



**FINAL ADMINISTRATIVE DECISION  
ILLINOIS PROPERTY TAX APPEAL BOARD**

APPELLANT: Robert L. Johnson & Bethany A. Golombeski  
DOCKET NO.: 09-05540.001-C-2  
PARCEL NO.: 05-504-030-00

The parties of record before the Property Tax Appeal Board are Robert L. Johnson & Bethany A. Golombeski, the appellants, by attorney Joseph E. Nack of Nack, Richardson & Nack, P.C., in Galena, and the Jo Daviess County Board of Review.

Based on the facts and exhibits presented, the Property Tax Appeal Board hereby finds a reduction in the assessment of the property as established by the **Jo Daviess** County Board of Review is warranted. The correct assessed valuation of the property is:

**LAND:** \$43,721  
**IMPR:** \$186,049  
**TOTAL:** \$229,770

Subject only to the State multiplier as applicable.

**ANALYSIS**

The subject parcel of 1.13-acres is improved with two, two-story brick buildings originally built in the late 1800's and early 1900's with a connecting brick addition that was constructed in 2005. One portion of the building of approximately 5,024 square feet<sup>1</sup> operates as a five-guest-room bed & breakfast with dining area, lounge, kitchen, office area and supply/mechanical rooms. There is also a small passenger elevator for handicapped accessibility. The other portion of the building of approximately 5,413 square feet operates as a salon and spa with various types of rooms and a common reception area for both buildings. Features include full basements for each of the

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<sup>1</sup> See appraisal page 2 for subject sizes of 5,398 and 5,413 respectively totaling 10,811 square feet of building area. However, other portions of the report reflect the bed and breakfast as 5,024 square feet. The board of review reported the subject contains 10,917 square feet of building area. The Board finds given the totality of the evidence in this record, the relatively small size dispute does not impact the subject's estimated market value.

buildings, central air conditioning, twelve fireplaces<sup>2</sup> and a paved parking lot for 20-25 cars along with significant landscaping. The subject property operates as The Captain Merry Inn & Salon & Spa which is located in East Dubuque, Dunleith Township, Jo Daviess County.

The appellants through counsel contend the subject property's market value is not accurately reflected in its assessment. In support of this overvaluation contention, the appellants submitted a copy of an appraisal prepared by appraiser Thomas P. Kane of Kane Appraisal Services in Dubuque, Iowa and who is also an Illinois Certified General Real Estate Appraiser. The purpose of the appraisal was for financing purposes and the client was Galena State Bank. The rights appraised were the fee simple interest and the appraiser used the sales and income approaches to value with each of these approaches performed separately for the 'bed & breakfast' and the 'retail/professional' portions of the property. From these analyses, Kane opined an estimated market value of \$690,000 for the subject property as of January 15, 2010.

The appraisal began with a highest and best use analysis wherein Kane opined that the subject's location along U.S. Highway 20 below the bluffs is not the most feasible use of the property due to noise and high traffic count, but instead the site was most feasible for office use. He further opined that the bed and breakfast operation does not represent the most productive use of the site and appears to be an over improvement for the neighborhood, but professional office use would be a more productive use. Therefore, Kane determined that if the property were vacant, its highest and best use would be for professional office and/or retail/service use and as improved, he determined the highest and best use of the property was for professional office use. (Appraisal, p. 7)

For the bed & breakfast portion of the building under the sales comparison approach, the appraiser used sales of six comparable bed & breakfast/inn properties located in either Galena or Dubuque. The comparables have parcels ranging in size from .14 to 7.6-acres of land area. The parcels are improved with a 1.5-story, a 2.5-story or a 2-story brick, frame, log or brick and frame exterior constructed building. One comparable was described as 100+ years old and the remaining comparables were built between 1845 and 1979 with the newest one having an update in 2001. The comparables range in size from 3,784 to 6,683 square feet of building area with from four to seven guest rooms per building. Five of the comparables have a basement, one of which is half finished. One of the comparables also has a 600 square foot retail shop on the first floor. The comparables sold between April 2007 and September 2009 for prices ranging from \$530,000 to \$730,000 or from \$89.63 to \$182.87 per square foot of

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<sup>2</sup> The property record card reflects this amenity although the appellants' appraiser did not include any fireplaces in the description of the subject set forth in the appraisal report.

building area, including land, or from \$75,714 to \$165,000 per guest room, including land.

