# Farmland Assessment 101
# &
# What's to come

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# Overview

- History of Property Assessment
- Farmland Assessment Law
- Farmland Valuation
- Legislative Change:
  – *and what's to come*

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# Property Assessment and Taxation

## History

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# History of Property Tax in Illinois

## 1818-1932 State-levied property tax

- All property, personal and real taxed.

***Originally property taxes were collected/used only by State government.***

## 1932 Local property taxes

- ***State last levied a property tax in 1932*** and replaced lost revenue with a state sales tax.
- Local governments continued to levy and collect tax on property as their main source of revenue.

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# History of Property Tax in Illinois

Real Property = land/permanent attachments

Personal Property = all non-real property

- Eliminated for individuals in 1969
- Eliminated in 1979 for business entities, but now pay a replacement tax on income or invested capital.

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# Property Tax Basis

## Based on the Value of Property Owned

First constitution in 1818 – levy taxes based on valuation - every person shall pay property tax in proportion to the value of property owned

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# Ratio of equalized assessed value to sale price:

- 1818-1930 direct proportion to value
- 1930s changed to 55%
- 1970 changed to 50%
- 1975 changed to 33.33%

## Historic Level of Assessment

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# VALUATION

## Three Basic Approaches

- Cost Approach
- Sales Comparison Approach
- Income Capitalization Approach

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# FARMLAND ASSESSMENT ACT

- Original enactment in 1977
  - Began to move away from fair cash market valuation to agricultural use valuation in assessing farmland for property tax purposes.
  - Moved towards identifying land use to determine value.
  - Established a formula to determine productivity and assessed value.

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# OTHER STATES

- Most states use a farmland assessment program
- Many of those use Illinois' farmland assessment model

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# Farmland Assessment

## Administration

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# Administrative Responsibilities

- Illinois Department of Revenue
  - Calculates/certifies use-value assessment
  - Guidelines for compliance
- County Farmland Assessment Review Committee
  - Review use-value data
  - Review county assessment practices
  - Hold a public hearing (use value data & assess plan)
- Local Assessing Officials
  - Township/multi-township assessor
  - Chief County Assessment Officer (CCAO)

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# Administrative Responsibilities

- County Boards of Review
  - Evaluates all assessments (including farmland)
  - Change assessments (made improperly)
  - Appeals from landowners (makes adjustments)

- IL Property Tax Appeal Board (PTAB)
  - Appeals by property owners
  - Complaints by farmland assessment review committee
  - Decision final not subject to administrative review by court

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# Farmland Assessment

## Applying the Law

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# Farmland Assessment Law

Farm parcels divided into four parts:

- Farm Homesite – land used residentially
  - market value, BoR, State Equalization
- Farm Residence
  - market value, BoR, State Equalization
- Farm Buildings
  - contributory value, BoR
- Farmland
  - use value, BoR

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# LAND USE CATEGORIES

- **Cropland** – All lands from which crops are harvested or hay cut; lands in vineyards, nursery and greenhouse crops.
- **Permanent Pasture** - Includes pasture land except woodland pasture, & pasture qualifying under cropland (ex -rotational pasture)
- **Other Farmland** – Woodland pasture, woodland including woodlots, timber tracts, & land in forestry program.
- **Wasteland** – Land not put into above categories. Not a result of management decision. Ex – creeks, streams, ponds

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# Land Use - Valuation

- Cropland – Valuation foundation. Assessed according to EAV of soil productivity index – certified by IDOR
- Permanent Pasture – Assessed at 1/3 its debased PI EAV as cropland
- Other Farmland – Assessed at 1/6 its debased PI EAV as cropland
- Wasteland – Assessed on contributory value to other farmland – assessed 1/6 value.

