



UNDERSTANDING LOCAL GOVERNMENT STRUCTURE AND FINANCE

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Overview

- What is local government?
- How are local governments structured?
- How are they funded?
- What are some current issues related to local government?

What is Local Government?

Local governments include general purpose governments...

- County government
- Municipal government
- Township government

and special purpose governments...

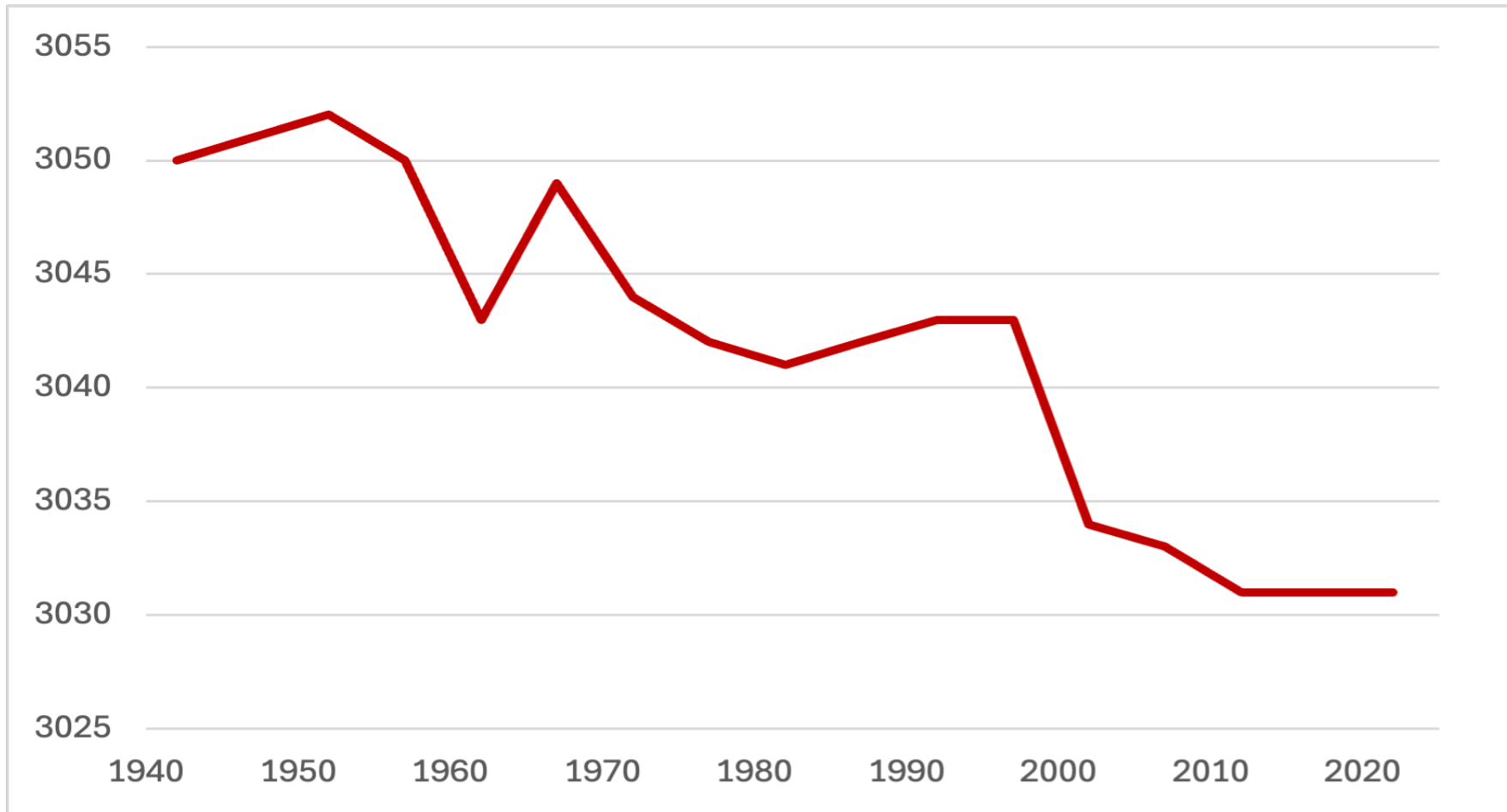
- Public school corporation
- Special district

How many local governments in the US and Indiana?, 2022

Unit	US #	Indiana #
County Governments	3,031	91
Municipal Governments	19,491	567
Town or Township Governments	16,214	1,004
School District Governments	12,546	290
Special District Governments	39,555	696
Total	90,837	2,648

