



County Auditors' Association of Ohio

66 East Lynn Street • Columbus, Ohio 43215 • (614) 228-2226 • Fax: (614) 228-8901 • www.caaao.org

MICHAEL E. YODER
Logan County
President

Interested Party Testimony on SB 36 Senate Ways and Means Committee

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Chairman Eklund, Vice Chair Terhar, Ranking Minority Member Williams and Members of the Senate Ways and Means Committee: I am Mike Yoder, Logan County Auditor and President of the County Auditors' Association of Ohio (CAAO). Thank you for the opportunity to provide interested party testimony on Senate Bill 36, a bill to change the calculation of Current Agricultural Use Values for real property taxation purposes. The CAAO appreciates the opportunity to share thoughts on SB 36.

The members of this Committee are all very much aware that the value calculation for qualified agricultural land is determined by using an income approach to value as opposed to a sales/market approach which is used on the majority of properties to value real property for ad valorem tax purposes. The CAUV calculation is based upon: Yield Information, Cropping Patterns, Crop Prices, Non-Land Production Costs and Capitalization Rate. The calculation is intended to arrive at an amount of income a farmer can expect to earn from his/her farm by crop and soil type. The essence of the formula is a 7 year rolling average. In the recent past for about 6 years, prior to 2016, those factors experienced a significant market change; a primary culprit was that in 2006 it was discovered that in the process of using the formula to calculate values that the crop yields had not been adjusted from 1984 to 2005 (this helped to result in the historic low average value for all 3,500 soil types in Ohio in 2005 of \$123 per acre). Also, during this same period crop yields and prices were all increasing at the same time that interest rates were at historic lows. Under this combination of factors the impact to the formula was significant; values rose causing taxes to rise. Because of the timing delay built into the formula, the higher values and therefore higher taxes actually occurred long after the farmer had experienced the higher revenue. Perhaps then, consideration could be given to those who suggest that the dramatic increases (which have already been absorbed) were "presumably a one-time occurrence", or phrased another way, were a market correction activity which has generally run its course.

After the farm community expressed their concern over the seemingly sharp increases to their tax burdens, much discussion ensued. In 2015 the Ohio Department of Taxation (ODT) in consultation with the Tax Commissioners' Agricultural Advisory Committee (a diverse group that includes county government associations, various agricultural related departments of the Ohio State University, applicable state departments, various farm organizations, including the Ohio Farm Bureau Federation, and the USDA Farm Service Agency) adopted a rule change that, among other things, provided for the use of more current data in the formula. We are just now seeing the effects of those changes – values for tax year 2016 appeared to increase for some soil types, but at a decreasing rate, and others actually have decreased. For tax year 2017, we anticipate a further downward trend. It appears that although the already-occurring market changes and adjustments made by ODT have not yet been fully realized, we expect to see downward pressure on commercial agricultural real estate values without any further changes.

However, should proposed changes be made to certain components of the formula, while lowering the value of commercial agricultural property, there may also be significant unintended consequences.

Decreasing the value of agricultural properties may shift the tax burden back on to residential properties. Effective tax rates are adjusted so that fixed rate levies produce the same amount of revenue as the previous year. (These levies may only grow through new construction). If values decrease, then the effective rate is increased. If agricultural values decrease, while residential values remain steady or increase, then residential property owners will share more of the tax burden.

Impact on School Foundation Formula

Due to the calculation of the school foundation formula as a ratio of an individual school district's value as compared to the state's total value, any reduction in total valuation requires a recalculation of the distribution of the limited funds available from the school foundation formula. This may give more money to the districts where the values are lowered and less funding for the remaining school districts.

Impact of Conservation Changes Undeterminable

Under current law (ORC 5713.30) land devoted exclusively to agricultural use includes land that is used for conservation practices, provided the conservation area comprise twenty-five per cent or less of the total of the applicable farmland. Conservation practices are defined as practices used to abate soil erosion as required in the management of the farming operation, and include, but are not limited to, the installation, construction, development, planting, or use of grass waterways, terraces, diversions, filter strips, field borders, windbreaks, riparian buffers, wetlands, ponds, and cover crops for that purpose. Since these practices are easily identifiable and are limited to twenty-five percent of the total acreage, valuing this land at the lowest values of all soil types is predictable and manageable.

However, it appears to be impossible to ascertain the number of acres that are devoted to a land retirement or conservation program under an agreement with an agency of the federal government. Without specifically identifying the types of federal conservation programs and knowing the number of acres affected we are not only unable to calculate the impact of valuing this land at the lowest values of all soil types but not at all clear as to a process to arrive at that amount. We look forward to some clarification.

I do hope this information proves useful as you continue to work on a viable solution that does not pick winners and losers. Thank you very much for the opportunity to address you and for your kind attention. I would be pleased to try to answer any questions you may have at this time.