



Department of Local Government Finance

Cost Approach & How to Use the Real Property Assessment Guidelines – Book 1

Part A

2020 Level I Tutorials





Agenda

- Real Property Assessment Manual
- Information for Assessment
- 2012 Real Property Assessment Guidelines
- Chapter 1 – Assessment Information
- Chapter 2 – Land
- Chapter 3 – Residential Dwelling Units
- Chapter 4 – Mobile and Manufactured Homes





Agenda Continued

- Chapter 5 - Residential and Agricultural Yard Structures
- Appendix A – Grade
- Appendix B – Depreciation
- Appendix C – Cost Schedules
- Rest of class time will be spent working problems.





What You Will Learn

- Content of the Manual
- Content of each Chapter of Book 1
- How to use the Schedules in the Appendix
- How to properly fill out a property record card
- Material will cover:
 - Book 1, Real Property Assessment Guidelines





Real Property Manual

- The guidelines adopted by the Department of Local Government Finance provide procedures and schedules that are acceptable in determining true tax value under the cost approach.
- Formula for the cost approach is:
 - $V = LV + (RCN - D)$
 - Where V = value
 - LV = land value
 - RCN = replacement/reproduction cost new
 - D = depreciation





Real Property Manual

- The resulting value of the previous slide is what is called True Tax Value.
- In the case of agricultural land True Tax Value shall be the value determined in accordance with the Guidelines and IC 6-1.1-4-13. (This process will be detailed in Chapter 2)
- In the case of all other real property, true tax value shall mean market value-in-use which is defined as follows:
- The market value in use of a property for its current use, as reflected by the utility received by the owner or a similar user.





Information for Assessment

- Primary method of valuation outlined in the Guidelines is the cost approach to value.
- The cost to be estimated by the Assessor is made up of all the direct labor and material costs plus the indirect expenses required to construct an improvement.





Information for Assessment

- Examples of Direct Costs and Labor:
- Labor
- Materials
- Supervision
- Utilities used during construction
- Equipment Rental





Information for Assessment

- Examples of Indirect Expenses:
- Building Permits
- Fees
- Insurance
- Taxes
- Construction Interest
- Profit
- Overhead
- Professional Fees





Information for Assessment

- Two major concepts of cost:
 - Reproduction cost
 - Replacement cost





Information for Assessment

- Reproduction cost – The cost of constructing a new improvement, reasonably identical with the subject improvement, using the same materials, construction standards, design, and quality of workmanship.
- Building your local Courthouse exactly as it appears today with the same details, craftsmanship and materials as was used when it was built so that you have a reasonably identical structure is reproduction cost.





Information for Assessment

- Replacement cost – cost of constructing a building having the same utility as the improvement being valued, but using modern materials, design and workmanship.
- Building a modern Courthouse with today's materials and technology so it has the same utility as your present courthouse is replacement cost.





Assessment Date

- The assessment date for all real property in 2015-pay-2016 was March 1.
- SEA 420 changed the assessment date to January 1 starting with the 2016-pay-2017 tax cycle.





Chapter 1

- Mission of reassessment is to inventory, verify and value all real estate parcels.
- The general reassessment has been replaced by a cyclical reassessment.
- IC 6-1.1-4-4.2 stipulates that a reassessment plan be submitted to the DLGF and separated into four groups, one for each year.
- Each group of parcels must contain approximately 25% of the parcels within each class of property in the county (Residential, Agricultural, Commercial/Industrial/Other).





Chapter 1

- The timeline for cyclical reassessment is listed below

4 year Cyclical Reassessment	
Date	Action
5/1/2017	County Assessor must submit a cyclical reassessment plan to DLGF before this date
1/2/2018	DLGF must review and approve the plan before this date.
5/1/2018	Reassessment starts on the first 25% of the parcels within each property class
12/31/2018	Reassessment of the first 25% of the parcels must be completed
5/1/2019	Reassessment starts on the second 25% of the parcels within each property class
12/31/2019	Reassessment of the second 25% of the parcels must be completed
5/1/2020	Reassessment starts on the third 25% of the parcels within each property class
12/31/2020	Reassessment of the third 25% of the parcels must be completed
5/1/2021	Reassessment starts on the fourth 25% of the parcels within each property class
12/31/2021	Reassessment of the fourth 25% of the parcels must be completed
5/1/2021	County Assessor must submit plan to DLGF before this date for the next cyclical reassessme
5/1/2022	Reassessment of first 25% of the parcels within each property class for the next four-year cy





Chapter 1

- Real property is assessed at the place where it is situated, and it is assessed to the person liable for the taxes as provided in IC 6-1.1-2-4(b)(c).
- The township assessor, (if any), otherwise the county assessor, keeps the reassessment data and records current by securing the necessary field data and making changes in the assessed value of real property as changes occur in use.





