

IOWA Department of REVENUE

Iowa Farm Building Assessments

A consensus in the assessment community on a methodology for assessing farm buildings has not been reached for decades. In the 1950s and 1960s smaller family farms that raised both livestock and crops prevailed. The productivity method of assessing farms developed a total value for the county, and the allocation of assessment between land and buildings was left to the local assessors. Regardless of how the value was allocated, it was a non-issue because most farms were crop/livestock operations.

The evolution of specialized farming changed that. Many farm operations today raise exclusively crops or livestock. In 1999, an appeal was filed in district court against the Davis County Board of Review regarding the assessment of three parcels with hog confinement facilities. The district court and the Supreme Court upheld the assessment. However, the district court judge made the following statement in her decree:

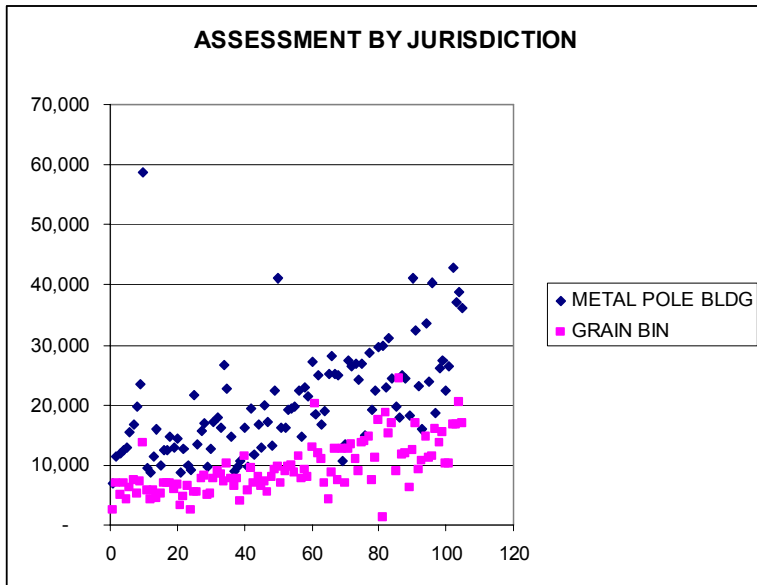
Some of the plaintiffs' complaints arise from their comparisons of how their Davis County valuations compare with others they are familiar with in counties in other parts of the State. The trial record reveals the vast discretion exercised by Iowa assessors in valuing agricultural buildings. That latitude emanates from a statutory framework which invites valuation adjustments by locally based assessors. Within the legal authorities presently applicable, the court cannot conclude that the Davis County Assessor has produced valuations which are unlawful by being "excessive, inadequate, inequitable, or capricious." *Id.*, Sec. 441.21 (3). Nowhere is the Davis County Assessor compelled to reconcile her independent findings with those produced by different assessors, for different parcels, in different parts of the state. Or vice versa.¹

Today, such wide disparity in building assessments has become an issue. In 2005, the Department of Revenue introduced the ag factor rule in Iowa Administrative Rules 701—71.3 to establish a standard for assessing farm buildings.

Results of Assessor Survey

The Department of Revenue recently conducted a survey of county assessment practices on farm buildings. Three buildings were specified: a grain bin, a pole building, and a hog confinement building. The assessors were asked how much they would assess each building if it were new. The following results were reported:

¹ Kniffen, Schager, Southland Pork, H & R Partnership, and Pride v. Davis County Board of Review Jan 10, 2000



Graph 1

Metal Pole Building

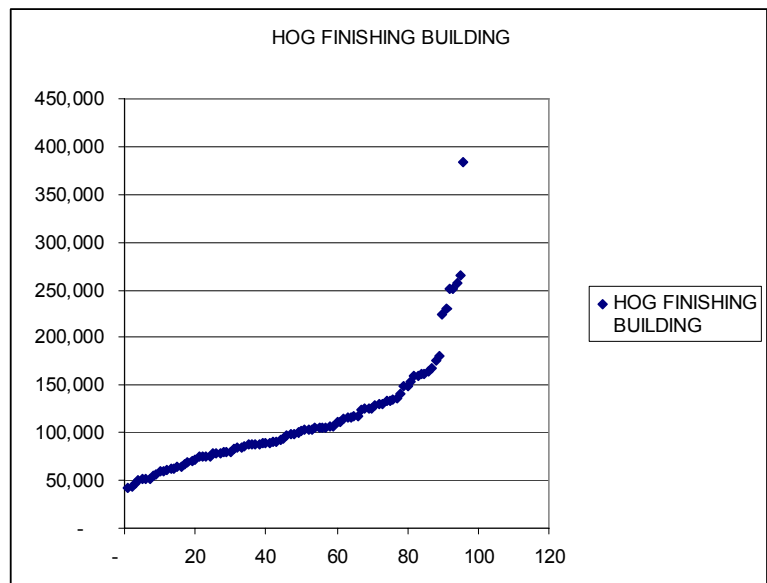
RCNLD ²	\$69,900
Median	\$18,835
Minimum	\$6,928
Maximum	\$58,740

