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# STATE OF INDIANA

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DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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Adam Horst  
Director  
State Budget Agency  
Statehouse, Room 212  
Indianapolis, IN 46204-2796

Dear Mr. Horst:

Attached please find the FY 2012-2013 biennium budget request for the Department of Local Government Finance (“Department”). This proposal explains the funding needed to support the Department’s mission to administer a fair and equitable property tax system for Indiana taxpayers.

## A. AGENCY OVERVIEW

### Background

The Indiana Board of Tax Review (IBTR) and the Department were established January 1, 2002, as the successor agencies of the State Board of Tax Commissioners. The Department assumed the assessment and budgeting functions of the former State Board. Currently, the Department is divided into five divisions: Assessment, Budget, Communications, Data Analysis, and Legal.

### Mission Statement

The mission of the Department is to ensure a fair and equitable property tax system for Indiana taxpayers. To that end, the Department is responsible for ensuring property tax assessment and local government budgeting are carried out in accordance with Indiana law. The Department is charged with publishing property tax assessment rules and annually reviewing and approving the tax rates and levies of every political subdivision in the state, including all counties, cities, towns, townships, school corporations, libraries, and other entities with tax levy authority.

### Major Programs

The major programs administered by the Department are oversight of the assessment and local budgeting processes, including data analysis of property tax-related data. Details follow here by division.

**Assessment - Oversee the assessment process** - The Assessment Division provides oversight of the assessment process, which is carried out on the local level by either a Township Assessor or County Assessor. This oversight is accomplished through visiting with the elected assessing official; responding to inquiries; preparing memos, instructional bulletins, or other communications to provide guidance; and promulgating rules and regulations, forms, or other documents to assist in the administration of a fair and

equitable assessment system. Additionally, the Assessment and Data Analysis Divisions conduct, review and approve each county's annual adjustment ratio study, which compares the assessed values to market values, as seen through property sales prices. The Department also tests the assessments to ensure vertical and horizontal equity and verify that "sales chasing" has not occurred. **(IC 6-1.1-30-7; IC 6-1.1-31-1; and IC 6-1.1-35-1)**

**Budget - Ensure statutory budget processes are followed and enforce levy and rate controls** - Annually, the Budget Division certifies the tax rates, distributions, and appropriations for local units of government in each county. This process begins with a calculation of the maximum allowable ad valorem property tax levies for each unit of government. Next, the Budget Division takes the budgets and revenue estimates for the local units, and along with a statement of certified net assessed values from the county auditor, determines tax rates for the unit and fund level. The Budget Division then consolidates all the appropriate fund rates by taxing district. The Department also holds hearings, conducts reviews, and certifies orders approving or denying appeals or requests for certain loans. **(IC 6-1.1-17)**

**Communications - Provide information for taxpayers and local units of government** - The Department strives to make the property tax system and administration transparent by providing access to as much public information as possible. In keeping with this mission, the Department constantly develops new tools, especially online applications, to give taxpayers and local officials valuable insight into how Indiana's property tax system works. One recent example of this is the Department's Referendum Calculator, available at <http://www.in.gov/dlgf/8789.htm>. Using this tool, interested taxpayers may estimate the impact of a local referendum on their pocketbook. The tool calculates the impact of a referendum throughout the length of the proposal and gives users a maximum property tax bill estimate based on the assessed value entered. Taxpayers need their property's assessed value and deductions, if any, to use the tool. If their assessed value is unknown, they may use another tool provided by the Department, the Assessed Value Lookup tool, available at <http://www.in.gov/dlgf/4931.htm>.

