

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

**Title:** Rule B Policy

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**Reviewed by:** David Boisvert, Chief Appraiser **Approved by:** Tim Boncoskey, Chief Deputy

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### Limited Property Value Calculation per Title 42-13302

**Purpose:** To provide an explanation and examples on the determining when to utilize the Limited Property Value based on the change in use of the property, new construction or the discovery that an omission had occurred on a property. This procedure is commonly known as the Rule B Calculation.

Arizona law requires the assessor's office to identify that a change in use, addition or deletion of an improvement to a property had occurred, the appraisal staff is required to determine what change has occurred and follow either a statutory or a standard appraisal methodology to make the corrections to the property record. When the additional improvements whether due to new construction or due to an omission, the appraisal staff is required to determine if the Rule B process is utilized to calculate the limited property value. If the Rule B calculation is required then the appraiser shall, "at the level or percentage of the full cash value that is comparable to that of other properties of the same or similar use or classification". [When a new calculation of the full cash value is greater than ten percent from the previous year's full cash value and/or the square footage of the residential improvements increase more than five percent, then this policy shall be applied.](#)

**The following scenarios require this policy to be applied to calculate the limited property value.**

**The first scenario** would be the change in the use of the property. When the property changes from a residential use and is converted into a commercial use. An example of this would be if a residential home was no longer being utilized as a home, but was now being utilized as an office building. There are a number of different usages that would require a calculation under this policy. These changes in use could be agricultural, commercial, raw land to a plated subdivision or a converted residential rental property.

**The second scenario** would include the appraisal staff identifying that new improvements have been added, or the deletion of improvements to a property. This addition could be from the completing of a new structure to a partial completion of a new structure. The deletion could be from a partial deletion to the complete destruction of a structure. There is a number of Rule B Codes that are utilized depending on which specific scenario has occurred. The appraisal staff should utilize the correct rule B to reflect what had occurred on the property. The Codes are as follows:

B1- New or previously escaped parcel – vacant

(Created from a recorded document in which a parcel was cancelled due to the legal description has been changed and at least one new parcel has been created and is vacant. The new parcel(s) have not been taxed in the previous years) (A vacant parcel that had escaped being taxed for previous years)

B2- New or previously escaped parcel – improved

(Created from a recorded document in which a parcel was cancelled due to the legal description has been changed and at least one new parcel has been created and has an improvement on the parcel. The new parcel(s) have not been taxed in the previous years) (An improved parcel that had escaped from being taxed for previous years)

B3 – Completed new improvement(s)

(Parcels in which the new improvements are completed within one year from when the construction began) (There should only be a Rule B for the first year the improvements are taxable as completed) (If the improvements are partially complete for multiple years, then you must follow the B5 process)

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

(Parcels in which an existing improvement for previous years has now been destroyed removed from the property) (A portion of the improvement has been damaged significantly and that portion is not useable in its current condition)

**B5 – Partial Completion(s)**

(Parcels that have an improvement being built and the building will not be utilized prior to the deadline the current valuation year) (This code is utilized when a property has a partial complete that is less than 100% complete) (If the percentage completed moves more than 10% or the square footage of the improvements increase more than 5% from past year to the current valuation year should have this Rule B applied) (If the additional value being listed is less than 10%, or the square footage of the improvements decreases more than 5%, a Rule A should be utilized)

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

(Parcels that had a partially completed improvement for the previous valuation year and now is completed) (If the improvements were partially complete for multiple years, the B5 process should have been utilized prior to the tax year that the improvements are listed as 100% complete)

**B7 – Utilized under the qualifications of §42-13302. B.C.D (exceptions)**

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

(Parcel in which the improvement has been upgraded due to having to meet the current building codes) (this would include remodeled with permits that cover electrical and/or plumbing upgrades because the property owner is required to meet the most current building codes) (The appraiser will need to run a calculation on the value before the additional improvements are added in and then run a second one with the additional improvements added into the system to confirm the 10% increase or the square footage of the improvements increase more than 5%) (A detailed parcel history note shall be created to explain the Rule B usage)

**B9 – Change in use**

(Change in legal class 2.R to 1 etc.), (a change in use such as vacant land use to agricultural use – the legal class maintains the same at 2.R but the valuation method changes), (Other than the agricultural properties, a change in the Property Use Code along with a change in the legal class should receive a Rule B calculation) The only exception would be residential properties going from Class 3 to Class 4 or vice versa. The residential examples would stay a Rule A calculation.

