

# Virginia's Use-value Taxation Program

## The Use-value Estimation Process

Gordon Groover, Extension Economist  
and

Lex Bruce, Senior Research Associate  
Department of Agricultural & Applied Economics Virginia Tech  
(540) 231-5850  
[groover@vt.edu](mailto:groover@vt.edu)  
(540) 231-4441  
[lbruce@vt.edu](mailto:lbruce@vt.edu)

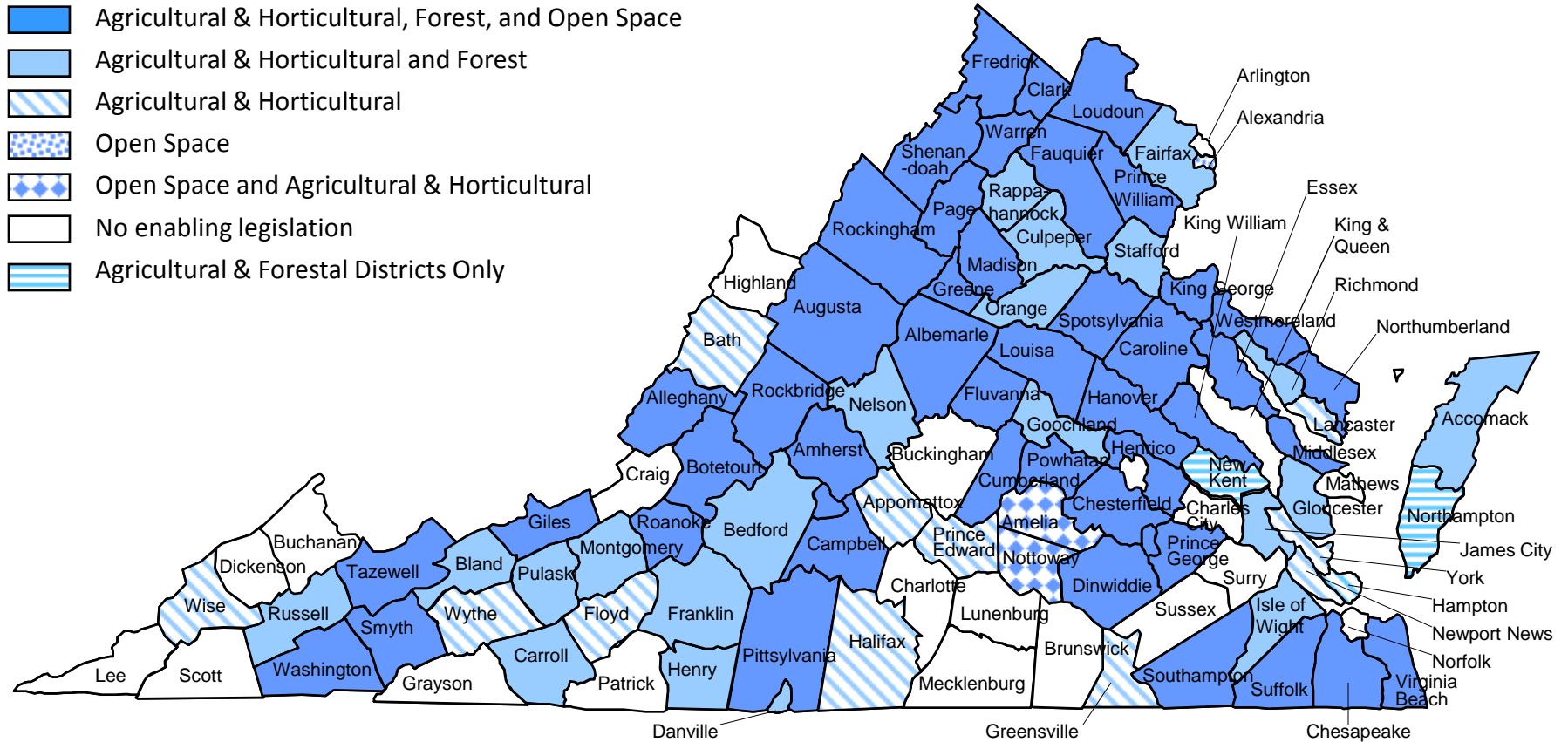
Website: <http://usevalue.agecon.vt.edu/>

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# Outline

- Brief History
- Why Use Value Assessment?
- Approaches to estimating land values
  - Income approach
  - Rental rate approach
- Discussion

## TY2015: Counties/Cities\* with enabling legislation for use-value taxation



\* Counties/Cities are identified from annual use-value reports and may differ from actual implementation. Contact government officials in each county/city for the current use-value implementation. Not all participating cities are identified on this map.

# *Use-Value Taxation in Virginia*

- Virginia use-value taxation legislation was passed in 1972, effective for the tax year 1974.
- *Code of Virginia*, Title 58.1 §58.1-3229 through §58.1-3244), enacted in 1971, authorized use-value taxation with the stated purposes of:
  - Encouraging the **preservation** and **proper use** of such **real estate** ...source of... **agricultural, horticultural, and forest** products and **open spaces** within the reach of concentrations of population;
  - **Conserving** natural resources,... prevent **erosion, ...safe water** supplies;

(continued...)

# *Use-Value Taxation in Virginia*

(continued...)

- *Preserving scenic natural beauty and open spaces;*
- *Promoting proper land-use planning and the orderly development*
- *Promoting a balanced economy and ameliorating pressures* that force conversion of such real estate ....preservation for **agricultural, horticultural, forestal, or open space** purposes.
- State Land Evaluation and Advisory Council (**SLEAC**) was created in 1973 with the mandate to estimate the use value of eligible land for each jurisdiction participating in the use-value taxation program.

# *Virginia's Use-Value Taxation Program*

- Virginia law allows for the preferential taxation of **agricultural, horticultural, forest, and open space** land
- **Eligible land** in any of these categories can be assessed at the land's **value in use** (use-value) as opposed to the land's **market value**

# Eligible Land?

- Agricultural and horticultural defined by VA Department of Agriculture and Consumer Services (VDACS)
- Forest defined by Department of Forestry (DOF)
- Open space defined by Department Conservation and Recreation (DCR)
- *See State Land Evaluation and Advisory Council (SLEAC) manual for details*

# *Value in Use?*

4.6.5 Agricultural Property - The Standard on Mass Appraisal of Real Property  
International Association of Assessing Officers (IAAO 2012)

.... to use the income approach for  
agricultural land... Land rents ....

And the Code of VA allows for income and  
rental rate approaches



# Value in use, How?

## Identify components of farmland value?

<b>Market Value of 1.0 acre of farmland</b>	<b>\$7,000</b>
minus	
Proximity to amenities	\$2,000
minus	
Accessibility/distance to the city center	\$1,000
minus	
Cost of conversion or development to non Ag use	\$2,000
minus	
Growth premium – population increase	\$1,000
leaves	
Capitalized annual stream of net income (rents) from farming	<b>\$1,000</b>

