

Meeting Minutes

Indiana Advisory Commission on Intergovernmental Relations Monday, September 29, 1997

CALL TO ORDER

Chairperson Joe Zakas announced there was a quorum present (see attendance sheet attached) and called the meeting to order at approximately 1:18 P.M.

AGENDA

- Call to Order, Chairman Joe Zakas
- Approval of Minutes of December 12, 1996, Commission Members
- IACIR legislation and budget, Beverly J. Gard, John L. Krauss, Tracy L. Williams
- Annexation Study, John L. Krauss, Greg Lindsey
- Interest in passed/failed 1997 legislation and Interim Study Committees, Commission Members
- Citizen's Commission on Taxes, William J. Sheldrake
- Local Government Survey, John L. Krauss, Tracy L. Williams
- Other Business
- Appointment of Director
- Future Issues for Review
- Next Meeting
- Adjournment

WELCOME AND IACIR HISTORY

Senator Joe Zakas started the meeting by welcoming all new appointments to the IACIR. The Senator talked about how he had authored a bill in 1995 to establish an intergovernmental commission that could work through issues facing all levels of government.

The chairman then introduced Representative Shelia Klinker as the new vice-chair and stated he was looking forward to working with Representative Klinker in the next year. Senator Joe Zakas asked all present commission members to introduce themselves, as well as whom they represented on the IAICR.

After introductions, John Krauss proceeded to elaborate on the history of the IACIR. Mr. Krauss talked about the numerous attempts in the past to establish a commission in Indiana such as the ACIR. He stated that in addition to the US ACIR, there are approximately twenty states with ACIRs. Authored by Senator Joe Zakas, SEA 115 was finally successful in establishing the Indiana ACIR in 1995. In an effort to improve intergovernmental decision making and partnerships, the IACIR was created to provide a forum to work through the problems that naturally will arise as greater demands are made on state and local governments. The mission of the IACIR is to create effective

communication, cooperation, and partnerships between federal, state, and local units of government in order to improve the delivery of services to the citizens of Indiana.

Mr. Krauss continued by explaining that Section 12 of the statute establishing the IACIR names the Indiana University Center for Urban Policy and the Environment to staff and administer the commission. The budget of the IACIR was originally a line item appropriation in SEA 115, but was changed to a line item appropriation in the state's budget bill during the 1997 General Assembly. Mr. Krauss explained that in addition to the commission's appropriation, staff lobbied for the passage of SEA 163. Authored by Senator Beverly Gard, SEA 163 made several technical changes to the IACIR, such as staggering terms, requiring the chair and vice-chair to be of opposite political parties and making the IACIR a permanent statutory commission. Mr. Krauss thanked Representative Bill Bailey for his hard work on getting SEA through the House of Representatives on the eleventh hour of the 1997 session of the General Assembly.

Mr. Krauss highlighted some of the activities of the IACIR in its first two years. He talked about the first white paper analyzing the impact of auto excise tax cut on local governments, as well as the local government survey, child welfare report, and the market value assessment study white paper. Chairman Joe Zakas encouraged members to call staff with ideas and possible agenda items for upcoming meetings. For new members, Mr. Krauss continued by explaining that while Legislative Services Agency staffs most statutory commissions, the IACIR is staffed by the Indiana University Center for Urban Policy and the Environment. Mr. Krauss stated that the Center works with state and local governments and their associations, neighborhood and community organizations, and community leaders to identify issues, analyze options, and develop the capacity to respond to challenges.

APPROVAL OF MINUTES

Senator Zakas asked for any questions or comments in regard to the December 12, 1996 minutes that everyone should have received prior to the meeting. Senator Zakas asked that members reference his corrections to the minutes that staff had handed out. Senator Zakas motioned for corrections to the fifth paragraph on page two of the December 12, 1996 minutes (see attached correction). The amendment to the minutes was adopted unanimously. The chairman then moved to adopt the minutes, as amended. The move was seconded, and the amended minutes were unanimously adopted.