If the property does not meet the scenarios stated above, a different calculation procedure is utilized which is defined in Title 42-13301 of the Arizona Statutes. This procedure allows for a maximum increase of five percent from the preceding year to the current tax year. (Commonly named the Rule A Calculation)

The Department of Revenue has provided guidelines for assisting the assessor office. The guidelines are located in the Assessment Procedure Manual in Part 3-Chapter 3.

**Hypothetical Examples for each Rule B scenario:**

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

#1 – For the current tax year a large parcel with a land size of 20 acres is being split into 20 one-acre residential lots. The average ratio between the Limited Property Value to the Full Cash Value is 92%.

Previous tax year

Original parcel	
Full cash Value 20 ac. X 15,000/ac	= \$300,000
Limited Property Value	= \$285,000

Current tax year

New Parcels

Full Cash Value 1 acre x \$30,000 = \$30,000 x 20 = \$600,000  
Limited Property Value = \$27,600 (92%) x 20 = \$552,000

#2 – For the current tax year a parcel that has land size of 5 acres is being split into two parcels in order to sell .25 acres of land to the property owner that is adjacent on the west side of the property line. The balance of the land size is 4.75 acres. The legal class will be 2.R (16%). The average ratio between the Limited Property Value of the Full Cash Value is 88%.

Previous tax year

Original parcel

Full cash Value 5 ac. X 22,000/ac = \$110,000  
Limited Property Value = \$110,000

Current tax year

New Parcel

Full Cash Value 4.75 acres x \$22,000 = \$104,500  
Limited Property Value = \$ 91,960 (88%)

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

#1 – An appraiser has discovered that house has been on a property for multiple years and the office had not verified or listed the home on the property record card. The owner of the home does occupy the residence. The legal class is changed from class 2.R to class 3. The average ratio between the Limited Property Value of the Full Cash Value is 88%.

Previous tax year

Listed as Vacant land 1 acre x 50,000 = \$ 50,000  
Limited Property Value = \$ 50,000

Current tax year

Land value (20% of Total) = \$ 36,000  
Improvement value = \$144,000  
Total full cash value = \$180,000  
Limited Property Value = \$158,400 (88%)

#2 – A property had been valued as small office building on the Cost Approach for the past years. The legal classification is class 1.2 (19%). During a canvass project the appraiser discovers that a second building has been constructed and is being leased out to another business. The M&S Costs for the original building increased 11% from the previous year to the current year. The average ratio between the Limited Property Value of the Full Cash Value is 85%.

Previous tax year

Land value = \$100,000  
Improvement value = \$300,000  
Total full cash value = \$400,000  
Limited Property Value = \$355,000

Current tax year

Land value = \$100,000  
Improvement value = \$380,000 (The 11% increase equates to \$330,000)  
Total full cash value = \$480,000  
Limited Property Value = \$408,000 (85%)

**B3 – Completed new improvement(s)**

#1 – A building permit is received in January of the current year and is completed in October of the same year. The

(Cont'd) construction is a new barn for a property that was vacant in the previous years. The property is classified for agricultural use. The legal class is 2.R for both the previous years and will be maintained. The average ratio between the Limited Property Value of the Full Cash Value is 75%.

