



# **Golf Courses**

**Barry Wood**

**Assessment Division Director**

**August 2018**



# Golf Courses

---

- Definitions
- Example
- Recent Appeal Determinations
- Frequently Asked Questions
- Resources
- Questions?



# Golf Courses - Definitions

---

## **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.



# Golf Courses

---

- (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.



# Golf Courses

---

(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.



# Golf Courses

---

(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.



# Golf Courses

---

(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

---

- **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)*

- **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)*



# Golf Courses

---

- **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)*



# Golf Courses

---

- **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.



# Golf Courses

---

- (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)*



# Golf Courses

---

- **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.
- (4) The following allowable expenses:
  - (A) Operating.
  - (B) Replacement reserves.
  - (C) Real estate taxes deducted under certain conditions.
  - (D) Management fees/expense.
  - (E) Insurance.



# Golf Courses

---

- (F) Salaries.
- (G) Benefits.
- (H) Utilities.
- (I) Advertising.
- (J) Repairs.
- (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).



# Golf Courses

---

- **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.

STEP FIVE: Divide the net operating income by the overall capitalization rate to determine the assessed value.



# Golf Courses

---

(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)*



# Golf Courses

---

- **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.

(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)*



# Golf Courses

---

- **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:



# Golf Courses

---

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)*



# Golf Courses

---

- **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:



# Golf Courses

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



# Golf Courses

---

- 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



# Golf Courses

---

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) =  $\text{Income}/\text{Rate}$



# Golf Courses

---

- **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.



# Golf Courses

---

- **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)



# Golf Courses

---

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



# Golf Courses

---

- **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).



# Golf Courses

---

- Total Operating Expenses
- Replacement Reserves
- Total Expenses
  
- Net Operating Income



# Golf Courses

---

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



# Golf Courses

---

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



# Golf Courses - Example

---

## Income and Expense Statement for the “Royal Hackers” Golf Course:

<b>INCOME</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>3-Year Average</b>
Rounds Played	1300	1150	1000	
<b>GOLF INCOME</b>				
Green Fees	\$45,000	\$42,800	\$40,000	
Annual Golfing	\$95,000	\$89,500	\$86,700	
Member Dues				
Driving Range	\$17,200	\$14,900	\$12,100	
Miniature Golf Sales	\$13,400	\$10,600	\$8,800	
Club Storage	\$3,400	\$2,200	\$1,400	
<b>Total Golf EGI</b>	<b>\$174,000</b>	<b>\$160,000</b>	<b>\$149,000</b>	<b>\$161,000</b>



# Golf Courses - Example

---

## Income and Expense Statement for the “Royal Hackers” Golf Course:

<b>NON-GOLF INCOME</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>3-Year Average</b>
Food & Beverage Sales	\$58,500	\$52,900	\$48,700	
Annual Non-Golfing	\$27,200	\$22,800	\$19,600	
Member Dues				
Other Income	\$4,300	\$3,600	\$2,300	
Total Non-Golf Income	\$90,000	\$79,300	\$70,600	\$79,967
Total Enterprise Income				\$240,967



# Golf Courses - Example

---

## Income and Expense Statement for the “Royal Hackers” Golf Course:

<b>GOLF EXPENSES</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>3-Year Average</b>
Course Maintenance	\$24,600	\$21,700	\$19,300	
Course Maintenance Salaries	\$37,500	\$33,100	\$29,900	
Irrigation	\$11,300	\$10,200	\$8,900	
Advertising/Promotion @ 70%	\$7,000	\$7,000	\$7,000	
Facilities Insurance @ 30%	\$6,000	\$6,000	\$6,000	
Management @ 15%	\$26,100	\$24,000	\$22,350	
Golf EGI				
Replacement Reserves @ \$1.50/round	\$1,950	\$1,725	\$1,500	
<b>Total Golf Expenses</b>	<b>\$114,450</b>	<b>\$103,725</b>	<b>\$94,950</b>	<b>\$104,375</b>



