

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7319

BILL NUMBER: HB 1337

DATE PREPARED: Jan 14, 2000

BILL AMENDED:

SUBJECT: Various property tax matters.

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill requires the State Tax Board to review 1/8 of the personal property tax returns for taxpayers that have significant amounts of personal property assessed value and make any corrections in assessed value the Board finds are necessary. It allows the State Tax Board to impose additional conditions for the orderly performance of a reassessment. The bill reestablishes the county land valuation commission. This bill provides for the assessment of industrial facilities by the State Tax Board. It also makes various changes concerning property tax appeals and assessor training.

Effective Date: Upon passage; July 1, 1999 (retroactive); January 1, 2000 (retroactive); July 1, 2000; January 1, 2001; January 1, 2002; January 1, 2004.

Explanation of State Expenditures: Personal Property Review: The State Tax Board would be required to annually review one-eighth of all property tax returns that have significant amounts of personal property and make corrections in the assessed value as necessary. This provision could increase the State Tax Board's administrative expenses, depending on the type and number of reviews that would be performed.

Industrial Assessments: Under the proposal, the State Tax Board would assess each industrial facility in the state with an estimated true tax value of \$25 M or more. This provision could increase the State Tax Board's administrative expenses for personnel and travel. The number of industrial facilities with a true tax value of at least \$25 M is currently unknown. The actual increased costs to the Tax Board would depend on the number and complexity of these facilities. Assessments of industrial property could be more uniform under the proposal making the distribution of the tax burden more fair and equitable to all taxpayers. If these assessments are more uniform than under the current system, appeals of industrial assessments could be reduced.

Property Tax Appeals: Under current law, the State Board of Tax Commissioners' Appeals Division must conduct a hearing within six months after a petition for appeal is filed. The Division must then make a determination within 45 days of the hearing or by the date set by the Chairman in an extension order. The

extension may not be greater than six months. If the Division fails to make a determination within the allowable time period, the petition is considered to be denied by the Division and by the State Tax Board as a final determination. This is not a final determination of the State Tax Board if the Tax Board intends to review the Division's determination within 15 days or if the Tax Board determines to rehear the appeal. Under the proposal, these provisions would only be applicable to appeals filed with the Division after December 31, 2001.

Under this proposal, for appeals filed with the State Tax Board after December 31, 1999 and before January 1, 2002, the Tax Board would have 12 months to conduct a hearing and issue a final determination. If the Tax Board would fail to issue a determination in this time frame, then the taxpayer would be able to request the State Tax Court to grant an appeal. The Tax Court would have 60 days to inform the petitioner as to whether the Court will hear the appeal or not. If the Tax Court denies the appeal request, then the Tax Board would have up to 12 months after the denial to issue a final determination.

Property Tax Appeal Representation: The State Board of Tax Commissioners is currently required to adopt rules governing the practice of representatives before the State Board of Tax Commissioners and the county property tax board of appeals. This bill would prohibit the rules from restricting the ability of a representative to practice before the property assessment board of appeals or the State Tax Board just because the representative is not an attorney. Under the proposal, the rules also would not be able to restrict the admissibility of testimony based on the method by which the representative or a witness is compensated.

Deduction and Abatement Study: This bill requires the Tax Review Division of the State Board of Tax Commissioners to conduct continuing studies of real and personal property tax deductions and abatements. The Division, in conjunction with the Department of Commerce, is to prepare a biennial report that includes the benefits achieved by granting abatements, the amount and type of deductions and abatements by taxpayer and property type, and recommendations on retaining or repealing each type of abatement. The Chairman of the Tax Board must present the report in each even numbered year to the State Budget Committee and submit the report to the Legislative Services Agency for distribution to the General Assembly. The Tax Board should be able to accomplish this task with current resources.

Assessor Training: Under this provision, the State Board of Tax Commissioners is required to hold training sessions for new assessing officials, county assessors, and members of county property tax assessment boards of appeals at locations and times that are sufficient to allow an opportunity for each official to attend the training.