# Procedures for Estimating Agricultural and Horticultural Values in Use

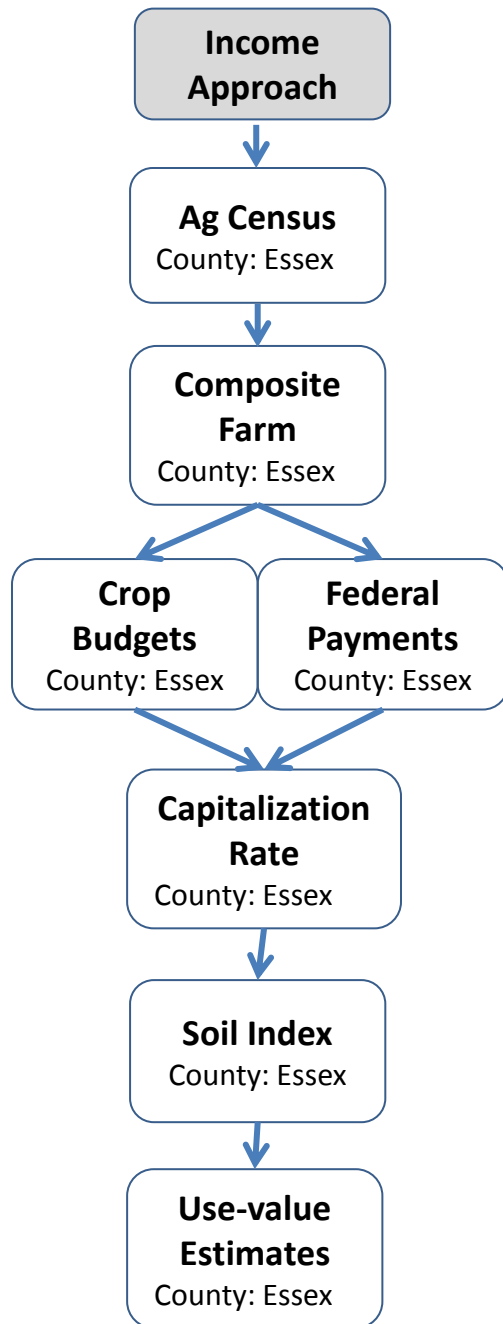
# Two Approaches

## **1. Net income Capitalized (Income Approach)**

Original model developed by Marshal (VT), Fraher, (TAX), Seward (VDACS), Poole (VT Grad Student) ~ 1974-1975.

## **2. Rental rates Capitalized (Rental Rate Approach)**

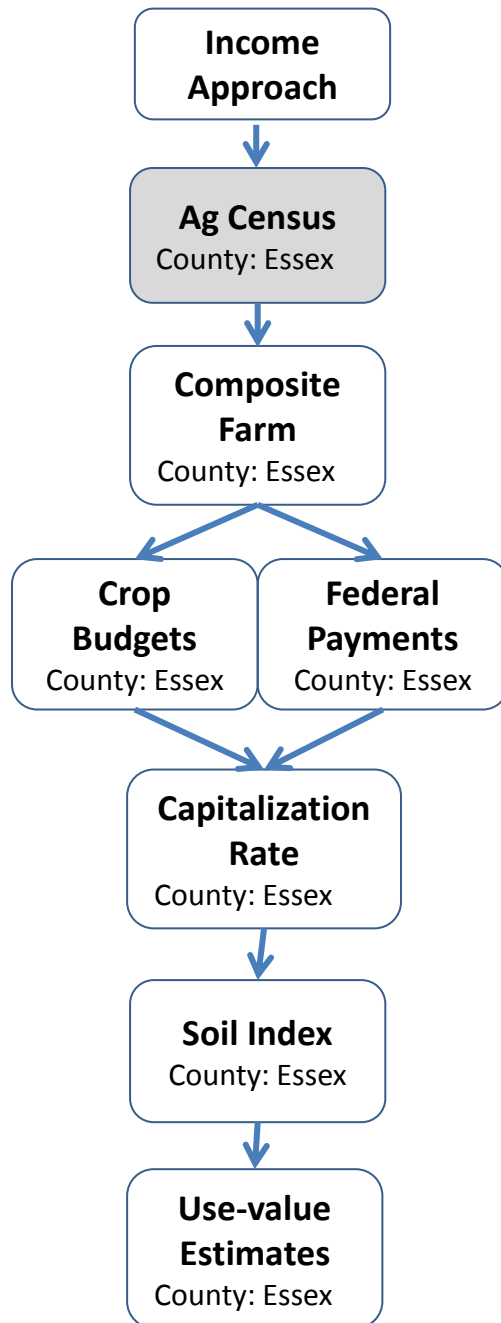
Implemented in 2010 by Groover and Bruce



## Income approach for each County

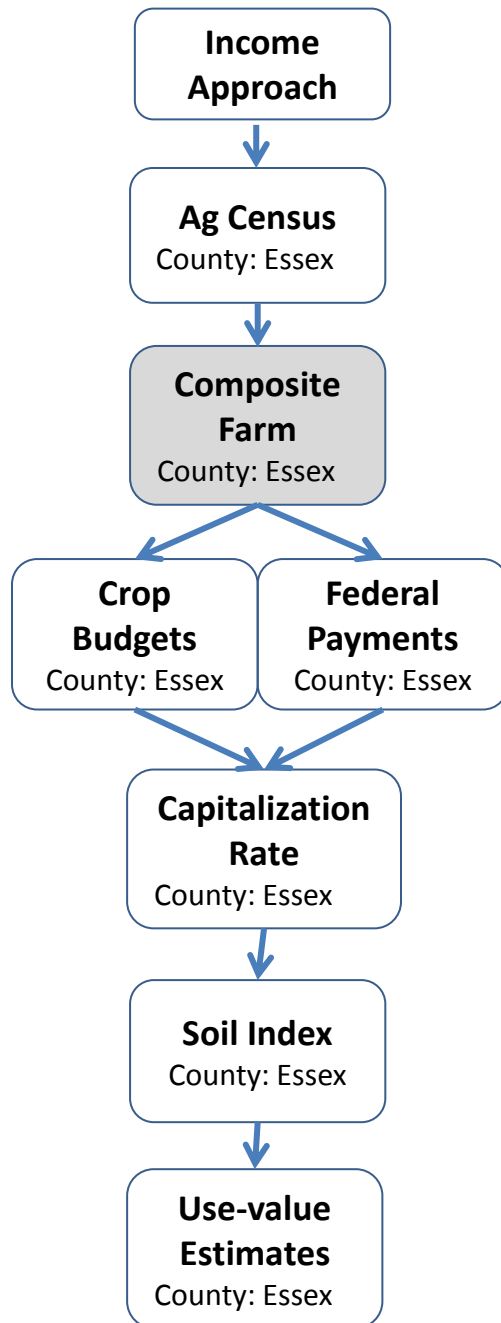
- Task: How to create an annual stream of net income that will be capitalized?
- How?
- **Build** on secondary/published data
- Use **Net Returns = Income - Costs**
- **How?** Define a representative farm (composite farm) – based on current Ag Census for each county
- **Create** an enterprise budget for each crop to yield **Net Returns (NR)**
- **Identify** crop-based federal payments
- **Define** Capitalization Rate
- **Apply** soil index
- Final Estimates