Chapter 1

- The assessing official or PTABOA must give notice to the taxpayer by mail, or by using electronic mail that includes a secure Internet link to the information in the notice, of the amount of the assessment or reassessment.
- The notice of assessed value is given on Form 11.





Chapter 1

- A taxpayer may appeal their assessed value not later than the following:
- For assessments before January 1, 2019, the earlier of:
 - forty-five (45) days after the date on the notice of assessment
 - forty-five (45) days after the date on the tax statement mailed by the county treasurer
- For assessments after December 31, 2018 the earlier of:
 - June 15 of the assessment year if the Form 11 is mailed by the county before May 1 of the assessment year
 - June 15 of the year in which the tax statement is mailed by the county treasurer, if the Form 11 is mailed by the county on or after May 1 of the assessment year





Chapter 1

- During a period of cyclical reassessment, the assessing official must provide notice of assessment by the earlier of:
(1) 90 days after the completion of the appraisal of a parcel; or (2) February 10 of the year containing the assessment date for which the assessment or reassessment first applies (e.g., for a January 1, 2019 assessment date, by February 10, 2019).





Chapter 1

- Property Reassessment Fund (IC 6-1.1-4-27.5 and IC 6-1.1-4-28.5)
- Every county has one – The Auditor of each County shall establish a Property Reassessment Fund. County Council must levy sufficient amount to pay for reassessment costs
- County Treasurer deposits tax collections into fund and invests surplus funds
- County Council must approve any appropriations from the fund





Chapter 1

Property Reassessment Fund

- Money in fund may only be used to pay for:
- Costs of general reassessment
- Computerization of assessment records
- Updating of plat books (A plat is a map, plan, or chart of a city, town, section, or subdivision, indicating the location and boundaries of individual properties. A map of a town or a section of land that has been subdivided into lots showing the location and boundaries of individual parcels with the streets, alleys, easements, and rights of use over the land of another. A plat is usually drawn to scale. The following Indiana Code gives a short description which would also apply. IC 6-1.1-5-4 Transfer books: Sec. 4. (a) Except as provided in section 9 of this chapter, the county auditor shall keep a transfer book, arranged by townships, cities, and towns. In the transfer book he shall enter a description, for the purpose of taxation, of land that is conveyed by deed or partition, the date of the conveyance, the names of the parties, and the post office address of the grantee.)
- Development or updating of soil survey data
- Making annual adjustments
- Payments to assessing officials or PTABOA members for training by the DLGF
- Salaries for permanent or temporary staff
- Sales Disclosure Verification





Chapter 1

- The use of a unit of machinery, equipment or structure determines its classification as real or personal property.
- Table 1-1 contains listing of real and personal property.





Chapter 2

Land





Chapter 2

- All property within a jurisdiction must be established as part of a neighborhood defined by the assessing official. The assessing official shall define neighborhoods according to:
 - Common development characteristics
 - Average age of majority of improvements
 - Size of lots or tracts
 - Subdivision plats/zoning maps
 - School and other taxing district boundaries
 - Distinctive geographical boundaries
 - Any manmade improvements that significantly disrupt the cohesion of adjacent properties





Chapter 2

- Sales statistics
- Other characteristics deemed appropriate to assure equitable determinations
- All neighborhoods must be identified on easily read maps.
- All neighborhoods shall be assigned a code number for identification





Chapter 2

- Neighborhoods shall be classified according to majority use as residential homesite, agricultural homesite, commercial, or industrial. (Homesite: A land area of one (1) acre per residential site on a parcel containing one (1) or more acres. If a developed residential site is less than one (1) acre, the homesite is the entire land area. The value of the homesite is set based on improved land sales in that neighborhood.)
- Three methods of Evaluating sales information when establishing land values
- Sales comparison method
- Abstraction method
- Allocation method





Chapter 2

- Sales comparison method
 - One of the most reliable methods of estimating land value
 - Sale prices of similar properties are compared
 - Most reliable when numerous sales are available





Chapter 2

- Abstraction method
 - Used to determine the indicated value of residential land if sample of vacant land sales is insufficient
 - Most reliable when minimum amount of depreciation has occurred on improvements
 - Value of land is determined by subtracting the depreciated value of improvements from the sale price





Chapter 2

- Allocation or percentage of sale method
 - Used to determine indicated value of land if sample of sales for a neighborhood represent improved properties
 - Depends on analysis of various neighborhoods to determine percentage contribution of land to the total sale





Chapter 2

- Class Codes (Table 2-1) and Subclass Codes (Table 2-2).
- The class codes provide an index to identify the class of property for each individual parcel. A one digit code represents the general property class and a two digit suffix code is added for the subclass.