Previous tax year

Valued agriculturally 50 acres x 3,500 = \$175,000  
 Limited Property Value = \$160,200

Current tax year

Land value 50 acres x 3,500 = \$175,000  
 Improvement value = \$120,000  
 Total full cash value = \$295,000  
 Limited Property Value = \$221,250 (75%)

#2 – A building permit is received in March of the current year for a residential home and is completed in October of the same year. The legal class was 2R for the vacant land and will be changed to class 4 since the home is going to be utilized as a rental property. The average ratio between the Limited Property Value of the Full Cash Value is 95%.

Previous tax year

Valued as Vacant Land = \$60,000  
 Limited Property Value = \$60,000

Current tax year

Land value = \$ 40,000  
 Improvement value = \$160,000  
 Total full cash value = \$200,000  
 Limited Property Value = \$190,000 (95%)

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

#1 – A demolition permit is received in the office in April of the current year for the demolition of a residential home in a subdivision. The appraiser field inspects the property in June of the current year and verifies that the residence has been demolished as well as the foundation has been removed. The legal class was 3 for owner occupied and will be changed to class 2.R since the property will be vacant land. The land Value will reflect an improved residential lot based on the market sales in the same market area. The average ratio between the Limited Property Value of the Full Cash Value is 95%.

Previous tax year

Land value = \$ 40,000  
 Improvement value = \$160,000  
 Total full cash value = \$200,000  
 Limited Property Value = \$195,000

Current tax year

Valued as Vacant Land = \$ 60,000  
 Limited Property Value = \$ 57,000(95%)

#2 – A retail strip mall experiences a fire which destroys three of the five rentable spaces. All five spaces have the same square footage. The appraiser filed inspected the property and confirmed that two of the rental spaces are still 100% operational. The M&S Costs for the original building increased 10% from the previous year to the current year. The legal class would stay the same at class 1.2. The average ratio between the Limited Property Value of the Full Cash Value is 85%.

Previous tax year

Land value	= \$100,000
Improvement value	= \$590,000
Total full cash value	= \$590,000
Limited Property Value	= \$500,000

Current tax year

Land value	= \$100,000
Improvement value	= \$259,600 (The 10% increase to \$649,000 x 40% operational)
Total full cash value	= \$480,000
Limited Property Value	= \$408,000 (85%)

**B5 – Partial Completion(s)**

#1 – Construction of a residential home begins in June of the current year. The appraiser field inspects the property in October of the current year. The construction is partially complete with the exterior walls and the roof in place. The legal class is changed from class 2.R to class 4. The full cash value is set at 50% of the market value as if 100% completed. The average ratio between the Limited Property Value of the Full Cash Value is 95%.

Previous tax year

Land value	= \$55,000
Improvement value	= \$0
Total full cash value	= \$55,000
Limited Property Value	= \$48,500

Current tax year

Land value	= \$ 48,000
Improvement value	= \$192,000
Total full cash value	= \$240,000 (50% of the market value \$480,000)
Limited Property Value	= \$228,000 (95%)

#2 – The same house listed above is field inspected again in October the following year. The appraiser discovers that there has been no further construction since the previous year. The market has increased by 8% since last year. Per Statute the limited property value will be calculated at a 5% increase from the previous year. (A2)

Previous tax year

Land value	= \$ 48,000
Improvement value	= \$192,000
Total full cash value	= \$240,000 (50% of the market value \$480,000)
Limited Property Value	= \$228,000 (95%)

Current tax year

Land value	= \$ 51,700
Improvement value	= \$207,400
Total full cash value	= \$259,200 (50% of market value \$518,400 (8% market increase))
Limited Property Value	= \$239,400 (5% increase from the previous years LPV)

#3 – A permit is received for the construction of a bank branch office in February of the current year. The appraiser went out in September of the same year and confirmed that the foundation, exterior walls and the roof were in place. The appraiser determines that the building is 50% completed. The legal class is changed from class 2.R to class 1.2. The full cash value is set at 50% of the market value as if 100% completed. The average ratio between the Limited Property Value of the Full Cash Value is 78%.