# Baseline Data - Ag Census



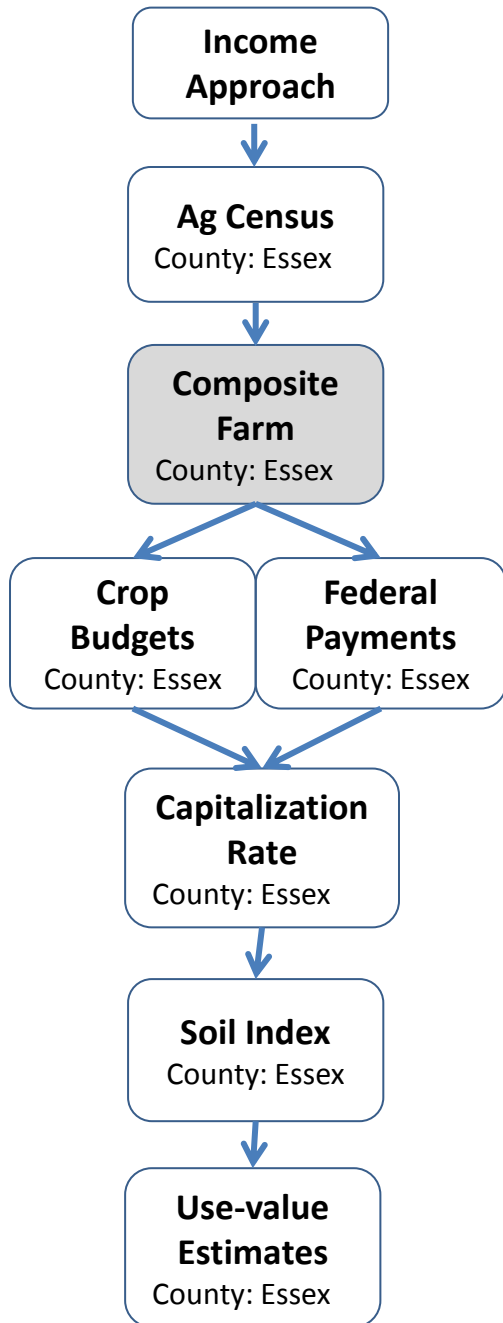
- Conducted and published by National Agricultural Statistics Service (USDA/NASS)
  - Published every 5 years
  - Current Ag Census 2012 (released in 2014)
- Use the following for each county
  - Number of **farms reported**
  - Individual crops grown e.g., corn, wheat, pasture...
  - **Acres** reported for each crop grown

# Composite Farm



- **Define - Composite Farm (CF) A.K.A. Average Farm**
  - For each reported crop: Divide acres by number of farms (Acres ÷ Farms)
  - If the values is **>0.50** ac, included in the CF
  - If **≤ 0.50** ac, excluded from CF
  - Statewide there are **16 crops** that are included in at least one county
- **Essex - 2012**
  - **98** reported farms => more land owners
  - **Six** CF crops, e.g., corn+silage, soybeans, wheat, barley, hay+haylage, and pasture

# Composite Farm - Essex



2012 Ag Census Essex	
Crop	Reported Acres
Alfalfa	0
<b>Corn</b>	15,976
<b>Barley</b>	2,231
Cotton	0

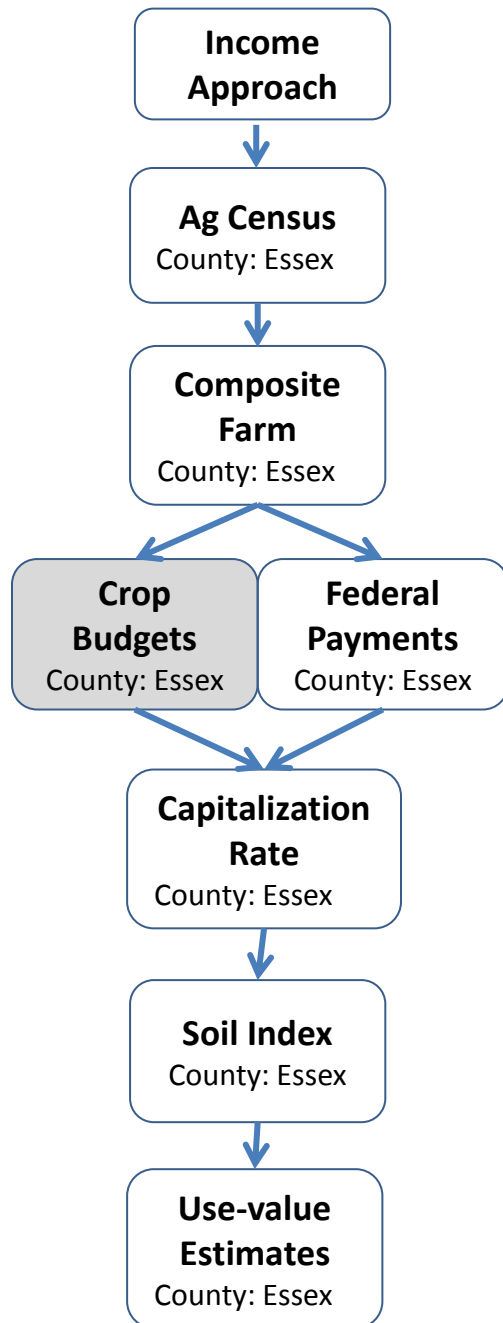
Based on 98 farms	
Composite Farm Acres	
	<b>163</b>
	<b>23</b>

Example for Corn = 15,976 ac / 98 farms = 163 acres of corn in the CF

Potatoes	(D)
Pumpkins	0
Snap Beans	2
<b>Soybeans</b>	19,254
Sweet Corn	(D)
Tobacco	0
Tomatoes	2
Watermelons	(D)
<b>Wheat</b>	8,702
<b>Double-cropped</b>	<b>(-) 10,969</b>
<b>Total Cropland Harvested</b>	<b>37,080</b>

	<b>196</b>
	<b>89</b>
	<b>(-) 112</b>
	<b>378</b>

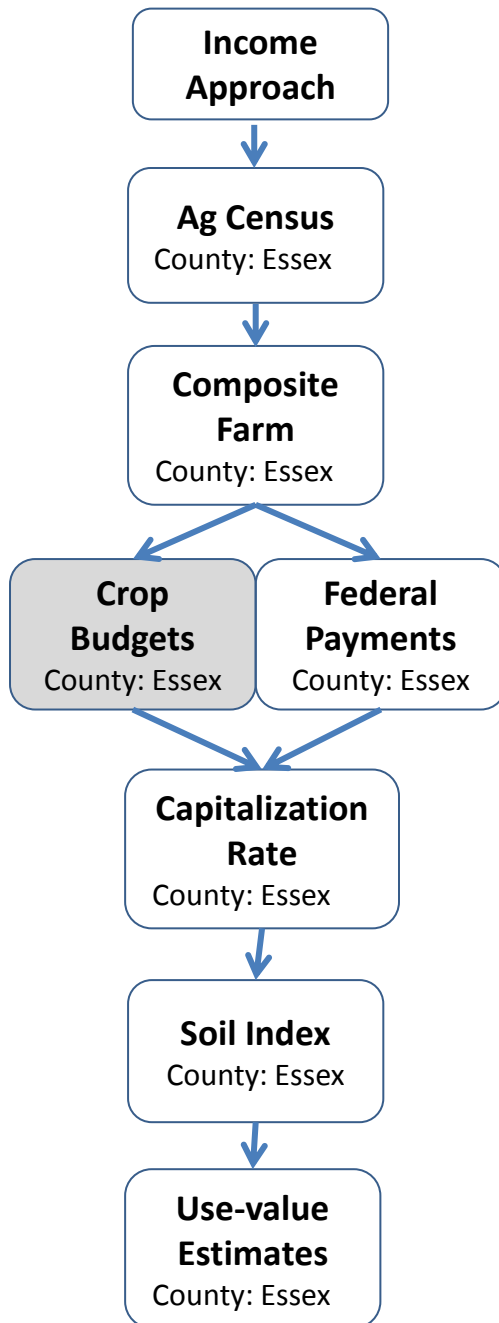
# Crop Budgets



- Created for all CF crops
- Based on VCE enterprise budget format
- Yields and Prices -> NASS
- Seeding and lime rates -> Ext recommendation
- N,P, & K inputs are based on yield-driven nutrient removal rates (International Plant Nutrition Institute)
- AgFrist -> short-term interest