IACIR'S BUDGET

Mr. Krauss stated that in addition to SEA 163 reauthorizing the IACIR, the IACIR has a state appropriated budget. He discussed how the 1995 establishing legislation gave a line-item appropriation of \$100,000 from the state general fund to the Center to staff the IACIR from 1995 to 1997 (fiscal years). Mr. Krauss explained that the Indiana University Center for Urban Policy and the Environment matched the state's appropriation with in-kind support of the IACIR director, as well as office space, publications, and budget and fiscal oversight. However, this year the IACIR's appropriation was transferred from a line-item in its establishing language to a line-item in the state budget. Despite efforts by

staff to increase the commission's annual appropriation to \$100,000, the IACIR was appropriated \$52,000 for fiscal year 1997-98 and \$54,080 for 1998-99.

Mr. Krauss also explained that in addition to the appropriation for the commission operations, the IACIR indirectly received \$50,000 to study the issue of annexation. He continued by explaining that annexation has been a controversial issue in the last decade, at not only the local level, but also at the legislative. In an effort to more clearly understand annexation, leadership agreed to appropriate \$50,000 for a Legislative Council annexation study. Through Legislative Council Resolution 10-97, Legislative Council charged the IACIR with conducting a comprehensive study of annexation. The charge also appropriates the \$50,000 for the study and requires quarterly progress reports. Mr. Krauss urged members to talk to staff about issues that need to be included in the study.

THE ANNEXATION STUDY

Mr. Krauss introduced Dr. Greg Lindsey as the project leader for the annexation study. Dr. Lindsey is a professor at Indiana University School of Public and Environmental Affairs and an Associate Director of the Center for Urban Policy and the Environment. Dr. Lindsey handed out an internal memo summarizing the preliminary results of the analyses of data collected on annexation thus far. He explained that the data was gathered from the collection of annexation ordinances that have been filed with the State Board of Tax Commissioners. He emphasized that this is not a complete set of data because (1) not all ordinance have been filed with the Tax Board, (2) the ordinances filed included varying degrees of information, and (3) remonstrance and court judgements are not filed with the ordinances. Dr. Lindsey presented the preliminary results:

- Sixty (60) annexations have been reported thus far in 1997; 62 cases were reported in 1996. The date of the annexation is the date the local ordinance was adopted, not the date the annexation took effect.
- Annexations have occurred in 27 municipalities in 22 counties thus far in 1997 and were completed in 37 municipalities in 30 counties in 1996.
- Half (30) of the annexation in 1997 were by third class cities; 20 were by second class cities, and 10 were by towns. Twenty annexations in 1996 were by third class cities; 12 were by second class cities, and 30 were by towns.
- Information on whether annexation were voluntary or involuntary is incomplete. At least half (52%) of the 60 case thus far in 1997 have been involuntary; at least 39% of the 62 cases in 1996 were involuntary.
- The ordinance on file at the Tax Commissioner's had only limited data about physical and financial issues related to the analysis. For example, acreage data are available for only 72% of the cases in 1997 and 84% of the cases in 1996. Similarly, the type of land use annexed is not known for 38% of the cases in 1997 and 47% of the cases in 1996.
- Tax abatements were granted for at least 8% of the cases in 1997 and 6% of the cases in 1996. It is not known whether abatements were granted for the remaining annexation cases.

- Most ordinances do not reference the fiscal analyses required under state law. Only 35% of the cases referred to the fiscal analyses in 1997; and 19% referenced them in 1996.

Several commission members commented that they did not realize that state statute required annexation ordinances to be filed with the State Board of Tax Commissioners. Representative Goeglein noted that tax abatements with regard to annexations have not been used in St. Joseph County.

Representative Bailey asked Dr. Lindsey what the value was in collecting data on the number of acres being annexed. Dr. Lindsey indicated that acreage was important because (1) it gives a measure of the relative change in size of different taxing jurisdictions, and (2) changes in area sometimes can be used to approximate costs when other more detailed data are not available. In general, it is another variable that can be quantified as a measure of the overall level of annexation.