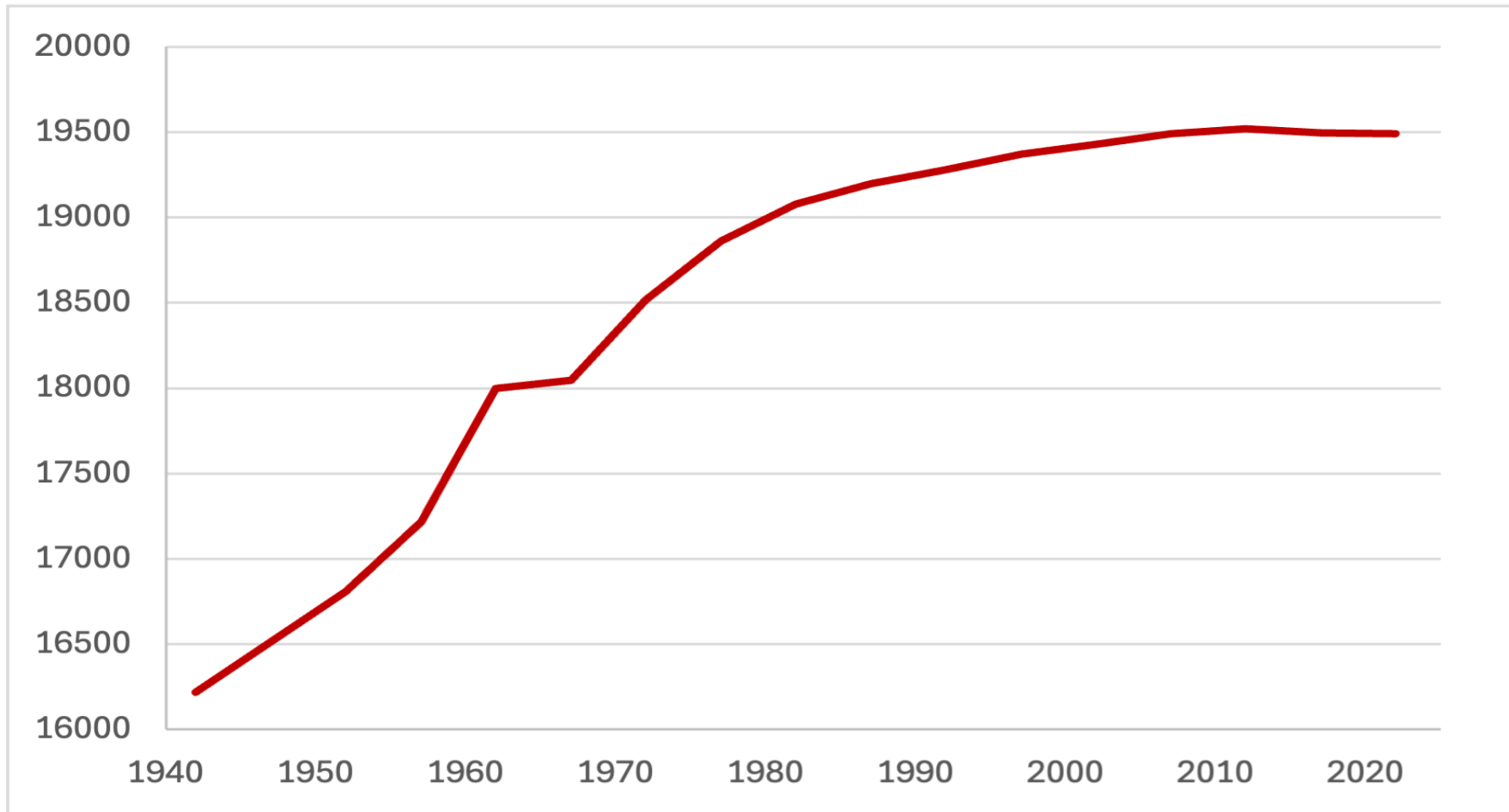
Source: US Census Bureau

Counties, 1942-2022



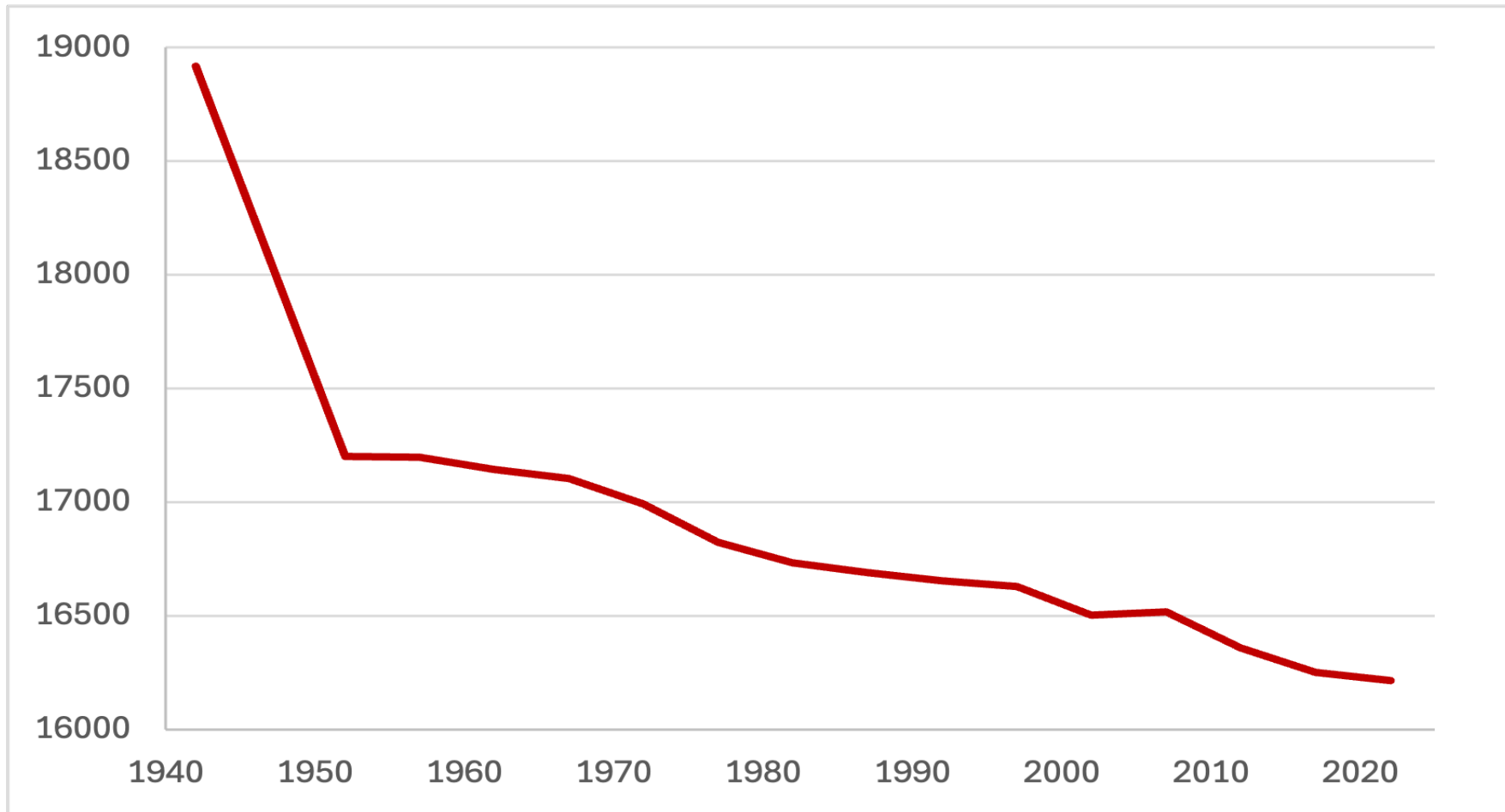
Source: US Census Bureau

Municipalities, 1942-2022



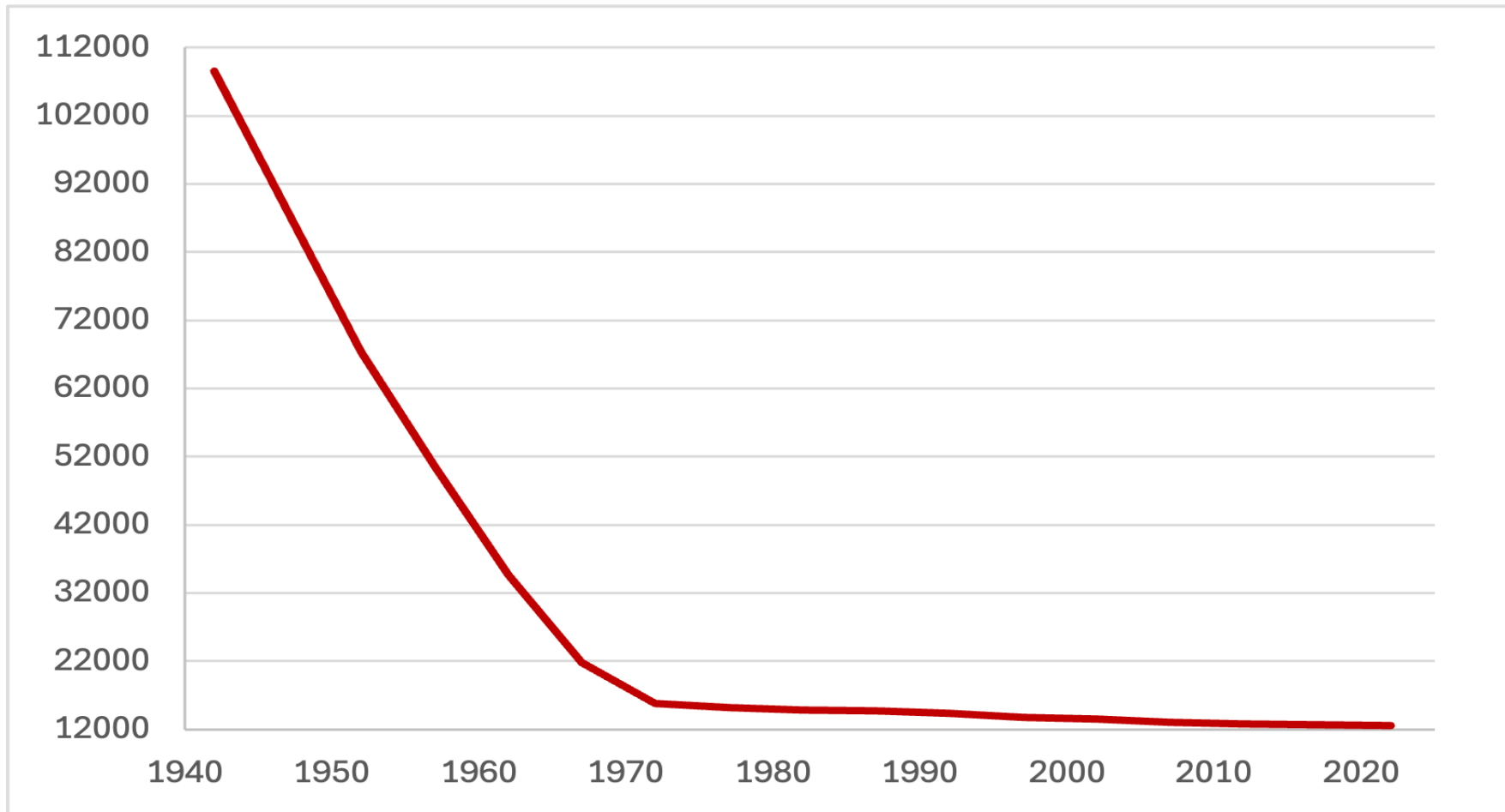
Source: US Census Bureau

Townships, 1942-2022



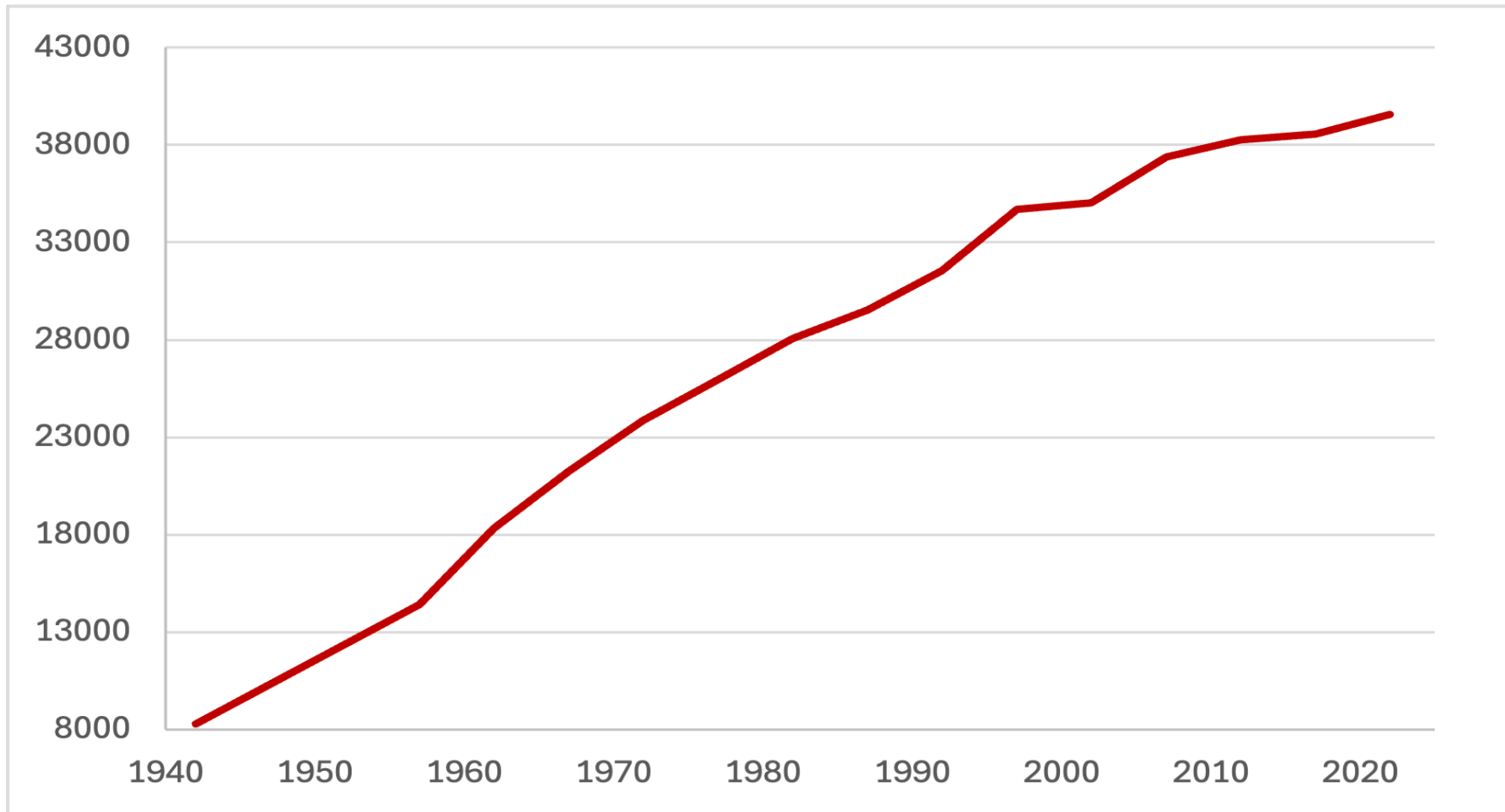
Source: US Census Bureau

School Districts, 1942-2022



Source: US Census Bureau

Special Districts, 1942-2022



Source: US Census Bureau

LOCAL GOVERNMENT STRUCTURE

Local Government Structure

- Local governments exist to provide local services
- We expect them to meet two (sometimes conflicting) goals
 - Efficiency
 - Responsiveness to citizens
- The various structures we adopt for local governments represent different approaches to balancing these goals
- Most of the structural options concern the executive and legislative branches

Municipal Government Structures

- Municipal governments are designed to provide services in relatively densely populated areas
- Two main forms of municipal government
 - Mayor-council
 - Council-manager
- Mayors may be “strong” or “weak”