# Crop Budgets



- Pesticides -> Pest Management Guidelines (PMG)
- Application costs → custom rates
- Machinery usage and costs -> A. Society of Ag and Biological Engineers' equations
- Fuel prices -> U.S. Dept of Energy
- Crop insurance -> USDA-RMA
- Labor hours function of machinery hours
- Labor rate -> NASS
- **Note:** Budgeted NR lag 2 years, e.g., Tax Year 2015 reflects 2013 data

# Example Budget

## Corn Grain no-till TY2015

Income Approach



Ag Census  
County: Essex



Composite Farm  
County: Essex

Crop Budgets  
County: Essex

Federal Payments  
County: Essex

Capitalization Rate  
County: Essex

Soil Index  
County: Essex

Use-value Estimates  
County: Essex

Corn: Yield = 170 bu \* Price = \$4.75/bu = \$808  
Net Crop Insurance = \$42  
Total Income = \$827

### Net Returns = Income - Costs

$$NR = \$827 - \$699 = \mathbf{\$128/ac}$$

Pre-Harvest Costs: N 163 lbs  
Price = \$0.63/lbs = \$103/ac

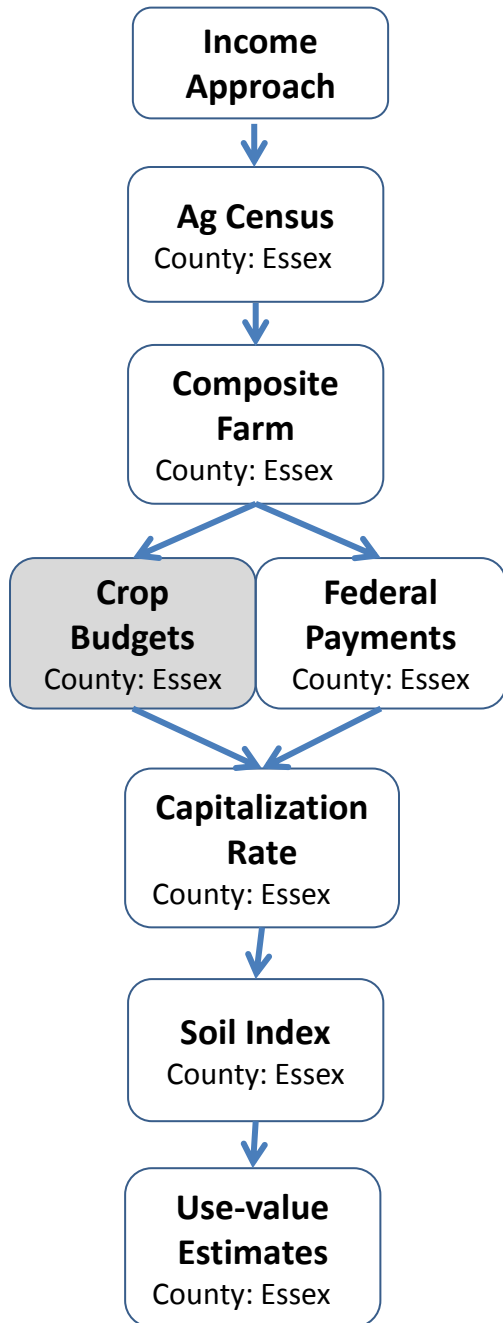
Harvest Costs: Labor, fuel & oil, drying, hauling = \$109/ac

Fixed Costs: Machinery and Overhead = \$129/ac

Total Costs = \$699/ac

# Olympic Averaging

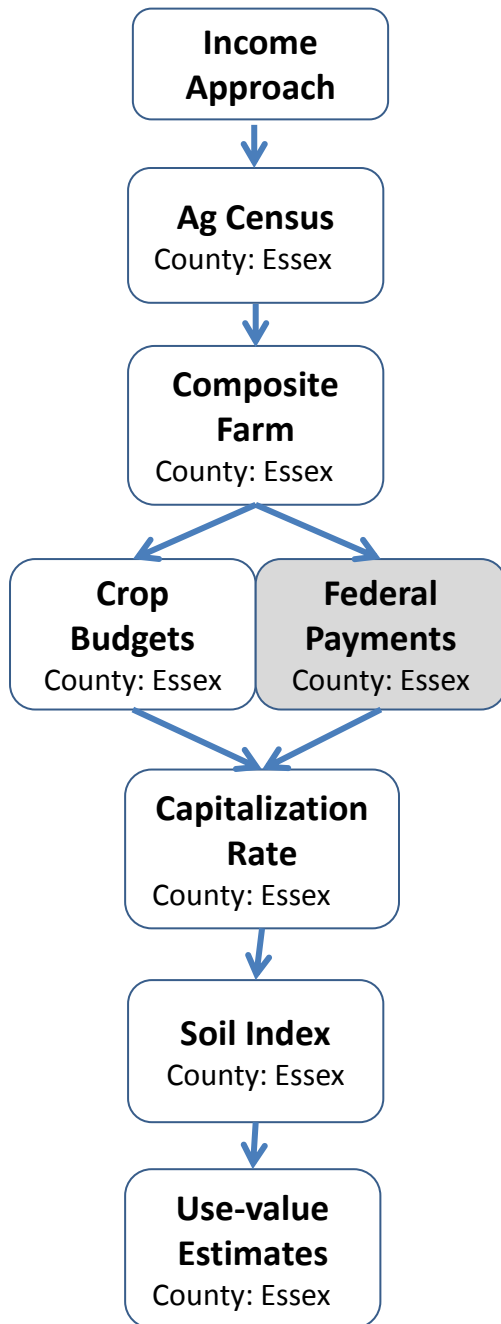
- Final NR for each CF crop requires 7 years of net returns
- 7-year Olympic Averaging drops the highest and lowest values and then straight averages the remaining 5 values
- Essex Corn Grain example 2009-2015



<b>Essex: Corn</b>	<b>Crop Budget</b>
TY2009	\$99.06
TY2010	\$51.52
TY2011	\$1.85
TY2012	\$158.28
TY2013	\$442.88
TY2014	\$261.79
TY2015	\$131.74
<b>Olympic AVG</b>	<b>\$140.48</b>

Lowest

Highest

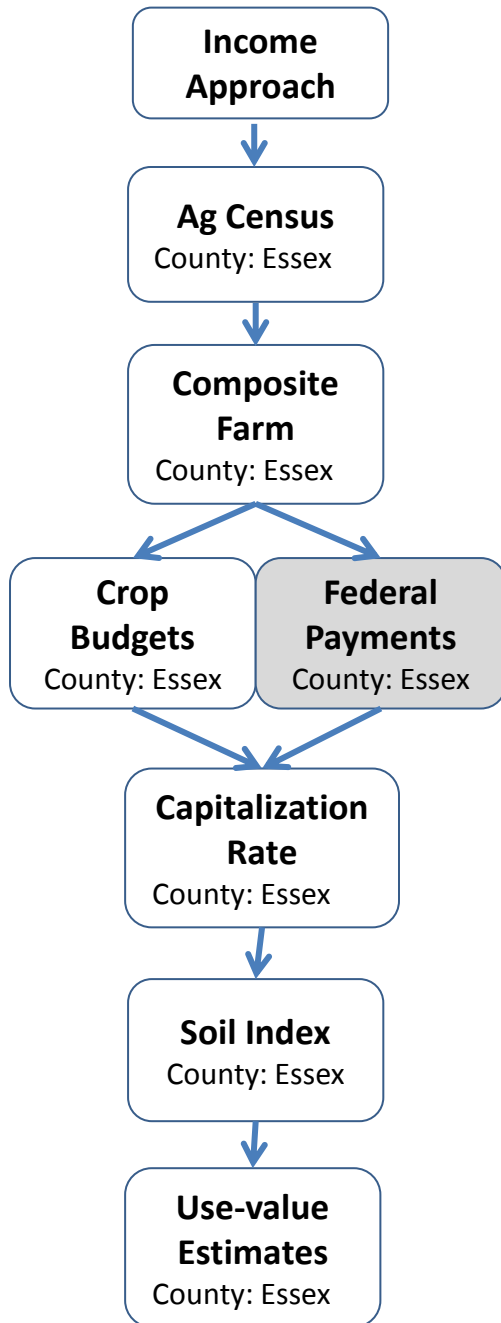


# Federal Payments

- **USDA-FSA** provides data for program crops by county
- Essex receives payments for **corn, wheat, barley, and soybeans**
- Annual payments = Payment/crop acreage
- TY2015, Essex received **\$455,887** in **federal payments for corn.**  
 $\$455,887 / 15,976 \text{ ac} = \mathbf{\$28.54/ac}$