# Golf Courses - Example

---

## Income and Expense Statement for the “Royal Hackers” Golf Course:

<b>NON-GOLF EXPENSES</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>3-Year Average</b>
Other Real Estate	\$8,200	\$5,700	\$4,900	
Maintenance				
Other Salaries	\$37,100	\$33,500	\$30,800	
Other Utilities	\$8,600	\$7,300	\$6,700	
Advertising/Promotion @ 30%	\$3,000	\$3,000	\$3,000	
Facilities Insurance @ 70%	\$14,000	\$14,000	\$14,000	
Cost of Food/Beverage Sales	\$21,200	\$19,300	\$18,400	
Management @ 15% Non-Golf EGI	\$13,500	\$11,895	\$10,590	



# Golf Courses - Example

---

## Income and Expense Statement for the “Royal Hackers” Golf Course:

	2017	2016	2015	3-Year Average
Total Non-Golf Expenses	\$105,600	\$94,695	\$88,390	\$96,228
Total Enterprise Expenses (3 yr. avg.)	\$200,603			
Total Enterprise NOI	\$40,364			
Capitalize @ 11.69%*	\$345,287			
	\$345,300			
Market Value In Use of Real Estate	\$345,300			

\* Per 12/27/2017 DLGF “Golf Course Guidance” memo.



# Golf Courses

---

- While the capitalization rate to be used is determined by the DLGF, what other things can make a difference in the valuation process?
  - 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.



# Golf Courses – Recent Determinations

---

- **Recent Indiana Board of Tax Review (IBTR) Determinations:**
  - Randy A. & Sara Ballinger v. Grant Co. (May 2018):
  - The primary issue is the scope of the definition of a golf course found in Ind. Code § 6-1.1-4-42. The parcel consists of 301.71 acres with three single-family residences, three pole barns, two utility sheds, two 18-hole golf courses, and what the parties refer to as the “clubhouses.”



# Golf Courses

---

- In prior memoranda, the DLGF has attempted to clarify the definition of a golf course by stating:
  - Most golf courses feature multiple tracts of land, a club house, maintenance building, housing for irrigation pumps and/or controls, and a driving range. The aggregate income capitalization valuation of these parcels contributes to the NOI of the course and generally cannot be separated out. The market value-in-use of the facility would therefore include all of the parcels.



# Golf Courses

---

Finally, the income capitalization method for golf courses includes revenue from multiple sources, including greens fees, membership fees, food and beverage sales, the driving range, etc.

Consequently, the clubhouse, banquet center, driving range, maintenance building, housing for pumps and/or controls, etc., are not to be assessed separately and are included in the assessment for the golf course using the income capitalization method.



# Golf Courses

---

- The Board finds the Legislature took pains to specifically describe the playing area of a golf course and intentionally excluded from the definition clubhouses and similar improvements. Additionally, the statute requires that the DLGF rules “provide for the uniform and equal assessment of golf courses of similar grade quality and play length,” reflecting a focus on the playing area rather than ancillary amenities. Thus, the Board concludes that according to Ind. Code § 6-1.1-4-42 “golf course” consists only of the golf course playing area. The land and improvements that are ancillary to the playing area of a golf course are not entitled to an assessment under the statute’s modified income approach.



# Golf Courses

---

- The parties are in the position where the rule-making agency and adjudicatory agency have taken conflicting interpretations of the statute. Ultimately, however, the dispute between “land and yard improvements” and golf course enterprise is not reached in this case.
- The Board concludes that the land and improvements consisting of the residences are not entitled to an assessment through the modified income approach.



# Golf Courses

---

- Randlesville Lake Golf, LLC v. Knox County Assessor (March 2015)
  - In this appeal, Randlesville Golf LLC contested the 2010 and 2011 assessments. The subject property consists of two parcels totaling approximately 114 acres of land, on which an 18-hole golf course and various improvements are situated.
  - The Respondent contends that the Petitioner's appeals for the 2010 and 2011 assessments were not timely filed.
  - The Board determined that the Petitioner failed to initiate the appeal process for the 2010 and 2011 assessments within the time allowed by Ind. Code § 6-1.1-15-1(d).



