

Testimony Concerning CUAV
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Chairman Brown, Vice Chair Blessing, Ranking Member Clyde, and members of the Committee, thank you for allowing me this opportunity to discuss this important matter.

My name is William Huston, my wife Kristin and I own Huston Farms, a 200-acre fruit and vegetable farm outside Dresden, Ohio. It has often been said that I am the largest vegetable grower in Muskingum County, but at 270 pounds, there is not a lot of competition. I was raised on a fruit and vegetable farm in Sandusky County and have been farming in Muskingum County since 1988. In 2015, I retired after 30 years of service from the Farm Service Agency where I was the County Executive Director for Muskingum and Morgan Counties. I also served 14 months as an Agricultural Advisor in Diyala Province, Iraq for USDA and the State Department.

Our Real Estate Taxes increased a total of 40% from 2014 to 2015 tax years (appendix 1), however the percentage increase was 86% per parcel when all parcels were included, but when you remove the parcel with my home and buildings included, the agricultural land parcels increased by 102%. This increase has caused some real concern to our operation. The added cost cannot be easily absorbed into our cash flow. January is especially a cash poor time in any farming operation since much of our reserves are spent in December to take advantage of discounts on seed, fertilizer, supplies and chemical purchases. The June payment is not much better since our yearly income has just begun and the remainder of our reserves have been spent on labor and needed repairs.

Cash flow issues aside, an increase of this magnitude exceeds any other input we experience even considering cost increases over a three-year period. Taxes also are unique in the type of expense they represent, in the fact they are increases that add nothing to the operation. If we were to increase any other expense, there is a projected return on that expense. For example; an increase in fertilizer would project an increase in yields, increasing advertising would project increased sales and so on. Taxes are funds that add nothing positive to the bottom line which means either a larger share of the profits are used to find the money or funds earmarked for other activities must be redirected for this purpose. It was especially difficult this year since we have experienced three of the worst production years due to weather related disasters which have depleted the working capital available.

Even though, the fruit and vegetable sector of agriculture is experiencing increased market attention from the public's desire to purchase "locally grown" food. This has not

resulted in higher profits since all food purchases are still driven by price. Our sector is therefore forced to compete with other states and international production. This has resulted in a seven-year price stagnation which is drastically changing our segment. Many small and medium sized operations have ceased growing fruit and vegetables, this has caused great distress in the viability of our sector. Fewer growers means, fewer suppliers, less competition among suppliers and it also has created a labor issue since fewer growers means fewer jobs available which means fewer migrant workers coming to our region.

Often, CUAU is advertised as a tax break for farmers. However, one of the original concepts of CUAU was grounded in fairness. Farmland real estate taxes generate more revenue than non-farmland revenue if it is compared to public services or public expenses. According to a 2006 study performed by the American Farmland Trust (appendix 2), agricultural land demands only 37 cents of services for every dollar taxed. That is the national average. The study indicates that in Southeastern Ohio, that figure is 29 cents of public services for each tax dollar. Residential property requires \$1.19 in services for each tax dollar collected. This fact is not discussed enough and is rarely considered when tax policy is considered. Therefore, CUAU originally recognized the fact that agricultural land or open land does not cost Government as much to service and thus should be taxed at a lower rate.

There are plenty of changes to the current CUAU rules that should be considered. You have heard several speakers recently that outlined these changes with more detail than I'm prepared to offer today. One concept, that does not recognize reality is the factor in the formula used to compute CUAU, that treats agricultural land as "investment property" and therefore increases value at a 10% rate. Farms have never been used as investment property by the vast majority of landowners. At most farms change hands once a generation and often those changes are within the family and often do not transfer at true market price. This calculation ensures an upward trend in taxes regardless of the remainder of the CUAU calculation. Current CUAU regulations already account for land that is sold for development with a three-year tax recoupment charge, which makes this factor unneeded.

Over the years, I've heard legislators and tax experts state that this part of the calculation is valid since farmers can borrow against the increased land value, much like a home equity loan. This is not done in practice, especially by farmers of my age or older that remember the devastating results of this practice in the 1980's. I would also offer that it will not be performed by my children either since they have heard nothing but the sob stories of this practice their entire lives.

Another factor that was changed a few years ago, particularly hit Southern and Southeastern Ohio hard was the change from recognizing conserving use acreage as conserving use and taxing it as if it were raising wheat. The hay land and pastureland acres instantly received a much higher tax burden when this change was made. I've

been told the reason for this change was a result of an inability to obtain yields and rates for these types of land use. The truth is that the yields and rates used to calculate corn, soybean and wheat yields and rates are provided by USDA – Farm Service Agency. The same methods used by FSA, to determine the yields and rates for “row crops” is also done yearly for hay land and pastureland. Not using conserving use factors unfairly burdens farmers in the poorest region in Ohio. The new factor does not consider that this area of the state often has marginal land that needs to remain in these conserving uses to reduce soil erosion and improve water quality. The higher taxes forces farmers to consider planting other crops to meet the higher tax burden. With the water quality issues in Northwestern Ohio, it might be wise to offer an incentive to convert row crop acres to conserving use acres to improve water quality in the entire state. Going back to recognizing conserving use acres in the CUAV calculation is doable, realistic, and proper.

Our operation also rents approximately 80 acres a year to a neighbor to plant row crops for our vegetable rotations. We have traditionally arrived at the cash rental rate using projected returns of corn and soybeans, meaning when commodity prices increase the rental rate increases. When commodity prices drop, so do the rental rates. The current tax increases make it difficult to continue that “fair” method we have always used. With corn and soybean prices near or below the cost of production our standard calculation should be less than 2015 rental prices. This year we will have to factor the new tax rate into the rental price thus providing an extra challenge for our renter. Again consider this adds nothing to each of our bottom lines, it just is an added “dead end” expense.

Like other manufacturing industries, farm receipts generate a multiplying effect of 3 to 5 times. Meaning each dollar adds from 3 to 5 dollars to the economy. Increased taxes take some of this multiplier away. So you may generate more real estate taxes but you lose sales taxes, income taxes, and employment.

In conclusion, fortunately the US population as a whole, has not experienced hunger since the 1930's and even then to a lesser extent than that of the rest of the world. As a result, we do not regard agriculture's importance to national defense. Our country's ability to feed its self is maybe it's most important national defense issue. Our country's “cheap food” policies is also its biggest economic driver. The average American spends about 9% of their disposable income on food. Canada ranks second in this standard of living and spends about 18% of their income on food. This inexpensive, abundant food is what drives our economy and is the reason we can afford two cars, TV's, computers, wi-fi, dishwashers, etc.. As “dead end” expenses increase the result will be fewer farmers, fewer acres devoted to agriculture, an increase of ag land converted to development, and higher food prices. By the year 2050, the world population will be double of our current population, in order to feed this increase, every acre now available will be needed.

I urge you to consider changing the current formula to address the reality of agriculture and the current state of our industry. Again, thank you for this opportunity. I consider it an honor to testify here today.