Previous tax year

Land value	= \$300,000
Improvement value	= \$0
Total full cash value	= \$ 55,000
Limited Property Value	= \$298,000

Current tax year

Land value	= \$300,000
Improvement value	= \$600,000 (50% of the cost value \$1,200,000)
Total full cash value	= \$900,000
Limited Property Value	= \$675,000 (78%)

#4 – The same bank listed above is field inspected again in October the following year. The appraiser discovers that there has been no further construction since the previous year. The cost components have increased by 5% since last year. The commercial land values increased 6% from the previous year. Per Statute the limited property value will be calculated at a 5% increase from the previous year. (A2)

Previous tax year

Land value	= \$300,000
Improvement value	= \$600,000 (50% of the cost value \$1,200,000)
Total full cash value	= \$900,000
Limited Property Value	= \$675,000

Current tax year

Land value	= \$318,000 (6% increase from in the market)
Improvement value	= \$600,000 (50% of the cost value \$1,200,000)
Total full cash value	= \$918,000
Limited Property Value	= \$708,750 (5% increase from the previous year's LPV)

#5 – A permit to add 800 square feet to retail store is received. The original square footage was 5,500. The appraiser goes out in November and discovers the project has been completed. The cost components have increased by 9% since last year. The commercial land values increased 10% from the previous year. The average ratio between the Limited Property Value of the Full Cash Value is 78%.

Previous tax year

Land value	= \$280,000
Improvement value	= \$660,000
Total full cash value	= \$900,000
Limited Property Value	= \$675,000

Current tax year

Land value	= \$ 308,000 (10% increase from in the market)
Improvement value	= \$ 824,000 (9% increase on the cost from last year - \$719,400)
Total full cash value	= \$1,132,000
Limited Property Value	= \$ 882,960 (78%)

#6 – A permit is received for the construction of an addition to a residential property. The addition is 200 square feet on a home that has 2,500 square feet of living space. The appraiser field inspects the property and confirms that the construction has been completed. The market has increased 8% from the previous year. A 7% increase based on the additional square footage, so the Rule A calculation of a 5% increase is utilized.

Previous tax year

Land value	= \$ 59,000
Improvement value	= \$236,000
Total full cash value	= \$295,000 (\$118.00 per square foot)
Limited Property Value	= \$271,000

Current tax year

Land value	= \$ 69,000
Improvement value	= \$ 275,000
Total full cash value	= \$ 344,000 (8% increase market original square footage - \$318,600)
Limited Property Value	= \$ 284,550 (5% increase from the previous LPV)

#7 – A permit is received for the construction of an addition to a residential property. The addition has 400 square feet on a warehouse that has 7,000 square feet. The appraiser field inspects the property and confirms that the construction has been completed. This property is valued on the sales comparable methodology. The market the previous year was \$80.00 per square foot. The market has increased 10% for the current year. A 5% increase based on the additional square footage, so the Rule A calculation of a 5% increase is utilized.

Previous tax year

Land value	= \$112 ,000
Improvement value	= \$448,000
Total full cash value	= \$560,000 (\$80.00 per square foot)
Limited Property Value	= \$500,000

Current tax year

Land value	= \$ 130,200
Improvement value	= \$ 521,000
Total full cash value	= \$ 651,200 (10% increase market original sq. ft. - \$616,000)
Limited Property Value	= \$ 525,000 (5% increase from the previous LPV)

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

#1 – The appraiser filed inspected a residential home that was listed at 50% complete for the previous year. The appraiser confirmed that the home is 100% complete and has a Certificate of Occupancy. The legal class is maintained at class 4. The residential market has increased by 12% from the previous year. The average ratio between the Limited Property Value of the Full Cash Value is 90%.

