



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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No. 81/78

July 14, 1981

TO COUNTY ASSESSORS:

THE VALUATION OF OPEN-SPACE PROPERTIES
DURING THE NON-RENEWAL PERIOD

We have received several inquiries concerning the proper method of valuing open-space properties when a notice of non-renewal has been filed and the restricted value determined by capitalization is higher than the unrestricted factored base year value.

Section 426 of the Revenue and Taxation Code contains the procedures for valuing open-space property during the period of non-renewal. Part 2 of this Section directs the assessors to "determine the value of the land by capitalization of income as provided in Section 423." Section 423 states in part that "unless a party to an instrument which creates an enforceable restriction expressly prohibits such a valuation, the valuation resulting from the capitalization of income method described in this section shall not exceed the valuation that would have resulted by calculations under Section 110.1, as though such property was not subject to an enforceable restriction in the base year." Therefore, if neither party to the contract objects and the factored unrestricted base year value is less than the currently computed restricted value, the factored base year value will be enrolled. The comparison of restricted and unrestricted value indicators must be made annually, for the relationship between them may change during the 9 year non-renewal period.

On the other hand, if either party to the contract objects to the comparison, the valuation procedure contained in Section 426 will apply and the current restricted value will be revised annually by the present worth of the difference between the current restricted value and the factored base year value discounted for the remainder of the non-renewal period.

A special circumstance exists when the city or county has implemented the provisions of Section 423.3 of the Revenue and Taxation Code, under which the assessor is required to compare the current restricted value to a percentage of the factored base year value and enroll the lower. As Section 423.3 is not specifically referred to in Section 426, it is the Board's position that the value determined under 423.3 does not enter into the non-renewal valuation process. Even if 423.3 is in effect, the value to enroll during the non-renewal period is the

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factored base year value when this figure is less than the current restricted value as calculated via the income approach (Section 423).

EXAMPLE I:

A farm is restricted by a Land Conservation Act contract and neither party to the contract has prohibited the procedure of valuing the property at the lower of the restricted value or the factored base year value. The property owner has filed a notice of non-renewal. The factored base year land value is \$1,800 per acre and the current value by capitalization of income is \$2,000.

The taxable value of the restricted property is \$1,800 per acre.

EXAMPLE II:

Make the same assumption as shown in Example I except one of the parties to the contract prohibits the use of the factored base year value when the restricted value is higher (Section 423(e)).

(1)	Factored base year value of the land	\$1,800.00
(2)	Current restricted value	2,000.00
(3)	Subtract (2) from (1)	\$ 200.00
(4)	Find the present worth of the amount in (3) using the current yield (11%) rate for 9 years $(\$200) \times .3909 =$	\$ 78.18
	(.3909 = present worth of 1 deferred 9 years at 11%)	
(5)	Add (2) and (4) $\$2,000 + (-\$78.18) =$	\$1,921.82
(6)	Assessed value per acre	\$1,921.82

EXAMPLE III:

Make the same assumptions as shown in Example I except the county has adopted the provisions in Section 423.3 and the taxable value for this property without consideration of the non-renewal process would be 80 percent of the factored base year value or \$1,440 (80% of \$1,800).

Since this property is under non-renewal and the provisions of Section 423.3 do not apply, the taxable value is \$1,800 per acre.

If you have any questions, contact Bill McKay at (916) 445-4982.

Sincerely,



Verne Walton, Chief
Assessment Standards Division

VW:hlo