

ASSESSMENT AND CLASSIFICATION PRACTICES REPORT

THE AGRICULTURAL PROPERTY TAX PROGRAM, CLASS 2A AGRICULTURAL PROPERTY, AND CLASS 2B RURAL VACANT LAND PROPERTY

A report submitted to the Minnesota State Legislature
pursuant to
Minnesota Laws 2009, Chapter 12, Article 2, Section 7
Minnesota Statutes, 273.1108

Minnesota Department of Revenue
Property Tax Division
March 1, 2010

MINNESOTA ▪ REVENUE

March 1, 2010

To the members of the Legislature of the State of Minnesota:

I am pleased to present to you this report on the practices of agricultural property assessment and the Agricultural Property Tax Law (“Green Acres”) within the State of Minnesota undertaken by the Department of Revenue in response to Minnesota Laws 2009, Chapter 12, Article 2, Section 7.

This report provides a summary of assessment practices of agricultural properties within the State of Minnesota, as well as market values of class 2a and 2b properties, and Green Acres value methodology and determinations.

Sincerely,



Ward Einess
Commissioner of Revenue

Per Minnesota Statutes, section 3.197, any report to the Legislature must contain, at the beginning of the report, the cost of preparing the report, including any costs incurred by another agency or another level of government.

This report cost \$4,800.

INTRODUCTION

Minnesota Statutes, section 273.1108 requires an annual report on agricultural valuation and classification for property tax purposes, and the methodology and determinations for Minnesota Agricultural Property Tax Law (“Green Acres”):

“The commissioner of revenue must study and, by March 1 each year, report to the chairs and ranking minority members of the committees on taxes of the senate and the house of representatives on:

- (1) trends in market values of class 2a and 2b properties;*
- (2) green acres value methodology and determinations; and*
- (3) assessment and classification practices pertaining to class 2a and 2b property.”*

This requirement was passed into law in 2009 by the Minnesota Legislature. In large part, the impetus for this report was that the legislature made numerous changes in 2008 to the agricultural classification and the Green Acres programs after reports by the Department of Revenue and the Office of the Legislative Auditor found numerous problems and inconsistencies in the administration of the Green Acres program. After hearing additional public testimony in 2009, further changes were made both to agricultural classification law and the Green Acres program.

The 2009 assessment year also saw agricultural land values increasing, while other classes of property (e.g. residential and commercial properties) were decreasing in value, causing a shift and corresponding increase of the tax burden for agricultural properties (both enrolled in Green Acres and not). Legislators, assessors, and the Department of Revenue began hearing questions from the farm community regarding tax increases on agricultural properties.

The significant tax increases that were seen on some farm properties are not entirely attributable to increases in agricultural land values. In general, there are four major factors coming into play that, for many agricultural properties, caused tax increases. Those factors are:

1. The market for agricultural land, as exhibited by last year’s sales and outlined in this report, continues to be relatively strong.
2. The increase in the Green Acres value for agricultural properties in the program caused a corresponding increase in taxable market value.
3. This was the first year in which Limited Market Value (LMV) was completely phased out. As a result, previously untaxed value on many agricultural lands became taxable and value increases were no longer capped (at 15%).
4. At the same time, the market for residential and commercial properties continues to be very soft, if not declining.

The combination of these factors has resulted in a significant shift of the tax burden on many, but not all, agricultural properties. The tax burden on agricultural properties reflects the amount of the local levy attributed to agricultural properties in a given tax jurisdiction (county, township/city, school district, etc.). It is important to note that both valuation increases and corresponding tax impacts can vary significantly among parcels throughout the state. Some factors which will cause a change in an agricultural property’s tax burden include:

- Levy decisions made by local governments
- Values that exceed the first valuation tier of \$1,010,000 with the resulting property tax class rate increase from .50% to 1.00% on agricultural homestead land
- The increase in the Green Acres value for agricultural properties enrolled in the program
- Percent of value captured by LMV that has now become taxable

- The mix and changes of other property values in the taxing jurisdictions (e.g. the values of residential and commercial properties decreasing at the same time results in a tax shift where many residential and commercial properties will pay less tax in a given year, while agricultural properties will pay a larger share of the local tax burden)

This report will outline agricultural classification practices under current statute, will explain the Green Acres program and its associated value benefit, and will discuss value trends for class 2a agricultural property for the last two assessment years (which affect values used for the Green Acres program).

BACKGROUND TO THE GREEN ACRES PROGRAM

In 1967 the Minnesota legislature created a property tax program named the Minnesota Agricultural Property Tax Law that is now referred to as “Green Acres”. Legislators were attempting to find a method for valuing agricultural property for its agricultural use only while protecting its value from other non-agricultural influences. At the time, development appeared to be swallowing up agricultural property in the seven-county metropolitan area, driving up the market values, which are used to calculate property taxes. Under this law, qualifying agricultural property enrolled in the Green Acres program is valued using sales data for agricultural property outside the metropolitan area to eliminate the development influences.

Minnesota Statutes, section 273.111, subdivision 2 contains a statement of public policy from the 1967 law that reads:

“The present general system of ad valorem property taxation in the state of Minnesota does not provide an equitable basis for the taxation of certain agricultural real property and has resulted in inadequate taxes on some lands and excessive taxes on others. Therefore, it is hereby declared to be the public policy of this state that the public interest would best be served by equalizing tax burdens upon agricultural property within this state through appropriate taxing measures.”

In the original 1967 language (Minnesota Laws 1967, Extra Session, Chapter 60), Green Acres was granted to certain agricultural land, defined as follows:

“Real estate shall be entitled to valuation and tax deferral under this act only if (1) it is actively and exclusively devoted to agricultural use... [and] (2) it is the homestead or contiguous to the homestead or thereafter becomes the homestead of a surviving spouse of the said owner.”

Agricultural use was defined for Green Acres purposes as:

“...production for sale of livestock, dairy animals, dairy products, poultry and poultry products, fur bearing animals, fruit of all kinds, vegetables, forage, grains, bees and apiary products by the owner, but not when devoted to processing of such things or meeting the requirements and qualifications for payments or other compensation pursuant to a soil conservation program under an agreement with an agency of the federal government.”

The original language also included income requirements for property seeking valuation and deferral under this program.

Under 1967 law (Minnesota Laws 1967, Chapter 32, Article 8) land that qualified for the agricultural classification was defined as

“contiguous acreage of ten acres or more, primarily used during the preceding year for agricultural purposes. Agricultural use may include pasture, timber, waste, unusable wild land and land included in federal farm programs.

Real estate of less than 10 acres used principally for raising poultry, livestock, fruit, vegetables or other agricultural products, shall be considered as agricultural land, if it is not used primarily for residential purposes.”

Since 1967, both the definitions of agricultural lands (under M.S. 273.13) and the provisions of Green Acres (under M.S. 273.111) have changed multiple times. Green Acres no longer requires “exclusive” agricultural use, but “primary” agricultural use. There is no longer an income requirement for Green Acres. The agricultural classification does not require a “primary” use under current law, and the restriction that property not be “used primarily for residential purposes” has since been removed.

CHANGES TO GREEN ACRES, 2008 AND 2009

Regardless of the original intent of the Green Acres law, during the last forty years development pressures have spread much farther than just the metropolitan area and are not the only non-agricultural influences on agricultural prices. Recent changes in economic markets made real estate, wherever located, a profitable investment choice. Buyers also began seeking the recreational potential of rural land (e.g. for hunting purposes). Due to multiple non-agricultural forces affecting agricultural property values statewide, legislation in 2008 clarified that all counties must implement Green Acres when and where applicable. Prior to these 2008 changes, approximately half of all Minnesota counties were participating in Green Acres. The 2008 law changes also clarified requirements for Green Acres and updated the definition of agricultural property for classification purposes. A map of agricultural parcels enrolled in Green Acres in 2009 is included in the appendix of this report (Appendix E).

GREEN ACRES VALUE METHODOLOGY

For assessors, the most significant barrier to implementing Green Acres in their counties is determining the “actual” agricultural value of farmland in their counties. By law (M.S. 273.11), assessors must determine the highest and best use of property and then estimate the value of property based on the results of that determination. If the highest and best use of agricultural property is for residential, lakeshore, or commercial development, or for recreational purposes, the assessor must value the property as if it were to be converted to the highest and best use and disregard the agricultural use value. Therefore, in cases where the highest and best use of the property is for something other than agriculture, the assessor places a value on that property that exceeds the agricultural value, likely resulting in higher property taxes.

Green Acres (M.S. 273.111) however, requires assessors to look at qualifying agricultural property in two ways. First, the assessor must value the property according to its highest and best use as is done for all properties. Then the assessor must determine the agricultural value of the agricultural property based upon Department of Revenue guidance. If this agricultural value is below the highest and best use value, the assessor must use the agricultural value for tax purposes. The Department of Revenue is charged with establishing agricultural land values throughout the state.

Minnesota Statutes, section 273.111, subdivision 4 reads:

“The value of any real estate described in subdivision 3 [qualification requirements] shall upon timely application by the owner, in the manner provided in subdivision 8, be determined solely with reference to its appropriate agricultural classification and value notwithstanding sections 272.03, subdivision 8, and 273.11 [“highest and best use” value]. Furthermore, the assessor shall not consider any added values resulting from nonagricultural factors. In order to account for the presence of nonagricultural influences that may affect the value of agricultural land, the commissioner of revenue shall develop a fair and uniform method of determining agricultural values for each county in the state that are consistent with this subdivision. The commissioner shall annually assign the resulting values to each county, and these values shall be used as the basis for determining the agricultural value for all properties in the county qualifying for tax deferment under this section.

(b) In the case of property qualifying for tax deferment only under subdivision 3a, the assessor shall not consider the presence of commercial, industrial, residential, or seasonal recreational land use influences in determining the value for ad valorem tax purposes provided that in no case shall the value exceed the value prescribed by the commissioner of revenue for class 2a tillable property in that county.”