# Golf Courses

---

- Albert Hall, Ltd. (Norwood Golf Course) v. Huntington County Assessor (February 2012)
  - Albert Hall, Ltd. appealed the March 1, 2010 assessment.
  - Two parcels are known collectively as Norwood Golf Club. One parcel is 174.9 acres and contains an 18-hole golf course. The other parcel is 1.53 acres and contains what the parties refer to as a “lodge” (that is apparently used to prepare meals for golf outings).
  - Under the valuation statute, the petitioner contended the golf course had a zero value.
  - Citing a May 2011 DLGF memo, the petitioner stated that “if an assessment is zero or a negative value, the assessor should at least assess the land value of the property.”



# Golf Courses

---

- The IBTR stated that the property must be divided into two portions for purposes of measuring its true tax value. The portion of the 174.9 acre parcel *used as a golf course* is the amount yielded by applying the income capitalization approach, while the true tax value for the remainder of that parcel and for the entire 1.53 acre parcel is the property's market-value-in-use.
- The Board believed that the golf course should be assessed using the agricultural land base rate, which for 2010 was \$1,290 per acre.
- For the remainder of that parcel, and for the other parcel, the assessment should remain unchanged.



# Golf Courses – FAQ

---

- **Question:** If a golf course shows a loss over a period of three years, can you use the 5% rule to come up with an assessed value. Is there a better way?
- **Answer:** The Department's administrative rule addresses those taxpayers where there may be a negative net operating income (i.e. the 5% rule). However, the rule does not specify the duration/timeframe.



# Golf Courses – FAQ

---

- ***Answer con't.:*** The Department is not aware of a better way per se, other than to closely review their income and expense information. For example, if all of the other golf courses in your county are not showing a negative net operating income, why is this particular course not doing so well (e.g. management practices)? In some situations, it may be more of a general economic situation (e.g. the 2008 Great Recession).



# Golf Courses – FAQ

---

- **Question:** Is it possible to have a different assessment date for golf courses?
- **Answer:** The Department is not aware of any proposed legislation addressing the valuation of golf courses, or possible changes in the assessment date. While the Department does understand the predicament the golf course owners and the assessing officials have in trying to get and use the most current financial information available, which may or may not include the immediately preceding year, changing the assessment date may create confusion, and could possibly delay the assessing official being able to complete their work in a timely manner.



# Golf Courses – FAQ

---

- ***Answer con't.***: A couple of other questions or issues that could be raised would be: If there was a change in the assessment date, what would be the new date?; If you change the assessment date for one type of taxpayer, would other taxpayers be asking for a similar change (e.g. bowling alleys, self-storage facilities, etc.), which could lead to various dates?

Based on the assessment date change a couple of years ago, the Department will have to update its administrative rule. However, 50 IAC 29-3-3 (d) allows the assessing official to use the “most current financial records...,” which may or may not include the information from the immediately preceding year.



# Golf Courses – FAQ

---

- **Question:** I am looking into the taxes paid by golf courses in Indiana. Specifically, if there is any statute that artificially maintains any assessment allowing private golf courses to maintain a low value?
- **Answer:** The Department is not aware of any specific Indiana Code or Indiana Administrative Code citation that would “artificially... maintain a low value” since the valuation would be dependent upon the income and expense of the golf course.



# Golf Courses - Resources

---

## Resources:

- <https://www.in.gov/dlgf/files/pdf/171227%20-%20Wood%20Memo%20-%20Golf%20Course%20Guidance.pdf>
- <https://www.in.gov/dlgf/files/pdf/161229%20-%20Wood%20Memo%20-%20Golf%20Course%20Guidance.pdf>
- <http://www.in.gov/dlgf/files/pdf/160104> - Wood Memo - Golf Course Guidance.pdf
- <https://www.in.gov/dlgf/files/pdf/150302> - Wood Memo - Golf Course Guidance.pdf



**Questions?**



# Contact the Department

---

- Barry Wood
  - Telephone: 317.232.3762
  - DLGF Fax: 317.974.1629
  - E-mail: [Bwood@dlgf.in.gov](mailto:Bwood@dlgf.in.gov)
- Website: [www.in.gov/dlgf](http://www.in.gov/dlgf)
  - “Contact Us”: [www.in.gov/dlgf/2338.htm](http://www.in.gov/dlgf/2338.htm)