Division of Property Valuation

FEEDLOT APPRAISAL GUIDE

FOR THE

STATE OF KANSAS

2022

EFFECTIVE DATE OF APPRAISAL GUIDE

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Commercial Feedlots

Background

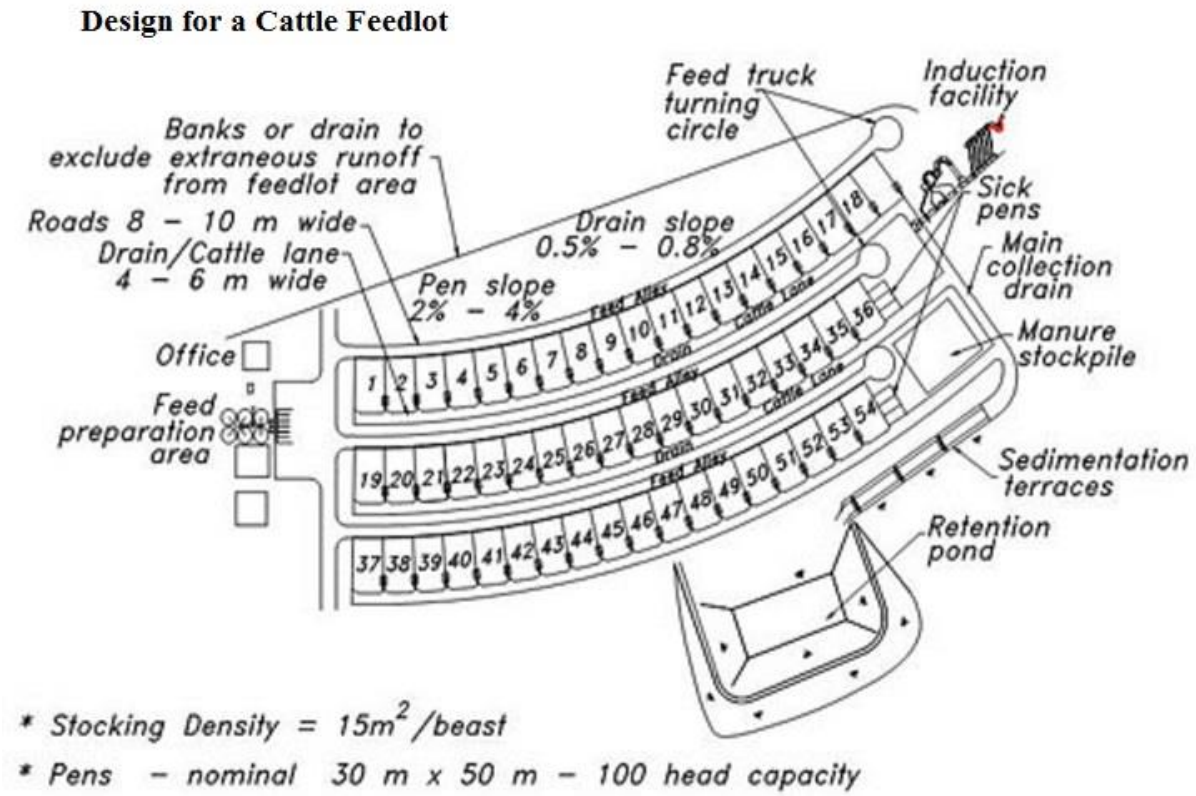
Commercial feedlots are an important segment of the Kansas economy and have been a part of this economy since the late 1940's and early 1950's. Most of the commercial feedlots are located in the western one-third of the State of Kansas with the highest concentration in the southwest corner. An ideal semi-arid climate and an abundance of feed grains and forages have been the major influence in the concentration of this industry in Western Kansas.

There have been substantial changes during the past 70 years as a result of technology relating to cattle breeds produced, feeding techniques, rations, and feed processing facilities. Today, there are many commercial feedlots that have state-of-the art feed processing facilities that are nearly 100 percent automated. The two principal types of feed mills in use today are the steam flake and dry roll or a combination of the two.