In 2007, a Green Acres Committee was formed partly for the purpose of determining Green Acres agricultural values. The committee located the most recent period in time based on the data we had available when the non-agricultural influences on farm land sales were either minimal or non-existent throughout the state, with the exception of the seven-county metropolitan area. The committee found that the area of the state that best reflected “true” agricultural sales was in the southwest part of the state, and that the time period most reflective of “true” farm sales based on our data was 1990-1996. The counties of Lyon, Murray, Nobles, Pipestone, and Rock were determined to be the most indicative of “true” agricultural sales. These counties now form what is referred to as the “base” counties for agricultural values.

As part of the work of the 2007 committee, the median sales prices of farmland sales for each county in the state during the 1990-1996 timeframe were compared to the median sales price per acre for the “base counties” to establish a ratio or “factor.” This factor could then be applied to the current median sales price per acre in the “base counties” to establish a current indicator of agricultural value for each county. A map of the Green Acres factor by county is included in the appendix of this report (Appendix A).

For example, during the time frame of October 1990 through October 1996, the Green Acres base counties of Lyon, Murray, Nobles, Pipestone, and Rock had 653 sales of agricultural land. Those sales yielded an average sales price of \$1,058 per acre. During that same time frame, Dodge County experienced 109 sales of agricultural land with an average sales price of \$1,175 per acre. The Green Acres “factor” for Dodge County was determined by dividing the average sales price per acre for Dodge County (\$1,175) by the average sales price per acre for the base counties (\$1,058) by. The result was then rounded or “blended” to provide transition to neighboring counties.

Example 1: Dodge County Factor				
Dodge County Average	÷	Base County Average	=	Dodge County Factor
\$1,175	÷	\$1,058	=	111.02% (blended to 110%)

For the 2010 assessment the base county average was determined to be \$4,000 per acre. The Dodge County factor (110%) was applied to the 2010 base average to determine a 2010 average tilled agricultural value for Dodge County of \$4,400. If the average tilled value based on local markets for Dodge County exceeds \$4,400 per acre, then the Green Acres value is applied to the tilled lands.

Example 1: Dodge County 2010 Base Value				
Base County Average Value per acre	X	Dodge County Factor	=	Dodge County GA Value per acre
\$4,000	X	110%	=	\$4,400 per acre

During that same time frame, 1990-1996, Benton County experienced 51 sales of agricultural land with an average sales price of \$641 per acre. The Green Acres factor for Benton County was determined by dividing the average sales price per acre for Benton County by the average sales price per acre for the base counties. The result was then rounded or “blended” to provide transition to neighboring counties.

Example 2: Benton County Factor				
Benton County Average	÷	Base County Average	=	Benton County Factor
\$641	÷	\$1,058	=	60.61% (blended to 60%)

For the 2010 assessment the Benton County factor of 60% was applied to the 2010 base average to determine a 2010 average tilled agricultural value for Benton County of \$2,400 per acre. If the average tilled value per acre based on local sales for Benton County exceeds \$2,400, then the Green Acres value is applied to tilled lands.

Example 2: Benton County 2010 Base Value				
Base County Average Value per acre	X	Benton County Factor	=	Benton County GA Value per acre
\$4,000	X	60%	=	\$2,400 per acre

This process has proved very effective for valuing tilled lands and, with a little rounding or “blending” of the factors, provides a fair, uniform and, most importantly, equalized method of arriving at the value of tilled agricultural land throughout the state. Based on the best data available to the Department of Revenue and to Minnesota assessors, the method for establishing agricultural values for tilled agricultural properties in Minnesota that was developed by the Green Acres Committee and used by the Department of Revenue produced values for agricultural land that reflected true agricultural values in the state. Assessors must use the values as the basis for setting agricultural values for qualifying Green Acres properties in their counties.

In an effort to differentiate between the agricultural tilled (e.g. cropland actively tilled) and agricultural non-tilled lands (e.g. pastureland), the committee decided to use 50% of tilled value for the agricultural non-tilled land. Lands enrolled in conservation programs such as CRP, RIM, CREP and other similar conservation programs, which had to have been tilled prior to enrollment in Green Acres, are valued at the 100% tilled value due to the fact that they must have been tilled prior to enrollment in Green Acres.

Determining the Average Per Acre Green Acres (Agricultural) Values				
“Base Counties” Median Sales Price Per Acre Value (provided by DOR)	X	GA Factor for County (from map)	=	Tilled (100%) Ag Value
Tilled (100%) Ag Value (from above calculation)	X	.50	=	Non-Tilled (50%) Ag Value

While not perfect, these methods of establishing agricultural values provide a uniform basis for valuation while retaining ties to deriving agricultural values from the market. The end result is a projection of what the current agricultural value of land would be in the absence of the current non-agricultural market influences. Also, while the Green Acres value for a county is determined by Department of Revenue, the values resulting from the factor may be “feathered” by the assessor to account for different land types throughout a county. While adjustments can be made for higher and lower quality lands, the overall county average value is not to go below the department’s guidelines.

If a county’s average estimated market value (EMV) for tilled class 2a acres (based on local sales) exceeds the average tilled agricultural value provided by the department, the county should be implementing Green Acres and using the department’s average value in establishing their values on tilled land. The county would use 50% of this Green Acres value to determine whether the non-tilled agricultural land would also be eligible for Green Acres: if the county’s EMV for

non-tilled agricultural (e.g. pasture) land exceeds 50% of the Green Acres value, then Green Acres is applied to the non-tilled lands. If the county's average EMV for non-tilled lands is less than 50% of the Green Acres value, the Green Acres value is not applicable to the non-tilled lands.

If a county's average EMV for tilled agricultural is less than the department's indicated value, Green Acres is not applied to the tilled agricultural lands. In this case, the county would use the average EMV per acre of tilled lands to determine eligibility for the non-tilled lands. If the non-tilled agricultural lands based on the local market exceeded 50% of the average EMV per acre of tilled lands, the non-tilled lands could be eligible for Green Acres.

In other words, it is possible that a county may only have non-tilled lands receiving deferral in Green Acres if the average 2a tilled value does not exceed the 100% tilled Green Acres value. Conversely, it is possible to have only tilled lands receiving deferral in the program, but not the non-tilled lands.

Under changes made to Green Acres statute in 2008, only class 2a agricultural land may qualify for Green Acres enrollment. However, prior to 2008, some lands not used for agricultural purposes had been enrolled in Green Acres due to contiguity to qualifying agricultural land under identical ownership. The Legislative Auditor reported that these lands not used for agricultural purposes accounted for 38% of total property enrolled in Green Acres. These lands were re-classified as class 2b rural vacant land after 2008 law changes and are no longer eligible for Green Acres enrollment going forward. However, for property owners who had class 2b rural vacant land that had been enrolled in Green Acres prior to those changes, language was included that allowed the 2b lands to be "grandfathered" into the program until the 2013 assessment. For these 2b lands, the value is not to exceed the average tilled class 2a value prescribed by the Commissioner of Revenue. The department has recommended using the 50% non-tilled value on the grandfathered 2b lands, except on unusable wild lands (e.g. swampland), where we recommend using a value equal to 25% of the tilled value.

GREEN ACRES VALUES: 2009 AND 2010 ASSESSMENT YEARS

Agricultural Land Sales Median sale price per acre and number of sales Bare land, 34.5+ acres, at least 75% tilled

	Oct. 2006- Sept. 2007	Oct. 2007- Sept. 2008	Oct. 2008- March 2009	April 2009- Sept. 2009	Oct. 2008- Sept. 2009
SW Base Counties	\$3,000 137	\$3,985 155	\$4,500 92	\$3,970 30	\$4,287 122
Rest of State	\$2,638 1,136	\$3,196 1,262	\$3,850 452	\$3,195 236	\$3,661 688
Statewide	\$2,724 1,273	\$3,333 1,417	\$3,981 544	\$3,500 266	\$3,802 810

For the 2009 assessment year, the five southwest Minnesota base counties had a median per-acre agricultural land sale value (bare land of at least 35 acres, at least 75% tilled) of \$3,985. There were 155 agricultural sales used in that study period. The Green Acres “base” value for the 2009 assessment was set at \$4000 per acre.

For the 2010 assessment year, sales for the 12-month study (October 2008-September 2009) showed a median per-acre value of \$4,287 based on 122 agricultural sales in the five SW base counties. However, for the first six months of the study (October 2008 to March 2009), the median sales price per acre was found to be \$4,500 based on 92 sales. The second half of the sale period showed a decrease in per-acre median value and a decrease in the number of overall sales: \$3,970 based on 30 sales. The decline in number of sales from the first half to the second half of the sales period is a typical, seasonal trend. The second-half decline in per acre value, on the other hand, is not typical. Additionally, due to the changes in agricultural classifications from the 2009 to 2010 assessment years and the availability of data at the individual sale level, some parcels used for the Green Acres value calculations in past years may not have been used for the 2010 calculation. This helps to explain the drop in sales used in the calculation from the 2009 to the 2010 assessment and may also account for part of the increase in median sale value per acre. Based on the trend in median sale values and the changes in methodology, the Green Acres base per-acre value for the 2010 assessment (taxes payable in 2011) was held at \$4,000 per acre.

For the 2010 assessment, although the average sales price per acre statewide was \$3,802, the average sales price per acre for the base counties was higher (at \$4,287). Referring to the Green Acres factor map (appendix A), most of the counties’ factors throughout the state are below 100%, meaning the tilled values used for those counties will be below \$4,000 per acre for Green Acres purposes. The average Green Acres tilled value statewide was \$3,123 for the 2010 assessment for taxes payable 2011 (this value was \$3,106 for the 2009 assessment for taxes payable 2010).

ASSESSMENT AND CLASSIFICATION PRACTICES PERTAINING TO CLASS 2A AND 2B PROPERTY

For property taxes in Minnesota, all land is classified according to use. Land that is ten acres or more in size and used for agricultural purposes (by statutory definition) is class 2a agricultural land. Land that is not used for agricultural purposes, not improved with a structure, and which is rural in character is class 2b rural vacant land. The classification rates for 2a and 2b property (homestead and non-homestead) are as follows:

Class Rates for the 2009 Assessment Year (Taxes Payable 2010)		
Class	Value	Class Rate
2a Agricultural Homestead: House, Garage, and First Acre (HGA)	First \$500,000	1.00%
	Over \$500,000	1.25%
2a Agricultural homestead land	First \$1,010,000*	0.50%
	Over \$1,010,000	1.00%
2b Rural Vacant Land , part of agricultural homestead	First \$1,010,000*	0.50%
	Over \$1,010,000	1.00%
2a Agricultural non-homestead land	No tier	1.00%
2b Rural Vacant Land (non-homestead)	No tier	1.00%

**The values of 2a and 2b lands on an agricultural homestead are aggregated for tiers.*

The value of the first tier is annually adjusted. For the 2010 assessment (taxes payable 2011), the first tier value is \$1,140,000.