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# Illinois Soils by Productivity Index (PI)

PI Range: 82 – 130

**Certified Values for Assessment Year 2016 ($ per acre)**

| Average Management PI | Gross Income | Non-Land Production Costs | Net Land Return | Agricultural Economic Value | Equalized Assessed Value | * 2016 Certified Value |
|---|---|---|---|---|---|---|
| 82 | $607.82 | $493.30 | $114.53 | $2,164.95 | $721.65 | $52.45 |
| [illegible] | $613.96 | $496.85 | $117.11 | $2,213.78 | $737.93 | $54.06 |
| 84 | $620.09 | $500.40 | $119.69 | $2,262.61 | $754.20 | $55.67 |
| 85 | $626.23 | $503.95 | $122.28 | $2,311.44 | $770.48 | $57.34 |
| 86 | $632.36 | $507.50 | $124.86 | $2,360.27 | $786.76 | $59.02 |
| 87 | $638.49 | $511.05 | $127.44 | $2,409.10 | $803.03 | $60.63 |
| 88 | $644.63 | $514.60 | $130.02 | $2,457.93 | $819.31 | $62.13 |
| 89 | $650.76 | $518.15 | $132.61 | $2,506.77 | $835.59 | $68.33 |
| 90 | $656.90 | $521.70 | $135.19 | $2,555.60 | $851.87 | $74.73 |
| 91 | $663.03 | $525.26 | $137.77 | $2,604.43 | $868.14 | $81.14 |
| 92 | $669.16 | $528.81 | $140.36 | $2,653.26 | $884.42 | $87.54 |
| 93 | $675.30 | $532.36 | $142.94 | $2,702.09 | $900.70 | $93.95 |
| 94 | $681.43 | $535.91 | $145.52 | $2,750.92 | $916.97 | $100.36 |
| 95 | $687.57 | $539.46 | $148.11 | $2,799.75 | $933.25 | $106.76 |
| 96 | $693.70 | $543.01 | $150.69 | $2,848.59 | $949.53 | $113.16 |
| 97 | $699.83 | $546.56 | $153.27 | $2,897.42 | $965.81 | $119.56 |
| 98 | $705.97 | $550.11 | $155.86 | $2,946.25 | $982.08 | $125.95 |
| 99 | $712.10 | $553.66 | $158.44 | $2,995.08 | $998.36 | $133.06 |
| 100 | $718.24 | $557.21 | $161.02 | $3,043.91 | $1,014.64 | $142.74 |
| 101 | $724.37 | $560.76 | $163.61 | $3,092.74 | $1,030.91 | $152.98 |
| 102 | $730.50 | $564.31 | $166.19 | $3,141.57 | $1,047.19 | $163.51 |
| 103 | $736.64 | $567.87 | $168.77 | $3,190.40 | $1,063.47 | $174.14 |
| 104 | $742.77 | $571.42 | $171.36 | $3,239.24 | $1,079.75 | $183.86 |
| 105 | $748.91 | $574.97 | $173.94 | $3,288.07 | $1,096.02 | $192.14 |
| 106 | $755.04 | $578.52 | $176.52 | $3,336.90 | $1,112.30 | $200.53 |
| 107 | $761.17 | $582.07 | $179.11 | $3,385.73 | $1,128.58 | $208.85 |
| 108 | $767.31 | $585.62 | $181.69 | $3,434.56 | $1,144.85 | $216.34 |
| 109 | $773.44 | $589.17 | $184.27 | $3,483.39 | $1,161.13 | $223.69 |
| 110 | $779.58 | $592.72 | $186.85 | $3,532.22 | $1,177.41 | $231.12 |
| 111 | $785.71 | $596.27 | $189.44 | $3,581.06 | $1,193.69 | $240.51 |
| 112 | $791.84 | $599.82 | $192.02 | $3,629.89 | $1,209.96 | $250.99 |
| 113 | $797.98 | $603.37 | $194.60 | $3,678.72 | $1,226.24 | $261.65 |
| 114 | $804.11 | $606.92 | $197.19 | $3,727.55 | $1,242.52 | $272.51 |
| 115 | $810.25 | $610.48 | $199.77 | $3,776.38 | $1,258.79 | $283.50 |
| 116 | $816.38 | $614.03 | $202.35 | $3,825.21 | $1,275.07 | $294.72 |
| 117 | $822.51 | $617.58 | $204.94 | $3,874.04 | $1,291.35 | $306.09 |
| 118 | $828.65 | $621.13 | $207.52 | $3,922.87 | $1,307.62 | $317.60 |
| 119 | $834.78 | $624.68 | $210.10 | $3,971.71 | $1,323.90 | $329.33 |
| 120 | $840.92 | $628.23 | $212.69 | $4,020.54 | $1,340.18 | $347.44 |
| 121 | $847.05 | $631.78 | $215.27 | $4,069.37 | $1,356.46 | $394.19 |
| 122 | $853.18 | $635.33 | $217.85 | $4,118.20 | $1,372.73 | $438.47 |
| 123 | $859.32 | $638.88 | $220.44 | $4,167.03 | $1,389.01 | $453.64 |
| 124 | $865.45 | $642.43 | $223.02 | $4,215.86 | $1,405.29 | $475.48 |
| 125 | $871.59 | $645.98 | $225.60 | $4,264.69 | $1,421.56 | $522.88 |
| 126 | $877.72 | $649.53 | $228.19 | $4,313.52 | $1,437.84 | $571.59 |
| 127 | $883.85 | $653.09 | $230.77 | $4,362.36 | $1,454.12 | $621.63 |
| 128 | $889.99 | $656.64 | $233.35 | $4,411.19 | $1,470.40 | $642.69 |
| 129 | $896.12 | $660.19 | $235.93 | $4,460.02 | $1,486.67 | $662.80 |
| 130 | $902.26 | $663.74 | $238.52 | $4,508.85 | $1,502.95 | $683.13 |

