

How it Works: Virginia's Use-value Assessment Program

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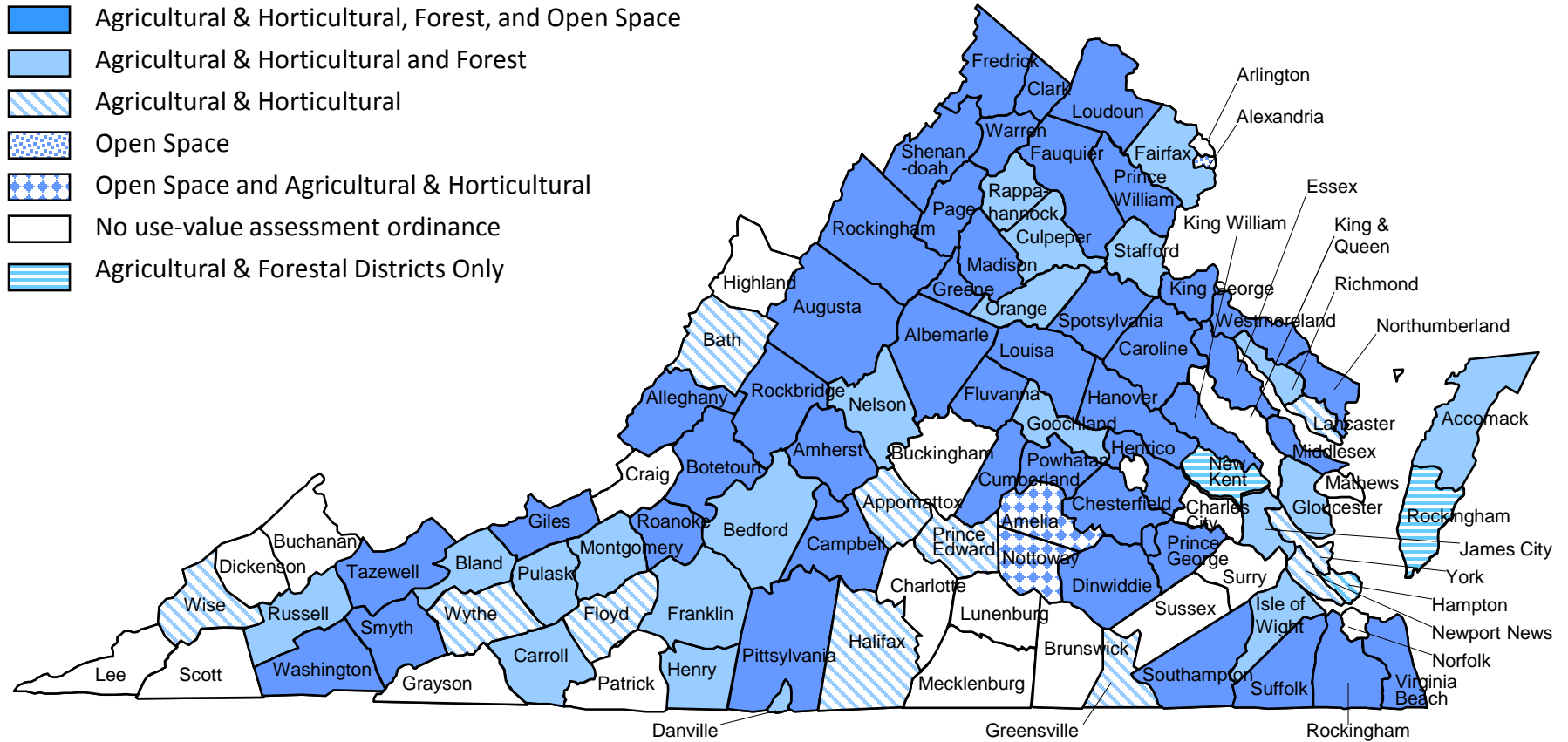
Website: <http://usevalue.agecon.vt.edu/>

July 13, 2016

Outline

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

TY2016: Counties/Cities* with use-value assessment ordinances



* 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 Assessment 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.
- 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.
- Agricultural and Forestal District Act passed 1977

Virginia's Use-Value Assessment Program

- Virginia law allows for the preferential taxation of **agricultural, horticultural, forest,** and **open space** land (**no** open space in a district)
- **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**

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?

Market Value of 1.0 acre of farmland	\$7,000
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	\$1,000

Procedures for Estimating Agricultural and Horticultural Values in Use

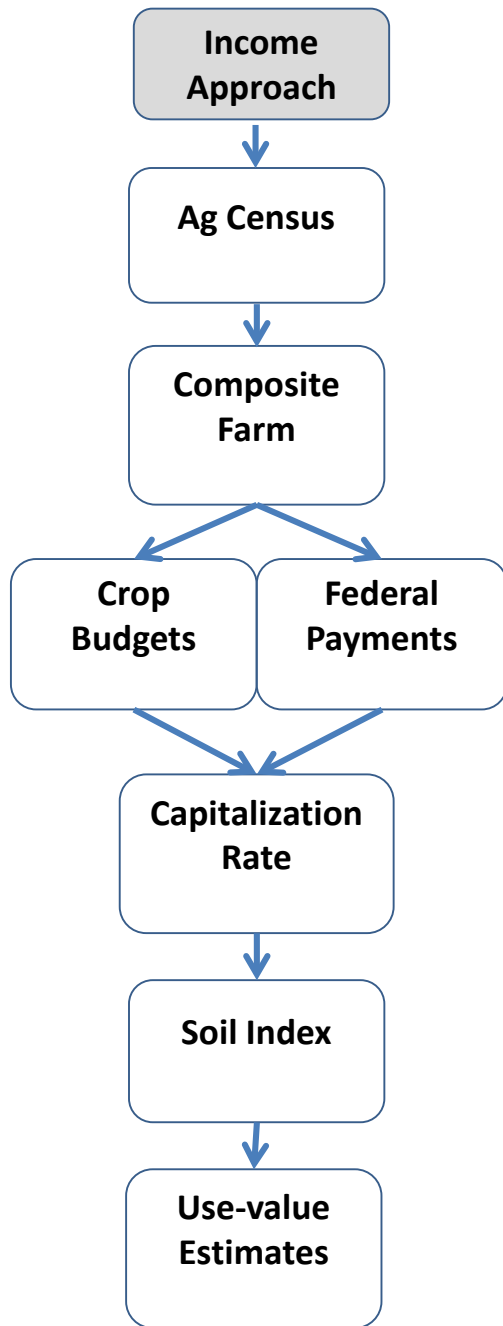
Two Approaches

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)

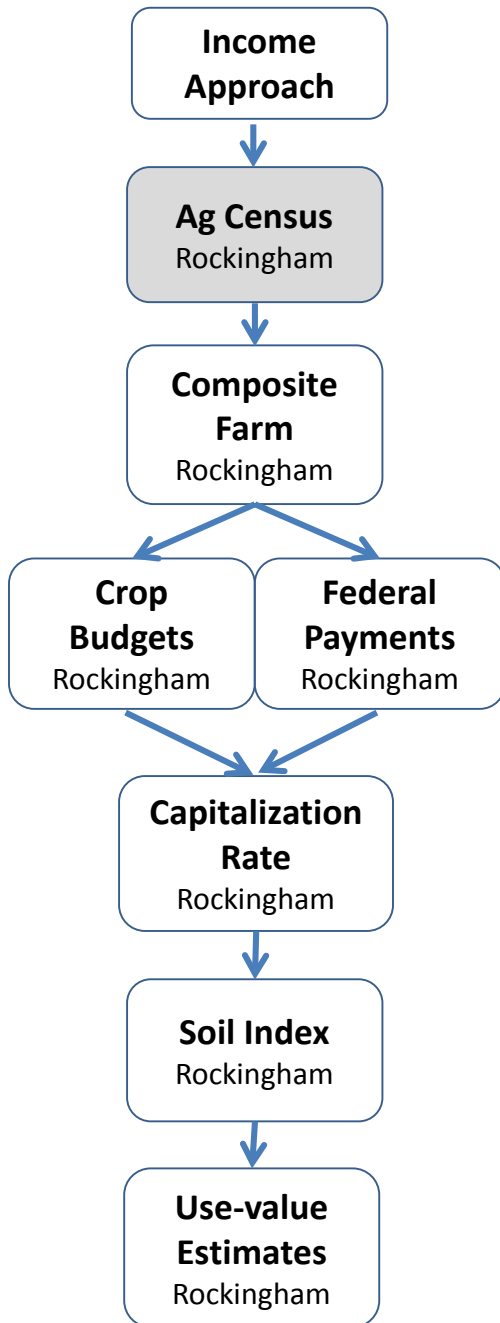
Implemented in 2010 by Groover and Bruce



