

Agricultural Land Assessment

Valuation Procedure
For Property Tax Purposes

Basic Formula

$$\frac{\text{Average Annual Net Cash Rental}}{\text{Capitalization Rate}} = \text{Land Full Cash Value}$$

Valuation Statute

§ 42-13101. Valuation of agricultural land

- A. Land that is used for agricultural purposes shall be valued using only the income approach to value without any allowance for urban or market influences.
- B. The ~~income~~ value of agricultural property shall be determined using the capitalized average annual net cash rental of the property. For purposes of this subsection the average annual net cash rental of the property:
 - 1. Is the average of the annual net cash rental, excluding real estate and sales taxes, determined through an analysis of typical arm's length rental agreements collected for a five year period before the year for which the valuation is being determined for comparable agricultural land used for agricultural purposes and located in the vicinity, if practicable, of the property being valued.
 - 2. Shall be capitalized at a rate 1.5 percentage points higher than the average long-term annual effective interest rate for all new farm credit services loans for the five year period before the year for which the valuation is being determined.

Capitalization Rate Development

CAPITALIZATION RATE FOR TAX YEAR 2016

<u>FISCAL YEAR</u>	<u>ENDING JUNE 30</u>		<u>EFFECTIVE ANNUAL RATE</u>
2010	(34 Loans)		3.63%
2011	(19 Loans)		4.12%
2012	(46 Loans)		3.80%
2013	(43 Loans)		3.49%
2014	(51 Loans)		3.49%
<hr/>			
			18.53%
		DIVIDE BY 5 =	3.71%
		ADD BY STATUTE +	<u>1.50%</u>
		CAPITALIZATION RATE =	5.21%

Statute for Reporting Lease Data

§ 42-13102. Statement of agricultural lease

- A. Each lease of agricultural land or agreement to rent agricultural land for a period of more than ninety days shall be abstracted in a written statement in a form approved by the department containing at least the following information:
1. The name and address of the lessor and lessee.
 2. The complete legal description of the property.
 3. The situs address, if any, of the property.
 4. The cash or cash equivalent of the lease payments.
 5. The conditions of the lease, including the relationship, if any, of the parties.
 6. The lessor expenses associated with the property excluding land cost, interest on land cost, income tax depreciation and capital improvements.

Lease Data Statute (cont)

- B. The county assessor shall not use the information listed pursuant to chapter 15, article 2 of this title to supplement the information obtained pursuant to this section.
- C. The owner or lessor or an agent of the owner or lessor shall file the statement with the county assessor for use by the assessor for the valuation process under section 42-13101. If the ownership or the lessor or lessee of the property changes or if there is a change in the lease as abstracted pursuant to subsection A of this section, a new statement shall be filed with the assessor within three months after the change or before January 31, whichever is later.
- D. The assessor shall transmit a copy of the statement to the department.

Lease Abstract Form – Page 1

AGRICULTURAL LEASE ABSTRACT - Page 1
This Document is Not Open to Public Inspection

File Date: _____ County: _____ Key Parcel: _____
* First parcel listed on Page 2

LESSOR: NAME & ADDRESS - PLEASE PRINT	TENANT: NAME & ADDRESS - PLEASE PRINT
NAME _____	NAME _____
ADDRESS _____	ADDRESS _____
CITY _____ STATE _____ ZIP _____ TELEPHONE _____	CITY _____ STATE _____ ZIP _____ TELEPHONE _____

Are the Lessor and the Tenant related? Yes No
 If Yes, state relationship: _____
(spouses, family members, related business entities, etc)

LEASE TERM: START DATE: _____ END DATE: _____

LAND FOR THIS LEASE: Summary of Land Listed on Page 2 and any Continuation Pages
 Property Location: _____ (Address or Twp & Range)
 Acres Leased to Tenant: _____ Land Use: _____ (see codes)
 Carrying Capacity -- Annual AUM's: _____ (applicable for grazing land - see instructions)

Annual Rent	\$ _____	if rent is paid in a form other than cash, report the approx cash equivalent. Provide explanation in the box below.
Rent Per Acre	\$ _____	
For Grazing Land: Rent Per AUM	\$ _____	

LEASE CONDITIONS: 1) Is the lease part of a sale/leaseback transaction? Yes No

2) In addition to the rent, does the tenant pay the following items, either directly or by reimbursing the lessor?