In comparing the properties to the subject, the appraiser made adjustments for size, zoning, age/condition, quality of construction, land size, amenities and location as outlined in an analysis in the addendum. On pages 8-A and 8-B of the report, the appraiser discussed the adjustments and rationale. No time adjustments were deemed warranted due to the minimal sales in the prior two years. The analysis resulted in adjusted sales prices for the comparables ranging from \$88.14 to \$147.58 per square foot of building area, including land, or from \$68,143 to \$132,000 per guest room, including land. From this process, the appraiser estimated a value for the subject bed & breakfast by the sales comparison approach of \$100.00 per square foot of building area, including land, or \$88,000 per guest room, including land, for a conclusion of \$465,000, rounded.

For the retail/professional space of the subject under the sales comparison approach, the appraiser used sales of six comparable retail/office properties located in either East Dubuque, Illinois or in Farley or Dubuque, Iowa. The comparable parcels range in size from .23 to 3.284-acres of land area. These parcels are improved with a one-story metal, frame or brick building which was built between 1983 and 2004. The comparables range in size from 1,505 to 8,040 square feet of building area.<sup>3</sup> Comparables #5 and #6 have full basements, one of which is a walkout style that is 90% finished. Comparable #2 was a former public library and municipal garage where conversion of 2,000 square feet of garage space would reportedly cost \$400,000. Comparable #4 was noted as located on a dead end street and was purchased by an adjacent owner. These comparables sold between July 2006 and February 2010 for prices ranging from \$170,000 to \$520,000 or from \$64.60 to \$186.05 per square foot of building area, including land.

In comparing the properties to the subject, the appraiser made adjustments for land area, building size, condition, zoning, parking, lower level finish and location as depicted in the addendum. The adjustment process was further discussed on pages 8-D and 8-E of the report. This analysis resulted in adjusted sales prices for the comparables ranging from \$66.64 to \$105.33 per square foot of building area, including land. From this process, the appraiser estimated a value for the subject commercial space by the sales comparison approach of \$75.00 per square foot of building area, including land, or \$406,000, rounded.

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<sup>3</sup> Comparable #1 was variously described as a two-level metal or one-story metal with walkout lower level. On page 8-D of the report, Kane implies the analysis reflects the "price/SF of finished area." In this decision and for consistency in analysis, only above-grade square footage is considered in determining the sale price per square foot, despite the inconsistent nature of the appraiser's analysis of sales #1 and #4 as compared to sale #6 in his report.

In summary, under the sales comparison approach the respective conclusions for the differing portions of the subject property resulted in an opinion of the subject's estimated market value of \$871,000.

For the income approach on the bed & breakfast, the appraiser first examined the subject's actual income and expenses for 2008 and compared "the rates, income and expenses" with "area bed & breakfast operations." (Appraisal, p. 9) The appraiser estimated an average annual 30% occupancy rate with an average daily rate of \$175.00 per day. Kent also noted that the occupancy rate was 10% below the bottom of the range for the Tri-State area noting that Galena and Dubuque area Inn/Bed & Breakfast room rates vary for one-bedrooms versus suites and for Monday through Thursday versus Friday through Sunday from \$99.95 per one-bedroom to \$289.95 per suite as outlined on page 9 of the report. Based on the data, the appraiser estimated the subject's potential gross room rental income of \$95,900. He further acknowledged additional revenue from event fees, meeting room, gift shop and other miscellaneous services estimated to be \$10,700 annually based on the financial statements resulting in annual potential gross income of \$106,600 for the bed & breakfast.