- Indiana cities use mayor-council form
- Indiana towns use council-manager (although not all have a manager)

Mayor-Council Form

- Mayor is elected executive
 - Proposes budget
 - In charge of service provision
 - Enforces ordinances
 - Top department heads serve at the pleasure of the mayor
 - Can veto council ordinances (but council can override)
- Council is legislative branch
 - Approves budget
 - Enacts ordinances
 - Provides oversight of executive branch

Mayor-Council Form

- Separation of powers government like national government
- Relies on checks and balances
- Values political responsiveness, perhaps at the expense of efficiency

Indiana Cities

- First class: 600,000 population or more (only Indianapolis)
 - Indianapolis has consolidated city-county government
- Second class: 35,000 population or more
 - Elected city clerk
 - Appointed controller (fiscal officer)
 - Nine-member council; 6 districts/3 at-large
- Third class: less than 35,000
 - Elected clerk-treasurer
 - Five- or seven-member council; 5/2, 4/3, 4/1, 3/2

Council-Manager Form

- Town council has both legislative and executive power
- Council employs a professional manager who:
 - Oversees day-to-day operations
 - Supervises other town staff members
 - Carries out council policies
 - Makes policy recommendations to the council
 - Serves at the pleasure of the council
- In the “pure” form of council-manager government, elections are nonpartisan and at-large

Council-Manager Form

- Unified powers model of government
- Developed in early part of 20th century
- Original attempt to “run government like a business”
- Modeled after corporate governance model
 - Voters = shareholders
 - Council = board of directors
 - Manager = CEO
- Created to promote efficiency in government administration

Indiana Towns

- Three-, five-, or seven-member council
 - Various combinations of at-large and district representation
- President of council is chief executive
- Council has same powers as a city council, plus
 - Administrative powers
- Clerk-treasurer with same powers/duties as in 3rd class city
- Partisan elections

Mayor-Council vs. Council-Manager: Which is "better"?