The Kansas cattle industry is big business. On January 1, 2021, Kansas ranked third in the United States with 6.5 million head of cattle. In 2018, the state ranked second nationally in commercial cattle processed with 6.7 million head. Cattle and calves represented 51.5% of the 2018 Kansas agricultural cash receipts. Also, in 2018 Kansas ranked third nationally in the value of meat and veal exported at $1 billion.

How to value a commercial feedlot

Kansas Statutes require ad valorem taxation based on market value with consideration given to each approach in the appraisal process (KSA 79-503a). The valuation of feed yards is similar to other properties that require segregation of the components of business value, going-concern value, real estate assets, furniture, and fixtures. The commercial feed yard is a special purpose property. Most feed yards are in a continuous state of expansion and re-birth to accommodate changing trends. This results in a mix of improvements and historical ages that reflect a conglomerate age making depreciation difficult to estimate accurately. The **feed processing equipment** represents a substantial percentage of the total cost of the feed yard. Hours of use, similar to tractor hours, determine the amount of depreciation rather than age. The value of the feed yard property is related to its market share (location). Environmental regulations make new construction costly beyond normal development costs resulting in few, if any, new turn-key projects. Today, purchase of existing facilities is the trend with expansion and re-habilitation the norm.



Above is a design for a commercial feedlot intended as an example only.

First steps for valuing commercial feedlots

There are two basic questions that need to be answered before this guide can be used for valuing a commercial feedlot. First and foremost, (1) it must be determined if the feedlot is a commercial feedlot and if so, (2) what is the cattle head capacity that will be used for valuation purposes.

For property tax purposes what is a commercial feedlot?

Commercial Feedlot Definition -
For the purposes of this valuation guide, a feedlot is a commercial feedlot when: 1) the feedlot capacity is a 1,000 head or more of cattle and 2) licensed (by KDA/DOAH) for 1,000 head or more and 3) the feed pens are permanent with some type of feed mill or at least minimal feed handling/processing capabilities.

A feedlot is a commercial feedlot when: 1) the feed yard capacity is a 1,000 head or more of cattle and 2) licensed with KS Department of Agriculture (KDA) Division of Animal Health (DOAH) for 1,000 or more and 3) the feed pens are permanent with some type of feed mill or at least minimal feed handling/processing capabilities. K.S.A 47-1501 requires licensing of livestock operations with more than 1,000 head by the state livestock commissioner. This includes cattle, pigs, sheep and goats. The most current list is provided on the PVD web site. The Kansas Department of Agriculture has licensed over 240 beef facilities. Be aware that some facilities may be licensed for less than a 1,000 head of cattle, and these should be excluded as a commercial feedlot. On the other hand, some facilities may not be on the list of licensed feedlots and in cases that it is clear they feed 1,000 head or more, the county appraiser should consider these lots as a commercial feedlot and valued using this guide.

The commercial classification is not defined by whose cattle are being fed. Family operated feedlots can be classified as commercial. However, the commercial classification would not be used for operations which run large numbers of cattle on wheat pasture and supplements.

For property tax purposes how is feedlot capacity determined?

Commercial Feedlot Capacity Definition -
For these reasons, the county appraiser should use a bunk capacity rate of 12 inches per head. **The bunk capacity should be listed on the feedlot worksheet in the appropriate location for all linear feet of feed bunk to determine total feedlot capacity.**

Commercial feedlots are bought and sold on the basis of dollars per head of capacity. Capacity can mean different numbers to different people but is usually thought of in terms of licensed capacity or bunk space capacity (referred to as bunk capacity hereafter). The licensed capacity is generally a range i.e. 300 – 999 or 1,000 – 2,999 or 3,000 – 5,999. **The licensed capacity should be recorded on the feedlot worksheet as reference information only.**

