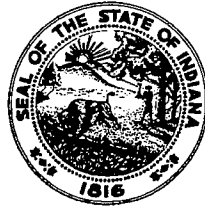


STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

NOVEMBER 12, 2003



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Overview of Agricultural Land Values

Authority: IC 6-1.1-4-13 states “(a) In assessing or reassessing land, the land shall be assessed as agricultural land only when it is devoted to agricultural use” and “(d) The Department of Local Government Finance shall by rule provide for the method for determining the true tax value of each parcel of agricultural land.”

Agricultural Advisory Council: IC 6-1.1-38-1 establishes a council to advise the DLGF on concerning the assessment of land used for agricultural purposes. Members of this council are made up of representatives of the major agricultural groups in the state. This council reviewed the agricultural base rate of \$1,050/acre for 2002 and the consensus was it reflected the value in use of farmland in Indiana – agricultural land values had not been adjusted since 1989. Indiana’s current agricultural base rate land value is approximately 50% less than it would be under a market value in exchange calculation.

History of Statewide Agricultural Land Value Base Rates:

Reassessment Year	1979	1989	1995	2002	Current
Base Rate (value in use)	\$450	\$495	\$495	\$1,050	N/A
Market Value (value in exchange)	\$1,898	\$1,154	\$1,545	\$2,092	\$2,509

Calculation of Statewide Agricultural Land Value Base Rate:

Year	Net Income Estimates			Value in Use Indications		
	Cash Rent	Operating Income	Capitalization Rate	Cash Rent	Operating Income	Average
1995	\$88	\$56	9.92%	\$887	\$565	\$726
1996	\$94	\$131	9.29%	\$1,012	\$1,410	\$1,211
1997	\$100	\$124	9.31%	\$1,074	\$1,332	\$1,203
1998	\$102	\$91	9.10%	\$1,121	\$1,000	\$1,060
Ave. Market Value in Use =						\$1,050

Concept of Valuation: Agricultural land values are based on the land’s current market value in use. The market value in use is based on the productive capacity of the land, regardless of the land’s potential or highest and best use. The most often used valuation method for determining market value in use is the income approach to value. The income approach to value formula is:

$$\text{net income} \div \text{capitalization rate} = \text{market value in use}$$

Determination of Statewide Agricultural Land Value Base Rate: The net income of agricultural land can come from cash rents (rent a land owner receives from leasing land to an operator to farm) or from net operating income (gross income from sale of agricultural products minus the production costs). The DLGF uses both of these estimates of net income in developing the base rate.

The capitalization rate reflects, in percentage terms, the required returns to various forms of capital, associated risks, and the anticipated changes over time. The DLGF uses the average annual interest rate charged for borrowing for agricultural land purchases and operating loans as the capitalization rate.

Both the net income estimates and the capitalization rate are based on a four (4) year average for the four (4) years immediately preceding the valuation date (1999). The calculation data comes from sources at Purdue University.