



Golf Courses

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Golf Courses

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- Why?
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Golf Courses

IC 6-1.1-4-42

True tax value of golf course real property determined using income capitalization; information provided by golf course owners; uniform income capitalization tables; department of local government finance administration

Sec. 42. (a) This section applies to assessment dates after January 15, 2010.

(b) As used in this section, "golf course" means an area of land and yard improvements that are predominately used to play the game of golf. A golf course consists of a series of holes, each consisting of a teeing area, fairway, rough and other hazards, and the green with the pin and cup.



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- (c) The true tax value of real property regularly used as a golf course is the valuation determined by applying the income capitalization appraisal approach. The income capitalization approach used to determine the true tax value of a golf course must:
- (1) incorporate an applicable income capitalization method and appropriate capitalization rates that are developed and used in computations that lead to an indication of value commensurate with the risks for the subject property use;
 - (2) provide for the uniform and equal assessment of golf courses of similar grade quality and play length; and
 - (3) exclude the value of personal property, intangible property, and income derived from personal or intangible property.



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(d) For assessment dates after January 15, 2010, and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out this section in accordance with the rules adopted by the department of local government finance under IC 4-22-2.



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(e) For assessment dates after February 28, 2012, the department of local government finance shall, by rules adopted under IC 4-22-2, establish uniform income capitalization tables and procedures to be used for the assessment of golf courses. The department of local government finance may rely on analysis conducted by a state educational institution to develop the income capitalization tables and procedures required under this section. Assessing officials shall use the tables and procedures adopted by the department of local government finance to assess, reassess, and annually adjust the assessed value of golf courses.



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(f) The department of local government finance may prescribe procedures, forms, and due dates for the collection from the owners or operators of golf courses of the necessary earnings, income, profits, losses, and expenditures data necessary to carry out this section. An owner or operator of a golf course shall comply with the procedures and reporting schedules prescribed by the department of local government finance.

As added by P.L.182-2009(ss), SEC.89.



Golf Courses

- **Who?**
- **50 IAC 29-2-2** "Department" defined

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 2. "Department" means the department of local government finance. (*Department of Local Government Finance; 50 IAC 29-2-2; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA*)

- **50 IAC 29-2-3** "Golf course" defined

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 3. "Golf course" has the meaning set forth in IC 6-1.1-4-42(b). (*Department of Local Government Finance; 50 IAC 29-2-3; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA*)



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- **What?**

- **50 IAC 29-2-4** "Market value-in-use" defined

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 4. "Market value-in-use" means the market value-in-use of a property for its current use, as reflected by the utility received by the owner or by a similar user, from the property. *(Department of Local Government Finance; 50 IAC 29-2-4; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)*



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- **When?**
- **IN Code 6-1.1-4-42**
 - (a) This section applies to assessment dates after January 15, 2010.
 - (d) For assessment dates after January 15, 2010, and before March 1, 2012, a township assessor (if any) or the county assessor shall gather and process information from the owner of a golf course to carry out this section in accordance with the rules adopted by the department of local government finance under IC 4-22-2.
 - (e) For assessment dates after February 28, 2012, the department of local government finance shall, by rules adopted under IC 4-22-2, establish uniform income capitalization tables and procedures to be used for the assessment of golf courses.



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- **Where?**
- **IN Code 6-1.1-4-42**

(b) As used in this section, "golf course" means an area of land and yard improvements that are predominately used to play the game of golf. A golf course consists of a series of holes, each consisting of a teeing area, fairway, rough and other hazards, and the green with the pin and cup.



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- **Why?**
- **50 IAC 29-1-1 Purpose**

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 1. The purpose of this article is to establish uniform procedures to be used for the assessment of golf courses under IC 6-1.1-4-42.

(Department of Local Government Finance; 50 IAC 29-1-1; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



Golf Courses

- **How?**
- **50 IAC 29-3-1** Duties of assessing officials

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 1. Assessing officials must use the procedures adopted by the department in this article to:

- (1) assess;
- (2) reassess; and
- (3) annually adjust; the value of golf courses.

(Department of Local Government Finance; 50 IAC 29-3-1; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



Golf Courses

- **50 IAC 29-3-2** Exceptions to the valuation of golf courses

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 2. The value of personal property, intangible property, and income derived from personal or intangible property is excluded from the valuation of golf courses. Excluded from the income capitalization approach to valuation is income derived from pro shop merchandise sales and the income derived from the rental of golf carts.