Previous tax year

Land value	= \$ 25,000
Improvement value	= \$ 100,000
Total full cash value	= \$ 125,000 (50% the full cash value based on the market \$250,000)
Limited Property Value	= \$ 110,000

Current tax year

Land value	= \$ 56,000
Improvement value	= \$ 224,000
Total full cash value	= \$ 280,000 (12% increase market)
Limited Property Value	= \$ 252,000 (90%)

#2 – A certificate of completion is received for an equestrian stable in April of the current year. The appraiser goes out to field to confirm the information. The previous improvement value was based on 75% completion. The stable is valued based on the cost approach and the cost went up 4% from the previous year. The agricultural land rates have gone down by 6% from the previous year. The average ratio between the Limited Property Value of the Full Cash Value is 66%.

Previous tax year

Land value	= \$ 180,000
Improvement value	= \$ 637,500 (75% of the cost approach \$850,000)
Total full cash value	= \$ 817,500
Limited Property Value	= \$ 588,600

Current tax year

Land value	= \$ 169,200 (6% decrease on the agricultural rates)
Improvement value	= \$ 884,000 (4% increase in the cost components)
Total full cash value	= \$1,053,200
Limited Property Value	= \$ 695,112 (66%)

**B7 – Utilized under the qualifications of §42-13302. B.C.D (exceptions)**

#1 – A vacant 2.00 acre parcel is split in order to widen the adjacent roadway. The land size of the property being transferred to the municipality is .33 acres. This parcel is exempt from taxation. The new parcel with the same owner is now 1.67 acres will have a land rate of \$45,000 per acre. The average ratio between the Limited Property Value of the Full Cash Value is 80%.

Previous tax year

Original parcel	
Full cash Value 2 ac. X 42,000/ac	= \$84,000
Limited Property Value	= \$63,000

Current tax year

New Parcel	
Full Cash Value 4.75 acres x \$22,000	= \$ 75,200
Limited Property Value	= \$ 60,160
(Rule A calculation = \$63,000 x 1.05 = \$66,150)	
(Rule B calculation = \$75,200 x .80 = \$60,160)	

#2 – The Highway Department is purchasing a .75 acre strip of land from a storage unit complex. The original land size is 3.25 acres. The new parcel is now 2.50 acres and the land rate of \$45,000 per acre. The cost value has increased by 7% from the previous year. The average ratio between the Limited Property Value of the Full Cash Value is 90%.

Previous tax year

Original parcel	
Land Value 3.25 ac. X 35,000/ac	= \$113,750
Improvement Value	= \$460,000
Total Full Cash Value	= \$573,750
Limited Property Value	= \$500,000

Current tax year

New Parcel	
Full Cash Value 2.50 ac. x \$45,000/ac	= \$112,500
Improvement Value	= \$492,200 (7% increase in the cost components)
Total Full Cash Value	= \$604,700
Limited Property Value	= \$524,000
(Rule A calculation = \$500,000 x 1.05 = \$525,000)	
(Rule B calculation = \$604,700 x .90 = \$544,230)	

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

#1 – The office received permits to completely remodel the interior of an office building in January of the current year.



(Cont'd) The permits were for the updating of the electrical and plumbing as well as moving interior walls. The building codes for the electrical were updated just last year. The appraiser went out and confirmed that the construction had been completed in November of the current year. This property is valued utilizing the sales comparison approach. The increase in the total full cash value with the remodel is 25% the previous year's value. The market percentage of increase is 11% from the previous year. The average ratio between the Limited Property Value of the Full Cash Value is 92%.

<u>Previous tax year</u>	
Land value	= \$ 300,000
Improvement value	= \$ 1,200,000
Total full cash value	= \$ 1,500,000
Limited Property Value	= \$ 1,325,000

<u>Current tax year</u>	
Land value	= \$ 333,000
Improvement value	= \$1,332,000
Total full cash value	= \$1,875,000 (11% increase in the market is \$1,665,000)
Limited Property Value	= \$1,725,000 (92%)

#2 – The office received permits to for a remodel of the interior of warehouse building in May of the current year. The permits were for a change in the flooring cover, a few interior walls to enlarge the office area and upgrading of the restroom facilities. There are no requirements to upgrade to meet current building codes. The appraiser went out and confirmed that the construction had been completed in September of the current year. This property is valued utilizing the cost approach. The increase in the total full cash value with the remodel is 13% from the previous year's value. The component costs have increased by 8% from the previous year based on the Marshall & Swift Cost information. The land value did not increase. The remodel provided a 5% increase in the full cash value.

