

For Immediate Release, October 20, 2005

Contacts: Mark Brown or Steve Johnson  
(317) 237-2890

## **Statewide Property Tax Equalization Study**

### **Media Release**

Today the Indiana Fiscal Policy Institute (IFPI) released the final results of the Indiana Statewide Property Tax Equalization Study. The results include a county-by-county analysis of the 2002 pay 2003 general reassessment, a Policy Report, and a School Assessment Ratio Study. The Policy Report contains evaluations of the reassessment results, the administrative processes, and the data availability and structures and recommendations for improvements in all areas pertaining to assessment and reassessment. The School Assessment Ratio Study (ratio study) was performed in accordance with I.C. 6-1.1-34.

Steve Johnson, President of the IFPI, said the completion and results of the study demonstrate significant progress as well as a great challenge for Indiana's property tax system. "The Courts, in the St. John decisions, mandated a market-based standard of real property assessment be used meet the constitutional requirement of uniformity and equity. The next issue was to determine if the administrative system of assessment could meet that standard. At the 30,000 foot level the results look good, but at ground level, the results are problematic. Clearly, there is a great deal of work still to be done at every level of property tax administration."

With the mass general reassessment of 2002 for pay 2003 property taxes, Indiana became one of the last states to adopt market value based standards for real property assessment. After much delay, a healthy dose of consternation, and more than a little bit of legislative hedging against possible catastrophic impacts, the reassessment meant that valuation of property for taxation in Indiana took a giant step into the 21st Century.

The need for an evaluation of the 2002 pay 2003 reassessment led to a partnership between the State of Indiana, the Indiana Fiscal Policy Institute, and the private sector. Francina Dlouhy, Chairwoman of the IFPI's Board of Directors said, "The importance of an independent evaluation was unanimously supported by the IFPI's Board of Directors, as well as several other private sector organizations. For their support of this analysis, I thank them as well as the State of Indiana. Our Board believes the IFPI is singularly positioned to conduct this important analysis and provide these insightful recommendations."

#### **The Study's Key Findings:**

The adoption of the market value standard is only a first step. While the "on the surface" results show relatively good outcomes for the first-ever market-value based reassessment, the comprehensive analysis of the process reveals many serious problems, a significant number of which will require major structural changes to Indiana's property tax administration system to address.

- **The current structure does not provide for accountability across assessing jurisdictions, resulting in systematic lack of uniformity in assessment practice and assessment results. These problems plague townships within counties and cross county borders.**
- **Local governmental assessment officials and their contractors do not understand that they have a responsibility for assessment quality that extends beyond their own county.**

- **The type, quantity, and quality of data currently collected will not support a Market Value assessment system.**
- **Many counties and townships did not meet the International Association of Assessing Officials (IAAO) standards for level of assessment, uniformity of assessments, or consistency of assessments across assessing jurisdictions**
- **There is inconsistency in assessment interpretation and administrative practice between the counties.**

The State has not been willing or able to perform its oversight function. The DLGF currently does not and cannot produce future independent equalization studies, as best practice requires. The current county self-evaluation equalization system is a sham.

Hence, there is no accountability, nor has there been for several decades, which has resulted in the state of affairs that led to the Supreme Court mandated market value-based reassessment. While the standard upon which valuation is based has changed, the underlying administrative structure has not. This structure, as the Study has demonstrated in our analysis, results in a systematic lack of uniformity in assessment practice, **even under a market value system.**

The property tax system, its valuation methodology and ultimate accountability, is a responsibility of State government. It is the State Constitution and State Statutes that undergird and form the foundation for the property tax system and the policies that flow from it. The role of the local assessment offices is to apply state policies professionally and without regard to their own philosophical views of tax policy or tax burden. The assessment function is **ministerial**, and not one that makes policy or represents taxpayers.