Income approach for each County

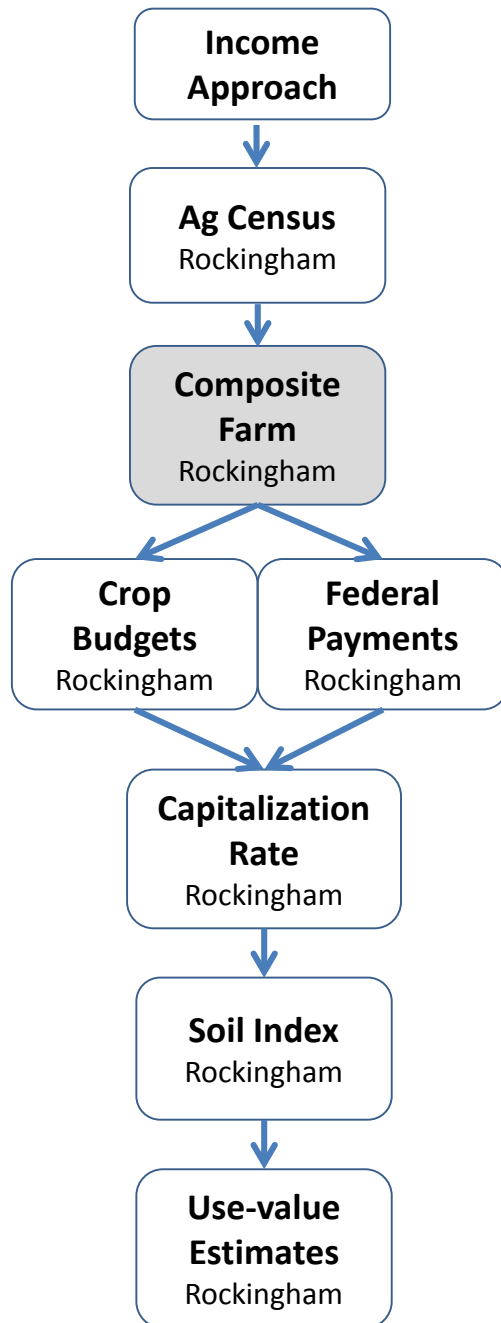
- Task: How to create an annual stream of net income that will be capitalized?
- How?
 - **Build** on secondary/published data
 - Use **Net Returns = Income - Costs**
 - **How?** Define a representative farm (composite farm) – based on current Ag Census for each county
 - **Create** an enterprise budget 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



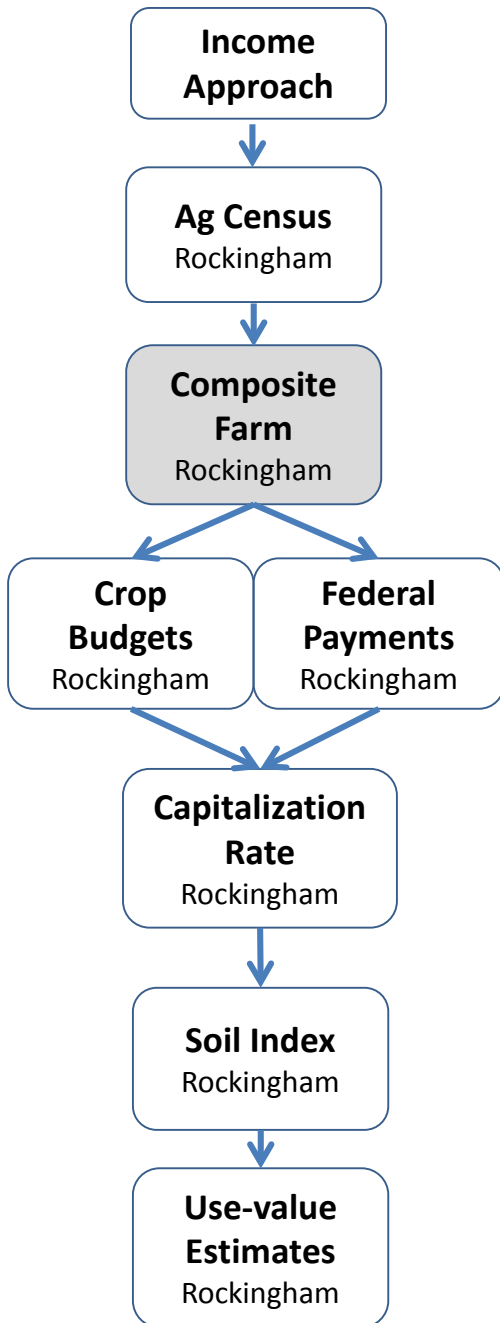
- Conducted and published by National Agricultural Statistics Service (USDA/NASS)
 - Published every 5 years
 - Current Ag Census 2012 (released in 2014)
- Use the following for each county
 - Number of **farms reported**
 - Individual crops grown e.g., corn, wheat, pasture...
 - **Acres** reported for 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
- **Rockingham – 2012 Census**
 - **1,902** reported farms => more land owners
 - **Seven** CF crops, e.i., alfalfa, barley, corn+silage, hay+haylage, pasture, soybeans, and wheat.

Composite Farm - Rockingham



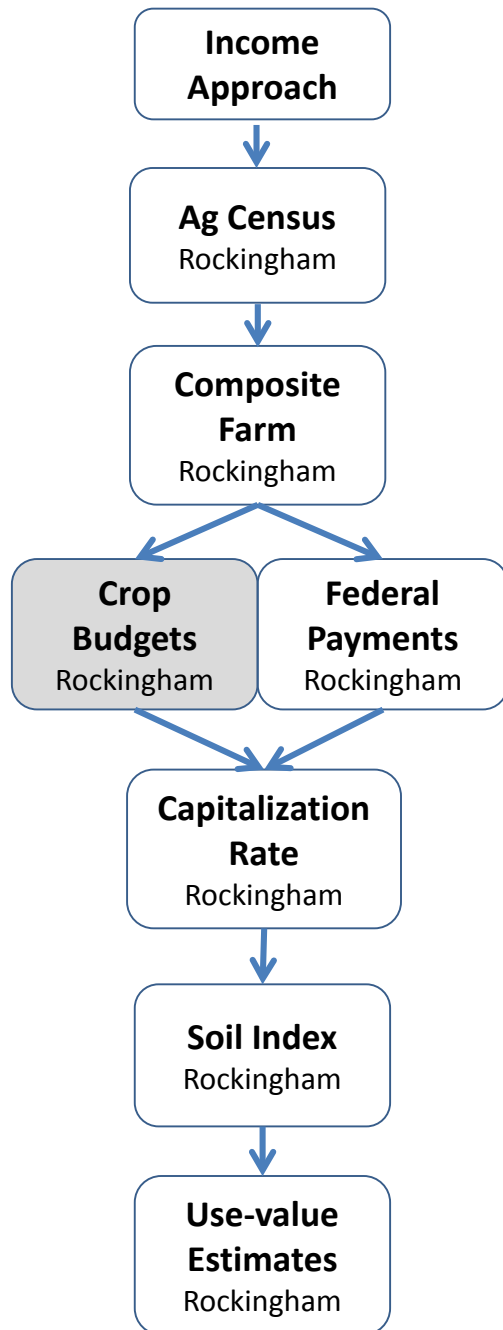
2012 Ag Census Rockingham		Based on 1,902 farms
Crop	Reported Acres	Composite Farm Acres
Alfalfa	7,882	4
Barley	1,687	1
Corn	36,468	19
Cotton	0	
Hay	44,214	23