Representative Klinker re-emphasized that annexation is a county versus city issue, and that most people approach the issue with a preconceived fear of annexation. She stated that it was important the county commissioner, county councils, and city mayors are working together. Mr. Krauss indicated that the IACIR did not have a member representing county commissioners.

Representative Goeglein suggested that the study should include an analysis of annexing farmland versus annexing residential, commercial or industrial. She also talked about the importance of studying the impact of county zoned territory being annexed in a city, therefore city zoning. She stated that county zoning and city zoning are often distinctly different, thus creating problems when land is annexed. In addition, she discussed the fact that fire protection equipment needed in a municipality is often different from that needed in a township and vice versa.

Mayor John Fernandez asked how the research team defined the words voluntary and involuntary with regard to annexation. Tracy Williams, IACIR staff, explained that Indiana statute does not define voluntary and involuntary annexations. She stated that researchers identified an annexation as voluntary or involuntary by the wording on the annexation ordinances filed with the State Board of Tax Commissioners. An annexation in which the ordinance stated the municipality initiated the annexation was identified as involuntary. An annexation in which the ordinance is initiated by the landowner was identified as voluntary. Mayor Fernandez explained that in some cases, landowners that live outside the municipal boundaries, but want to use city services such as water and sewer, will sign a remonstrance waiver. Basically, a remonstrance waiver states that if the municipality annexes that land in the future, the landowner signing the waiver relinquish their right to file a remonstrance. Mayor Fernandez suggested that perhaps the study should look more carefully into defining voluntary and involuntary annexation.

Dr. Lindsey ended his presentation talking about the annexation process. He presented a flow chart of the annexation process as outlined in Indiana statute, but questioned to what

degree this process was understood and/or followed. Mr. Krauss gave an example of a section of the process that seemed to lack enforcement. He explained that although the statute requires the clerk treasurer to file all annexation ordinances and court judgements with several county and state offices, the statute also states that if the filing requirements are not met, it does not void the annexation or the courts judgement.

Several commission members asked for clarification as to why there is a filing requirement, as well as what is required to be filed. Dr. Lindsey stated that the file requirements are not only for the federal census, but also for local service delivery and state and local tax purposes. He also stated that it is unclear at this time what is required to be included in an annexation ordinance, but the study will try to outline such requirements.

Representative Bailey commented that because of the commission's representation, it is likely that the commission will not agree on a solution for this coming legislative session. Likely that the commission would recommend annexation legislation in 1999, he reminded the commission that this is the year previous to the redrawing of the state's maps.

Linda Williams expressed her view that when small towns annex, people get scared because they don't understand what is happening. She stated that people from small towns do not know they have the right to remonstrate. Ms. Williams stated that one of the most important outcomes of the study is the education aspect.

Denise Maloy of the Indiana Association of Cities and Towns (IACT) stated the IACT does publish the Municipal Officials Handbook that has a chapter addressing annexation. Representative Goeglein stated that staff should look at the on-going cost of cities pension debt.

Jim Berry suggested that due to an inadequate number of state police, an analysis of the role of the sheriff's department and its cost would be appropriate with the annexation study. In addition, Mr. Berry stated that an issue bothering people is the lack of voter representation for issues such as zoning. He continued by saying that England does not allow farmers to develop. Steven Rogers injected that he was heading a Governor's task force that is working on the preservation of farmland in Indiana. He would be glad to share the work of that task force as it is completed. Representative Klinker talked about landowners property rights and cautioned people who want to tell people what to do with their land.

Gerald Gilles stated that some township fire protection units have trouble paying on current contracts as a result of annexation. He suggested this issue be included in the annexation study.