- No clear-cut winner
- There are efficient and inefficient governments of both forms
- There are responsive and nonresponsive governments of both forms
- There are many hybrid governments that combine characteristics of each form

County Government Structure

- County governments were originally frontier governments
 - Not so much local government as state government extended to the local level
 - Created largely to exercise state power far from the state capitol
- Has elements of separation of powers and unified powers

County Government Structure

- Plural executive
 - Three-member commission
 - “Row” offices:
 - Sheriff – chief of law enforcement; officer of court
 - Coroner – determines cause of death in case of suspicion or unexplained
 - Auditor – coordinates tax collection and distribution; secretary to commission
 - Treasurer – tax collector; investment officer
 - Assessor – values property for tax purposes
 - Recorder – maintain public records, especially related to property
 - Surveyor – maintains land records
 - Clerk – officer of the court; election administrator
 - Prosecuting attorney – represents state in county court cases

County Government Structure

- Commissioners have both legislative and executive function
- Council serves as a fiscal body, rather than a legislative body

County Government Structure

- Traditional county government was designed for delivering traditional county services
- As the country suburbanized, people living outside municipal boundaries desired municipal-style services, such as:
 - Parks, health and safety inspections, water and sewer utilities, etc.
- Responses:
 - Create new departments answering to the commissioners
 - Create special districts
 - Create new boards and commissions
 - Adopt municipal-style governments

Township Government Structure

- Township governments exist in 20 states in the northeast and Midwest
- In some states townships are much like what Indiana calls “towns”
- Indiana townships provide a more limited range of services, such as:
 - Oversight of fire department
 - Township assistance, “poor relief”
 - Cemetery maintenance
 - Parks (a few townships)
 - Assessment (a few townships)

Township Government Structure

- Township trustee
- Three-member township board

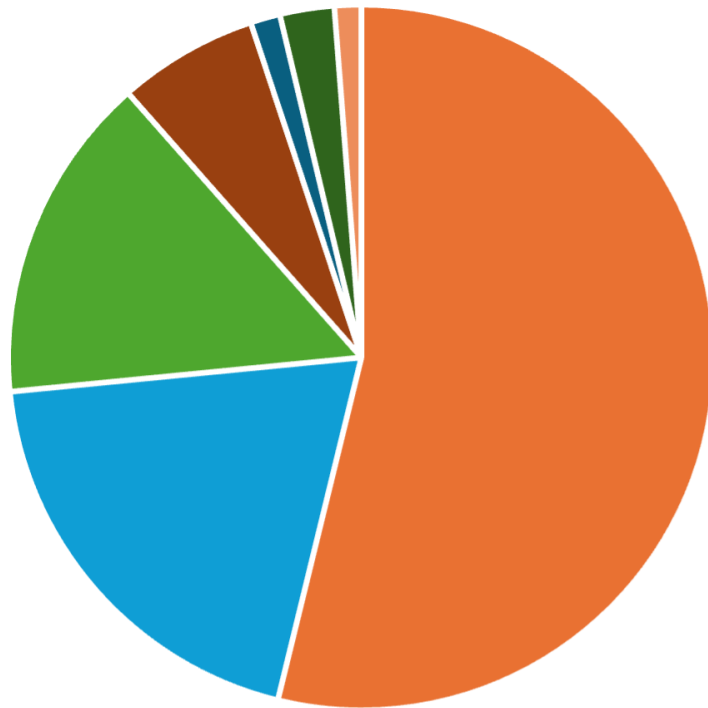
LOCAL GOVERNMENT FUNDING

Local Government Revenue Sources

- Property tax
- Sales taxes
- Income taxes
- Federal intergovernmental revenue
- State intergovernmental revenue
- Charges and fees
- Other