A lack of uniformity and consistency across county borders impacts taxpayers across the state. The State appropriates over \$6.0 billion per year to support local schools and reduce local property tax levies. These appropriations are made based on tax assessment information – in the case of the schools – and based on property tax liabilities determined to some extent by the shares of total assessed value born by the various classes of property.

The study found that counties do not adhere to required data standards. The DLGF has issued extensive specifications for the transmittal of data to the state. Unfortunately, the Study found widespread non-compliance with the regulations. Inconsistencies abound between the state and counties; even within counties, assessors and auditors often use different data structures and data maintenance systems. Moreover, counties have not complied with the law requiring the submission of all sales disclosure forms (SDFs) to the state. Without the collection, evaluation, and storage of market value information, the market value assessment process breaks down.

The table below summarizes the evaluation of assessment results from our equalization analysis.

<b>Summary of Equalization Results</b>			
<b>Median Ratio</b>		<b>Met IAAO Standard</b>	<b>Did Not Meet IAAO Standard</b>
<b>Counties:</b>	Residential Improved	90.8%	9.2%
	Commercial & Industrial Improved	54.2%	45.8%
<b>Townships:</b>	Residential Improved	86.7%	13.3%
	Commercial & Industrial Improved	54.1%	45.9%
<b>Coefficient of Dispersion</b>		<b>Met IAAO Standard</b>	<b>Did Not Meet IAAO Standard</b>
<b>Counties:</b>	Residential Improved	14.9%	85.1%
	Commercial & Industrial Improved	10.2%	89.8%
<b>Townships:</b>	Residential Improved	20.6%	79.4%
	Commercial & Industrial Improved	12.2%	87.8%
<b>Consistency Across Jurisdictions</b>		<b>Within +/- 5%</b>	<b>Not Within +/- 5%</b>
<b>Townships within Counties</b>	Residential Improved	73.0%	27.0%
	Commercial & Industrial Improved	56.2%	43.8%
<b>Percentage of Counties Affected</b>	Residential Improved	27.6%	72.4%
	Commercial & Industrial Improved	12.2%	87.8%
<b>Sales Chasing</b>		<b>Townships</b>	<b>Counties</b>
Number of Jurisdictions Tested		733	65
Number of Jurisdictions in Which Sales Chasing Evidence Found		201	51
Percentage of Jurisdictions Affected		27.4%	78.5%

While county and township results for residential improved property were reasonably good for level of assessment as measured by the median ratios, quality stopped there. Only about half of the counties and townships met the IAAO standard for median ratios in commercial and industrial improved property. With regard to uniformity of assessment, as measured by the coefficient of dispersion, only about 15% of counties and 20% of townships met the standard for residential improved property. Only about one in ten counties and one in eight townships met the CoD standard for commercial and industrial improved property.

With regard to consistency of assessment across counties and townships, the results are not better. In 63 of 87 counties (72.4%), at least one township's assessments differed materially from the other townships. For commercial and industrial property, 34 of 79 townships, representing 25 of 52 counties, varied materially from the other townships in the county.

For residential improved property, 73.1% of the townships were within +/- 5% of the county average median ratio. For commercial and industrial improved property, 56.2% of the townships were within +/-5%. In residential property, those townships represented 72.4% of the counties.

Evidence of sales chasing (the practice of changing an assessed value to reflect the sales price of that property after it sells to improve the apparent results) was widespread. In 27.4% of the townships tested, the study found evidence of sales chasing. More troubling is the fact that those townships represented 51 of the 65 counties in which testing was possible, or nearly 80% of all counties.

The study's findings demonstrate, with statistical certainty, that there is a systematic inconsistency in interpretation of the assessment statutes and rules and assessment practice throughout the state.

