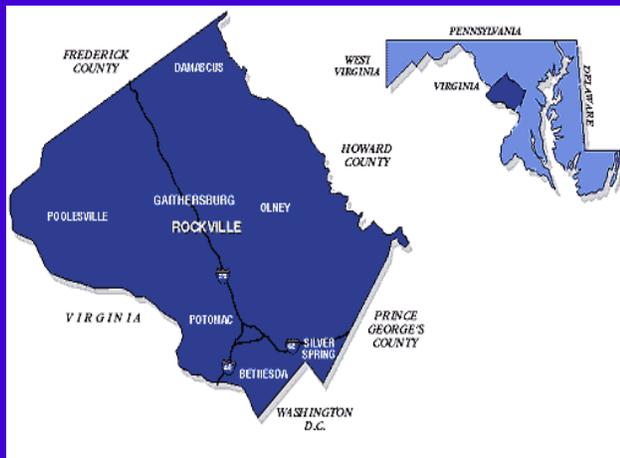




Formula Based Easement Valuations An Alternative to Standard Appraisals

Montgomery County's Agricultural Easement Program AEP

Montgomery County Demographics

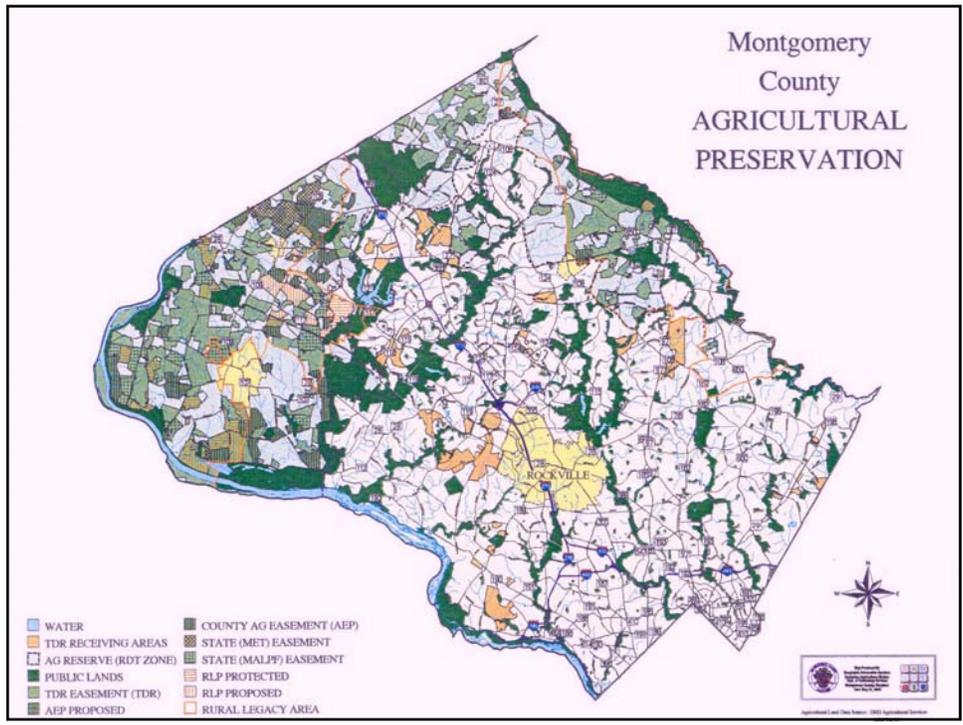
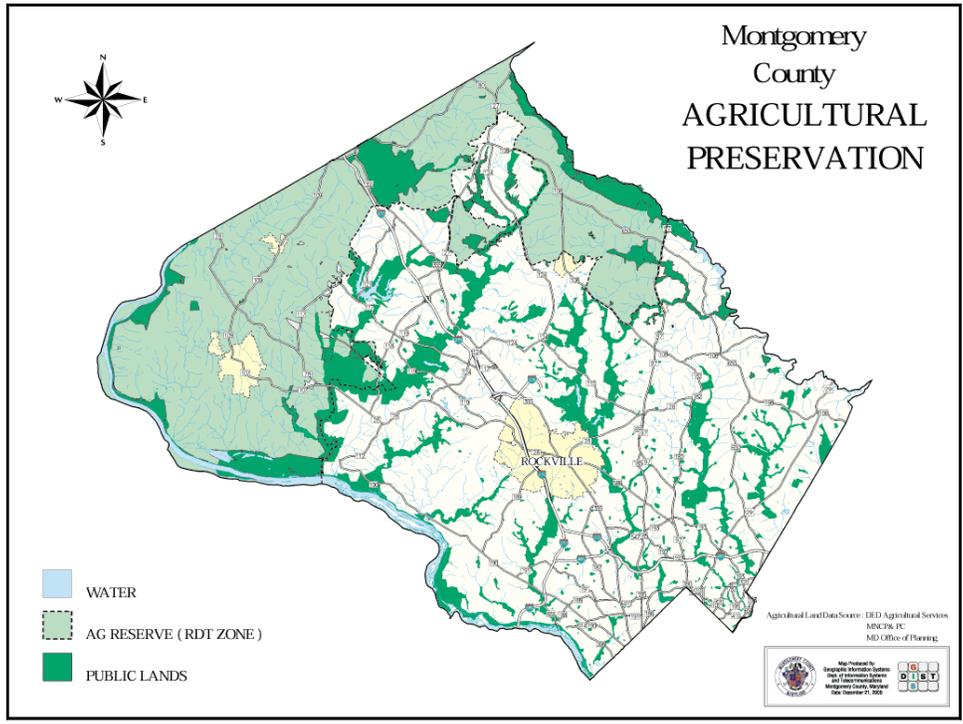


