



Utility Properties

Guidelines Chapter 9





Guidelines Chapter 9

- This chapter describes the process used for valuing utility properties. It also provides information about distinguishing locally assessed real property from locally assessed personal property and distributable property.
- Additionally, it provides guidelines for identifying local real property for the following types of companies.





Guidelines Chapter 9

- Bus companies
- Light, heat, or power companies
- Pipeline companies
- Railroad companies
- Sewage companies
- Telephone, telegraph, or cable companies
- Water distribution companies





Guidelines Chapter 9

- All companies engaged in public utility business in Indiana were required to file Form 1 (Tax return for Fixed Personal Property of Public Utilities) with the local assessing official for each taxing unit where fixed personal property is located. If the public utility company owned, held, possessed, or controlled any leased or other not-owned locally assessed personal property, a Form N-1 was to be filed with the local assessing official of each taxing unit where the leased personal property is located.





Guidelines Chapter 9

- The legislature in 2009 changed that. Effective with the March 1, 2010 assessment date, all companies engaged in public utility business in Indiana will no longer file Form 1 with the local assessing official. The property previously reported on the Form 1 will now be reported with the company's filing with the Department on its Utility Ad Valorem Tax Return (Annual Report-Form UD-45).





Guidelines Chapter 9

- The use of a specific item or unit of property determines its classification as either locally assessed real property, locally assessed personal property, or distributable property. (Pages 4 through 8 provide detail)





Guidelines Chapter 9

- The DLGF is responsible for the assessment of the distributable property. This is sometimes referred to as state assessed distributable property.
- The DLGF now is also responsible for the locally assessed personal property.
- The only property assessed locally by the county assessing official is the real property.



General Commercial Models

Guidelines Appendix D





Guidelines Appendix D

- This appendix contains Models for:
 - General Commercial Mercantile (GCM)
 - General Commercial Industrial (GCI)
 - General Commercial Residential (GCR)





Guidelines Appendix D

- GCR models are only applicable to wood or metal stud framed load bearing construction, regardless of story height.
- Masonry construction requires the application of either GCM or GCI models.



Commercial and Industrial Grade

Guidelines Appendix E





Appendix E

- For each of the types of commercial and industrial improvements, a model has been defined to summarize the elements of construction quality that are typical of the majority of that type of improvement.
- Model has been assigned a “C” grade
- The characteristics of these typical models can be thought of as construction specifications for an improvement that was built with average quality materials and workmanship.





Appendix E

- The quality grade factor percentages are located in Table E-2 on page 7.
- Table E-3 (page 8) provides a list of the typical construction materials and design elements found in each full construction quality grade. It is designed to aid the local assessing official in determining the appropriate quality grade to assign to commercial and industrial structures.



Commercial and Industrial Depreciation

Appendix F





Appendix F

- Understanding the Concept of Depreciation
- Accrued depreciation is a loss in value to the cost new of the improvements from any and all causes.
- There are three major categories, or causes, of depreciation: (page 4)
 1. Physical Deterioration
 2. Functional Obsolescence
 3. External Obsolescence





Appendix F

- Physical Deterioration – loss in value caused by the building materials wearing out over time.
 - May be caused by wear and tear, use or abuse, action of the elements, and/or insect infestation.





Appendix F

- Functional Obsolescence – loss in value caused by inutility within the improvement.
- May be caused by defects in design, style, size, poor room layout, a deficiency, the need for modernization, a super adequacy, and/or by changes in the tastes of potential buyers.





Appendix F

- External Obsolescence – caused by an influence outside the property’s boundaries that has a negative influence on its value.
 - Noise, air, water or light pollution; heavy traffic; inharmonious land uses; and/or crime.





Appendix F

- When applying any form of obsolescence, the assessor should reevaluate the obsolescence on an annual basis.





Appendix F

- Determining the Actual Age of a Structure:
 - Actual age of a structure should be determined from the records of the owner. If not available, public records, such as building permits, may be used.
 - If structure has had additions built on, a “weighted” age must be calculated.





Appendix F

- Determining the “weighted” age of a structure (example on page 5)
 - Method used is one of weighting the actual age of the original structure and each of its additions by the square footage contained in each part.





Appendix F

- Determining the Normal Depreciation Percentage:
- There are seven steps in this process:
 1. Determine the actual age of the structure: Use the construction date of the structure and subtract it from the current assessment date (2020).
 2. Assign the structure a condition rating (Table F-1).
 3. Convert the actual age to an effective age using the condition rating and actual age (Table F-2, page 21).
 4. Determine the typical life expectancy of the structure. (Tables F-3a, b, c, d, and e on pages 22 through 27)





Appendix F

- Determining the Normal Depreciation Percentage: (cont)
 5. Go to Table F-4 (page 28) and locate the life expectancy (from Step 4) across the top of the table.
 6. Locate the effective age (from Step 3) in the left hand column.
 7. Where Steps 5 and 6 intersect, this provides you with the normal depreciation percentage.