Chapter 2

- Example: 1 represents Agricultural taxable land and improvements used primarily for agricultural purposes.
- A subclass suffix of 03 would identify it as a Dairy Farm.
- So 103 would be a Dairy Farm





Chapter 2

- Determining Depth Factors for Platted Lots
 - A platted lot is a piece of land within a plat that has its dimensions, location, other attributes drawn to scale in order to identify it for various purposes.
 - Twp. Assessor, if any, or the County Assessor must designate the base lot size for each neighborhood
 - Depth factor is a multiplier that is applied to a unit land value to adjust the value of a particular lot to account for the depth of the lot
 - The Depth Charts are located on pages 41, 42, and 43
 - Example Number 1 on page 40 is a good example to use.





Chapter 2

- Valuing Residential Acreage and Agricultural Homesites
 - Parcel size does not determine the property classification or pricing method for the parcel. It is determined by the property's use or zoning.
 - Land area of up to one acre per residential dwelling unit is assigned to agricultural parcels and residential parcels priced on an acreage basis.
 - Parcel's value is influenced by its location – lake front property vs. remote rural area
 - Additional information in the guidelines.





Chapter 2

- Valuing Residential Acreage Parcels Larger Than One Acre
- Residential acreage parcels of more than one acre and not used for agricultural purposes are valued using the residential homesite base rate and the excess acreage base rate established by the Township Assessor, if any, otherwise the County Assessor.





Chapter 2

- Residential acreage parcels containing one acre or less are valued using the base rate (per acre) determined by the Township Assessor, if any, otherwise the County Assessor, and the appropriate factor from the Acreage Size Adjustment Table.
- A good example to use is located on page 56 and the chart is located on page 57.
- Influence Factors for Residential Acreage
 - Applied same way to residential acreage as they are to platted lots.



Level I
Cost Approach
Class Problem Packet-Level I

For problems 1, 2, and 3, assume the base rate for the lots is \$100 per front foot.

Number 1 The standard lot for Neighborhood 1254 is 100 feet by 132 feet. Lot # 7 is 100 feet wide by 175 feet deep. What is the adjusted base rate and the estimated value of the lot?

Number 2 The standard lot for neighborhood 781 is 100 feet by 150. Lot #12 is 125 feet wide by 175 feet deep. What is the adjusted base rate and the estimated value of the lot?

Number 3: The Standard lot for Neighborhood 832 is 100 feet by 200 feet. Lot #61 is 100 feet wide by 175 feet deep. What is the adjusted base rate and the estimated value of the lot?



Level I
Cost Approach
Problem Packet-Level I Answers

For problems 1, 2, and 3, assume the base rate for the lots is \$100.

Number 1 Standard lot for Neighborhood 1254 is 100 feet by 132 feet. Lot # 7 is 100 feet wide by 175 feet deep. What is the adjusted base rate and the estimated value of the lot?

Look at Table 2-7: The factor for 175 feet on the 132 foot table is 1.12. Multiply 1.12 by the base rate of \$100. The new adjusted base rate is now \$112. Multiply that by the frontage of 100 (112×100). The estimated value is \$11,200.

Number 2 The standard lot for neighborhood 781 is 100 feet by 150. Lot #12 is 125 feet wide by 175 feet deep. What is the adjusted base rate and the estimated value of the lot?

From Table 2-7: The factor for 175 feet on the 150 foot table is 1.07. Multiply 1.07 by the base rate of \$100. The new adjusted base rate is then \$107. Multiply that by the frontage of 125 feet ($\$107 \times 125$). The estimated value is \$13,375 or \$13,380 which then rounds to \$13,400 to the nearest \$100.

Number 3: The Standard lot for Neighborhood 832 is 100 feet by 200 feet. Lot #61 is 100 feet wide by 175 feet deep. What is the adjusted base rate and the estimated value of the lot?

From Table 2-8: The factor for 175 feet on the 200 foot table is .95. Multiply .95 by the base rate of \$100. The new adjusted base rate is \$95. Multiply that by the frontage of 100 ($100 \times \$95$). The estimated value is \$9,500.



