OFFICE OF THE STATE AUDITOR November 2008

TIF Division Newsletter

Enforcing the Four-Year Knock-Down Rule

Development activity must begin on parcels in a TIF district within four years from the date of certification and according to the TIF plan. If demolition, rehabilitation, renovation or other site preparation, including qualifying street improvements adjacent to a parcel, has not begun within four years, tax increment revenues can no longer be taken from the parcel. Installation of utility service, including sewer or water systems, does not qualify as development activity.

This provision of the TIF Act, which the county auditor is required to enforce, is referred to as the Four-Year Knock-Down Rule. It works this way: the development authority is required to submit to the county auditor evidence that development activity has occurred on each parcel in the district. The evidence must be submitted no later than February 1st of the fifth year following the year the district was certified. If there has been no development activity, the auditor must exclude the original net tax capacity of the parcel from the original net tax capacity of the district.

The exclusion of the tax capacity of a parcel without development activity does not mean the parcel is eliminated from the district. If the authority or owner of the parcel begins qualifying development activity on the parcel at a later date, the authority may then certify this fact to the county auditor. The auditor will then include the net tax capacity of the parcel in the original net tax capacity of the district.

Thought should be given as to whether to return the excluded parcel to the original district or, if it is possible, to put it in a new TIF district. If the parcel re-enters the original district, the length of time remaining for that parcel in the TIF district is the same as for other parcels in that TIF district. The "frozen base" for that parcel, however, will change. A "frozen base" is the certified original net tax capacity of all of the parcels in the district. When a parcel re-enters a district, however, its frozen base is its net tax capacity at the time of its return, as most recently certified by the Department of Revenue. The frozen base will be different for the parcel re-entering the district than for the parcels remaining in the district.

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