

NEXUS GROUP

PROPERTY TAX CONSULTANTS

March 9, 2007

Mr. Barry Wood
Assessment Division Director
Department of Local Government Finance
Indiana Government Center North
100 N. Senate Ave., N 1058 (B)
Indianapolis, IN 46204

RE: Laporte County 2006 Annual Adjustment Ratio Study

Greetings Barry,

I am in receipt of your letter of March 6, 2007 regarding the above topic. Thank you for the opportunity to respond to these accusations that have led to the delay in the approval of the 2006 Laporte County Ratio Study. First, allow me to enumerate the various activities that have occurred in Laporte County in preparation for the 2006 Annual Adjustment process. Second, I would like to respond directly to Mr. Denne's analysis of the 2006 LaPorte County Ratio Study.

Overview of 2006 Trending Activities in LaPorte County

1. Completed field review of all commercial and industrial property in Center & Lincoln Townships; site visits resulted in changes to approximately 80% of all parcels; completed data entry of all changes for commercial and industrial property. This amounts to over 25% of commercial/industrial property in LaPorte County. Prior to the 2007 Annual Adjustment process, we expect to field review all remaining commercial/industrial parcels in the county.
2. Conducted additional field review of **all** residential property (vacant and improved) in the Lakeshore Drive area of Michigan Township, including that of Mr. Wendt. These properties were re-sketched and changes made to grade, condition and/or effective age, land allocation, and land influence factors. Such reviews were conducted by one or more Level II assessor/appraisers. The neighborhoods field-reviewed were: 410521, 410522, 420503, 420504, 420512, 420521, 420522, 420590, 420591, 440521, 440522, 450521, 450522 and 450589. This constitutes approximately 1000 parcels. Please note that changes were made to **all** residential property, both sold and unsold.
3. In addition to Michigan Township, residential field reviews were also conducted in other townships throughout the county, including Center, Clinton, Coolspring, Dewey, Hannah, Hudson, Lincoln, and Springfield. Together, these 9 townships (including Michigan), account for more than 75% of the residential parcels in LaPorte County.
4. Established and updated rental property database, including various areas of Michigan Township. Continued to collect detailed income and expense data on rental houses

throughout the county, especially in Michigan, Coolspring and Center Townships. To date, more than 600 rental properties are in the county database. This process also entailed establishing neighborhood desirability ratings for all rental properties, with assistance of the respective township assessors. In each instance, we established average rental rates, expense ratios and capitalization rates for all neighborhoods. Finally, per Indiana Code, we adjusted the 2006 assessed values on these rental homes using the income approach to value, specifically the Gross Rent Multiplier (GRM) basis.

5. Continued review of all residential neighborhoods and made changes for more homogenous delineations. During this process, we reduced the number of neighborhoods with less than ten parcels to 132 neighborhoods. New neighborhoods were established as appropriate in the cases of new subdivisions or re-examination of existing boundaries. Specifically in Michigan Township, several neighborhood boundaries were re-delineated. Affected parcels would naturally have significant changes in AV between 2005 and 2006.
6. Conducted field studies on numerous commercial property classes throughout LaPorte County, including fast food restaurants, dining lounges, convenience markets, gas stations, general retail, and banks. Updated property record cards to reflect new effective ages, grades, conditions, use types, and land allocations.
7. Entered into an agreement with GNIAR (Greater Northern Indiana Association of Realtors) to exchange data. We have received 4 years (2003 – 2006) of sales data from the Realtor database. The data is crucial for the validation of sales disclosure forms used in trending assessment values.
8. Developed the LaPorte County assessment website. Please reference:
<http://www.xsoftin.com/laporte/>
9. Data Corrections & Software Clean-up:
 - a. Corrected depreciation overrides on nearly 2,500 commercial and industrial parcels;
 - b. Corrected percent complete errors on 900 parcels;
 - c. Corrected more than 20,000 parcels (35,000 land records) that had overridden values in the land base rates (preventing systematic updates via land table changes), each requiring manual correction;
 - d. Removed negative influence factors on land on approximately 1,500 parcels county-wide; and
 - e. Corrected property class and use codes on approximately 1,400 parcels county-wide.
10. Updated all commercial and industrial cost and depreciation tables to better reflect actual market costs of as 1-1-05. This process involved detailed review of each cost item and comparison with various national and/or regional costing services or indices. We also included information from actual new construction documented costs in this update. These costs were subsequently adjusted using sales income data collected in LaPorte County.