(Department of Local Government Finance; 50 IAC 29-3-2; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



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- **50 IAC 29-3-3** Income capitalization

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-35-9

Sec. 3. (a) In assessing golf courses by means of the income capitalization method, an assessing official shall derive a value indication for income-producing property by converting the anticipated benefits of ownership of the property.

(b) Through use of income capitalization, an assessing official shall rely on the economic principles of the following:

- (1) Anticipation.
- (2) Change.
- (3) Supply and demand and competition.
- (4) Substitution.
- (5) Balance and contribution.



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- (c) Because a golf course may generate multiple sources of income, including greens fees, membership dues, and concessions, assessing officials shall solicit data for gross income and allowable operating expenses from the golf course operators and use federal tax returns or similar evidence as verification that the submissions are correct.
- (d) Assessing officials may examine multiple years of financial records and federal tax returns, up to and including the most current financial records and federal tax returns of the taxpayer as of March 1 of the year of assessment, to ensure that the appropriate income and expense information for the subject property is utilized. Under IC 6-1.1-35-9, all income and expense information provided to the assessing official is confidential. (Department of Local Government Finance; 50 IAC 29-3-3; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



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- **50 IAC 29-3-4** Income and expense statement

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 4. Income and expense information, which may include the following, should be arranged and evaluated by the assessing official in this order:

- (1)Gross income (potential gross income).
- (2)Miscellaneous income.
- (3)Effective gross income.



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- (4) The following allowable expenses:
- (A) Operating.
 - (B) Replacement reserves.
 - (C) Real estate taxes deducted under certain conditions.
 - (D) Management fees/expense.
 - (E) Insurance.
 - (F) Salaries.
 - (G) Benefits.
 - (H) Utilities.
 - (I) Advertising.
 - (J) Repairs.



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(K) Supplies.

(L) Legal and accounting fees.

(M) Miscellaneous expenses.

(5) The following non-allowable expenses:

(A) Depreciation (reflected in the recapture rate).

(B) Capital improvements.

(C) Franchise fees and special corporation costs.

(D) Owner's personal expenses.

(E) Debt service (principal and interest on mortgage).

(F) Payments on loans for capital improvements.

(G) Real estate taxes not deducted as an expense under certain conditions (reflected in the effective tax rate).

(Department of Local Government Finance; 50 IAC 29-3-4; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



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- **50 IAC 29-3-5** Calculating value of property

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 5. (a) In reliance on the golf course's income and expense information, the assessing official shall determine the valuation of the property through the following steps:

- STEP ONE: Determine potential gross income.
- STEP TWO: Add miscellaneous income.
- STEP THREE: Add the potential gross income to miscellaneous income to determine the effective gross income.
- STEP FOUR: Deduct expenses and replacement reserves from the effective gross income to determine the net operating income.



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- STEP FIVE: Divide the net operating income by the overall capitalization rate to determine the assessed value.
- (b) For golf courses for which detailed income and expense information is unavailable, information such as ordinary income, depreciation, interest expenses, entertainment (if any), and golf cart income (less expenses) shall be utilized to determine the assessed value.

(Department of Local Government Finance; 50 IAC 29-3-5; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



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- **50 IAC 29-3-6** Capitalization rate

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 6. (a) The overall capitalization rate expresses the relationship between net operating income and the market value of the property and shall be developed using the following:

- (1) Market extraction.
- (2) Effective tax rate.
- (3) Mortgage and equity.
- (4) Discounted cash flow.



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(b) The department may disseminate the overall capitalization rate, based on market verifiable information, for each county annually.

