

Funding the Library

IC 36-12-3-9 through IC 36-12-3-18

It takes a lot of cash to operate even the smallest library. Just as board members are responsible to determine the programs and services the library will offer, they are also responsible to make sure the programs and services of the library are funded adequately.

To understand the budgeting process and approve an annual budget for the library, board members must have an understanding of where the money comes from and how much revenue they can expect to build into the budget each year. A good understanding of revenue sources is also important because board members must be able to encourage continued funding from those sources and find new sources when needed.

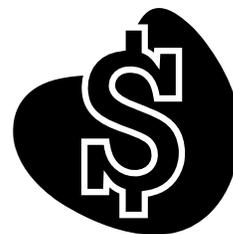
Public libraries in Indiana are funded mainly by a combination of local taxes, state taxes and library generated revenues. Other sources generate some small amounts of funding for public libraries.

Nearly all public libraries in Indiana are independent municipal corporations which have the authority to levy and collect taxes on property. Public library tax rates are expressed as a ratio of cents per hundred dollars of taxable property in the library district. If the public library tax rate is 28 cents per \$100 of assessed valuation and the total assessed valuation of all taxable property in the district is \$100 million, the levy would produce \$280,000 for the library.

*IC 36-12-3-12
Property tax*

Beginning 1973, all Indiana public libraries have operated under the state property tax control program known as "the freeze." The freeze tied increases in local tax levies to the growth of the local assessed valuation of property. The general effect of the freeze was to allow property tax levies for libraries to grow no more than 5% per year, the State Board of Tax Commissioners, now the Department of Local Government Finance.

Beginning July 2000, with the approval of market value assessment, the controls set on how libraries received tax revenues changed. Department of Local Government Finance (DLGF) was required to base the percentage increase for operating property tax levies on a statewide average of non-farm income over a six year period. All growth over 6% had to be approved by DLGF through an appeal process.



In 2008 the general assembly passed legislation that put more controls on the library's budget. It effected the Library Capital Projects Fund and the maximum levy limits. Previously,

the property tax levy limits did not apply to the property taxes imposed for a LCPF. However, beginning with property taxes first due and payable in 2009, for purposes of computing the maximum property tax levy limit imposed on a library board, the property tax levy will now include the LCPF. Previously, libraries had the ability to tax outside the max levy.

IC 6-1.1-17-20.3
Review of proposed budget

The 2008 legislation made changes that subjects appointed library boards to greater budget scrutiny. The library always submits the budget with the appropriate fiscal body for review. If the percentage increase in the proposed total budget for the taxing unit for the following calendar year is more than the result of

1. The assessed value growth quotient as determined under Indiana Code.
2. Then the appropriate fiscal body reviews the library's budget and issues a binding resolution.

If library total budget does not exceed the assessed value growth quotient, then the review is nonbinding.

Once the library budget receives its review and is approved by the fiscal body, it is subject to further review by the Department of Local Government Finance. Final determinations of budgets, rates and levies are made by the Department, and the certified budget order provides the library the authority to levy the tax and spend the approved funds. This approval is usually given sometime between October and December. By law the DLGF has until February 15 of the new budget year to certify the library's budget. For most public library districts, a justified budget within the limits of the law and approved by the public library board will be ratified by the Department of Local Government Finance.



As a result of the property tax freeze and the establishment of maximum levies, the only way to increase funding beyond the maximum statutory levies placed on libraries is to file an excessive levy appeal with the Department of Local Government Finance. The deadline to file for an appeal is October 20. The statute al-

Permitted Levy Excess Appeals

- 1. Annexation:** Permission to permanently increase the library's levy in excess of prescribed limitations established if in the judgment of the Department of Local Government Finance such increase is reasonably necessary due to increased costs of the library resulting from annexation, consolidation or other extensions of governmental service by the library to additional geographic areas or persons. (This includes taking an untaxed area into your library district.)

IC 6-1.1-18.5-12
Levy Excess
Appeals

Permitted Levy Excess Appeals (Cont.)

2. **Three-Year Growth:** Permission to permanently increase the library's levy in excess of prescribed limitations if the library unit's three-year average growth factor exceeds one and one tenth (1.1).
3. **Math Error:** Permission to the library to increase its levy in excess of prescribed limitations if in the judgment of the Department of Local Government Finance an advertising error, mathematical error, or error in data made at the local level (by the library) had a considerable financial impact in the determination of the civil taxing unit's levy limitations, rate, or levy. The increase to the maximum levy could be permanent or temporary depending on the type of error.
4. **Shortfall:** Permission to the library to temporarily increase its levy in excess of prescribed limitations if the library suffers a property tax shortfall due to an erroneous assessed value or because of payment of refunds that resulted from appeals of payment of refunds that resulted from appeals.

IC 6-3.5-1.1-15
Property Tax
Replacement
Credit

allows for the following appeals for libraries:

Twenty percent of the property tax levies for public libraries comes from state tax funds. This is a part of the state property tax control program by which the state pays 20% of the property tax bill of every taxpayer. The library receives the same payment just as if it had been collected as property taxes.

