

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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TO: County Auditors and Redevelopment Commissions

FROM: Courtney Schaafsma, Budget Division Director *els*

RE: Pay 2014 TIF Neutralization Worksheet

DATE: July 10, 2013

On May 9, 2013, Governor Mike Pence signed into law House Enrolled Act 1116 ("HEA 1116"). Section 16 of HEA 1116 amended the requirements pertaining to a process known as TIF Neutralization. Pursuant to IC 36-7-14-39(h), the base assessed value within an allocation area (commonly referred to as a TIF District) must be adjusted to neutralize the effect of reassessment or annual adjustment to the real property included in the allocation area. IC 36-7-14-39(h) now includes the following restrictions on the neutralization:

"the adjustments under this subsection:

- (1) may not include the effect of phasing in assessed value due to property tax abatements under IC 6-1.1-12.1;
- (2) may not produce less property tax proceeds allocable to the redevelopment district under subsection (b)(3) than would otherwise have been received if the general reassessment, the reassessment under the reassessment plan, or the annual adjustment had not occurred; and
- (3) may decrease base assessed value only to the extent that assessed values in the allocation area have been decreased due to annual adjustments or the reassessment under the reassessment plan.

Assessed value increases attributable to the application of an abatement schedule under IC 6-1.1-12.1 may not be included in the base assessed value of an allocation area."

Due to these additional restrictions, the Department of Local Government Finance ("Department") has revised the TIF Neutralization Worksheet ("Worksheet") that should be used to complete the adjustments required in IC 36-7-14-39(h). This memo provides detail on the revised Worksheet and a line-by-line guide on how to complete the Worksheet.

Rationale for the Revised TIF Neutralization Worksheet

Conceptually, the revised Worksheet is designed to isolate changes in assessed value from Pay 2013 to Pay 2014 that are attributable to reassessment or annual adjustment. In order to do this, the Pay 2014 net assessed value within the allocation area is adjusted to remove assessed value increases attributable to new construction, abatement roll-off and changes in tax status which

result in increased assessed value (moving from tax-exempt to taxable). The Pay 2014 net assessed value is also adjusted to add back any loss in assessed value attributable to demolition or change in tax status from taxable to tax-exempt. By making these adjustments, the Pay 2013 and Pay 2014 net assessed values can be directly compared for the purposes of determining the amount of assessed value change associated with reassessment or annual adjustment. This comparison then yields the neutralization factor to be applied to the allocation area within the county's tax and billing system.

Procedures for TIF Neutralization

The county auditor should prepare or have prepared a Worksheet for each allocation area with real property assessed value in the county. Personal property assessed value should not be included in the calculation of TIF Neutralization. Likewise, allocation areas that only contain personal property assessed value do not require a Worksheet to be completed.

The preparation of the Worksheets should occur after the county auditor has received the gross assessed values from the county assessor and applied appropriate deductions and exemptions but prior to the certification of net assessed values to the Department. Certification of net assessed values prior to the submission and approval of a county's Worksheets will result in the submitted net assessed values being rejected.

When the Worksheets are prepared, the county auditor should email the completed Worksheets to Dan Jones, Assistant Budget Director, at djones@dlgf.in.gov. The Worksheets submitted must contain the county auditor's signature certifying the information contained on the Worksheet to the Department. Worksheets submitted without the county auditor's signature will not be accepted or reviewed.

After receipt of the Worksheets from a county, the Department will review the submitted Worksheets and will work with the county auditor and/or the Worksheet preparer to address any questions. Once all questions have been addressed, the Department's Commissioner will sign the Worksheets to approve the calculation. The Department-approved Worksheets will then be emailed back to the county auditor.

Upon receipt of the Department-approved Worksheets, the county auditor should apply the base neutralization factor identified on each Worksheet to the allocation area within the county's tax and billing system. Questions on this process should be addressed to the county's tax and billing software vendor. After application of the base neutralization factors, the county auditor can complete the process of calculating net assessed values for Pay 2014 and certify these values to the Department through Gateway.

Detailed Information on Revised TIF Neutralization Worksheet

The following provides a line-by-line guide on how to complete the revised Worksheet. Please follow this guidance when completing the Worksheet.