For problems 4, 5, and 6 use Table 2-11 on Page 57, of Chapter 2

Number 4: A .70 acre tract is located in a neighborhood where 1 acre tracts are valued at \$25,000 per acre.

What is the estimated value of this parcel?

Number 5: A .94 acre tract is located in a neighborhood where 1 acre tracts are valued at \$55,000 per acre.

What is the estimated value of this parcel?

Number 6: A .28 acre tract is located in a neighborhood where 1 acre tracts are valued at \$40,000 per acre.

What is the estimated value of this parcel?



For problems 4, 5, and 6 use Table 2-11 on Page 57, of Chapter 2

Number 4: A .70 acre tract is located in a neighborhood where 1 acre tracts are valued at \$25,000 per acre. What is the estimated value of this parcel?

Going to Table 2-11, the factor for .70 acres is 1.32. Multiply the factor times the rate per acre and then multiply that answer by the amount of acreage: $1.32 \times \$25,000 = \$33,000$. $\$33,000$ times .70 = \$23,100. Estimated Value

Number 5: A .94 acre tract is located in a neighborhood where 1 acre tracts are valued at \$55,000 per acre. What is the estimated value of this parcel?

Going to Table 2-11, the factor for .94 acres is 1.06. Multiply the factor times the rate per acre and then multiply that answer by the amount of acreage: $1.06 \times \$55,000 = \$58,300$. $\$58,300$ times .94 = \$54,800. Estimated Value

Number 6: A .28 acre tract is located in a neighborhood where 1 acre tracts are valued at \$40,000 per acre. What is the estimated value of this parcel?

Going to Table 2-11, the factor for .28 acres is 1.91. Multiply the factor times the rate per acre and then multiply that answer by the amount of acreage: $1.91 \times \$40,000 = \$76,400$. $\$76,400$ times .28 = \$21,400. Estimated Value





Chapter 2

- Four categories of commercial and industrial land:
 - Primary
 - Secondary
 - Usable Undeveloped
 - Unusable Undeveloped





Chapter 2

- Valuing Agricultural Land
 - Based on productive capacity of the land, regardless of the land's potential or highest and best use.
 - Income capitalization approach, where use-value is based on net income that will accrue to the land from agricultural production.





Chapter 2

- The base rate for agricultural land in Indiana is set each year by the Department of Local Government Finance. The Department promulgates a memo each year providing the agricultural land base rate value. That value is used throughout the State of Indiana.
- Adjusted based on detailed soil maps, aerial photography and local plat maps.
- Commercial/Industrial land devoted to agricultural use should be valued using the agricultural land assessment formula.
- To evaluate and categorize land according to productivity, measurements are calculated from the detailed soil maps published by the USDA.





Chapter 2

- Agricultural land assessment formula values farmland in part by productivity.
- The more productive land has a higher value.





Chapter 2

- Soil maps show where different soils are located.
- Soils are classified based on soil series and soil map units.
- Each soil map unit in Indiana is assigned a productivity rating.
- Soil productivity ratings in Indiana are based on corn yield estimates.





Chapter 2

- There is a wide array of soil Productivity Factors in Indiana. The higher the Productivity Factor is the more productive the land type is. The lower the Productivity Factor is the less productive the land type is.
- Soil types and productivity of land are obtained from detailed soil maps published by the USDA.





Farm Land Q & A

- How is the base rate adjusted for high- and low-quality soils? Assessors adjust the base rate using soil productivity factors developed from soil maps published by the United State Department of Agriculture (USDA). These factors are used by local assessing officials to adjust the base rate to account for the soil's ability to produce a crop.
- Note: A parcel could have multiple soil types and multiple productivity factors. Click on the following hyperlink for further information on [USDA/Natural Resources Conservation Service for soil survey](#).





Farm Land Q & A

- How are farms assessed?
- The agricultural land assessment formula involves the identification of agricultural tracts using detailed soil maps, aerial photography, and local plat maps. A parcel is segmented into the various soil types that it could contain and then each soil type is measured in order to determine the acreage for it. The formula is based on the productivity of each parcel's soil resources; therefore more productive land has a higher value. A soil productivity factor is used to adjust soil types up or down. The range for productivity factors begins at .5 for the poorest soils in the state to 1.28 for the best soils. These factors are based on corn yield estimates.





