

## Maricopa County Assessor's Office Internal Policy and Procedures

**Title:** Limited Property Value and Clarification of the B rule

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**Policy Category:** Valuation

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**Initiating Division:** Appraisal Division

**Revision:** Version 5

**Reviewed by:** Tracy Johnston, Chief Appraiser    **Approved by:** Tim Boncoskey, Chief Deputy

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**PURPOSE:** To provide clarification and an explanation on determining when to utilize the Limited Property Value rules. Emphasis is placed on the Rule B Calculation which may be used when there is a change in use of the property, new construction or the discovery that an omission had occurred on a property. This policy has been updated due to Senate Bill 1248.

Version 5 revises the following:

- Incorporation of changes to the B rule calculation as prescribed by SB 1248.
- Minor editorial revisions and clarifications to the B-rule sub-categories.

Version 5 will become effective with all 2021 tax year valuations.

### LIMITED PROPERTY VALUATION:

Arizona Revised Statutes sections 42-13301 and 42-13302 govern limited property value (LPV) calculations for real property. Note that the current LPV of a parcel shall not exceed its current full cash value (FCV).

#### **Rule A per A.R.S. 42-13301**

The typical means for calculating the LPV is by use of the A rule. The calculation of LPV using the A rule, beginning with the 2015 tax year, is to take the preceding tax year's LPV and add to it five percent of that value to arrive at the current year's LPV. The code will either be A1 (no improvements posted) or A2 (improvements posted).

#### **Rule B per A.R.S. 42-13302.A. and B.**

Use of the B rule is triggered for properties that fit in one of the following categories:

1. Property that was erroneously either totally or partially omitted from the property tax rolls, except as a result of this section.
2. Property for which a change of use has occurred since the preceding year.

3. Property that has been modified by construction, destruction or demolition since the preceding valuation year such that the total value of the modification is equal to or greater than fifteen percent of the full cash value.
4. Property that has been split or consolidated during the time from January 1 through September 30 of the valuation year, except when the split, subdivision or consolidation is initiated by a government entity.

Arizona law requires the Assessor's Office to identify when the above actions have occurred and to apply the proper Rule B code.

The Rule B ratios are in the form of percentages that are recalculated each year. The percentages are determined by looking at the LPVs and FCVs of all properties with similar classification or use and determining the percentage of FCV that the LPV represents on these similar properties.

There are 9 Rule B sub-categories that are used to explain the reason that a Rule B, rather than a Rule A, was utilized to compute the LPV. These sub-categories are:

**B1- New or previously-escaped parcel – vacant**

Used when a new parcel, with no improvements, is created from a split, creation of a subdivision, or a combine (consolidation). This use is for the current year of the creation of the parcel. This also can be used when a vacant parcel is first-time assessed. It should not be used with government-initiated splits (use A3\*).

**B2- New or previously-escaped parcel – improved**

Used when a new parcel, with improvements, is created from a split, creation of a subdivision, or a combine (consolidation). This use is for the current year of the creation of the parcel. This also can be used when an improved parcel is first-time assessed. It should not be used with government-initiated splits (use A3\*).

**B3 – Completed new improvement(s)**

Used for parcels in which the new improvements are 100% completed within the timeline for the current roll. This can also be used when escaped improvements are first-time assessed. Commercially, this will be used when there is a new improvement on the parcel. This can also be used when affixing a mobile home to a parcel.

**B4 – Removed or destroyed improvement(s)**

Used for parcels in which an existing improvement has been removed or destroyed. The Rule B will apply to the year that the improvement was removed from the records. This rule will also apply when a portion of the improvement has been destroyed and that portion is not useable in its current condition. B4 can be applied to the partial demo and then again when the demo is complete.

**B5 – Partially-completed improvement(s)**

Used when a parcel has a new improvement being constructed and the improvement will not be completed prior to the deadline of the current valuation year. This code is utilized when a property has a partial

complete that is less than 100%. Note that a Rule A can follow a B5. Parcels that have received a B5 must be manually looked at each year.