Implications of Classification on Green Acres

As stated, until the 2008 legislative session, contiguous land under the same ownership but not used for agricultural purposes may have qualified for Green Acres. Since the 2009 assessment, applications for Green Acres tax deferral are only applicable to class 2a agricultural land (under a definition which was also changed) on parcels or contiguous land masses that are primarily devoted to agricultural use. Contiguous land not used for agricultural purposes (i.e. not class 2a agricultural land) is no longer eligible for tax deferral under the program. Some class 2b rural vacant land that had been enrolled in Green Acres prior to 2008 can be “grandfathered” into the program until as late as the 2013 assessment.

Property owners may remove their class 2b lands before May 1, 2010 without having to pay back taxes which were deferred during enrollment in the program. Property owners may also enroll their 2b acres into the newly-enacted Rural Preserve Property Tax Program at any time between the 2011 and 2013 assessments and not have to pay back taxes deferred under Green Acres. Any class 2b rural vacant lands enrolled in Green Acres for the 2013 assessment will be taxed at full market value and no taxes will be deferred.

While the decision on the classification of a property will greatly impact Green Acres eligibility, the classification of a property is made first and without regard to Green Acres implications. The agricultural classification, for example, has specific requirements while the Green Acres program has other specific and separate eligibility requirements beyond the classification as 2a agricultural land. A property can correctly be classified as agricultural without being eligible for Green Acres. The classification (or split-classification) of the property, however, should not be used as a default mechanism for denying Green Acres.

Under previous law, the agricultural classification itself contained a “primary use” test. This primary use criterion for agricultural classification purposes was removed from statute during the 1997 legislative session. However, it is still applicable for determining Green Acres eligibility

and is in Minnesota Statutes, section 273.111. (See section titled “Using ‘Primarily Devoted to Agricultural Use’ to Determine Green Acres Eligibility” in this document.)

Classification Basics

The classification of agricultural and rural vacant land is based on a visual inspection of the property and the number of acres used for agricultural purposes as defined by statute. A number of factors are considered by assessors when visually inspecting the property to determine eligibility for agricultural classification. In cases where the decisions are based on heavily subjective criteria, assessors are asked to document the rationale for the classification.

Minnesota Statute 273.13, subdivision 23 provides a number of requirements that must be met in order for a property to be classified as class 2a agricultural land:

1. At least 10 contiguous acres must be used to produce agricultural products in the preceding year (or be qualifying land enrolled in an eligible conservation program);
2. the agricultural products are defined by statute; and
3. the agricultural product must be produced for sale.

Real estate of less than ten acres in size may qualify for the 2a agricultural classification under Minnesota Statutes, section 273.13, subdivision 23 paragraph (f) if it is used exclusively for agricultural purposes, or if it is improved with a residential structure and is used intensively for one of the following purposes:

- “(i) for drying or storage of grain or storage of machinery or equipment used to support agricultural activities on other parcels of property operated by the same farming entity;*
- (ii) as a nursery, provided that only those acres used to produce nursery stock are considered agricultural land;*
- (iii) for livestock or poultry confinement, provided that land that is used only for pasturing and grazing does not qualify; or*
- (iv) for market farming; for purposes of this paragraph, "market farming" means the cultivation of one or more fruits or vegetables or production of animal or other agricultural products for sale to local markets by the farmer or an organization with which the farmer is affiliated.”*

Although a property less than ten acres in size would qualify for the 2a agricultural classification under the above criteria, it would not qualify for Green Acres deferral.

The Department of Revenue has provided assessors with a list of objective factors that are to be considered before making a classification decision. Criteria used to determine agricultural classification and agricultural homestead based on statutory requirements is included in the appendix of this report (Appendix B).

REVIEW OF ASSESSMENT PRACTICES

Regional Representatives from the Department of Revenue Property Tax Division recently analyzed the progress of implementation of the 2a and 2b classes under 2009 statute statewide.

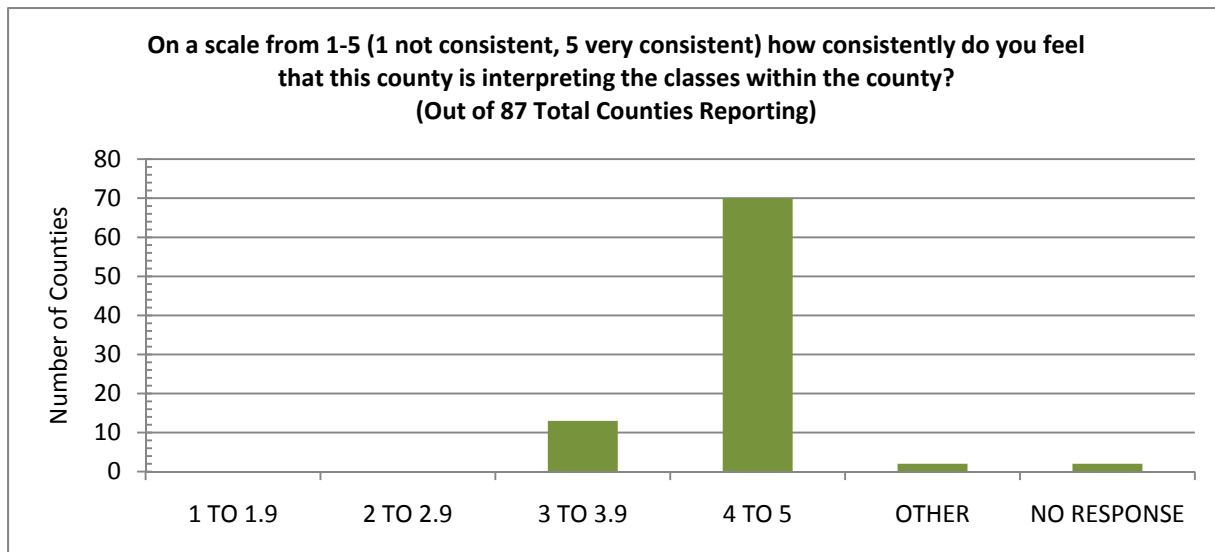
As part of the review, progress being made by counties was defined by determining what percentage of affected parcels had been “recoded” for property tax purposes; that is to say, how many affected parcels were re-classified as 2a or 2b that had been classified as something else prior to 2008 law changes. For a majority of the counties (47), it was reported that all affected parcels had been recoded (reclassified) based on changes to statutory classification language. Of

the 87 counties, an additional seven (54 total) were at least 50% complete with reclassifying parcels.

Anticipated Completion Date for 2a/2b Reclassification		
Anticipated Assessment Year of Completion	#Counties	% of Counties Complete
2010	53	62%
2011	65	76%
2012 and Thereafter	85	100%
<i>No date provided</i>	2	n/a
Total	87	

Concerning estimated completion dates for reclassification, a majority of the counties (53) expected to have the reclassifications complete for the 2010 assessment. A map of counties' expected completion dates for reclassification is included in the appendix of this report (Appendix C).

In terms of accuracy of reclassifications, it was determined that a majority of counties (59) felt that their accuracy was either good or excellent apropos of statute. Counties that felt they were classifying properties accurately typically based their accuracy on having used maps, having completed property inspections, reviewing parcels on an individual basis, etc. Counties that described their accuracy as "poor" may have only reviewed some properties/parcels, or had merely recoded "old" land types on their records, rather than visually inspecting parcels.



When asked to determine how consistent classification practices were for each county based on statutory language, on a scale of 1-5 (1 being very inconsistent and 5 being very consistent) 70 counties answered a “4” or above, showing a great degree of positivity regarding consistency in implementation of the 2a and 2b classes.

The Regional Representatives of the Property Tax Division continue to work towards inter-county consistency as well. The regional representatives are involved in many meetings within their regions, and also work with County Assessors to establish guidelines consistent between neighboring counties within regions for both Green Acres and classification purposes. Whenever possible, representatives work with counties to create written guidelines for county and region use.

USING “PRIMARILY DEVOTED TO AGRICULTURAL USE” TO DETERMINE GREEN ACRES ELIGIBILITY

Beyond classification as 2a agricultural land, Green Acres law requires that property be “primarily devoted to agricultural use” before the property is eligible for enrollment. The department has advised that the assessor’s decision as to whether a property is primarily devoted to agricultural use be based on a list of objective factors that are considered before the decision of whether are Green Acres qualifications are met is finalized.

In making this qualification determination, assessors put the most weight on physical criteria, but other criteria such as income may be used. In determining if a property is primarily devoted to agricultural use, the potential exists that in some instances, a reasonable justification may warrant not satisfying one or more of these criteria. A preponderance of the factors and criteria below is used to determine if a property is primarily devoted to agricultural use. A discussion of the factors is included in the appendix of this report (Appendix D).

