

# Virginia's Use-Value Assessment Program

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Buckingham Extension Office

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# Objectives

- Overview
- Use Value Assessment Program
- Ag and Forestal districts
- Two approaches to values
  - Income Approach
  - Rental Rate Approach
- Estimated changes in tax rates for Buckingham with use-value assessment

# Why?

- Use-value assessment is found in some form in all 50 states
- Preservation of this land use for producing food, fiber, and timber
- VA 1974: Costs/Benefits
  - **Costs – easy to quantify**
    - tax relief to land owners in order to *preserve agricultural, horticulture, forestry, and open space*
  - **Benefits – hard to quantify**
    - To encourage the *preservation and proper use of real estate* to produce safe supply of food, fiber...
    - To *conserve natural resources, protect adequate and safe water supplies...*
    - To *preserve scenic natural beauty and open spaces...*
    - To *promote proper land-use planning and the orderly development...*

# *Virginia's Use-Value Assessment Program*

## **Organization/Stipulations**

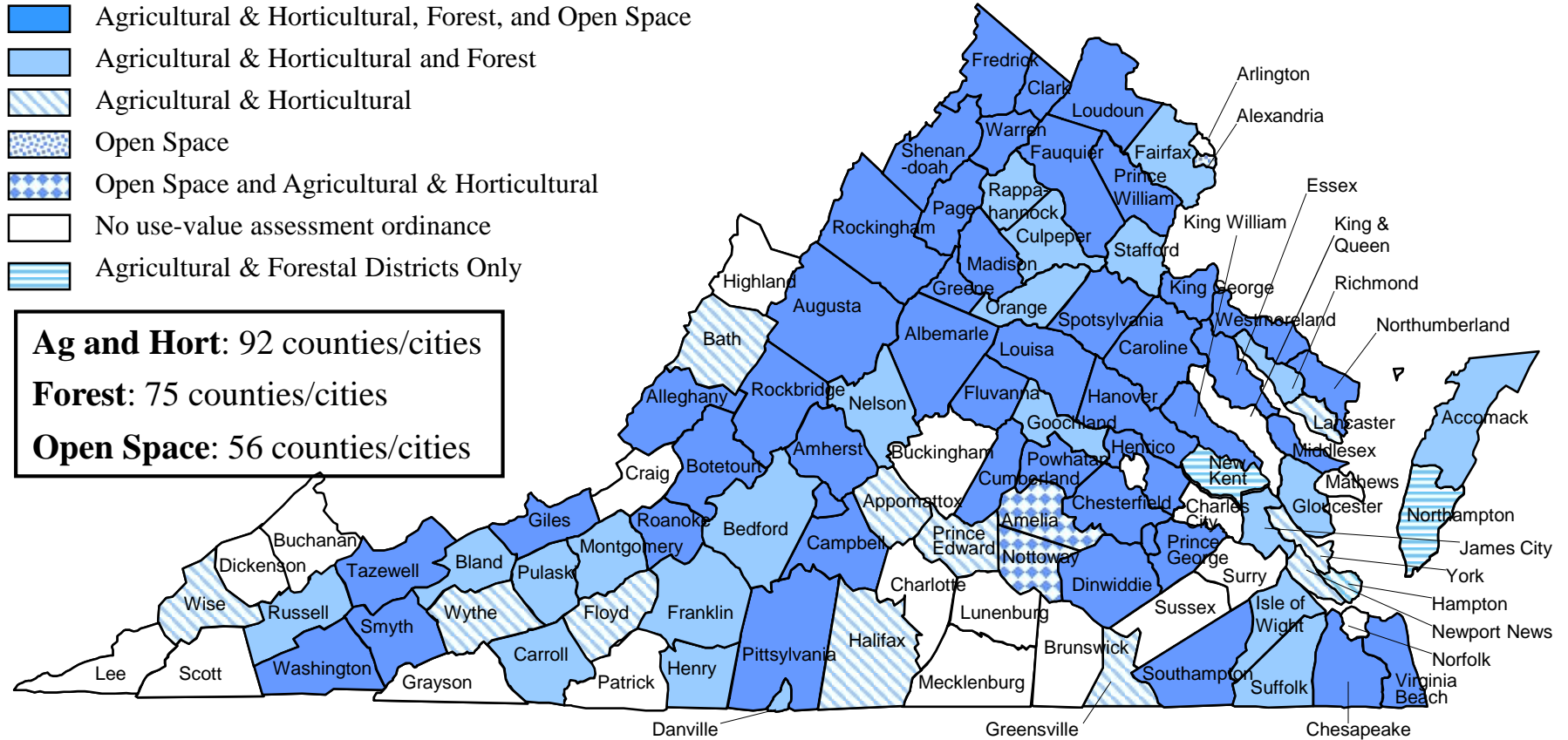
- State Land Evaluation and Advisory Council (SLEAC)
  - Oversees process to provide annual use-value estimates for each jurisdiction in the program.
- Responsibility for final value of assessment resides with the local assessing officer
- All buildings and improvements (dwellings, barns, greenhouses,...) “on the land” are assessed and taxed at fair market value