# Olympic Averaging

- Essex Corn Grain example 2009-2015



Essex: Corn	Federal Payment
TY2009	\$22.89
TY2010	\$21.04
TY2011	\$15.41
TY2012	\$20.10
TY2013	\$42.44
TY2014	\$33.58
TY2015	\$28.54
<b>Olympic AVG</b>	<b>\$25.23</b>

Lowest

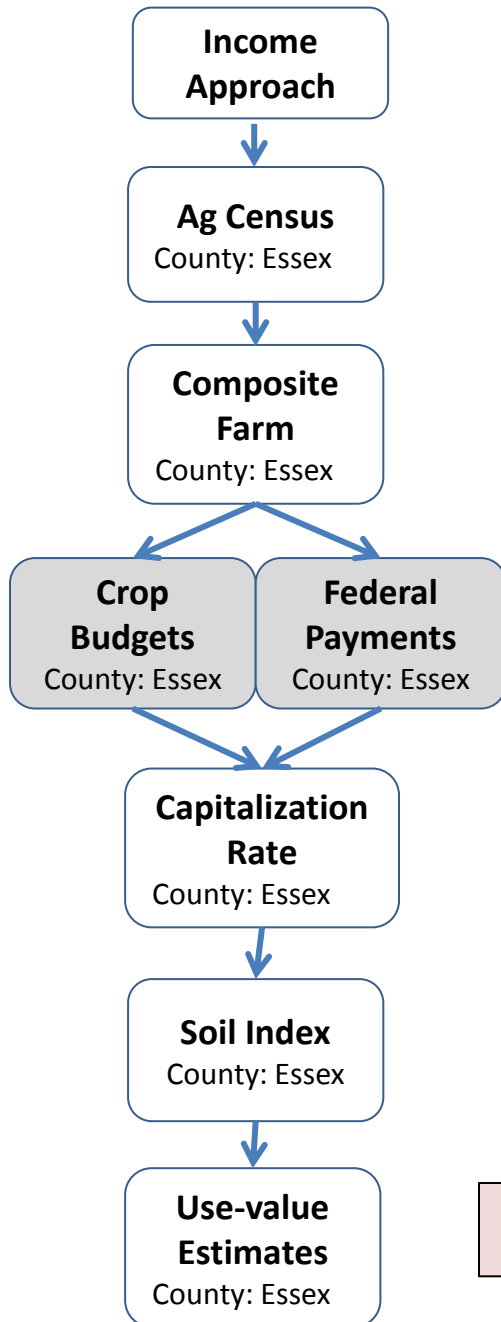
Highest

Corn Budget
\$99.06
\$51.52
L
\$158.28
H
\$261.79
\$131.74
<b>\$140.48</b>

- Final Corn Net Return for TY2015
  - Oly AVG Fed Pay + Oly AVG Budget
  - $\$25.23 + \$140.48 = \mathbf{\$165.71}$

# Final Net Returns Essex County TY2015

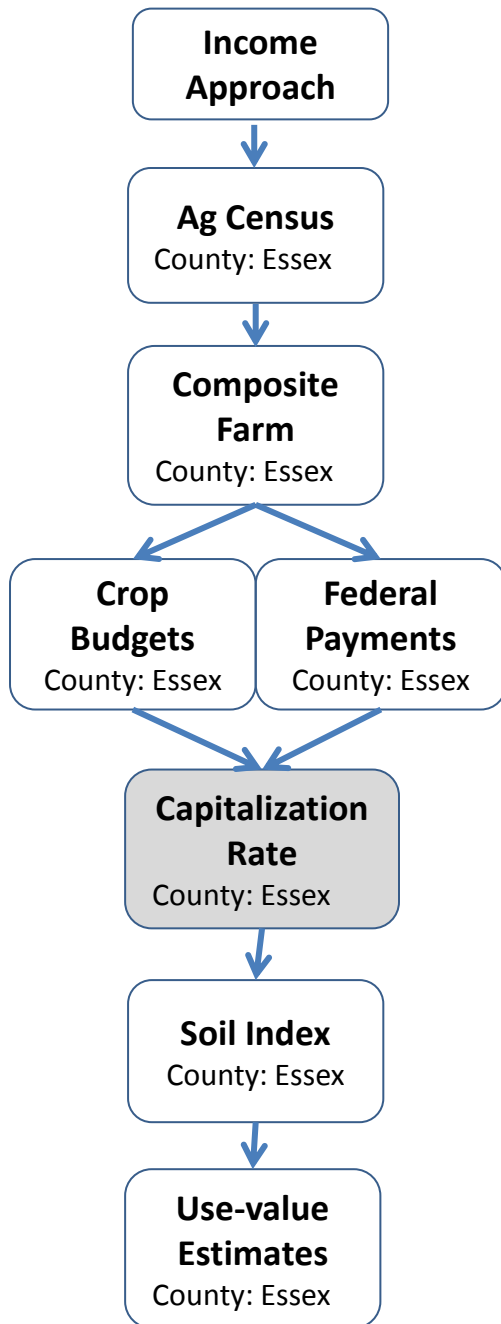
- Composite Farm weighted NR by crop acreage



Crop	Estimated Net Return
Corn	\$165.71
Hay	\$0.00
Wheat	\$107.12
Barley	\$32.05
Soybeans	\$163.45
Pasture	\$12.27
<b>Final Net Return (per acre)</b>	

CF acres	NR weight
163	\$71.40
5	\$0.00
89	\$25.14
23	\$1.93
196	\$84.87
14	\$0.46
<b>378</b>	<b>\$183.79</b>

Reflects double-cropped wheat (89 ac) and barley (23 ac)



# Capitalization Rate

Why use Capitalization Rate?

