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Government Accountability and Oversight Committee
House Bill 398
Interested Party Testimony
George Kaitsa, Delaware County Auditor
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Chairman Brown, Vice Chairman Blessing, Ranking Member Clyde and members of the House Government Accountability and Oversight Committee, I am George Kaitsa, Delaware County Auditor and I am here to offer interested party testimony. I want to begin by stating that the Ohio Department of Taxation has done a commendable job of administering the CAUV formula for more than 40 years. However, the turmoil in the financial markets resulting from the Great Recession has distorted the interest rate environment and the capitalization rate used in the CAUV formula. As a result of the Federal Reserve policies designed to promote a recovery from the Great Recession, market interest rates have been artificially low and have caused a distortion in the capitalization rate used in the CAUV formula.

The purpose of the capitalization rate is to convert a stream of income from an asset, in this case farmland, to a monetary value for the farmland. Artificially low interest rates tend to inflate the value of the asset, assuming that the income stream remains constant. The capitalization rate used in the 2016 CAUV formula is 6.4%. By way of comparison, Texas uses a capitalization rate of 10% and Wisconsin uses a capitalization rate of 11%.

The Ohio Farm Bureau has proposed a way to modernize the capitalization rate by removing the appreciation factor and the equity buildup factor from the current capitalization rate. The Ohio Farm Bureau's recommendation has been incorporated into House Bill 398 and provides specific guidance to the Ohio Department of Taxation with respect to the proposed adjustment for the capitalization rate. This adjustment would result in a capitalization rate for 2016 of 8.8% and is more in line with the capitalization rates used in Texas and Wisconsin.

Using Delaware County as an example, CAUV values have increased from \$94,005,260 in tax year 2008 to \$189,232,460 in tax year 2014. The time period included a sexennial reappraisal in 2011 and a triennial update in 2014, representing an average increase 101% for farmland. Delaware County has approximately 165,000 acres of farmland in CAUV and 5,528 CAUV parcels.

In my opinion, the capitalization rate is the single most significant variable in terms of affecting the overall CAUV formula and the formula's effect on farmland values. The adjustments proposed by the Ohio Farm Bureau and contained in House Bill 398 would modernize the capitalization rate and are very worthy of consideration.

Thank you for the opportunity to provide this testimony regarding House Bill 398 and I would be happy to answer any questions.