Farm Land Q & A

- How are farms assessed? (Cont)
- Once the soil types are identified and measured on a parcel, the true tax value for each soil type would be calculated by taking the acreage for that particular soil type multiplied by the adjusted rate (base rate multiplied by the productivity factor) multiplied by any applicable influence factors to arrive at the true tax value. This step would be repeated until all soil types for the parcel have been assessed. The soil type information is on the property record card for each farm and also available for the whole county at the Soil and Water Conservation office. For further reference please review the “Classification and Valuation of Agricultural Land” memo.





Farm Land Q & A

- What is a history of the previous rates?

History of Previous Farm Land Rates	
Assessment Date	Acresage Rate
March 1, 2015	* \$2,050
January 1, 2016	\$1,960
January 1, 2017	\$1,850
January 1, 2018	\$1,610
January 1, 2019	\$1,560

*** The rate for March 1, 2015 would have increased but the State Legislature passed SEA 460 to keep the rate at \$2,050.**

- The rate for January 1, 2020 has not been determined as of the date this material was published. The method of calculating the assessed value using the ag base rate will remain the same, with substituting the current years rate in place of the old rate

With the exception of the March 1, 2015 rate. The change in rates are based on changes in cash rent, yields, production costs, market prices and interest rates as we remove one year's data and replaced it with the current data. For 2016 and subsequent - land used for agricultural purposes shall be adjusted consistent with the guideline methodology developed for the 2012 general reassessment agricultural land value except, in determining the annual base rate, the Department of Local Government Finance ("Department") shall adjust the methodology to use the lowest five years of a six (6) year rolling average. Senate Enrolled Act 308 then requires a comparison of the preliminary Table 2-18 base rate to the prior year's final base rate in order to determine the statutory capitalization rate to be used to calculate the final base rate for this assessment date.





2015 Ag. Land Base Rate

- SEA 436-2015 introduces IC 6-1.1-4-13.2 for assessing agricultural land for March 1, 2015 assessment date
- IC 6-1.1-4-13.2
- Calculation of state wide agricultural land base rate value per acre for the 2015 assessment date
- Sec. 13.2. Notwithstanding the provisions of this chapter and any real property assessment guidelines of the department of local government finance, for the property tax assessment of agricultural land for the 2015 assessment date, the statewide agricultural land base rate value per acre used to determine the value of agricultural land is two thousand fifty dollars (\$2,050).
- As added by P.L.249-2015, SEC.7. Amended by P.L.180-2016, SEC.4.





2016 and Subsequent Ag. Land Rate Calculation

- SEA 308 – The New Calculation of the Agland Base Rate for January 1, 2016
- IC 6-1.1-4-4.5 (e) In making the annual determination of the base rate to satisfy the requirement for an annual adjustment under subsection (c) for the January 1, 2016, assessment date and each assessment date thereafter, the department of local government finance shall determine the base rate using the methodology reflected in Table 2-18 of Book 1, Chapter 2 of the department of local government finance's Real Property Assessment Guidelines (as in effect on January 1, 2005), except that the department shall adjust the methodology as follows:
 - Use a six (6) year rolling average adjusted under subdivision (3) instead of a four (4) year rolling average.
 - Use the data from the six (6) most recent years preceding the year in which the assessment date occurs for which data is available, before one (1) of those six (6) years is eliminated under subdivision (3) when determining the rolling average.
 - Eliminate in the calculation of the rolling average the year among the six (6) years for which the highest market value in use of agricultural land is determined.
 - After determining a preliminary base rate that would apply for the assessment date without applying the adjustment under this subdivision, the department of local government finance shall adjust the preliminary base rate as follows:





2016 and Subsequent Ag. Land Rate Calculation (Cont.)

- (A) If the preliminary base rate for the assessment date would be at least ten percent (10%) greater than the final base rate determined for the preceding assessment date, a capitalization rate of eight percent (8%) shall be used to determine the final base rate.
- (B) If the preliminary base rate for the assessment date would be at least ten percent (10%) less than the final base rate determined for the preceding assessment date, a capitalization rate of six percent (6%) shall be used to determine the final base rate.
- (C) If neither clause (A) nor clause (B) applies, a capitalization rate of seven percent (7%) shall be used to determine the final base rate.
- (D) In the case of a market value in use for a year that is used in the calculation of the six (6) year rolling average under subdivision (1) for purposes of determining the base rate for the assessment date:
 - (i) that market value in use shall be recalculated by using the capitalization rate determined under clauses (A) through (C) for the calculation of the base rate for the assessment date; and
 - (ii) the market value in use recalculated under item (i) shall be used in the calculation of the six (6) year rolling average under subdivision (1).