Bunk capacity can also vary based on management decisions but will usually be predicated on a bunk space per head of 9 to 16 inches. The maturity/size of cattle, number of times per day that cattle are fed and climatic conditions of the general area are usually the controlling factors in making a determination of allocated bunk space per head. The climate in Kansas can vary substantially from east to west and north to south. Hence, there is no recognized standard, uniform feeding practice in

place. For these reasons, the county appraiser should use a bunk capacity rate of 12 inches per head. **The bunk capacity should be listed on the feedlot worksheet in the appropriate location**. **It is the bunk capacity that will be used for purposes of valuing a commercial feedlot.** This provides uniformity in the determination of sale units regardless of the feed lot location or the feeding practice in place for a specific feedlot. Feeding practice relates to the number of times per day the cattle are fed and should not be confused with the type of feed processing facilities.

Most sales of commercial feedlots involve a combination of assets, including rolling stock, feed inventory, management-in-place, an established clientele, an on-going business operation, real property fixed assets, and personal property including machinery and equipment, and in some cases, an animal herd. Therefore, it is necessary to account for each component in the analysis of sales data and it is essential to abstract all moneys paid for non-realty and machinery and equipment assets. This accounts for uninformed opinions in the market and hearsay prices that confuse actual realty values on a per head basis, the common denominator or unit of comparison found in the market place.

The amount paid for the rolling stock and feed inventory can usually be determined from an interview with the buyer or seller; however, the amount paid for management in place, established clientele and on-going business is more elusive. There is insufficient data to abstract an amount for those intangible assets. Experts in this field advise intangibles average 20 percent of the total sale price. It is believed this general estimate represents the market.

In the valuation schedule, sales have been categorized by the primary feed processing facility: **steam-flake mill, dry roll mill, and minimum feed processing yards,** with the overall quality and condition judged on the basis of good, average, and fair.

There may be some feedlots in the steam-flake category that are a step above the good quality condition rating. Therefore, an additional value estimate has been determined based on a rating of very good quality and condition that may be applicable to some feedlots in recognition of their unique status.

The valuation schedule is based on dollars per head for each category and reflects market value for only the fixed real property assets and personal property fixtures with a suggested guideline for the percentage exemption of the machinery and equipment that may qualify per K.S.A.-79-201j or K.S.A. 79-223. For purposes of this guide, the percentage used is based on the original cost of this equipment in relation to the total investment cost new. Requests for consideration of a greater percentage must be documented. The cost of the feed bunks and waterers is about 1% to 2% of the cost of the yard. For purposes of this guide, $3.00 per head was used to include both items. The valuation column (page 13) reflects only the real property with personal property already deducted.

EXPLANATION OF TYPE AND QUALITY

Commercial feedlots are built and designed to feed cattle for a variety of reasons, i.e., raising dairy heifers, backgrounding, finishing, etc. The primary difference between custom feeding operations is the mix between personnel and machinery and equipment used to secure, feed, and treat the animal population housed in the facility. A major investment in machinery and equipment lessens the need for personnel. A minimum investment in machinery and equipment increases the need for intense manual labor and greater numbers of personnel. An efficient combination of the components of production results in the maximum profit for the operation.

Since feeding is the primary function of the business, the degree and extent of the use of grain bins, augers, conveyors, hoppers, grinders, steamers, boilers, and auxiliary grain handling equipment used in the preparation, combination, mix and transportation of the ration / diet to the feed bunker determines the quality of the feedlot operation. There are three broad categories with combinations typical, because the investment in a custom feeding operation is a continuing process of expansion and streamlining to maximize the efficiency of the enterprise. Other differences will include the efficiency of the layout that will change over time due to expansion, the age and construction quality and condition of the structural improvements, corrals, pens, alleyways, and degree of hard surfacing throughout the lot.

STRUCTURAL IMPROVEMENTS

Administration office, hospital, horse barn, storage sheds and storage bunkers, silos, housing for mill operations and auxiliary buildings.