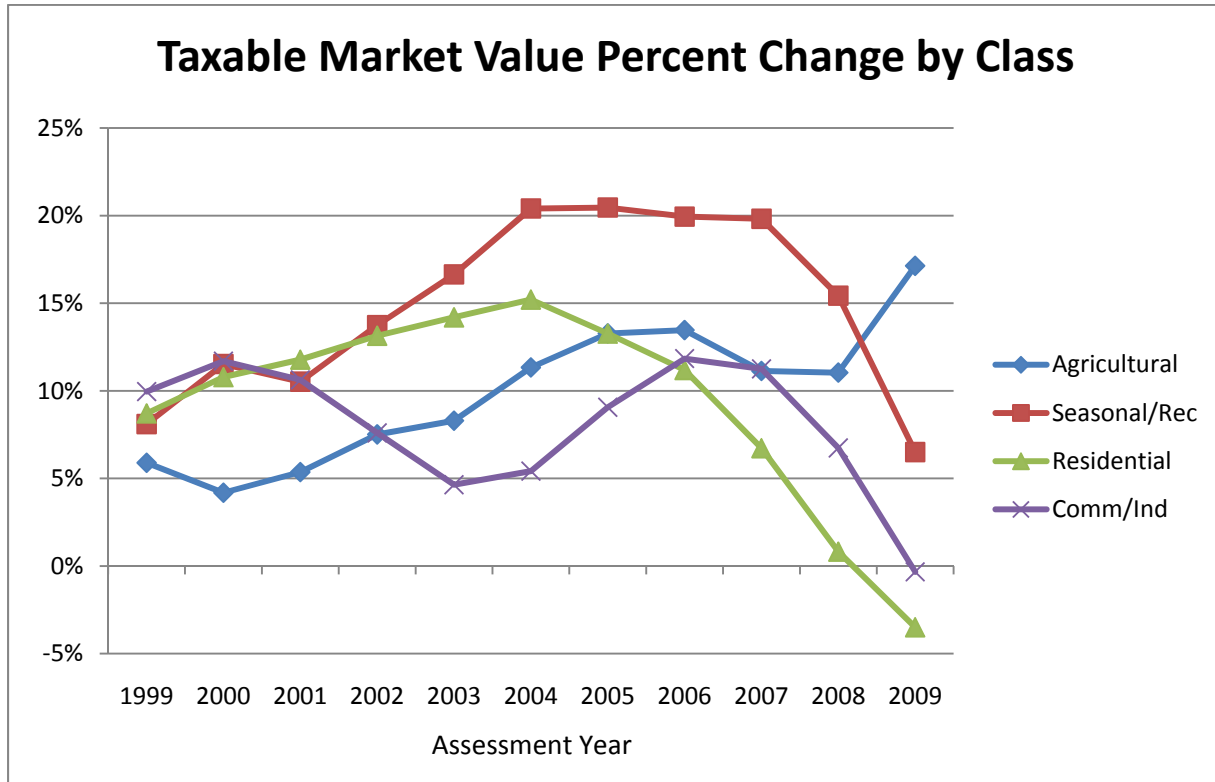
TRENDS IN MARKET VALUE OF CLASS 2A AND 2B PROPERTY: 2008 AND 2009 ASSESSMENT YEARS (TAXES PAYABLE 2009 AND 2010)

Minnesota Statutes, section 273.11 requires that all property be valued at its market value. This market value, which is referred to as the “estimated market value” (EMV) is determined by the assessor based on local markets and should follow changes in local market trends. The taxable market value (TMV) however is determined after the estimated market value, and is adjusted for any exclusions, deferrals, etc. provided by various property tax programs including Green Acres. Taxes are based on the taxable market value. Typically, EMV and TMV will increase or decrease at roughly the same rate. Both estimated market values and taxable market values for agricultural properties increased from 2008 to 2009; however the taxable market values increased by a greater percentage than the estimated market values.

No single factor can explain the increases in both TMV and tax burden for agricultural properties, but rather a confluence of factors has caused this tax shift, including increases in the levies of local taxing jurisdictions, relative decreases in the value of other properties in the taxing districts, and changes to tax programs, in addition to a continued strong market for agricultural properties. The levy decisions of taxing jurisdictions statewide may change for any number of reasons, which will affect the overall tax burden distributed to properties. The TMV of a given property determines that property’s share of the levy.

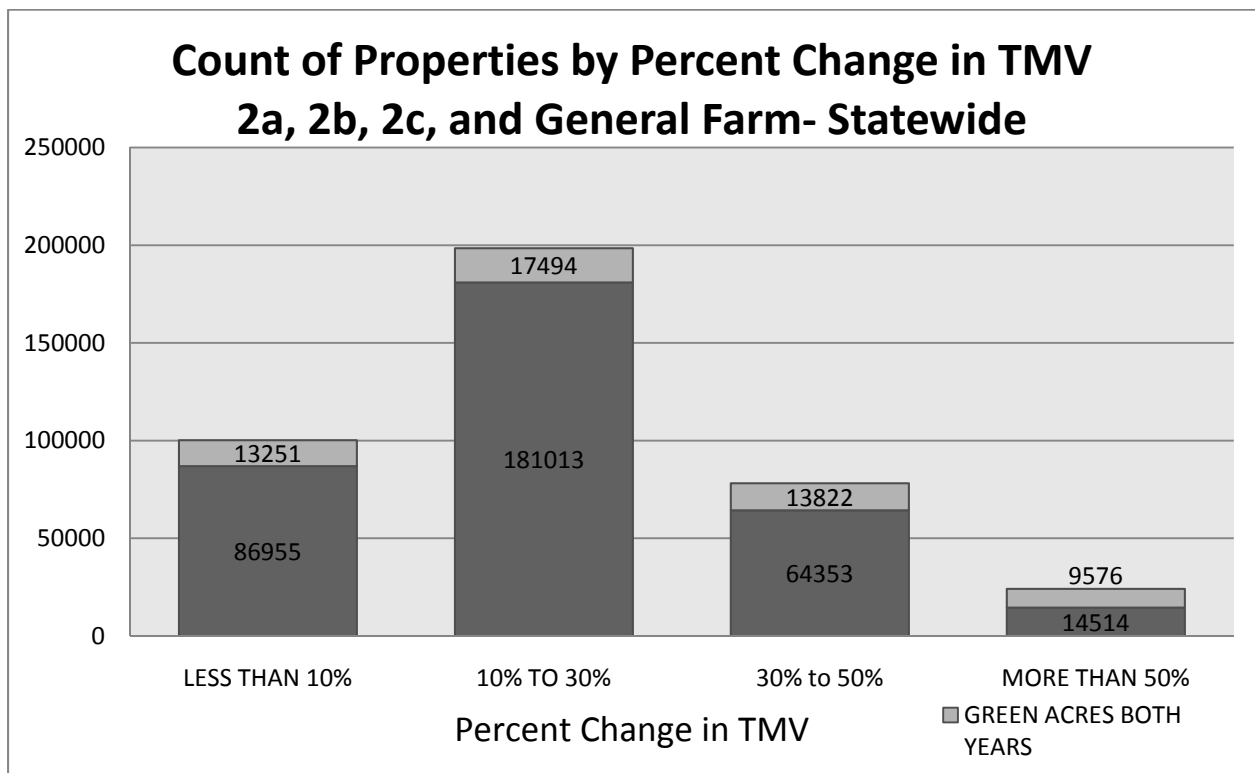
A number of factors, primarily the phasing out of Limited Market Value (LMV) for the 2009 assessment, increases in the Green Acres value, and higher estimated market values, have contributed to changes in TMV.

Statewide TMV for 2a, 2b, and 2c property increased \$12.8 billion (18%) from the 2008 assessment to the 2009 assessment. The following chart puts this change in the context of the changes in other classes over time.



This chart also includes new construction and class shifts, so it is an analysis of the change in tax base rather than the change in value of specific properties over time. The 2009 values have been adjusted to account for some changes in class definition that would not have affected other years. The bulk of this adjustment, \$1.8 billion, is due to property that was previously considered seasonal/recreational but is now classed as either 2a or 2b. The 2009 assessment year shows a continued decline in the growth rate of all classes except agricultural classes. Despite the significantly higher growth rate of the agricultural classes relative to the other classes in 2009, the absolute rate of growth in agricultural value is not significantly outside of the range of growth values of other classes over the previous ten years.

About 25% of the 408,123 parcels with 2a agricultural homestead, 2b agricultural non-homestead, or 2b timber as the primary class in 2008 but re-classified as 2a agricultural, 2b rural vacant land, or 2c managed forest land in 2009 saw taxable market value (TMV) increases of more than 30% between 2008 and 2009. This figure includes only parcels where the primary class fell into any of the above classifications in both 2008 and 2009. Parcels in these groups in only one of the two years and split-class parcels where the primary class is not listed above were excluded from this analysis.



Note: The 2008 assessment was for taxes payable in 2009, while the 2009 assessment will be reflected in taxes payable in 2010.

Factors contributing to increases in taxable market value for agricultural parcels between assessment years 2008 and 2009

Three primary factors account for the changes in TMV from 2008 to 2009. The first is changes in the agricultural market which can be seen in changes in the EMV. In the absence of deferments and value limitations, the TMV will rise and fall with the EMV. Agricultural markets remained strong from 2008 to 2009, leading to an overall increase in EMV for parcels in classes 2a, 2b, or 2c in both years of approximately 8%. Secondly, the expiration of LMV limitations caused an increase in TMV for many properties. All tax value increases previously captured by LMV in 2008 were taxable beginning in 2009. For parcels enrolled in Green Acres, the third major factor leading to increases in TMV for agricultural properties was the increase of estimated market values for agricultural properties across the state, which increased the Green Acres taxable value. The Green Acres base value increased by 33% from assessment year 2008 to 2009. For parcels enrolled in Green Acres, holding all other factors constant, this would result in a corresponding increase of 33% in TMV.

In Minnesota, a total of 400,978 agricultural parcels are included in following analysis. Of those, 54,143 (13.5%) were enrolled in Green Acres while 346,835 (86.5%) were not in either year. An additional 7,145 parcels were enrolled in Green Acres in only one of the two years.

Agricultural properties enrolled in Green Acres

From the 2008 to the 2009 assessment, the base value used for determining the Green Acres taxable value increased for 2a tilled property from \$3000 to \$4000 per acre. For property enrolled in Green Acres in both years, this meant a decrease in the portion of the property eligible for deferment and a corresponding increase in TMV. At the same time, however, values

for other property types such as residential, commercial, industrial, and seasonal/recreational were declining in many areas with high levels of non-agricultural influence. The result of this was a decline in the “highest and best use” value, the EMV.

The following table illustrates the impact of these different factors, as well as the elimination of LMV, on the TMV and Green Acres deferment amounts for 2009 for four different ranges of TMV value increase. The 2009 TMV is the sum of the 2008 TMV, the loss of LMV, the aggregate change in Green Acres values, and other remaining factors. The Green Acres deferment amount is the sum of the aggregate Green Acres value change and the loss in EMV from 2008 to 2009.

