

Lake County Taxing—A Case Study

Morton J. Marcus

Director Emeritus, Indiana Business Research Center, Kelley School of Business, Indiana University

Parcel-level property data for the years 2002 (before assessment) and 2003 (new assessment practices) were analyzed to examine what happened in Lake County to bring about the tax shifts that have been of such great concern in that part of the state (see **Figure 1**). By examining the county as a whole,

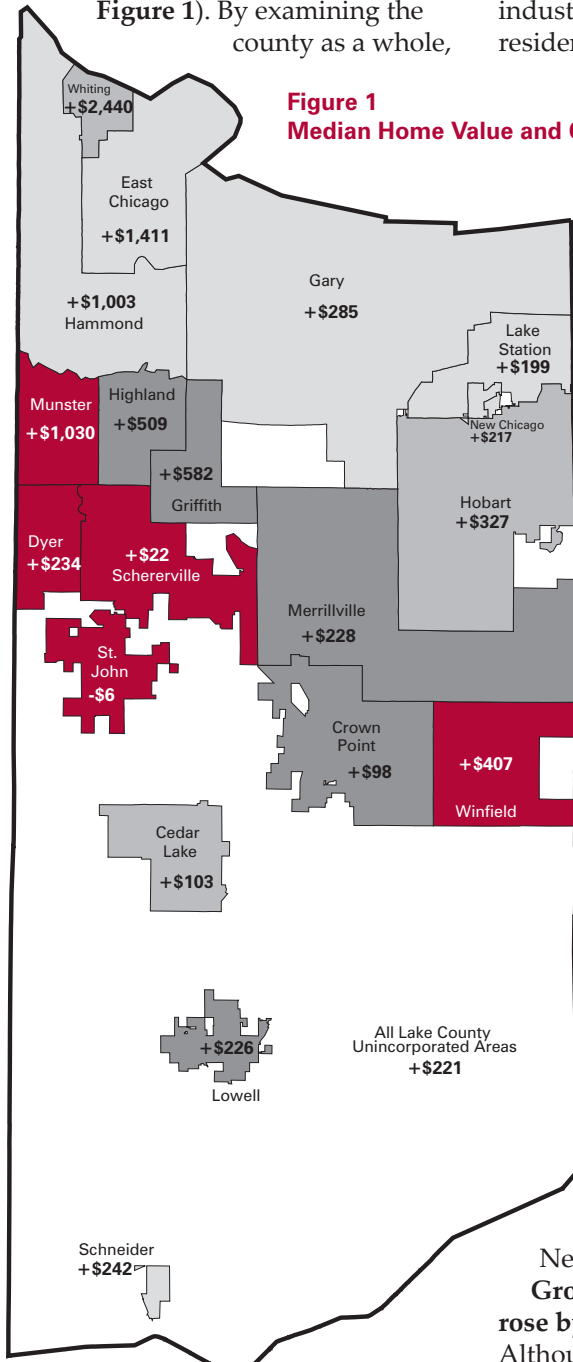
(the aggregation of all taxing units in the county) the basic pattern became clear: The small increase in business personal property values shifted more of the taxes to real property, where there was a major increase due to reassessment. Among real property taxpayers, there was a shift from industrial and other taxpayers to residential taxpayers.

property values increased, the balance between the two sectors shifted. GAV for real property rose 127 percent while GAV for personal property increased by only 15 percent. The growth in real property GAV accounted for 96 percent of the increased GAV of the county and the share of real property rose from 74 percent to 85 percent of total GAV. This shift of 11 percentage points in GAV was a prime factor in increasing the share of the tax burden on real property owners, including residential taxpayers (see **Figure 2**)

Number of parcels increased by 1,083 or 0.4 percent. Reassessment and economic development together increased the number of parcels in the county. The number of parcels not identified by type of use (unallocated) fell a dramatic 27 percent as those parcels were more properly identified in the reassessment process. At the same time, new housing units on previously identified agricultural land increased the number of residential parcels by 1,513. This change in classification alone causes an apparent shift of taxes to the residential sector.

Gross assessed value of real property rose by \$13 billion or 127 percent. The doubling of GAV in the county was due to two factors. First, there had been no reassessment in the past decade. Second, and perhaps more important, was the mandated change in assessment practices to a more objective, market-oriented approach for real property. While GAV for residential properties went up by 185 percent, agricultural properties increased by 163 percent, and commercial properties rose by 112 percent. GAV for industrial properties decreased by 8.6 percent. On balance, reassessment of real property and economic changes in the community increased the residential share of real property GAV from 51 percent to 64 percent in Lake County while cutting

**Figure 1
Median Home Value and Change in Tax Bill**



Median Home Value, 2000

- More than \$130,000
- \$100,001 to \$130,000
- \$85,000 to \$100,000
- Less than \$85,000