11. Re-examined all land rates for all property classes (except agricultural) county-wide. In all townships this process resulted in upward revisions to various base rates (and change in base rate methodology in some cases) in most instances. In only a few select neighborhoods were base rates left unchanged, but in those cases, it appeared that 2005 values differed little from 1999 values. Influence factors applied to oversized lots or similar parcels were also reconsidered.
12. Based on the updated field information and updated land assessments, we re-computed all market adjustment factors ("neighborhood factors") county-wide. Again, as with land values, this process resulted in upward revisions to the market factors in most instances. In only a few neighborhoods were the factors left unchanged (or decreased), but in those cases, it appeared that 2005 values differed little from 1999 values (or had decreased).
13. Reassessed all mobile home parks in LaPorte County based on income and sales analysis. Updated number of pads, land allocations, grades, conditions and effective ages.

As you can see from our abbreviated list of activities, Laporte County has taken the Annual Adjustment Process seriously, and in essence, virtually performed a general reassessment for the 2006 real property values. Laporte County has gone well above and beyond the Annual Adjustment procedures outlined in 50 IAC 21.

Specifically for Michigan Township, I am sending additional information to you by CD. This includes the files:

- "Michigan Township Land & Factors 2006" detailing prior land rates, prior market factors, 2006 land rates and 2006 adjustment factors. Subsequent minor additional adjustments have been made to this information and at least one neighborhood has been added to account for parcels in a flood zone. This illustrates the significant assessment differences instituted township-wide as a result of the annual adjustment process. These changes did not impact only sold parcels.
- "Detailed Value Abstracts 06 pay 07". This document compares then-final 2006 assessments with 2005 assessments with detail on the land and improvement portions of each assessment. These reports exclude agricultural property.

Response to Mr. Denne's Analysis

The second file sheds significant light on the accusations of your letter and that of Mr. Denne. If one compares the dollar change of assessments for Coolspring Township, we find that approximately 25 of 5254 non-agricultural parcels experienced no change in assessment (0.47%). In other words, virtually all non-agricultural parcels in Coolspring Township experienced a change in assessment. This compares with a sold parcel count in Coolspring Township per the "2006 Laporte Ratio Study revised final 02_8_07" file of approximately 108 parcels. In a statistical sense, if indeed sales chasing had occurred, one would certainly expect to find a predominance of revised assessments to occur amongst sold property as compared to the

assessments of unsold property. As we see in this case, since virtually all assessments township-wide have been updated based on sales information (where applicable), there is no basis for this accusation or inference. A Wilcoxon-Mann-Whitney or similar non-parametric test would reach the same conclusion in comparing those two groups (sold vs. unsold) as having a predominance amongst the parcels that have experienced changes in assessments.

Your letter specifically targets Michigan Township as having engaged in this unprofessional practice. If one compares the dollar change of assessments for Michigan Township, we find that approximately 10 of 15,353 non-agricultural parcels experienced no change in assessment (0.06%). In other words, virtually all non-agricultural parcels in Michigan Township experienced a change in assessment. This compares with a sold parcel count in Michigan Township per the "2006 Laporte Ratio Study revised final 02_8_07" file of approximately 830 parcels. In a statistical sense, if indeed sales chasing had occurred, one would certainly expect to find a predominance of revised assessments to occur amongst sold property as compared to the assessments of unsold property. As we see in this case, since virtually all assessments township-wide have been updated based on sales information (where applicable), there is no basis for this accusation or inference. A Wilcoxon-Mann-Whitney or similar non-parametric test would reach the same conclusion in comparing those two groups (sold vs. unsold) as having a predominance amongst the parcels that have experienced changes in assessments.

Further review of this file indicates that assessed values township-wide have increased by over \$1B. Obviously, that increase did not simply emanate from changing the assessments of sold property and ignoring the assessments of similar unsold property.