Example for Corn = $36,468 \text{ ac} / 1,902 \text{ farms} = 19$ acres of corn in the Composite Farm (CF)

Snap Beans	11	
Soybeans	9,847	5
Sweet Corn	138	
Tobacco	0	
Tomatoes	22	
Watermelons	12	
Wheat	2,382	1
Double-cropped*	(-) 4,754	(-) 2
Total Cropland Harvested	177,361	93

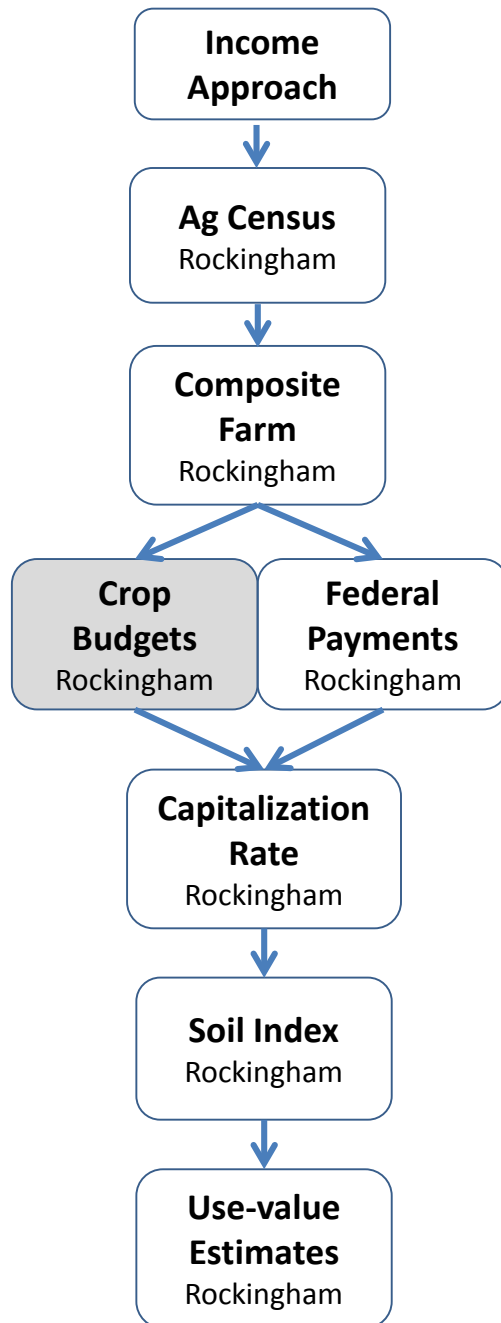
*Barley, rye, and wheat

Crop Budgets



- Created for all CF crops
- Based on VCE enterprise budget format
- Yields and Prices -> NASS
- Seeding and lime rates -> VCE 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
- Labor hours function of machinery hours
- Labor rate -> NASS
- Crop insurance -> USDA-RMA
- **Note:** Budgeted Net Returns **lag 2 years**, e.g., Tax Year 2016 reflects 2014 data

Abbreviated Example Budget

Rockingham Corn Grain no-till

TY2016

Corn: Yield = 178.70 bu/ac * Price = \$3.90/bu = \$696.93
Net Crop Insurance = \$13.32
Total Income = \$710.25