Factors Contributing to Changes in Taxable Market Value, 2008-2009
Agricultural and Timber/Rural Only in Both Years
Parcels in Green Acres in 2008 and 2009
 (values expressed in millions of dollars)

Change in TMV	Number of Parcels	2008 TMV	Loss of LMV Reduction	Green Acres Value Change	Deferment Loss from EMV Change	Net Green Acres Deferment Loss	Other Factors	2009 TMV
Millions of Dollars								
LESS THAN 10%	13,251	3,286	46	33	365	399	-11	3,354
10% TO 30%	17,494	3,450	176	483	312	795	-20	4,089
30% TO 50%	13,822	1,330	131	372	162	534	-3	1,830
MORE THAN 50%	9,576	679	111	340	74	414	0	1,131
Grand Total	54,143	8,745	464	1,228	914	2,142	-33	10,405

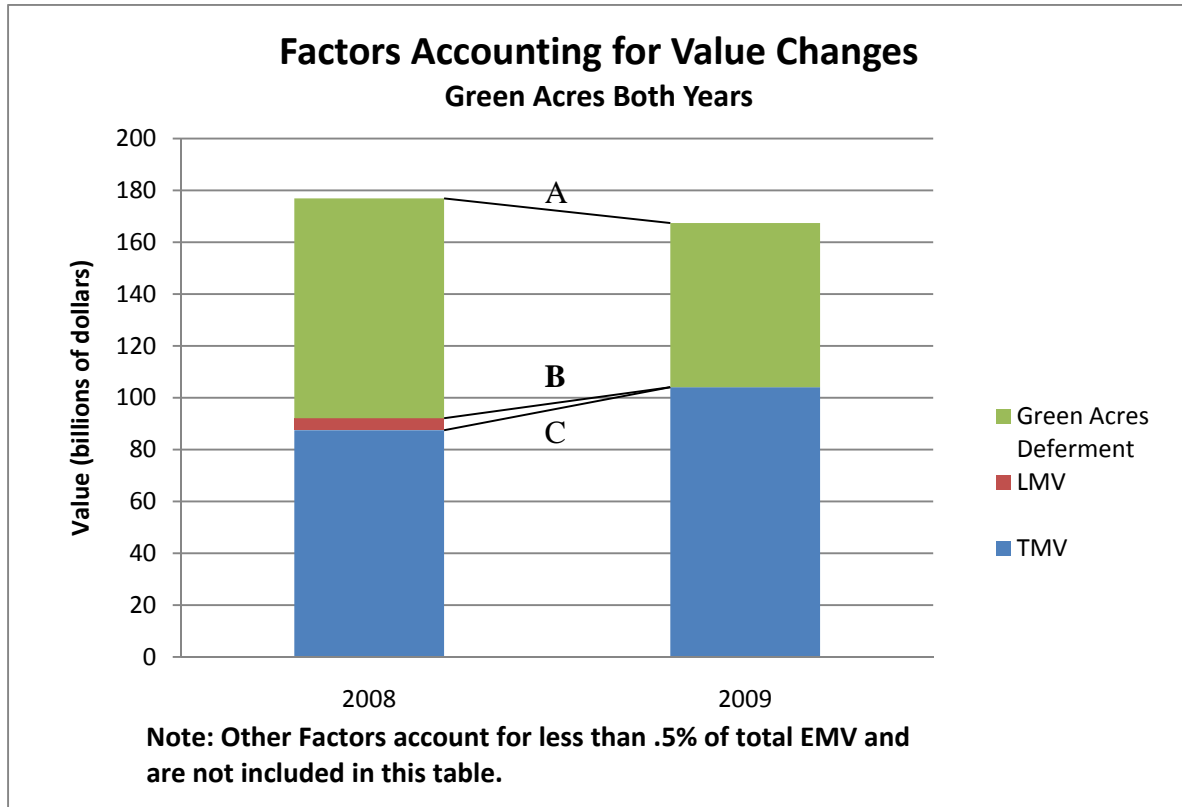
For the parcels enrolled in Green Acres, TMV increased from \$8.7 billion to \$10.4 billion for the 2008 and 2009 assessments, an increase of approximately \$1.7 billion (19%).

The loss of LMV resulted in a \$464 million increase in TMV between 2008 and 2009, accounting for about a quarter of the TMV increase.

Changes in EMV and TMV also resulted in an overall change of deferral received under the program. Aggregate changes in Green Acres values increased TMV by \$1.228 billion between 2008 and 2009, while the “highest and best use” EMV decreased \$914 million. This means that the net loss in deferral amount between 2008 and 2009 was \$2.142 billion. The Green Acres value increase causes a corresponding increase in TMV and accounted for about three-quarters of the total TMV increase.

Other factors, such as exclusions or deferrals not related to either Green Acres or LMV led to a decrease of \$33 million in TMV for these parcels.

Overall, for taxes payable in 2010, parcels enrolled in Green Acres in both 2008 and 2009 paid taxes on \$10.4 billion of the total \$16.8 billion EMV (i.e. 62% of the EMV for these parcels was taxed while the remaining 38% was deferred).



Each bar represents the total EMV, while the shaded segments reflect various value components contributing to EMV. The following value changes for Green Acres parcels are highlighted in the chart above:

- Line A represents the aggregate change in EMV from 2008 to 2009, a \$910 million decline. This reflects the “highest and best use” value being reduced, based on trends in local sales and a decrease of non-agricultural influences on properties.
- Line B represents the increase in the Green Acres value between the two years, about \$1.2 billion. This reflects the increase in the agricultural value based on sales in the base counties.
- Line C represents the increase in TMV of \$1.7 billion, which reflects both the increase in the Green Acres value and the loss of the benefit of LMV.
- The segments representing “Green Acres Deferment” display a decrease in the overall amount of deferral received under the program due to a decrease in EMV while the TMV increased.
- The portion labeled “LMV” is not shown in the 2009 assessment year, as that program expired in 2008 and the value captured by the program became taxable in 2009.

Agricultural properties not enrolled in Green Acres

Unlike parcels enrolled in Green Acres, those not enrolled in Green Acres did not have any TMV pressures related to increasing Green Acres values. However, since agricultural markets remained strong from 2008 to 2009, EMV increased for a majority of these parcels, leading to a corresponding increase in TMV. The loss of LMV has the same effect for parcels not enrolled and those enrolled in Green Acres.

The following table looks at the factors that contributed to TMV change for non-Green Acres parcels. The 2009 TMV is the sum of 2008 TMV, the loss of LMV deferral, the aggregate change in EMV, and the total of remaining factors. The table is grouped in rows by the percent change in TMV from 2008 to 2009.

Factors Contributing to Changes in Taxable Market Value, 2008-2009
 Agricultural and Timber/Rural Only in Both Years
 Parcels not in Green Acres either year
 (values expressed in millions of dollars)

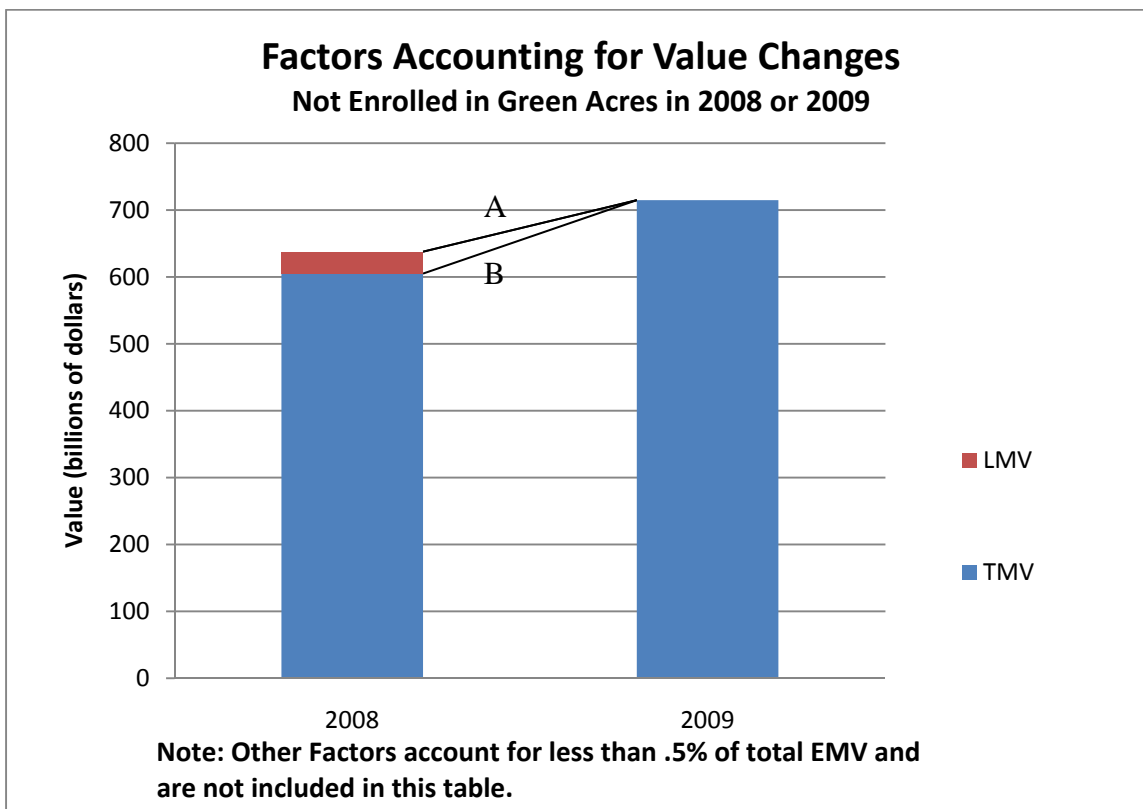
Change in TMV	Number of Parcels	2008 TMV	Loss of LMV Reduction	Change in EMV	Other Factors	2009 TMV
Millions of Dollars						
LESS THAN 10%	86,955	17,504	536	-307	-3	17,730
10% TO 30%	181,013	30,649	1,590	4,293	1	36,534
30% TO 50%	64,353	10,778	910	2,903	2	14,594
MORE THAN 50%	14,514	1,561	258	790	3	2,611
Grand Total	346,835	60,493	3,294	7,679	3	71,469

For the 346,835 agricultural parcels not enrolled in Green Acres, TMV increased between the 2008 and 2009 assessments by approximately \$11 billion (from \$60.5 billion to \$71.5 billion, or about 18%). About 4% of parcels not enrolled in Green Acres had TMV increases of 50% or more.