# *Virginia's Use-Value Assessment Program*

Land must meet the following requirements in order to be considered for use-value assessment:

- **Agriculture and horticulture** lands: **5 acres minimum** and be a *bona fide* agricultural or horticultural operation.
  - **Forest** land: **20 acres minimum** of productive and nonproductive forest land with certification that the real estate is being used in a planned program of timber management and soil conservation practices.
  - **Open space** land: **5 acres minimum** lands, other than agricultural, horticultural, or forest lands, are used or preserved for park or recreational purposes, conservation, flood ways, wetlands, riparian buffers, historic or scenic purposes, community shaping purposes, or for the public interest. (Code of Virginia § 58.1-3230 -3233).
- Owners must apply to participate
  - No longer meet requirements, rollback taxes and interest (5-years)

# TY2018: Counties/Cities\* with use-value assessment ordinances (Agricultural & Horticultural, Forest, and Open Space)



\* 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.

# Ag & Forestal Districts

- Legislation was passed in 1977 then simplified in 2011
- County needs to allow district(s)
  - Establish advisory committee can be Planning Commission if 4 members are farmers/forest owners
- Then owners apply to county to establish a district
- Hold public hearing
- Need a core of 200 acres
- Additions or removal of land requires committee approval

# **Ag & Forestal Districts** (continued)

- Qualifies for deferred taxation – use-value
- Length 4-10 years
- Flexible definitions of eligible land
- Withdrawal - rollback taxes & local ordinance
- Landowner benefits
  - No unreasonably restriction on Ag or forestry
  - No assessments or special tax levies



# Virginia's Use-value Assessment Program

Assessed Values \$/Acre

*Two Approaches*

Capitalized:

1. Net income (*Income Approach*)
2. Rental rates (*Rental Rate Approach*)

# *Income Approach*

## **The Composite Farm**

- The county's composite farm is a *typical farm* within the county
- Crop acreage from latest Census of Agriculture
- Only crops with 1 or more acres in the composite farm are considered

$$\text{Acres of crop} \div \text{number of farms} \geq 1 \text{ acre}$$

- Net returns/profits are based on the totals for the jurisdiction's composite farm – VCE budgets
- Yields value of an acre of land as a “Farm” That is, “I can pay \$/acre for land & pay for it farming”

# Buckingham TY2018

## Crop Acreage, Composite Farm (CF), & Net Returns

2012 Ag Census Buckingham	
Crop	Acres <sup>1</sup>
Alfalfa	680
Barley	(D)
Corn	742
Cotton	0
Hay	16,472
Pasture	28,056
Peanuts	0
Potatoes	0
Pumpkins	0
Snap Beans	(Z)
Soybeans	1,210
Sweet Corn	4
Tobacco	0
Tomatoes	1
Watermelons	(Z)
Wheat	581
<b>Double-cropped</b>	<b>(-) 581</b>
<b>Total Cropland Harvested</b>	<b>47,165</b>

391 farms <sup>1</sup>
CF Acres <sup>2</sup>
2
2
42
72
3
1
(-) 1
<b>121</b>

Net Returns
\$81.75
\$153.65
\$0.00
\$8.16
\$167.22
\$74.99
<b>\$13.66</b>

<sup>1</sup> 2012 Ag Census

<sup>2</sup> CF acers = crop acers/#farms

# *Buckingham County TY2018 Capitalization*

$$Use\ value = \frac{Net\ Return}{Capitalization\ Rate}$$

**Net Use Value:** **\$13.66**

## **Capitalization Rates:**

- a) Interest rate component*     *0.0584* (Long Term Rate, from AgFirst)
- b) Property tax component*     *0.0043* (Effective Tax Rate; Department of Taxation)
- c) Cap Rate*     *0.0627* (*a + b*)

**Unadjusted Use Values:**     **\$217.86** (without risk)

# *Income Approach*

## **Buckingham County TY2018**

**Table 1a: Estimated use-values of agricultural land by jurisdiction.**

**Estimates apply to tax-year 2018**

		<i>Cropland</i>					<i>Pastureland</i>						
		I	II	III	IV	<b>AVG I-IV</b>	V	VI	VII	<b>AVG V-VII</b>	<b>AVG I-VII</b>	VIII	
<b>Buckingham</b>	<i>W/Out Risk</i>	300	270	200	160	<b>220</b>	120	100	60	<b>100</b>	<b>220</b>	20	
	<i>W/Risk</i>	290	260	190	150	<b>210</b>	110	100	60	<b>100</b>	<b>210</b>	20	

# Rental Rate Approach

$$\text{Use value (RentalRate)} = \frac{\text{RentalRate}}{\text{Capitalization Rate}}$$

## Buckingham County TY2018

Cap Rate = 0.0627 (10 yr AVG Long Term Rate + 10 yr AVG property tax)

Rental Rate (\$/acre) = \$18 (cropland)

$$\begin{aligned} \text{Use value (Rental Rate)} &= 18/0.0627 \\ &= \mathbf{\$287} \text{ (cropland)} \end{aligned}$$