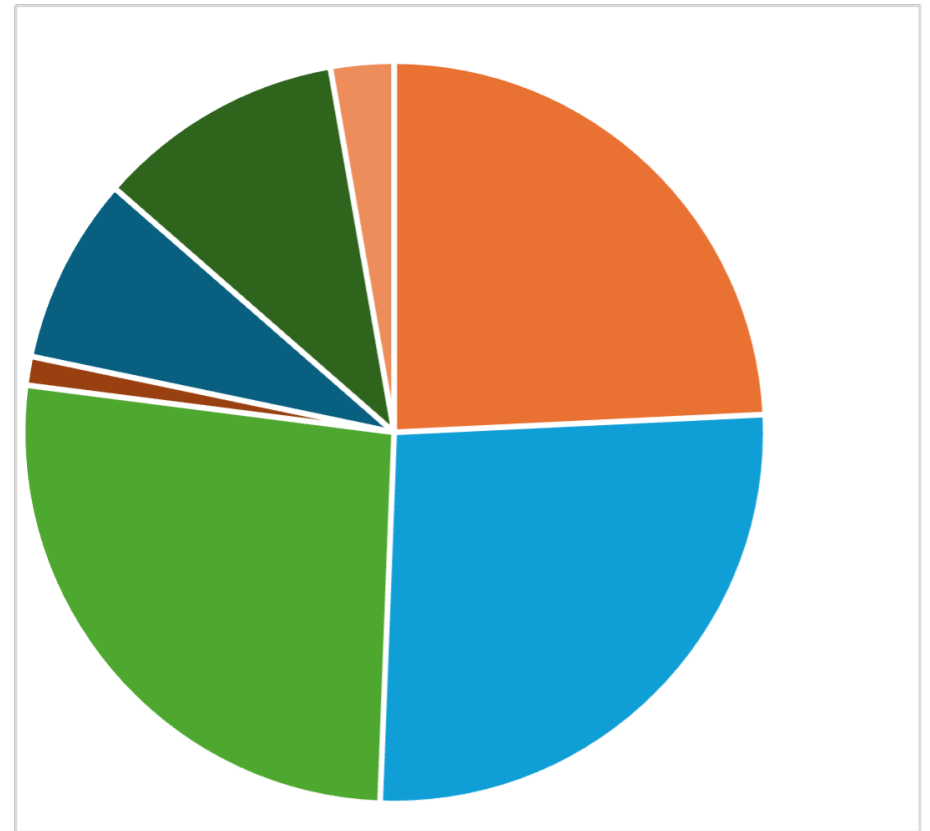
Indiana vs. US Counties, 2017

Indiana

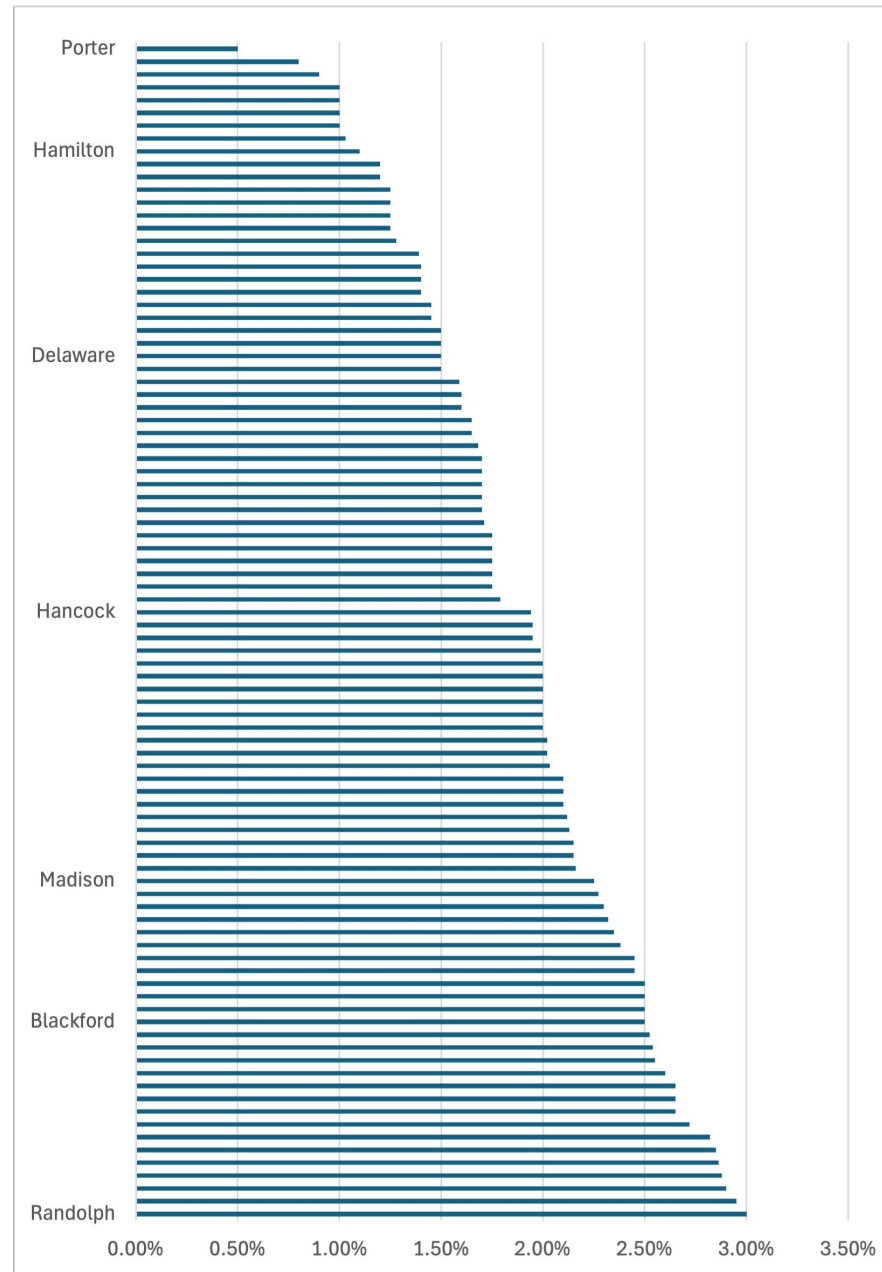


- Charges and misc
- Property tax
- State aid
- Income taxes
- Sales taxes
- Other
- Federal aid

