

Agency under fire

Department of Local Government Finance at the center of property tax upheaval

By Karen Francisco

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- In LaPorte County, the Department of Local Government Finance twice approved the county's 2006 property assessment before declaring it was based on illegal ratio studies and must be redone, delaying delivery of local funding and depriving homeowners of property tax rebates.
- In Rush County, the auditor's office was the first in the state to submit its 2007 ratio study for assessments but learned after repeated phone calls that the state had misplaced it and it had to be resubmitted. Final approval didn't come until January of this year, prompting the Republican county auditor to write to Gov. Mitch Daniels charging DLGF is "hostile."
- In Johnson County, Clark-Pleasant Community School Corp.'s \$60 million middle school project was rejected by the DLGF commissioner because she believes the district's tax rate is already too high. When school officials submitted a scaled-back project, Commissioner Cheryl Musgrave refused to look at it.
- In Allen County, Citilink officials asked for and were granted a tax levy appeal by the DLGF in November when it was discovered that taxes weren't collected for recently annexed areas. In February, the DLGF reversed its decision and said that the revenue couldn't be collected without retroactive approval by City Council, putting the transit system at risk of budget cuts that would slash service to riders who depend on public transportation for jobs, school and doctor visits.

Why does the name of a small state agency keep popping up in newspaper accounts across the state? Why is a department long considered a partner with local government and school finance officials now accused of trying to make them fail?

First, some history:

On Jan. 1, 2002, the State Board of Tax Commissioners was replaced with two new bodies, the Department of Local Government Finance and the Indiana Board of Tax Review. DLGF was charged with oversight of property assessments and with reviewing the budgets of local governments and school corporations to ensure that property tax controls are enforced.

The changes were intended to improve the administration of the property tax system, but they came at a time of upheaval: a series of court rulings declared the state assessment procedures unconstitutional and mandated a switch to market-value assessments. Throw in the elimination of the inventory tax on businesses, the addition of homestead credits and deductions, and adoption of trending adjustments, and you find an agency forced to take root on shifting ground.

The approval of the massive House Bill 1001 this year adds substantially to the rumble. But so do charges that a philosophical shift has transformed the DLGF from friend of local government to foe.

Nervous critics

Few local officials want to speak on the record about their concerns. It's primarily because DLGF has the authority to approve the tax rates and levies of every political subdivision in the state and, hence, the ability to make life difficult, but also because the school and local government officials who work most closely with the agency are largely apolitical. They are the number-crunchers who toil at balancing complex equations, and minding the budget. Most express appreciation for the state's assistance amid changing tax law and are merely frustrated that the cooperative relationship they've had with the agency has changed.

Critics point to turnover within the agency (23 employees of the average headcount of 62 since July), which has left unprepared employees to answer questions and interpret rulings. They cite conflicting opinions and series of memos that demand additional information. They charge that the cooperative spirit of working through budget issues has been replaced by a confrontational atmosphere.

One of the agency's highest-profile missteps was on display last week, when the commissioner backed off on a proposed assessment rule change that local officials said would have shifted the property tax burden from businesses to homeowners. Earlier, in proposing the change and in determining there would be no financial impact, the agency had not relied on data, studies or analyses.

So assessing officials were in an uproar when Allen County Assessor Stacey O'Day produced data to the contrary: The DLGF proposal would decrease the county's assessed valuation by \$219 million.

Musgrave, commissioner since last July, told The Journal Gazette's Niki Kelly that the change was "the right move, but this might not be the right time."

Bipartisan complaints

This *is* an election year, and that can't be overlooked. Some of the criticism of the agency comes from clearly partisan quarters. Jeff Harris, communications director for Democratic gubernatorial candidate Jill Long Thompson said the agency will be a campaign issue.

"There seems to be a real communication problem with DLGF, and from what we understand, they seem to have placed a lot of additional barriers and burdens on local government," Harris said. "We've certainly figured out that Cheryl Musgrave is not one of the most popular people in the state."

He said the agency's attitude seems to be "another example of the Daniels administration not listening to Hoosiers and the local government officials who have to deal with problems on the front line."

"They are dictating what needs to be done – we've heard this across party lines," Harris said.

Indeed, some of the sharpest criticism is seen in a widely circulated e-mail from Deborah Adams, the Republican county auditor in Rush County, southeast of Indianapolis.

"Today, it is unclear as to the actual mission of the DLGF, other than the intent to discredit the assessor and auditor," she wrote May 6 in a missive directed to the governor. "Elected local officials have little or no confidence with members of the DLGF."

She harshly warned that Musgrave's actions, presented as the "voice of the governor," have "left little support towards your re-election for governor."

Kent Adams, a former Republican state senator who is now Kosciusko County treasurer, offered no such criticism. He said he didn't believe anyone was to blame for the delays.

"The overall problem is that there are (legislative) changes every year," he said. "(Lawmakers) took care of homeowners this year because they are the biggest voting bloc, but now you've got businesses and others coming around and saying it's their turn. There will be more changes."

But Adams also acknowledged that his own office was rebuffed by DLGF when it tried to send out provisional tax bills and was told to slow down.

"There have been times when the left hand and right hand have not been coordinated," he said.

Beth Henkel, who served as general counsel and commissioner of the DLGF under Democratic administrations and who now represents local government in negotiations with the agency, declined to address the recent complaints specifically, but she noted the agency's role.

"The DLGF in the past has been charged with getting (local) budgets approved by the statutory date of Feb. 15," she said. "I would hope they would get back to doing that. It is very costly to taxpayers to not do that in terms of borrowing by local government."

Henkel also noted that in the 22 counties ordered by the state to retrend assessments, there have been only minor changes in 20 of them.

A representative for a local government association who declined to be identified said the state agency should be a partner with local tax and budget officials, but noted that the legislature's continual changes have created the strife.

"It's been a changing world for property tax administration, and DLGF takes the brunt of that," he said.

Ironically, it falls to the General Assembly to mediate the dispute. As the result of complaints, Legislative Council selected DLGF as the agency to be reviewed by the Legislative Evaluation and Oversight Policy Subcommittee over the next year, calling for study of the staffing structure and expertise, communication channels with local officials and other state agencies and implementation of areas of responsibilities.

From that review, improvements and changes might come. But taxpayers should be aware that the disputes and delays in the meantime are ultimately costing them.