- Property Tax Yes No
- Sales Tax (on the rent) Yes No
- Irrigation District Assessment Yes No

3) Other Conditions (rent increases, option to renew, residence included in the rent, etc) _____

LESSOR EXPENSES: Report anticipated annual costs paid by the lessor that are directly related to the production of the rent.
These may include items such as property tax, rental sales tax, irrigation district assessment, grazing fees plus surcharge for government land subleased to the tenant, property management, maintenance of wells and irrigation ditches, etc. Do not report items paid by the tenant. Do not report land cost, interest on land cost, cost of capital improvements, or income tax depreciation.

Expense Item	Amount	Expense Item	Amount
	\$ _____		\$ _____
	\$ _____		\$ _____
	\$ _____		\$ _____

I hereby affirm that this is a true and complete statement, to the best of my knowledge, of the property that is owned, claimed by, or in the possession or control of the undersigned.

Signature of Lessor or Representative _____ Date _____ Print Name, and Title (if applicable) _____
(for tax consultants only) Include a current Agency Authorization (82130AA) Email address _____

DOR 82917 (04/2013)

Lease Abstract Form – Page 2

AGRICULTURAL LEASE ABSTRACT - Page 2
This Document is Not Open to Public Inspection

File Date: _____ County: _____

ASSESSOR'S USE ONLY
 Agricultural Unit Number: _____

LESSOR: NAME - PLEASE PRINT	TENANT: NAME - PLEASE PRINT
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Listing of Land for this Lease <small>Use Continuation Page(s) (DOR 82917-C) if necessary</small>	Totals: Parts A, B & C (combined)
	Total Acres Leased to Tenant _____
	Carrying Capacity -- Annual AUM's _____

See instructions for carrying capacity pertaining to grazing land

A. Deeded Land Owned by Lessor

Item #	Land Parcels		Land Use (see codes)	Acres Leased to Tenant	***** ASSESSOR'S USE ONLY *****		
	Assessor's Parcel ID Number				PUC	Parcel Size	Comment
1							
2							
3							
4							
5							
6							
7							

B. Deeded Land Leased to Lessor, Subleased to Tenant

Item #	Land Parcels		County	Owner's Name	Land Use (see codes)	Acres Leased to Tenant
	Assessor's Parcel ID Number					
1						
2						
3						

C. Government Land Leased to Lessor, Subleased to Tenant

Item #	Government Agency e.g. BLM, AZ State Land Dept	Lease ID e.g. Lease Number, Permit Number, Allotment Number / Name	Carrying Capacity	
			Annual AUM's	Acres Leased to Tenant
1				
2				
3				
4				

Tenant's Agricultural Operation (overall) - General Information	To Be Completed By Lessor
Farm or Ranch Name: _____ Total Acreage: _____ <small>(approximately)</small>	
<u>Principal Agricultural Activity:</u>	
<input type="checkbox"/> Raising Livestock -- Approximate # of Animal Units: _____ Type of Livestock: _____ <small>(see Animal Unit definition)</small>	
<input type="checkbox"/> Raising Crops -- Type of Crops: _____	
<input type="checkbox"/> Other -- Describe: _____	

DOR 82917 (04/2013)

Reporting Rent & Expenses

Acres Leased to Tenant: _____ Land Use: _____ (see codes)

Carrying Capacity -- Annual AUM's: _____ (applicable for grazing land - see instructions)

Annual Rent	\$ _____	If rent is paid in a form other than cash, report the approx cash equivalent. Provide explanation in the box below.
Rent Per Acre	\$ _____	
For Grazing Land: Rent Per AUM	\$ _____	

LEASE CONDITIONS: 1) Is the lease part of a sale/leaseback transaction? Yes No

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- Irrigation District Assessment Yes No

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LESSOR EXPENSES: Report anticipated annual costs paid by the lessor that are directly related to the production of the rent.