Appendix F

- Determining Abnormal Functional Obsolescence:
 - Any abnormal or excessive functional and external obsolescence that affect a structure must be considered separately since they have not been accounted for in the normal depreciation table.





Appendix F

- Abnormal Functional Obsolescence
 - Most common forms
 - Deficiency requiring an addition – something lacking in the improvement that potential owners of the property desire. (page 8)
 - Need for modernization – improvement has the item desired by the potential owners but it is outdated or inefficient. (page 9)





Appendix F

- Super adequacy – an item that is bigger, better, or larger than potential owners demand. (page 9)
- Excess operating costs – the inutility within the structure causes the owner to have to pay more to operate the property than he/she would if the inutility did not exist. (page 10)





Appendix F

- Determining Abnormal External Obsolescence
 - Temporary – caused by factors in the market such as an oversupply of the type of space it provides. (page 12)
 - Permanent – caused by the subject property’s location to an encroaching land use. (page 12)





Appendix F

- Two methods of measuring external obsolescence, both requiring the use of market data. (page 13)
 - Paired Sales Analysis Method
 - Capitalization of Income Method





Appendix F

- In determining condition classifications, identify the classification that best fits the structure being assessed – not all of the descriptions must be met. (see Table F-1, page 20)





Level II Prep Class

- The rest of the session will be spent working problems from the problem packet.
- You will receive an answer packet at the end of the prep class that will contain the answers to all of the problems we have worked during these sessions.
- Please turn to Problem 6 in your packet, the parking lot.





Problem 6

- A parking lot of 20,000 square feet is paved with 2 inches of asphalt over an 8-inch base. It is located in Dearborn County and is in average condition with a quality grade of C-1.
- It has 200 linear feet of metal guardrail on one side, which is also in average condition, with a quality grade of C. Both were installed in 1990.
- What is the total true tax improvement value?





Answer to Problem 6

- Since the square footage of the lot is 20,000, our base rate is \$2.36, and then we add \$0.37 for the 3" of base, so we start with a rate of \$2.73. However, the lot is a C-1 grade, so we need to account for that.
- $\$2.73 \times 0.95 = \2.59 for our base rate
- Now we need to account for the location multiplier, 0.91, so $\$2.59 \times 0.91 = \2.36 (our adjusted rate)





Answer to Problem 6

- We take $\$2.36 \times 20,000 = \$47,200$ for the replacement cost.
- Next is the depreciation. The lot is 30 years old and in average condition, so the depreciation percentage is 80%.
- $\$47,200 \times .80 = \$37,760$ and $\$47,200 - \$37,760 = \$9,440$ remainder value
- Or $\$47,200 \times .20 = \$9,440$ remainder value





Answer to Problem 6

- Taking the remainder value to the nearest \$100, our asphalt has a true tax value of \$9,400.
- The guardrail has a base rate of \$19.84, and since it is a C grade, we do not have to make any grade adjustment.
- We do need to make the adjustment for the location, however. Taking the $0.91 \times \$19.84$, gives you an adjusted rate of \$18.05..
- Then just take the 200 linear feet $\times \$18.05 = \$3,610$.





Answer to Problem 6

- Looking up the depreciation for the guard rail, it is also 80%, so $\$3,610 \times .80$ and subtracting (or $.20$ and not subtracting, whichever is easier for you) gives us a remainder value for the guard rail of $\$720$, rounded to $\$700$ for the true tax value.
- Adding our paving to the guardrail amount, we should have a total true tax improvement value of $\$10,100$.



Level II
Cost Approach
Class Problem #7-Narrative

You are assessing a building located at 239 Main Street in Fulton County. It is owned by Vic and Rose Jones. It is a two story brick building that was built in 2006. The first floor is occupied by Vic and Rose's Café. The second floor is divided into apartments. The brick basement is used for storage. The building is in average condition and is graded a C.

Each floor has 4,320 square feet. There are 4 apartments on the second floor. The building is 60' by 72'. There is a small parking lot of 1,200 square feet at the rear of the building. It is asphalt paving with a 2" over a 5" base. The paving was installed in 2006 and is in good condition and graded a C-1.

The building is of wood joist construction throughout and has a full basement of 4,320 square feet. The exterior walls are 10 feet high and are brick. The interior and mechanical features of the basement are consistent with the utility storage model.

The first floor has a wall height of 12 feet, and the interior and mechanical features are consistent with the GCR Dining/Lounge model. There are 15 plumbing fixtures on this floor. The first floor has central air conditioning and heating and is sprinkled.

The second floor has a wall height of 12 feet. The apartments each feature one full bath and one complete kitchen. Each apartment has thru the wall type air conditioners.



