.9%		72.6%	7%	79.6%
Hammond	60.9%	10.5%	71.4%		72.4%	8%	80.4%
Lake Station	57%	10.2%	67.2%		68.9%	9%	77.9%
Michigan City	53.5%	7.6%	61.1%		64%	7.7%	71.7%
Whiting	42.8%	17.2%	60%		54.8%	10.7%	65.5%
Portage	30%	11.6%	41.6%		42.5%	11.8%	54.3%

In Lake County, the Griffith schools saw the greatest increase in the percentage of students in the lunch program, from 25 percent (697 students) in 2007 to 45 percent (1,212 students) in 2011 (Figure 5). The other schools with the greatest percentage increases in this time were Merrillville, from 39 to 57 percent; Highland, from 12 to 30 percent; Lake Station, from 62 to 74 percent; Gary, from 68 to 80 percent; Hobart, from 32 to 44 percent; and Whiting, from 54 to 66 percent.

In Porter County, Portage Township schools experienced the greatest increase in lunch-program participation, from 39 percent in 2007, increasing each year to 53 percent in 2011 (Figure 6). The number of students in Portage schools receiving free lunches rose from 2,287 to 3,472; those receiving reduced lunches fell from 304 to 268. In LaPorte County, LaPorte schools experienced the greatest percentage increase in the lunch program, with 36 percent (2,377) of its students participating in 2007, rising each year to 49 percent (3,131) in 2011 (Figure 7).

In all three counties, the percentage of students on the reduced-lunch program stayed about the same or declined from 2007 to 2011 but increased in the free program. In Lake County, the percentage of students on the reduced program barely changed from 5.7 percent in 2007 to 5.8 percent in 2011; the significant increase came in the free program, which grew from 37 percent of all Lake County students to 47 percent in 2011. This would suggest that families who had been on the reduced program lost enough household income to qualify for the free program.

Figure 5. Free/Reduced-Lunch Program Enrollment Percentages in Lake County Schools