US

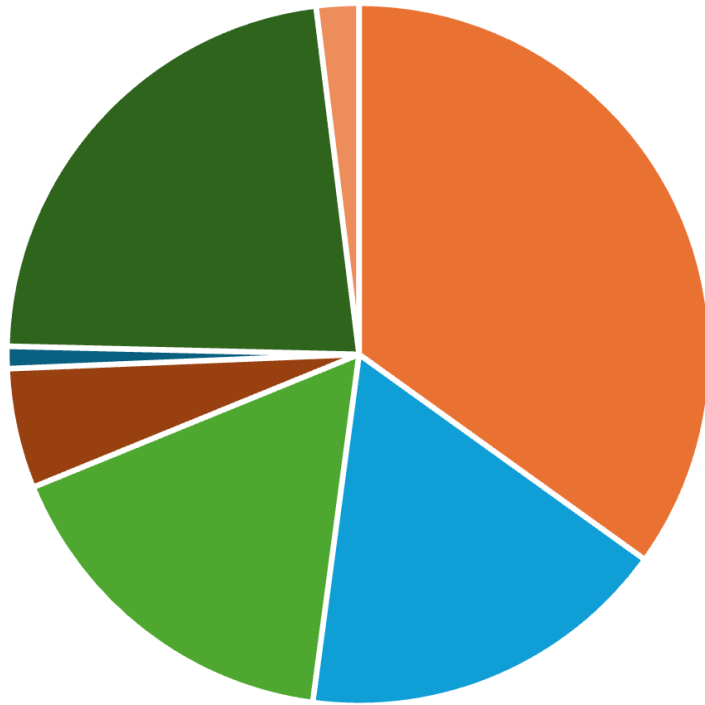


2025 LOIT RATES



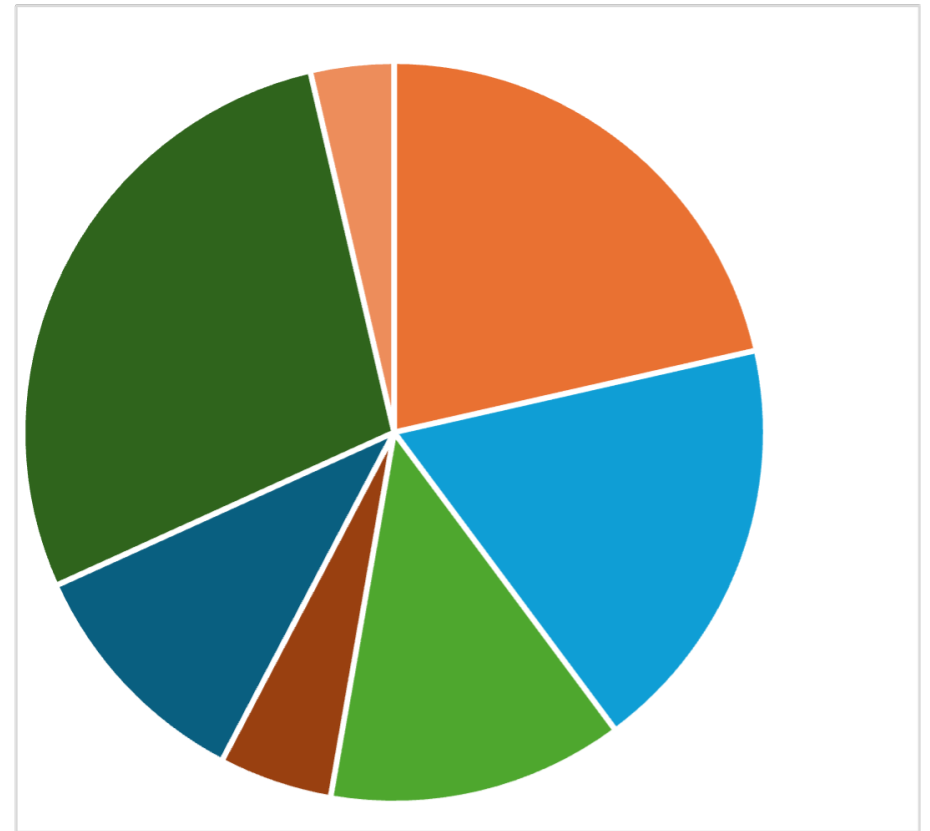
Indiana vs. US Municipalities, 2017

Indiana



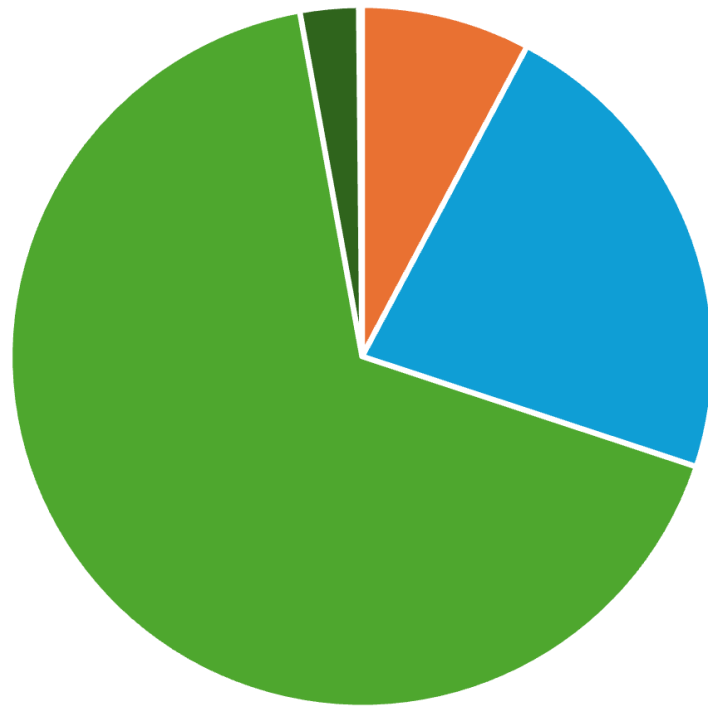
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US



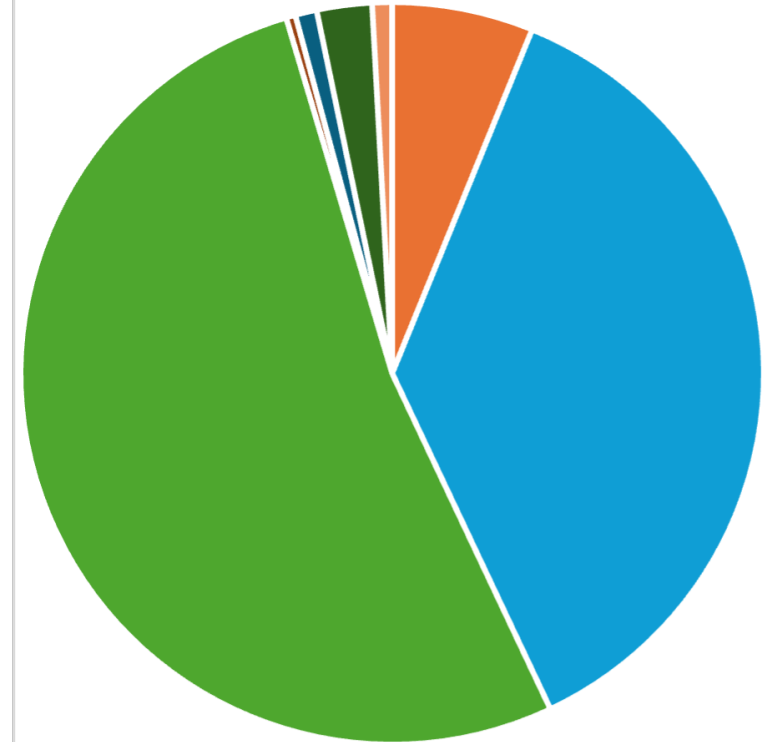
Indiana vs. US Schools, 2017

Indiana



- Charges and misc
- Property tax
- State aid
- Income taxes
- Sales taxes
- Other
- Federal aid

US



Indiana Property Tax Caps

- Enacted in 2008
- Phased in 2009-2010
- Homestead residential capped at 1%
- Other residential and ag capped at 2%
- Commercial and other capped at 3%
- Eliminated school general fund property tax
- Increased state sales tax to replace school general fund property taxes

How are property tax rates set?

