

Questions regarding any statutorily related issues surrounding use-value assessment should be directed to Jason Hughes at the Property Tax Unit, Virginia Department of Taxation. Questions regarding the technical aspects of the methodology used to produce the use-value estimates reported in this brochure should be directed to Lex Bruce or Gordon Groover at the Department of Agricultural and Applied Economics, Virginia Tech.

## TY 2013 USE-VALUE ESTIMATES

**Table 1: Income Approach** – Estimated use value of agricultural land in *Cumberland (\$ / Acre)*.

Land Class	Use Value Without Risk <sup>4</sup>	Use Value With Risk <sup>4</sup>
I	280	270
II	260	240
III	190	180
IV	150	140
Avg. I – IV	200	190
V	110	110
VI	90	90
VII	60	50
Avg. V – VII	70	70
Avg. I – VII	180	160
VIII	20	20

<sup>4</sup>N.A. = not applicable

**Table 2: Income Approach** – Estimated use value of orchards in *Cumberland (\$ / Acre)*.

Land Class	Use Value of Apple Orchard	Use Value of Other Orchard
I	180	190
II	130	140
III	60	80
IV	20	40
V	20	30
VI	20	30
VII	10	10
VIII	20	20

**Table 3: Rental Approach<sup>5</sup>** – Cropland and pastureland values based on NASS capitalized rental rates in *Cumberland (\$ / Acre)*.

Cropland	270
Irrigated Cropland	---
Pastureland	250

<sup>5</sup>For details see estimates at <http://usevalue.agecon.vt.edu>

## Estimated Use Values of Agricultural Land and Horticultural Land in Cumberland

Estimates apply to Tax Year 2013



November 15, 2012

### State Land Evaluation and Advisory Council (SLEAC)

### Virginia Department of Taxation

For additional information regarding methods and estimation procedures for agriculture and horticulture land use values see <http://usevalue.agecon.vt.edu>

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### Land Capability Classifications

Class I	Soils have few limitations that restrict use.
Class II	Soils have moderate limitations that reduce the choice of plants or require moderate conservation practices.
Class III	Soils have severe limitations that reduce the choice of plants, require special conservation practices, or both.
Class IV	Soils have very severe limitations that restrict the choice of plants, require very careful management, or both.
Class V	Soils are subject to little or no erosion but have other limitations, impractical to remove, that limit their use largely to pasture, range, woodland, or wildlife food and cover.
Class VI	Soils have severe limitations that make them generally unsuited to cultivation and limit their use largely to pasture or range, woodland, or wildlife food and cover.
Class VII	Soils have very severe limitations that make them unsuited to cultivation and limit their use largely to grazing, woodland, or wildlife.
Class VIII	Soils and land forms have limitations that preclude their use for commercial plant production and restrict their use to recreation, wildlife, or water supply, or to aesthetic purposes.

# USE VALUE TAXATION IN VIRGINIA<sup>1</sup>

Virginia law allows for eligible land in agricultural, horticultural, forest, or open space use to be taxed at the value in use (use value) of the land as opposed to its market value. The 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. SLEAC contracts annually with the Department of Agricultural and Applied Economics at Virginia Tech to develop an objective methodology for estimating the use value of land in agricultural and horticultural uses. A technical advisory committee, comprised of professionals familiar with Virginia agriculture, was established in 1998 to provide guidance on the technical aspects of developing an appropriate methodology. The members of SLEAC have officially sanctioned the use value estimates reported in this brochure.

## ROLE OF THE SLEAC ESTIMATES

Section 58.1 - 3229 of the Code of Virginia requires each participating jurisdiction's assessment office to consider SLEAC estimates when assessing the use value of eligible land. However, the local assessing office is not required to use SLEAC estimates verbatim.

Under certain circumstances, adjustments to SLEAC estimates may be necessary to accurately reflect the local conditions that affect the use values of eligible land parcels.

<sup>1</sup> Information about Virginia's Use Value Assessment Program can be found at <http://usevalue.agecon.vt.edu>.

## TY 2013 USE VALUE ESTIMATES: INCOME AND RENTAL RATE APPROACHES

Tables 1 and 2 list the estimated use values of agricultural and horticultural land using an income approach. These estimates are based on the capitalized net income that a bona-fide agricultural or horticultural enterprise located in the county could be expected to earn. These values are updated annually for public information. Note, the local assessing office can only make changes to assessed property values during a reassessment year.

Table 1 lists the estimated use value for land in agricultural use for each of the eight Soil Conservation Service land capability classifications. Because data on the land class composition of individual parcels is often unavailable, average use values have also been provided<sup>2</sup>. The average of land in classes I - IV represents the average use value of cropland. The average of land in classes V - VII represents the average use value of pastureland. The average of the land in the classes of I - VII represents the average use value of all agricultural land<sup>3</sup>.

The without risk estimates apply to land that is not at risk of flooding. The with risk estimates should only be applied to land parcels that are at risk of flooding due to poor drainage that cannot be remedied by tilling or drainage ditches.