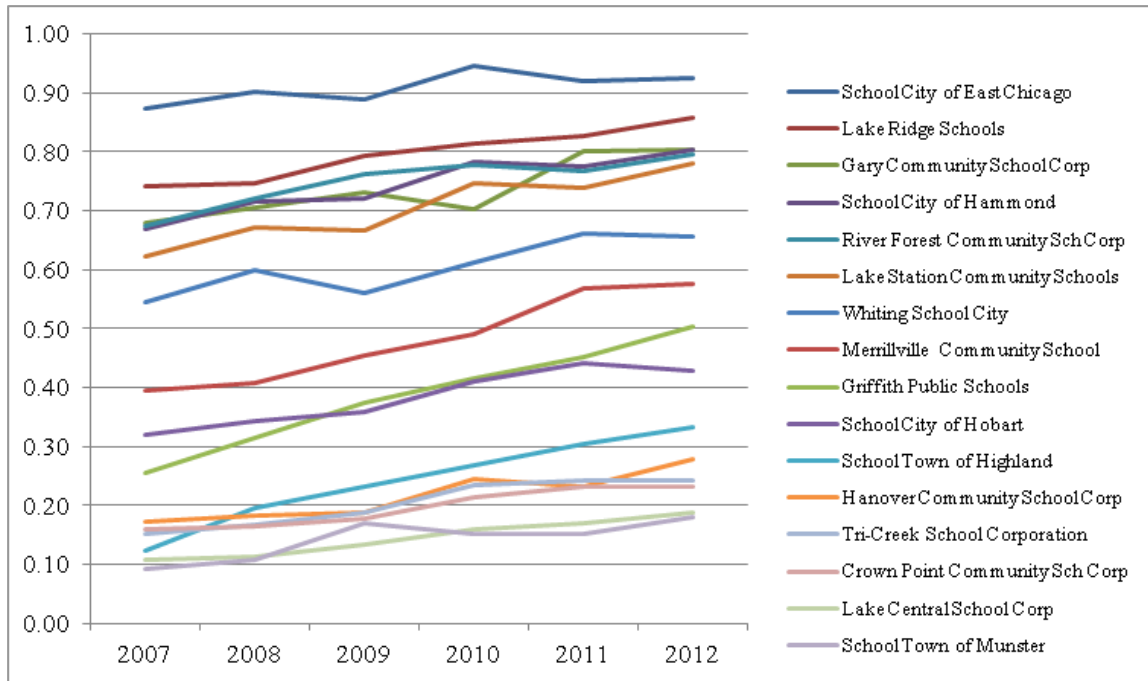


Figure 6. Free/Reduced-Lunch Program Enrollment Percentages in Porter County Schools

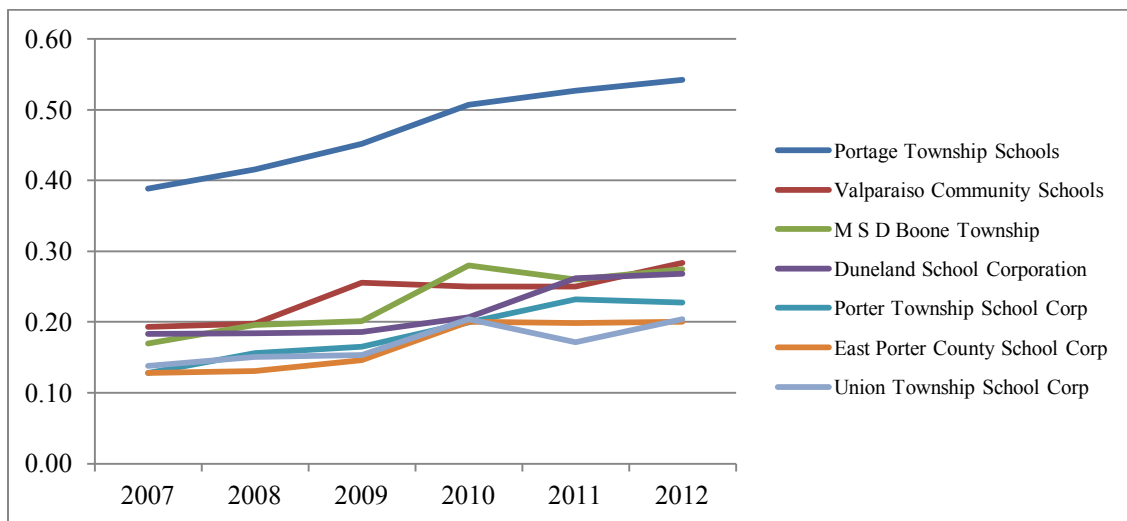
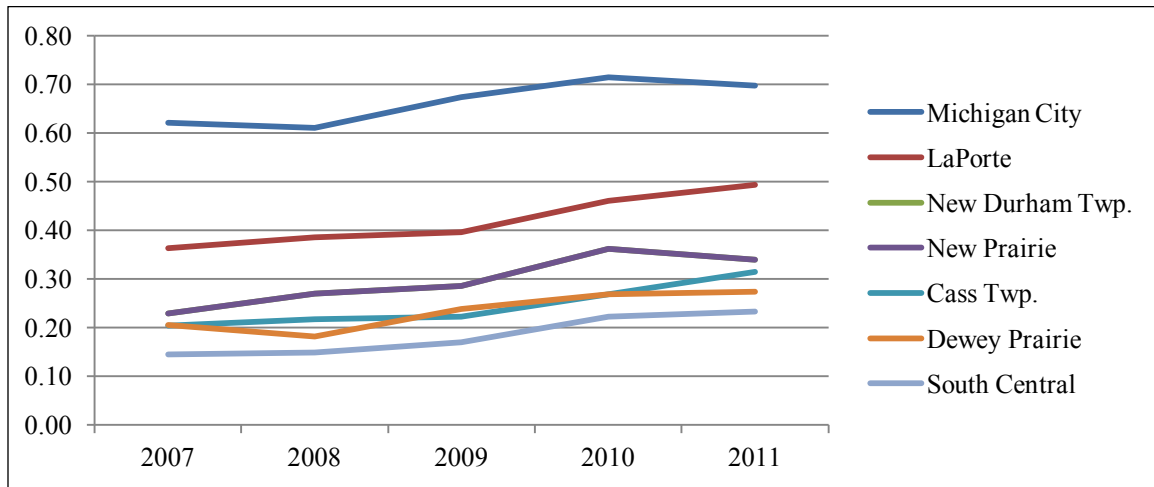