*The 5-year capitalization rate is 5.29% percent.*

# Income Capitalization Formula

**Gross Income**
- Non-land expenses
Net Return to Land

**Net Return to Land**
/ Capitalization rate
Agriculture Economic Value

**Agriculture Economic Value**
X .3333
Equalized Assessed Value

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# Data Supporting Calculation

- Commodity Prices
- Non-land Production Cost
  - Seed, fertilizer, fuel
  - Labor, storage
- Farm Mortgage Interest Rate

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# Five-Year Running Averages

- Gross incomes, production costs & Interest rates used in formula are 5-yr running averages. Balances year-to-year variations.
- Allows for data collection & utilization. Lags 2 years behind assessment year.
- 2017 assessments incorporate data from 2011 – 2015.

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# Calculated Values

- Formula produces "*Calculated Values*" for each soil type based on its Productivity Index.
- **Calculated Values** used to determine assessed value of farmland for tax purposes until 1986.

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# Certified Values

- 1986 amendment to the law limited the change in farmland assessments for each PI to 10% a year.
- IDOR applies 10% limit to **calculated values** to determine the **certified values** for each PI.
- **Certified Values** now used to determine the assessed value of farmland for tax purposes.

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# 2014 Certified Farmland Values

| Average Management PI | 1 Gross Income | 2 Non-Land Production Cost | 3 Net Land Income | 4 Agriculture Economic Value | 5 Equalized Assessed Value | 6 2014 Certified Value |
|---|---|---|---|---|---|---|
| 82 | $546.67 | $447.33 | $99.34 | $1,770.83 | $590.28 | $15.26 |
| 109 | $699.85 | $541.19 | $158.66 | $2,828.11 | $942.70 | $186.50 |
| 111 | $711.20 | $548.15 | $163.05 | $2,906.43 | $968.81 | $203.32 |
| 116 | $739.56 | $565.63 | $174.03 | $3,102.22 | $1,034.07 | $257.52 |
| 121 | $767.93 | $582.91 | $185.02 | $3,298.01 | $1,099.34 | $357.00 |
| 130 | $818.99 | $614.20 | $204.79 | $3,650.44 | $1,216.81 | $645.93 |