Through the Communications Division, and through our Budget and Assessment Division field representatives, the Department regularly conducts outreach to the counties to stay abreast on issues and to determine how the Department may be able to assist with solutions. Examples of these include, but are not limited to, speaking engagements, weekly conference calls, and on-site visits to the counties. **(IC 6-1.1-30-16)**

**Data Analysis - Data Analysis Division to Administer Data Compliance Standards** - The Data Analysis Division was established by IC 6-1-33.5-2. The main duties of this division are to:

1. Establish an electronic database of information of real and personal property characteristics, tax information, and assessment information.
2. Analyze this data to ensure compliance with state regulations on data submission.
3. Provide counties and taxpayers with information from this database upon request.

State law requires property tax data submissions from the county assessor and auditor to the Department's Data Analysis Division and the Legislative Services Agency (LSA) for analyses of property tax trends and statistics. The two agencies jointly set the specifications for data transmittal, covering what types of data are needed and in what format they are needed.

As data submissions are received, the Data Analysis Division and LSA analyze for formatting and content to ensure high-quality data is available for analysis. If the review uncovers anomalies in the data, the Data

Analysis Division works with the county officials to determine the reasons for the anomalies so local officials can correct the data submissions if necessary to comply with law.

The Data Analysis Division also supports the work of other divisions within the agency, particularly work of a technical nature. The Data Analysis Division develops and maintains a number of systems, including the Field Budget Program used during the budget approval process and Railcar and Utility applications for use by the Assessment Division. The Data Analysis Division performs a number of calculations for statutory certifications, such as the certification of unit shares of local option income tax. Finally, the Data Analysis Division provides technical support for online calculators and generates standard data reports for the website to help the Communications Division provide information to taxpayers and local units. (IC 6-1.1-33.5)

**Legal - Interpret Indiana's property tax laws** - The Legal Division guides the Department with interpretation of property tax laws. This interpretation is then distributed, frequently in the form of memos, to the local county officials as guidance as they perform their statutory responsibilities.

The Legal Division also reviews assessment contracts for compliance with state law and contracting requirements and assists in proposing and tracking legislative changes to Indiana's property tax system. (IC 6-1.1-35-1)

## **B. ACCOMPLISHMENTS AND CHALLENGES (DEC 2008 – DEC 2010)**

### **Accomplishments**

After the property tax crisis of 2007 and the reforms in 2008, the Department's primary objective was to work with local officials to implement the reforms and restore the normal property tax billing cycle, resulting in two tax bill due dates of May 10 and November 10. Additionally, the Department worked to restore relationships and rebuild credibility with the local officials who had distanced themselves during the crisis. The Department also acted to continue certain undertakings that had begun during the crisis – specifically improving the quality of data and providing more information to taxpayers. The Department continued this work in 2010. The results are as follows:

#### ***2009 pay 2010 billing cycle***

- 85 counties achieved on-time billing (first installment due date of May 10, 2010) for the first time since 2002. Of the remaining five counties, all but two had issued property tax bills with a regular first installment due date as of the date of this letter.
  - Two counties – Madison and Delaware – received their certified budget orders in time to achieve on-time billing, but due to delays at the county level, were unable to do so. These counties billed in June and July.
  - Five counties – Clinton, Floyd, Lake, LaPorte, and White – failed to submit certified net assessed values in time for the Department to issue a budget order by March. As of the date of this letter, only Lake and LaPorte have not issued “regular” tax bills. Lake is expected to issue reconciliation tax bills with a due date in November.
- The Department and counties together decreased the number of days late that tax bills were issued by 95.6% from pay 2008 to pay 2010:
  - Pay-2008: 13,416

Department of Local Government Finance  
FY 2012-2013 Biennium Budget Request

- Pay-2009: 8,566
- Pay-2010: 594

***2010 pay 2011 billing cycle***

- As of the date of this letter, the following progress has been made toward the goal of 91 counties achieving on-time billing for 2010 pay 2011 billing cycle. The Department may begin certifying budgets for each unit of government once budgets are adopted at the local level, which must be done by November 1. However, there are vital steps that must be accomplished for the Department to begin work. The progress on those steps, accomplished by local officials with the cooperation and support of the Department, is outlined below.
  - Received and approved 89 of 90 ratio studies from county assessors. This is an improvement of five months over the 2009 pay 2010 billing cycle.
  - Received certified net assessed values from 61 counties. Last year, as of the date of this letter, the Department had received NAVs from only seven (7) counties.

