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Senate Finance Committee  
Sub. House Bill 49 (Public Testimony)  
George Kaitsa, Delaware County Auditor  
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Chairman Oelslager, Vice Chair Manning, Ranking Member Skindell and members of the Senate Finance Committee, I am George Kaitsa, Delaware County Auditor, and I am here to offer testimony in support of the changes to the CAUV formula proposed by the Ohio Farm Bureau and the Ohio Farmers Union. While the Ohio Department of Taxation has done a commendable job of administering the CAUV formula for more than 40 years, the turmoil in the financial markets has distorted interest rates and the capitalization rate used in the current CAUV formula.

The CAUV formula needs to reflect the value of the land as it is being used in commercial agriculture. The Ohio Farm Bureau has conducted an extensive study of the factors included in the current capitalization rate and has recommended adjustments which link the appreciation factor and the equity buildup factor to Ohio's agricultural economy.

Under the proposed changes, the equity rate in the CAUV formula would be linked to the USDA farm equity rate and would have a floor based on the debt interest rate. The holding period for the appreciation factor would be increased to 25 years from the current holding period of five years. Farmland that is dedicated to conservation practices would be valued at the minimum CAUV value. These adjustments would be phased in over two reappraisal cycles to address concerns about the impact on school districts and local governments located in predominately rural areas with significant concentrations of farmland.

These adjustments should result in a capitalization rate that more accurately reflects Ohio's agricultural economy. Ohio's capitalization rate for the 2017 CAUV formula is 6.2%. By way of comparison, Texas uses a capitalization rate that has a floor of 10% and Wisconsin uses a capitalization rate of 11%. The artificially low capitalization rate used in Ohio's CAUV formula has caused a distortion in the valuation of farmland relative to residential (Class I) properties.

Using Delaware County as an example, CAUV taxable values have increased from \$94.0 million in tax year 2008 to \$189.7 million in tax year 2016. The time period included a sexennial reappraisal in 2011 and a triennial update in 2014, representing an average increase 102% for farmland. Delaware County has approximately 161,900 acres of farmland in CAUV and 5,560 CAUV parcels.

In my opinion, the capitalization rate is the single most significant variable that affects the CAUV formula and the formula's effect on farmland values. The adjustments proposed by the Ohio Farm Bureau would result in a more realistic capitalization rate to be used for the valuation of Ohio's farmland.

Thank you for the opportunity to provide this public testimony in support of the changes proposed by the Ohio Farm Bureau and the Ohio Farmers Union. I would be happy to answer any questions.