These may include items such as property tax, rental sales tax, irrigation district assessment, grazing fees plus surcharge for government land subleased to the tenant, property management, maintenance of wells and irrigation ditches, etc. Do not report items paid by the tenant. Do not report land cost, interest on land cost, cost of capital improvements, or income tax depreciation.

Expense Item	Amount	Expense Item	Amount
	\$ _____		\$ _____
	\$ _____		\$ _____
	\$ _____		\$ _____

Simulated Data Analysis: Crop Land Lease #10

Leased Property:	340 Acres	
Annual Gross Rent		\$40,000
Annual Lessor Expenses:		
Property Tax	\$6,800	
Irrigation District Assessment	\$3,900	
Other	<u>\$2,000</u>	
Total Lessor Expenses	\$12,700	<u>\$12,700</u>
Annual Net Cash Rental		\$27,300
	Divide by: Leased Acres	<u>÷ 340</u>
Annual Net Cash Rental <u>Per Acre</u>		\$80.29

Simulated 5-Year Summary Table: Crop Land

Lease #	Annual Net Cash Rental <u>per Acre</u>			
1		\$55.93		\$55.93
2		\$56.82		\$56.82
3		\$65.19		\$65.19
4		\$65.50		\$65.50
5		\$65.72		\$65.72
6		\$66.50		\$66.50
7		\$68.24		\$68.24
8		\$73.76		\$73.76
9		\$77.00		\$77.00
10		\$80.29		\$80.29
11		\$84.55		\$84.55
12		\$90.82		\$90.82
13		\$93.05		\$93.05
14		\$94.90		\$94.90
15		\$98.90		\$98.90
16		\$101.08		\$101.08
17		\$104.46		\$104.46
	MEDIAN	\$77.00		
			Total	\$1,342.71
			Divide by	17
			MEAN	\$78.98

Apply Formula to Calculate Value

Tax Year 2016 <u>Crop Land</u> Valuation		
5-Year Average Annual Net Cash Rental	\$77.00	Per Acre
Capitalization Rate: 5.21%	<u>÷ 0.0521</u>	
Land Full Cash Value	\$1,478	<u>Per Acre</u>

Simulated Data Analysis: Natural Grazing Lease #6

Leased Property	Acres	Annual AU Capacity
Deeded Land	5,200	100
State Trust Land (sublease)	<u>12,000</u>	<u>200</u>
Total	17,200	300
Annual Gross Rent		\$28,800
Annual Lessor Expenses:		
Property Tax	\$1,500	
State Land - Grazing Fee	\$6,240	
State Land - Sublease Surcharge	\$1,560	
Other	<u>\$2,700</u>	
Total Lessor Expenses	\$12,000	<u>\$12,000</u>
Annual Net Cash Rental		\$16,800
	Divide by: Annual Capacity (AU's)	<u>÷ 300</u>
Annual Net Cash Rental Per Animal Unit		\$56.00

Simulated Data Analysis: Natural Grazing Lease #11

Leased Property:		960 Acres	
<u>Carrying Capacity:</u>		<u>Not Reported</u>	
Township & Range Location:		T8S R18E	
Wright Table Annual Capacity Rate:		8 Animal Units Per Section	
Carrying Capacity Estimate for the Leased Property			
Leased Property (Acres)		960	
Divide by:		<u>÷ 640</u>	Acres Per Section
Leased Property (Sections)		1.50	
Multiply by: Annual Capacity Rate		<u>× 8</u>	AU's Per Section
<u>Estimated Annual Capacity</u>		12	Animal Units
Annual Gross Rent			\$1,296
Annual Lessor Expenses:			
Property Tax		\$276	
Other		<u>\$150</u>	
Total Lessor Expenses		\$426	<u>\$426</u>
Annual Net Cash Rental			\$870
Divide by: Annual Capacity (AU's)			<u>÷ 12</u>
Annual Net Cash Rental Per Animal Unit			\$72.50