- *County* – County number and name (Example: 01 – Adams).

- *Allocation Area Code* – As indicated in Commissioner Vincent’s memo on reporting by development commissions ([http://www.in.gov/dlgf/files/130619 - Vincent Memo - Reporting by Redevelopment Commissions Regarding Tax Increment Financing Districts.pdf](http://www.in.gov/dlgf/files/130619_Vincent_Memo_Reporting_by_Redvelopment_Commissions_Regarding_Tax_Increment_Financing_Districts.pdf)), the county auditor should assign each TIF district in the county with a unique code. This code should begin with the letter T, followed by the two-digit county number, followed by a three-digit number created by the county auditor to uniquely identify the allocation area within the county. Each TIF district should have only one code. This means that TIF districts should not be broken out by taxing district, nor should expansions of a TIF district be provided a separate code. The TIF district should be neutralized and reported in its entirety. This is being done to facilitate long-term reporting of TIF district financial data in Gateway TIF Management, allowing for the flow of funds to be reported and understood more easily.
- *Allocation Area Name* – Please provide the official name of the TIF District.
- *Form Prepared By* – The lines in this section should be completed with the information of a contact person who the Department can contact if we have any questions on the Worksheet. If a financial advisor has completed the Worksheet, it is appropriate to place the financial advisor’s contact information on these lines.
- *Line 1: 2012 Pay 2013 Base Assessed Value of Allocation Area* – This should be the most recent base assessed value for the allocation area from the current tax year. The base assessed value is the amount of assessed value from the parcels included in the allocation area which was included in the tax base for the overlapping taxing units (county, township, city/town, school, library, special districts). TIF passthrough, if any existed, should not be included in the calculation of base assessed value. This should be the value after the Pay 2013 neutralization factor was applied and should also include any adjustments that occurred from assessed value certification to tax billing for Pay 2013. This could include, but is not limited to, any adjustments due to appeals or filing of deduction forms since certification.
- *Line 2: 2012 Pay 2013 Incremental Assessed Value of Allocation Area* – This should be the most recent incremental assessed value for the allocation area from the current tax year. The incremental assessed value is the amount of assessed value from the parcels included in the allocation area which was eligible to be captured by the redevelopment commission. TIF passthrough, if any existed, should not be removed from consideration in the calculation of incremental assessed value. This should be the value after the Pay 2013 neutralization factor was applied and should also include any adjustments that occurred from assessed value certification to tax billing for Pay 2013. This could include, but is not limited to, any adjustments due to appeals or filing of deduction forms since certification.
- *Line 3: 2012 Pay 2013 Net Assessed Value of Allocation* – This is a calculated field. It is the sum of Lines 1 and 2.
- *Line 4: 2013 Pay 2014 Net Assessed Value of Allocation Area* – This should be the most current net assessed value available for the allocation area. This value should include any

adjustments to net assessed value due to annual adjustment or reassessment. It should also include the application of any deductions and exemptions.