316,000 acres (County)

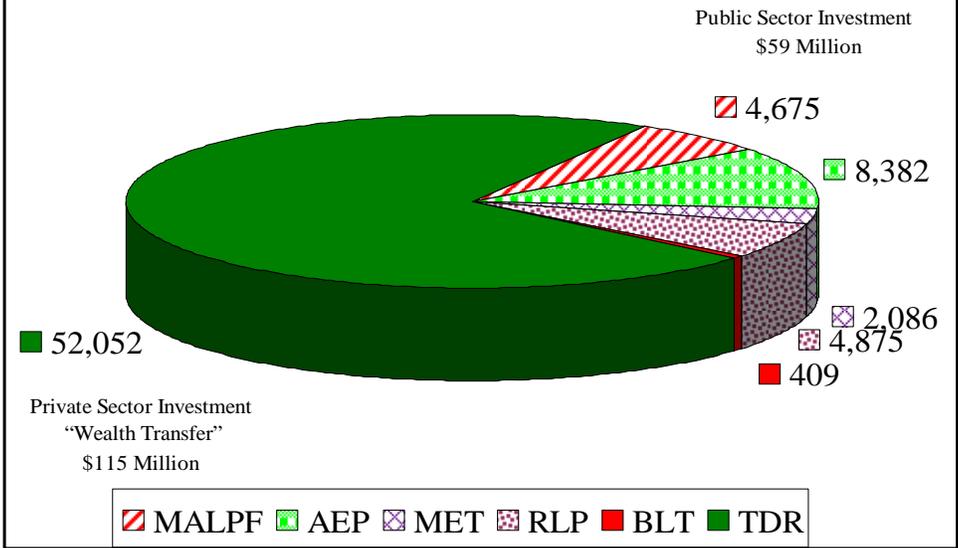
93,000 acres (AG)

**Population
1,004,079**

**98% Urban
2% Rural**



**Farmland Protected by Easements
as of June 30, 2013
72,479 acres**



Formula Based Land Appraisal System

- Montgomery County was one of the first local jurisdictions to employ a formula based appraisal system as an alternative to standard appraisals

Why a Formula Based Appraisal System?

- There was need to reduce length of time between application and settlement of easements
- Was viewed as a cost containment exercise
- Standardized a valuation process that reduced variability in appraised values
- Was a useful way to compare one property against another for ranking purposes
- Treated all Properties equally

Integrating a Formula Based Approach

- Montgomery County provided landowners the option of choosing the valuation method standard appraisal or the formula based appraisal method.
- The Formula Based Approach Provided Landowners the ability to know the maximum easement value the County could pay for an easement during their initial easement consultation appointment (vs waiting several months for the standard appraisals to be completed)

Integrating a Formula Based Approach

What we Learned

- Landowners preferred the Formula Based Appraisal Approach
- Over time, the standard appraisal process was phased out and then ultimately removed from both the enabling Law and Regulation
- Formula Based Approach is now the only valuation method by which County Ag Easements are acquired.