For the income approach on the salon and spa, the appraiser first examined an unsigned lease which he determined was an internal related lease and not used further for analysis. Kent noted that typically salons and spas are leased to independent contractors on a per-chair or a per-room basis. In light of the location and large size of the subject salon and spa, Kent questioned the viable use and therefore calculated a per square foot rent based on the location for professional office space. He noted professional rents in downtown Dubuque range from \$7.50 to \$14.00 per square foot with newer leases based on a triple net lease and older leases on a gross lease basis. Using his data file on lease information for the Tri-State area for similar size towns and he found rents ranging from \$5.00 to \$10.25 per square foot on a gross lease basis.

Based on the data, the appraiser used a rent of \$10.00 per square foot on a gross lease basis for the salon and spa with tenants responsible for utilities and normal housekeeping of their individual suite. Based on this analysis, the appraiser estimated the potential gross income to be \$54,130 for the commercial space.

Thus, the appraiser opined combined potential gross income of the subject property of \$160,730.

Next, the appraiser noted that vacancy and collection loss was estimated in the 30% occupancy rate for the bed & breakfast which represents a 70% vacancy and collection loss. For the salon and spa, the appraiser acknowledged that there is a potential for future vacancy and turnover. Kent determined an average rate in the area of 8% for vacancy and collection loss or \$4,330,

resulting in effective gross income for the salon and spa of \$49,800. Thus, the appraiser estimated a total effective gross income for the subject property of \$156,400.

Expenses were again analyzed separately for the bed & breakfast and for the salon and spa. First, the appraiser estimated operating expenses for the bed & breakfast based on the owner's income statement and in comparison with the Galena and Tri-State Market Area Inn/Bed & Breakfast Expense Analysis. The appraiser reported variable operating expenses which included room maintenance, administrative/professional, marketing and sales, utilities and repairs & maintenance which varied from 2% to 11% of the effective operating income. As a result, the appraiser opined overall variable expenses of \$41,167. In addition, there were fixed expenses which included property taxes (14%), management fee (5%), insurance (5%) and reserve for replacements (3%) or \$28,053. Thus, for the bed & breakfast the appraiser determined effective gross income less all expenses of \$69,220 to be \$37,380.

For the salon and spa, the appraiser estimated operating expenses by analyzing similar types of properties in the area and split the expenses with the bed & breakfast operation for property taxes and insurance. (Appraisal, p. 9-C) Operating expenses including management, utilities, repairs & maintenance, property taxes, insurance, administrative & misc., and reserves for replacements totaled \$27,325.

Applying the respective expenses for the subject property to the total effective gross income resulted in a total net operating income of \$59,855 for the subject property.

The next step was determination of a capitalization rate. Kent reported that recent sales reflect overall capitalization rates ranging from about 8% to 11%, "depending upon quality, quantity, and durability of the income stream." The appraiser noted that income and expense data was available from two bed & breakfast facilities and from one salon and spa in his database. Kent extracted overall rates which ranged from 9.7% to 12.6%. Based on the foregoing data, Kent determined an overall capitalization rate of 11.0%. Applying this rate to the net operating income resulted in an estimated value under the income approach of \$544,000, rounded.

In reconciliation, the appraiser asserted that both approaches utilized were given weight in arriving at a final value conclusion of \$690,000.

Based on this evidence, the appellant requested a reduction in the subject's total assessment to \$230,000 which would reflect the appraised value.

The board of review submitted its "Board of Review Notes on Appeal" wherein the subject's final assessment of \$425,860 was disclosed. The final assessment of the subject property reflects

a market value of \$1,278,859 using the 2009 three-year median level of assessments for Jo Daviess County of 33.30%.

In support of the subject's assessment, the board of review submitted a three-page letter outlining the evidence along with supporting documents identified as Exhibits A, B and C.

As to the appellant's evidence, the board of review noted that the appraisal has a valuation date of January 15, 2010 which is one year after the assessment date at issue in this appeal. "This appraisal was prepared based on an additional year's market influence on the value." In addition, the board of review pointed out that four of the comparables considered in the appraisal were much newer than the subject, were located in Iowa and "don't appear to be comparable to the appellant's [*sic*] property."