(Department of Local Government Finance; 50 IAC 29-3-6; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



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- **50 IAC 29-3-7** True tax value and zero or negative assessments

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 7. Where there is a negative net operating income, therefore, producing an assessed value of zero (0), the assessing official shall first ensure that all income and expense information is accurate. Where, despite a review of the information, the assessed value is still negative or zero (0), the assessing official shall determine the market value-in-use that results in a liability of five percent (5%) of the adjusted gross income, as illustrated by the following example:



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Assuming a 12% Overall Capitalization Rate

Assuming \$300,000 in Expenses

Gross Income = \$500,000

Less Golf Cart Income = <\$150,000>

Less Pro Shop Income = <\$50,000>

Adjusted Gross Income = \$300,000

Less Expenses = <\$300,000>

Net Operating Income = \$0

Multiply Adjusted Gross Income by 5% = $\$300,000 \times 5\% = \$15,000$

Divide above result by 12% Overall Capitalization Rate = $\$15,000/12\%$
= \$125,000 Assessed Value

(Department of Local Government Finance; 50 IAC 29-3-7; filed Aug 30, 2012, 2:00 p.m.: 20120926-IR-050120274FRA)



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- **50 IAC 29-3-8** Assessed value from base capitalization rate and net operating income

Authority: IC 6-1.1-4-42

Affected: IC 6-1.1-4-42

Sec. 8. When using the income capitalization approach, the assessed value of real property is found by dividing the net operating income by the overall capitalization rate. The following table, which is for illustrative purposes only and does not reflect all possible scenarios, shows assessed values rounded to the nearest one hundred dollars (\$100), where an assessed value (AV) is given where the column for a net operating income (NOI) amount intersects with the row for an overall capitalization rate:



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Overall Capitalization Rate	NOI \$20,000	NOI \$40,000	NOI \$60,000	NOI \$80,000	NOI \$100,000
8%	AV \$250,000	AV \$500,000	AV \$750,000	AV \$1,000,000	AV \$1,250,000
9%	AV \$222,200	AV \$444,400	AV \$666,700	AV \$888,900	AV \$1,111,100
10%	AV \$200,000	AV \$400,000	AV \$600,000	AV \$800,000	AV \$1,000,000
11%	AV \$181,800	AV \$363,600	AV \$545,500	AV \$727,300	AV \$909,000
12%	AV \$166,700	AV \$333,300	AV \$500,000	AV \$666,700	AV \$833,300



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- The Income Capitalization approach is one of three approaches to the valuation of real property. The appraiser derives a value indication for income-producing property by converting the anticipated benefits through ownership of property. (Source: International Association of Assessing Officers – Course #102 “Income Approach to Valuation”).
- As stated in 50 IAC 29-3-3, it is based on the economic principles of:
 - Anticipation
 - Change
 - Supply and demand and competition
 - Substitution
 - Balance and contribution



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Real estate competes with other investments for the investor's dollars. All investors want a return **on** their investment. All investors want a return **of** their investment.

- “**IRV**” – A Generic Capitalization Formula
- I (income) = Rate x Value
- R (rate) = $\text{Income}/\text{Value}$
- V (value) = $\text{Income}/\text{Rate}$



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- **Basis of Income:**
- For a golf course, there may be several different sources of income, including green fees, membership dues, concessions, and other miscellaneous sources.
- The assessing official should consider the entire “enterprise” of the golf course (with the exception of golf carts and pro shop income and expenses) when determining the assessed value.



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- **Income and Expense Statement:**
- Reconstructed from the owner's statement.
- Format:
 - Gross Income Estimate (potential gross income)
 - Miscellaneous Income
 - Effective Gross Income
 - Allowable Expenses
 - Operating
 - Replacement Reserves
 - Real Estate taxes (deducted under certain conditions, for example, when calculating for property tax purposes)



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- **Allowable Expenses (continued):**
 - Management fees/expense
 - Insurance
 - Salaries
 - Benefits
 - Utilities
 - Advertising
 - Repairs
 - Supplies
 - Legal and Accounting Fees
 - Miscellaneous Expenses
 - Replacement Reserves



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- **Non-allowable expenses:**
 - Depreciation (reflected in the recapture rate)
 - Capital improvements
 - Franchise fees and special corporation costs
 - Owner's personal expenses (income taxes, etc.)
 - Debt service (principal and interest on mortgage)
 - Payments on loans for capital improvements
 - Real Estate taxes (not deducted as an expense under certain conditions – reflected in the effective tax rate).