- *Cap Rate = Net Return ÷ Value Farmland*
- *Farmland Value = NR ÷ Cap Rate*
- *\$100 per year ÷ 10% = \$1,000*
- **Cap Rate = Interest Rate + Property Tax**

Federal Land Bank long term interest rate - AgFirst (10 year average)

Effective Tax Rates for all counties - VA Department of Taxation (10 year average)

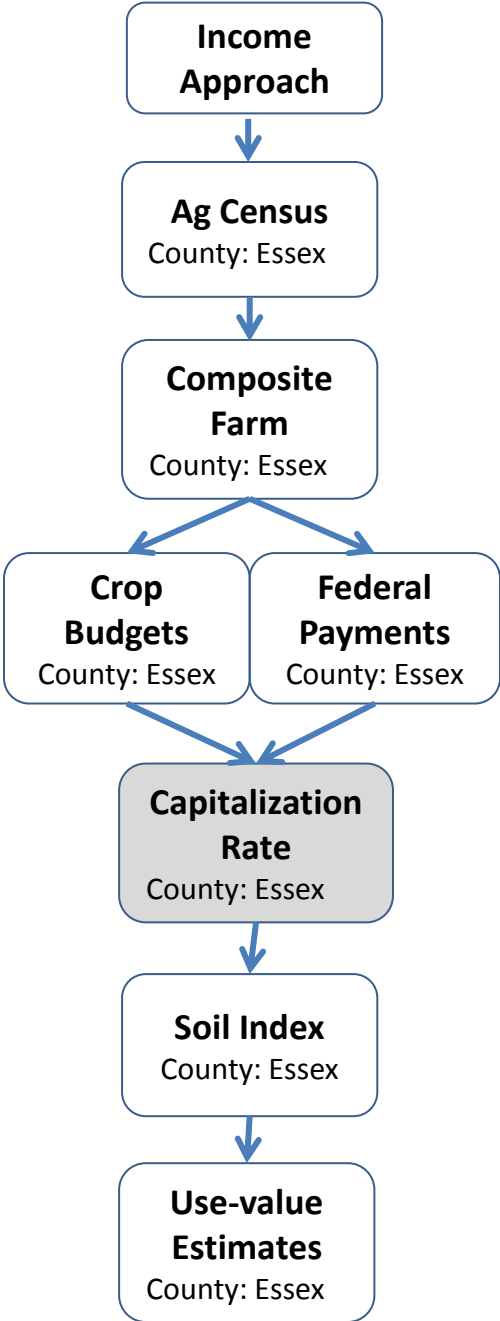
# Essex TY2015

## Cap Rate Components

Interest Rate - statewide	0.0635
Property Tax - Essex	0.0056
<b>Total without risk</b>	<b>0.0691</b>
Crop loss due to Flooding 5%	0.0035
<b>Total With risk</b>	<b>0.0726</b>

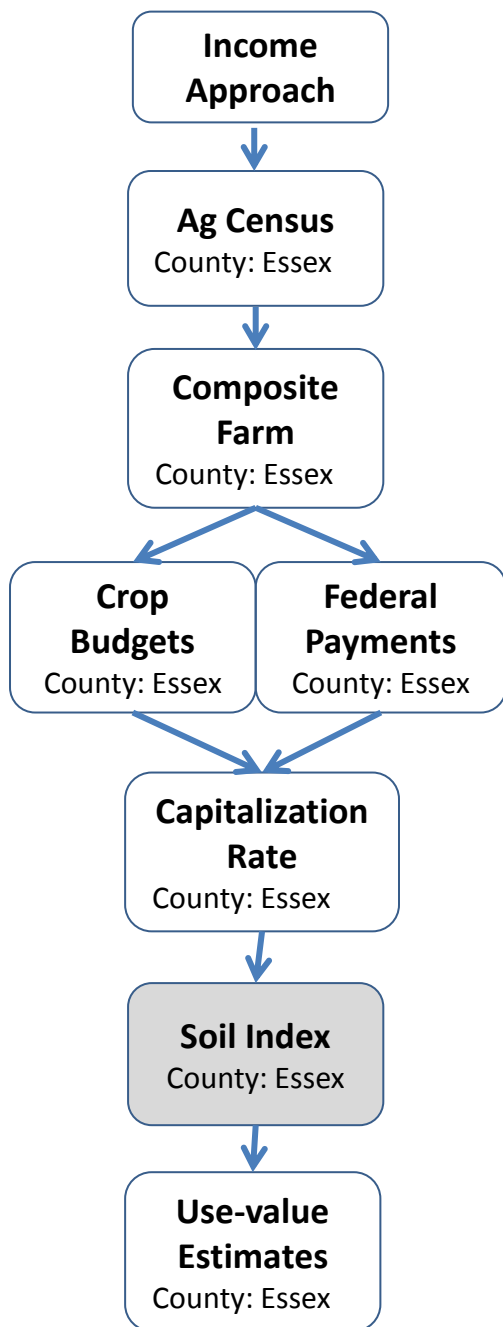
## Use Value Essex TY2015

	Use Value =	Net Returns	÷	Cap Rate
Use Value without risk =	\$183.79	÷	0.0691	
Use Value without risk =				<b>\$2,658</b>
	\$183.79	÷	0.0726	
Use Value with risk =				<b>\$2,531</b>





# Adjustments for Soil Capabilities

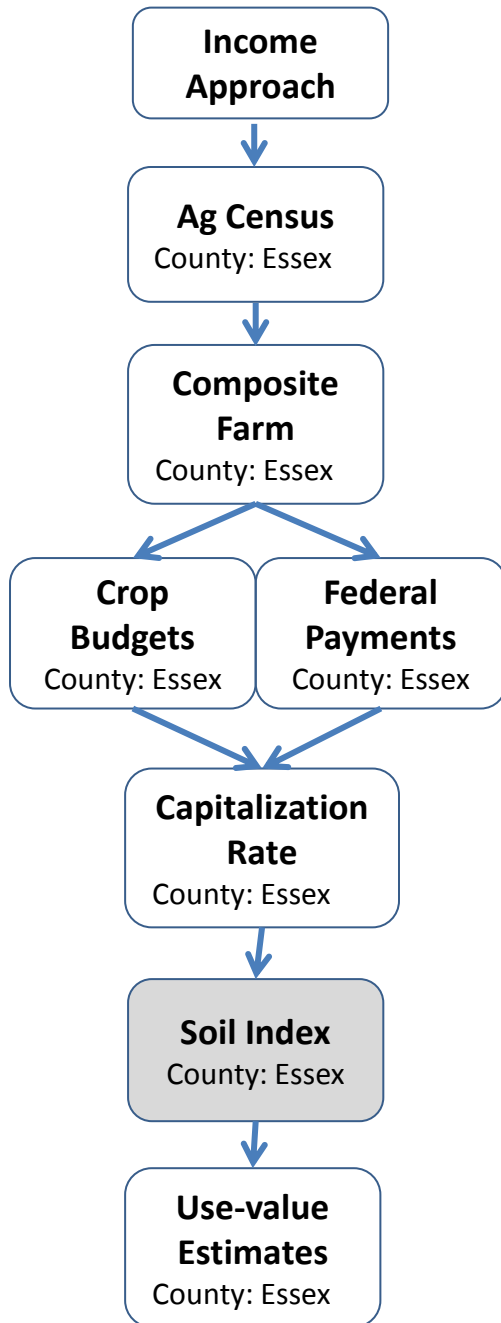


## USDA Land Classes for Ag use

Land Capability Classes	Productivity Index
Class I - Excellent cropland	1.50
Class II - Good cropland	1.35
<b>Class III - Average cropland</b>	<b>1.00</b>
Class IV - Below average cropland – strip cropping only, hay	0.80
Class V – Good Pasture, hay	0.60
Class VI – Pasture	0.50
Class VII – Very limiting - Pasture only	0.30
Class VIII – Not suitable to agriculture – steep or wet	0.10

# Indexing for Soil Productivity

## Essex



Land Class	Reported Acreage	Productivity Index	Weighted Acreage
I	2,168	1.50	3,252
II	25,597	1.35	34,556
III	4,189	1.00	4,189
IV	2,775	0.80	2,220
Total	34,729		44,217
Soil Index Factor		$44,217 \div 34,729 = 1.27$	

