

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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TO: County Assessors, County Vendors
FROM: Barry Wood, Director of Assessment *JBW*
RE: Guidance on Reporting Annual Adjustment Factors
DATE: February 9, 2010

This memo offers guidance on reporting annual adjustment factors to the Department of Local Government Finance ("Department") as part of the ratio study review process. Reporting these factors to the Department in this fashion will streamline data compliance and further ensure that property tax assessments are fair, uniform, and equitable.

The reporting process consists of both a data file containing the annual adjustment factors stratified by neighborhood, and a narrative describing any substantively important changes to those factors or the neighborhoods they are assigned to. Each element is addressed below.

The Department encourages assessment officials to report their annual adjustment factors as part of the 2010 pay 2011 ratio study review process. **However, submitting the adjustment factors is not required for ratio study approval for the 2010 pay 2011 assessment year.** This will be a requirement for approval beginning in the 2011 pay 2012 assessment year.

Background

The assessed value of real property in Indiana is annually adjusted, or "trended," each year to bring assessed value in line with the market value-in-use of similar properties. This trending is done primarily by neighborhood and major property class, although additional stratification may be used to better reflect differences between properties.

To adjust the assessed value of properties, assessors are to determine factors that establish value and express the relationships between them mathematically. The results are a series of adjustment factors that are applied to the previous year's assessed value for each parcel of real property.

It is not generally possible to express the adjustment applied to a parcel as a single factor. Even at the neighborhood level, different factors may be used to account for different market areas or cost models. However, the two most important adjustment factors—the land factor and neighborhood factor—can be reported at the neighborhood level. Additional factors of substantial importance or changes in the makeup of the neighborhood can be outlined in a brief narrative on the adjustment factors submitted to the Department.

Annual Adjustment Data File

The first part of the reporting process is to submit an annual adjustment data file. **The following information will be a separate tab in the workbook by neighborhood (some will apply the factor(s) on the basis of a “market model.”)** This file is an MS Excel 2007 compatible spreadsheet with the following fields:

- Neighborhood Identifier
- Neighborhood Description
- Township
- Major Property Class
- Number of Parcels
- Prior Land Adjustment Factor
- Prior Neighborhood Factor
- Current Land Adjustment Factor
- Current Neighborhood Factor

These fields are described in more detail below:

Neighborhood Identifier: The assessor’s internal designation of the neighborhood for trending purposes. There is no set format, so numbers, letters, and special characters may be used. All neighborhoods in current use should be reported, even if they were not adjusted during the trending process.

Neighborhood Description: A brief description of the location and/or predominant type of parcel in the neighborhood; for example, “Combined Industrial Parcels,” or “56th St. Subdivision.” Since the neighborhood identifier is usually a string of numbers and letters, this brief description will help the Department link the neighborhood to individual parcels.

Township: The Township the neighborhood is in. If the neighborhood is in more than one township, include the predominant township if there is only one set of factors for both townships. If there is more than one set of factors, include the neighborhood twice, once with each set of factors.

Example: Neighborhood 001 is mostly in Adams Township, but also partly in Benton Township. The land and neighborhood factors are the same for both townships. Neighborhood 001 would be listed once with the adjustment factors used. The township would be listed as Adams.

Example: Neighborhood 002 is in Carroll and Daviess Township. The land factor is not the same in Carroll as it is in Daviess. Neighborhood 002 would be listed twice, along with the respective adjustment factors and townships.

Major Property Class: The predominant property class in the neighborhood. This is reported as Residential, Commercial, or Industrial. Distinctions are not needed between vacant and improved parcels. If more than one major class of property is in each neighborhood and the classes are adjusted differently, report the neighborhood one time for each major class of property.

Example: Neighborhood 003 contains Residential and Commercial property. The neighborhood factor is different for the Residential property than it is for the Commercial property. Neighborhood 003 would be listed twice, with the respective major property classes and adjustment factors.

Number of Parcels: The number of parcels in the neighborhood.

Adjustment Factors: The four fields containing adjustment factor information should contain the prior year and current land and neighborhood factors for each neighborhood. The factors listed should be the same factors used to adjust assessments in a particular neighborhood for the current assessment year.

Adjustment factors may be reported as a percentage (102%) or decimal (1.02), as long as the same convention is used throughout the data file.

In certain cases, the adjustment factor used may represent a modification of a previous factor rather than a new factor. For example, some CAMA systems overwrite the previous adjustment factor, while others multiply the old and new together. In the first case, the factor used should be reported. In the second case, the resultant factor (that is, the factor determined by multiplying the prior and current factor) should be reported.

Example: The CAMA system multiplies the prior and current adjustment factors to determine the final adjustment factor. For neighborhood 004, the prior adjustment factor is 0.94. Examination of market data indicates that a factor of 0.96 is currently appropriate, so a factor of 1.02 is entered ($0.94 * 1.02 = 0.96$). In this case, the 0.96 factor should be reported, not the 1.02, because the 0.96 factor more accurately reflects the current valuation of parcels in this neighborhood.

The Department recognizes that additional stratification is sometimes necessary within neighborhoods, and that the land and neighborhood factors may not be equally applied to each parcel. Substantive instances of this should be addressed in the trending narrative submitted to the Department.

It also can happen that neighborhoods are delineated differently from one assessment year to the next. In this case, the prior and current adjustment factors may be substantially different from one another, because they apply to different parcels and market conditions. If this occurs, the factors should be reported as described above and a note made in the narrative that the neighborhood was newly delineated.

Additional Formatting Guidelines

To expedite processing the annual adjustment data file, please observe the following format specifications. An example adjustment data file is also provided on the Department's Web site at <http://www.in.gov/dlgf/7187.htm>.

- Only submission as a 2007-compatible MS Excel spreadsheet is acceptable. All other submission formats will not be analyzed.

- All information in the adjustment data file must be submitted on one tab of a 2007 MS Excel-compatible spreadsheet. In particular, it is not acceptable to submit one tab per township, or submit half the parcels in one tab and half in another.
- The fields should be in the order listed above.
- The first row of each column should be the column's heading.
- There should be no white space between the heading and the first entry on any of the columns, or between any of the columns.

Annual Adjustment Narrative

In addition to the annual adjustment data file, a brief narrative is needed if there have been substantive changes to the adjustment process that are not captured in the data file. Examples of these changes might be:

- A re-evaluation based on market evidence results in a large increase or decrease in an annual adjustment factor.
- The predominant property class of a neighborhood changes, or a neighborhood is delineated differently than in the prior year.
- An additional factor other than the land and neighborhood factor was used to value some properties, and the resulting increase or decrease is large relative to the prior year. For example, a factor may be applied to an outbuilding or other yard structure.

Any of these circumstances might result in the Department needing more information prior to approving the counties' ratio study. Providing this information with the ratio study submission will streamline the process and expedite ratio study approval.

The adjustment factor narrative may be included as a separate section of the trending narrative submitted to the Department, or it may be a separate document. In both cases, the narrative should be brief and should focus on the changes that are both (1) not reflected in the data file, and (2) of substantive assessment importance. If no such changes have taken place, an adjustment narrative is not needed.

Further Questions

Please direct any questions to Barry Wood, Director of Assessment, at bwood@dlgf.in.gov or 317-232-3762 or David Schwab, Assistant Director of Data Analysis at dschwab@dlgf.in.gov or 317-234-5861.