COMMISSIONS AND STUDY COMMITTEES

John Krauss explained that it was important that the IACIR stayed up-to-date on issues being addressed in several other commissions and study committees. Members received a handout that outlined the charge and members of eight of these commissions and committees. Mr. Krauss stated that he spoke at the first meeting of the County

Government Study Commission, chaired by Senator Skillman. He explained the membership and charge of the IACIR to Senator Skillman's commission and expressed the IACIR's interest in working with them on issues of common interest. In addition to working with the County Government Study Commission, Mr. Krauss stated that he had also spoke at the first meeting of the Citizens' Commission on Taxes, chaired by Kurt Zorn and John Huey. Again, Mr. Krauss talked to that commission about the make-up and charge of the IACIR and the importance of working together on mutual issues of interest. Mr. Krauss used the annexation study to illustrate his point to IACIR members. Property taxes are local units of government greatest revenue source. One of several incentives for municipalities to annex unincorporated territory is to expand their tax base, via increasing their total assessed valuation. Therefore, if the Citizens' Commission on Taxes should make a recommendation that restructures Indiana's tax systems, the current incentives to annex unincorporated territory may be shifted and/or alleviated.

CITIZENS' COMMISSION ON TAXES

Mr. Krauss introduced Bill Sheldrake of the Indiana Fiscal Policy Institute and as a member of the Citizens' Commission on Taxes. He also acknowledged that IACIR member, Peggy Boehm, is a member of that commission. Mr. Sheldrake passed out a packet of his presentation and started by explaining the charge of Governor O'Bannon's Citizens' Commission on Taxes.

- Improve the fairness of the tax system;
- Make the tax system simpler for the taxpayer;
- Make the tax system simpler to administer;
- Lower the overall reliance on the property tax; and
- Make the tax system more economically productive.

Mr. Sheldrake presentation included:

- History of why Indiana is considering a restructuring of its tax system, starting with the results from the 1991 assessment of residential property in St. John Township in Lake County and ending with the 1996 court decision.
- Predicted percentage change in net levies paid by property type as a result of shifting to a fair market value assessment.
- Other tax choices as alternatives to a property tax (individual income, sales, gas, use, sin, and corporate income).
- Proposed agenda for the commission, in which they are currently in the research phase of the project. The commission plans on preparing a final report for discussion by October of 1998.
- Fundamental questions such as: what to do about property taxes? what problems exist outside of property taxes, and where to go for replacement revenue?
- Statewide property tax levies for calendar year 1973-1996. Nominal property tax revenues have increased 322% since 1974.
- Total statewide real property tax levies in 1996 are above the 1973 level.
- Table showing an annual average increase of 6.8% total net levy from 1974-95 (statewide) and an annual average increase of 6.4% in the total net assessed value.

- Graph showing Indiana's local school revenues by type. The three big players in funding local schools are basic grant (44.3%), property taxes (43.4%) and auto excise taxes (5.4%).
- Outline of different school property tax levies and their average annual percentage change from 1982-95. Transportation had the largest annual increase at 9.4%.
- Graph showing Indiana's civil government revenues for calendar year 1995. Property taxes fund 50.7% of civil government revenues.
- Table outlining the different county property tax levies and their average annual percent change for 1982-95. Welfare showed the greatest average annual increase at 11.1%
- Outlined the average annual percentage increase in the 5 different township property tax levies. From 1982 to 1995, the fire levy experienced the largest increase at 13.3%.
- Showed the State's own source tax revenues by type for fiscal year 1996. The sales and use tax contributing a total of 36.3% of the state's actual revenues, in addition to the individual income tax making-up 36.3%.
- Comparison of the nominal state revenues to the real state revenues. Nominal state operating revenues have grown 456% since 1974.
- Comparison of property tax revenue growth with state tax sources.
- Explanation of what constitutes a quality tax structure, equity, neutrality, administrative efficiency, economic competitiveness, and balance.
- State by state comparison of state sales tax rates, individual income tax rates, and corporate profit tax rates.
- Different impacts that may occur as a result of tax restructuring in Indiana.