King William = 1.32

Middlesex = 1.36

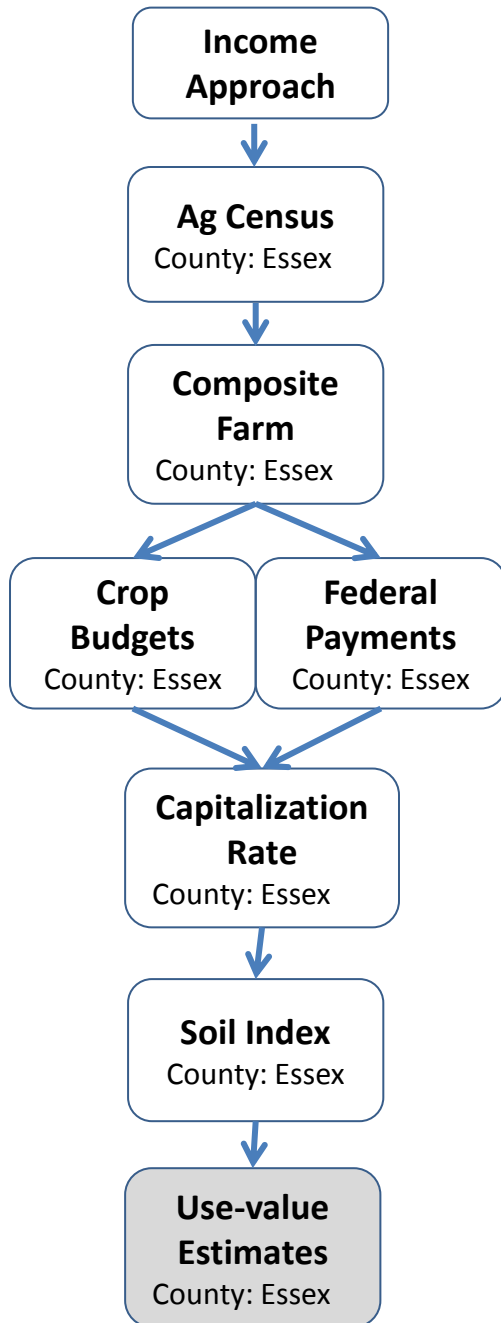
# Adjusting to Class III land

Why?

- Data reflects average soil productivity for each county
- Values are adjusted to reflect Class III productivity

## Use Value Essex TY2015

	Use Value =	Use Value	÷	Soil index
	Without risk =	\$2658	÷	1.2732
	<b>Without Risk Class III =</b>			<b>\$2,088</b>
	With risk	\$2,531	÷	1.2732
	<b>With Risk Class III =</b>			<b>\$1,989</b>



# Final Estimates Essex TY2015

	Cropland				Weighted Cropland AVG	Pastureland			Weighted Pasture land AVG	Weighted Ag. Land AVG	VIII
	I	II	III	IV	I-IV	V	VI	VII	V-VII	I-VII	
<b>w/out Risk</b>	3,130	2,820	2,090	1,670	<b>2,680</b>	1,250	1,040	630	<b>940</b>	<b>2,410</b>	210
<b>w/ Risk</b>	2,980	2,680	1,990	1,590	<b>2550</b>	1,190	990	600	<b>900</b>	<b>2,290</b>	200

- Note: Final estimated values are rounded to the nearest \$10
- The Class III estimate of \$2,088 is reported as \$2,090

# Rental Rate Approach Essex TY2015

- Starting 2009 NASS published rental rate data annually for
  - Cropland
  - Irrigated cropland
  - Pasture land
- Essex County rental rates for 2013 TY2015 (NASS)
  - Cropland = \$72
  - Pastureland = \$35.5

# Rental Rate Use Value Essex TY2015

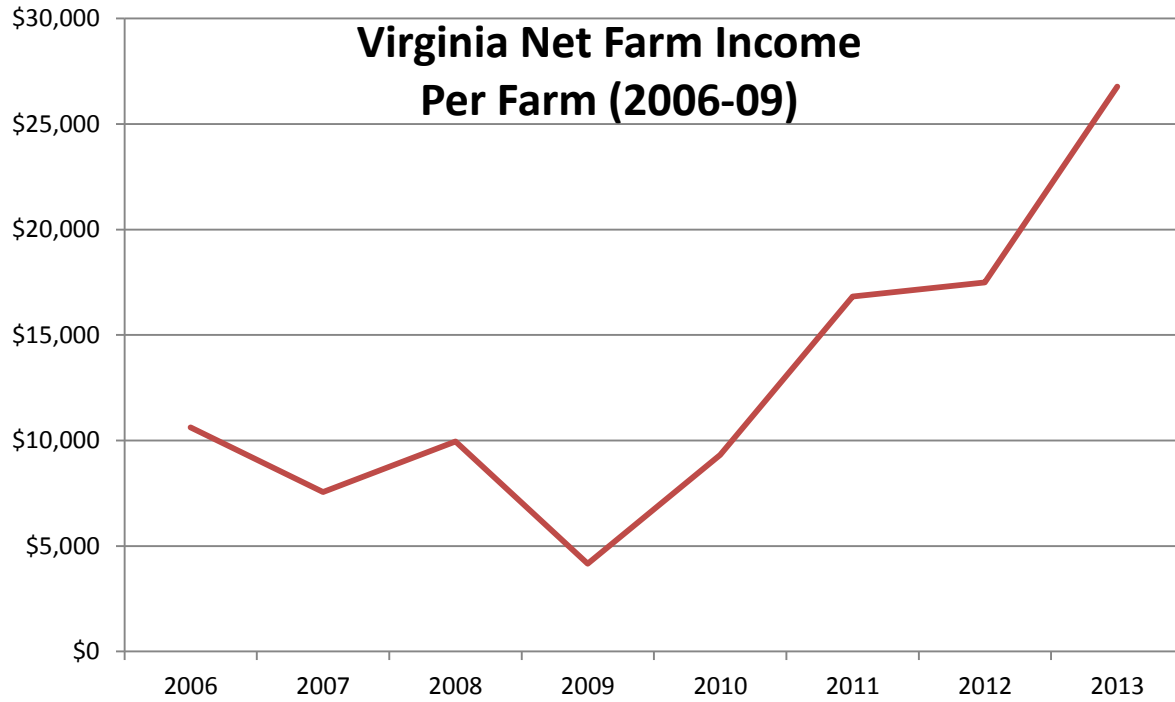
	<b>Rental Rate</b>	<b>÷</b>	<b>Cap Rate</b>	<b>=</b>	<b>Value</b>
<b>Cropland</b>	<b>\$72</b>	<b>÷</b>	<b>0.0691</b>	<b>=</b>	<b>\$1,040</b>
<b>Pasture</b>	<b>\$35.5</b>	<b>÷</b>	<b>0.0691</b>	<b>=</b>	<b>\$510</b>

Rental Rate Estimates are published annually  
– **not averaged over time**

## Income Approach and Rental Rate Approach: Compared

<b>Essex</b>	<b>Income Approach</b>		<b>Rental Rate Approach</b>	
<b>TY2015</b>	Cropland (I-IV AVG)	<b>\$2,680</b>	Cropland	<b>\$1,040</b>
	Pastureland (V-VII AVG)	<b>\$940</b>	Pastureland	<b>\$510</b>

