

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE
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Certification of Agricultural Land Base Rate Value for Assessment Year 2009

This memorandum hereby serves to notify assessing officials of the agricultural base rate to be used for the March 1, 2009 assessment date: **\$1,250 per acre.**

Land used for agricultural purposes shall be adjusted consistent with the guideline methodology developed for the 2002 general reassessment agricultural land value except, in determining the annual base rate, the Department of Local Government Finance ("Department") shall adjust the methodology to use a six (6) year rolling average instead of a four (4) year rolling average. The Department will issue annually, before January 1, the base rate to be applied for the following March 1 assessment date. 50 IAC 21-6-1(a).

Those portions of agricultural parcels that include land and buildings not used agriculturally, such as homes, homesites, and excess land and commercial or industrial land and buildings, shall be adjusted by the factor or factors developed for other similar property within the geographic stratification. The residence portion of agricultural properties will be adjusted by the factors applied to similar residential properties. 50 IAC 21-6-1(b).

The 2009 assessment year agricultural land value utilizes the land's current market value in use, which is based on the productive capacity of the land, regardless of the land's potential or highest and best use. The most frequently used valuation method for use-value assessment is the income capitalization approach. In this approach, use-value is based on the residual or net income that will accrue to the land from agricultural production.

As illustrated in the following equation, the market value in use of agricultural land is calculated by dividing the net income of each acre by the appropriate capitalization rate.

$$\text{Market value in use} = \text{Net Income} \div \text{Capitalization Rate}$$

The net income of agricultural land can be based on either the net operating income or the net cash rent. Net operating income is the gross income received from the sale of crops less the variable costs (i.e. seed and fertilizer) and fixed costs (i.e. machinery, labor, property taxes) of producing crops. The net cash rent income is the gross cash rent of an acre of farmland less the property taxes on the acre. Both methods assume the net income will continue to be earned into perpetuity.

The capitalization rate converts the net income into an estimate of value. The capitalization rate reflects, in percentage terms, the annual income relative to the value of an asset; in this case agricultural land. Conceptually, this capitalization rate incorporates the required returns to various forms of capital, associated risks, and the anticipated changes over time.

Since agricultural land in Indiana is nearly evenly divided between cash rent and owner-occupied production, the Department utilized a six-year rolling average (2001 to 2006) of both methods in determining the market value in use of agricultural land. The capitalization rate applied to both types of net income was based on the annual average interest rate on agricultural real estate and operating loans in Indiana for this same period. The table below summarizes the data used in developing the average market value in use.

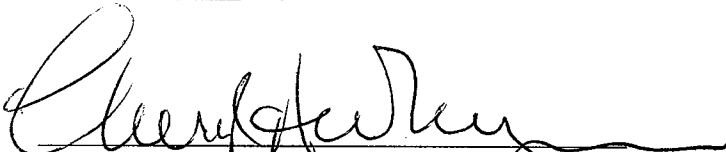
Table 2-18. Agricultural Land market value in use

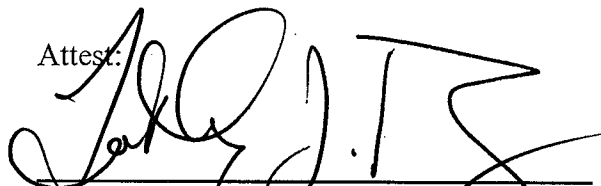
Source: Real Property Assessment Guidelines for 2002-Version A, Book 1, Chapter 2, pg. 100

Year	<u>NET INCOMES</u>			<u>MARKET VALUE IN USE</u>		
	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
2001	102	61	8.01%	1,273	762	1,017
2002	105	20	7.02%	1,496	285	890
2003	106	71	6.29%	1,685	1,129	1,407
2004	104	135	6.35%	1,638	2,126	1,882
2005	110	59 ¹	7.22%	1,524	817	1,170
2006	110	73	8.18%	1,345	892	1,119
Average Market Value in Use						\$1,250

The statewide agricultural land base rate value for the 2009 assessment year will be \$1,250 per acre. As part of HEA 1001 (Public Law 146-2008), the property tax cap for agricultural land is 2%. The property tax cap for all farm structures is 3%, and the cap for homestead property up to one acre is 1%.²

Dated this 3rd day of December, 2008.


 Cheryl A.W. Musgrave, Commissioner
 Department of Local Government Finance

Attest:

 Timothy J. Rushenber, General Counsel

¹ The Operating Income for 2005 was changed slightly from last year's calculation. This was a result of the Indiana Agricultural Statistics Service updating the published data. The change was made to the November 2005 price per bushel for soybeans when it was lowered from \$5.61 to \$5.58 per bushel. This slight change would have had no impact on the March 1, 2008 base rate of \$1,200, which the Department certified in December 2007.

² As part of HEA 1001 (Public Law 146-2008) for 2008 pay 2009, the property tax cap for agricultural land is 2.5%. The property tax cap for all farm structures is 3.5%, and the cap for homestead property up to one acre is 1.5%.