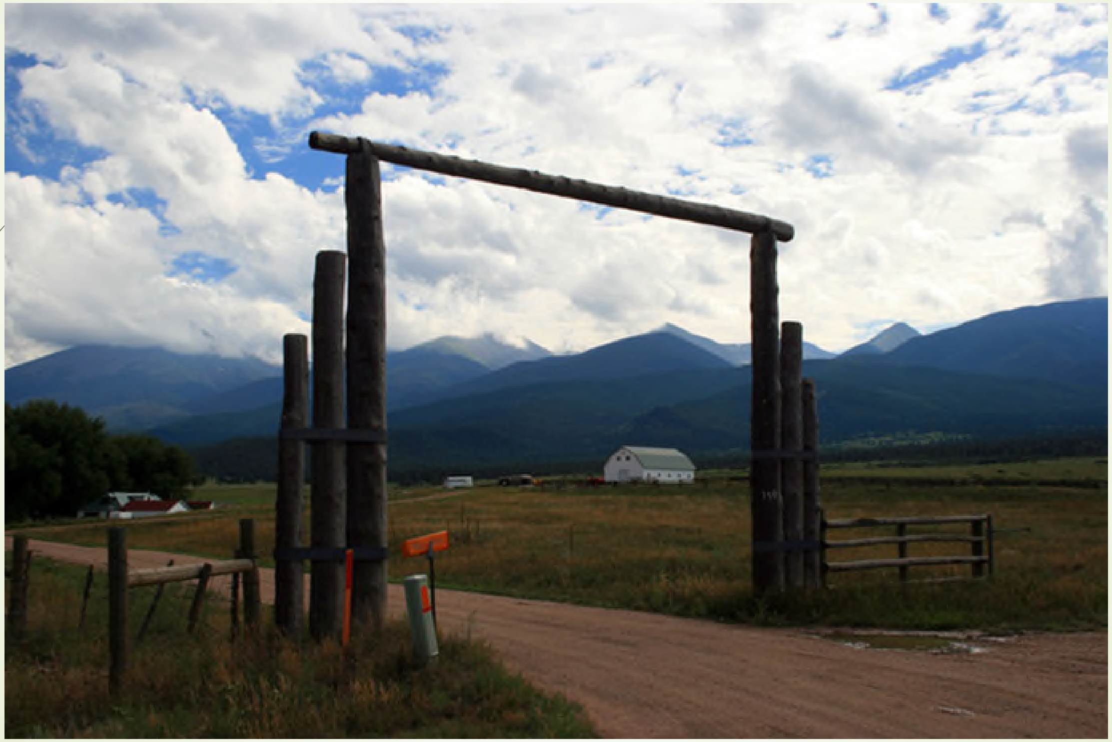
Ranch Classification and Valuation



Presenter:

Kyle L. Hooper

UNIQUE CHARACTERISTICS

Colorado Constitution
....the actual value of agricultural lands,
... shall be determined solely by
consideration of the **earning or
*productive capacity*** of such lands
capitalized at a rate prescribed by law.

Article X Section 3 (1)(a) *in part*

UNIQUE CHARACTERISTICS

- The valuation of Ag land is provided as part of the general property valuation statute that includes the cap rate.
- Procedures are developed by the DPT, reviewed by SAC and approved by SBOE.
- All procedures are reviewed by LLS for conformance to statute.

UNIQUE CHARACTERISTICS

Colorado Statute

…The actual value of agricultural lands, exclusive of building improvements thereon, shall be determined by consideration of the earning or productive capacity of such lands during a reasonable period of time, capitalized at a rate of thirteen percent….

39-1-103(5)(a), C.R.S.

HISTORICAL PERSPECTIVE

- The Colorado Tax Commission, Colorado Assessors, and Ag Industry developed procedures.
- Landlord-tenant relationship using the landlord's potential net income capitalized into value using 13%.

INTENT OF PREFERENTIAL ASSESSMENT

- To encourage preservation of the farm & ranch as an amenity necessary for human welfare.

- To prevent the forced conversion of farm & ranch land.

STATUTORY DEFINITIONS

39-1-102(13.5), C.R.S.