- Indiana property taxes are levy controlled
- Levy is the total amount to be raised by a property tax
- Department of Local Government Finance (DLGF) sets maximum levy
- Assessor determines total assessed valuation (AV) of all property in the taxing unit
- Gross AV of a property is the AV before any deductions
- Net AV (NAV) of a property is the AV after deductions
- Tax rate = $(\text{levy}/\text{NAV}) * 100 = \$/\$100 \text{ NAV} = \%$

Caps are enforced with circuit breaker credits

- If total tax bill for a property is greater than the cap, then
 - Taxpayer receives circuit breaker credit sufficient to lower tax liability to capped level
 - Units within the taxing district fund credits in proportion to own share of total rate

2024 Tax Rates – Muncie Tax District

UNIT	RATE
MUNCIE CIVIL CITY	2.2031
MUNCIE COMMUNITY SCHOOLS	1.2050
DELAWARE COUNTY	0.6918
MUNCIE SANITARY	0.5627
MUNCIE PUBLIC LIBRARY	0.3246
MUNCIE PUBLIC TRANSPORTATION	0.3182
CENTER TOWNSHIP	0.1729
DELAWARE AIRPORT	0.0164
EAST CENTRAL INDIANA SOLID WASTE	0.0076
TOTAL	5.5023

Homestead w/Gross AV = \$200k

- Gross AV: \$200,000
- Minus: 48,000 Standard Deduction
- Minus: 60,800 Supp Homestead Deduction
- Net AV: \$ 91,200
- Gross Bill = \$5,018 (91.2k x 5.5023%)
- Cap = 2,000 (200k x 1%)
- Credits = \$3018

Homestead w/GAV = \$200k, NAV = \$91.2k

	UNIT	RATE	GROSS	CREDIT	NET
MUNCIE CIVIL CITY	2.2031	\$	2,009	\$ (1,208)	\$ 801
MUNCIE COMMUNITY SCHOOL	1.205		1,099	(661)	438
DELAWARE COUNTY	0.6918		631	(379)	251
MUNCIE SANITARY	0.5627		513	(309)	205
MUNCIE PUBLIC LIBRARY	0.3246		296	(178)	118
MUNCIE PUBLIC TRANSPORTATION	0.3182		290	(175)	116
CENTER TOWNSHIP	0.1729		158	(95)	63
DELAWARE AIRPORT	0.0164		15	(9)	6
ECI SOLID WASTE	0.0076		7	(4)	3
TOTAL	5.5023	\$	5,018	\$ (3,018)	\$ 2,000

What can local governments do?

- Seek efficiency
- Eliminate or downsize lower priority programs
- Find new revenue sources: fees, LOIT
- Schools can hold referenda for operating or capital levies not subject to the cap
- Grow and develop
 - NAV increases -> rates decrease -> circuit breaker credits decrease
 - Population increases -> LOIT income increases

CURRENT ISSUES

More Property Tax Reform

- Increase homestead deduction
- Relief for senior citizens, veterans
- Cap on rate of increase
- Rollback to 2020 levels
- Slower levy growth rates

- Business personal property tax exemption

Pre-emption vs. Home Rule

- Dillon's Rule: "Municipal corporations owe their origin to, and derive their powers and rights wholly from, the legislature. It breathes into them the breath of life, without which they cannot exist. As it creates, so may it destroy. If it may destroy, it may abridge and control"
 - *Clinton v Cedar Rapids and the Missouri River Railroad*, (24 Iowa 455; 1868)
- Municipal governments have only
 - the powers expressly granted to them by the state legislature,
 - those powers necessarily implied by the express powers, and
 - those that are essential and indispensable to the municipality's existence and functioning
- Some states have granted local governments more latitude via "Home Rule" statutes

Pre-emption vs. Home Rule

- In recent years, state legislatures around the country have prevented local government from:
 - Setting a local minimum wage
 - Taxing or prohibiting plastic bags
 - Imposing smoking restrictions
- In some situations, predominately Democratic cities are pitted against predominately Republican legislatures
- These conflicts may also have a rural-urban dimension

Government Reorganization

- Indiana Commission on Local Government Reform (Kernan-Shepard) issued report in 2007
- Offered 27 specific recommendations, including
 - Restructuring county government
 - Eliminating townships
 - Reorganizing school districts to achieve minimum size

Government Reorganization

- Government Modernization Act enacted in 2006
- Allows reorganization, including consolidation, of local governments
 - Town of Zionsville-Eagle, Union, Perry Townships
 - Town of Yorktown-Mt. Pleasant Township
 - Muncie-Delaware County – defeated
 - Evansville-Vanderburgh – defeated
 - Town of Fishers-Falls Creek Township – defeated (became 2nd class city instead)
 - Town of Whitestown-Worth Township – defeated

Emergency Managers

- States place emergency managers in charge of fiscally distressed local governments
- Michigan has had about a dozen local governments placed under an emergency manager, including Detroit and Flint
- Indiana has had emergency managers in charge of Gary and Muncie school systems

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