Integrating a Formula Based Approach

- Guidance for Implementing our Formula Based Approach was enabled through the law which governs our Agricultural Easement Program (Chapter 2B of the Montgomery County Code)
- Specific evaluation and valuation protocols were promulgated in the regulations governing the program (Executive Regulation 9-03AM)

Integrating a Formula Based Approach

- Over time adjustments were needed to the evaluation and valuation protocols which necessitated changes to the regulation.
- However flexibility was built into the Law and Regulation so that establishing an easement's base value could be set annually through Executive Order

Integrating a Formula Based Approach

- In establishing the annual base value, the County Executive receives a recommendation from the local agricultural preservation advisory board (APAB)
- The APAB provides to the County Executive evidence of current land values and easement values from other State easement programs purchasing easements in Montgomery County, County sponsored appraisal studies, analyzing the current market value for Transferrable Development Rights, County and State Tax Assessment Data, or any other evidence of land values.
- The County Executive through Executive Order establishes the annual base value on or before July 1 of each year, expressed as dollars per point.

History of Base Value

<u>FY</u>	<u>\$/Points</u>	<u>Base Value/Acre</u>
1989	\$7.00	\$700 per acre
1991	\$7.50	\$750 per acre
1999	\$8.00	\$800 per acre
2004	\$9.00	\$900 per acre
2005	\$15.00	\$1,500 per acre (1st 6 months FY05) \$1,700 per acre (2nd 6 months FY05)
2006-2011	\$17.00	\$1,700 per acre
2012	\$16.00	\$1,600 per acre
2013	\$15.50	\$1,550 per acre

Establishing the Easement Value Formula Based Approach

- Formula Based Approach through an added value formula – Points Appraisal
- Points awarded under each of the formula's attributes equate to a dollars/per acre purchase value
- Formula Based Approach determines the Maximum Easement Value
- To be eligible for the Maximum Easement Value a minimum of 1 TDR for every 25 acres must be retained with the property (Ag Zoning)

The Base Easement Value

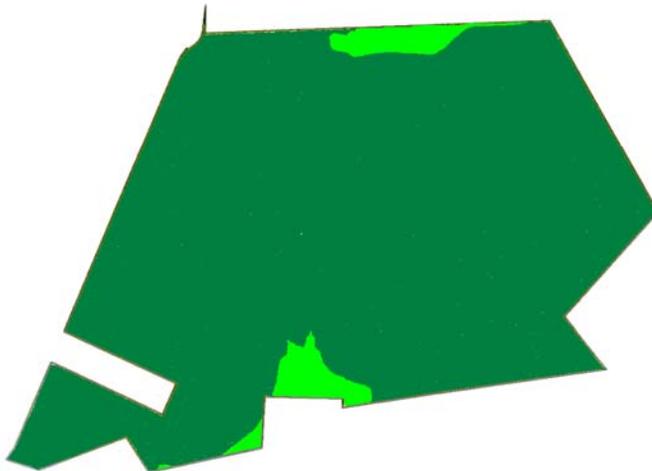
- Every Farm, regardless of size receives 100 points as the Easement Base Value.
- This value is expressed as a function of multiplying 100 points times the County Executive approved dollars per point
- Example: If the County Executive establishes Base Value at \$17.00 per point, then \$17.00 per point/acre times 100 points would equal a base value of \$1,700 per acre.