Dryer Bin

RCNLD	\$31,690
Median	\$8,400
Minimum	\$1,200
Maximum	\$27,700

Confinement Building

RCNLD	\$252,440
Median	\$91,200
Minimum	\$41,900
Maximum	\$384,100



Graph 2

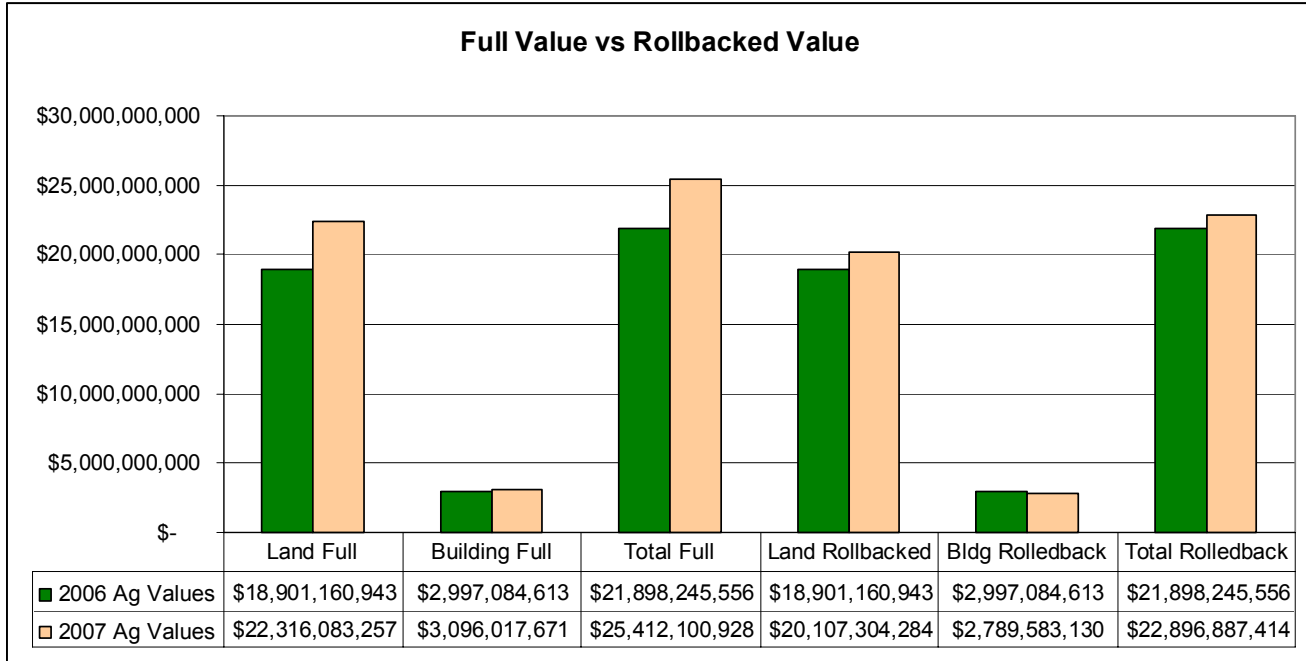
These graphs illustrate that the assessments for a specified building vary from county to county. There is not a narrow value range where most assessments are made. Iowa does not have uniformity in assessment of farm buildings.

² RCNLD - Replacement Cost New Less Depreciation, physical depreciation, functional obsolescence, and economic obsolescence are applied to the replacement cost, the factor will represent the economic obsolescence.

2007 Implementation

Agricultural assessments increased 16 percent in 2007 due to increased crop prices and yields. This resulted in a rollback factor of .9001023 for agricultural property, the first rollback for ag since 1999.