***Other Accomplishments***

- The Department built new relationships with local officials, extending the communications efforts through listservs available to representatives with all taxing units, county commissioners, and county councilmen. In addition to weekly updates to these groups and legislators, the Department sent out direct e-mails throughout the assessment to tax billing process so local officials in each county knew of the county's status in the cycle. From February 2009 to December 2009, these efforts resulted in at least 42 compliments from local officials and other stakeholders (legislators, members of the general public) to the Department. From January 2010 to the date of this letter, the agency as a whole has received compliments from various groups – taxpayers, legislators, local officials, and vendors – at the pace of nearly one per month. These comment on the exceptional customer service, increased communication, and amount of information provided to these groups.
- The Department reverted 10.41% of its Fiscal Year 2010 appropriation to the State's General Fund. While this was a requirement, it is significant to note that the Department was able to accomplish this goal at the same time as it was able to accomplish all other items noted above. Despite a reduction in spending, Department service improved to all stakeholder groups.

**Challenges**

The challenges facing the Department change from year to year, but seem to all come down to one root issue: balancing the Department's administrative oversight function, which protects taxpayers and enforces state law, with a respect for local control that recognizes that local elected officials are chosen by voters to make local government budgeting decisions. Given the complexity of state law, the Department enforces these laws by directly assisting local elected officials with their duties. A fundamental challenge of the Department is maintaining a balance between acting in an advisory role and a regulatory role, both of which are necessary to achieve the mission of ensuring the more than 2,000 local units of government comply with state law.

***50 IAC 23 – Phase I and Phase II Certifications***

Department of Local Government Finance  
FY 2012-2013 Biennium Budget Request

Over the past two years, the Department has had challenges in implementing 50 IAC 23, the computer data standards. The computer data standards have been deemed necessary as there are a large number of software packages currently utilized by the counties to administer the property tax system. Each county official has the flexibility to use software of their preference to perform functions related to their offices. For instance, the county assessor may use a different software vendor for their annual adjustment programs than what the county auditor uses for the tax billing program. 50 IAC 23 is the vehicle by which the Department oversees these various software programs and ensures consistency throughout the State.

A specific requirement of 50 IAC 23 requires all software packages to obtain state certification that they meet baseline standards established by the Department. Further, the software utilized by each county office must achieve a certain level of integration to allow the various county offices involved in property tax administration to share data effectively. These requirements have become known as Phase I and Phase II certifications.

The functionality required for Phase I and Phase II certifications was selected to ensure the counties can successfully perform specific parts of their statutory responsibilities and submit data to the Department that meets state standards, thereby allowing analyses by the Department and LSA. Software-related issues have historically caused property tax billing delays, increasing the importance of these certifications.

The challenges with implementation of this rule have been numerous, including the time and money expended by local officials, vendors, and the Department to ensure compliance. The certification process required cooperation of three elected offices, competing vendors, and coordination with the State. Another challenge was the timing of the certification requirement. The rule has been in place since 2006, with the original deadline set for December 31, 2008, allowing time for the counties and vendors to plan and modify their systems or processes to meet the requirements.

During the Phase I process, it was incumbent upon the vendors to come forward for vendor certification. If a particular vendor wanted to do business with an Indiana county, it was up to the vendor to make the necessary updates to its systems and arrangements to become certified. The Department had little enforcement authority, with the only caveat that counties were prohibited by rule to pay a vendor that had not received software certification. As of the date of this letter, all counties are currently using software programs that have received Phase I Certification, and one county (Hamilton) is planning to test another software product in the upcoming months.