Base Value

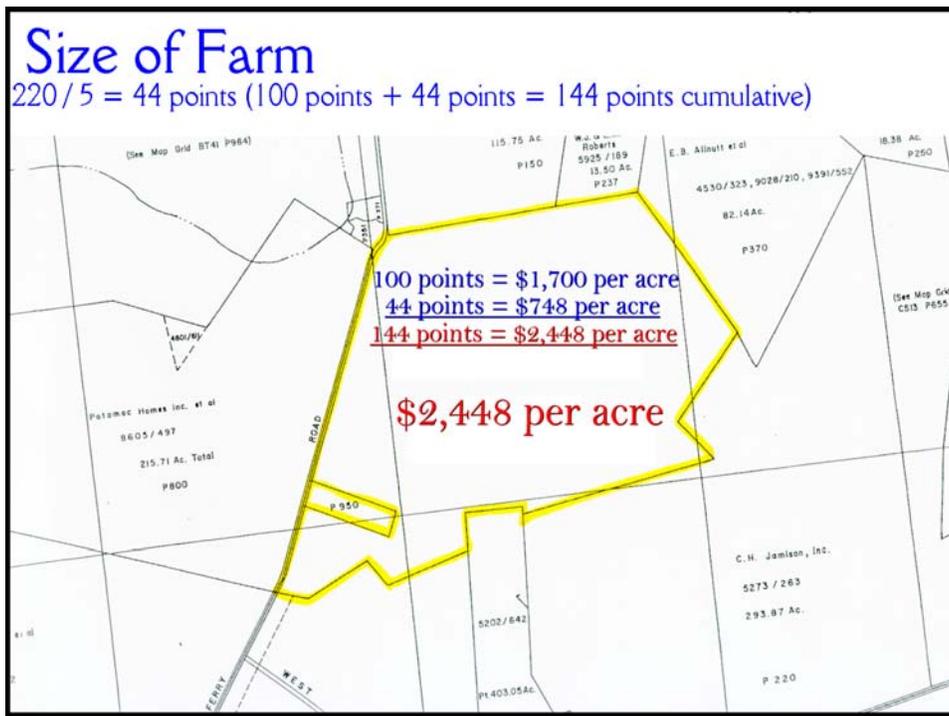
All Farms Receive 100 points

At \$17.00 per point/per acre X 100 Points = \$1,700 per acre as the Base Value



Added Value from the Base Value
The First Attribute – Size of Farm

- Determined by Deed, Recent Survey, or Tax Assessment Acreage
- For each 5 acres of Land, the added value is one percent of the base value.
- Example: If \$1,700 is set at the base, then 1% of the base would be \$17.00 dollars/point. 220 acres/5 = 44 points x \$17.00 dollars/point or \$748.00 in added value above the Base Value



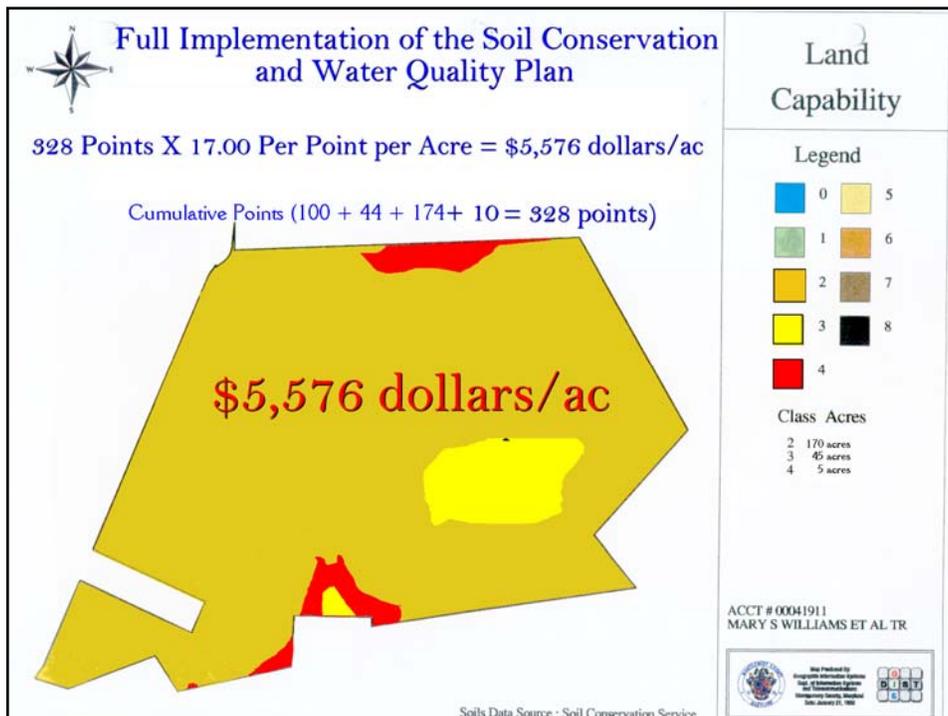
Added Value from the Base Value
Second Attribute – Land Quality

- Land Quality is Determined by Grantee
- Land Quality Varies by Soil Quality
- Soil Quality is a function of the USDA Soil Capability Classification System
- The Added Value is Assigned Accordingly:
 - 3 percent for each acre of Capability Class I
 - 2 percent of each acre of Capability Class II or Woodland Group I
 - 1 percent of each acre of Capability Class III or Woodland Group II