Net Returns = Income - Costs

Pre-Harvest Costs: N 174.2 Lb
Price = \$0.59/lbs = \$102.80 ac

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

Fixed Costs: Machinery and
Overhead = \$123/ac

Total Costs = \$626/ac

NR = \$710 - \$626 = \$84/ac

Income
Approach

Ag Census
Rockingham

Composite
Farm
Rockingham

Crop
Budgets
Rockingham

Federal
Payments
Rockingham

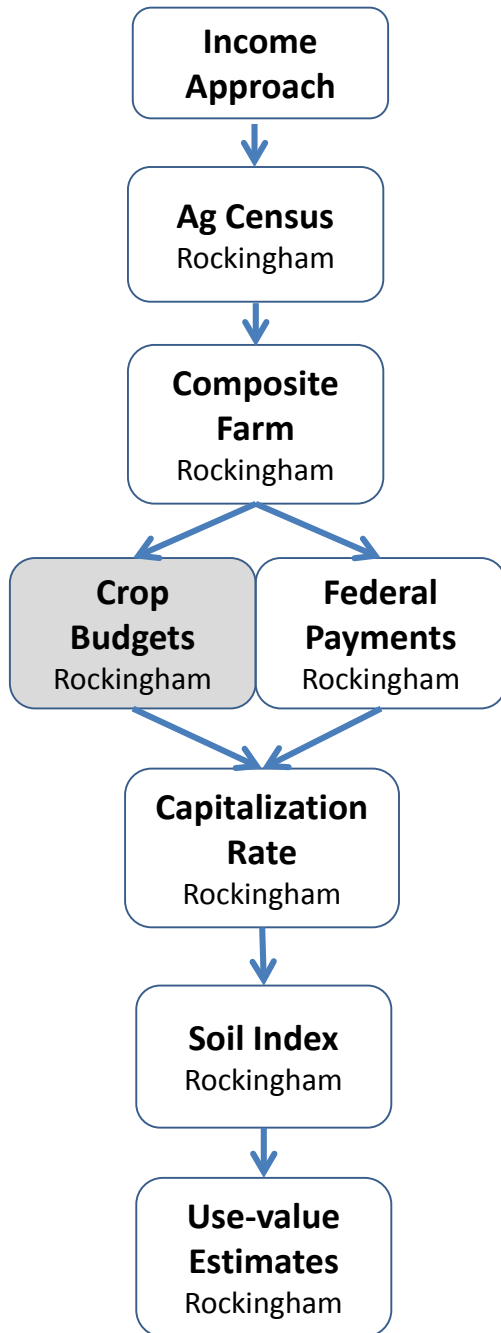
Capitalization
Rate
Rockingham

Soil Index
Rockingham

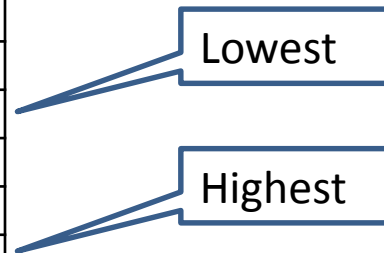
Use-value
Estimates
Rockingham

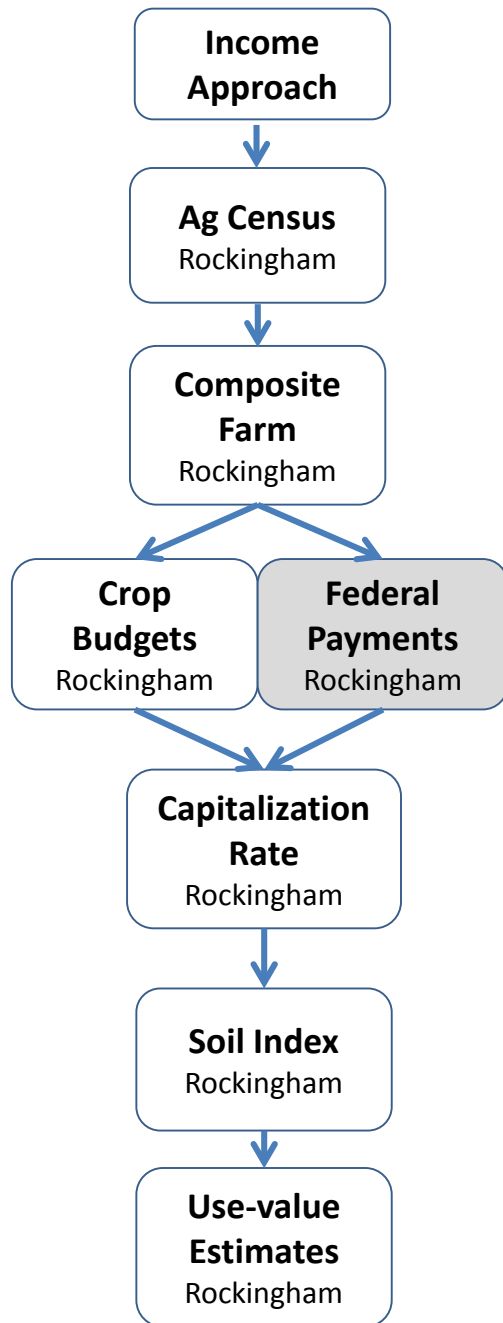
Olympic Averaging

- The Net Return for each CF crop requires 7 - years of crop budgets
- 7-year Olympic Averaging drops the highest and lowest values and then straight averages the remaining 5 values
- Rockingham Corn Grain example TY2010-2016



Rockingham: Corn	Crop Budget
TY2010	\$92.10
TY2011	\$9.49
TY2012	\$224.99
TY2013	\$299.52
TY2014	\$531.38
TY2015	\$204.48
TY2016	\$83.87
Olympic AVG	\$180.99





Federal Payments

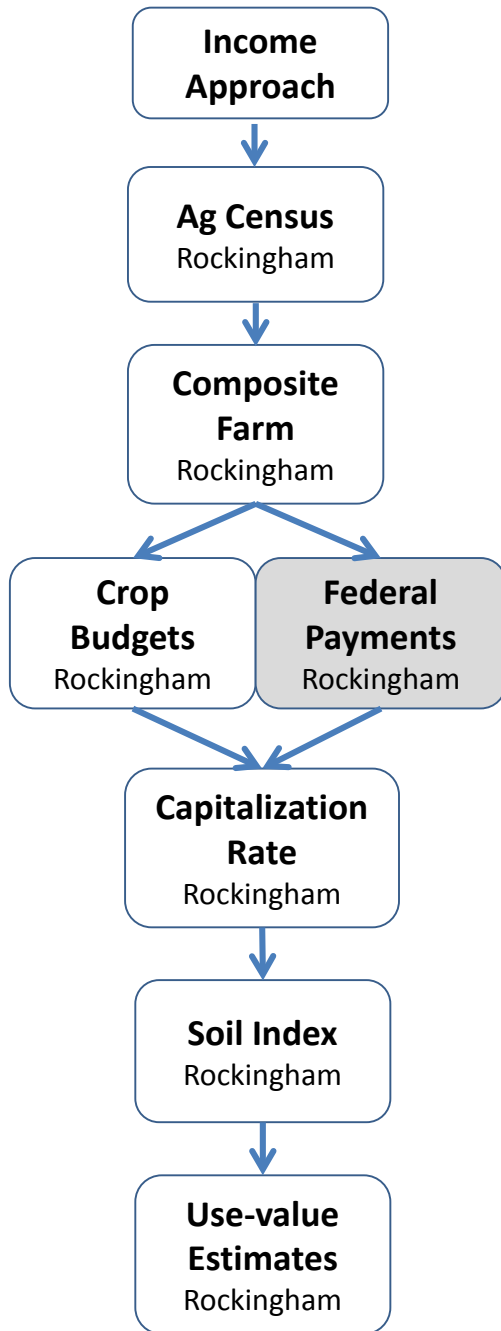
- **USDA-FSA** provides data for program crops by county
- Rockingham receives payments for **corn, wheat, and soybeans**
- Annual payments = Payment/crop acreage
- For example in TY2015, Rockingham received **\$500,966 in federal payments for corn.**

TY2015 $\$500,966.00 / 36,468 \text{ ac} = \$13.74/\text{ac}$

TY2016 $\$35,536.47 / 36,468 \text{ ac} = \$0.97/\text{ac}$

Olympic Averaging

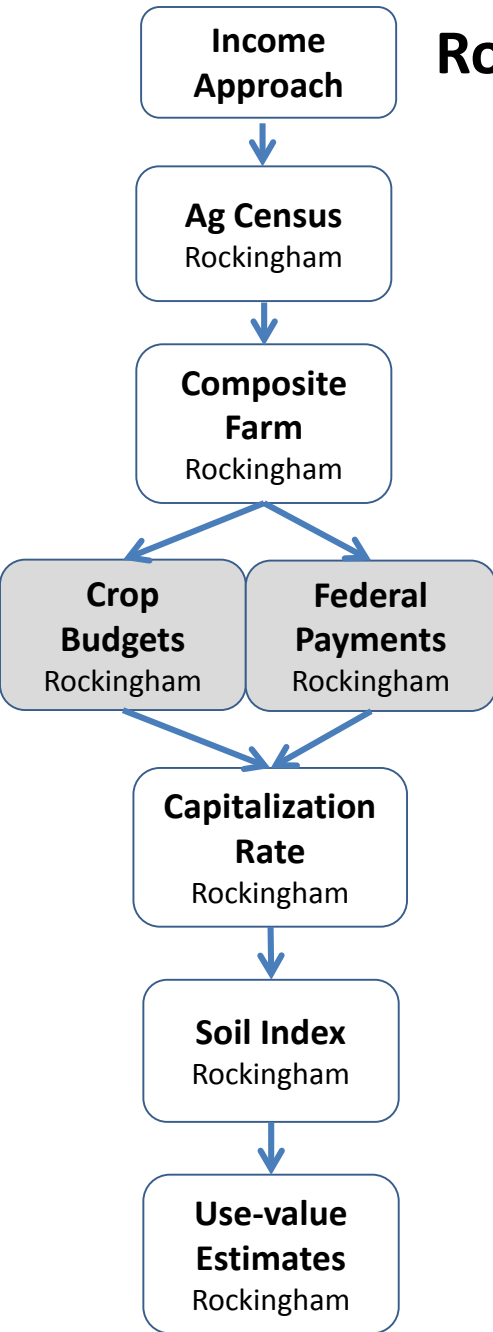
- Rockingham Corn Grain example 2010-2016



Rockingham: Corn	Federal Payment	Corn Budget
TY2010	\$9.26	\$92.10
TY2011	\$7.79	\$9.49
TY2012	\$8.84	\$224.99
TY2013	\$15.62	\$299.52
TY2014	\$15.95	\$531.38
TY2015	\$13.74	\$204.48
TY2016	\$0.97	\$83.87
Olympic AVG	\$11.05	\$180.99

- Corn Net Return for TY2016
 - Oly AVG Fed Pay + Oly AVG Budget
 - $\$11.05 + \$180.99 = \mathbf{\$192.04}$