- *Line 5: 2013 Pay 2014 Net Assessed Value Growth in Allocation Area Due to New Construction or a Change in Tax Status* – In order to isolate the effect of annual adjustment or reassessment on the net assessed values, changes in assessed value associated with actual construction must be removed from consideration. In order to complete this line, the Worksheet preparer should identify new construction that has occurred in the allocation area since March 1, 2012. Possible sources for this information would include, but are not limited to, local officials, building permits and property record cards. In addition, the Worksheet preparer should identify parcels that have experienced a change in property tax status, such as tax-exempt to taxable or a change in land use that would impact assessed values.
- *Line 6: 2013 Pay 2014 New Assessed Value Decrease in Allocation Area Due to Demolition or a Change in Tax Status* - In order to isolate the effect of annual adjustment or reassessment on the net assessed values, changes in assessed value associated with demolition must be added back into the allocation area net assessed value to determine with the allocation area net assessed value would have been had the demolition not occurred. In order to complete this line, the Worksheet preparer should identify demolition that has occurred in the allocation area since March 1, 2012. Possible sources for this information would include, but are not limited to, local officials, building permits and property record cards. In addition, the Worksheet preparer should identify parcels that have experienced a change in property tax status, such as taxable to tax-exempt or a change in land use that would impact assessed values.
- *Line 7: 2013 Pay 2014 Net Assessed Value Growth as a Result of Abatement Roll-Off in Allocation Area* – Similar to Line 5 above, it is necessary to remove increases in assessed value associated with abatement roll-off from consideration in order to isolate the impact of annual adjustment or reassessment on net assessed values in the allocation area. The Worksheet preparer should utilize available abatement information to identify abatements existing within the allocation area and compute the amount of assessed value that was added to the allocation area from Pay 2013 to Pay 2014 due to abatement roll-off.
- *Line 8: Estimated Assessed Value Decrease Due to 2013 Pay 2014 Appeals Settlements in Allocation Area* – Due to the timing of when the Worksheet is completed and approved as compared to the actual billing for Pay 2014, it is possible that the assessed value of the allocation area changes due to the settlement of appeals. This line represents an allowance for appeals that will be settled between Pay 2014 net assessed value certification and tax billing. In estimating this number, the Worksheet preparer can consult with the county assessor to determine the amount of appeals anticipated to be settled during the tax year and the approximate value of these appeals.
- *Line 9: 2013 Pay 2014 Adjusted Net Assessed Value of Allocation* – Line 9 is a calculated field. It is designed to provide a comparable tax base in the allocation area to the tax base that existed in Pay 2013. To arrive at this value, the Worksheet takes Line 4, then subtracts off Lines 5, 7 and 8 and adds back in Line 6.

- *Line 10: 2013 Pay 2014 Neutralization Factor* – Line 10 is a calculated field. It is the calculation of the actual base neutralization factor that will be applied to the allocation area within the county's tax and billing system. It represents an approximation of the change in net assessed value that is due to annual adjustment or reassessment. It is calculated by dividing Line 9 by Line 3. It should be rounded to five decimal places.
- *Line 11: 2013 Pay 2014 Adjusted Base Assessed Value of Allocation Area* – Line 11 is a calculated field. It is an estimate of the base assessed value in the allocation area for Pay 2014. It is calculated by taking Line 1 (Pay 2013 base assessed value) and multiplying it by Line 10 (Pay 2014 neutralization factor).
- *Line 12: 2013 Pay 2014 Incremental Assessed Value of Allocation Area* – Line 12 is a calculated field. It is an estimate of the incremental assessed value in the allocation area for the Pay 2014. It is calculated by taking Line 4 (Pay 2014 net assessed value) and subtracting Line 11 (Pay 2014 base assessed value).
- *Line 13: Estimated 2013 Pay 2014 Tax Rate for the Allocation Area* – Lines 13 and 14 are informational only and do not factor into the actual calculation of the base neutralization factor. In order to estimate the amount of incremental revenue that may be derived in the allocation area, the Worksheet preparer should estimate the tax rate that may apply to the allocation area in Pay 2014. To do this, the Worksheet preparer should utilize current tax rates in the allocation area and estimate the impact that changes in assessed values, additional debt or other levy changes may have on the tax rate. The tax rate should be rounded to four decimal places. For TIF districts that are in more than one taxing district, an estimated average tax rate should be used.
- *Line 14: Estimated 2013 Pay 2014 Incremental Tax Revenue* – Lines 13 and 14 are informational only and do not factor into the actual calculation of the base neutralization factor. Line 14 represents the estimated amount of incremental revenue that may be derived in the allocation area in Pay 2014. It is a calculated field. It is calculated by taking Line 12 (Pay 2014 incremental assessed value), dividing it by 100 and then multiplying by Line 13 (Pay 2014 estimated tax rate).

After completion of each of these line items, the county auditor must complete the Worksheet by certifying to the calculation and signing the form. At that point, the Department will complete its review of the Worksheet.

While the revised Worksheet is significantly different than the prior Worksheet, the Department is hopeful that it simplifies the process of TIF neutralization while also achieving the goals as specified in HEA 1116. If you have any questions on the information above or on the revised Worksheet, please contact the Department. You may contact either Dan Jones, Assistant Budget Director, at djones@dlgf.in.gov or (317) 232-0651 or Courtney Schaafsma, Budget Director, at cschaafsma@dlgf.in.gov or (317) 234-3937.