The loss of LMV contributed to a \$3.3 billion increase in TMV, about 30% of the total TMV increase between 2008 and 2009.

EMV changes led to a TMV increase of \$7.7 billion, accounting for approximately 70% of the TMV increase.

Other factors, including other exclusions or deferrals, contributed to \$3 million increase in TMV.



Each bar represents the total EMV, while the shaded segments reflect various value components contributing to EMV. In the case of parcels not enrolled in Green Acres in either year, there are two changes to highlight:

- Line A in the graph above represents the increase in EMV for all analyzed parcels.
- Line B shows the increase in TMV between 2008 and 2009. In the absence of LMV and Green Acres, the TMV is nearly equal to the EMV, except for the other exclusion and deferrals which account for less than .5% of the total EMV.

Comparison of changes in TMV and NTC

The TMV of a given property is not the sole determinant of taxes paid. Increases in taxes are also the result of changes in the net tax capacity (NTC) for a given parcel. NTC is determined by multiplying the taxable market value by the class rate:

$$\text{Net tax capacity} = (\text{taxable market value}) \times (\text{class rate})$$

As an example, consider an agricultural homestead parcel with a taxable market value (TMV) of \$600,000 and a class rate of .50% that would have a net tax capacity (NTC) of \$3000.

Example 1: Standard NTC Calculation				
Taxable market value	X	Class rate	=	Net tax capacity
\$600,000	X	.50%	=	\$3000

Two primary causes of class rate changes that result in significant NTC increases for parcels classified as agricultural in both 2008 and 2009 can be identified: the loss of the preferential homestead class rate, and the effects of “chaining” agricultural homestead parcels. Each of these causes is discussed as follows.

1. **Property loses homestead.** For agricultural parcels that changed from homestead to non-homestead, the class rate increased from .50% to 1.00%, effectively doubling the NTC on those parcels. Using Example 1, the loss of homestead status would cause the NTC to increase to \$6000. Over 8,000, about 2% of all agricultural parcels, lost homestead status between the 2008 and 2009 assessments. This may have occurred for a number of reasons, including assessor reviews. For example, there were parcels of non-agricultural property (i.e. rural vacant land) that were not contiguous to homestead parcels but were still granted the reduced classification rate of an agricultural homestead parcel for 2008. Upon review of these parcels, assessors appropriately removed homestead status, resulting in the increased NTC for 2009. (An example of agricultural homestead determinations is included in the appendix of this report under Appendix B).
2. **Agricultural property becomes valued at a new tier.** Agricultural homestead properties have a .50% class rate on the first tier and a 1.00% class rate on the second tier. For the 2008 assessment, the first tier value was \$890,000. For the 2009 assessment, the tier limit was \$1,010,000. (The value of the first tier is annually adjusted. For the 2010 assessment for taxes payable 2011, the first tier value is \$1,140,000.) If a parcel or a portion of a parcel assessed as one agricultural homestead crosses over this tier, the class rate is increased on that parcel and any other parcels valued above. Any additional value is taxed in the second tier at a class rate of 1.00%. Multiple parcels can also be grouped together under a single ownership in a “chain”. With chaining, the class rate for a parcel is determined by the value of the entire chain of parcels and not the value of any one individual parcel.

The following table (Example 2) shows a parcel not affected by a change in class rate due to increases in values:

Chained Agricultural Parcels Tier Break Illustration: Example 2								
Tier break/class rates:								
	2008	2009	Class rate					
Tier 1	<\$890,000	<\$1,010,000	0.50%					
Tier 2	\$890,000+	\$1,010,000+	1.00%					
Example 2: No Tier Break								
	2008 TMV	Class rate	NTC	2009 TMV	Class rate	NTC	Market value change	NTC change
Parcel 1	\$400,000	0.50%	\$2,000	\$450,000	0.50%	\$2,250	13%	13%
Parcel 2	\$400,000	0.50%	\$2,000	\$450,000	0.50%	\$2,250	13%	13%
Parcel 3	\$90,000	0.50%	\$450	\$100,000	0.50%	\$500	11%	11%
Total	\$890,000		\$4,450	\$1,000,000		\$5,000	12%	12%

In the following table (Example 3), all parcels fell below the tier break in 2008 and therefore all had a class rate of .50%. For the 2009 assessment (taxes payable 2010), all three parcels increased in value. Parcels 1 and 2 both stayed in the first tier and saw the same percent change in TMV and NTC respectively. Parcel 3, however, was pushed into the second tier and saw a NTC increase of 144% while only having a 22% TMV increase. Although the NTC change on the entire property was only 38%, a tax statement on just Parcel 3 will show a 144% increase in taxes. For most chained parcels crossing tiers, only a small portion of the value of the parcel needs to cross the tier break to see a NTC increase that significantly exceeds the TMV change. Chaining data is not available at the parcel level for this analysis, but the crossing of tier breaks will account for the majority of remaining significant increases in NTC relative to TMV changes.

Chained Agricultural Parcels Tier Break Illustration: Example 3								
Tier break/class rates:								
	2008	2009	Class rate					
Tier 1	<\$890,000	<\$1,010,000	0.50%					
Tier 2	\$890,000+	\$1,010,000+	1.00%					
Example 3: Crossing Tier Break								
	2008 TMV	Class rate	NTC	2009 TMV	Class rate	NTC	Market value change	NTC change
Parcel 1	\$400,000	0.50%	\$2,000	\$500,000	0.50%	\$2,500	25%	25%
Parcel 2	\$400,000	0.50%	\$2,000	\$510,000	0.50%	\$2,550	28%	28%
Parcel 3	\$90,000	0.50%	\$450	\$110,000	1.00%	\$1,100	22%	144%
Total	\$890,000		\$4,450	\$1,120,000		\$6,150	26%	38%

IMPLICATIONS FOR TAXES PAYABLE 2010

Based on preliminary data from the 2009 assessment year, agricultural and rural vacant land represented about 16% of taxable property value and paid about 7% of property taxes as displayed in the following table. In comparison, commercial properties accounted for 13% of taxable property and paid approximately 31% of property taxes:

Tax Liability Share by Classes of Property (Assessment Year 2009, Taxes Payable 2010)				
Properties by Class	Market Value (in millions)	Net Tax (in millions)	Market Value Share	Share of Net Taxes Payable
Agricultural/Rural Vacant Land	\$94,678	\$549	16%	7%
Residential	\$374,582	\$4,362	64%	55%
Seasonal Recreational	\$26,822	\$217	5%	3%
Commercial/Industrial	\$75,574	\$2,468	13%	31%
Utility/other	\$11,552	\$301	2%	4%

The amount of taxes paid by a property owner is not determined solely by the TMV of a given parcel. The fact that agricultural values have increased at a greater rate than properties in other classes leads to a shift in tax burden to the agricultural classes. Also, the levies of local jurisdictions influence taxes. For taxes payable in 2010, local levies increased statewide 3.4%. This is lower than in recent years; however some individual jurisdictions had significantly higher levy increases. Using parcel level analysis for which sufficient data is available, the absolute dollar change in the amount of taxes due for parcels classed as 2a, 2b, or 2c for taxes payable 2009 and 2010 can be estimated by taking into account the known and projected changes in each of these areas. The following table shows the counts of parcels and the change in taxes payable for those parcels in a cross-section of ranges.

**Changes in Taxes Payable from 2009 to 2010
2a, 2b, 2c classes in both years**

		Percent change in Taxes Payable from Payable 2009 to 2010						
		LESS THAN 0%	LESS THAN 20%	20% to 50%	50% TO 100%	100% OR GREATER	Grand Total	
Dollar Change in Taxes Payable	LESS THAN \$0							
	Change in Taxes Payable	-\$12,259,101					-\$12,259,101	
	Number of Parcels	56,771					56,771	
	\$0 TO \$200							
	Change in Taxes Payable		\$6,319,278	\$4,941,358	\$1,375,127	\$911,112	\$13,546,875	
	Number of Parcels		113,067	68,048	16,429	9,975	207,519	
	\$200 TO \$1000							
	Change in Taxes Payable		\$11,862,460	\$25,919,806	\$6,165,202	\$4,780,902	\$48,728,370	
	Number of Parcels		32,928	56,901	13,608	9,945	113,382	
	\$1000 OR GREATER							
	Change in Taxes Payable		\$908,057	\$8,031,536	\$3,676,614	\$6,825,091	\$19,441,298	
	Number of Parcels		564	5,579	2,299	3,643	12,085	
	Total Change in Taxes Payable		-\$12,259,101	\$19,089,795	\$38,892,700	\$11,216,943	\$12,517,105	\$69,457,442
	Total Number of Parcels		56,771	146,559	130,528	32,336	23,563	389,757

On the whole, for those agricultural parcels where sufficient data is available to make estimates, about \$70 million in additional taxes will be paid by these properties in 2010. This comes to an average increase of about \$180 per parcel.