# Calculated vs. Certified Values

| Average Management PI | 1 Gross Income | 2 Non-Land Production Cost | 3 Net Land Income | 4 Agriculture Economic Value | 5 Equalized Assessed Value | 6 2014 Certified Value |
|---|---|---|---|---|---|---|
| 82 | $546.67 | $447.33 | $99.34 | $1,770.83 | $590.28 | $15.26 |
| 109 | $699.85 | $541.19 | $158.66 | $2,828.11 | $942.70 | $186.50 |
| 111 | $711.20 | $548.15 | $163.05 | $2,906.43 | $968.81 | $203.32 |
| 116 | $739.56 | $565.63 | $174.03 | $3,102.22 | $1,034.07 | $257.52 |
| 121 | $767.93 | $582.91 | $185.02 | $3,298.01 | $1,099.34 | $357.00 |
| 130 | $818.99 | $614.20 | $204.79 | $3,650.44 | $1,216.81 | $645.93 |

# Language Farmland Assessment Law
## (35 ILCS 200/10-115 (e))

(e) The equalized assessed value per acre of farmland for each soil productivity index, which shall be 33-1/3% of the agricultural economic value, or a percentage as provided under Section 17-5;

…but any increase or decrease in the equalized assessed value per acre by soil productivity index shall not exceed 10% from the immediate preceding year's soil productivity index certified assessed value of the median cropped soil;

- House Bill 2651/Senate Bill 20

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# Impact of SB 20

## PA 98-0109

- Median PI for cropland soils = PI 111
- PI 111 Certified Value 2014 = $203.32
- **All** 2015 PI values increased by $20.33 which is 10% of the median.
- First year's estimated taxes increased $1.50 per acre for all PI's based on 7.5% tax rate.

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# 2015 Certified Farmland Values

| Average Management PI | 1 Gross Income | 2 Non-Land Production Cost | 3 Net Land Income | 4 Agriculture Economic Value | 5 Equalized Assessed Value | 6 2015 Certified Value |
|---|---|---|---|---|---|---|
| 82 | $581.41 | $476.18 | $105.29 | $2,093.21 | $697.74 | *(16.78)* $30.59 |
| 109 | $741.95 | $573.64 | $168.30 | $3,345.96 | $1,130.79 | *(205.15)* $201.83 |
| 101 | $694.40 | $544.77 | $149.63 | $2,974.77 | $991.59 | *(127.35)* $131.11 |
| 111 | $753.83 | $580.86 | $172.97 | $3,438.76 | $1,146.25 | $218.65 |
| 121 | $813.27 | $616.69 | $196.31 | $3,902.74 | $1,300.91 | *(392.70)* $372.23 |
| 130 | $866.77 | $649.45 | $217.31 | $4,320.33 | $1,440.11 | *(710.52)* $661.26 |

# 2016 Certified Farmland Values

| Average Management PI | 1 Gross Income | 2 Non-Land Production Cost | 3 Net Land Income | 4 Agriculture Economic Value | 5 Equalized Assessed Value | 6 2015 Certified Value |
|---|---|---|---|---|---|---|
| 82 | $607.82 | $493.30 | $114.53 | $2,164.95 | $721.65 | *(18.45)* $52.45 |
| 90 | $656.90 | $521.70 | $135.19 | $2,555.60 | $851.87 | *(45.40)* $74.73 |
| 101 | $724.37 | $560.76 | $163.61 | $3,092.74 | $1,030.91 | *(139.70)* $152.98 |
| 111 | $782.71 | $596.27 | $189.44 | $3,581.06 | $1,193.69 | $240.51 |
| 121 | $847.05 | $631.78 | $215.27 | $4,069.37 | $1,356.46 | *(431.97)* $394.19 |
| 130 | $902.26 | $663.74 | $238.52 | $4,508.85 | $1,502.95 | *(781.57)* $683.13 |

