STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: Tax and Billing Software Vendors and County Auditors

FROM: Micah G. Vincent, Commissioner MGV

RE: Calculation of Base Assessed Value for Tax Increment Financing

DATE: October 18, 2013

The Department of Local Government Finance ("Department") has reviewed the statutory definition of the base assessed value under IC 36-7-14-39 and the implications for the Phase I scenarios in Test Area 9, Section 7. The portion of the base assessed value definition at issue is copied below.

> "Base assessed value" means the following:
> (1) If an allocation provision is adopted after June 30, 1995, in a declaratory resolution or an amendment to a declaratory resolution establishing an economic development area:
> (A) the net assessed value of all the property as finally determined for the assessment date immediately preceding the effective date of the allocation provision of the declaratory resolution, as adjusted under subsection (h); plus
> (B) to the extent that it is not included in clause (A), the net assessed value of property that is assessed as residential property under the rules of the department of local government finance, as finally determined for any assessment date after the effective date of the allocation provision.

After careful review, the Department has affirmed its view that (1)(A) of the definition of "Base assessed value" in IC 36-7-14-39 requires that all property, **including residential**, be included in the base assessed value for an allocation area. It is the Department's understanding that some vendors are treating all residential assessed values as outside the calculation of incremental assessed value, essentially making it "invisible" for the purposes of tax increment financing ("TIF"). This is clearly in contravention of clause (A) which includes residential value at the time of the establishment of the TIF district in the base assessed value. Residential assessed value included in the base assessed value at the time of establishment of the TIF district would, therefore, be eligible for a loss in incremental value if this residential assessed value declines. After appropriately understanding clause (A), clause (B) then only addresses residential increases in residential assessed values due to market conditions or new construction. IC 36-7-14-39 directly addresses the scenario where the base is increased when residential net assessed value is increased. The statute provides no mechanism for reducing the base if there is a further reduction in residential assessed value.

After reviewing this statute, the Department has determined that the software tests regarding the implementation of TIF will remain unchanged at this time.

In completing the requested review, the Department met with numerous parties. These meetings and the resulting information have been valuable in understanding how TIF is currently being implemented in Indiana. As a result, the Department will continue to review the process of how TIF parcels are statutorily required to be tracked and calculated as well as the Department's oversight of this process to ensure that TIF implementation is meeting the requirements in Indiana Code and 50 IAC 26.

Questions may be directed to Eric Bussis, Director of Data Analysis, at erbussis@dlgf.in.gov or (317) 232-3759.