Phase II certification has been an even bigger challenge, not just for the Department and vendors but also all counties. While the certification is required for each county, the Department's only enforcement tool is withholding budget certifications, consequently delaying property tax bills. The original deadline for certification was December 31, 2008. Ultimately, the Department gave flexibility here, allowing counties more time, both from an operational standpoint as well as for financial reasons. The deadline was moved twice – once to December 31, 2009 and then to June 30, 2010. Few counties met either deadline. Again, the Department reinforced the requirement for testing and emphasized the importance of certification by September 1, 2010, though no official extension of the June 30, 2010 deadline has been made. As of the date of this letter, however, only 37 counties have received Phase II certification. Another 16 counties have completed the testing and are awaiting final word on certification, either because the Department is waiting for a recommendation from the county's testing company, or because the Department is currently reviewing the final recommendations. Six counties have a testing date scheduled for Phase II certification. However,

nearly one-third of counties (31) still have yet to schedule testing for Phase II, and two counties have not yet taken the first step toward certification (securing a third-party vendor for testing).

### ***Communication with all stakeholders***

Prior to 2007, the Department had traditionally focused communication with local officials. The property tax crisis of 2007 showed a need for more taxpayer communication, again causing the Department to consider how it functioned and balanced its sometimes competing roles.

In speaking with local officials, the Department heard that local offices were not communicating in all counties. This was true whether it was the elected county offices or other elected or appointed offices of other taxing units. The Department turned this challenge into an accomplishment by issuing weekly updates through our officials' listservs, providing anyone interested frequent information on statewide progress toward on-time billing. The listserv membership is open to anyone in the public interested in information geared toward a specific office. While ensuring that all officeholders receive the information is still a challenge, the Department has utilized technology to increase the number of individuals receiving information and to reduce costs through this service. Additionally, all memoranda and presentations are posted on the Department's website, providing another avenue of information for those interested.

### **C. OBJECTIVES**

The Department's primary objective is to continue to work with local officials to achieve on-time billing for 91 counties.<sup>1</sup> This annual objective involves a complex process that requires the coordination and cooperation of three, independently elected county offices, vendors, multiple State agencies, and the Legislature. Because of the complexity, the process can be derailed at various points. It will be especially challenging over the course of the next two years because of the General Reassessment, which began on July 1, 2010. While statute outlines a semi-annual schedule that counties should maintain, history shows on-time billing in the final year of a General Reassessment is rare. Further, this is the first reassessment since the onset of the annual adjustment process ("trending"), so there is additional potential for delay. However, the Department believes the objective can be accomplished and will be maintaining communication with counties throughout this process to uncover and minimize obstacles as quickly as possible. This effort is already underway as the Department has held several conference calls and made several presentations on the general reassessment process.

As part of the General Reassessment, the Department is required to reassess the large industrial facilities (i.e., steel mills and NIPSCO) in northwest Indiana. As such, another objective for the Department in the next biennium will be to complete its reassessment responsibilities on-time. It is important to note that the Department is responsible for this task by legislation; however, the State receives no funding from local units that benefit from the tax base of these parcels. While counties have a separate fund that is levied to pay for duties associated with the general reassessment process, the Department will be completing this task using existing resources that are required to support the Department's normal operations and duties.

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<sup>1</sup> As of the date of this letter, LaPorte County has yet to issue reconciliation bills for the 2006 pay 2007 tax billing cycle. Because LaPorte County has fallen so far behind, it would need to issue reconciliation tax bills for six years - Pay 2007, Pay 2008, Pay 2009, Pay 2010, Pay 2011 and Pay 2012 - to issue on-time tax bills for after the General Reassessment in three years. The financial burden this will place on the taxpayers in LaPorte is not discussed in this budget submission, but must be taken into account when planning for returning the county to an on-time billing cycle.