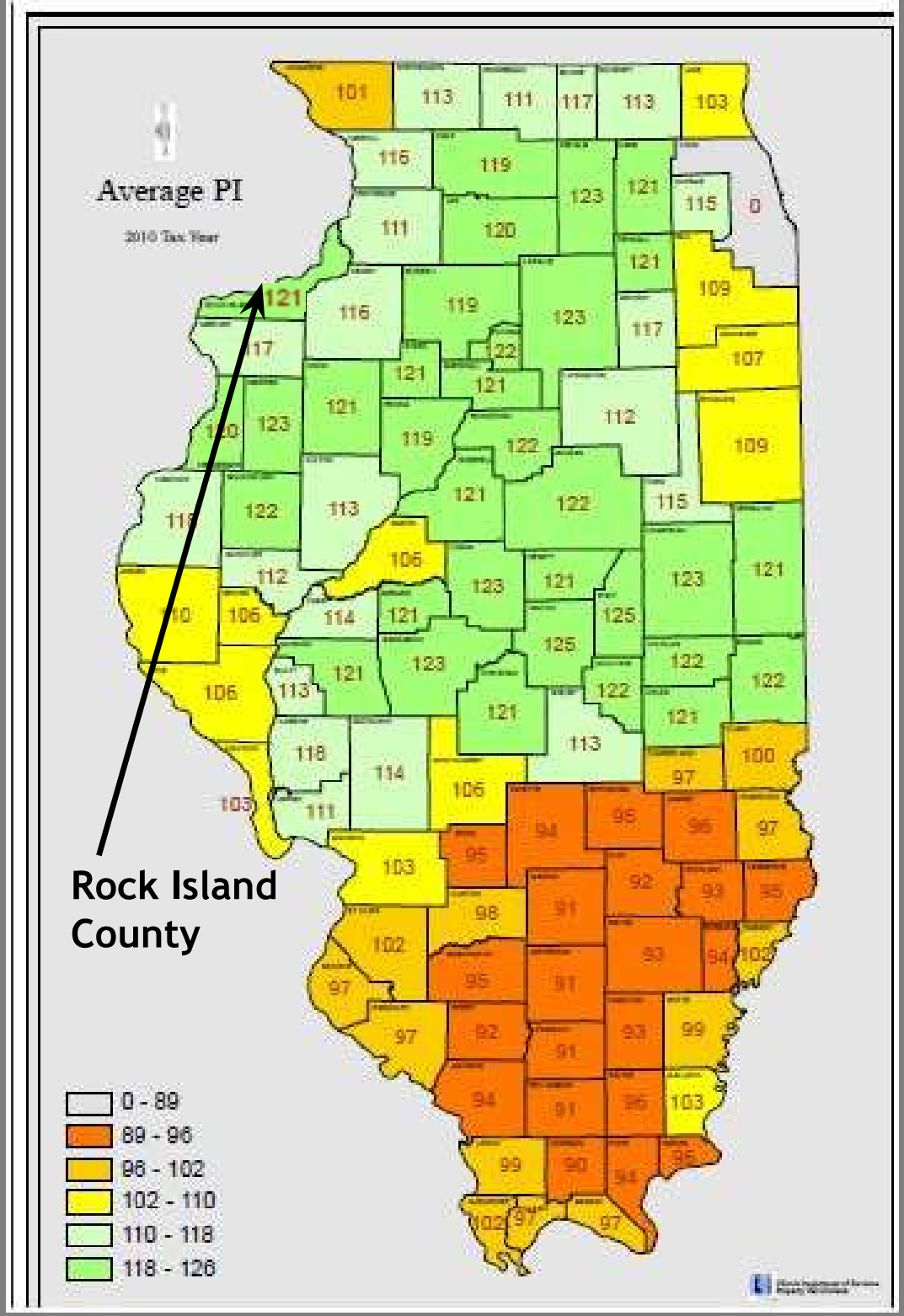
# 2018 CERTIFIED FARMLAND VALUES

| Average Management PI | 1 Gross Income | 2 Non-Land Production Cost | 3 Net Land Income | 4 Agriculture Economic Value | 5 Equalized Assessed Value | 6 2015 Certified Value |
|---|---|---|---|---|---|---|
| 82 | $560.44 | $434.47 | $125.97 | $2,837.07 | $945.69 | $102.96 |
| 90 | $604.61 | $457.17 | $147.44 | $3,320.70 | $1,106.90 | $125.24 |
| 101 | $665.34 | $488.38 | $176.96 | $3,985.69 | $1,328.56 | $203.49 |
| 111 | $720.55 | $516.75 | $203.81 | $4,590.22 | $1,530.07 | $291.02 |
| 121 | $775.76 | $545.12 | $230.65 | $5,194.75 | $1,731.58 | $444.70 |
| 130 | $825.45 | $570.65 | $254.80 | $5,738.83 | $1,912.94 | $733.64 |

# Outlook

| PI | 2016 Certified Values ($21.86) | Taxes payable 2017 (7.5% tax rate) | 2017 Certified Values ($24.05) | Taxes payable 2018 (7.5% tax rate) | 2018 Certified Values ($26.45) | 2019 Certified Values ($29.10) | 2020 Certified Values ($32.01) |
|---|---|---|---|---|---|---|---|
| 82 | $52.45 | $3.93 | $76.50 | $5.88 | $102.96 | $132.06 | $164.01 |
| 95 | $106.84 | $8.01 | $130.89 | $9.81 | $157.27 | $186.37 | $218.30 |
| 111 | $240.51 | $18.03 | $264.56 | $19.84 | $291.02 | $320.12 | $352.13 |
| 112 | $250.98 | $18.82 | $275.03 | $20.62 | $301.50 | $330.60 | $362.61 |
| 121 | $394.19 | $29.56 | $418.24 | $31.36 | $444.69 | $473.79 | $505.80 |
| 130 | $683.12 | $51.23 | $707.17 | $53.03 | $733.64 | $762.74 | $794.75 |

# Average Soil PI by County



# Questions and Comments on Farmland Assessments

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# Commercial Solar Farms Approach to Value

# Overview

- Commercial Solar Farm
- Valuation
- Legislative Approach:
  - *Understanding the new law*

# Commercial Solar Farm

- Public Act 100-0781