# Rental Rates TY2018

**Table 1:** 2016 cropland and pastureland values based on NASS<sup>1</sup>capitalized rental rates

Jurisdictions Counties	Capitalization Rate <sup>2</sup>	----- Cropland -----		Irrigated cropland		----- Pastureland ----- -	
		Rental Rate \$/acre <sup>1</sup>	Value \$/acre <sup>3</sup>	Rental Rate \$/acre <sup>1</sup>	Value \$/acre <sup>3</sup>	Rental Rate \$/acre <sup>1</sup>	Value \$/acre <sup>3</sup>
Accomack	0.0628	84	1,337	95	1,512	--	--
Albemarle	0.0655	24	359	--	--	16.5	252
Alleghany	0.0647	26.5 <sup>wc</sup>	410	--	--	20.5 <sup>wp</sup>	317
Amelia	0.0622	33	531	--	--	25	402
Amherst	0.0634	24	378	--	--	15.5	244
Appomattox	0.0636	24	378	--	--	16	252
Augusta	0.0632	56	887	82.5	1,306	20.5 <sup>wp</sup>	325
Bath	0.0627	24	375	--	--	13	207
Bedford	0.0632	21	332	--	--	15.5	245
Bland	0.0641	36	562	--	--	19	297
Botetourt	0.0648	32	494	--	--	17.5	270
<b>Buckingham</b>	<b>0.0627</b>	<b>18</b>	<b>287</b>	<b>--</b>	<b>--</b>	<b>17.5</b>	<b>279</b>
Campbell	0.0631	23	357	--	--	15.5	246
Caroline	0.0649	58	894	--	--	24	370
Carroll	0.0644	37	575	--	--	27.5	427
Chesapeake	0.0685	71	1,037	--	--	--	--
Chesterfield	0.0674	50 <sup>cc</sup>	741	--	--	24.5 <sup>cp</sup>	363

# Estimated Change in Tax Rates

## *Buckingham (2015 Data)*

2015 total FMV of real property Buckingham	% of Total FMV deferred	Total Taxable FMV	Deferred Value	Nominal tax rate \$/100	\$/100 increase in tax rate to keep levy constant	Estimated tax on \$200,000 of real estate	Estimated additional tax on \$200,000 of real estate (constant levy)
\$1,410,886,300	0%	\$1,410,886,300	\$0	0.5000	0	\$1,000	\$0
	1%	\$1,396,777,437	\$14,108,863	0.5051	0.0051	\$1,010	\$10
	3%	\$1,368,559,711	\$42,326,589	0.5155	0.0155	\$1,031	\$31
	5%	\$1,340,341,985	\$70,544,315	0.5263	0.0263	\$1,053	\$53
	7%	\$1,312,124,259	\$98,762,041	0.5376	0.0376	\$1,075	\$75
	9%	\$1,283,906,533	\$126,979,767	0.5495	0.0495	\$1,099	\$99
	10%	\$1,269,797,670	\$141,088,630	0.5556	0.0556	\$1,111	\$111

2015 levy from real property was \$7,054,432



# Surrounding Counties Deferred Values?

<b>County</b>	<b>Deferred Value\$<sup>2</sup></b> (Total FMV minus Total Taxable FMV)	<b>% of Deferred Value of Total FMV</b>	<b>Reporting Year</b>
Albemarle	\$1,958,041,100	11.03%	2015
Amelia <sup>1</sup>	\$76,587	6.76%	2015
Buckingham	None	0%	2015
Cumberland	\$84,370,980	10.06%	2015
Fluvanna	\$303,162,200	11.30%	2015
Nelson	\$538,352,750	17.93%	2015
Nottoway	\$24,901,100	2.73%	2015
Prince Edward <sup>1</sup>	\$14,102,500	0.95%	2015

<sup>1</sup> Deferred value is attributable to **only** Agri/Hort Use-Value Program. Others listed include forest use-value in their deferred values.

<sup>2</sup> Deferred Values are Virginia Department of Taxation (Annual Reports – Fiscal Year 2016)

<https://www.tax.virginia.gov/annual-reports>

# Program Administration

- Additional FTE's in COR office?
- Timber management plans
- Application process
  - Forms
  - Proof
  - Fees per parcel
  - Validation cycle
- Averages vs. soil class (I-VIII) requires GIS
- Assessment cycle

# Useful Reports

- *Use-Value Website* <http://usevalue.agecon.vt.edu/>
- The following reports are available on the website at. See publications and Presentations
  - Why Use-Value Estimates Differ: Comparing Halifax and Pittsylvania Counties (2008)
  - Use-Value Taxation in Virginia: A Brief Discussion (2006)
  - Results of the 2003 Agricultural and Horticultural Use-Value Taxation Program Survey (2004)
  - Measuring the Impact of Use-Value Taxation for Northampton County, Virginia (2004)

*Thanks!*  
*&*  
*Questions?*

*usevalue.agecon.vt.edu*

# **SOCIO-ECONOMIC IMPACTS OF CONSERVED LAND ON VIRGINIA'S EASTERN SHORE**

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