Department of Local Government Finance  
FY 2012-2013 Biennium Budget Request

The Department has defined internal metrics, in line with the statutory requirements, to guide in the achievement of the above objectives:

- 91 ratio studies approved by May 31, 2011 and May 31, 2012
- 91 certified net assessed values received by August 1, 2011 and August 1, 2012
- 91 budget orders certified by February 15, 2012 and February 15, 2013.

Other objectives defined for the next two years are intertwined with some information previously presented in this document. Specifically, the Department will be providing taxpayers and local officials with information and creating transparency of Department processes and local budget information. This will be accomplished through the continued work of providing documentation through listservs and our website, as well as through the Gateway (online budget program) mentioned later in this letter. Again, the Department's objective is to launch the online budget program for 92 counties by July 2011, allowing all taxing units to utilize this system for the 2012 budget process.

Additionally, the Department will continue to provide tools, like the property tax calculator and the referendum calculator, allowing taxpayers to know the effects of local spending, or proposed local spending, on their pocketbooks. These will be updated as each county budget is certified, enabling taxpayers to estimate taxes as soon as the tax rates are confirmed. The referendum calculator will be updated as the Department is aware of an upcoming referendum, again enabling taxpayers to estimate the impact of these proposals on their pocketbooks.

The Department also plans to increase its efforts to encourage local officials to take advantage of technology in several ways. First, the Department will re-launch efforts to encourage the use of the Department's Data Upload tool. This tool, built especially for local officials, allows them to upload property tax data for an automated review prior to official submission to the Department and LSA. While this product was launched in 2008, the response from local officials has been lackluster, and the Department plans to improve usage of this product throughout the next two years. Another opportunity is to provide training opportunities for local government officials and others, working to find the best training available for a minimal cost to counties. This includes the utilization of the self-paced tutorials for Level I and Level II assessor-appraisers, which will be available to those interested. The Department will work to encourage the use of these products to reduce costs to counties and the State, while at the same time, maintaining a high level of service.

#### **D. AGENCY KEY PERFORMANCE INDICATORS / PROGRAM MEASURES**

Overall, the Department is performing well, as evidenced by the accomplishment section. The specific measurements the Department has tracked since 2006 measure actions performed by our Assessment Division, Budget Division, and Data Analysis Division:

- Number of Days to Process Ratio Studies (in counties with "compliant" data)
- Number of Days to Process Budget Orders
- Percent of Local Government Datasets that are "Compliant"

Since 2006, the Assessment Division has increased the number of tests conducted during the ratio study review process. Despite the greater scrutiny and working with counties to return the tax billing cycle to normal, the Department has continued to decrease the turnaround time in approving ratio studies. The Department went from a high of 29-days in Q3-2008 to 10.9 days in Q2-2010. The number of ratio studies

that were submitted during the same period increased 175%, so the reduction in turnaround time is especially noteworthy because of the additional work done in the same period. Unfortunately, these achievements were outside the set targeted metrics, originally set at three days for “Green” and five days for “Yellow.” The Department consistently missed these targets, despite the overall progress of the Division.

The Budget Division faced a similar challenge in returning counties to the on-time schedule: the number of budgets being reviewed at one time increased. Still, the Department found efficiencies and met the targets in our metrics. During Q1-2009, the Department’s average turnaround time was 30 days. During Q1-2010, the Department’s average turnaround time was 34 days. The longest turnaround time since 2008 was 51 days during Q1-2010, a time during which the Department certified the greatest number of budget orders in at least four years. The Department’s targets were 40 days for “Green” and 50 days for “Yellow,” and the Division was able to meet these targets consistently.

The Data Analysis Division tracks “compliant” datasets for two reasons. First, quality data is needed to provide the Governor and the General Assembly with information needed to make educated policy decisions. Additionally, the quality data is used to help the Department with the review of assessments in subsequent years to ensure counties are following assessment standards. Since 2007, the Department has worked with counties to increase the amount of data submitted, and to ensure that it meets the minimum standards required to enable Department and LSA review and analysis. Great progress has been made in that regard, with the Department increasing the data compliancy rate from 40.6% in 2006 to 89.4% in 2010. The Department’s targets were 100% for “Green” and 75% for “Yellow,” and the Department consistently fell above Yellow range, but below Green.

