
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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August 15, 2014

Brian E. Bailey
Director
State Budget Agency
Statehouse, Room 212
Indianapolis, IN 46204-2796

Dear Mr. Bailey:

Attached please find the FY 2016-2017 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: Budget, Assessment, Data Analysis, Legal, and Communications.

Mission Statement

The mission of the Department is to ensure a fair and equitable property tax system for Indiana taxpayers.

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 herein by division.

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 reviews the proposed 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, additional appropriations or requests for certain loans.

(IC 6-1.1-17)

Assessment - Oversee the assessment process - The Assessment Division provides oversight of the assessment process, which is carried out at the local level by county assessors and, in certain cases, township assessors. This oversight is accomplished through promulgating rules and regulations, forms, or other documents to assist in the administration of a fair and equitable assessment system; preparing memos, instructional bulletins, or other communications to provide guidance; visits with the elected assessing official; and responding to inquiries. 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)**

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 (currently codified in 50 IAC 26).

As data submissions are received, the Data Analysis Division and LSA analyze the data to ensure it meets necessary standards. If the review uncovers anomalies in the data, the Data Analysis Division works with the county officials to determine the reasons for the anomalies, thereby allowing local officials to correct the data submissions if necessary to comply with law. In addition, the Data Analysis Division also performs software compliance reviews every five years to verify that property tax management software systems used by counties are compliant with state regulations.

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 Gateway, which collects budget and debt data from local units of government and serves as the Department's primary portal to make government data transparent. 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. In addition, the Legal Division assists the Budget Division in the review of maximum levy appeals, setting initial maximum levies, and cumulative fund establishments, in addition to review of situation-specific budgeting issues. **(IC 6-1.1-35-1; IC 6-1.1-17; IC 6-1.1-18; IC 6-1.1-18.5; and IC 6-1.1-41)**

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.

Through the Communications Division, and through our Budget and Assessment Division field representatives and the Data Analysis Division project coordinators, 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 emails, and on-site visits to the counties. (IC 6-1.1-30-16)

B. ACCOMPLISHMENTS AND CHALLENGES (AUGUST 2012 – AUGUST 2014)

Accomplishments

Over the last two years, the Department has made extraordinary progress toward achieving a predictable property tax environment in the state of Indiana. During the 2012 pay 2013 billing cycle, the Department completed its budget order certification work in a timely manner to allow 91 counties (all except LaPorte County) to bill on-time. During the 2013 pay 2014 billing cycle, the Department certified 91 county budget orders by its statutory deadline of February 15 and certified LaPorte County's budget order in March 2014. Furthermore, in a major victory for Indiana taxpayers, the Department and local officials combined to produce on time tax bills for all 92 counties by May 10 **for the first time in at least 15 years.** (LaPorte County had been several years behind in its property tax billing process as a result of the lawsuit filed on the 2007 reassessment. From 2011 through 2014, the Department, with the assistance of LaPorte County officials, other state agencies and vendors, certified seven budget orders for LaPorte County, returning them to on-time status.)

Other accomplishments are noted below:

- During the 2013 pay 2014 billing cycle, ratio studies were completed at a rate of 5.4 days. During the 2014 pay 2015 cycle, the rate is 7.3 days, which is a noteworthy accomplishment since the assessment division is operating with one less ratio study reviewer.
- New applications were developed and released for Gateway, including an Other Post Employment Benefits tool, Tax Increment Finance Management, Economic Development Reporting, and the County Council Review Worksheet for units not subject to binding adoption.
- For the 2014 pay 2015 billing cycle, the Department has successfully launched BudgetNotices.IN.gov, an online portal that allows taxpayers to view proposed budget and levy information and to track public and adoption meeting hearing dates.
- In fiscal year 2013, the Department reverted 10.1% of its general fund. In fiscal year 2014, the reversion increased to 11.4%. This fiscal performance is particularly noteworthy when paired with the Department's accomplishments noted above.

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.

Specific challenges over the last biennium have included:

- The implementation of protected taxes in the 2013 pay 2014 billing cycle required a recalculation of the way that funds are distributed to units that reside in taxing districts with protected funds and an impact from the circuit breaker.
- Ongoing statutory changes to the local budget adoption process require considerable effort each year to train local officials on new requirements. For the 2013 pay 2014 budget cycle, the Department offered over 26 training sessions throughout the state, attended by approximately 950 local officials. For the 2014 pay 2015 budget cycle, the number of training sessions were reduced to 11 but were targeted to locales which experienced the most difficulty with the budgetary procedures.
- Two of the Department's primary tools, LOGODABA and the Field Budget program, have continued to age, and are largely based on technologies (COBOL for LOGODABA and Visual Basic for Field Budget) considered outdated in the technology field.