Simulated 5-Year Summary Table: Natural Grazing Land

Lease #	Annual Net Cash Rental per Animal Unit			
1		\$42.50		\$42.50
2		\$44.20		\$44.20
3		\$45.19		\$45.19
4		\$49.50		\$49.50
5		\$53.72		\$53.72
6		\$56.00		\$56.00
7		\$59.50		\$59.50
8		\$60.50		\$60.50
9		\$65.04		\$65.04
10		\$71.90		\$71.90
11		\$72.50		\$72.50
12		\$74.90		\$74.90
13		\$81.08		\$81.08
14		\$84.46		\$84.46
	MEDIAN	\$60.00		
			Total	\$860.99
			Divide by	14
			MEAN	\$61.50

Apply Formula to Calculate Value

Tax Year 2016 <u>Natural Grazing</u> Land Valuation		
5-Year Average Annual Net Cash Rental	\$60.00	Per Animal Unit
Capitalization Rate: 5.21%	<u>÷ 0.0521</u>	
Land Full Cash Value	\$1,152	<u>Per Animal Unit</u>

Apply Value According to Carrying Capacity

Annual Capacity Rate:	4	AU's per 640-acre Section	
Land FCV per Animal Unit:	<u>x \$1,152</u>	←	
Land FCV per Section:	\$4,608		
	<u>÷ 640</u>	Acres per Section	
Land FCV per Acre:	\$7.20		
Annual Capacity Rate:	<u>÷ 4</u>		
Land FCV per Acre per AU:	\$1.80		
Annual Capacity Rate:	6	AU's per 640-acre Section	
Land FCV per Animal Unit:	<u>x \$1,152</u>	←	
Land FCV per Section:	\$6,912		
	<u>÷ 640</u>	Acres per Section	
Land FCV per Acre:	\$10.80		
Annual Capacity Rate:	<u>÷ 6</u>		
Land FCV per Acre per AU:	\$1.80		

Apply Value According to Carrying Capacity

Annual Capacity Rate:	8	AU's per 640-acre Section
Land FCV per Animal Unit:	<u>x \$1,152</u>	←
Land FCV per Section:	\$9,216	
	<u>÷ 640</u>	Acres per Section
Land FCV per Acre:	\$14.40	
Annual Capacity Rate:	<u>÷ 8</u>	
Land FCV per Acre per AU:	\$1.80	
Annual Capacity Rate:	10	AU's per 640-acre Section
Land FCV per Animal Unit:	<u>x \$1,152</u>	←
Land FCV per Section:	\$11,520	
	<u>÷ 640</u>	Acres per Section
Land FCV per Acre:	\$18.00	
Annual Capacity Rate:	<u>÷ 10</u>	
Land FCV per Acre per AU:	\$1.80	

KEY CONCEPTS

Valuation Without Urban or Market Influences

Arizona property tax statutes are designed to ensure that a market value standard is not used to value agricultural land. Generally, when it comes to land valuation, a market value standard typically implies that values are determined based on market sales of similar properties. Not so for land that meets the statutory assessment criteria for agricultural property classification in Arizona.

Instead, for property tax purposes, the determination of “full cash value” for agricultural land is prescribed in A.R.S. § 42-13101, which specifies “using only the income approach to value without any allowance for urban or market influences”. In short, this method is utilized to calculate value based on the potential rental income for agricultural land.

The general idea is like so. If the valuation method is based on typical rent for agricultural land, then the resulting land full cash value will avoid any *urban or market influences*, because the rent is unassociated with those influences. The rent is dependent on a tenant using the land strictly for agricultural purposes.

Arizona’s Assessment Concept of Current Usage

In a sense, the land valuation premise is that the maximum financial return would be derived solely from the current agricultural use. This premise stems from Arizona’s assessment concept of “current usage”, which holds that the current use of the property must be included in determining the full cash value, rather than the appraisal industry’s usual standard of “highest and best use” of the property.

Agricultural Property Classification

Another essential concept is that Arizona’s valuation method for agricultural land applies only to property that has received approval for agricultural property classification. The requirements and criteria that must be met for this approval are set forth in A.R.S. Title 42, Chapter 12, Article 4.

Viability of the Statutory Land Valuation Procedure

It is also important to recognize that the statutes for agricultural classification and valuation apply to both owner-operated properties and tenant-operated properties. In fact, it is the ample quantity of tenant-operated agricultural properties that makes the statutory land valuation procedure viable. This pool of leased properties is the source for the land rental information necessary for determining “average annual net cash rental”.