# FINAL ADMINISTRATIVE DECISION
# ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Colonial Hall Rehabilitation
DOCKET NO.: 10-01357.001-C-3 through 10-01357.003-C-3
PARCEL NO.: See Below

The parties of record before the Property Tax Appeal Board are Colonial Hall Rehabilitation, the appellant, by attorney Alan D. Skidelsky, of Skidelsky & Associates, P.C. in Chicago; and the Bureau 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 **Bureau** County Board of Review is warranted. The correct assessed valuation of the property is:

| DOCKET NO | PARCEL NUMBER | LAND | IMPRVMT | TOTAL |
|---|---|---|---|---|
| 10-01357.001-C-3 | 16-15-301-008 | 1,844 | | $1,844 |
| 10-01357.002-C-3 | 16-15-301-009 | 1,844 | | $1,844 |
| 10-01357.003-C-3 | 16-15-303-020 | 12,604 | 204,124 | $216,728 |

Subject only to the State multiplier as applicable.

## ANALYSIS

The subject property is improved with a one-story masonry constructed 88-bed skilled nursing facility that was built in 1974. The improvement contains approximately 25,326 square feet of building area with a partial unfinished basement. As of the date of valuation, the building did not have a sprinkler system, but must install one by 2012 for regulatory compliance purposes. The improvement is situated on a 95,810 square foot site and the subject includes two parcels across the street for parking which total 20,000 square feet of land area. The subject's three parcels consist of a total 2.66-acre site located in Princeton, Princeton Township, Bureau County.

The appellant submitted evidence to the Property Tax Appeal Board contending overvaluation as the basis of this 2010 assessment appeal. In support of the argument, the appellant submitted an appraisal which estimated a fair market value of the subject property as of January 1, 2010 of $660,000. The appraisal report was prepared by John W. VanSanten, who has in excess of 20 years' experience as an appraiser.

VanSanten is licensed by the State of Illinois as a Certified General Appraiser and he is a member of and has taken the courses necessary to hold an "MAI" designation from the Appraisal Institute.

The appraisal depicts the subject is an operating skilled nursing facility, which is considered to be a special use property and strongest consideration should be given to the cost approach. (Appraisal, p. 67-68) The report further depicts the highest and best use of the subject site as if vacant and ready for development is for future development of a multi-family use. The report further depicts the most productive use of the subject is for its existing use as a nursing home. The report depicts the highest and best use of the subject as improved is concluded to be for continued use of the existing improvements as a nursing home facility. (Appraisal, p. 63-64)

The appraisal report further describes intangible assets, which were listed as the License, Certificate of Need required in the State of Illinois to operate a nursing home (license), the assembled and trained workforce, the cost to assemble that workforce, the discharge agreements with local hospitals which feed the nursing home and help maintain occupancy, and the brand name associated with the facility and its community reputation. (Appraisal, p. 6-7, 67-76)

The appraiser inspected the subject property on May 6, 2011. (Appraisal, p. 5) He used the three traditional approaches to value in estimating the subject's market value for real estate only, excluding business value and personal property. VanSanten prepared a complete appraisal in summary-reporting format. The appraiser reported:

> Title to the subject is currently vested in the name of PHCH Realty, LLC, who acquired title to the subject from Colonial/Princeton Property LLC and Orchard Court 1031 in October 2007 for a purchase price of $2,596,000, as recorded in the Bureau County deed

> records. The transaction consisted of a portfolio of nursing homes as a 1031 exchange.

(Appraisal, p. 5)

Moreover, the report further depicts the purchase price reflects the total assets of the business including furniture, fixtures and equipment, and all intangible property. "In addition, the buyer projected a significant turnaround in operations once new management was in place. The purchase price reflects the going concern value based on the buyers anticipated upside potential." (Id.)

On page 56 of the appraisal report, VanSanten outlined the renovations made to the subject property between July 2005 and January 2011 totaling almost $500,000 of which over $400,000 was expended after the purchase in 2007.

For this 2010 appraisal, VanSanten described the facility as being in "average to good condition." (Appraisal, p. 56) The appraiser further noted based on Illinois nursing home regulations the subject facility must install a sprinkler system by 2012. "A new sprinkler system was installed and completed at the subject in March 2010." (Id.) However, since this occurred after the valuation date, a deferred maintenance deduction was applied in the reconciliation of value to reflect the cost of installing the sprinkler system. (Id.)

Under the cost approach, the appraiser estimated the subject's value as $810,000, rounded. To develop the land value, five vacant land sales in either Peru or Princeton were used. (Appraisal, p. 78) Two properties were planned for a motel or hotel, one was planned for a hospital and two were being held for future development. The parcels ranged in size from 0.85 to 7.80-acres of land area and they sold from April 2007 to January 2009 for prices ranging from $186,000 to $1,166,645 or from $1.32 to $5.02 per square foot of land area. The appraiser made adjustments to the sale prices due to differences in location, size and/or zoning. Based on these adjusted sale prices, the appraiser concluded a market value of $2.00 per square foot for the subject land or $230,000, rounded.