Rockingham Budgets and Federal Payments TY2010-16

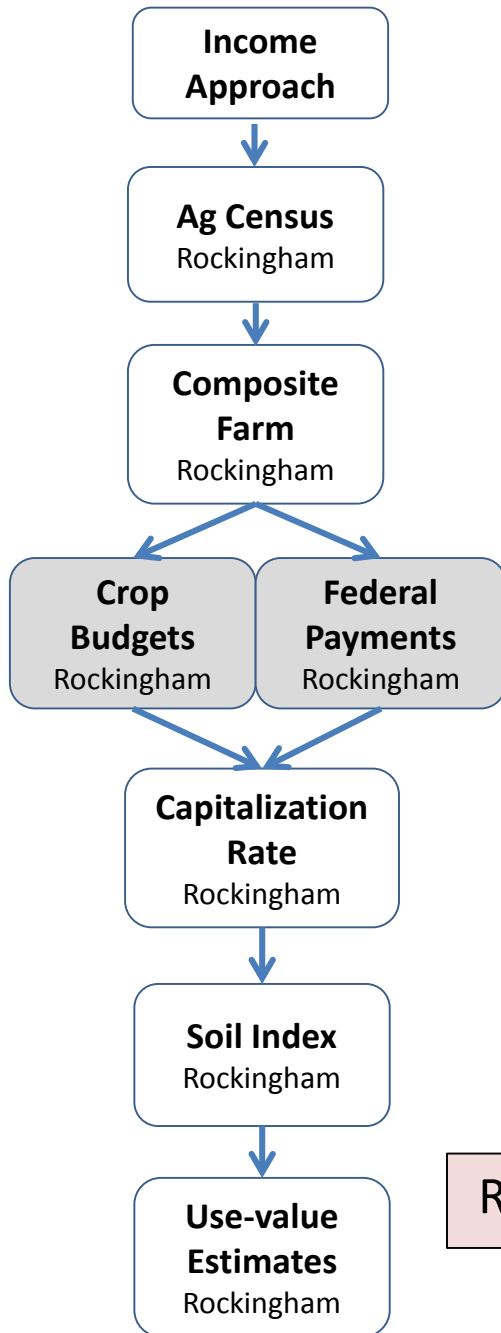


	2016	2015	2014	2013	2012	2011	2010	OLY AVG/ AVG
Corn	\$83.87	\$204.48	\$531.38 H	\$299.52	\$224.99	\$9.49 L	\$92.10	\$180.99
Fed Pay	\$0.97 L	\$13.74	\$15.95 H	\$15.62	\$8.84	\$7.79	\$9.26	\$11.05
							Total	\$192.04
Alfalfa	\$166.07	\$120.51	\$141.11	\$181.46 H	\$0.00	\$0.00 L	\$143.29	\$114.20
Hay	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Wheat	\$69.43	\$20.95	\$167.95	---	---	---	---	\$86.11
Fed Pay	\$0.97 L	\$13.77	\$36.73 H	\$36.02	\$21.97	\$7.79	Total	\$21.12
							Total	\$107.23
Barley	\$0.00 L	\$0.00	\$0.00	\$16.53	\$0.00	\$0.00	\$80.44 H	\$3.31
Fed Pay	\$0.97 L	\$14.68 H	\$11.53	\$10.88	\$6.67	\$7.79	\$6.65	\$8.70
							Total	\$12.01
Soybean	\$225.20	\$333.09	\$450.89 H	\$342.93	\$294.46	\$71.60 L	\$106.10	\$260.35
Fed Pay	\$0.97 L	\$2.05	\$3.38	\$3.53	\$2.38	\$7.79 H	\$2.72	\$2.81
							Total	\$263.17
Pasture	\$0.00 L	\$0.00	\$76.61	\$86.52 H	\$0.00	\$0.00	\$58.33	\$26.99
Final Net Return (Weighted AVG)								\$72.80

Final Net Returns

Rockingham County TY2016

- Composite Farm weighted NR by crop acreage



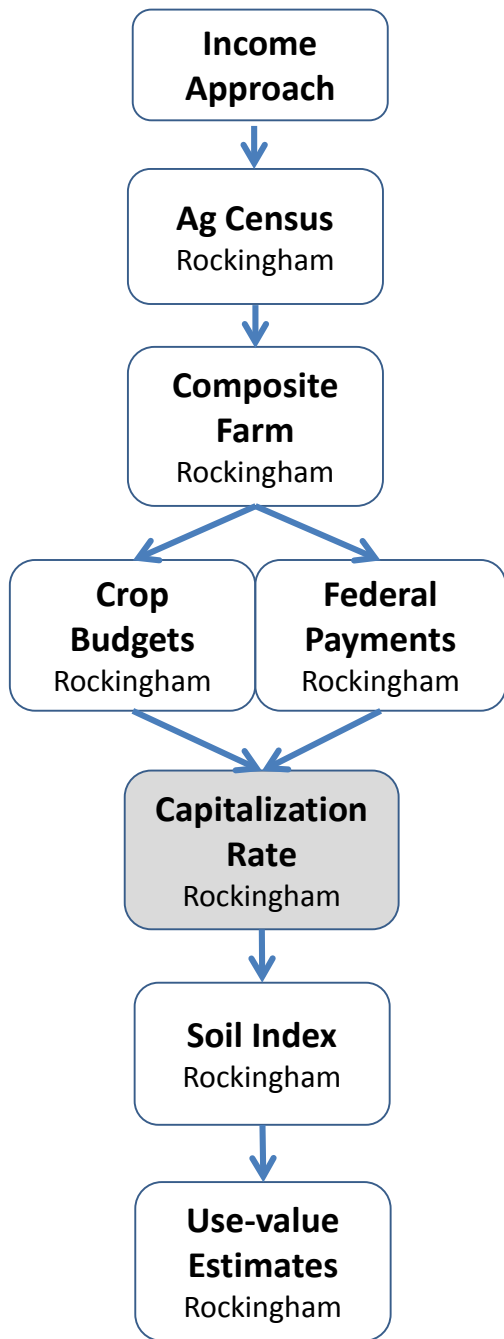
Crop	Estimated Net Return	CF acres	% weight (e.g. corn 19/93=0.206)	Final\$
Corn	\$192.045	19	0.21	\$39.49
Alfalfa	\$114.20	4	0.04	\$5.07
Hay	\$0.00	23	0.25	\$0.00
Wheat	\$107.23	1	0.01	\$1.44
Barley	\$12.01	1	0.01	\$0.11
Soybeans	\$263.17	5	0.06	\$14.61
Pasture	\$26.99	42	0.45	\$12.07
Final Net Return (per acre)		93		\$72.80

Reflects double-cropped barley, rye & wheat (2 CF 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**