<sup>2</sup> Data limitations prohibited the computation of average use values in a few counties and in most independent cities and townships. <sup>3</sup> Note. Class VIII is not considered suitable for ag production and is therefore not included in this average.

Table 2 lists the estimated use value of land in orchard use. Values are reported for both apple orchards and "other" orchards for each of the eight Soil Conservation Service and capability classifications. "Other" orchard refers to peach, pear, cherry, or plum production. Data limitations prohibit the computation of the average use values for orchards.

Table 3 lists the estimated use values of cropland and pastureland using a rental rate approach. These use-values are based on capitalized rental rates obtained annually from the USDA National Agricultural Statistical Service (NASS). If there are sufficient numbers of responses to meet the NASS nondisclosure requirements for a jurisdiction then the value is published. However, if there are not enough responses in a jurisdiction to meet nondisclosure requirements, then all the non-disclosed jurisdictions within a crop reporting district are summarized and published as a Combined Counties (District) value.

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## Table 2: The composite farm and average net returns in Cumberland

Annual net returns are determined through enterprise budgeting for crops that contributed one or more acres to the composite farm. The estimated net returns shown in the table below are "olympic" averages (1) for each crop in the composite farm for the proceeding 7 budget years. A budget year lags a given tax year by 2 years (e.g., tax year 2013 corresponds to the budget year 2011).

Additional information about these estimates can be found at Virginia's Use Value Assessment Program website, <http://usevalue.agecon.vt.edu>.

Average net returns applicable to tax-year 2013

	Total Acreage <sup>2</sup>	Composite Farm (Acres) <sup>3</sup>	Estimated Net Return (\$/Acre)
1. Number of Farms	285	---	---
2. Corn	1,135	4	\$57.42
3. Alfalfa	392	1	\$42.38
4. Hay	9,096	32	\$0
5. Wheat	257	1	\$110.19
6. Barley	25	0	\$0
7. Soybeans	391	1	\$85.79
8. Potatoes	---	---	---
9. Cotton	---	---	---
10. Pasture	16,429	58	\$16.8
11. Peanuts	---	---	---
12. Tobacco	---	---	---
13. Snap Beans	D	---	---
14. Cucumbers	D	---	---
15. Pumpkins	D	---	---
16. Sweet Corn	D	---	---
17. Tomatoes	D	---	---
18. Watermelons	8	0	\$0
19. Double-Cropped	282	1	---
20. Total Cropland Harvested	27,451	96	\$15.29

### Note

n.a. = Not Applicable

D = Withheld to avoid disclosing data of individual farms.

(1) In an Olympic average, the highest and lowest are dropped prior to calculating the arithmetic mean.

(2) Data taken from the 2007 Census of Agriculture.

(3) Some data do not add exactly due to rounding and some categories are not listed due to disclosure rules.

(4) Corn acreage is corn-grain plus corn-silage acreages.

(5) Hay acreage is (all hay + all haylage, grass silage, greenchop) - (alfalfa hay + haylage or greenchop from alfalfa or alfalfa mixtures).

(6) Double-cropped acreage is subtracted from the crops listed to arrive at the total cropland harvest acreage.

(7) Weighted average of crop estimated net returns by composite farm acreage.

**Table 3: Worksheet for estimating the use value of agricultural land in Cumberland**

Additional information about these estimates can be found at Virginia's Use Value Assessment Program website, <http://usevalue.agecon.vt.edu/>.

Estimates are applicable to tax-year **2013**

**1. Estimated net return** \$15.29

**2. Capitalization rates**

a) Interest rate component <sup>1</sup>	0.0660	
b) Property tax component <sup>2</sup>	0.0056	
c) Rate without risk	0.0716	(sum a and b)
d) Risk component	0.0036	(0.05 times 2c)
e) Rate with risk <sup>3</sup>	0.0752	(sum c and d)

<b>3. Unadjusted Use Value</b>		<u>Without Risk<sup>4</sup></u> \$213.43	<u>With Risk<sup>5</sup></u> \$203.27	
<b>4. Soil Index</b>	Land Class	Crop Acreage (No Pasture Acreage) <sup>6</sup>	Productivity Index	Weighted Acreage
	I	362	1.5	543
	II	11,051	1.35	14,919
	III	9,036	1	9,036
	IV	4,374	.8	3,499
Total:		24,823		27,997

Soil Index Factor<sup>7</sup>: 1.1279

**5. Agricultural use value adjusted by land class**

Class	Land Index	Without Risk	Reported <sup>8</sup>	With Risk	Reported <sup>8</sup>
I	1.50	\$283.86	\$280	\$270.34	\$270
II	1.35	\$255.47	\$260	\$243.30	\$240
III	1.00	\$189.24	\$190	\$180.23	\$180
IV	0.80	\$151.39	\$150	\$144.18	\$140
V	0.60	\$113.54	\$110	\$108.14	\$110
VI	0.50	\$94.62	\$90	\$90.11	\$90
VII	0.30	\$56.77	\$60	\$54.07	\$50
VIII	0.10	\$18.92	\$20	\$18.02	\$20

<sup>1</sup> The 10-year average of the long-term interest rates charged by the various Agriculture Credit Associations serving the state.