The Tax Board currently holds a two-day training session in each of seven locations around the state after an election in which assessing officials are on the ballot. The sessions are currently held in Huntington, Valparaiso, Lafayette, Greenfield, Greencastle, Scottsburg, and Vincennes. In non-election years, the Tax Board holds sessions for new officials only in Indianapolis.

Under the proposal, the State Tax Board is required to offer enough continuing education sessions so that each level one and level two assessor may attend sessions every two years to maintain their certification. Training programs must include basic assessment administration and level one certification preparation.

Prior to 1999, the Tax Board held three one-half day continuing education sessions each year at each of the seven locations listed above. In 1999, the Tax Board held the same number of continuing education sessions at the same locations but increased them from one-half day to two-day sessions. This amounted to 21 two-day continuing education sessions in 1999.

The State Tax Board is also be required to give level one and level two assessor-appraiser examinations at times that coordinate with the training sessions conducted for new assessing officials, county assessors, or members of county property tax assessment boards of appeals. The State Board is required to annually hold these examinations in at least four locations in addition to Indianapolis. Additionally, the Tax Board is required to give priority to assessing officials and to accommodate all individuals who wish to enroll at each examination session.

The State Tax Board could incur additional expenses for holding additional assessor-appraiser training sessions and certification examinations if necessary. These expenses would include staff travel and rent (if any) for meeting space. The actual impact would depend on the number and location of any additional meetings needed.

The bill requires the State Board to revoke the certification of any individual who commits fraud or misrepresentation with respect to the certification examination. The bill also requires the State Board to give notice to and hold a hearing to consider evidence before it may decide whether to revoke a certification. The bill requires the State Tax Board to adopt rules to establish the criteria for revocation.

Appeals Backlog: The bill makes an appropriation to the State Board of Tax Commissioners from the State General Fund in the amount necessary, as determined by the State Budget Agency, to eliminate the backlog of appeals before January 1, 2003. According to the Tax Board, there is currently a backlog of 3,400 to 3,500 appeals. At \$350 per appeal, the amount needed to pay outside contractors to assist with the backlog is estimated at about \$1.2 M. The Tax Board reports that there are few outside contractors available to do the work.

State Tax Board Employees: Current law requires that the Tax Board's field representatives, supervisors, Tax Review Division employees, and employees hired to prepare school assessment ratios and adjustment factors are to be chosen from a list of applicants who have passed an open, competitive examination. The Tax Board must also currently choose these employees so that no more than one-half of each group belongs to any one political party. This bill would remove both of these hiring requirements.

State Tax Board Generally: The funds and resources that may be required in the above sections could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; or (5) New appropriations. As of December 1, 1999, the State Tax Board had 99 positions authorized. Ninety-two positions were filled leaving seven vacant. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

Real Property Values: Under this proposal, in CY 2001, the Commission on State Tax and Financing Policy would be required to study the issue of annual real property valuation adjustments and the need for periodic physical inspections. The Commission could then recommend statutory changes for implementation of an annual adjustment system and changes to laws governing general reassessments when annual adjustments are in place.

Explanation of State Revenues:

Explanation of Local Expenditures: ***County Land Valuation Commissions:*** Under this proposal, the

county fiscal body would be permitted to grant a per diem to the county and township assessors for each day that the assessors are engaged in service to the county land valuation commission. The per diem rate for each county is set by the individual county. The fiscal impact of this provision depends on whether or not the county grants a per diem to the assessors, the amount of time that the assessors spend on commission work, and the per diem rate in the county.

Property Tax Appeals: Currently, the county assessor notifies the county auditor of all assessments under appeal. The proposal would require the county assessor to notify the State Tax Board as well. In addition, the county assessor would notify all affected taxing units when the appealed AV constitutes at least 1% of the unit's gross certified AV from the preceding year. The bill also requires the notification to include the appellant's name, address, current year AV, and prior year AV. Preparation and mailing of these notices could increase county assessor costs.

Under current law, the county property tax assessment board of appeals must hold a hearing within 90 days after a preliminary conference if there are still disputed issues. For appeals filed after December 31, 1999 and before January 1, 2002, the appeals board would be required to hold the hearing at its earliest opportunity during the year the petition is filed or in the following year under this provision. For appeals filed after December 31, 2001, the board would continue to have 90 days to hold the hearing, except in Lake and Marion Counties, where the board would have to hold the hearing within 180 days.