Exhibit B consists of a three-page spreadsheet of twelve suggested comparables, eleven of which include sales data. Also submitted were copies of property record cards and pictures of these comparables. Comparables #1 through #6 consist of bed & breakfast or guest house properties, five of which were presented in the appraisal as sales #1 through #4 and #6.<sup>4</sup> Comparables #8 through #12 are converted buildings used for various types of offices, two of which were presented in the appellants' appraisal of retail/professional sales as #3 and #4. The board of review's comparable #7 which has no recent sale data and was presented as one of the larger bed & breakfast facilities in Galena with a separate wedding chapel on the grounds, seven guest rooms with private baths and fireplaces. The Property Tax Appeal Board finds that comparable #7, as an equity comparable in response to an overvaluation complaint, is not responsive to the appeal and will not be further addressed in this decision.

The board of review contends that the subject building, identified as 10,917 square feet, is "much larger than any of the bed & breakfast sales that have occurred."<sup>5</sup> The board of review also asserts that the subject offers amenities not available at the other comparable facilities such as a restaurant and salon and spa. The board of review, in reliance upon Exhibit C, contends the appellants have rehabbed the subject buildings "with some of the finest amenities including marble, hardwood floors, heated floors, etc." Exhibit C is not further identified, but appears to be an advertising printout from the internet regarding the subject facility including individual room descriptions, each noted to have heated floors. Also among the data in the exhibit are assertions that since original construction the property has been an antique shop, a five-unit apartment complex, a hippie commune, a house of ill-repute, a gambling den, and a jail. For

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<sup>4</sup> Without further explanation, the board of review presented differing dates and/or sale prices for those guest house sales identified in the appraisal as comparables #2, #3 and #4.

<sup>5</sup> The board of review did not separately report the size of the subject's guest house building.

many years the building was uninhabited and left to the elements and squatters, who burnt balusters for firewood in the attic. The printout describes the connecting addition as having antique light fixtures, historically appropriate wood windows, vintage doors and historic fireplace fronts along with a meeting room for 30+.

The six inn facilities have lots ranging in size from .14 to 1.77-acres of land area and are improved with either 2-story or 2.5-story brick or frame buildings that were constructed between 1836 and 1914. These six comparable inns range in size from 2,951 to 6,057 square feet of building area with from two to seven guest rooms, one of which also has a cottage in addition to four guest rooms (comparable #3). Five comparables have full or partial basements and central air conditioning. Each comparable has from one to nine fireplaces. Four have garages ranging in size from 546 to 960 square feet of building area. The sales occurred from April 2007 to October 2008 for prices ranging from \$345,000 to \$660,000 or from \$93.96 to \$174.71 per square foot of building area or from \$75,714 to \$220,000 per guest room.<sup>6</sup>

The five office buildings have parcels ranging in size from .11 to 3.284-acres of land area. Comparable #8 was a church which sold in 2007 and was remodeled into offices along with construction of a 6,322 square foot addition which is not yet complete, but being marketed as individual storefronts. Comparable #9 had been an office of an eye doctor and then became a law office. Comparable #10 was a medical office building that was purchased by an adjoining land owner of a car dealership; the property was remodeled into a car wash facility. Comparable #11 had been two apartments prior to a sale in 2004, was then converted to offices in 2005 and remained offices after its 2007 sale. These five comparables are improved with 1-story or 2-story frame or brick buildings built between 1850 and 1992. The buildings range in size from 1,758 to 3,100 square feet of building area. Two comparables have full basements. Four have central air conditioning. These properties sold between July 2006 and May 2007 for prices ranging from \$170,000 to \$280,000 or from \$70.83 to \$110.87 per square foot of building area.

Based on the foregoing evidence and assertion that the valuation date of the appellants' appraisal is defective, the board of review requested confirmation of the subject's assessment.

After reviewing the record and considering the evidence, the Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of this appeal. The Board further finds that a reduction in the subject's assessment is warranted.

The appellants argued that the subject's assessment was not reflective of market value. When market value is the basis of the appeal the value of the property must be proved by a

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<sup>6</sup> Comparable #3 reflects a sale price of \$163,000 per guest room "plus cottage."

preponderance of the evidence. National City Bank of Michigan/Illinois v. Illinois Property Tax Appeal Board, 331 Ill.App.3d 1038 (3<sup>rd</sup> Dist. 2002). The Board finds this burden of proof has been met and a reduction in the subject's assessment is warranted.