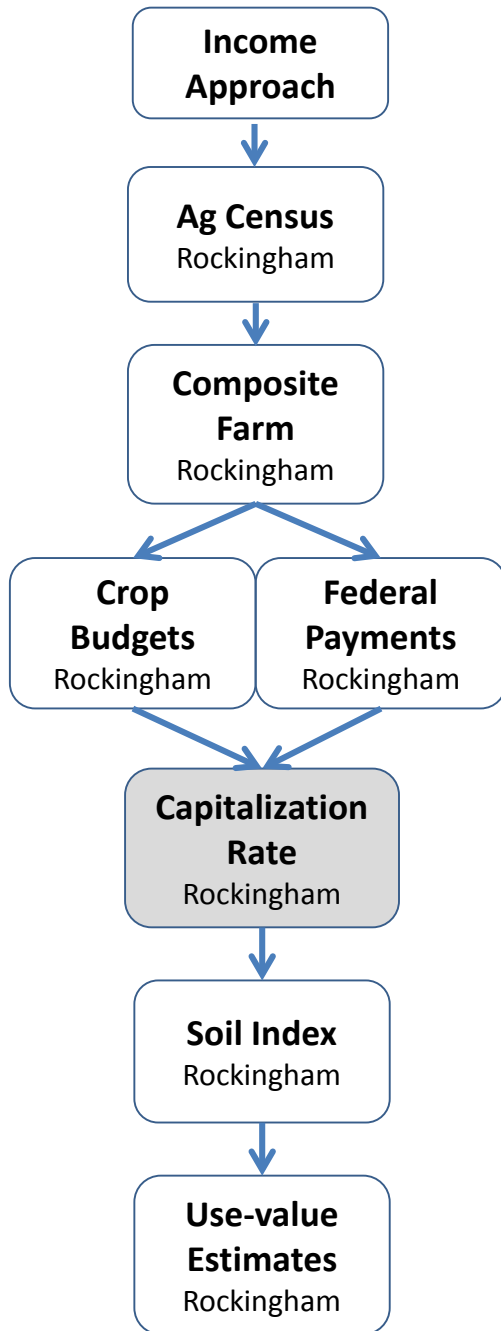
Federal Land Bank long term interest rate - AgFirst (10 year average)

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

Rockingham TY2016

Cap Rate Components

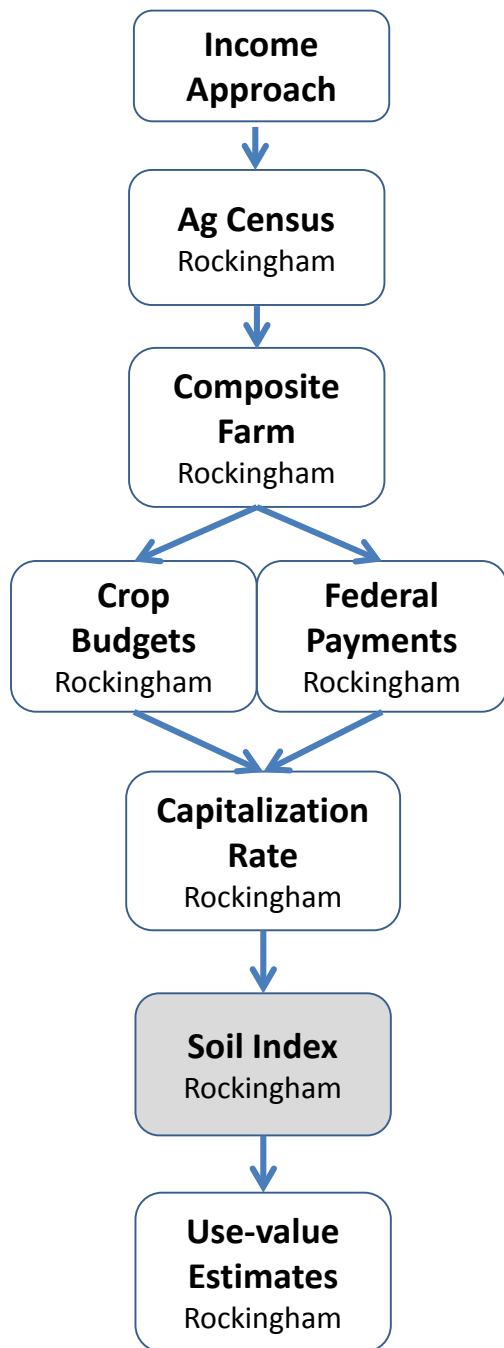
Interest Rate – statewide (10yr Avg)	0.0626
Property Tax – Rockingham (10yr Avg)	0.0053
Total without risk	0.0679
Crop loss due to Flooding 5%	0.0034
Total With risk	0.0712



Use Value Rockingham TY2016

	Use Value =	Net Returns	÷	Cap Rate
Use Value without risk =	\$72.80	÷	0.0679	
Use Value without risk =	\$1,072.87			
Use Value with risk =	\$72.80	÷	0.0712	
Use Value with risk =	\$1,021.78			

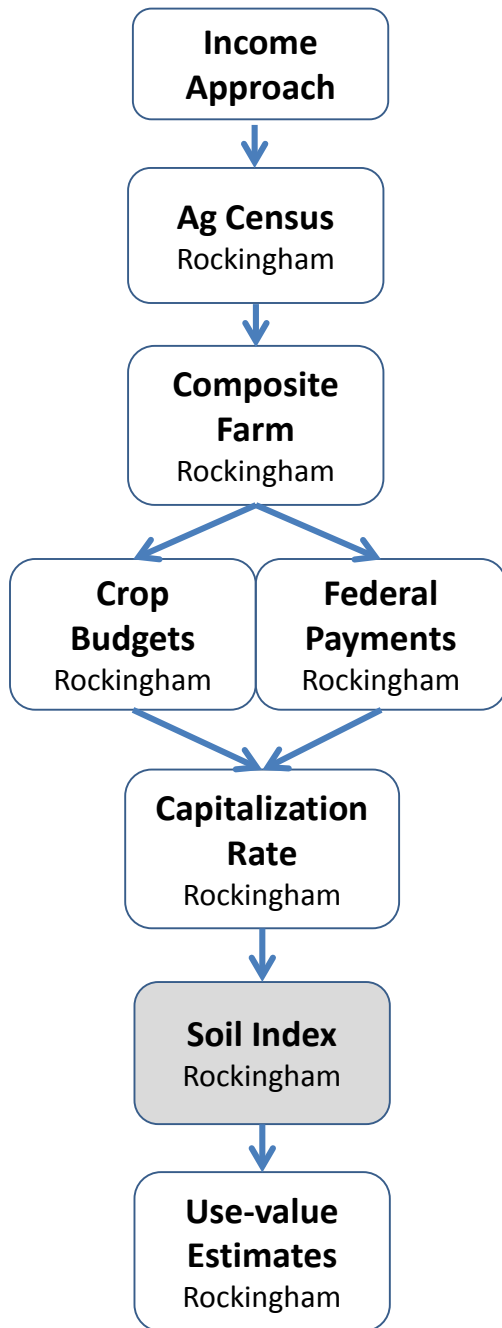
Adjustments for Soil Capabilities



USDA Land Classes for Ag use

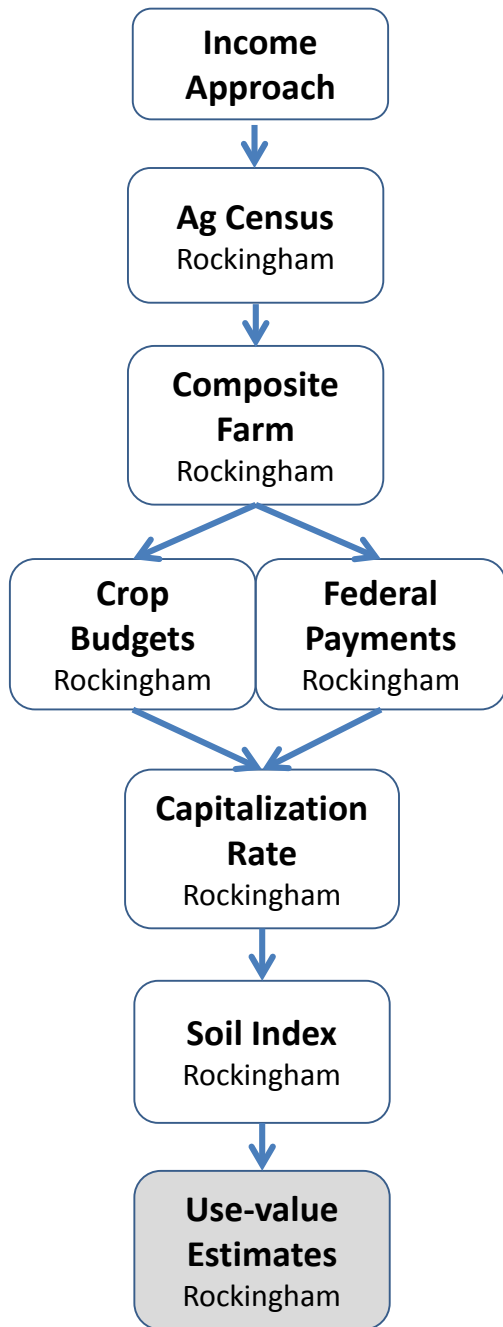
Land Capability Classes	Productivity Index
Class I - Excellent cropland	1.50
Class II - Good cropland	1.35
Class III - Average cropland	1.00
Class IV - Below average cropland – strip cropping only, hay	0.80
Class V – Good Pasture, hay	0.60
Class VI – Pasture	0.50
Class VII – Very limiting - Pasture only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