<sup>2</sup> The 10-year average of the effective true tax rates reported by the Virginia Department of Taxation.

<sup>3</sup> Rate should only be used when the soil has poor drainage that is not remedied by tilling or drainage ditches or when the land lies in a floodplain.

<sup>4</sup> Estimated Net Return (Line 1) divided by Rate without risk (Line 2c).

<sup>5</sup> Estimated Net Return (Line 1) divided by Rate with risk (Line 2e).

<sup>6</sup> Data provided by the Virginia Conservation Needs Inventory (1967).

<sup>7</sup> Index factor = (Total Weighted Acreage) / (Total Cropland Acreage).

<sup>8</sup> Rounded to the nearest \$10 and reported in Table 1a.

**Table 5: Worksheet for estimating the use value of orchard land in Cumberland**

The estimated net returns assume a planting density of 135 trees per acre. Additional information about these estimates can be found at Virginia's Use Value Assessment Program website, <http://usevalue.agecon.vt.edu/>.

Estimates are applicable to tax-year 2013

**1. Estimated net returns (loss) per acre applicable to tax-year TaxYear (see Table 4 for more detail).**

	<u>Age of Trees</u>	<u>Processed Fruit</u>	<u>Fresh Fruit</u>
Pre-production	1-3 years	\$ (\$2,330.97)	\$ (\$2,519.99)
Early-production	4-6 years	\$ (\$307.12)	\$ (\$907.04)
Full-production	11-25 years	\$ (\$622.73)	\$ (\$3,445.36)
Late-production	26-30 years	\$ (\$625.39)	\$ (\$2,304.24)
	Discounted (20 Yr Cycle)	(\$10,897.78)	(\$28,128.75)
	Utilization of Sales (10 Yr Avg %)	74%	26%
	Apple Insurance (Annual Avg/acre)	\$54.47	

**2. Weighted Average Net Return Values**

a)	2011 <sup>1</sup>	(\$15,274.96)
b)	2010	\$ (13,848.76)
c)	2009	\$ (8,748.31)
d)	2008	\$ 1,615.75
e)	2007	\$ (585.53)
f)	2006	\$ (1,390.19)
g)	2005	\$ (565.48)

**3. Net Returns**

a)	Net return to "trees and land" (Olympic average of 2a thru 2g) <sup>2</sup>	\$0.00
b)	Net return attributable to "land only" (Class III) <sup>3</sup>	\$13.55
c)	Net return attributable to "trees only"	\$-13.55 (3a minus 3b)

**4. Capitalization Rate**

a)	Interest Rate <sup>4</sup>	0.0660
b)	Property Tax <sup>5</sup>	0.0056
c)	Depreciation of Apple Trees <sup>6</sup>	0.0333
d)	Depreciation of "Other" Trees <sup>7</sup>	0.0500
e)	Apple Orchard Capitalization Rate	0.1049 (sum 5a, 5b, 5c)
f)	"Other" Orchard Capitalization Rate	0.1216 (sum 5a, 5b, 5d)

**5. Use Value of Apple Orchard and "Other" Orchard**

Class	Orchard Index <sup>8</sup>	APPLE ORCHARD		OTHER ORCHARD	
		Apple Trees	Apple Trees and Land <sup>9</sup>	Other Trees <sup>9</sup>	Other Trees and Land <sup>9</sup>
I	.80	\$-103.34	180.51	\$-89.15	\$194.70
II	1.00	\$-129.18	\$126.29	\$-111.44	\$144.03
III	1.00	\$-129.18	\$60.06	\$-111.44	\$77.80
IV	1.00	\$-129.18	\$22.21	\$-111.44	\$39.95
V	0.75	\$-96.88	\$16.66	\$-83.58	\$29.96
VI	0.60	\$-77.51	\$17.11	\$-66.86	\$27.76
VII	0.40	\$-51.67	\$5.10	\$-44.58	\$12.20
VIII	0.00	\$-.00	\$18.92	\$-.00	\$18.92

<sup>1</sup> Average net return of the eight orchard categories listed in Section 1 of this table. The weights are provided by the percent of total trees represented by each category.

<sup>2</sup> In an olympic average, the highest and lowest values are dropped prior to calculating the arithmetic mean.

<sup>3</sup> This is determined by dividing the unadjusted net return value (Table 3, Line 1) by the soil index factor (Table 3, Section 4).

<sup>4</sup> The 10-year average of long term interest rates charged by the Virginia Department of Taxation.

<sup>5</sup> The 10-year average of the effective true tax rates charged by the Virginia Department of Taxation.

<sup>6</sup> The depreciation rate applicable to apple trees assumes that trees are replaced on a 30-year rotation.

<sup>7</sup> "Other" trees refer to peach, cherry, pear, and plum trees. The depreciation rate applicable to "other" trees assumes that trees are replaced on a 20-year rotation.

<sup>8</sup> The orchard index is applicable only in determining the value of the trees. The land index (Table3, Section 5) is applied to land.

<sup>9</sup> The use value of trees and land is determined by adding the appropriate without-risk land-use-value (Table 3, Section 5) to the use value of the trees.