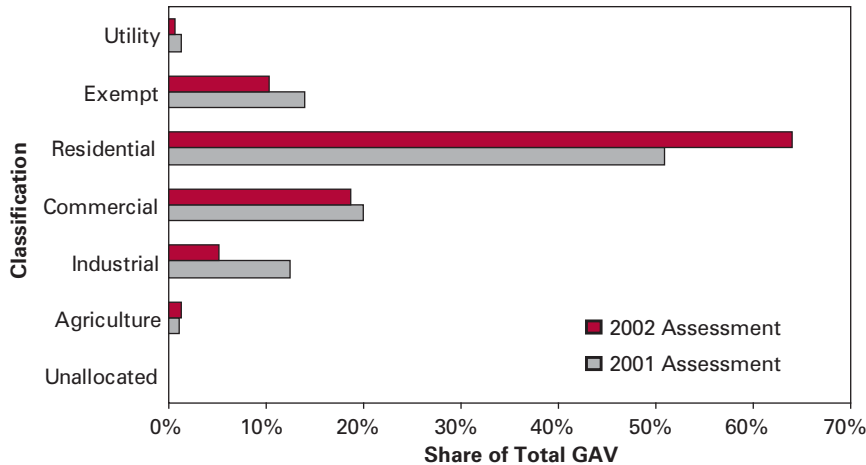
Label shows change in average residential tax bill between 2002 and 2003

Findings

Levies rose by \$9.6 million or 1.2 percent. The modest 1.2 percent increase in levies for all governments in Lake County masks significant differences among the various communities. Of the nineteen cities and towns in Lake County, only four had percent changes less than the countywide average of 1.2 percent. These were Gary (0.3 percent), Schneider (-3.3 percent), Whiting (-10.3 percent), and East Chicago (-41.1 percent). All the rest had increases ranging from 3.6 percent in Schererville to 61.6 percent in New Chicago.

Gross assessed value of property rose by \$13.5 billion or 97 percent. Although both personal and real

Figure 2
Share of Total Gross Assessed Value of Real Property



industry's share from 12.5 percent to 5 percent.

Exemptions and deductions increased by \$4.3 billion or 142 percent. Tax bills are not based on GAV. The legislature permits a wide variety of exemptions and deductions from GAV that lower the value of real property for tax purposes. One of the major changes was an increase in the homestead deduction of \$6,000 to \$35,000 for owner-occupied housing. Where the residential sector alone accounted for 39 percent of all exemptions and deductions in 2001, it was up to 58 percent in 2002.

Net assessed value of real property grew by \$8.7 billion or 120 percent. Just as there was a shift to residential properties from industrial properties in GAV, the same shift also existed in NAV. Residential property accounted for 76 percent of the increase in net assessed value in Lake County, gaining \$6.6 billion, while the NAV for industrial property fell by \$147 million. Where residential property had been 56 percent of total NAV, it rose to 67 percent, while industrial property declined from 17 percent to 7 percent. All other sectors remained about the same. Thus, there was a major shift from industrial to

residential property in the base on which tax bills are calculated.

Taxes billed for real property rose by \$52.5 million or 12 percent. If there had been no increase in levies, there might have been no increase in the total amount of taxes billed. It is possible, however, for real property taxes to rise if other government revenues, such as taxes on personal property, transfers from the state or federal governments, or user fees, were to fall. The overwhelming factor causing taxes billed in Lake County to increase by \$52.5 million was not an increase in the levies (just \$9.6 million). Governments set their levies long before they knew what their assessed value was to be. Hence, unexpectedly higher reassessments gave local governments an excess of tax billings over their levies for the year. As a consequence, constant levies reduced real property tax rates when net assessed values rose. Additionally, the bills of individual taxpayers declined because of the increase in the number of parcels.

Because of the differential credits given to homesteads and businesses, as well as the different credits available for each tax district, the shift in taxes billed does not match identically with the shift in NAV.

The basic shift was from industrial to residential property. Whereas in 2002, residential property paid 48 percent of the taxes billed, that share rose to 61 percent in 2003 while industrial property shrank from 24 percent to 10 percent. All other classifications remained about the same.

Average tax bills went up \$203 or 11.5 percent. Although the amount of taxes billed rose by 12 percent, the average bill rose by 11.5 percent because more parcels were billed. The average residential bill increased 43 percent, or \$453, from \$1,063 to \$1,515. The average commercial bill had the greatest dollar increase at \$1,170, rising 16 percent from \$7,357 to \$8,526. The average industrial bill fell 53 percent or \$20,390.

Effective tax rates declined by 51 percent. When the taxes billed are divided by the gross assessed values of the properties, we get the effective tax rate. For all properties in Lake County combined, this figure fell from 4.3 percent to 2.1 percent between the payable years 2002 and 2003. This occurred because reassessment caused GAV to rise at a proportionally greater rate than did levies. The decline in the effective rate was further propelled by substantial increases in property tax deductions. As seen in the following figure, the effective rates for residential property fell from 4 percent to 2 percent, a decline of one-half. The effective rates for industrial properties fell from 8.4 percent to 4.3 percent while commercial properties went down from 5.4 percent to 3 percent and agricultural properties declined from 4 percent to 1.9 percent. Again, where these properties are located is the most important factor in determining their tax rates. It is not the case that there is systematic discrimination against industrial property nor is this evidence of favoritism to agricultural land. ■

Access the complete Lake County Government Finance Study at www.ibrc.indiana.edu/lakegov