services to owners and users of non-abated property. In effect, once a budget is developed, property owners pay the taxes needed. If some property is abated, owners of non-abated property pay higher taxes. Of course, at the margin, as the taxes paid by owners of non-abated property rise, political pressure increases to reduce spending to maintain taxing levels that match those in other areas. If urban service-delivery units in Indianapolis fail to maintain competitive tax rates relative to surrounding townships and counties, there will be an increase in families and businesses leaving the area.

As a result, tax abatement creates two burdens. First, a financial burden is created when the responsibility for paying for local services is shifted to the owners of unabated property. Second, if service units cannot reduce taxes to meet the rates paid by property owners in suburban locations, service levels likely will be reduced to maintain competitive tax levels. These losses can be offset by the future increases in value of abated property when it returns to the tax rolls—assuming that no (or less) development would have taken place in the absence of the abatement. It is very difficult to measure how much or what development would have taken place in the absence of the abatement.

TIF programs also remove taxes from the base used to support urban services, because the revenues from the *increased* value of the property are used to repay the costs of the new infrastructure. TIF has been used in downtown Indianapolis to support the development of the new shopping mall and the new arena for the Indiana Pacers (which replaced Market Square Arena in 1999). When the bonds sold to build the required infrastructure are retired, the property in the district will return to the tax base for the service-delivery units. However, this will not occur for at least 20 years (the term of some of the bonds). Although property values tend to increase in areas outside a TIF district (Man and Rosentraub 1998), the geographic size of the districts created to finance Indianapolis's downtown mall and arena may have a negative impact on the extent to which property values increase. To generate sufficient revenues to support the repayment of bonds for the new mall and arena, the TIF district extends for more than 40 city blocks (four miles on its north-south axis) and approximately two miles on its east-west axis. However, this size was not sufficient to meet the bond payments in 2000, increasing the strain on Center Township's budget.

Decision Making and Its Implications

All proposals to utilize these financing mechanisms to develop downtown Indianapolis are developed by the mayor and then approved by the city council in its capacity as the county council for the consolidated city-county government. In this regard, then, city-county council members elected from other townships within the consolidated city have voted to finance programs that reduced the revenues available for the delivery of urban services to the residents of Center Township without burdening their own constituents with extra tax liabilities. To the extent that residents and businesses located *outside* Center Township and the service boundaries of the Indianapolis schools and the police and fire departments benefit from the redevelopment of a downtown financed with abatements and TIF districts, they become "free riders." Costs are imposed on a small subset of property owners and residents to generate regional or countywide benefits.

To illustrate the costs of the redevelopment of downtown Indianapolis to urban service-delivery units, the taxes pledged to redevelopment were calculated for the township itself and for the state's public schools and police and fire departments for 1992–98. (There were costs incurred by these districts in earlier years, and there will be additional costs in the years to come.) In reviewing the data, note that these dollars represent the burdens shifted to other taxpayers—those owning or using unabated property and property outside the TIF district. To the extent that this burden is shifted to lower-income households, the taxing mechanism in operation is regressive. The residents of Center Township are far less wealthy than the residents in the other areas of the region. Of all the residents of Marion County who live in households classified as poor, more than 45 percent live in Center Township (Rosentraub and Nunn 1994). The additional cost to businesses that remain in Center Township is also an important factor, because many of these firms may find it far less expensive to operate in other townships or counties. In addition, it is reasonable to expect that this shifting of burdens, which raised the property tax bills of other property taxpayers, increased the political costs associated with enhancing service levels.

Table 3 shows the amounts that needed to be raised from owners of property that was not abated and not part of the TIF district to sustain service levels from the public schools, the police and fire departments, and Center Township itself. Between 1992 and 1998, the responsibility for generating a total of $130.8

Table 3: Tax Revenue Increases for Property Owners, by Service-Delivery Units in City of Indianapolis