Also under current law, the taxpayer may present reasons for disagreement with the assessment at the hearing. The township or county assessor is required to defend the assessment decision on the issues raised by the taxpayer. The appeals board is then required to prepare written findings and render a decision within 60 days of the hearing. The appeals board is also required to accept the taxpayer's appeal if the township assessor does not hold a preliminary conference. Under the proposal the Lake and Marion County boards of appeals would be required to prepare the written findings and render the decision within 120 days of the hearing.

Assessor Certification: This bill would also require counties to set the pay of the county assessor who has attained a level two assessor/appraiser certification at an amount that is \$1,000 greater than an assessor without the certification. This provision could cost each county \$1,000 per year, totaling up to \$92,000.

Explanation of Local Revenues: County Land Valuation Commissions: County land valuation commissions were abolished by HEA 1783 (97) in favor of having township assessors determine land values by November 1 preceding the effective date of a general reassessment. This bill reestablishes the county land commissions in a similar form as they existed before 1997. Each commission would be comprised of nine members including the county assessor, who serves as chairman, two township assessors, one real estate broker or salesperson, four individuals representing the four classes of land, and one individual representing a financial institution. One of the township assessor seats would be filled with the assessor of the township currently under review.

Under this provision, the commissions would determine the value of all land in the counties using State Tax Board guidelines. The county property tax assessment board of appeals would review the values and make any necessary modifications necessary to provide uniformity and equality. The State Board could modify the value of the taxpayer's land or any other land in the county or adjacent county in order to provide uniformity and equality.

Since the county land valuation commissions would determine land values on a county-wide basis, it is

assumed that there would be an initial high level of uniformity within the county. Under current law, if the township assessors determine land values, the values would probably be uniform within the township, but they may not be uniform county-wide. Better uniformity among property assessments would help to produce a fairer distribution of the property tax burden.

Real and Personal Property Values: This bill would provide for the just valuation of non-agricultural land based on comparable sales and the just valuation of agricultural land based on income capitalization. Currently, agricultural land is valued at \$495 per acre. The valuation methods would use classifications and the most recent objectively verifiable data concerning acreage, lots, size, location, use, productivity, zoning, and accessibility. The bill also specifies that the value of improvements is to be based on replacement cost and depreciation using classifications and the most recent objectively verifiable data concerning size, location, use, construction type, age, condition, and reproduction cost.

The bill also requires the State Tax Board to provide instructions for determining the starting point for the valuation of used personal property after sale or transfer.

This bill would allow the State Tax Board broad ability within its rulemaking powers to determine the method of assessment of real and personal property. **The actual fiscal impact of these changes in property valuation depends on the methods of assessment devised in the assessment rules that the State Tax Board finally promulgates.**

Sales Disclosure Forms: A sales disclosure form must be filed with the County Auditor any time real property is sold or transferred for valuable consideration, except a transfer to charity. Until December 31, 1999 the forms were confidential and could only be used by the county land valuation commission in determining land values and by the State Board of Tax Commissioners. This provision would retain the forms' confidentiality through December 31, 2001. This provision has no real fiscal impact.

Special Reassessments: Currently, The State Tax Board may order that all or any part of the state be reassessed in order to maintain a just and equitable valuation of real property. This bill would permit the Tax Board to impose conditions of the reassessment that the Board finds appropriate for the orderly performance of the reassessment. These conditions may include outside supervision by the Tax Board or its designees. The bill also requires all costs of the reassessment to be paid from the county Reassessment Fund. The Tax Board may also increase the property tax levy for that fund in order to meet the costs incurred.

State Agencies Affected: State Board of Tax Commissioners; State Budget Agency; Department of Commerce.

Local Agencies Affected: County assessors; County auditors; County land valuation commissions; County property tax assessment boards of review; Township assessors.

Information Sources: State Board of Tax Commissioners; *Staffing Report*, 12/1/99, State Personnel Department.