Indexing for Soil Productivity



Rockingham

Land Class	Reported Acreage	Productivity Index	Weighted Acreage
I	1,020	1.50	1,530.00
II	38,198	1.35	51,567.30
III	22,554	1.00	22,554.00
IV	25,062	0.80	20,049.60
Total	86,834		95,700.90
Soil Index Factor $95,700.90 \div 86,834 = 1.102$			



Adjusting to Class III land

Why?

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

Use Value Rockingham TY2016

	Use Value =	Use Value ÷	Soil index
	Without risk =	\$1,072.87 ÷	1.102
	Without Risk Class III =	\$973.47	
	With risk	\$1,021.78 ÷	1.102
	With Risk Class III =	\$927.11	

Final Estimates Rockingham TY2016

	Cropland				Weighted Cropland AVG	Pastureland			Weighted Pasture land AVG	Weighted Ag. Land AVG	VIII
	I	II	III	IV	<i>I-IV</i>	V	VI	VII	<i>V-VII</i>	<i>I-VII</i>	
w/out Risk	1,460	1,310	970	780	1,050	580	490	290	360	930	100
w/ Risk	1,390	1,250	930	740	1000	560	460	280	340	880	90

- Note: Final estimated values are rounded to the nearest \$10
- The Class III w/out risk estimate of \$973.47 is reported as \$970

Rental Rate Approach Rockingham TY2016

- Starting 2009 NASS published rental rate data annually* for
 - Cropland
 - Irrigated cropland
 - Pasture land
- Rockingham County rental rates for 2014 TY2016 (NASS)
 - Cropland = \$77
 - Pastureland = \$33.5 NASS Northern District Pasture Combined County

*Sometimes biennially based on NASS funding

Rental Rate Use Value Rockingham TY2016

	Rental Rate	÷	Cap Rate	=	Value
Cropland	\$77	÷	0.0679	=	\$1,130
Pasture	\$33.5*	÷	0.0679	=	\$490

*Northern District Pasture combined county

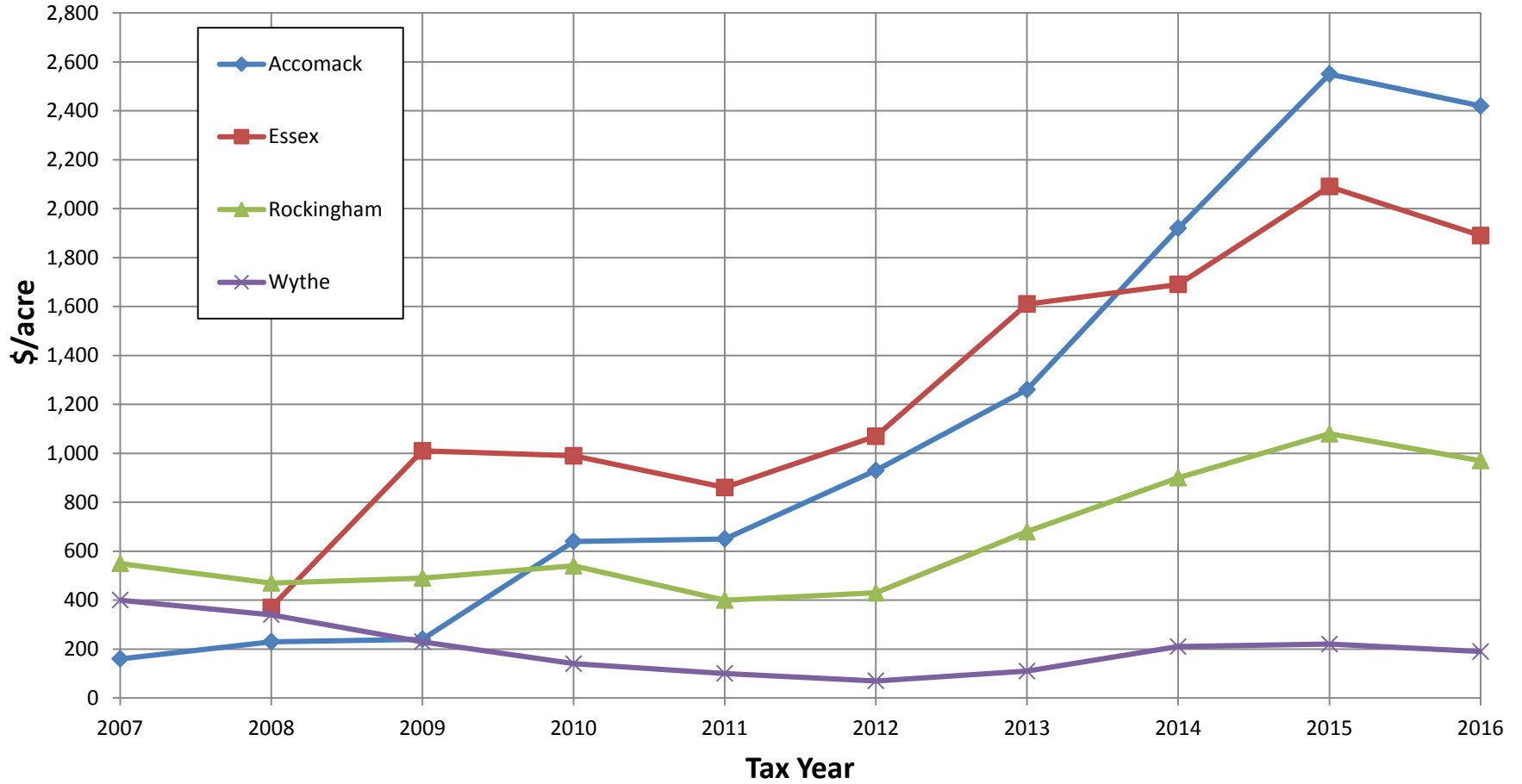
Rental Rate Estimates are published annually
– **not averaged over time**

Income Approach and Rental Rate Approach: Compared

Rockingham	Income Approach (w/out risk)		Rental Rate Approach	
TY2016	Cropland (I-IV AVG)	\$1,050	Cropland	\$1,130
	Pastureland (V-VII AVG)	\$360	Pastureland	\$490