Because the tax to billing cycle is an annual process, as the Department succeeds in its primary objective of restoring on-time billing, it simultaneously changes the parameters within which it operates. Specifically, on-time tax billing means that certain key tasks of each division are concentrated in one or two quarters, rather than trickling in at a steady pace throughout the year. This creates the need to redefine the Key Performance Indicators (KPI) and Program Measures (PM) to more accurately reflect the workflow of the Department. As such, the Department will be changing the KPIs and PMs from quarterly metrics to annual metrics, enabling an across-the-board comparison of each main function of the Department during each tax year as a whole.

## **E. ORGANIZATIONAL CHART**

Since the last budget request, the Department has voluntarily restructured, separating the Operations Division from the Data Analysis Division, and ultimately, dissolving the Operations Division by transferring these duties to other divisions and reorganizing existing personnel. The dissolution of the Operations Division also enabled the Department to eliminate two positions – one director and one administrative – at a cost savings to the Department.

## **F. PROGRAMS TO BE REDUCED, ELIMINATED AND/OR REPLACED**

The Department is not eliminating or replacing any existing programs for the upcoming budget cycle. However, the Department has identified several opportunities for savings to the State and local governments by updating processes currently in place. In a sense, these old “programs” will be supplemented and replaced by the new processes, allowing both State and local government to operate more efficiently.

- Property Tax Control Boards: In June 2009, the General Assembly statutorily eliminated the School and Local Government Property Tax Control Boards, which were staffed and administered by the



Department of Local Government Finance  
FY 2012-2013 Biennium Budget Request

Department. (HEA 1001(ss), at Section 466, repealed both IC 6-1.1-18.5-11 and IC 6-1.1-19-4.1, effective January 1, 2010. Duties of the control boards were removed effective July 1, 2009.) This resulted in some savings in staff time being utilized. As such, the Department had previously combined the administration duties of that board with another position. Additionally, in 2007 and 2008, the Department paid for live streaming video of the control board meetings. The Department discontinued this practice in early 2009 as a cost-saving measure.

- **Assessment Training:** The Department has worked to update the assessment training programs and provide a self-paced tutorial for both Level I and Level II courses for those interested. Through a partnership with the Indiana State Library, the Department will create and launch these tutorials for only the cost of staff time for development. The creation of these training programs will save the Department significant money in travel expenses for field representatives, increase the efficiency of the Department because the field representatives will be handling questions about the training during the course of regular business (rather than spending five whole days devoted solely to the training classes) and save the counties money by allowing them to have their employees take these courses on-site rather than travel to other locations. The savings the Department realizes from this have been accounted for in its budget request.
- **Gateway:** The Department, with the cooperation of the State Board of Accounts and the Indiana Business Research Center at the Indiana University Kelley School of Business, is developing an on-line budget program that would eliminate the need for double entry of data by the local officials and Department. This will not only save staff production time, but also reduce the possibility of errors. This program has been launched on a pilot basis to seven counties, with the intent of launching the program statewide in Summer 2011 for the 2012 budget cycle. The savings the Department will realize from this has been accounted for in its budget request.

## **G. REALLOCATION OF FUNDS**

The Department's budget proposal for FY 2012-2013, at approximately \$4.46 million annually, is approximately 15% under the Department's appropriation for the FY 2010-2011 years. The Department recognizes the fiscal challenges faced by the State, and as evidenced in our results, is doing all possible to control expenditures and to only spend money where it is necessary to carry out our duties and fulfill our mission.

Thank you for your consideration of this budget request for the 2012-2013 biennium. On behalf of the Department of Local Government Finance, we look forward to discussing this request with you at your convenience.

Sincerely,

Brian E. Bailey  
Commissioner