Figure 7. Free/Reduced-Lunch Program Enrollment Percentages in LaPorte County Schools



PROPERTY TAX REFORMS

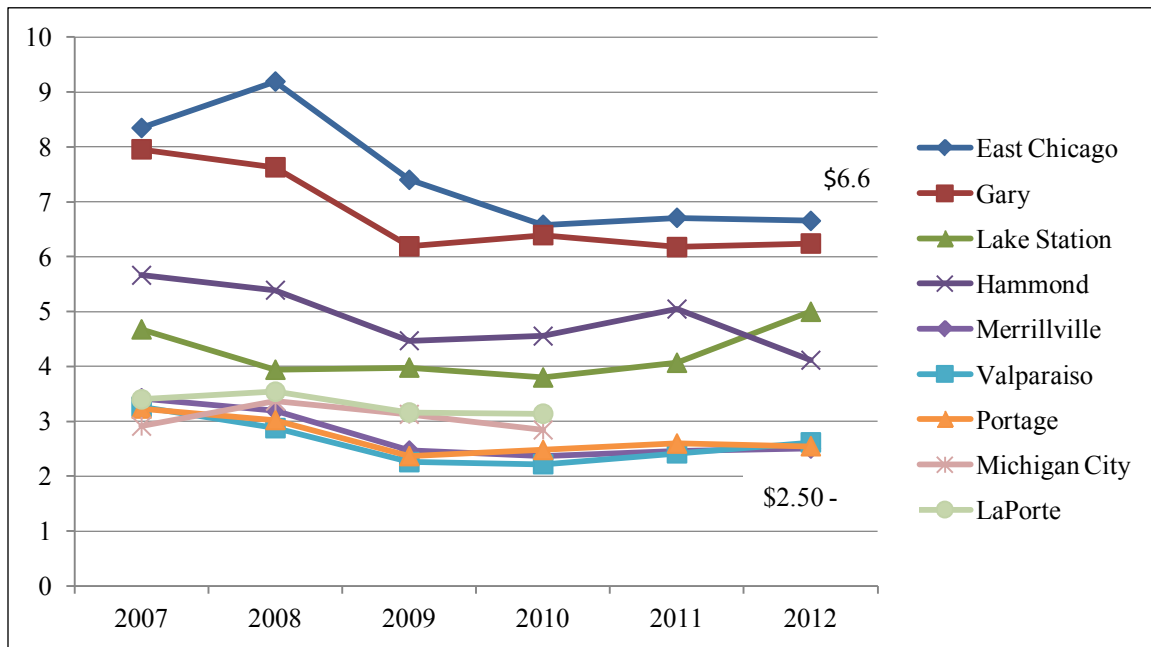
At the same time that communities nationwide continued to grapple with the recession and the sluggish economy that persisted through 2012, a different phenomenon unfolded in Indiana: property tax reforms. In 2008, the Indiana Legislature passed H.E.A. 1001, which undoubtedly was the state's most significant property tax measure in years. One objective of the reforms was to lower or at least limit property taxes on all classes of property through new tax caps, but while the reforms were heralded as a benefit for taxpayers, the caps also set the stage for funding losses for local government. As outlined below, some of the very governments hit hardest by the tax caps in Northwest Indiana, and in fact statewide, are also the ones with Northwest Indiana's most struggling constituents.

Indiana's local government finance structure is heavily dependent on the ability of taxing units to maintain and increase their net assessed values (AVs). A decline in the overall net taxable value of property typically leads to increases in the tax rates because of the tendency of local government to take full advantage of annual levy increases allowed by the state. Generally speaking, the more a taxing unit sees an increase in its net AV, the less its tax rate will rise.

