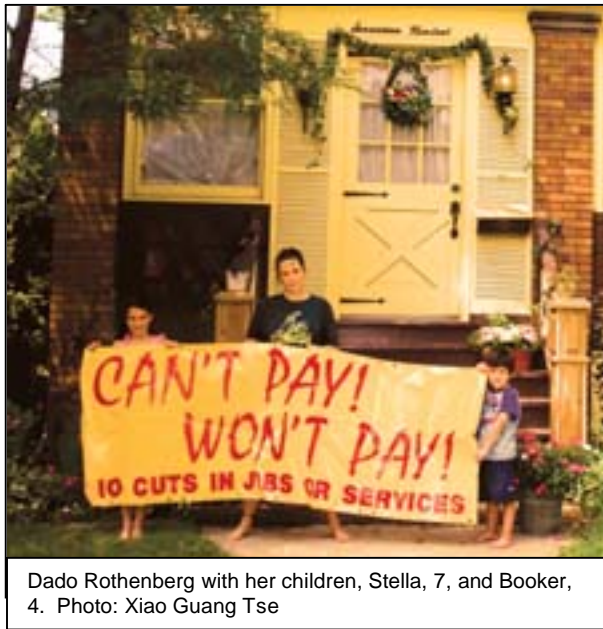


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Shifting the Burden

Tax breaks for big industry are hurting homeowners in Lake County, Indiana

by Tom Tresser - <http://consciouschoice.com/2007/10/shiftingtheburden0710.html>



Dado Rothenberg with her children, Stella, 7, and Booker, 4. Photo: Xiao Guang Tse

How would like your tax bill to drop by 51 percent in one year?

That's what happened to the major industrial firms of north Lake County, Indiana in 2003. U.S. Steel, Ispat Inland Group, International Steel Group and BP Products North America collectively paid \$59.4 million less in 2003 than they did in 2002 as a result of special legislation, HB 1858. The tax break was part of a series of events that continues to cause financial trauma to the homeowners of northwest Indiana.

Andrew and Dado Rothenberg are homeowners in Whiting, Indiana, where BP's refinery has been located since John D. Rockefeller built it in 1889. Their property tax bill has skyrocketed along with that of thousands of other residents of north Lake

County, which hugs Lake Michigan about 48 miles east of Chicago. The young couple experienced a 1,200 percent increase in their property tax bill, which soared to \$4,911.46 in 2005 from \$378.40 in 2003.

Dado Rothenberg, 37, loves the neighborhood. "I grew up here and my mom lives nearby. I thought this would a great place to raise our kids. We both work in the city and when we bought the house in 2001 it seemed like a perfect situation, but since have faced a tough choice — we had to give up our health insurance in 2004 after our son was born in order to keep our home."

Rothenberg's anger over her increased tax burden led her to organize public meetings in 2004. The Post-Tribune covered one meeting attended by 100 angry neighbors with an article headlined "'Can't pay, won't pay' tax protesters slogan." But, despite meetings, marches and protests, the tax hikes stuck and continue to pop up on the resident's property tax bills.

What Happened Here?

It turns out a series of related fiscal policy decisions led to the tax hikes. First, the State of Indiana directed that all property in the state be re-assessed in 2002. The state was forced to move to a "fair value" system as a result of a law suit. The state directed Lake County to

hire Arthur Andersen to conduct the audit in Lake County — to the cost of \$25 million. Many mistakes assessing value were made and people ended up getting notices telling them that their homes were now being assessed as worth much more than previously estimated. At the same time, some state taxes were abolished, such as the inventory tax, which resulted in less revenues coming into the state and county governments. Finally, HB 1858 was passed and shifted an enormous amount of taxation revenue from industry to small property owners.

HB 1858's official synopsis describes the bill as "Steel mill and refinery property taxes. Allows a taxpayer to elect a special property tax valuation method for certain integrated steel mill and oil refinery/petrochemical equipment." The bill was effective retroactively to January 1, 2003. Essentially, four targeted major corporations were allowed to re-assess their equipment and declare its value to be 20 percent lower than they were previously permitted to do. The equipment and physical plants were now worth less and so taxed at a lower rate, which meant much less property tax revenue was collected from these companies in 2003.