Year	Investment Program Type	Taxes Shifted by Urban Service-Delivery Unit				
		Public Schools	**Police Department**	**Fire Department**	**Center Township**	**All Units**
1992	Abatement and Enterprise Zone	6,571,787	—	—	1,491,276	8,063,063
	TIF	5,551,548	—	—	1,285,178	6,836,726
	Subtotal	12,123,335	—	—	2,776,454	14,899,789
1993	Abatement and Enterprise Zone	5,280,895	—	—	890,607	6,171,502
	TIF	4,792,332	—	—	835,445	5,627,777
	Subtotal	10,073,227	—	—	1,726,052	11,799,279
1994	Abatement and Enterprise Zone	4,562,948	1236,509	1,065,575	300,134	7,165,166
	TIF	8,167,011	2126,062	1,906,125	556,454	12,755,652
	Subtotal	12,729,959	3362,571	2,971,700	856,588	19,920,818
1995	Abatement and Enterprise Zone	3,553,298	957,004	800,570	288,734	5,599,606
	TIF	7,838,944	1,983,511	1,766,140	665,699	12,254,294
	Subtotal	11,392,242	2,940,515	2,566,710	954,433	17,853,900
1996	Abatement and Enterprise Zone	3,034,800	813,317	708,095	258,291	4,814,503
	TIF	9,876,828	2,536,184	2,303,998	892,839	15,609,849
	Subtotal	12,911,628	3,349,501	3,012,093	1,151,130	20,424,352
1997	Abatement and Enterprise Zone	4,135,240	1,106,317	958,182	360,329	6,560,068
	TIF	10,914,144	2,796,994	2,523,162	977,786	17,212,086
	Subtotal	15,049,384	3,903,311	3,481,344	1,338,115	23,772,154
1998	Abatement and Enterprise Zone	2,416,908	666,051	576,218	154,191	3,813,368
	TIF	11,720,916	3,066,139	2,783,446	754,978	18,325,479
	Subtotal	14,137,824	3,732,190	3,359,664	909,169	22,138,847
	1992–98 Totals	88,417,599	17,288,088	15,391,511	9,711,941	130,809,139

Source: All data are from the construction costs and financing records maintained by the Department of Metropolitan Development, City of Indianapolis.

Notes: Property owners include those who own unabated property and property outside the tax increment financing (TIF) district. For 1992 and 1993, the figures for the police and fire district could not be separated from those for Center Township.

million in property tax revenues was shifted from abated property and property within the TIF district to other property owners and users. Public schools endured the greatest challenge to finance operations; the total revenue shifted to unabated property and property outside the TIF district was $88.4 million. The burden transferred to support the Indianapolis Police Department was $17.3 million, and to finance the Indianapolis Fire Department $15.4 million in costs had to be shifted to other taxpayers. For the programs administered by Center Township, $9.7 million in taxes was shifted to other property owners.[6]

While abatements and TIF districts shift the burden of foregone taxes to unabated property and property located outside an increment district, some have argued that without these incentives investors would locate in other, more desirable areas. As a result, there is no lost or foregone revenue, because without the abatement or increment district no development would occur. Although this is a powerful and emotional argument, is it true that differential property tax rates influence locational decisions? Who benefits from the enhanced development of downtown areas?

Virtually every elected official can cite a situation or "development deal" in which a tax abatement or other incentive purportedly changed a locational decision. Business leaders, however, have a financial interest in reporting that incentives change their decisions. If communities believe incentives affect locational choices, then corporations will receive more inducements. As a result, it becomes difficult to ascertain which firms need or profit from downtown locations and which corporations actually make their intra-regional locations based on tax incentives (Bartik 1991).

Regardless of the impact of inducements, the more important issue may be who benefits from the locational choices of firms. Even if abatements encourage corporations to move to downtown areas, all segments of a community may benefit. For example, a downtown location could reduce congestion costs and the need for additional infrastructure in a suburban area. In addition, locating a corporation in a downtown area reduces demands for suburban land, thereby reducing costs for homeowners and other businesses. A vibrant downtown area can also be an effective tool to attract other businesses and

Center Township's residents not only have supported a great deal of the costs associated with rebuilding downtown Indianapolis but are fiscally responsible for the incentives provided by the city to attract United Airline's Maintenance Operations Center to the Indianapolis International Airport. To attract United Airlines to Indianapolis, the city provided approximately $111 million. To meet the payments on the bonds secured for this investment, the city had planned to use revenues from a TIF district near the airport. It was anticipated that development related to the United Airlines facility (from their subcontractors) would generate sufficient new property tax revenues to meet the bond payments. When those revenues were found to be insufficient, Indianapolis pledged the revenue it collects from a county option income tax.

All residents of Marion County pay a 0.7 percent tax on income, and Indianapolis's share of these revenues funds retirements from the Indianapolis police and fire departments. When these funds were moved to repay the debt associated with the incentives provided to United Airlines, the obligations to the firefighters and police officers were then paid with revenues collected from Center Township residents' property taxes. This reduced the revenues available to provide services to the residents of the township, shifting the burden of the United Airlines' incentives to the township. Again, it was the mayor and the city-county council that approved the changes and the details of the financing plan that brought the maintenance center to Indianapolis's airport.

homeowners to a region and provide convenient access to service-level jobs for individuals who depend on public transportation. If all segments of a community can benefit from the location of firms in downtown areas, then it would be appropriate for all property owners to support the burden of the incentives provided. In Indianapolis, under the current system, property owners in only one township absorb the burden of a shift in property taxes as a result of abatements or a TIF district.