The following chart illustrates the statewide impact of this change:



Graph 3

Current Agricultural Factor Rule

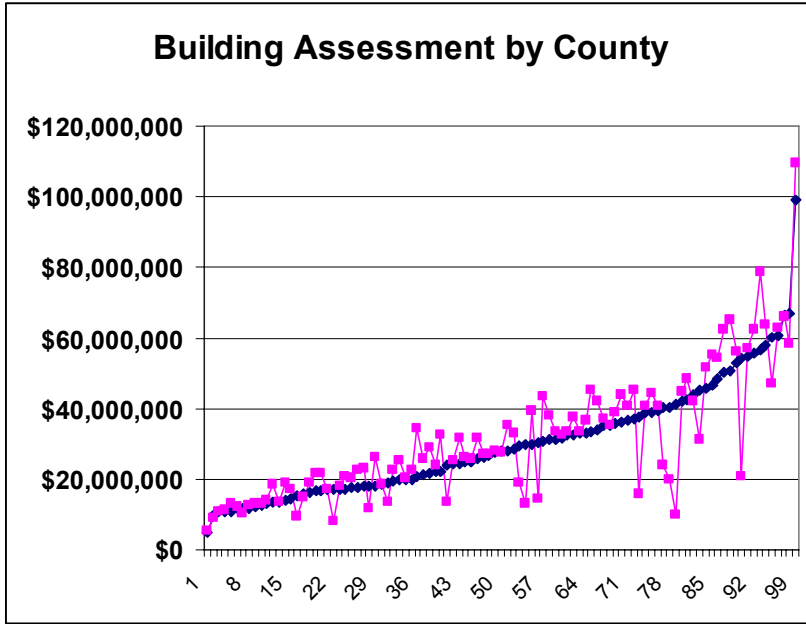
The current agricultural factor rule was proposed and adopted in 2005. The rule says that ag buildings should be assessed based on productivity, which is calculated by assessing buildings at the same ratio of actual value that the productivity value is to market value of land in each county.

In January 2007 this rule was appended with the requirement that all farm buildings be treated uniformly with the application of the ag factor. The ag factor is computed for each county, so if a county had a productivity value of \$750/acre and a market value of land of \$3,000 per acre, the ag factor would be $\$750/\$3,000 = 25$ percent.

If a new building is constructed in the county, the upper limit of assessment is 25 percent of replacement cost. The Department of Revenue computed the factor based on the productivity value computed for the county and the market value of land in the county established by the Iowa State Extension Service.

This factor was e-mailed to all assessors in March of 2007 and posted on the department's Web site. It was intended to be a guide for the county, with a tolerance for counties computing their own factor based on their own study of the local market.

As shown in Graph 3, the total value of farm buildings in the state went up slightly (3 percent). However, some counties made dramatic reductions in their building values. The following chart illustrates the change county by county:



The jagged line in Graph 4 represents the 2007 total ag building assessment for the 99 county jurisdictions. The straight line represents 2006 assessments sorted by total assessment.

While there are some dramatic drops in 2007 assessments, generally the 2007 building assessments are close to the 2006 assessment.

Graph 4

The productivity approach establishes a total value for agricultural land and buildings (excluding dwellings and appurtenances) for each county. Changing the farm building assessments does not change the productivity value for the county, so decreases in total building value in a county are offset with increases in land values and visa versa.

Changes considered for implementation

The Department of Revenue is currently working with the Iowa State Association of Assessors to consider how the rule will be implemented.

Calculation of the Ag Factor

A change is being considered in the way the market value of land is established. The department’s calculation of the ag factor for the 2007 assessment was based on the 2006 market value of farm land for each county established by the Iowa State Extension Service.

The department is proposing the use of a 5-year average of farmland market values that would be the same five years that are used in the productivity formula. This will provide consistency in the factor used to determine the ag factor.

The comparison of methodology is shown on Chart 1:

Year	Market per acre	Market per acre ³		
2007		\$ 3,845		
2006		\$ 3,204		
2005	\$ 2,914	\$ 2,914		
2004	\$ 2,629	\$ 2,629		
2003	\$ 2,275	\$ 2,275		
2002	\$ 2,083			
2001	\$ 1,926			
	5 Year Average	State Productivity Value	Calculated Ag Factor	
2007	\$ 2,365	\$785	33%	
2009	\$ 2,973	\$ 1,021	34%	

Chart 1

This method would soften the shift of assessment from farm buildings to farm land. The 2007 calculation would have resulted in a 33 percent factor versus the 25 percent factor recommended by the department. In implementation the ratio would be calculated on the county level with county market and productivity data.