The highest tax rates in Northwest Indiana have tended to be in communities with the most economically distressed populations. In Lake County, these are the Gary, Hammond, and East Chicago tax districts. In Porter and LaPorte counties, these are Portage and Michigan City. The difference in the tax rates is indeed significant, as shown in Figure 8. For example, in 2012, East Chicago's tax rate was \$6.651, and Gary's tax

district 04 rate was \$6.2398 (Indiana Department of Local Government Finance 2012). By contrast, the 2012 rates in other area tax districts were: Munster, \$3.0541; Merrillville, \$2.5049; Valparaiso, \$2.6165; Portage, \$2.5470; and Burns Harbor, \$1.7806.

Figure 8. Property Tax Rates, Select Northwest Indiana Tax Districts



Note: Because of assessment delays, LaPorte County’s tax bills issued in 2012 reflect taxes payable in 2010; thus, Michigan City and LaPorte tax district rates are shown only through 2010.

Prior to passage of H.E.A. 1001 in the 2008 Indiana Legislature, the structure of the property-tax system resulted in large disparities in the tax burdens for Northwest Indiana taxpayers. For example, in 2008, the tax rate in Gary district 4 was \$7.63, compared to \$3.1985 in neighboring Merrillville. With the deductions and credits in place at the time, these rates meant that a property owner with a home assessed at \$100,000 received a tax bill of \$1,723 in Gary, but of just \$900 in Merrillville. A business assessed at \$500,000 paid a tax bill of \$30,569 in Gary in 2008, compared with \$13,316 in Merrillville. To the extent that property taxes influence one’s decision to move one’s home or business to a given community, significantly higher tax rates have provided a disincentive for residential and business relocation. In other words, with all other factors being equal, why would a business have decided to relocate to Gary if it could have saved in excess of \$17,000 by relocating just over the city line into Merrillville?

Such tax imbalances have been virtually eliminated because of the passage of H.E.A. 1001, however. The reforms altered property taxes in a number of profound ways: a state-funded “takeover” of school general funds partly funded by an increase in the state sales tax from 6 to 7 percent, an elimination of two state credits that cut property taxes (a move that saved the state approximately \$2 billion each budget cycle), and the establishment of a supplemental homestead deduction that relieved the tax burdens for homeowners. As significant as those tax changes were, however, the provision in H.E.A. 1001 that has received the most attention concerns the “tax caps.” With some exceptions, the law now gives property owners the assurance that their total tax liability will not exceed a certain percentage of their gross AV—1 percent for homes, 2 percent for rentals, and 3 percent for business and other property—regardless of how high their local tax rates grow. Now, with some exceptions, a homeowner anywhere in Indiana with a \$100,000 assessment knows that his or her tax bill will not exceed \$1,000 and a business owner with an assessment of \$500,000 knows that his or her tax bill will not exceed \$15,000. The tax-cap law was enormously popular, and in the 2010 elections, Indiana voters ratified an amendment adding the tax-cap language to the state’s constitution.

The tax caps essentially have helped to level the playing field, especially in areas such as Northwest Indiana with wildly different tax rates, as shown in Table 5, which compares tax bills in Gary and Valparaiso. As noted, however, there are exceptions to the tax caps. Schools, for example, may raise operating funds that are not subject to the caps by voter-approved referendum, as the Duneland Schools in Porter County have done. Further, following a state study that found that Lake and St. Joseph Counties would not be able to meet their debt obligations under the tax-cap provisions, a portion of the tax rates in these counties were initially exempt from the cap. The city of Gary has also been granted a separate exception through the state’s Distressed Unit Appeals Board. In 2012, 0.3977 of the \$6.2398 tax rate in Gary was outside the cap; this means that a homeowner with a \$100,000 assessment had a property tax liability of \$1,142 (compared with a \$1,000 maximum without any exceptions). Still, even with these exemptions, it’s clear that the tax bill disparities have narrowed considerably, as shown in Table 6. Notice that in districts with lower tax rates, it is more likely that one’s tax bill does not “hit” the 1 percent cap; in these districts, the tax bills actually increased compared to 2008.