Representative Klinker stated that, in general, people want to see their property taxes lowered. She suggested a cut in the property taxes and an increase in the state sales tax to compensate for the revenue loss. She also stated that Indiana should get rid of the inventory tax and find more money for schools.

Senator Zakas questioned the ability to isolated sales tax of services, as well as the administrative burden of such a tax.

Mayor Frenandez stated that the current structure of the county option income tax (COIT) punishes municipalities for holding down property tax rates. He explained that, under the current COIT distribution formula, there is an incentive for municipalities to use the maximum levy in order to receive the maximum COIT dollars.

Senator Zakas asked Mr. Sheldrake about the option of a minimum service fee for fire and police services. Mr. Shledrake indicated that he was looking into the issue of a fair rate and the legal issue of such a fee.

Joyce Poling wanted to see some analysis of the basic minimum service fee per household. Mr. Gilles stated his concern with owners of trailerhomes that do not pay property taxes.

LOCAL GOVERNMENT SURVEY

Tracy Williams explained to the commission that this was the second year for the Federal, State and Local Issues facing government in Indiana survey. In 1996 the survey was mailed to 1024 local government officials, resulting in a 36% return rate. Like last year, this year's version of the survey was mailed to county auditors, county council presidents, county commission presidents, city mayors, town council presidents, and township trustees. However, this year state senators and representatives were added to the survey population, thus equaling 1174. She stated that as of the day of the meeting, 57% of the surveys had been returned. To date, the trustees (74%) and the city mayors (70%) returned the greatest number of their surveys. Ms. Williams indicated that she had some preliminary results to present.

Ms. Williams presented the results of the question "Compared to your community's needs, overall, how would you rate the current levels of local services?" From 1996 to 1997, there were minimal changes in the percentage of officials who answered very good, good, fair, and poor. She then showed how that question could be broken down even further by comparing the answers of the legislature, county officials, municipal officials, and trustees. The preliminary results indicated that in 1997 a higher percentage of legislators rated their local level of services as "very good" than the other officials. In comparison, a higher percentage of legislators also rated the level of local government services as "poor" than other officials.

Ms. Williams compared 1996 and 1997 results to the question "Which local government finance reform would be most effective in advancing the well-being of your community?" The largest change could be seen in the percentage of officials indicating that the "transfer of welfare from local to state funding" as being the most effective finance reform. In 1996, over 40% of officials indicated "transfer of welfare from local to state funding" as being effective, while in 1997 this percentage decreased to around 12% of the officials.

In addition, Ms. Williams presented the preliminary results of two questions addressing the issue of annexation. The results indicated the majority of respondents agreed that the requirement for the provision of municipally owned services to the annexed territory is adequately outlined and described in Indiana state law. Furthermore, the majority officials indicated that they adequately understood current annexation statutes in Indiana with regard to:

- Notification requirements to affected property owners for consideration of an annexation;
- Contiguity requirement for annexation;
- Population density requirements for annexation;
- Sixty day time period for filing a remonstrance; and
- Time requirement for municipalities to provide services to newly annexed territory.

OTHER BUSINESS

Due to time constraints, Senator Zakas again invited members to contact staff with idea for future IACIR study. He did throw out the idea of possibly looking into the concept of a local rainy day fund. Jim Beery stated that more money was needed for solid waste district to expand. Currently, the lack of funding does not allow for proper monitoring of landfills. Ms. Poling asked that funding issues related to welfare and children in need of services (CHINS) be considered.

NEXT MEETING

Senator Zakas suggested the commission meet again before the end of the of the year, to discuss any recommendations that the commission may want to make to the General Assembly in the 1998 session. A meeting was tentatively scheduled for Monday, November 24, 1997 at 1:00 P.M. Staff was instructed to contact all members who were not present to confirm availability. A confirmation letter would be sent to all members.

ADJOURNMENT

The meeting was adjourned at approximately 3:30 P.M.