Application of the Ag Factor

Another change being discussed with the assessors is to emphasize applying the factor to current replacement cost rather than the cost estimates being used by the assessors, which are often very conservative. This could be accomplished by establishing benchmark replacement costs for buildings that could serve as models for applying the agricultural factor.

Farm buildings are not given a high priority by assessors because it becomes a zero sum between land and buildings in equalization. The productivity value is not affected by changing building assessments, so changes in total building assessments are offset with a corresponding change in land assessment. The result in some counties has been that farm buildings are priced on earlier versions of the state manual, and the replacement cost estimate is not up to date. This change would also lessen the shift in assessment from buildings to land.

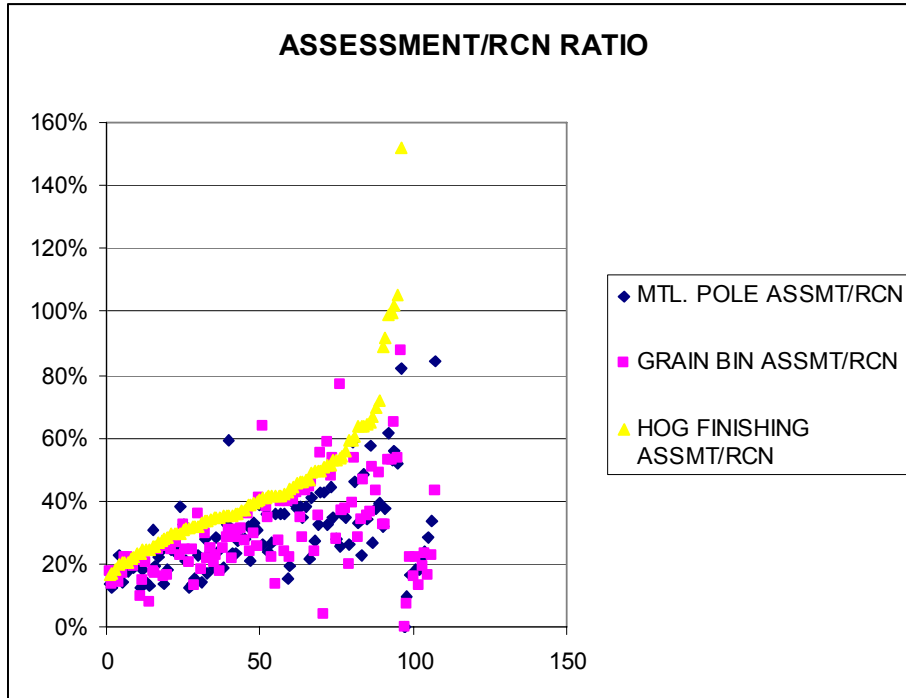
If a 5-year average and the use of a current cost model were used, the impact would be significant. The following table compares a likely scenario on a statewide basis:

2007 Methodology	5 Years of Sale	Current Cost	2009 Plan
-\$1,000,000,000	+700,000,000	+500,000,000	+200,000
-32%	+23%	+16%	+6%

Without a change in methodology, farm building assessments would go down about 32 percent. With the plan changes, the total farm building assessment may go up slightly.

³ Iowa State Extension Service's Iowa Land Value Survey

Graph 5 illustrates that changes will vary significantly from county to county. The goal would be to have all building assessment to RCNLD ratios more uniform. Because ratios will be calculated with county productivity and market data, there will not be a standard farm building factor. Last year statewide factors that the IDR calculated were within plus or minus 8% of the median for the state.



Graph 5

Current survey results indicate that the impact will vary greatly from county to county. To be in compliance with the rule, some counties will make major reductions in building values, others will make major increases, and some will change very little. Based on this data, the department estimates that ag buildings in total will stay near the current level using a 5 year market and a benchmarked cost, but some major shifts from county to county and property to property will occur.

The Department of Revenue is anticipating that the upward trend in agricultural assessment value based on the current formula will continue. The higher yields and prices for the 2006 and 2007 crops that will be brought into the formula for the 2009 assessment will produce higher productivity values. Results will be similar to the 2007 assessments, although the assessment limitation factor (rollback) will limit the taxable value growth to 4 percent per year plus new construction.

What is apparent was the need for farm building standards to establish uniformity. By implementing the new rule and by working together, the IDR and assessors expect to achieve uniformity in the assessment of farm buildings by January 1, 2009.

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