UniGov legislation initially posed a legal challenge to the financing and taxing procedures. Under the plan, however, all county councils in Indiana can approve redevelopment programs for portions of their jurisdictions. In addition, assigning costs to the area closest to the improvement is not unconstitutional, even if the benefits accrue to residents of other areas of the county. Thus, the legislation that permitted Indianapolis to form its unified government and to finance the redevelopment of its downtown area was constitutionally tenable.

Lessons Learned

There is little doubt that some regions are attracted to consolidation programs because of the success Indianapolis has enjoyed in rebuilding its downtown area and enhancing its image. These substantial accomplishments are inexorably intertwined with UniGov. The proliferation of businesses in downtown Indianapolis, including a vibrant convention center, has indeed changed the city's image and national profile—underscored by the fact that the city has repeatedly been host to the NCAA's flagship basketball event, the men's final four. All of these changes took place after the implementation of UniGov. Considering this impressive change in downtown Indianapolis and in the city's image, what lessons does UniGov offer other cities?

First, if downtown revitalization is a goal for a region, a consolidated governance structure can be an asset in terms of preparing, executing, and managing a plan that is endorsed by an appropriate constituency. Although other downtown areas have seen a renaissance without a countywide consolidation program—and independent governments and communities could agree to rebuild a downtown area—in the context of Indianapolis's politics and culture, UniGov established a framework to accomplish something that had not taken place before. Moreover, previous countywide organizations had failed to either produce or secure tacit agreement for a plan for enhancing Indianapolis's image or redeveloping the downtown area.

Second, leaders of other areas looking toward a different governance structure to enhance development and rebuild downtown areas should take greater care to ensure that the new governance system has the necessary financial tools to progressively distribute the burdens and benefits. The partial consolidation of Marion County's tax bases precluded the use of more progressive and equitable means for financing the redevelopment plan. Indianapolis's consolidation program locked major components of its property tax structure within an antiquated township system. With many key urban services financed at the township level, some of the burdens of redevelopment were supported by discrete portions of the county when the benefits from the redeveloped downtown were countywide and even regional in nature.

Third, although consolidation can increase the size and scale of a locality, and thereby attract and retain higher skilled, more ambitious people, it might not necessarily be a crucial factor. For example, the Lilly Corporation (the largest private-sector firm in Indianapolis) and the Lilly Endowment have played an extraordinary role in redeveloping and redesigning the city and in attracting high-income workers to downtown Indianapolis. With or without UniGov, both organizations likely would have invested in Indianapolis's future and would have led coalitions of other actors and businesses in the effort to improve the downtown area and the quality of life in Indianapolis (see Walcott 1998).

Fourth, downtown redevelopment resulting from consolidation can retard sprawl and stabilize population and job levels, as was the case in Indianapolis compared with other midwestern cities (Rosentraub 1999). However, the fastest growing areas in Indiana and the Indianapolis region are those beyond the consolidated city. In addition, a large portion of the jobs created in downtown Indianapolis are low paying and in the service sector, and the public sector (including Indiana University) remains one of the downtown area's largest employers.

In helping Indianapolis reach its goals of rebuilding a decaying downtown area and changing its image, UniGov did not eliminate smaller urban service-delivery boundaries that were important to different communities. However, this emphasis on service distribution on a smaller scale did potentially increase certain fiscal inequities that Indianapolis must now address. Other areas looking toward consolidation may well be attracted to the example of UniGov but are advised to provide their consolidated government with different financial tools to reach their goals and thereby avoid the fiscal issues that Indianapolis and UniGov must now confront.

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Notes

1. In recent years, these communities have begun to sell their departments to the independent water company that provides service to Indianapolis.
2. Residents of the four excluded cities were permitted to vote for the mayor of Indianapolis and members of the city-county council, because they were subject to the authority of the Department of Metropolitan Development and received other services from the consolidated city (Blomquist and Parks 1995).
3. Similarly, the residents of the old city of Indianapolis are served by the Indianapolis Public Schools. Eight other school districts whose service boundaries approximate those of the eight townships surrounding the central portion of the county provide services to the vast majority of the residents of the consolidated city.
4. The seven national organizations include the Athletics Congress of the USA, U.S. Canoe and Kayak Team, U.S. Diving, Inc., U.S. Gymnastics Federation, U.S. Rowing, U.S. Synchronized Swimming, and U.S. Water Polo. The International Baseball Association and International Hockey League also are housed at the Hoosier Dome.
5. Indiana University is the managing partner of the joint campus with Purdue and is responsible for all fiscal matters.
6. There are no large-scale programs whereby businesses (or the state government) make payments to offset the services consumed. Moreover, the important contributions to the nonprofit sector and the general welfare of the community that some of these organizations make are not directly associated with the tax preferences received.

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