What is the true tax improvement value of this property?

Level II
Cost Approach
Class Problem #8

This is a fast food restaurant built on a slab in Carroll County in 2002. It contains 1,902 square feet and has a perimeter of 202 linear feet. It also has a commercial heating/air conditioning package that heats and cools the entire 1,902 square feet. It is graded a C and is in average condition. The exterior walls are brick.

There is 18,000 square feet of asphalt paving on a 2" over a 8" base. It was put down at the same time as the construction date of the building. It is graded a C +1 and is in average condition.

What is the total improvement value of this property?



Walls		Roofing		IMPROVEMENT DATA AND COMPUTATIONS																	
Brick	Built - up	<p align="center">Level II Cost Approach</p> <p align="center">Class Problem # 8 Answer (Back of PRC)</p>										Circle One →		1 or A	2 or B	3 or C	4 or D				
Stone	Metal											Pricing Key	Fast Food								
Concrete	Slate / Tile											S. F. Area	1,902								
Frame or Metal	Shingle											Effective Perimeter									
C.B. or Tile	Insulation											P. A. R.									
												Number of Units									
												Average unit size									
												Floor	Hgt.	Rate	Hgt.	Rate	Hgt.	Rate	Hgt.	Rate	
												Basement									
												1st		\$120.93							
		2nd																			
		3rd																			
		4th																			
		Frame Adj. [±]																			
		Wall Hgt. Adj. [±]																			
		Base Price		\$120.93																	
		B. P. A. %		100%																	
		Sub-total		\$120.93																	
		Unit Finish																			
		Interior Finish																			
		Div./Pin Walls																			
		Lighting																			
		Heating/Air Cond.																			
		Sprinkler																			
		S. F. Price		\$120.93																	
		Area		1,902																	
		Sub.-total		\$230,010																	
		Plumbing																			
		Special Features																			
		Exterior Features																			
		TOTAL BASE		\$230,010																	
		Location Multiplier		89%																	
		Grade Factor		100%																	
		Replacement Cost		\$204,710																	

Paving = under 20,000 sq. ft. \$2.58 + \$.37 for
 3 " base = \$2.95
 \$2.95 X 105% for C + 1 Grade = \$3.10 base rate.
 \$3.10 X 89% L/M = \$2.76 adj. rate X 18,000 sq. ft.
 = \$49,680

Actual Age 18
 Effective Age 17

Other Fixtures										SPECIAL FEATURES										SUMMARY OF IMPROVEMENTS									
Wash Fountain	G/F	ES	SS	Description	Value	ID	Use	Story Height	Const. Type	Grade	Year Const.	Eff Age	Cond.	Base Rate	Features	L/M	Adj. Rate	Size or Area	Replacement Cost	Norm. Depr.	Remainder Value	Obsol. Depr.	True Tax Value						
Circular 36"						01	Fast Food	1	Br	C	2002		Av						\$204,710	60%	\$81,880		\$81,900						
Circular 54"						02																							
Semi-circular 36"						03	Paving	2"/8"	Asph	C+1	2002		Av	\$3.10		89%	\$2.76	18000	\$49,680	80%	\$9,940		\$9,900						
semi-circular 54"						04																							
Industrial Gang Sinks						05																							
4' long, 4 man						06																							
8' long, 8 man						07																							
Shower-Column						08																							
Circular, 5 per						09																							
semi-circular, 3 per						10																							
Corner, 2 per						11																							
Shower Multi-Stall						12																							
Circular, 5 per						13																							
Semi-circular, 3 per						14																							
Corner, 2 per						15																							
Gang Shower Heads			No. Fixtures			16																							
Drinking Fountains						17																							
Refrigerated Water Coolers						18																							
.....with Hot & Cold Water																													
Emergency Shower/eye Wash																													
										Data Collector / Date					Appraiser / Date					Total True Tax Improvement Value									
																				\$91,800									

Level II
Cost Approach
Practice Problem #1

The Walgreen company owns and operates a drug store which was constructed in Elkhart County. The building has 15,400 square feet with a perimeter of 450 feet. The drug store was built in 2010. The building is fire resistant construction and is wall type #1. The interior finish meets the criteria of the GCM General Retail model. There are a total of five commercial plumbing fixtures in the building. The building is totally sprinkled and has an average quality attached commercial canopy of 900 square feet. It has been determined the building is in average condition and is classified as a C+1 quality grade.

There is a 28,000 square feet asphalt paved parking area surrounding the building. It was constructed when the building was built and the asphalt is 2" on 5" base. The asphalt paving is C quality grade and is in average condition.

What is the total true tax value of the improvements?





Level II Cost Approach

This concludes the cost approach tutorial and is a reminder that should you have questions you can email these questions to the DLGF.

Please send emails to Level2@dlgf.in.gov.