Next, the appraiser determined a replacement cost new for the subject improvement utilizing the Segregated Cost Section in the MVS Cost Manual with a current cost multiplier of .94 and a local multiplier of 1.07. (Appraisal, p. 91-96) In calculating the replacement cost, the appraiser arrived at a total estimated replacement cost new prior to depreciation including local multipliers, current multipliers and indirect costs of 10% of $3,660,408 plus site improvements of $420,132 for a total replacement cost new of $4,080,540. (Appraisal, p. 96)

The appraiser then used the age/life method to calculate physical depreciation of the property. No functional or external obsolescence was noted. To calculate physical depreciation, VanSanten estimated the effective age of the property was consistent with its actual age of 35 years. As found from the MVS, the subject has an economic life of 40 years resulting in accrued depreciation of 90%. (Appraisal, p. 96) Physical depreciation was calculated as $3,294,368 resulting in a depreciated value of improvements of $366,041. Similarly, the site improvements were depreciated by 50% resulting in a depreciated value of site improvements of $210,066. Next, adding back the land value of $230,000, the total estimate of value under the cost approach rounded is $810,000. (Appraisal, p. 97)

Under the income capitalization approach, VanSanten examined historical income and expenses for the subject property for 2007, 2008 and 2009. He reported that the 2007 financial statement was annualized "to represent a full fiscal year. (Appraisal, p. 99) The report then summaries the historical income and expense statements for 2007 (annualized), 2008 and 2009 depicting net operating income of $300,920, $490,456 and $386,388, respectively.

The appraiser's projected revenues and expenses were based upon the projected, stabilized amount that the subject would generate in a typical year by eliminating non-recurring costs and adjusting for lease payments. VanSanten acknowledged in the report that the subject is owned by one entity and leased to another. Since the fee simple estate is being valued, the appraiser added back the annual lease payments, but no other adjustments were made. (Appraisal, p. 99)

VanSanten analyzed the historical operating results for the property. For the subject, he found the majority of the occupancy consisted of Medicaid and private pay patients. (Appraisal, p. 100) Moreover, the occupancy of the subject facility increased from 87.49% in 2007 to 90.66% in 2008 and again decreased to 86.88% in 2009. (Id.) As part of the appraisal, VanSanten also analyzed the occupancy rates for competitive facilities in the local marketplace which as shown on page 101 of the report was found to be a weighted average occupancy of 77.6% with one facility, Manor Court of Princeton, being very high at 98% and the Orchard View facility being the lowest at 56%. (Id.) Based on this data, the appraiser forecast an occupancy rate for the subject of 87.0%.

Next, the appraiser forecast the subject's routine nursing service revenue as $4,415,215 by applying an average daily rate per patient day of $158.00 to 88 beds with 87% occupancy for a year of 365 days. (Appraisal, p. 102) Additional revenue sources for various therapy services, drugs, radiology and other outside services were forecast at $1,089,832 as shown on page 102 of the report. Next, VanSanten considered the historical contractual allowances of the subject reflecting the difference between the charges the nursing home "booked" and what was actually collected. Based on the historical data, he projected contractual allowances of $950,110. (Appraisal, p. 103) A final income category of other revenue of $37,725 was estimated. (Appraisal, p. 103)

Based on the foregoing, VanSanten projected total revenue for the subject based on the historical operating statements at $4,592,662. (Appraisal, p. 103)

In a similar manner to the income forecast, the appraiser considered the historical expenses of the nursing home and estimated a stabilized forecast. Those expenses included general and administrative, dietary, laundry and linen, professional services, employee welfare, housekeeping and plant, and management fees. (Appraisal, p. 104-107)

VanSanten applied a 5% management fee. (Appraisal, p. 107) The actual expenses of the subject are set forth on page 107 of the report along with data on four comparables with their respective expenses. (Appraisal, p. 107)

Based on the foregoing analysis, the appraiser projected total operating expenses of $4,284,366. (Appraisal, p. 107)

On page 108 of the report, the appraiser analyzed the return of and on personal property. To maintain the nursing home and thus maintain the room and board rates, periodically personal property must be replaced; part of the earnings must be directly attributable to the personal property. However, the valuation task is to exclude personal property. Thus, VanSanten concluded based on personal property data from the cost approach (Appraisal, p. 92-93) that the depreciated value of the personal property with an 11% rate of return over four years and an "annual expense" of .32[1] results in a deduction for return on and of personal property of $62,402 annually which is deducted in the income approach to exclude the personal property. (Appraisal, p. 108)

The next step under the income approach analysis was arriving at an appropriate capitalization rate. The appraisal report addresses the three primary ways to estimate a capitalization rate using the extraction method from actual sales, investor surveys and the band of investment technique. (Appraisal, p. 109-112) Analyzing four sales of properties along with income figures resulted in overall capitalization rates ranging from 6.72% to 24.97%. The appraiser also used the band of investment technique arriving at a capitalization rate of 12.03%. As a further indicator, VanSanten considered published investment surveys of capitalization rates for nursing homes which ranged from 8.07% to 13.72%. As shown in the report and after considering each of the approaches, VanSanten selected an overall capitalization rate of 12.50%. (Appraisal, p. 112)