GOOD QUALITY

Administration office building is brick or stone or quality wood siding, partitioned offices, commercial ceilings, carpet and tile floor finish; access to scales. All other structures constructed with high quality building materials, generally concrete or steel, adequate overhead doors and clearances to accommodate rolling stock.

AVERAGE QUALITY

Office buildings will be adequate, medium frame with some partitions and concrete or tile floors; access to commodity truck scales; with other buildings constructed of concrete block, light steel, or wood frame, sufficient doors to accommodate rolling stock. Some buildings are open-sided with pole frame construction.

FAIR QUALITY

Office building is generally a small low quality wood frame structure or pre-fabricated, modular office with few partitions. Other buildings will be minimum quality wood frame or pole frame with light steel or open siding. Equipment storage is minimal.

FEEDING PENS AND ALLEYS

GOOD QUALITY

Proper slope and adequate drainage for pens and alleys in this category is a requirement. Feed alleys should be 20 feet wide or wider with hard surface or minimum of compacted gravel. Feed bunks are either continuous pour concrete or good quality pre-fabricated with cable or pipe neck rail. Fencing is typically pipe, cable, or a combination; minimum lodge pine pole with heavy-uniform poles.

AVERAGE QUALITY

Pens and alleys will not vary a great deal from the "good" category, but pen slope and drainage is usually not as good and there may be some mounding in the center of the pen to provide mud relief for livestock. Alleys will generally be less wide and the surface will be less costly. Feed bunks may be cracked in some places and misaligned with less expensive neck rail.

FAIR QUALITY

Pens and alleys will have poor slope and drainage. Alleys will be narrow, poorly drained with a diminished surface. Feed bunks will generally be older style, pre-fabricated with some broken and misaligned. Fencing is light, non-uniform lodge pole pine, wood board, wire or combination. Watering facilities may be inadequate with drinking space per head preventing adequate consumption per animal.

CORRAL AND WORKING FACILITY

GOOD QUALITY

Cattle receiving and loading areas are sufficient in size to accommodate several truck loads at the same time. All-weather access is provided by hard surface. Cattle chutes are heavy duty quality, adjustable, with curved approach and enclosed sides. Crowding area and sorting pens are located near livestock scales and are usually constructed with heavy pipe. Working areas have a well-equipped hospital with hydraulic squeeze chute and storage space enclosed in a good quality building.

AVERAGE QUALITY

Facilities are similar to the "good" category, but the over-all construction quality is less, and deferred maintenance is apparent. The hospital facility might be an enclosed pole frame shed building or economy steel sided structure, minimal sizing, and not as completely equipped as the good quality category.

FAIR QUALITY

Cattle receiving and loading area is usually limited in size and is not improved with an all-weather surface. Chutes are generally set in place and constructed of wood. Working area fencing is usually wood or light weight pipe. Processing area is not covered, has manual operated squeeze chute and the hospital holding area usually contains only a small shed which may not be enclosed.

FEED PROCESSING FACILITIES

The efficiency of the feeding system has the primary effect on the economic success of the enterprise, excluding market timing. Feed processing facilities are the primary concern of owners, buyers, managers, and customers, because the type and quality of the feed mill used is believed to have direct bearing on the value of the animal unit being fed for market. The manner of feeding is a management decision based on factors which include the cost of the commodities used. Most commercial feedlots have a primary milling procedure and a secondary procedure to provide flexibility for economic reasons.

1.) STEAM FLAKE: WEIGH AND MIX IN MILL: Full Batch Mill Operation

Mills that include a steam flaker and weighing and mixing equipment in mill is the most complete and equipment intensive. The equipment takes all of the raw commodities used in cattle feeding rations (corn, milo, wheat, hay, fat, molasses, micro ingredients, and others) and produces a bunk- ready ration. The grains are **conveyed to steam chambers** where the temperature is approximately 210 degrees, passing through the steam chamber the grain is **flaked and then conveyed** to another part of the mill where it is **weighed and mixed** with other feed ingredients. In another part of the mill, hay is chopped, **weighed and mixed** with molasses, fat and micro ingredients into the final ration. In this full batch mill system. all ingredients are mixed together by equipment in the mill before it is loaded into a feed-truck and transported to the feed bunk. Approximately 65% of the mill operation is machinery and equipment which constitutes approximately 23% of the total investment in real estate and machinery and equipment excluding rolling equipment such as trucks, loaders, spreaders.