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- Total Operating Expenses
- Replacement Reserves
- Total Expenses

- Net Operating Income



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Income and Expense Statement for the “St. Augusta” Golf Course:

INCOME	2015	2014	2013	3-Year Average
Rounds Played	1200	1050	900	
GOLF INCOME				
Green Fees	\$35,000	\$32,500	\$30,300	
Annual Golfing	\$84,000	\$79,750	\$76,400	
Member Dues				
Driving Range	\$14,500	\$10,800	\$9,500	
Miniature Golf Sales	\$10,700	\$7,700	\$6,900	
Club Storage	\$1,800	\$1,200	\$1,100	
Total Golf EGI	\$146,000	\$131,950	\$124,200	\$134,050



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Income and Expense Statement for the St. Augusta Golf Course:

NON-GOLF INCOME	2015	2014	2013	3-Year Average
Food & Beverage Sales	\$40,300	\$37,400	\$35,800	
Annual Non-Golfing	\$20,100	\$16,900	\$14,650	
Member Dues				
Other Income	\$2,600	\$2,000	\$1,300	
Total Non-Golf Income	\$63,000	\$56,300	\$51,750	\$57,017
Total Enterprise Income				\$191,067



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Income and Expense Statement for the St. Augusta Golf Course:

GOLF EXPENSES	2015	2014	2013	3-Year Average
Course Maintenance	\$21,800	\$17,900	\$16,100	
Course Maintenance Salaries	\$32,200	\$28,800	\$26,700	
Irrigation	\$9,700	\$7,900	\$7,000	
Advertising/Promotion @ 60%	\$2,400	\$2,400	\$2,400	
Facilities Insurance @ 30%	\$5,400	\$5,400	\$5,400	
Management @ 15%	\$21,900	\$19,793	\$18,630	
Golf EGI				
Replacement Reserves @ \$1.75/round	\$2,100	\$1,838	\$1,575	
Total Golf Expenses	\$95,500	\$84,031	\$77,805	\$85,779



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Income and Expense Statement for the St. Augusta Golf Course:

Non-Golf Expenses	2015	2014	2013	3-Year Average
Other Real Estate	\$6,300	\$4,800	\$4,200	
Maintenance				
Other Salaries	\$34,600	\$31,050	\$29,900	
Other Utilities	\$7,300	\$6,900	\$5,100	
Advertising/Promotion @ 40%	\$1,600	\$1,600	\$1,600	
Facilities Insurance @ 70%	\$12,600	\$12,600	\$12,600	
Cost of Food/Beverage Sales	\$18,100	\$16,900	\$17,300	
Management @ 15% Non-Golf EGI	\$9,450	\$8,445	\$7,763	



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Income and Expense Statement for the St. Augusta Golf Course:

	2015	2014	2013	3-Year Average
Total Non-Golf Expenses	\$89,950	\$82,295	\$78,463	\$83,569
Total Enterprise Expenses	\$169,348			
Total Enterprise NOI	\$21,719			
Capitalize @ 11%*	\$197,445			
	\$197,400			
Market Value In Use of Real Estate	\$197,400			

* Capitalization rate for illustrative purposes only.



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- **Capitalization Rate:**

The Net Operating Income is a key determinant in establishing the value of a property in the income approach. The other key component that can have a significant effect on the total value of the property is the capitalization rate.

We will focus on the “Overall Capitalization Rate” (OAR) which expresses the relationship between net operating income and the market value of the property.



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- **Capitalization Rate (continued):**
 - It can be developed using the following:
 - Market Extraction
 - Effective Tax Rate
 - Mortgage & Equity
 - Discounted Cash Flow



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- **Capitalization Rate (continued):**
 - Contrary to popular belief, the OAR is not always “10”! (Different classes of property will have different rates.)
 - The OAR reflects risk, liquidity (or lack thereof), potential for growth in net income, and general requirements of the investor.
 - To determine the value of the property (simplistically), divide the Net Operating Income by the Overall Rate.



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- **St. Augusta Golf Course:**
- For example (using our previous NOI):
 - \$21,719 divided by a 8% OAR = \$271,448
 - \$21,719 divided by a 10% OAR = \$217,190
 - \$21,719 divided by a 14% OAR = \$155,136



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- So now that we know that the capitalization rate can have a significant impact on the value of the property, what other things can make a difference?
 - Replacement Reserves: This allows a fund to be collected to replace items that will wear out. For example, an apartment complex may establish a replacement reserve for the roof, furnace, water heater, carpet, etc. These items are deducted after the operating expenses (included in the total expenses).
 - For a golf course, these items could possibly include a roof or carpeting for the clubhouse, a water heater, furnace, etc.
 - The amount of income and expenses are the other things that will obviously have an impact on the bottom-line.