CONCLUSION

While many agricultural properties saw increases in taxable market value, this report has shown that many different factors have contributed to the tax burden increase realized by agricultural properties. These factors include:

- The expiration of the Limited Market Value program, which no longer limits increases in taxable market value to 15%
- A strong agricultural market, causing an increase in estimated market values for agricultural properties statewide (and also increasing the Green Acres taxable value for properties enrolled in the program)

- The effects of tier breaks and chaining on agricultural property values, which increase the classification rates for tax liability
- Loss of homestead to some agricultural properties, increasing the tax rate
- Lower value increases for other classifications of properties (e.g. residential and commercial properties), causing a greater shift of tax burden to agricultural properties
- Increases in the levies of local taxing jurisdictions

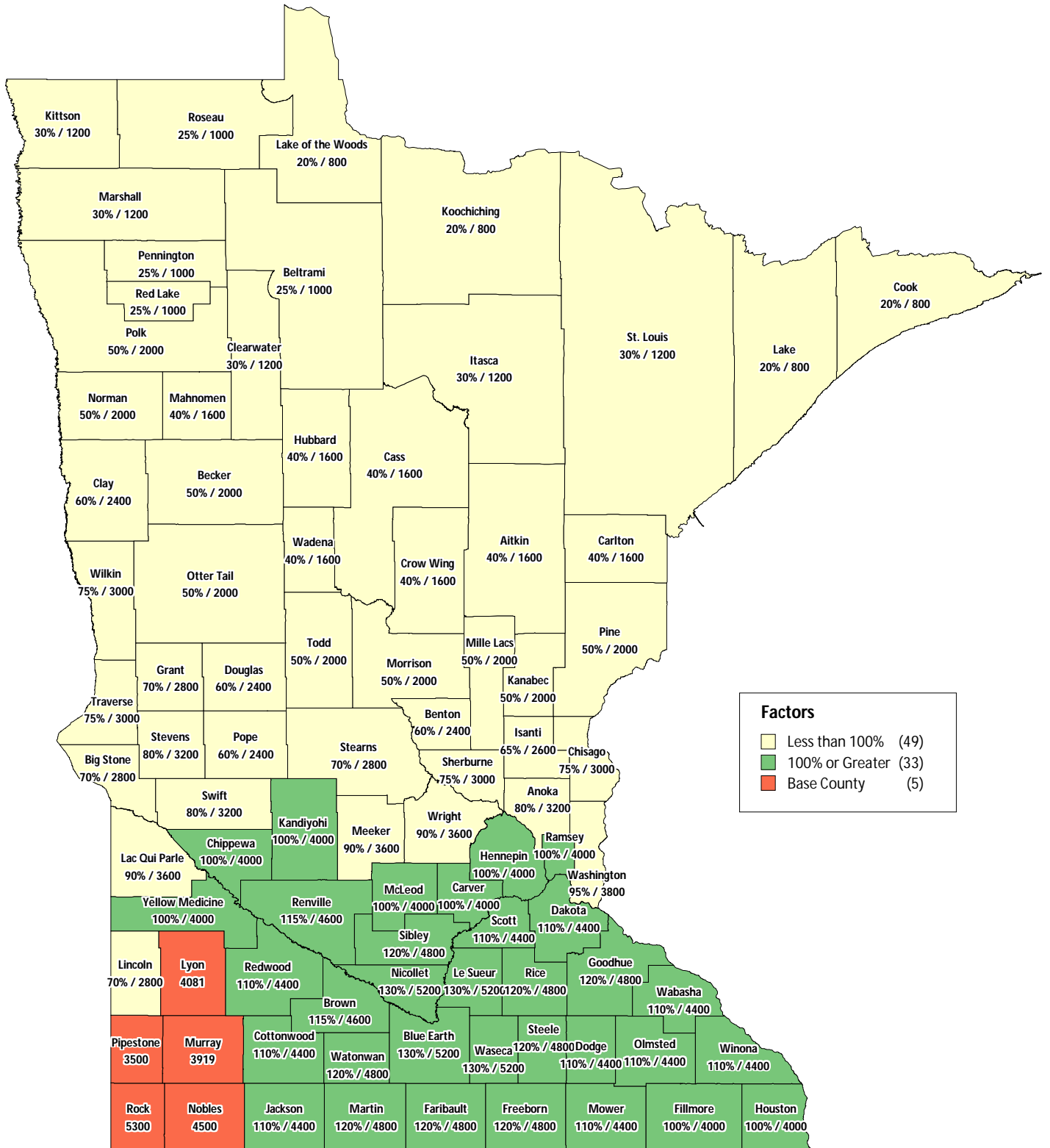
The decreases in estimated market values and increases in agricultural values also cause a reduction in the overall deferment of taxes provided by the Green Acres program. This would also affect the amount of deferred taxes a given property would have to pay back upon withdrawal from the program.

Green Acres and agricultural law changes did not singularly coincide with increases in the tax burdens of agricultural properties. Rather, the compounding effects of the above factors led to a shift of the tax burden to agricultural properties that had not been the norm for many years prior. The current softening of the agricultural market may change these trends in future years.

APPENDICES

APPENDIX A: MAP OF GREEN ACRES FACTORS 2010

(2010 Tilled Factor / 2010 Tilled Value)
 2010 2a Nontilled Value = 50% 2010 Tilled Value



APPENDIX B: DETERMINING THE AGRICULTURAL CLASSIFICATION

The Department of Revenue has provided assessors with the following objective factors that are considered before making a classification decision. It should also be noted that these factors are based on the preceding year's use of the land. These factors do not address agricultural land that is less than ten acres in size. Additionally, assessors must classify the land as class 2a if all or a portion of the agricultural use of that property is the leasing to, or use by, another person for agricultural purposes.

1. At least 10 contiguous acres being used to produce agricultural products for sale

Statute requires that there be at least 10 contiguous acres being used to produce an agricultural product for sale in order for a property to be class 2a agricultural land. "Contiguous" is defined by the dictionary provided by law.com as "connected or 'next to', usually meaning adjoining pieces of real estate." This means a property should not typically be classified as agricultural when there is a total of 10 acres if the acres are broken up in small plots.

In some rare circumstances, reasonable justification may warrant classifying smaller land masses as class 2a agricultural land if the agricultural land on the parcel totals at least 10 acres. To justify the classification in these cases, assessors use their expertise and professional judgment in considering certain criteria:

- Overall size (number of acres) of the parcel
- Number of acres used agriculturally in relation to overall acres
- Crop being raised and sold on the agricultural acres
- Composition of agriculturally-used acres (contiguous or noncontiguous)
 - Sizes of the noncontiguous portions used agriculturally or non-agriculturally
 - The locations of the agriculturally used acreage (distance, accessibility, etc.)
 - Whether the configuration of the agriculturally used acreage lend themselves to agricultural production
 - The use of the land separating the noncontiguous agriculturally-used acreage

Parcel lines or separate legal descriptions do not break up the contiguity of land masses used for agricultural purposes as long as the parcels are in the same ownership.

Lands that will be deemed "impractical to separate" (i.e. ditches, waterways, etc.) also do not break up the contiguity of the agricultural land.

2. Property is producing an agricultural product as defined by statute

The following are the agricultural products as defined in Minnesota Statutes 273.13, subdivision 23, paragraph (i):

- livestock, dairy animals, dairy products, poultry and poultry products, fur-bearing animals, horticultural and nursery stock, fruit of all kinds, vegetables, forage, grains, bees, and apiary products by the owner **or** the commercial boarding of horses if the boarding is done in conjunction with raising or cultivating agricultural products as listed in statute;
- fish bred for sale and consumption if the fish breeding occurs on land zoned for agricultural use;
- property which is owned and operated by nonprofit organizations used for equestrian activities, excluding racing;
- game birds and waterfowl bred and raised for use on a shooting preserve;
- insects primarily bred to be used as food for animals;

- trees, grown for sale as a crop, including short rotation woody crops, and not sold for timber, lumber, wood, or wood products; and
- maple syrup taken from trees grown by a person licensed by the Minnesota Department of Agriculture as a food processor.

Land must be being used to produce one of these products in order to potentially qualify as class 2a agricultural land.

3. Agricultural product is produced for the purpose of sale

The agricultural product produced on the land must be produced for the purpose of sale.

Although income should not be the sole determining factor, assessors are asked to consider the following criteria:

- Income (Schedule F) of agricultural products (crops, livestock, etc.)
- How the agricultural products were sold (food plots for wildlife do not qualify)
- Income earned in the past year from sale of animals
- The income from the agricultural acres divided by the total acres
- Rental income from agricultural lease

Federal and state conservation programs such as CRP, CREP, RIM, and other similar programs may also qualify for the agricultural classification, but to be eligible for Green Acres the land must have been in agricultural use before enrollment in the conservation program, and perpetual RIM does not qualify for Green Acres.

Split-Classifying Agricultural Property

Beyond land used for agricultural purposes and classified as 2a, assessors identify any acreage that is used for separate uses. If there is no separate use, then the property is classified as class 2a for the agricultural lands and class 2b for any rural vacant lands, and there is a potential for an agricultural homestead.

If there is an identifiable separate use, then the property is split-classified. There are typically five split-classification options, each dependent on the number of acres in agricultural production (therefore class 2a land). The options each have homestead eligibility implications.

1. If there are at least 10 contiguous acres used for agricultural purposes, those acres are classified as 2a land. The remainder of the land is classified according to its identifiable separate use(s) – potentially class 2b rural vacant lands, class 3a commercial, etc. The class 2a and 2b portions of the property may be eligible for homestead.

The following options (2 through 5) apply if there are less than 10 contiguous acres used for agricultural purposes (this does not apply to the intensive or exclusive provisions for properties under ten acres in size discussed earlier in this report). If there are less than 10 contiguous acres in agricultural production, no acres will be classified as 2a land and the property is not eligible for agricultural homestead or Green Acres.

2. If the parcel is less than 20 acres in size, unplatted, rural in character, and is not improved with a structure (unless the structure is minor and ancillary), the entire property is classified as 2b rural vacant land. The property on its own is not eligible for any type of homestead. (It could be linked to an agricultural homestead if the parcel is contiguous to class 2a land under the same ownership.)

3. If the parcel is less than 20 acres in size, and is improved with a structure (other than a minor or ancillary structure), the property is classified according to the use of the structure. If the structure is a residence, the property may be eligible for a residential homestead.
4. If the parcel is 20 or more acres in size, and is unplatted, rural in character, and not improved with a structure (unless the structure is minor and ancillary), the entire property is classified as 2b rural vacant land. The property on its own is not eligible for any type of homestead. (It could be linked to an agricultural homestead if the parcel is contiguous to class 2a land under the same ownership.)
5. If the parcel is 20 or more acres in size, and is improved with a structure (other than a minor or ancillary structure), the structure and the immediately surrounding 10 acres are classified according to the use of the structure. If the structure is a residence, that portion of the property may be eligible for a residential homestead. The remainder of the property is classified as 2b rural vacant land and on its own is not eligible for any type of homestead.

