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Get ready to pay more this year

Lower values, income tax shortfalls, retiring credits all point to bigger property tax bills this spring for most people

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The aftershocks from the recession are about to hit local property tax payers. A dip in income tax revenues, coupled with falling assessed valuations of property and a few other factors are prompting Howard County officials to send out a warning. This spring's tax bill is going to be larger.

According to Laurie Martin, chief deputy in the Howard County Auditor's Office, the state certified a 14 percent drop in income tax revenue at the end of August. Most local budgets for 2011 were adjusted to



Shepherd

account for that decrease. But what may not have been apparent to property tax payers at the time is the impact the drop will have on them.

It means higher tax bills in April. Howard County assessor Jamie Shepherd explained how the income taxes and property taxes are related in this case.

"Since the LOIT (Local Option Income Tax) is a dollar-for-dollar replacement on

the property tax bill, and that income tax revenue is lower, the credit will be lower, resulting in a higher net liability to the homesteaded taxpayers," said Shepherd. "Basically, everyone's taxes will increase if they are under the one-percent circuit breaker cap."

Which circuit-breaker applies to a property will have much to do with the tax bill, Shepherd said. Those properties already at the 2 per-

cent non-homestead cap, for instance, might actually see a decrease in taxes because of a lower assessed valuation on the property.

Alternately, businesses that have not hit their 3 percent tax cap stand to suffer an increase just like the 1 percent homesteads. And agricultural land? That's where some big increases will be seen.

"The state sets the agricultural rates, which have

increased again," said Shepherd. "It went from \$1,250 to \$1,290 per acre this year. And it will go to \$1,500 an acre for 2012. That's a big increase. Coupled with that, the market price for agricultural land has increased. Since they are seeing an increase in assessed value in a year where most other properties are seeing a decrease, they are going to see a sub-

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continued from page A1

stantial increase in their tax bill this year."

Howard County treasurer Martha Lake said it is important that taxpayers understand that the increase is coming so that they can prepare ahead of time and adjust their budgets accordingly.

"It depends what taxing unit you are in and what level of circuit-breaker you have, but this will specifically hit the city of Kokomo harder than it will elsewhere," said Lake. "We want people to know what to expect as soon as we learn about it."

Another factor in the impending increases is the elimination of a homestead credit linked to gambling operations in the state. More than \$80 million over three years of state homestead credits — the "racino" money, as Martin termed it — will go away this year.

"In 2010, we had a 76 percent drop in that credit, but there was \$7 million from it that we won't have this year," said Martin. "We'll get zero."

Lake explained that the tax increase probability also was affected by the drastically lower personal property tax return filed by General Motors last year. Though the county is fighting to restore the company's assessed values to its former levels, the 96 percent drop meant a hefty burden had to be absorbed by all other taxpayers.

"The assessed value is lower because of GM," said Lake. "Tax collections will be what they should be because levies weren't lowered, but individual residents will pay a higher tax than what we had originally thought."

The levies remaining at maximum is a key point in this. All local taxing units requested the maximum amount of property tax collection possible, regardless of all the factors in play. Therefore, when a major taxpayer like GM drops its tax liability by 96 percent, everyone feels it — even the governmental units asking for the maximum levy, thanks to the circuit-breaker caps.

Shepherd pointed out that roughly \$8.1 million in revenue will be lost to governmental units because of the property tax caps. That's because tax liability over the cap cannot be shifted to taxpayers that have not yet hit the cap; the money simply won't be collected.

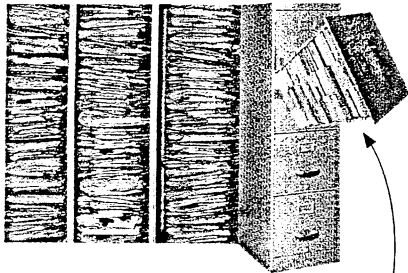
"It could have been even worse," said Shepherd. "Had Chrysler not settled its personal property tax issue, all taxpayers would have hit the caps, and local government would have lost \$20 million in tax revenue. Even at \$8.1 million, as governmental units experience more losses because of the circuit-breaker, that could

potentially affect services."

The officials stated that the state has not yet issued tax rates for this year's property tax collection, so there may be some adjustments to the current liability projections. However, they still warned that taxpayers need to prepare for that bigger bill this spring.

Taxes

Property Tax Appeals Flood Cities and States



- ▶ The decline in real estate prices matches that of the Depression
- ▶ "We're constantly buying new file cabinets to hold all the cases"

Cities and states, already straining to balance budgets, are in for another shock in 2011 as hordes of property owners appeal tax assessments, demanding lower levies that reflect battered real estate values. Less property tax revenue means more pressure on local governments to cut services, especially public schools and police and fire departments that rely heavily on those taxes.

U.S. home prices have tumbled 30.5 percent below their April 2006 peak, according to the 20-city S&P/Case-Shiller index as of Oct. 31, the latest available figure. That matches the decline in values during the Great Depression's darkest days, from 1925 to 1933, according to Yale University economist Robert J. Shiller, who helped develop the index.

In Michigan, where Governor-elect Rick Snyder has warned that hundreds of towns face financial crises, tax appeals are overflowing at the office of Patricia L. Halm, head of the state Tax Tribunal. "We're just getting swamped," says Halm, 54, who was appointed to the Lansing-based administrative court in 2003. "We're constantly buying new file cabinets to hold all the cases. We even have six surplus file cabinets in the courtroom."

The state's backlog of tax appeals involving levies above \$100,000—mostly commercial and industrial properties—shot up to 14,236 this year from an annual average of about 6,000 during the past decade. The

Politics & Policy

backlog of claims for most residential properties, or those with tax bills below \$100,000, was at 28,558 at the end of September, the most in the 13 years the state has kept detailed records. An appeal involves the property owner submitting an appraisal and other records to local or state appeals boards or courts to support the claim that a tax assessment is too high.

Clark County, Nev., which includes Las Vegas, had 8,300 appeals last year, up 38 percent from the year before and more than three times the number of appeals in 2008, says Rocky Steele, assistant director of assessment services. "It was a big year, the biggest we've ever had," he says. The county's taxable real estate value for the 2010-2011 fiscal year fell to \$184 billion from \$263 billion the prior year. The reduction will cost the county about \$514 million in lost taxes. Almost all the hotel casinos and major property owners received reductions, Steele says.

Across the country, the situation is similar. New Jersey homeowners, who pay some of the nation's highest real estate taxes, filed a record 18,147 appeals in Tax Court during the fiscal year ending June 30, up 80 percent from fiscal 2007. In Atlantic City, where 11 casinos account for 74 percent of the property tax base, the city has exhausted a reserve for tax appeals that in 2006 held \$26 million, according to a Nov. 4 report from Moody's Investors Service. All Atlantic City casinos have pending property tax appeals, says Moody's, which reduced the city's credit rating to three levels above speculative grade.

The outliers are Miami-Dade, Broward, and Palm Beach Counties in Florida, where appeals are declining. They have lowered assessments by about 22 percent from 2008 to 2010 after years of steep drops in home prices.

As the appeals wind through the legal process, assessors will have to adjust taxes to reflect market values, and property tax receipts will have to come down, says Michael A. Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago. "If the appeals are largely successful, they will generate a lot more." —*Jeff Green and Tim Jones*

The bottom line As real estate values plunge, many homeowners are appealing property taxes, adding to the financial woes of cities and states.