2.) STEAM FLAKE: WEIGH SYSTEM IN MILL: Mix Batch in Feed-Truck

Steam flaked without mixing is similar to the weigh and mix (1), except the various commodities are weighed separately into a specialized feed-truck that mixes the batch before transporting to the feed bunk. Approximately 58% of the mill operation is

machinery and equipment which constitutes approximately 16% of the total investment in real estate and machinery and equipment excluding rolling equipment such as trucks, loaders, spreaders.

3.) STEAM FLAKE: BUNKER SYSTEM: WEIGH AND MIX IN FEED-TRUCK.

In the steam flaked bunker system the flaked grain is transported by auger to storage bunkers outside the mill. Equipment such as tractor with front-end bucket is used to load the grain into feed-trucks that are equipped with scales to allocate each grain by weight and mixed in the truck transporting the batch to the bunker. Approximately 50% of the mill operation is machinery and equipment which constitutes approximately 12% of the total investment in real estate and machinery and equipment excluding rolling equipment such as trucks, loaders, spreaders.

4.) DRY ROLL MILL: WEIGH AND MIX ON FEED-TRUCK.

A dry roll mill is the least intensive investment in mill machinery and equipment. The grain is conveyed to and through a grinding system without benefit of steam flaking. All ingredients are loaded on a feed-truck, mixed, and transported to the feed bunkers. Approximately 50% of the mill operation is machinery and equipment which constitutes approximately 12% of the total investment in real estate and machinery and equipment excluding rolling equipment such as trucks, loaders, spreaders.

GOOD QUALITY

A new mill or a mill which has been completely rehabilitated within the past five years with major improvements such as replacing black carbon steel with stainless steel, airlift or stainless steel conveyor, in-mill mixer, roughage conveyor transported to mixer chamber, enclosed dump pits and feed truck loading, clam-shell dumps, conditioners and scalpers. Mill has high quality and advanced technology in handling feed and various ration ingredients.

AVERAGE QUALITY

This denotes mills that are between five and ten years of age, well maintained, but have had only minor re-conditioning. Overhead holding tanks and steam chambers are usually 10 gauge black carbon steel with original legs and grinders. Usually includes less quality, obsolete technology, less efficient.

FAIR QUALITY

Mills in this category will generally be older than ten years with little, if any, re-conditioning, except roller replacements, minimum maintenance on remaining mill equipment. Usually includes poor efficiency in handling grain, protein, and roughage.

LAND VALUE

The Feedlot Valuation Guidelines are stated in dollars per head, **including the land value**. To achieve the requirement to list the land value separate from the improvement value the following schedule has been included. Using the land values listed in the schedule will provide consistency for both the feedlot owners and the counties. The land values listed are the region average grassland values (rounded to the nearest $10) as published by the Department of Agricultural Economics, Kansas State University in the *2020 Kansas Land Values Book – Pasture/Hay for each Kansas land region.*

Northwest 10	**North Central 40**	**Northeast 70**
$1,250	**$1,730**	**$2,920**
West Central 20	**Central 50**	**East Central 80**
$950	**$1,680**	**$2,390**
Southwest 30	**South Central 60**	**Southeast 90**
$970	**$1,820**	**$2,010**

In cases where the feedlot value is low, do not allow land value to exceed 50% of the total feedlot value. The 2022 PVD feedlot worksheet will make this adjustment where needed.