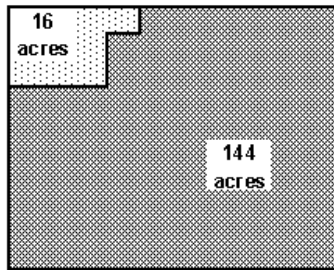
If, in (2) through (5) above, classification as 2b is not applicable because of enrollment in class 2c Managed Forest Land or some other program, or because another classification is appropriate based on the use of the land, that classification should be used in place of class 2b. There may also be instances where three or more different uses of the parcel are identified (for example, a house, 2b land, and commercial use). In these cases, the parcel may have multiple classifications.

In instances where there is a parcel with less than 10 tilled acres that are not eligible for 2a classification, the department has recommended these parcels be classified according to a statutorily-allowable classification – which is almost always class 2b rural vacant land. The statute for class 2b prohibits land being used for agricultural purposes, but it is our opinion that since there are not at least 10 acres in production, these lands are not used for agricultural purposes. If there is a structure, then the classification would be based on the use of the structure. For example, a parcel with 8 acres and a house would likely all be classified as residential.

Classification Determination Examples:

The following page has some illustrative examples of potential split-classifications when the rural vacant land (class 2b) classification is applicable.

Note: these are simplified examples for illustrative purposes only. They assume the only uses are class 2b rural vacant land or residential when there is a structure on the property. They also assume these parcels are not contiguous to any other parcels under the same ownership. Changing any of these parameters will likely change the results (as described in this document).



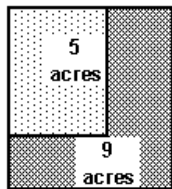
Example 1

A 160 acre unimproved parcel with 16 acres being tilled, and 144 acres of woods.

This property would be classified as follows:

Since the parcel has at least 10 contiguous acres used for agricultural purposes, you must classify the land according to its use. The 16 acres would be classified as 2a agricultural land and the 144 acres of woods would be classified as 2b rural vacant land.

The parcel, on its own, would not be eligible for any homestead.



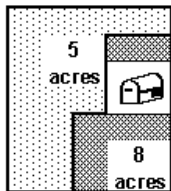
Example 2

A 14 acre unimproved parcel with 5 acres being tilled, and 9 acres of slough.

This property would be classified as follows:

Since the parcel is less than 20 acres, is not improved with any non-minor structures, and does not have at least 10 contiguous acres used for agricultural purposes, you must classify the entire property as 2b rural vacant land.

The parcel, on its own, would not be eligible for any homestead.



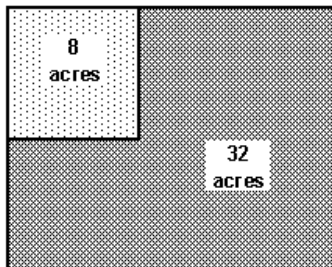
Example 3

A 14 acre parcel with a residence, 5 acres being tilled, and 8 acres of marsh.

This property would be classified as follows:

Since the parcel is less than 20 acres, is improved with a non-minor structure, and does not have at least 10 acres used for agricultural purposes, you must classify the entire property according to the use of the structure.

The parcel would be eligible for a homestead.



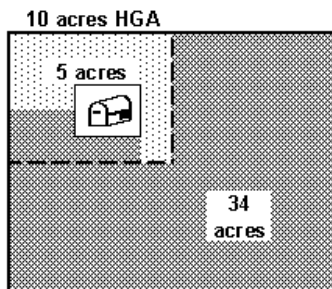
Example 4

A 40 acre unimproved parcel with 8 acres being tilled, and 32 acres of woods.

This property would be classified as follows:

Since the parcel is over 20 acres, is not improved with any non-minor structures, and does not have at least 10 contiguous acres used for agricultural purposes, you must classify the entire property as 2b rural vacant land.

The parcel, on its own, would not be eligible for any homestead.



Example 5

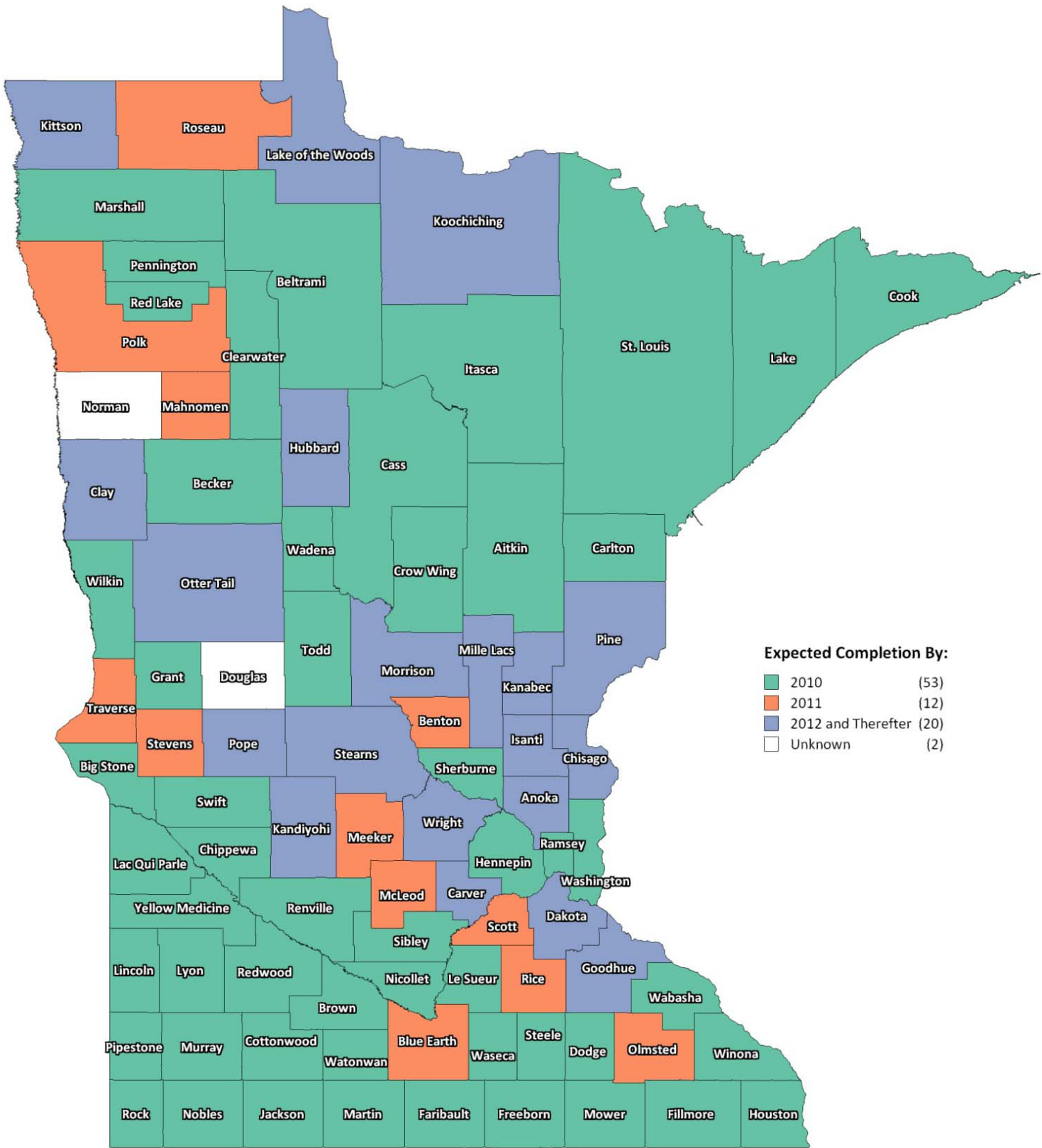
A 40 acre parcel with a residence, 5 acres being tilled, and 34 acres of marsh.

This property would be classified as follows:

Since the parcel is over 20 acres, contains a non-minor structure, and does not have at least 10 contiguous acres used for agricultural production, you must classify the immediately surrounding 10 acres according to the use of the structure. The remaining acres are classified as 2b rural vacant land.

The 10 acres would be eligible for a residential homestead.

APPENDIX C: EXPECTED COMPLETION DATE OF 2A/2B CONVERSION BY COUNTY



APPENDIX D: FACTORS USED TO DETERMINE WHETHER A PROPERTY IS “PRIMARILY DEVOTED TO AGRICULTURAL USE”

1. PHYSICAL

- The number of acres used agriculturally compared to total acres
- Number of acres used for residential purposes compared to those used agriculturally
- Visible indication of participation in actual farming activity
- Presence of physical structures for livestock, equipment, storage, etc. used to support agricultural activity
- Surrounding uses (i.e. farming versus development), zoning restrictions, etc.
- Historical use, current use
- Local market is highly susceptible to real estate speculation
- Current market trends for property
- The number and type of animals raised as agricultural products in comparison to the overall use of the property
- Length of time animals raised as agricultural products are physically located on the property each year
- Use of the property by the lessee, if rented

2. VALUATION

Although consideration of value is not appropriate for determining class, it still may be considered in determining “primarily devoted to” for Green Acres eligibility. Criteria to consider could be:

- Value as a residential site compared to the agricultural value
- Ag value compared to overall value of property
- Residential value compared to overall value of the property
- Ag value compared to other use value (e.g. commercial)

3. INCOME

Although income is no longer a required factor for determining Green Acres eligibility, assessors may include income in the list of criteria that could be considered when trying to address the “primarily devoted to” test. Suggested income criteria would be:

- The income from the class 2a acres divided by the total acres
- Income (Schedule F) of agricultural products (crops, livestock, etc.)
- The income from rented acres
 - Number of acres rented agriculturally
 - Number of acres rented for other use
 - Actual rent compared to market rents in the area
 - Rental income from agricultural use
 - Rental income from other use (i.e. commercial storage, house rental, etc.)
- Owner’s knowledge of farm markets
- Owner’s agricultural income compared to owner’s total income and/or other income-producing uses of the land
- Significant agricultural income compared to value of homestead

APPENDIX E: PARCELS ENROLLED IN GREEN ACRES

Percentage of 2a/2b Parcels Enrolled in Green Acres Program

(2009 Market Value by Parcel Data)