C. OBJECTIVES

The Department's primary objective is to continue to work with local officials to maintain on-time budget certification and tax bills for all 92 counties. In one way or another, a large majority of the Department's activities are geared toward the completion of that goal. To this end, the Department's specific goals are:

- Approval of 92 ratio studies by June 1 each year.
- Receipt of 92 Certified Net Assessed Values (CNAVs) by August 1 each year.
- Certification of 92 Budget Orders by February 15 each year.
- On-time tax bills sent by 92 counties no later than May 10 each year.

Another crucial objective for the Department in the next biennium is the roll-out and successful maintenance of fiscal health indicators, as required by IC 5-14-3.7-16 and IC 5-14-3.8-8. While the indicators must be available at the end of Fiscal Year 2015, their primary use is forecasted to occur through Fiscal Years 2016 and 2017.

In addition, for the FY 2016-2017 biennium, the Department will be heavily involved in guiding county officials as the State transitions from an assessment date of March 1 to January 1. This change will require significant updates to local and Department procedures.

Finally, the Department intends to begin the process to modernize LOGODABA and the Field Budget program. LOGODABA has served as a crucial tool for storing and calculating local government data since at least 1984. In its current state, the COBOL-based application largely serves as a data warehouse. Technical resources knowledgeable in COBOL and capable of maintaining the database are often difficult to find, and with the emergence of more modern programming languages, that trend is likely to continue. Similarly, the Field Budget program is at least a dozen years old and built largely using Visual Basic. The application requires extensive use of local Access databases and a time-consuming and complex process

to consolidate data into a central repository. The Department expects both LOGODABA and Field Budget to play key roles in its operations over the next biennium and beyond, but notes that investment in the modernization of both tools is vital.

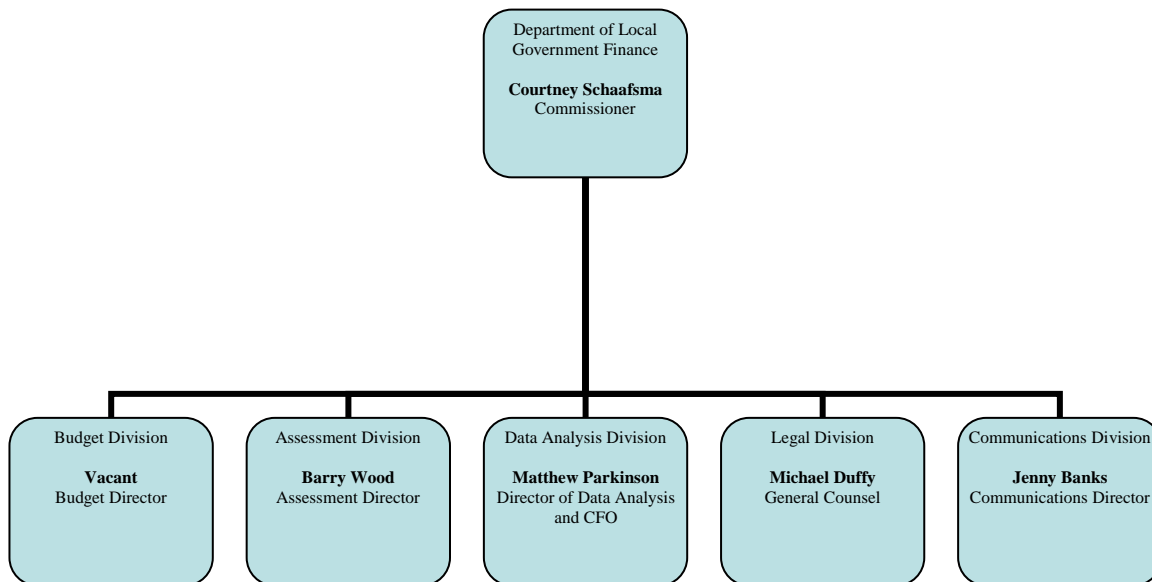
D. AGENCY KEY PERFORMANCE INDICATORS

With the assistance of Government Efficiency & Financial Planning staff, the Department revised its key performance indicators (KPIs) late in Fiscal Year 2014. The Department’s KPIs are:

- Percentage of county data sets compliant with state data standards for the most recently completed tax billing year
- Average number of days to approve a ratio study
- Average number of days to turn around checklist to counties
- Number of Budget Orders certified by statutory deadline
- Number of counties that issue tax bills with a first installment due date of May 10
- Gateway Survey Results

E. ORGANIZATIONAL CHART

The Department’s organizational chart for the management team is provided below.



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

The Department is not reducing, eliminating, or replacing any existing programs for the upcoming budget cycle.

G. REALLOCATION OF FUNDS

The Department’s budget proposal for FY 2015-2016, at approximately \$3,633,140 million annually, is approximately 3% under the Department’s appropriation for the FY 2014-2015 years. The agency plans,

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as in prior years, to supplement its General Fund appropriation with funds from the Assessment Training Fund, which is augmented by \$5 for every filed sales disclosure form in the state.

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 2016-2017 biennium. On behalf of the Department of Local Government Finance, we look forward to discussing this request with you at your convenience.

Sincerely,

Courtney L. Schaafsma
Commissioner