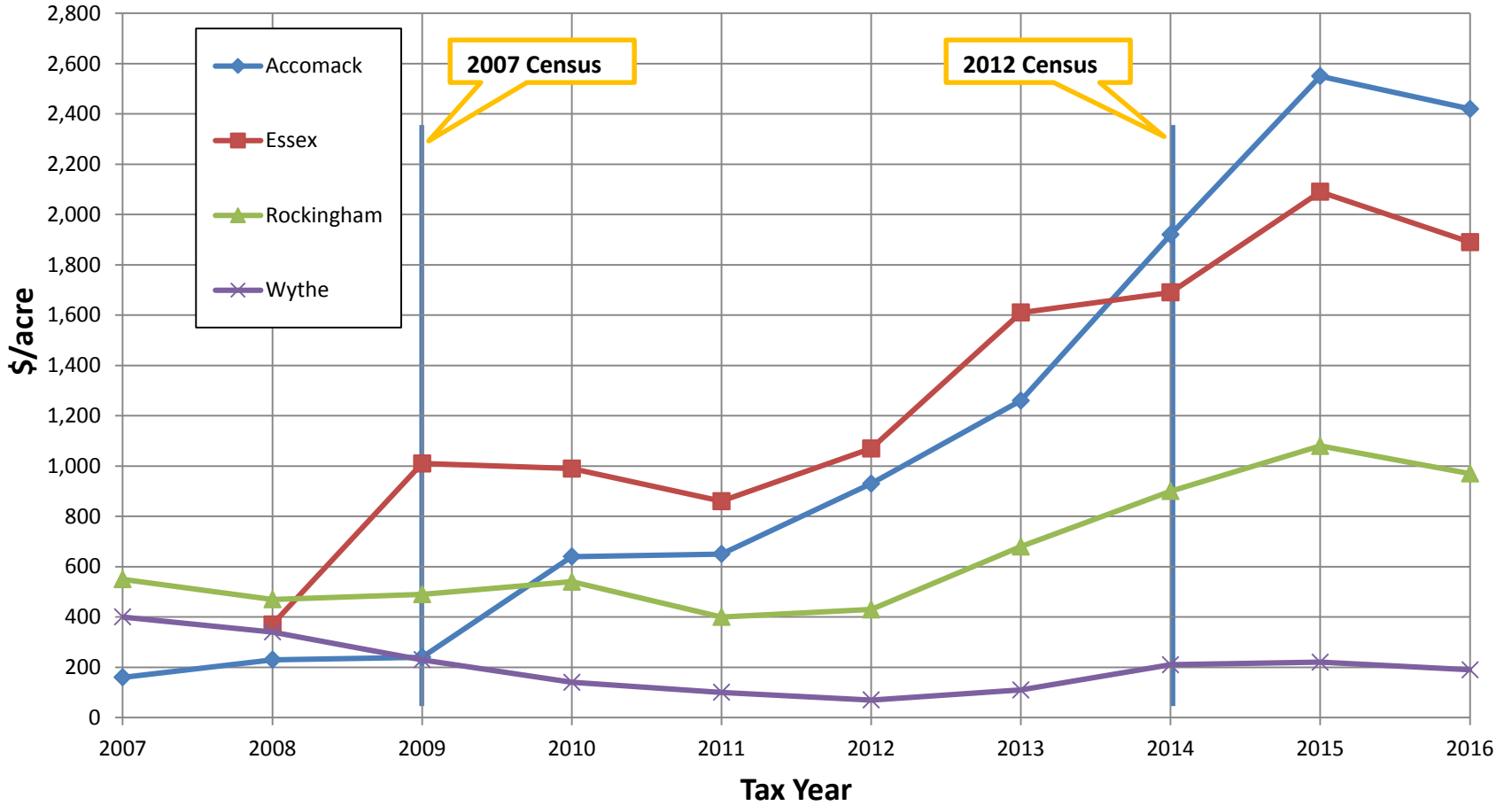
Use-value Estimates: Type III Land (w/out risk)

Selected Jurisdiction Comparison (Tax Years 2007 to 2016)

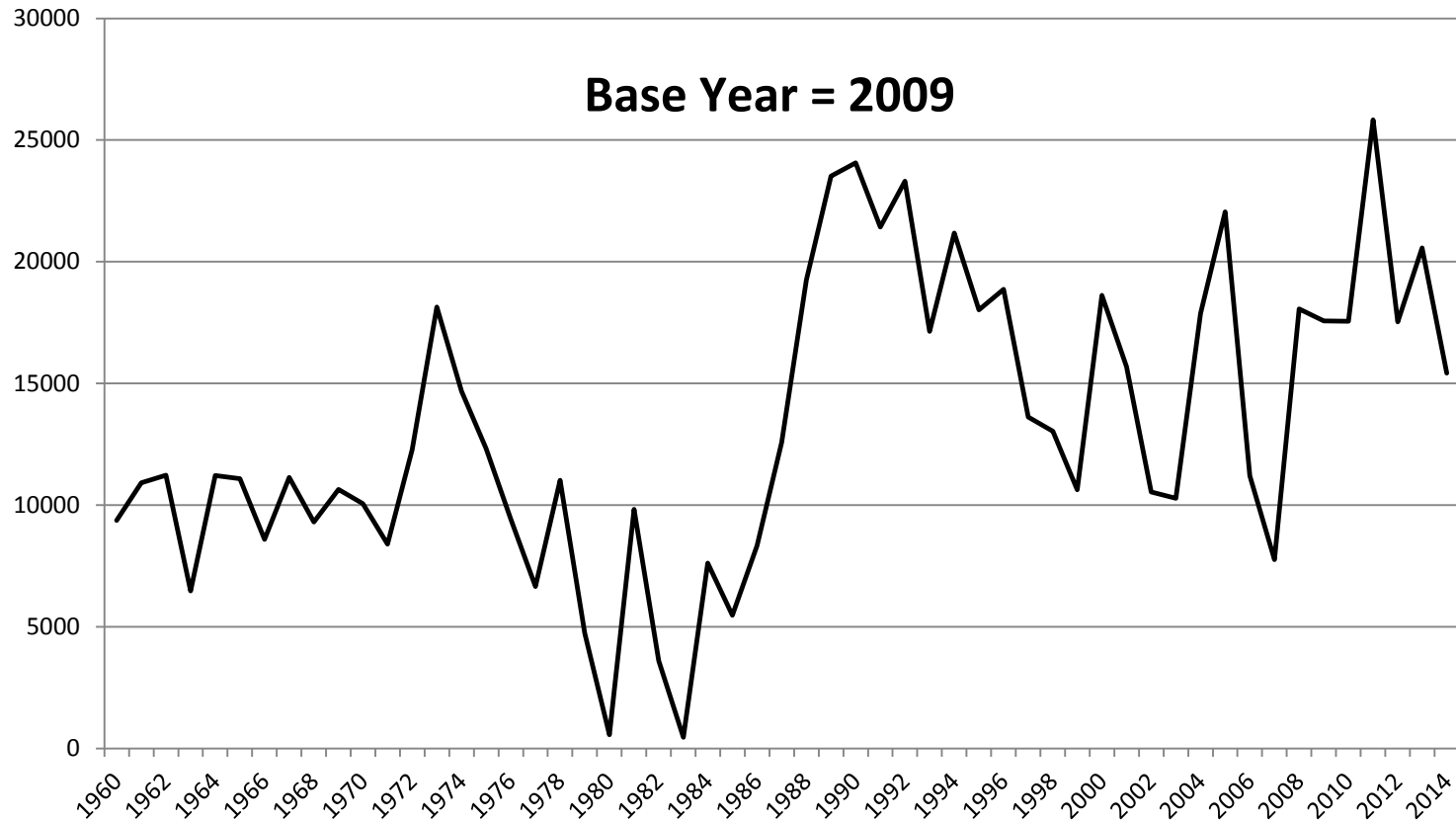


Use-value Estimates: Type III Land (w/out risk)

Selected Jurisdiction Comparison (Tax Years 2007 to 2016)



Real Net Farm Income Virginia \$/farm



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

Thanks!

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Discussion & Questions?

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