**B6 – Completed (i.e., previously partially-complete) improvement(s)**

A parcel that had a partially-completed improvement for a previous valuation year and is now complete and the valuation has increased by more than 15%.

**B7 – Utilized under the qualifications of A.R.S. 42-13302. B.**

This is not a true “B” rule. It allocates the LPV. This may be done based on a split, subdivision, or consolidation. The LPV of the original parcel(s) shall be apportioned to the new parcel (s) so the total LPV of the new parcel(s) equals the total LPV of the original parcel(s). This rule is only applied to resolution years (if any) and/ or a tax roll correction year and not the current valuation year. This may also be used for allocation of the LPV when transferring improvements after a sale.

**B8 – Physical change to existing improvement(s)**

Used for a parcel in which changes to the improvement(s) result in a change of value equal to or greater than 15%. The change may be upgrading or remodeling existing improvement(s), making additions to existing improvement(s), or the addition of site improvements.

The appraiser will need to run a calculation on the value before the changes are made to the property and then run a second one with the additional improvements or changes added into the system to confirm the percentage increase. These must be same year calculations and be based on the same methodology used for the initial valuation. A parcel history note must be created to explain the Rule B usage.

**B9 – Change in use**

There must be an **actual change of use** to trigger this B rule. A change of use may involve the change of classification and/or property use code (PUC) or a change in valuation methodology, but a change of legal class, PUC or methodology **does not** automatically trigger a **B9**.

Examples of changes that would qualify for a Rule **B9**:

- A single family residence that is now used for commercial purposes or vice versa.
- Vacant land that is now a lot used for commercial business.
- A parcel previously classified and valued as agricultural that lost its agricultural status and is now valued based on standard appraisal methodologies.
- A parcel that was previously not classified and valued as agricultural is now being valued as agricultural.
- To bring the level assessment equal to other properties, for example if common area is removed.

Note changes in property: The law does not state that property receives a Rule B when there is a change in legal classification and/or a change in the PUC (Property Use Code). A physical change to the property (as discussed under **B8**) or a change in the property’s use (as discussed under **B9**) will trigger a Rule B calculation which may also trigger a legal class change or a PUC change.

All appraisers should be careful about applying a B rule in two or more consecutive years. Back-to-back B rules are acceptable in the following situations:

- There was a demolition of an improvement and now there is a new improvement.
- The improvement was created as a partial complete and now it is complete.
- The improvement was created as a partial complete and the percent of completion is not 100%, but would qualify for another B rule due to an increase in value of more than 15%.
- A new improvement was added or created one year and the next year another improvement is added or created.
- There was a split one year which created a new parcel and now there are new improvements.

**The use of the B rule other than for the above exceptions requires administrative approval.**

Rule B **IS NOT USED** in the scenarios below, unless there has **also** been a physical change or a change in use:

- Parcels that no longer qualify for an exemption.
- Parcels that receive an exemption for the first time.
- Parcels that no longer qualify for historic designation.
- Parcels that qualify for historic designation the first time. Note that a class 7 or class 8 property might receive a **B8** due to the significant remodel that may have occurred but not due to the historic status.
- Parcels entering or leaving a Foreign Trade Zone.
- Property use code change.
- Change from primary residence classification to non-primary residence (rental classification) and vice-versa.
- Change of classification due to a daycare, church, or school going into a pre-existing commercial improvement.
- Change of classification due to qualification of a legal class change due to A.R.S. 42-12002.1.c. (Non-profit, 501(c).)

#### **ADDITIONAL NOTES:**

##### **\*Rule A3 per A.R.S. 42-13302. C. and D.**

Rule A3 is used when there is a split that was a result of an action initiated by a governmental entity, which includes corrective or administrative splits initiated by the Assessor's office. The LPV is calculated using the A rule and using the B rule; the lower of the two resulting values becomes the LPV. A3 would be used for the correct year.

The Department of Revenue has provided guidelines for assisting the Assessor's Office. The guidelines are located in the Assessment Procedure Manual in Part 3-Chapter 3.

Every parcel is independent regardless if it is associated to another parcel.

Version 5 supersedes all previous versions.