The Board finds the appellants submitted an appraisal of the subject property with a final value conclusion of \$690,000 which individually analyzed data related to a bed & breakfast and a retail/professional building to arrive at a reasoned and well-supported value conclusion as of January 15, 2010. Applying the value conclusion respectively to the bed & breakfast and the salon and spa, the appraiser opined a value of approximately \$66,427 per guest room and a value of approximately \$66.11 per square foot for the retail/professional building.

The board of review submitted no appraisal and instead relied upon eleven comparable sales, six of which were for guest house properties and five of which were for various commercial buildings. Of these eleven sales, seven were included in the appellants' appraisal report. The Board finds the most similar inns presented by the board of review were comparables #5 and #6 which sold respectively in October 2008 and September 2007 for prices of \$75,714 and \$94,850 per room. As to the commercial space, none of the comparables presented by the board of review was as large as the subject building of approximately 5,413 square feet. While the appellants' appraiser also presented primarily smaller comparables, the appraiser's analysis included adjustments for size. The largest comparable presented by the board of review was #11 at 3,100 square feet of building area which sold in February 2007 for \$90.32 per square foot. Accepted real estate valuation theory provides that all factors being equal, as the size of the property increases, the per unit value decreases. In contrast, as the size of a property decreases, the per unit value increases. In light of this principle, the Property Tax Appeal Board finds that the appraiser's conclusion for the commercial building space of \$66.11 per square foot appears well-supported by the most similar comparable presented by the board of review.

In conclusion, on this record the Property Tax Appeal Board finds that, despite the board of review's criticisms, the appraisal submitted by the appellants estimating the subject's market value of \$690,000 including land is the best evidence of the subject's market value and is further supported by the most similar sale comparables suggested by the board of review, several of which were also contained in the appellants' appraisal report.

Based upon the market value as stated above, the Property Tax Appeal Board finds that a reduction is warranted. Since market value has been established, the three-year median level of assessments for Jo Daviess County for 2009 of 33.30% shall be applied.

This is a final administrative decision of the Property Tax Appeal Board which is subject to review in the Circuit Court or Appellate Court under the provisions of the Administrative Review Law (735 ILCS 5/3-101 et seq.) and section 16-195 of the Property Tax Code.

*Ronald R. Cuit*

Chairman

*Frank J. Huff*

Member

*Mario M. Louie*

Member

*J.R.*

Member

Member

DISSENTING: \_\_\_\_\_

C E R T I F I C A T I O N

As Clerk of the Illinois Property Tax Appeal Board and the keeper of the Records thereof, I do hereby certify that the foregoing is a true, full and complete Final Administrative Decision of the Illinois Property Tax Appeal Board issued this date in the above entitled appeal, now of record in this said office.

Date: March 22, 2013

*Allen Castrovillari*

Clerk of the Property Tax Appeal Board

**IMPORTANT NOTICE**

Section 16-185 of the Property Tax Code provides in part:

"If the Property Tax Appeal Board renders a decision lowering the assessment of a particular parcel after the deadline for filing

complaints with the Board of Review or after adjournment of the session of the Board of Review at which assessments for the subsequent year are being considered, the taxpayer may, within 30 days after the date of written notice of the Property Tax Appeal Board's decision, appeal the assessment for the subsequent year directly to the Property Tax Appeal Board."

In order to comply with the above provision, YOU MUST FILE A PETITION AND EVIDENCE WITH THE PROPERTY TAX APPEAL BOARD WITHIN 30 DAYS OF THE DATE OF THE ENCLOSED DECISION IN ORDER TO APPEAL THE ASSESSMENT OF THE PROPERTY FOR THE SUBSEQUENT YEAR.

Based upon the issuance of a lowered assessment by the Property Tax Appeal Board, the refund of paid property taxes is the responsibility of your County Treasurer. Please contact that office with any questions you may have regarding the refund of paid property taxes.