Table 5. Comparison of Tax Bills, Gary and Valparaiso, 2008 and 2012

	<i>2008 Tax Rate</i>	<i>2008 Tax Bill</i>		<i>2012 Tax Rate</i>	<i>2012 Tax Bill</i>
<i>Home Assessed at \$100,000</i>					
Gary	\$7.629	\$1,723		\$6.2398	\$1,142
Valparaiso	\$2.8761	\$722		\$2.6165	\$935
<i>Business Assessed at \$500,000</i>					
Gary	\$7.629	\$30,569		\$6.2398	\$16,989
Valparaiso	\$2.8761	\$11,575		\$2.6165	\$13,083

Table 6. Comparison of Tax Bills for Home Assessed at \$100,000, 2008 and 2012

	2008	2012	Was total tax cut due to tax cap?
Gary	\$1,723	\$1,142	Yes
Hammond	\$1,442	\$1,369	Yes
East Chicago	\$2,194	\$1,483	Yes
Merrillville	\$900	\$896	No
Portage	\$766	\$896	No
Valparaiso	\$722	\$935	No
Burns Harbor	\$593	\$595	No

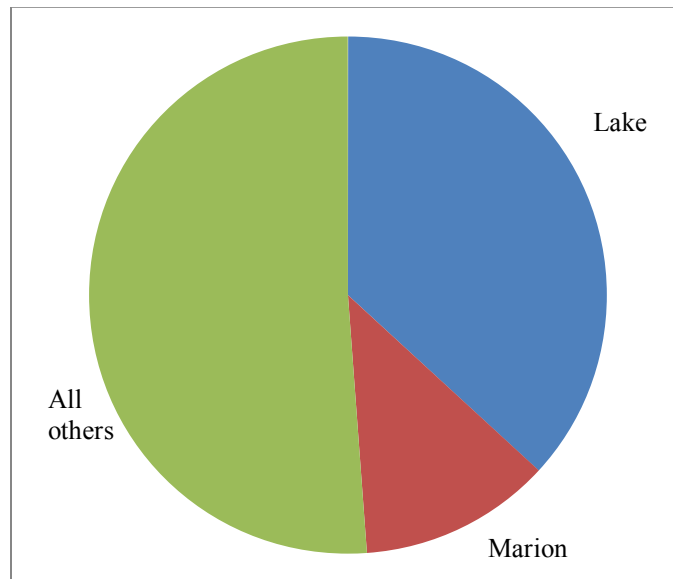
Lower tax bills clearly benefit taxpayers, but the 2008 property-tax reforms created a different problem of disparity for certain taxing units: loss of revenue. The tax caps mean that for every dollar cut after the tax bill reaches the cap, the affected taxing units lose a dollar. In Table 5, the tax bill for the \$100,000 home was cut \$1,089 because of the 1 percent cap; the \$500,000 business saw its tax bill cut by a whopping \$14,211 because of the 3 percent cap. As a result, the local taxing units share a proportionate loss of those funds, even though their annual budgets and levies typically are set at higher amounts.

Just how much tax revenue have local governments forfeited because of the tax caps? As shown in Table 7, the losses have been significant for taxing units with high tax rates, with the impacts particularly profound in Lake County. In 2010 and 2012, the total revenue loss in Lake County amounted to nearly 19 percent of the statewide total. In both of those years, Lake County took the lead in the state in terms of dollars lost to the tax caps. By far, the greatest losses have been in the 3 percent category, generally business and industry. The loss in Lake County from this category made up 37 percent of the statewide total in 2012, as shown in Figure 9.