Then, through a series of calculations as reflected on page 113 of his report, VanSanten determined an adjusted effective tax rate of 1.10%. Next, by capitalizing the subject's forecasted net income of $317,545 by the overall capitalization rate of 13.60% resulted in a market value of the total assets of the business by the income approach of $1,900,000. (Appraisal, p. 115) In the next step under the income approach the appraiser sought to quantify how much of this "total assets of the business" value was represented by the business enterprise as opposed to the land and building. As summarized on page 115 of his report and discussed in detail in pages 116 through 121, VanSanten concluded a business enterprise value of $1,090,000 based on a comparison of the value estimate in the cost approach and the value estimated in the income approach. Once the business enterprise value is deducted from the total assets of the business under the income capitalization approach, it results in an estimated value of the real estate only based on the income approach of $810,000.

Under the sales comparison approach, VanSanten examined sales of other nursing homes which include tangible assets such as personal property, the land and building along with business enterprise value. VanSanten's report notes that adjustments for differences are necessary since no properties are identical. The sales comparison approach to value was given the least

[1] The notation on page 108 of the report defines the "expense constant" as the "payment to support the interest rate over the amortization period."

weight in the appraiser's final value conclusion for the subject. VanSanten considered four sales of nursing homes in Winfield, Carlinville, Galesburg and Polo, Illinois. These sales occurred from January to April 2008 for prices ranging from $1,508,305 to $4,746,897 or from $19,588 to $34,315 per patient bed.

On page 125 of the report, VanSanten outlined the adjustments to the comparables when compared to the subject and opined an adjusted sale price per bed ranging from $10,750 to $39,970. Based on this data, the appraiser concluded a market value for the subject of $25,000 per bed or $2,200,000. As shown on page 126 of the report, the appraiser again deducted the value of the intangible assets of $930,000 and the depreciated value of the personal property of $193,600 which resulted in a value of $1,080,000. (Appraisal, p. 126)

In reconciliation, VanSanten noted the three estimates fell within a fairly narrow range of either $870,000 or $1,080,000 based on the reported data. Most weight was given to the cost approach, thus VanSanten concluded that the retrospective market value of the subject property as of January 1, 2010 was $810,000. (Appraisal, p. 133) Lastly, on page 134 of the report, the appraiser stated:

> A sprinkler system was not installed at the subject until March of 2010. Therefore, a deferred maintenance deduction of $150,000 will be [*sic*] to the subject to reflect the cost of installing the sprinkler system. This deduction is based on the actual cost incurred ($148,259) according to ownership.

After this final deduction for what the appraiser termed as deferred maintenance, the final value conclusion as of January 1, 2010 was $660,000.

Based on the foregoing, the appellant through counsel requested a total assessment for the subject property which would reflect a market value of approximately $660,000 at the statutory level of assessments.

The board of review submitted its "Board of Review Notes on Appeal." The final total assessment of the subject property was not disclosed. The “Board of Review Notes on Appeal” contained a handwritten note stating “Evidence is on file for both 2008 & 2009.” The board of review’s final notice, submitted by the appellant depicts a total assessment for the subject of $758,032. The subject's final assessment reflects an estimated market value of $2,268,878 or $25,783 per bed using the 2010 three-year average median level of assessments for Bureau County of 33.41% as determined by the Illinois Department of Revenue. (86 Ill.Admin.Code §1910.50(c)(1)).

The board of review did not submit any evidence in support of its assessed valuation of the subject property for the 2010 assessment appeal.

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 the evidence in the record supports a reduction in the subject's assessment.

The appellant contends the market value of the subject property is not accurately reflected in its assessed valuation. When market value is the basis of the appeal the value of the property must be proved by a preponderance of the evidence. National City Bank of Michigan/Illinois v. Illinois Property Tax Appeal Board, 331 Ill.App.3d 1038 (3rd Dist. 2002). Proof of the market value of the subject property may consist of an appraisal of the subject property as of the assessment date at issue. (86 Ill.Admin.Code 1910.65(c)(1)). The Board finds the appellant met this burden of proof and a reduction in the subject's assessment is warranted.

The Board finds the best evidence of market value in the record is the appraisal submitted by the appellant estimating the subject property had a market value of $660,000 as of January 1, 2010. The Board finds the subject's assessment reflects a market value greater than the appraised value presented by the appellant. The board of review did not submit any evidence in support of its assessment of the subject property or to refute the appellant's argument as required by Section 1910.40(a) of the rules of the Property Tax Appeal Board and is found to be in default pursuant to section 1910.69(a) of the rules of the Property Tax Appeal Board. The Board cannot accept evidence from other appeals unless a party to the appeal files a motion to include other evidence not in the record and the Board, after considering other party responses, if any, allows other evidence to be submitted into the record. The board of review made no motion in this case to submit other evidence into this record, and thus, the evidence from the 2008 and 2009 appeals will not be considered.

Based on this record the Property Tax Appeal Board finds the subject property had a market value of $660,000 as of January 1, 2010. Since market value has been determined, the 2010 average three-year average median level of assessments for Bureau County of 33.41% shall apply.

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.

Chairman

Member

Member

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 21, 2014

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.