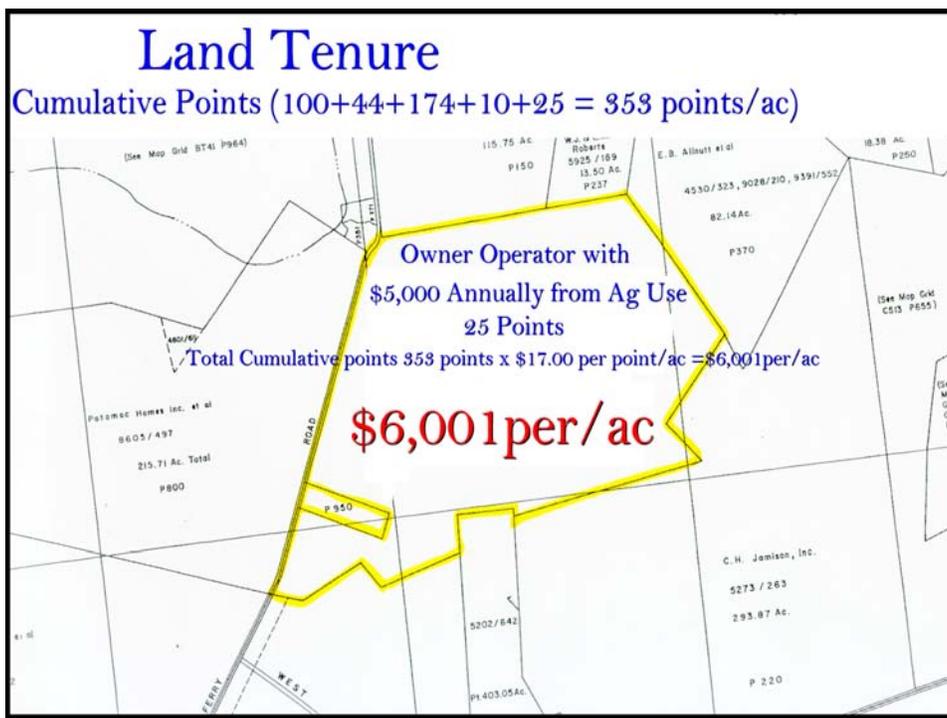
Added Value from the Base Value
Third Attribute – Full Implementation of Soil Conservation and Water Quality Plan

- 10 percent of the Base Value is added to the Formula for farms that have fully implemented a Soil Conservation and Water Quality Plan Approved by the Montgomery Soil Conservation District
- If Implemented Prior to Settlement, this added value is paid at settlement
- If not, to receive this added value the plan must be fully implemented within 2 years of the settlement date.
- Funds are held by the County pending MSCD certification



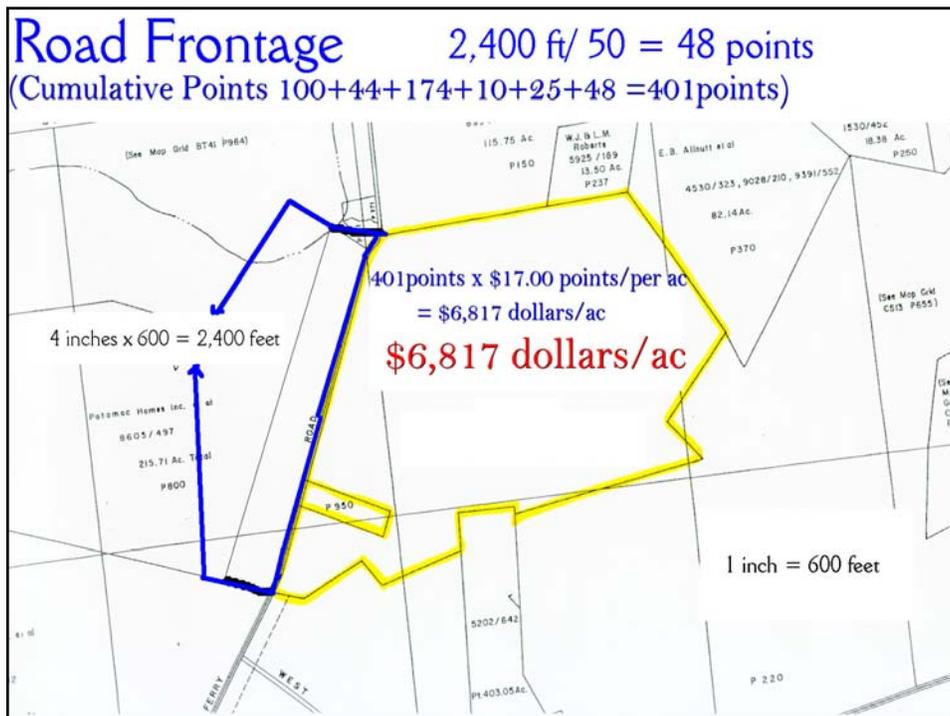
Added Value from the Base Value
Fourth Attribute –Land Tenure