Table 7. Tax-Cap Funding Losses, Top Five Counties in the State, 2010–2012

	2010		2011		2012
Total Statewide	430,186,440	Total Statewide	565,902,902	Total Statewide	583,201,008
Lake Co.	91,571,249	Marion Co.	126,299,068	Lake Co.	109,325,609
Marion Co.	75,296,439	Lake Co.	103,755,897	Marion Co.	103,748,780
St. Joseph Co.	28,540,545	St Joseph Co.	34,704,489	St Joseph Co.	41,572,515
Allen Co.	24,605,392	Allen Co.	34,534,655	Allen Co.	34,855,157
Delaware Co.	23,575,723	Delaware Co.	26,697,453	Delaware Co.	27,010,111

Figure 9. State Tax-Cap Funding Loss, 3% Category, 2012



Meanwhile, zero revenue losses occurred in Porter County in the 3 percent category for taxes payable in 2010 and 2011; in 2012, the total loss from the 3 percent category amounted to just under \$16,000 countywide. The most striking comparison may be found by considering the tax-cap loss in the town of Burns Harbor, which enjoys a very low tax rate and which lost a mere \$58 from the 1 percent tax cap in 2012. Thus, taxing units that maintain relatively low tax rates are allowed to operate at all or nearly all of their approved property-tax levies while others hit hard by the caps must operate at far less than their approved amounts.

Among individual taxing units, the city of Gary has ranked first statewide in tax-cap funding losses in each year from 2010 through 2012, as shown in Table 8.

Table 8. Tax-Cap Funding Losses, Top Five Taxing Units in the State, 2010–2012

<i>2010 Taxing</i>	<i>2010 Funding</i>	<i>2011 Taxing</i>	<i>2011 Funding</i>	<i>2012 Taxing</i>	<i>2012 Funding</i>	<i>% of Certified</i>	<i>% of Certified</i>
Gary	22,143,289	Gary	23,931,412	Gary	33,696,113	49.30%	52.80%
South Bend	16,595,854	South Bend	20,588,405	South Bend	23,965,911	33.90%	24%
Hammond	14,945,998	Indianapolis Schools	18,013,479	East Chicago	14,587,098	38.50%	32.50%
Indianapolis Schools	12,423,428	Franklin Schools	16,609,157	Indianapolis Schools	14,375,105	13.58%	3.18%
Lake County	10,042,319	East Chicago	14,941,657	Fort Wayne	13,588,881	12.80%	8%

What makes the Gary losses so significant has been the depth of the funding cuts. In 2012, for example, the city’s tax-cap loss of nearly \$34 million represented 49 percent of its certified levy, meaning that the city had to operate in 2012 with only half of its normally allowable property tax revenues (Table 9). Though the total dollar amounts have not been as significant, other Lake County taxing units have experienced similar impacts to their certified levies. In 2012, the Gary school system was operating at 49 percent of its approved levy, and the East Chicago library was operating at 59 percent of its approved levy.

Taxing units thus have a very real incentive to keep their tax rates as low as possible. Property owners benefit from low tax rates: Taxpayers will pay less if they don’t “hit” the tax cap than if their bill is cut by it. For local government, however, keeping rates low means restoring some sense of certainty in the budget process while preserving as much of the approved levy as possible.

For taxing districts with large tax-cap losses, how much AV would be needed to offset the funding cuts? The answer would appear to be very difficult, if not impossible, to achieve. Table 10 presents an analysis for the major tax rates that constitute the Gary 04 tax district. At the approved 2012 levy, an additional \$25 million in net AV—roughly equivalent to two large grocery stores, three restaurants, and a strip mall (based on comparable AVs in Northwest Indiana)—would barely make a dent in lowering the total tax rate. A \$1 billion AV—approximately half of the current Gary city AV—would cut the rate by about \$1.77. It would actually take approximately \$2 billion of new net AV, or practically doubling the current city’s taxable value, to bring the tax rate low enough to stave off the tax caps.

