

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE
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Certification of Agricultural Land Base Rate Value for Assessment Year 2007

Pursuant to 50 IAC 21-6-1(a), the Department of Local Government Finance will annually issue the agricultural land base rate to be applied for the upcoming March 1 assessment date. This certification serves to notify assessing officials of the agricultural base rate to be used for the March 1, 2007 assessment date.

The 2007 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 of Local Government Finance utilized a six-year rolling average (1999 to 2004) on 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 - Updated for March 1, 2007

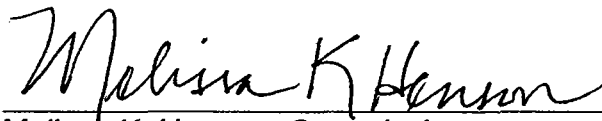
Source: Real Property Assessment Guidelines, Book 1, Chapter 2, Page 100

Year	NET INCOMES			MARKET VALUE IN USE		
	Cash Rent	Operating	Cap. Rate	Cash Rent	Operating	Average
1999	99	36	8.77%	1,129	410	770
2000	101	60	9.57%	1,055	627	841
2001	102	61	8.01%	1,273	762	1,017
2002	105	19	7.02%	1,496	271	883
2003	106	71	6.29%	1,685	1,129	1,407
2004	104	138	6.35%	1,638	2,173	1,906

Average
Market Value \$1,140
In Use

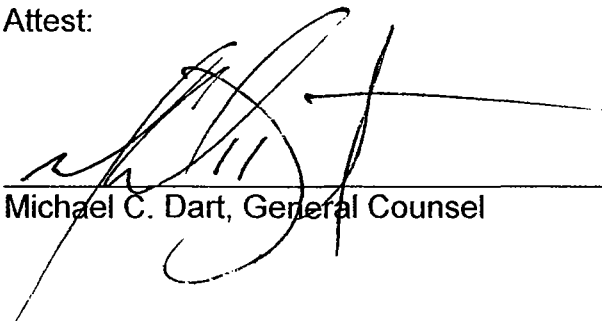
The statewide agricultural land base rate value for the 2007 assessment year will be the average market value in use calculated as shown above or \$1,140 per acre.

Dated this 28 day of December, 2006.



Melissa K. Henson, Commissioner

Attest:



Michael C. Dart, General Counsel