In summary, the study found comprehensive, statewide evidence of an overwhelming lack of uniformity and consistency in assessment results. Our analysis clearly demonstrates inconsistent application of the market value based assessment rule and provides evidence of non-uniform interpretation of the rule by the local assessor (or their contractor). Both the level of assessment – measured by the median ratio – and the uniformity of assessment – measured by the coefficient of dispersion – differ across townships and counties. Inconsistencies in assessment practice statewide demonstrate that there is little accountability practically demonstrated of local assessing officials, whether it is counties holding townships accountable or the state holding counties and townships accountable.

While some effective consolidation of assessing districts has occurred in Indiana over the years – through the use of private contracting firms and cooperation between townships and counties – there has been no systematic or structural change. Movement to consolidated assessment districts and responsibilities, independent review and equalization, increased and more sophisticated use of technology for data and analysis are all needed, yet none of these steps have yet been taken in Indiana.

A nearly complete lack of compliance with state data standards contributes mightily to the problems the Study found. The study found significant resistance on the part of locally contracted vendors to assist counties compliance with state data standards. These data compliance issues are timely to the current state of the property tax system in view of the trending process which, for its equitable implementation, will require much improved data standard compliance.

#### **The Study makes the Following Recommendations:**

- 1. Ensure Complete and Accurate Collection and Transmission of Sales Data**
- 2. Develop and Enforce Compliance with a Statewide Assessment Data Standard**
- 3. Move Primary Responsibility for Assessment to the County Level**
- 4. Introduce an Effective Equalization Study at the State Level**
- 5. Complete the transition to market value standard by rewriting the assessment rule**
- 6. Upgrade Assessment Training and Certification Programs and Increase Certification Standards**

A quality assessment requires independent evaluation of results. Having timely access to pertinent and accurate information about the price, terms, and circumstances of each sale is essential in a competent equalization study.

The problem of the county assessors selectively forwarding SDFs to the DLGF needs to be remedied in order to perform effective, periodic ratio studies. The state should control which sales are included or ex-

cluded, not the assessors. This means that the DLGF should develop a sales data processing manual. It should provide instructions for the timely transmittal of SDFs and backup documentation in convenient-to-process batches. It should instruct assessors on how to annotate the SDFs with their (coded) recommendations regarding the usability of each sale and the assessed value in effect on the date of sale. Ideally, data should be collected, maintained, and transmitted to state electronically. Sales Disclosure Forms should be available "on line."

On the surface, current assessment data standards (50 IAC 12) appear reasonable. However, our experience with county assessment data during the course of this equalization study found that they were widely ignored. The study recommends that the State take control of this nearly chaotic administrative structure and require that local assessors meet state standards for data collection, storage, and maintenance and transfer to the state.

The following actions should be taken:

- Seek county input regarding problems with existing standards and ways to improve them.
- Make adherence with assessment data standards a standard provision of county reassessment and IT contracts.
- Institute financial penalties for failures to comply with the standards for both governmental units and their contractors.
- An example of one data standard would be a consistent Geographic Information System (GIS) parcel numbering system statewide.

The delegation of responsibility for property assessment to township officials essentially is an artifact of the mid 19th century. Although reasonable when Indiana was being settled, this assignment is now obsolete. Assessment is a ministerial function requiring technical expertise and equipment. It is not one in which the assessor is an elected representative of the taxpayer. Because assessment in Indiana is overly decentralized, the Study found it impossible to maintain assessment accuracy and to achieve economies of scale; in other words, taxpayers are forced to pay more for less. The State should transfer responsibility for assessment from townships to counties.

The Study recommends much stronger, independent, State-mandated equalization study standards. DLGF should implement a strict requirement that ALL sales, regardless of whether they should be included in a ratio study or not, be transferred to the state. The State should commit resources to enable a state (not local) independent, professional equalization study after every general reassessment. These studies should be conducted more often, if necessary to ensure assessment quality statewide.

The state should set as a goal the adoption of a current use (value in use) market value standard, which would imply changes to assessments whenever warranted by physical and economic changes. Frequently updated general reassessments made in accordance with professional best practice mass appraisal techniques optimize property tax uniformity. The State should establish a statutory framework for market monitoring and appropriate valuation adjustments (trending).

