STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE N1058
INDIANAPOLIS, IN 46204
PHONE (317) 232-3777
FAX (317) 232-8779

TO: **County Assessors, County Auditors, Vendors**

FROM: **Jeffrey A. Volz, Director of Data Analysis** JAV

RE: **Phase II Software Certification –TIF Testing Policy**

DATE: **January 26, 2010**

MEMORANDUM

The Department of Local Government Finance ("Department") has received several inquiries about testing Tax Increment Financing ("TIF") district parcel and tax bill data elements as part of Phase II software certification. Particularly, there are questions about the necessity of testing for this in counties without TIF districts. As such, this memorandum includes clarification on this matter and offers specific testing information for these instances. The Department offers this clarification as many counties without TIF districts may never establish any, and the preparation work involved in these counties to conduct these certification tests may far outweigh any benefit.

In counties with active TIF districts in 2009-pay-2010: Phase II software certification testing will require that the certification tests related to TIF be executed and passed. Please reference Test Scenario 2.8 from the "Local Certification Testing Scenarios", published on the Department website at http://www.in.gov/dlgf/files/090202-Volz_Memo_-_Phase_II_Local_Certification_Tests_attachment.pdf, and the specific test is excerpted and attached to this memorandum.

In counties without active TIF districts in 2009-pay-2010: Phase II software certification tests related to TIF will be optional. If the county elects not to test TIF functionality, the certification will be valid, with the exception of TIF functionality. If the county establishes any TIF districts in the future, the TIF tests will need to be performed and certification achieved at that time. If the county chooses to test TIF functionality, a retest will not be needed if the county establishes TIF districts in the future.

Please discuss these options with your third-party tester.

If you have any questions, please contact me directly at 317-232-3759 or by e-mail at jvolz@dlgf.in.gov

Local Certification Testing Scenarios

Test 2.8 Tax Increment Revenues

Purpose: Demonstrate that the tax and billing system can account for, apply, and display data related to tax increment revenues. <50 IAC 23-7-10>

Test: Demonstrate that tax and billing system can create a TIF district, then demonstrate the system can perform the following operations:

1. Demonstrate that the system is able identify each real property parcel that is within a TIF Allocation Area by an indicator through the following test: set the indicator for several parcels and run a report to assure that the parcels are identified as in an allocation area. Verify that the parcel is flagged as being within a TIF on both the assessment and tax and billing records.

2. Demonstrate that the system can carry the indicator forward if a real property parcel in a TIF Allocation Area is split through the following test: perform a split of a TIF parcel, and see if the new parcels are shown as designated for the TIF.

3. Demonstrate that the system is able to identify each personal property record that is within a TIF Allocation Area by an indicator through the following test: set the flag for several personal property records and run a report to assure that the records are identified as in an allocation area.

4. Demonstrate that the system is able to identify which TIF Allocation Area the real property parcel or personal property record is in by name or designation through the following test: flag various real estate parcels and personal property records as TIF Allocation Area "x" or TIF Allocation Area "y" and run a report to assure that the system will generate a report by TIF Allocation Area.

5. Demonstrate that the system is able to record the base NAV of the real estate parcel or personal property record based on the value as of a designated March 1st date and retain that original base NAV through the following test: Enter a set of values (gross AV and deductions) for TIF parcels or records as of March 1, 20x1 (the base date) and a different set of values for the same parcels for March 1, 20x2. Run a report to determine whether the base value is reported correctly.

6. Demonstrate that the system is able to record adjustments to the base NAV of the real estate parcel or personal property record and assure that calculations based on incremental value as of a certain date is based on the adjusted base value as of that date and not on the original value as of that date through the following test: Adjust base values and calculate new amount of increment.

7. Demonstrate that for certain TIF Allocation Areas (economic development areas created after July 1, 1995 or redevelopment areas created after July 1, 1997) the system is able to adjust the base NAV of residential real property parcels so that if the NAV of the parcel is greater than the base NAV, the base NAV is adjusted to be equal to the NAV through the following test: Enter

various NAV values for a series of residential real property parcels, some higher than the base NAV and some lower than the base NAV.
Determine whether the system adjusted the values of residential properties with NAV higher than the base NAV.

8. Demonstrate that the system is able to reallocate the base assessed values of real property parcels with individual negative increment to allocate the negative amount to real property parcels with positive increment on a pro rata basis through the following test: Enter a set of values (gross AV and deductions) for TIF parcels, some of which will create negative increment and run the base adjustment
routine. [Note: In this calculation, the parcels with individual negative incremental NAV will receive a reduction in base NAV so that the incremental amount will calculate to zero (0) and the parcels with individual positive NAV will receive a pro rata reduction in NAV by receiving an increase in base NAV.]

9. Demonstrate that the system is able to accept adjustments to the base NAV of the real property parcels or personal property records based on the application of a factor to all base NAV amounts through the following test: Input a base adjustment factor and run a report to insure that each base NAV was adjusted.

10. Demonstrate that the system is able to calculate the incremental NAV of the allocation area as a whole (current NAV minus adjusted base NAV) to determine whether there is positive increment. [Note: If the increment is negative, the system must report the amount of TIF increment as the negative number, but must treat that amount as zero (0) for purposes of the NAV Certification and tax rate
calculation.]

11. Demonstrate that the system is able to calculate the incremental NAV of the allocation area by taxing district and perform the following calculations:

a) If the incremental NAV of the TIF Allocation Area as a whole is negative, no amount for the TIF Allocation Area is carried forward to the NAV Certification and tax rate calculation for any taxing district in which the TIF Allocation Area is situated.

b) If the incremental NAV of the TIF Allocation Area in every taxing district in which the TIF Allocation Area is situated is positive, the positive amount is carried forward to the NAV Certification and tax rate calculation separately for each taxing district.

c) If more than one TIF Allocation Area with positive incremental NAV is contained, in whole or in part, within any taxing district, the positive incremental NAV of each TIF Allocation Area is added together for the NAV Certification. If a taxing district contains all or part of more than one TIF Allocation Area and one or more of the TIF Allocation Areas has a negative incremental NAV, the negative incremental NAV is not combined with the positive NAV of other TIF Allocation Areas in the taxing district for the NAV

Certification and tax rate calculation. To demonstrate the foregoing, perform the following test: create various scenarios with TIF Allocation Areas having positive and negative increment cross various taxing district lines and determine results.

12. Demonstrate that the system is able to combine the base NAV and incremental NAV of each real property parcel and personal property record in order to produce one tax bill for each parcel or record by performing the following test: Create an allocation area and run tax bills to determine that only one bill is generated per parcel or record.

13. Demonstrate that the system is able to track the property tax payments from real property parcels and personal property records and allocate the payments between the amount allocable to the TIF Allocation Area and the amount allocable to the underlying taxing units by performing the following test: Create an allocation area, generate tax bills and payments and generate a distribution (settlement) report to determine if the amounts