<u>Previous tax year</u>	
Land value	= \$ 320,000
Improvement value	= \$ 890,000
Total full cash value	= \$1,210,000
Limited Property Value	= \$1,125,300

<u>Current tax year</u>	
Land value	= \$ 320,000
Improvement value	= \$1,047,300
Total full cash value	= \$1,367,300 (8% increase per M&S Costs \$961,200)
Limited Property Value	= \$1,181,565 (5% increase from the previous LPV)

#3 – A permit is received for the construction of a restaurant that requires some structural improvement. The north wall has shifted and needs to be reconstructed and two new support columns are required within the floor plane in order to reinforce the roof structure. The appraiser receives a Certificate of Completion and field inspects to confirm. The appraiser determines that the north walls were reconstructed and the two columns are also holding a new center beam which runs from one end to the other end of the ceiling. This property is valued utilizing the cost approach. The increase in the total full cash value with the remodel is 34% from the previous year's value. The component costs have increased by 6% from the previous year based on the Marshall & Swift Cost information. The land value increased 8% from the previous year. The remodel provided a 28% increase in the full cash value. The average ratio between the Limited Property Value of the Full Cash Value is 81%.

<u>Previous tax year</u>	
Land value	= \$ 185,000
Improvement value	= \$ 690,000
Total full cash value	= \$ 875,000
Limited Property Value	= \$ 665,000

Current tax year

Land value	= \$ 199,800
Improvement value	= \$ 972,700
Total full cash value	= \$ 1,172,500 (6% increase per M&S Costs \$731,400)
Limited Property Value	= \$ 949,725 (81%)

**B9 – Change in use**

#1 – A vacant land parcel is being removed from the agricultural classification because the property no longer meets the requirements. The property was sold in June of the current year and the new owner cancelled the lease with the farmer. The new owner did notify the office, so the appraiser went out and confirmed that there is no farming activity as of September of the current year. The agricultural rate is \$1,400 per acre and the market land rate is \$30,000 per acre. The legal class will not be changed due to both specific uses are classified as 2.R. The average ratio between the Limited Property Value of the Full Cash Value is 78%.

Previous tax year

Agricultural Land value 32.50 ac x 1,400/ac	= \$45,500
Limited Property Value	= \$45,500

Current tax year

Valued as Vacant Land 32.50 ac x 35,000/ac	= \$975,000
Limited Property Value	= \$760,500 (78%)

#2 – A permit is received for the conversion of a residential home into a commercial office in December of the previous year. The appraiser field inspects and confirms the construction has been complete in September of the current year. The improvement has been completely remodeled internally as well as an 8 space parking lot constructed for the customers and employees. The legal class is changed from class 4 to class 1.12 to reflect the current use as an office. The average ratio between the Limited Property Value of the Full Cash Value for similar properties is 85%.

Previous tax year

Land value	= \$ 23,600
Improvement value	= \$ 94,000
Total full cash value	= \$ 118,000
Limited Property Value	= \$ 118,000
Legal Class 4	

Current tax year

Land value	= \$ 52,000
Improvement value	= \$ 410,000
Total full cash value	= \$ 462,000
Limited Property Value	= \$ 392,700 (85%)
Legal Class 1.12	

**Note:** The majority of these examples are focused on the addition of improvements or remodeling of the improvements. If there is a declining market, the appraiser shall follow the same process. If there is a 10% or more change in the full cash with the additions or remodeling, the Rule B calculation should be utilized.