- Awarded 25 percent of the Base Value if:
- Gross Income of \$5,000 Annually from Ag use
- If land is being purchased under a binding contract of sale and buyer certifies their intent to start a new Agricultural Operation or has entered into a long term lease with a third party that intends to use the land for agricultural purposes
- Landowner has an existing long term lease with a third party farmer intending to use the land for agricultural purposes



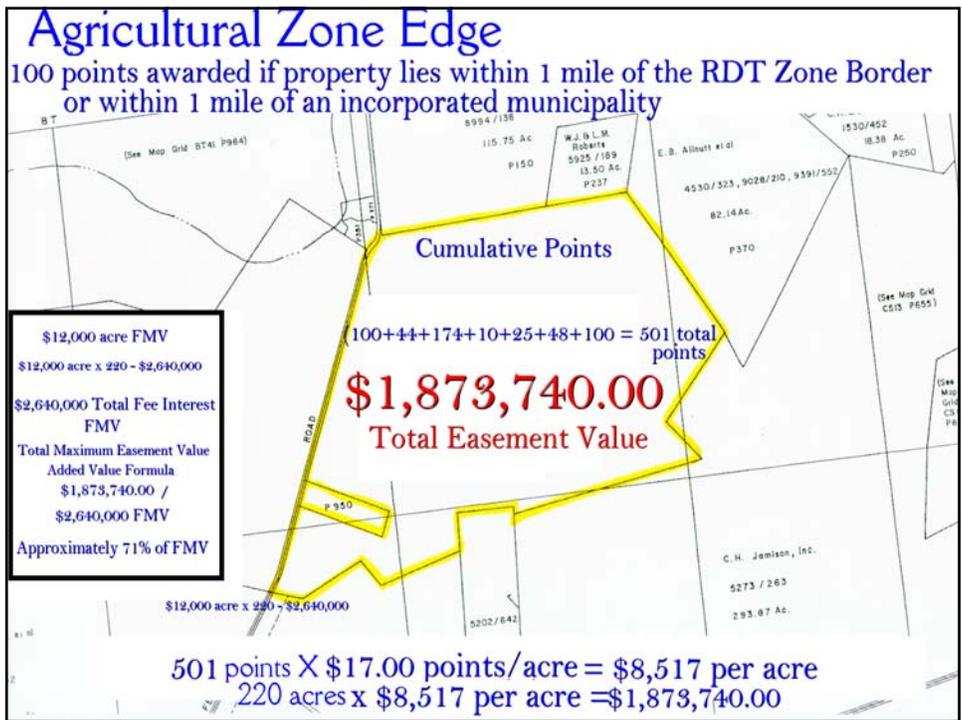
Added Value from the Base Value Fifth Attribute –Road Frontage

- The added value for road frontage is 1 percent of the Base Value for each 50 feet of frontage on a public road
- Maximum of 5,000 feet
- Road Frontage determined by Grantor, using survey or other verifiable documentation



Added Value from the Base Value
Sixth Attribute –Agricultural Zone Edge

- Awarded 100 points if the property is located within 1 mile of the border of Rural Density Transfer Zone (RDT), or
- 1 mile within the border of an incorporated municipality or town
- 1 mile is determined using scaled maps by the Grantee.



Formula Based Appraisals Approaches and Program Evolution

- In Montgomery County we have expanded the use of the formula based approach to other agricultural and conservation easement programs: These include the State's Rural Legacy Program (RLP) and the County's new Building Lot Termination Program (BLT)
- Numerous counties in the State of Maryland employ some type of formula based valuation methodology in administering their programs locally.

Summary

- Provides an alternative to the standard appraisal process
- Helps to streamline the program
- Should be reviewed annually so formula is properly calibrated
- Landowners acceptance of the approach
- Helps to contain some program costs
- Can be used as a tool to help prioritize acquisitions

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