Table 9. Tax-Cap Funding Losses and Percentage Loss of Tax Levy, Taxes Payable in 2012

Taxing Unit	Revenue Loss	Approved Tax Levy
<i>Cities and Towns</i>		
Gary	\$33,696,113	49.33%
East Chicago	\$14,587,098	38.5%
Lake Station	\$1,175,612	23.5%
Hammond	\$3,608,222	11.16%
Crown Point	\$52,120	0.5%
Merrillville	\$3,749	.04%
Valparaiso	2,067,753	11.8%
Portage	1,030,379	6.95%
<i>Schools</i>		
Gary	\$12,707,208	43.85%
East Chicago	\$4,104,206	17.22%
Lake Station	\$339,972	14%
Valparaiso	\$1,611,092	8.19%
Portage	\$895,891	5.6%
<i>Libraries</i>		
Gary	\$3,327,829	50.65%
East Chicago	\$2,095,083	41.08%
Porter County	\$253,149	4.55%
<i>Townships</i>		
Calumet (includes Gary)	\$4,414,610	40.14%
North (includes Hammond, E. Chicago)	\$754,805	15.39%
Portage	\$79,337	4.02%

Note: Data derived from Indiana Department of Local Government Finance (2012). LaPorte County's tax bills issued in 2012 were for taxes payable in 2010 and reflected the tax cap.

Table 10. Impact on the Tax Rate of Added Net AV, Select Taxing Units, Gary 04 district

	Tax rate, 2012	+\$25 million	+\$100 million	+\$1 billion	\$2 billion
Gary city	3.1424	3.1067	3.004	2.152	1.6366
Gary schools	1.3996	1.3829	1.335	.9438	.7119
Calumet Twp.	.3880	.386	.3761	.2876	.2280
County	.5771	.5764	.5743	.5502	.5227
Gary Library	.3173	.3135	.3027	.2140	.1614
Gary Trans.	.1692	.1673	.1618	.1159	.0881
Storm Mgmt.	.0468	.0462	.0447	.032	.0244
Gary Sanitary	.0885	.0875	.0847	.0613	.0469
Σ Tax rates:	6.1289	6.0665	5.8833	4.3568	3.42

Note: Computations were made by applying the hypothetical new net AVs to the levy/tax rate formula using the approved 2012 budget amounts. Not all units in the Gary 04 tax district are listed; these other unit rates brought the total 2012 tax rate to \$6.2398.

OPTIONS AND RECOMMENDATIONS

Given the large revenue losses that some taxing units have incurred, what would it take to restore local governments' budgets? This paper presents the following recommendations and options for further study.

Recommendation: Restore the Property Tax Replacement Credit (PTRC). The state-funded PTRC was a longstanding credit that helped to cut property taxes for all property. Along with the state-funded homestead credit, the PTRC was eliminated with the 2008 state tax reforms. Because the PTRC formula was based on levy, the costs to the state budget increased as local governments' levies increased each year. Eventually, the two credits cost the state about \$2 billion each budget cycle. Nonetheless, state leaders should consider reestablishing the PTRC, especially now that more and more taxing units may begin to feel the effects from the tax caps. The PTRC distribution should continue to be based on levy, meaning that units with relatively high levies, such as the city of Gary, would receive higher credit percentages. Unlike in the past, however, the state should cap the total available for the PTRC so the credit doesn't end up costing the state dearly. Given that the economy overall is improving, state income and sales tax revenues will eventually grow. The state should designate a set percentage of the new revenue growth to the reinstated PTRC, with the understanding that if state revenues fall below this threshold, the PTRC would decline as well.

Recommendation: Establish a new distressed-area reinvestment program for communities most affected by the tax-cap funding losses. Through incentives such as tax credits and no- to low-interest loans, this initiative would promote business expansion

and relocation to the most distressed areas, in turn allowing the communities to “grow out” of their funding woes. Such state aid is not without precedent: After the Bethlehem Steel bankruptcy in 2001, the state recognized that Porter County government units were facing significant funding cuts and provided a bailout of a no-interest loan (with the condition that the county adopt a county income tax). The new program envisioned here would spur private investment for the long term, ideally with an emphasis on small and mid-sized businesses and those already established. The result would be an increase in AV without rolling back the tax cuts provided by the 2008 legislation. Such an endeavor would also help reverse the negative impacts of the development policies that have been in place in Northwest Indiana for decades, in which greenfield growth was encouraged as the more urbanized and poorer areas to the north stagnated.