The result was what Lawrence DeBoer, Professor of Agricultural Economics at Purdue University and a consultant to the Indiana Legislature on fiscal matters, termed a "perfect storm" of tax woes. The bottom line impact was a dramatic property tax increase to the small business owners and residential owners of Lake County.

As a consequence of these policy shifts, the major industries of Lake County paid less in property taxes in 2003 than they had the previous year, while the residences of Lake County were taxed an additional \$95 million over what they had been taxed in 2002. According to the Indiana State Government Legislative Services, Indiana County Property Tax Reassessment Studies, Lake County Property Tax Payments 2002-2003, from 2002 to 2003 residential property taxes in Lake County increased to make up 47.6 percent of all property taxes (from comprising 31.5 percent the year before), while, at the same time, industrial taxes share of the total decreased to 16.6 percent (from comprising 31.9 percent of all property taxes in 2002).

So, while big industry paid less in taxes, the small businesses and homeowners were left to make up the difference. "The impact to the city of Whiting was \$16 million decrease in industrial property taxes for the first year of the new process," said Lake County Auditor Peggy Katona. "In Lake County the only source of make-up revenue was the property tax. We originally had 20,000 appeals as a result of the double hit of re-assessment and higher tax rates. We're still working on about 2,500 tax appeals from that time. For our residents it was total sticker shock, a nightmare."

George Mahoney, 55, has lived all his life in Whiting. He bought his home in 1980 and has since seen his taxes skyrocket from about \$300 in 2002 to over \$6,500. While Mahoney, the Rothenbergs and other homeowners in Whiting realized that their homes were historically under-taxed and expected increases as a result of the new system of assessment the state had put in place, they weren't ready for the huge increase that resulted.

According to Mahoney and Rothenberg, neighbors began selling their cars, giving up health insurance and taking in boarders to get cash for the higher tax bills. Worse, Mahoney has seen some neighbors walk away from homes too expensive to keep yet not desirable enough to sell. "Right around me there are five abandoned homes," he says. "You see properties burnt out. Maybe that was the only way for the owner to get money out of them."

Mahoney feels like he's been dealt a bad hand. "We don't own a mansion, our house is run down. We've got ants, mice, centipedes and bad water pressure — plus, it's a hundred years old and sits on a small lot. We've had to deal with the pollution in the air, in the water and in the ground. Our son is ill and we believe it may be related to the pollution, but before the higher tax bill, it was sort of worth it because you could afford to live here."

"I feel kind of numb," he says, "If I didn't have savings, I'd have to take out a loan to pay the taxes on a house that's already paid off. Ultimately we're going to have to move, but I don't know who would buy our house."

Rosa Oliver, 57, has lived in her Whiting home since 1983. Her property tax bill is almost \$8,000, up from about \$1,000. "There was nothing I could do about it. I appealed the re-assessment after my house was assessed at \$167,000 — and it was adjusted to \$99,000, which is closer to what I believe it's worth," she says. "But I just got the latest assessment and it's back up to \$162,000. Now I have to fight it all over again."

She was laid off from her steel mill job and last year underwent chemotherapy for breast cancer. "I paid \$45,000 for this house and simply can't afford to buy it over and over again in the form of these high property taxes. I was looking forward to retirement and had put aside some money, but now with these higher taxes the future isn't so certain."

Although her situation is grim, she maintains a sense of resolve. "I'm still working, but it has to be worse for older folks who are on a fixed income or in poor health. I'm beyond disgusted. I put a big sign in my yard that said 'Governor Mitch [Daniels] — We Need Help.' The TV stations came by to interview me but the Governor didn't do anything to really help."

She echoes Mahoney's sense of being stuck holding the grimy end of the tax stick. "We weren't treated fairly. I love the location. Whiting is an old town. We keep up our homes, but you can't compare it to Munster and Merrillville. We're paying as much taxes as they are and they have bigger homes and lots of land. We've got the industries in our back yard, but we deal with it. It used to be a fair trade — pollution for lower taxes, but now we've got the pollution and the higher taxes."

Booker Blumenberg, Jr., is the Calumet Township Assessor and has been in office 16 years. He warms to the subject of property taxes for his community. "The simple reason for the change is that the major corporations in Lake County had the resources and clout to get legislation passed to reduce the taxes on themselves and in so doing, shifted the burden to homeowners and small business owners."

