

Introduction for Assessment

This assessment guideline is issued by the State Board of Tax Commissioners (SBTC) as a pre-approved, real property mass appraisal method under the provisions of 50 IAC 2.3. When properly implemented, the mass appraisal method outlined herein will produce accurate and uniform values throughout an assessment jurisdiction and across all classes of property.

The primary method of valuation outlined in this guideline is the cost approach to value. However, the extensive use of sales data throughout the techniques specified in the guideline ensure that the final true tax value assigned to a property is based upon objectively, verifiable data. In addition, where applicable, the assessing official may use income approach techniques in the valuation process.

The cost and depreciation tables in this guideline have been developed from published and/or field verified data. The costs are based on the estimated construction costs for Indianapolis, IN for January 1, 1999. The depreciation tables are based on engineering studies of typical structure lives and field validation studies. However, in both instances, procedures within the mass appraisal system outlined allow these costs to be adjusted to actual market conditions within an assessment jurisdiction.

Cost Tables

The calculation of True Tax Value under this rule uses the cost tables included in this guidelines to calculate "replacement cost new" for the improvements on all classes of property. The cost tables have been developed from objectively verifiable data by drawing cost information from publications of Marshall & Swift, L. P. These publications include the Indiana version of the *Residential Cost Handbook* © 1999, the *Exceptional Homes* guide © 1998, and Indiana version of the *Marshall Valuation Service* © 1999.

Assessing officials should verify that the cost tables in this manual reflect costs of structures within their jurisdictions as of January 1, 1999. These cost tables will be used in the 2002 reassessment and in subsequent years until a new manual is issued for the next reassessment.

Elements of Cost

The goal of the assessor is to estimate the true tax value for the land and the improvements. The calculation of cost is merely the starting point for estimating the true tax value of the improvements or structures. It sets the upper limit of value for the improvements.

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. Examples of direct costs include labor, materials, supervision, utilities used during construction, and equipment rental. Indirect cost examples are building permits, fees, insurance, taxes, construction interest, overhead, profit, and professional fees such as those charged by architects, engineers, consultants, and attorneys. The cost tables contain both direct and indirect costs. When comparing the costs in this guideline to actual construction costs it is critical that the actual construction costs represent all costs (direct and indirect) regardless of whether or not they were realized, as in the case of do-it-yourself construction.

Cost "new" refers to the current cost to construct the improvements as of a specified date. In the case of the 2002 general reassessment, the assessor will be estimating cost new as of January 1, 1999.

Do not confuse the concept of cost new with original/historical cost. Original/historical cost is the cost of constructing the improvement on the date it was first completed and ready for occupancy. The use of original cost is only appropriate if the improvement being valued was completed on or about January 1, 1999, or where the assessor has an accurate estimate of original cost and can trend that cost to January 1, 1999, using comparative cost multipliers in order to develop cost new.

Finally, the cost new of an improvement must reflect local construction practices for the geographical area in which the improvement is located. The cost tables in this guideline represent typical, or average, building costs in the Indianapolis area. Therefore, this guideline contains local cost multipliers that must be applied by the assessor to adjust costs to his/her specific jurisdiction in order to obtain the most accurate cost new possible.

Concepts of Cost

There are two major concepts of cost that the assessor must be aware of if he/she is to properly estimate cost new of the improvement and properly apply depreciation. These concepts are *reproduction cost* and *replacement cost*.

Reproduction cost is the cost of producing an exact replica of a structure or improvement using the same materials, design, and workmanship that were used in the original construction. It is the cost of constructing an exact replica of the improvement being valued.

Replacement cost is the cost of constructing a building having the same utility as the improvement being valued but using modern materials, design, and workmanship. Replacement cost eliminates the cost of obsolete materials, design, and building techniques. In so doing, most forms of functional obsolescence have been "cured" and do not have to be accounted for in the depreciation estimate.

The mass appraisal system outlined in this guideline uses the concept of "replacement cost new". Therefore, the assessor will be estimating the January 1, 1999, cost of constructing a building having the same utility as the building under appraisal.