Mr. Denne's letter contains various inaccurate assumptions and statements concerning the annual adjustment process as a careful reading illustrates. Paragraph 2 implies that assessed values are to be "systematically" updated by means of a ratio study to reflect changes in value. This statement does not compare favorably with IC 6-1.1-4-5 (c) 2 (a) requiring all factors affecting value to be re-considered. As detailed above, LaPorte County has considered virtually every factor that affects value. For residential property, nearly every neighborhood in the county experienced updated land values and neighborhoods factors. Many residential neighborhoods were field-reviewed, re-delineated, and updates were made to land influence factors, grade, condition and effective age. Based on this effort put forth in LaPorte County, it should come as no surprise that residential property experienced varying rates of change within townships, neighborhoods, and housing types. Though Mr. Denne's analysis is largely flawed and meaningless, it does support the fact the LaPorte County has adhered to the statutory requirement that all factors affecting value be re-considered with the annual adjustment process in Indiana.

Further, the basis for "Analysis of the Data" is also completely inaccurate. Apparently, Mr. Denne compares the 2005 assessments with sales prices in 2004-5 time periods, and then computes a COD statistic. Even a basic understanding of Indiana assessments would indicate that the 2005 assessments were to be based on value as of 1-1-99 and sales from the relevant time period (1998-1999). Of course one expects to find significant changes to valuation between 1999 and 2005. Given that 2005 is the valuation basis for the 2006 assessments and 1999 is the basis for the 2005 assessed values, this is certainly a rationale for a "wide discrepancy" between COD's in 2005 and those in 2006. However, comparing this statistic COD against a similar one

for the 2006 assessments against 2004-05 sales would only indicate that the trending process resulted in more accurate assessments and/or that sales prices differed in the 2004-05 time period as compared with those in 1998-99. That is hardly surprising. It is not only totally incorrect but highly irresponsible to attribute such changes to "sales chasing". Indeed, there had been virtually a complete reassessment between the 2005 assessed values and those in 2006. Mr. Denne ponders that occurrence in the last lines of the first paragraph of page two of his letter. If he had checked his supposed facts and assumptions, the conclusions would likely not be so incorrect.

I certainly respect the DLGF's interest and position in reviewing the annual adjustment process across Indiana. Further, I would suggest a similar comparison of 2005 and 2006 assessments across all parcels (sold and unsold) in every county as part of the review process to ensure that "sales chasing" does not occur. Neither the data nor the facts support this allegation in Laporte County as a whole and/or Michigan Township specifically.

Various taxpayers, especially in the Michigan Township area of Lakeshore Drive, have outstanding real property appeals. Those appeals are either at the PTABOA level or with the Indiana Board of Tax Review. Mr. Wendt is one of those taxpayers. I would certainly request that the DLGF consider the source of such inflammatory commentary. Mr. Wendt will have the ability to present such arguments and statistical evidence at a hearing and have all the facts considered in that venue. I do not believe the DLGF's current mission includes weighing evidence in such matters. This procedure seems to be establishing a poor precedence in that a single disgruntled taxpayer can hold county tax rates and collections hostage until they receive satisfaction at some level.

Further, Mr. Denne demonstrates minimal understanding of both Indiana's annual adjustment process and assessment system. It is certainly regrettable that the DLGF would even consider his conclusions, based on the error-laden preface to the statistical calculations. Should the DLGF consider the use of an outside vendor to assist with any statewide ratio study, I would hope that consideration not be given to a vendor that also represents taxpayers. This inherent conflict would lessen the credibility of the DLGF and provide taxpayers less confidence in the state's property tax system.

In conclusion, I respectfully request that Mr. Denne's letter and analysis be dismissed as having no factual basis. Sixty-five thousand other Laporte County taxpayers anxiously await 2006 pay 2007 tax rates. I strongly urge the DLGF to approve LaPorte County's 2006 Ratio immediately so that the taxpayers in LaPorte County, especially those along Lakeshore Drive in Michigan Township, will not incur the added expense of further delay.

Sincerely,

Frank Kelly, PhD.
Nexus Group