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- **Steps to Determine Value:**
 - Determine Effective Gross Income from Golf
 - Determine Non-Golf Income
 - Total Enterprise Income
 - Deduct Expenses and Replacement Reserve



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- **Steps to Determine Value (continued):**
 - Net Operating Income
 - Capitalize
 - Does one size fit all? – not necessarily!



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Frequently Asked Questions:

Question: We are a par 3 golf course with a driving range and golf shop. My taxes this year are up \$1,400 dollars over last year. The bill for this year is \$9,400. We have not turned a profit in the past three seasons. How are we supposed to be assessed? The way things are it would benefit me to become agricultural and put a few cows in the fairway. I do not mind paying my fair share... just want to know what my fair share truly is, especially when financial times are not so great. I have never been asked for income statements for assessments. I just need some guidance concerning our situation.



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Answer: First, great deference is given to local control, meaning the Department does not get involved in individual assessment or appeal issues because our staff may be only hearing one side of the story, the Department may not have enough information to provide succinct guidance, the local officials are empowered to administer the property tax process, and if a taxpayer disagrees with their assessed value, they have the right to file a property tax appeal (note: the appeal would be in relation to the assessed value and not the property taxes).



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Answer: Having said that, per Indiana Code 6-1.1-4-42, golf courses are to be assessed using the income approach to valuation because of the dynamics of the golf course industry, the assessed value may change from year to year. The assessing official should be assessing your golf course operation based on your income and expense information each year. If the assessing official has not contacted you regarding your income and expense information (typically, they will use three years' worth of information), the Department would suggest reaching out to their office to work towards a mutually agreeable assessment.



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Question: Do we do the Golf Course Valuation every year?

Answer: Yes, you should be placing a value on a golf course each year. Each year stands alone, and the Department disseminates the capitalization rate on an annual basis.



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Question: I have a taxpayer that talked with a local assessor that was saying that in a year or two they may go back to the cost approach.

Answer: The Department is not aware of any new activity or changes regarding the valuation of golf courses.



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Question: We have a golf course that has a negative assessment. According to a PowerPoint from September 2011, the land value could be used instead. Is this still correct? Since this golf course sold in 2009 for \$1.9 million, I feel the land value should be used. Opinion?

Answer: Per 50 IAC 29-3-7, if there is a zero or negative assessed value after ensuring the income and expense information is accurate, the assessment is equal to a liability of 5% of the adjusted gross income (see the formula).



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Question: This concerns the taxpayer that wants a refund for 3 years because they didn't give us the info on the carts and pro shop. Is there a date in which this info has to be in my office? I have sent them a letter every year in March asking for their income and expense citing the law concerning the change of assessment method. Had I not sent a letter, we wouldn't have received anything. We figured the assessment using what they sent. Is a refund really necessary? I think it is the accountant's job to read the law and send the appropriate info. Opinion?



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Answer: The Department is not aware of a date in which the taxpayer must submit the information since it is a request and not a requirement; however, the request/return date should be reasonable (for both parties). The leadership of the Indiana Golf Course Owner's Association has pledged to help the Assessor's get the requisite information from their membership if a golf course owner either refuses or will not provide the information. Let the Department know the golf course name and the Department can pass along the request to the Golf Course Owner's Assoc. In regard to whether a refund is necessary, if the taxpayer filed an appeal, the decision on the appeal, and possible subsequent refund, would be determined by the PTABOA.



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Resources:

- [http://www.in.gov/dlgf/files/pdf/160104 -
Wood Memo - Golf Course Guidance.pdf](http://www.in.gov/dlgf/files/pdf/160104_Wood_Memo_-_Golf_Course_Guidance.pdf)
- [http://www.in.gov/dlgf/files/pdf/130311 -
Wood Memo - Golf Course Guidance.pdf](http://www.in.gov/dlgf/files/pdf/130311_Wood_Memo_-_Golf_Course_Guidance.pdf)
- [http://www.in.gov/dlgf/files/pdf/120315 Gol
f Course Guidance Memo.pdf](http://www.in.gov/dlgf/files/pdf/120315_Golf_Course_Guidance_Memo.pdf)



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Questions?



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