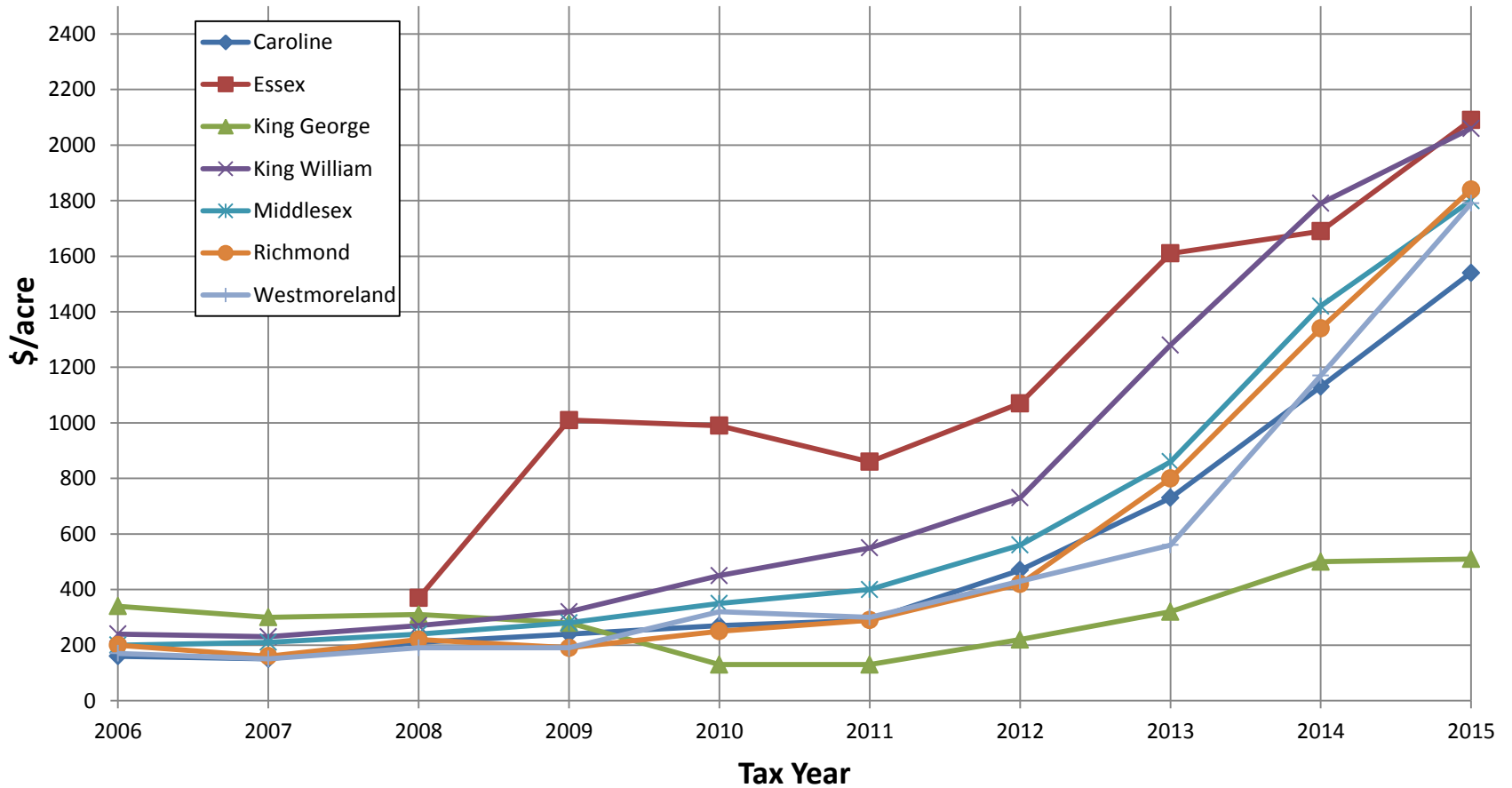
## Virginia Net Farm Income Per Farm (2006-09)



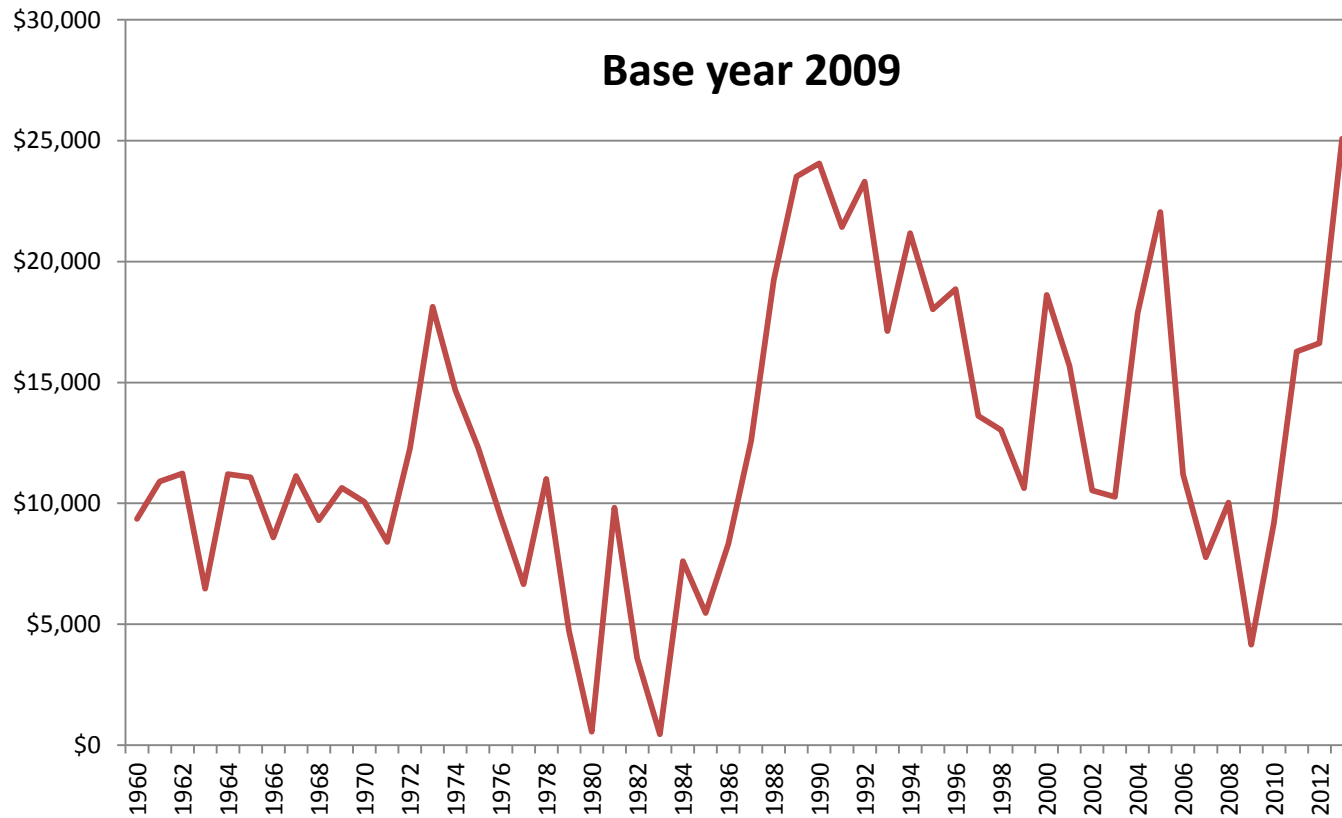


# Use-value Estimates: Type III Land (w/out risk)

## Selected Jurisdiction Comparison (Tax Years 2006 to 2015)



# Real Net Farm Income Virginia \$/farm



Source: USDA/ERS Farms and Land in Farms and USDA/ERS Farm Income and Wealth Statistics

# Issues

- What is taxed at Fair Market Value?
  - All agricultural structures and improvements, e.g., barns, confinement livestock facilities, bins, shops, greenhouses, silos, water and fence systems,...
  - All dwellings and lots
- Noncompliance with local ordinance
  - Rollback tax
  - Interest
  - Penalties

*Thanks!*

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*Discussion & Questions?*

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