Ranch:

- Land used to graze livestock
- Primary purpose of obtaining monetary profit
- Livestock = Domestic animals used for:
  - Food
  - Breeding
  - Draft
  - Profit
- Two-prong test

STATUTORY CRITERIA

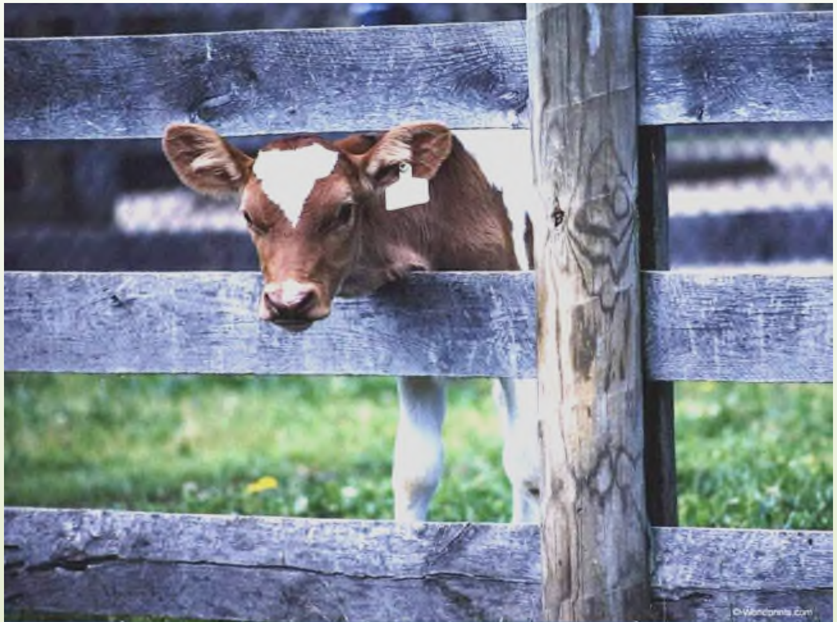
- Livestock (Domestic Animals)

  DPT Developed Criteria:

  1. Bought & sold
  2. Veterinary services
  3. Not wild
  4. Confined with shelter
  5. Can be approached
  6. Serve Man
  7. Identified by tags (brands)

STATUTORY CRITERIA

- Regardless if profit is made by landowner
- Landowner need not own the livestock
- Owner of the livestock must be engaged in Ag endeavor



AGRICULTURAL COURT CASES

<u>Besch v. Jefferson BOCC & BAA</u>

- Trespass grazing cannot qualify a parcel as Ag
- Court referenced ARL
- <u>Only permissive under a legal claim can be used to qualify</u>
- Even though the use was authorized later, the legal use was not in place the previous two years

ESTABLISH CARRYING CAPACITIES & VALUATION

CARRYING CAPACITY DEVELOPMENT

- NRCS Class V- VII soil capability
- Categorized as uncultivated land devoted to forage
- May be irrigated/sub-irrigated or no water
- Water may or may not be controllable
- May be cut and baled (water) or grazed
- Valued using carrying capacity method

CARRYING CAPACITY SOURCES

1. NRCS soil survey and/or NRCS range site descriptions
2. NRCS land use and natural plant communities' map
3. Local ranchers interviews, benchmark ranches surveys, farm & ranch organizations
4. USFS and BLM
5. ARL Volume 3 Chapter 5

VALUATION PROCEDURES

- Calculate the carrying capacity
  - Determine tonnage yield
  - Convert tonnage to AUM
- Calculate the gross income
- Deduct appropriate published expenses
- Calculate net income
- Calculate actual and assessed value of the land

EXAMPLE MEADOW HAY VALUE

Calculation of Carrying Capacity:

Yield in Tons	1.5 Tons
x 2,000 lbs forage	= 3000 lbs forage
-:- 800 lbs ADM/AUM	-:- 800
= AUM's per Acre	3.75 AUM per Acre

Calculation of Gross Income:

AUMs per Acre	3.75
x Rental Rate (DPT)	$14.75
= Gross Income	$55.31

EXAMPLE MEADOW HAY VALUE

Calculation:

Gross Income	$ 55.31
Expenses (DPT)	$ 13.83
Net Income	$ 41.48
-:- Cap Rate	-:- .13
= Actual Value per Acre	***$319.08***

EXAMPLE DRY GRAZE VALUE

Calculation of Value using 40AU:

Months per year	12
-:- Acres per AU	-:- 40
= AUM's per Ac	.30
x Rental Rate (DPT)	$14.75
= Gross Income	$ 4.43
- Expenses (DPT)	$ 1.43
= Net Income	$ 3.00
-:- Cap Rate	-:- .13
= Actual Value per Acre	***$23.08***