REAL PROPERTY vs PERSONAL PROPERTY FIXTURES & EQUIPMENT

In Kansas, current law provides in part, "(i)n determining the classification of property for ad valorem tax purposes, the county appraiser shall conform to the definitions of real and personal property in Kansas law and to the factors set forth in the personal property guide devised or prescribed by the director of property valuation…". *K.S.A. 2018 Supp. 79-261(b)(1)*

K.S.A. 79-102 defines real property and personal property in the following manner:

> "That the terms "real property," "real estate," and "land" … shall include not only the land itself, but all buildings, fixtures, improvements, mines, minerals, quarries, mineral springs and wells, rights and privileges appertaining thereto."
>
> "The term "personal property" shall include every tangible thing which is the subject of ownership, not forming part or parcel of real property…"

Where the proper classification of commercial and industrial machinery and equipment is not clearly determined from the definitions of real and personal property provided in Kansas law, the appraiser shall use the three-part fixture law test as set forth in the personal property guide prescribed by the director of property valuation pursuant to K.S.A. 75-5105a(b), and amendments thereto, and shall consider the following:

(A) The annexation of the machinery and equipment to the real estate;

(B) the adaptation to the use of the realty to which it is attached and determination whether the property at issue serves the real estate; and

(C) the intention of the party making the annexation, based on the nature of the item affixed; the relation and situation of the party making the annexation; the structure and mode of annexation; and the purpose or use for which the annexation was made. *K.S.A. 2016 Supp. 79-261(b)(2)*

Annexation: Physical attachment alone does not determine realty v. personalty. In 1889, the Kansas Supreme Court (A.T. & S.F. Rld. Co. v. Morgan, 42 Kan. 23, 28 {1889}):

> "there is scarcely any kind of machinery, however complex in its character, or no matter how firmly held in its place, which may not with care be taken from its fastenings and moved without any serious injury to the structure where it may have been operated and to which it may have been attached." Id., 29.

> and, "On the other hand, there are very many things although not attached to the realty which become real property by their use -- keys to a house, blinds and shutters to the windows, fences and fence rails etc." Id., 29.
>
> and, "The test of whether real estate is benefited by the act of annexation has been repeatedly applied by the courts, to determine whether the chattel annexed became a fixture or not." Id., 29.

In determining whether an item is benefited by the act of annexation, look at whether the removal of the item causes a reduction in the fair market value of the realty, or requires a significant amount of time or cost to restore the realty to its original use. If the removal of an item results in no change in the market value of the realty, then it is personal property. If the removal of an item results in a reduction in the market value of the realty, then it is part of the realty.

Adaptation:

> "One of the tests of whether a chattel retains its character or becomes a fixture is the uses to which it is put. If it be placed on the land for the purpose of improving it and to make it more valuable, that is evidence that it is a fixture and not personal property." Id. 29

Thus, when considering the adaptation of the item to the realty, consider whether the item at issue is necessary and useful to the land. If the item adds value and enhances the realty, it is part of the realty. If it does not add value or improve the realty, it is personal property.

Intent:

> "Intent is inferred from the nature of the item affixed, the relation and situation of the party making the annexation, the structure and mode of annexation, and the purpose or use for which the annexation was made." Eaves v. Estes, 10 Kan. 314, 316, 15 Am. Rep. 345 (1872).

In the Eaves case, the court was considering whether a steam engine affixed to real estate was real or personal property. Because of the ambiguity of the situation, the court found it appropriate to decide the matter based upon the written intent of the parties that was expressed in a chattel mortgage. In the language of the chattel mortgage, it was clear that the party affixing the engine to the real estate intended for the engine to remain personal property.

Intent is based on the nature of the item affixed; the relation and situation of the party making the annexation; the structure and mode of annexation; and the purpose or use for which the annexation was made. *K.S.A. 2016 Supp. 79-261(b)(2)*

CONCLUSION OF REAL VS PERSONAL

REAL ESTATE	PERSONAL PROPERTY
Land, excavation, concrete, bins, structural steel, grain storage and handling system. Corrals, fencing, feeding pens, alleyways Structures including administration building, storage sheds, machine sheds, hospital.	Mill machinery, equipment, bin accessories, flakers and relay systems, scalping, blending, and hot water system, batching system, boiler system and liquid storage, roughage system, because the mill does not add value to the real estate. It adds value and improves the business use but not the real estate. Waterers and feed bunks, portable or attached.

