STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: **Assessing Officials**

FROM: **Barry Wood, Assessment Division Director**

RE: **Golf Course Guidance**

DATE: **January 4, 2021**

Per Indiana Code 6-1.1-4-42(e), the Department of Local Government Finance ("Department") is required to establish uniform capitalization tables and procedures to be used for the assessment of golf courses (also referred to as golf facilities or golf enterprises). These tables and procedures were formally promulgated in 50 IAC 29.

Assessing officials must use the tables and procedures adopted by the Department to assess, reassess, and annually adjust the value of golf courses. The Department has previously issued guidance regarding the assessment of golf courses.

Determining the Net Operating Income ("NOI") is a key factor in the income approach. The other key component is the capitalization rate. The Overall Capitalization Rate ("OAR") expresses the relationship between NOI and the market value of the property. The OAR reflects risk, liquidity (or lack thereof), the potential for growth in net income, and the general requirements of the investor. **The OAR to be used statewide for the January 1, 2021 assessment date is 11.00%.** To determine the value of the property (simplistically), divide the NOI by the OAR.

Indiana Code 6-1.1-4-42(c)(3) excludes from the true tax value of a golf course the value of personal property, intangible property, and the income derived from personal or intangible property, such as course naming rights. The Department understands the statute to also exclude pro-shop income and golf cart rental income.

In the 2020 legislative session, the Indiana General Assembly made changes to the assessment of golf courses.

Section 7 of HEA 1113-2020 specifies that the term "golf course" is defined to mean an area of land that is predominantly used to play the game of golf and any associated yard improvements. Additionally, HEA 1113 defines the term "yard improvements" to include a clubhouse, irrigation systems, a pro shop, a maintenance building, a driving range, a structure for food and beverage services, or any other buildings that are associated with the operation of and included in the net operating income of a golf course. This amended definition of what is considered a golf course for assessment purposes is similar to the yearly guidance issued by the Department for golf course assessments.

The amended provisions still include the requirement that the income capitalization approach should be used to determine the true tax value of a golf course; however, the revised statute eliminates the requirement that the uniformity and equality apply to courses of "similar grade quality and play length." Currently, similar courses with dissimilar income streams may be similarly assessed, but the revised statute merely stresses that there must be a uniform and equal assessment of golf courses.

On or before December 31 of each year, local assessing officials must solicit data for the gross income and allowable operating expenses from golf course owners or operators for use in determining the overall assessed value of a golf course. In order to obtain the average net operating income, local assessing officials must examine three (3) years of income and expense data. The three (3) year average should include the most current completed financial records and filed federal tax returns for the golf course as of the assessment date. Indiana Code § 6-1.1-4-42(g) also specifies that golf course owners or operators are required to provide the requested data to the assessing official. Section 7 of HEA 1113 was retroactively effective as of January 1, 2020.

Additionally, the Department has updated 50 IAC 29 and should be used for the January 1, 2021 assessment date. The revised version of 50 IAC 29-3 is shown below:

Sec. 3. (a) In assessing golf courses by means of the income capitalization method, an assessing official shall derive a value indication for an income-producing property by dividing the three (3) year average net operating income by the cap rate as determined annually by the department.

(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.
(6) Industry standard cap rates.

(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) The date of assessment is January 1. An assessing official shall examine the financial records and federal tax returns for the three (3) immediately preceding years to obtain the average net operating income. The three-year average should include the most current completed financial records and filed federal tax returns for the golf course as of January 1 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.

For additional specific instructions concerning golf course assessments, please refer to the tables and procedures prescribed by 50 IAC 29.

Questions may be directed to your Assessment Division Field Representative.