- Ground-installed device generating electricity from sun for the purpose of wholesale or retail sale & not consumption on the property where device resides.
- In counties fewer than 3,000,000

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# Valuation

- Beginning assessment year 2018
- Real “property cost basis" $218,000 per megawatt nameplate capacity.
  - Real property improvements
  - Land within project boundaries
  - 6 – 7 acres per megawatt
- Reassessed annually to calculate trending factors and deprecation

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# Valuation

- Trending Factor
  - Equal to Consumer Price Index (CPI)
- Allowance for Depreciation
  - 25 years
  - Actual age ÷ 25 years
  - May not reduce value below 30% of its trended real property

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# Solar Farm Assessment Example

2-year old Solar Farm - 2MW nameplate capacity

**$218,000 X 2 =**

| | |
|---|---|
| 2019 real property cost basis: | $436,000 |
| X Trending factor (hypothetical) 2.2%: | + 9,592 |
| Trended real property cost basis: | $445,592 |
| Depreciation allowance: Actual age: 2yrs/25 = | X .08 |
| Depreciation | $35,647 |
| **2020 fair cash value** | **$409,945** |
| **EAV: $409,945 X .3333** | **$136,634** |

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# Taxes

2-yr Old Solar Farm
2MW Nameplate Capacity

**EAV = $136,634**

**Tax Rate= X 10%**

**Taxes $13,663**

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# Tax Responsibility

- Solar farm liable for taxes on land & improvements
- Solar farm to acquire separate parcel identification number (PIN)
- Subject to tax sale if not paid
- Return to farmland assessment in the year following removal of solar farm as long as returned to a farm

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# Questions and Comments on Solar Assessments

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