The Indiana assessing officer education, examination, and certification programs need to be strengthened. First, the scope of the education and examination process needs to be broadened to include at least the following:

- mass appraisal applications of the sales comparison and income capitalization approaches
- monitoring property price trends statistically so that defensible indexing factors can be developed, and
- making sales ratio studies.

Second, an evaluation should be made of the testing process to ensure that it actually tests the examinees' mastery of the subjects covered, particularly of analytical topics like ratio studies. Third, certification

needs to be made mandatory.

After reviewing the Study's findings and recommendations, the State's Office of Management and Budget Director Charles E. Schalliol stated, "We applaud the hard work that The Institute has put into this study for the past three years and we have observed, over the past 10 months, many of the same frustrations and hardships that they are reporting. Many of their recommendations fit very nicely with policies that we have already begun to put into place to improve the situation; however, many of the recommendations will need assistance from the General Assembly and the local units to implement.

The School Ratio Study:

The IFPI today also released the results of the School Assessment Ratio Study. This analysis, done in accordance with state statute (I.C. 6-1.1-34) provides to the DLGF assessment ratios that are to be used to equalize each K-12 school district's property tax effort within the State's school funding (tuition support) formula.

Since the formula sets the shares of school general fund resources appropriated by the State and raised via the local property tax, the ratio study allows the State to equalize those shares by equalizing the assessed values across school districts against which the property tax is imposed. If these assessment ratio adjustments are not made as part of the execution of the school funding formula, taxpayers in some parts of the state subsidize taxpayers in those school districts in which there is systematic underassessment.

As with townships and counties in the statewide equalization analysis, some school district's ratios were greater than one and some were less than one. A ratio of less than one means that property is "under-assessed relative to its market value" while a ratio of more than one means the opposite. In a simulation using only the ratios resulting from the school ratio study (and no other variables that could impact the school funding formula, such as enrollment changes), 38 school districts would see increases in property taxes while 148 would see decreases (in calendar year 2007). One hundred seven school districts would see no change in property taxes. In each school district where property taxes increase, there is an offsetting decrease in the state support while in each school district where property taxes decrease, there is an offsetting increase in state support.

The results of the school ratio study are consistent with the statewide township / county equalization study in that there is statewide inconsistency in assessment practice and results. Yet, the movement to a market value-based assessment standard enables the application of a meaningful school ratio study that makes progress in equalizing school funding across the state.

The application of these school ratios will cause changes in local and state obligations for school funding in calendar year 2007. However, in comparison with other school funding variables, such as changes in enrollments, the net impact of these ratios is minimal.

Don Villwock, President of the Indiana Farm Bureau said, "Indiana Farm Bureau is one of the major private sector sponsors of the Indiana Fiscal Policy Institute's Tax Equalization Study. As a membership organization representing taxpayers, Indiana Farm Bureau felt it important to ascertain if the reassessment conducted under new standards would satisfy the constitutional requirement for a "uniform and equal rate of assessment and taxation. We also wanted to ensure objectivity in such a study, and to assure there would be agreement to use it as a base document to improve the system in the future. Therefore we believed it was important for the state and the private sector to cooperate on a single in-depth analysis of the reassessment."

The Study began in August of 2003, when a contract was executed that called for the Indiana Fiscal Policy Institute (IFPI) to perform a statewide Property Tax Equalization Study (the Study). The purpose

of the study is to provide the State with a determination of the strengths, weaknesses, and accuracy of the Supreme Court ordered, first ever, market value-based general reassessment process and its results. The key features of the study are:

- An analysis, by jurisdiction, of the quality of the reassessment by property class.
- A study of the assessment methodology and process, with recommendations for improvements in future years,
- An analysis of the data requirements for future property tax reassessments.
- A school assessment sales ratio study.

**\*\*END RELEASE\*\***