Recommendation: Analyze local option income tax (LOIT) impacts for Lake County. The state administration and lawmakers have encouraged counties to adopt LOIT as a way to reduce their reliance on property taxes as the main form of local government funding. With funding losses from the tax caps, more counties will likely turn to increasing their county income taxes, using the revenue in part or full to replace property tax or revenue, or both. In Porter County, for example, a \$200,000 assessed home in Portage in 2012 received a \$168 tax savings from the county homestead credit, which is funded by a portion of the county income tax. If this credit did not exist, the homeowner’s pre-cap tax liability would be \$2,566, meaning that local taxing units would share in a levy loss of \$566, but with this credit in place, the tax cap revenue loss totals \$399 instead. (The total tax bill is capped at \$2,000 under either scenario.)

Of Indiana’s 92 counties, Lake County is the only one without a LOIT (as of 2012). A provision in state law that applies just to Lake County, I.C. 6-3.5-1.1-26, stipulates that if the Lake County Council adopts one of the LOIT options known as the County Adjusted Gross Income Tax, the first 1 percent must go toward property tax replacement credits; the council then would decide whether to apply these credits to homes only (i.e., the 1% cap category), all qualified residential property (2%), or all property (including businesses in the 3% category). Such a tax in Lake County would have the effect of cutting designated tax bills countywide, thus lessening the funding losses for local government. Depending on the structure of the tax and the revenue raised, however, taxing units with significant funding losses, such as the cities of Gary and East Chicago, could still be left with budget shortfalls while taxpayers in other areas not affected significantly by the tax caps would enjoy further tax cuts. An analysis should determine whether significant funding losses would continue and, if so, if the state law should be amended to allow Lake County the option of selecting a LOIT that better suits its needs.

Recommendation: Shift reliance on tax increment finance (TIF). Another option for local governments facing tax-cap funding losses is to recapture AV by restructuring TIF districts once debt obligations are satisfied. TIFs capture AV and the resulting tax revenue for use by the respective redevelopment commissions. In Valparaiso, for example, if half of the AV captured by the TIF districts in 2012 were instead part of the “regular” AV, the net AV would grow by \$134 million, lessening the impact of the tax-

cap funding losses for the city, school, and other taxing units. For a duplex in Valparaiso assessed at \$200,000, the funding loss to government units would be reduced by nearly \$200 under this hypothetical scenario. When debt obligations are satisfied, cities and towns with TIFs should seriously consider terminating their TIFs.

SUMMARY

If high property-tax rates relative to surrounding areas are the main impediment to residential and business reinvestment, Gary, East Chicago, and other Northwest Indiana communities may now be well positioned for an economic revitalization due to the near-equalization of property taxes prompted by the statewide tax caps. Low taxes are not the only factors that make a community attractive, however. One only needs to look about 150 miles to the south of Northwest Indiana to Carmel, which is celebrating its recent ranking as the best place to live in the United States by *Money* magazine (*Money* 2012). The magazine selected Carmel for low unemployment, excellent schools, low taxes, ample recreational opportunities, and art programs. These are among the very programs and services provided by local government.

Time will tell if the 2008 tax legislation will aid Northwest Indiana's economic recovery, particularly in those communities that have historically had high tax rates and that are now in dire need of a boost in assessed valuation. To the extent that high property taxes are an obstacle to economic development, the tax caps could present a real opportunity for economic revival in the same communities most affected by the tax-cap funding losses. The question remains, however: Will there be reinvestment in the most economically distressed communities to allow them to "grow out" of their budgetary problems? In the meantime, the 2008 tax reforms have created a significant challenge for these local governments: how to effectively serve their constituents, who comprise the most struggling populations in the region, at the same time that funding sources are dwindling. Without a new approach, such as an infusion of new revenue, a reform in local government structure, incentives for private reinvestment, or a combination of these, the economic disparities in Northwest Indiana among the socioeconomic groups and their local governments may continue.

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