ROLLING STOCK & EQUIPMENT

Personal property actually and regularly used in any farming or ranching operation is exempt based on K.S.A. 79-201j or as commercial and industrial machinery and equipment under K.S.A. 79-223. In addition to some feed handling and processing equipment, the exemptions may apply to other machinery and equipment **used at the feed yard**.

This includes, but is not limited to: mixer-feeder trucks, tractors, loaders, scrapers, irrigation equipment, forage blowers, bunk reading equipment, manure spreaders, equipment used to dispense pharmaceuticals (drug machine), boilers used in the processing of feed, squeeze chutes, welding equipment, stock tanks, feed bunks, hay grinders, chisels, grain grinders, portable corrals, post hole diggers, bunk sweepers, spraying equipment, skid steer loaders, scales, mowers, farm trailers, grain moisture testers, manure composting equipment, milking equipment, and equipment parts and supplies for the above.

Remember that **motor vehicles** (trucks) **are taxable according to K.S.A. 79-5101, *et seq*.** This may include trucks such as manure spreader trucks, which may not be registered or tagged because they rarely leave the farm, ranch or feedlot. This does not include the trucks with mounted feeder/mixer feeder equipment.

If in doubt on any item of personal property, have the taxpayer file an appeal with BOTA (Directive # 92-025).

2022 FEEDLOT VALUATION GUIDELINES

Variations of Steam-Flake Mill Facilities

Weigh and Mix/Full Batch in Mill

Condition	*Real Estate Only*
Very Good Quality & Condition	**$94 to $75 per head**
Good Quality & Condition	**$74 to $55 per head**
Average Quality & Condition	**$55 to $44 per head**
Fair Quality & Condition	**$43 to $28 per head**

Weigh System in Mill, Mix Batch in Feed Truck

Condition	*Real Estate Only*
Good Quality & Condition	**$81 to $60 per head**
Average Quality & Condition	**$60 to $48 per head**
Fair Quality & Condition	**$47 to $31 per head**

Bunker System—Weigh and Mix Batch in Feed-Truck

Condition	*Real Estate Only*
Good Quality & Condition	**$84 to $63 per head**
Average Quality & Condition	**$62 to $50 per head**
Fair Quality & Condition	**$49 to $33 per head**

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Variations of Non-Steam Flake Facilities

Dry Roll Mill Facility

Condition	*Real Estate Only*
Good Quality & Condition	**$72 to $50 per head**
Average Quality & Condition	**$49 to $33 per head**
Fair Quality & Condition	**$32 to $24 per head**

Minimum Feed Processing Facility

Condition	*Real Estate Only*
Good Quality & Condition	**$45 to $30 per head**
Average Quality & Condition	**$29 to $21 per head**
Fair Quality & Condition	**$20 to $12 per head**

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EXAMPLE – LARGE FEEDLOT

100,000 HEAD FEED YARD					$/Head
100,000 head	x	$75 per head		=	$7,500,000
		Real Estate		=	$7,500,000
Less Land (acres)	80	x	$790	=	- $63,200
	(Southwest – 30)				
		Improvements		=	$7,436,800
		Land		=	+ $63,200
		Feed Yard Value		=	$7,500,000

EXAMPLE – SMALL FEEDLOT

1,500 HEAD FEED YARD					$/Head
1,500 head	x	$15 per head		=	$22,500
		Real Estate		=	$22,500
Less Land (acres)	35	x	$2,570	=	- ~~$89,950~~
	(East Central – 80)			=	- $11,250
		Improvements		=	$11,250
		Land		=	+ $11,250
		Feed Yard Value		=	$22,500

Example – Small Feedlot, shows the 50/50 split between the improvement value and land value.

Link to Kansas Livestock Association Map of Feed Yards and regional details.

https://www.kla.org/cattle-feeding