Blumenberg serves the township of 120,000 whose major city is Gary. He estimates that the total shift of taxes from big industry to small property owners to be about \$60 to \$80 million annually. He estimates that Gary and East Chicago to have lost even more property tax revenue from industry than Whiting. "In Gary alone in 2003 the estimated tax shift was \$50 million. It was the same for the North Township, which includes Whiting, East Chicago and Hammond," he said.

"These major corporations were claiming hard times. But now stock prices are up, income is up and they're doing well. I think it's unfair to the rest of the taxpayers. Some people are losing their homes. The tax sales in Gary have increased dramatically. People are voting with their feet and moving out."

Representative Charlie Brown (D-Gary) represents the 3rd District, which includes Gary, in the Indiana House of Representatives. He supported HB 1858 "because it seemed like something that would benefit all. No one knew it would shift the burden so dramatically," he said. "For two or three years it was the hottest issue. Just about everyone was angry. I had a sizable property tax increase myself." Now, he says, people are waiting for their 2007 assessments and tax bills to be published and expects the anger to swell up again. As for remedies? "They can appeal. That's about all they can do."

BP, one of the beneficiaries of the special tax breaks certainly fits Assessor Blumenberg's description of corporate success. In 2003, the year of the adjustments, BP earned \$233 billion, for a net profit of \$10.3 billion. In 2006 they enjoyed \$274 billion in revenues for a

net of \$22.6 billion. They are the world's third largest integrated oil concern, after ExxonMobil and Royal Dutch Shell. BP operates in 26 countries with 27,800 gas stations and plants in 23 countries. Its facility in Whiting employs 1,700 people.

But the trend in Indiana and America is that large corporations — especially profitable corporations, have been paying less and less tax over time. According to a 2004 article in *The Indiana Business Review*, the percent share of the total Indiana state tax paid by corporate income taxes plummeted from over 12 percent in 1990 to just 6 percent in 2003. A 2004 article in *Forbes* reported that IRS data indicated that the overall share of federal taxes paid by corporations fell to less than 10 percent, down from 13 percent in 1997.

Tom Kielman, the Director of Government and Public Affairs for BP North America says that BP was a supporter of the legislation that gave it and a few other large industrial concerns a large tax break. "This legislation made us more competitive and able to attract more capital to our facility. We have announced a proposed investment of over \$3 billion to renew the Whiting facility for the next generation."

He believes the significant property tax increases experienced by the residents of north Lake County were harsh but justified. He counts the overall residential property re-evaluation process, an historically under-taxed property inventory and the decrease of industrial property taxes as factors. And he adds another important point. "Per-capita government spending in Lake County has always been higher than other parts of the state. Taxes are high because the level of services is high."

Kielman lives in Crown Point and says his property taxes didn't go up 1,200 percent because "Crown Point knows how to manage its finances."

While the major industrial firms of north Lake County continue to get the large tax breaks, the question remains: will there be any special legislation to ease the resident's tax burdens?

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Tom Tresser is a consultant, producer, educator and trainer who can help individuals, companies and communities leverage and amplify their creative assets in order to solve problems, create economic value and trigger civic engagement. He recently designed and produced training experiences for the provincial government of Saskatchewan and Business Retention and Expansion International on using culture for local economic development. He has worked with Fortune 500 companies, producing innovative and experiential strategic executive learning programs. He was director of cultural development at Peoples Housing, in northeast Chicago, where he created a community arts program that blended the arts, education and micro-enterprise. Tom has acted in some 40 shows and produced over 100 plays, special events, festivals and community programs. He was an arts activist, having organized support for pro-arts candidates and voter registration drives. In 2003 he was appointed Visiting Fellow in Arts and Culture at the DePaul University College of Commerce's Ryan Center for Creativity and Innovation. Tom was elected to the Abraham Lincoln Elementary School's Local School Council and served from 2004 to 2006. He is teaching a number of classes on art, creativity and civic engagement for Loyola University, DePaul University and the School of the Art Institute. He is currently acting as strategic planning and audience development consultant for Collaboraction Theater, one of Chicago's most innovative young performing arts groups.

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