IC 36-12-3-11(a)
Miscellaneous
Taxes

Public libraries receive a share of the proceeds of two other taxes--the license excise tax, commercial vehicle excise tax, and the financial institutions tax. These taxes are collected by the state and redistributed to local units. The amount varies from one library district to another according to the number and value of motor vehicles, bank deposits and other characteristics of the district.

IC 6-3.5-1.1
County
Adjusted
Gross Income
Tax (CAGIT)

The state allows counties to adopt an optional income tax. Public libraries in the counties where CAGIT has been adopted receive a share of the proceeds as a replace-

ment for a portion of the property tax revenue. However, this does not result in an increase in financial resources for the library.

IC 6-3.5-6 A county option income tax may be adopted by the county only if it does not
County Option have CAGIT or if it rescinds CAGIT. No county can have both taxes. A portion may
Income Tax be reserved for property tax relief.
(COIT)

IC 4-30-17-3.5-(a)(1) Other forms of direct and indirect state aid to public libraries, in addition to the
State funds for property tax replacement credit, exist in Indiana--financial support for Internet ac-
public libraries cess through the state backbone.

20 USC 9101 Grants under the Library Services and Technology Act (LSTA) are the major
Subtitles A & B source of federal dollars in Indiana public libraries. The Indiana State Library acts as
Federal funds the administrator for the Institute of Museums and Library Services in the approval
for public and distribution of these funds.

Federal funds also assist libraries serving as sub-regional libraries of the National Library Service for the Blind and Physically Handicapped, universities as Resource Centers, and other grant projects. Other federal funds are received in the form of specific project grants under the Indiana Humanities Council and other agencies.

IC 36-12-3-11(a)(5) Every public library generates some of its own support through fines, fees, inter-
Miscellaneous est on cash and other activities. In some public libraries, these sources account for as
Revenue much as 10 percent of the total operating budget. In some libraries, endowment funds
are also used.

IC 36-12-3-2 Under Indiana law, a library patron may purchase a statewide library card for a
IC 4-23-7.1-5.1 fee established by rules adopted by the Indiana Library and Historical Board based on
590 (3) IAC not less than forty percent (40%) of the current average operating fund expenditure per
Public Library borrower by all eligible public libraries as reported annually by the state library in the
Access Card state library's annual "Statistics of Indiana Libraries". All eligible public libraries in
(PLAC) Indiana receive payment from the monies collected from the sale of the cards in the
previous year based on the net loans made by each library to the patrons using the card.

What happens when the tax dollars and other current revenues do not cover the costs of programs and services you want your library to offer? Libraries across the country are turning to charitable fund raising through fund raising events or planned giving programs.

**IC 36-12-3-11(a)(5)
Charitable
fund raising**

Many public libraries are fortunate to have Friends of the Library groups to assist with fund raising activities, but board members are always the front-line advocates for the library. That includes advocacy for financial contributions to the library.

A public library may levy property taxes to fund capital projects which include:

**IC 36-12-12
Library Capital
Projects Fund
(LCPF)**

- 1) A facility used by or to be used by the library district
 - a) Planned construction, repair, replacement or remodeling
 - b) Site acquisition
 - c) Repair, replacement, site acquisition necessitated by emergency
- 2) Purchase, lease or repair of equipment used by the library district
- 3) Purchase, lease repair or upgrading of computer hardware/software, or salary of computer specialist.

To levy property taxes under the LCPF a public library must adopt a LCPF plan in the year before the property taxes are levied. The plan must then go through a public hearing held by the library board, a review by an appropriate fiscal body and their approval. The library board must publish a Notice of Adoption in accordance with IC 5-3-1-2(i). The calendar that must be followed for LCPF and can be obtained from the Department of Local Government Finance.

The LCPF plan is for three years. Money from LCPF may be appropriated for expenditure annually or may be accumulated for future allocation depending on the LCPF plan. Once adopted, the plan may be amended with certification from the local fiscal body that an emergency exists.

General Obligation Bonds are the most traditional form of debt issued by libraries. The board may, by resolution, issue bonds for one or more of the following purposes:

**IC 36-12-3-9
Bond Issues**

- a) the acquisition or improvement of library sites;
- b) the acquisition, construction, extension, improvement or alteration of structures and equipment necessary for the proper operation of a library;
- c) to refund outstanding bonds and matured interest coupons, and issue and sell refunding bonds for that purpose. (IC 20-14-3-7)

IC 6-1.1-20
Bond Issues

The total bonds outstanding at any one time shall not exceed two percent (2%) of the value of property taxable for library purposes and all shall be payable within a period not to exceed twenty years from the date of issuance. Refer to the Accounting and Uniform Compliance Guidelines Manual for Libraries for procedures to follow.

There is increased oversight for local debt. The city, town or county fiscal body approves the bond issue

IC 36-1-10
IC 36-12-10
Lease Finance

Lease Financing/Rental is used when the cost of a building project and financing will put the library over its debt limitations (2%). A not-for-profit leasing corporation is formed and acts as a conduit for the library. The leasing corporation issues first mortgage bonds to finance the cost of construction, leases the library facility to the library, and is responsible for the lease rental payments which match the debt service payment on the bond which cannot exceed twenty years. (IC 36-1-10 & IC 36-12-10)

Notes: