



County Auditors' Association of Ohio

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Testimony in Opposition to Including Changes to Ohio's CAUV Program in Biennial Budget Bill

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Chairman Smith, Vice Chairman Ryan, Ranking Minority Member Cera and Members of the House Finance Committee: I am Mike Yoder, Logan County Auditor and President of the County Auditors' Association of Ohio (CAAO). Thank you for the opportunity to express our opposition to including significant changes to the CAUV formula in the budget bill, both on the basis of our position as an interested party to the bill itself and on the belief that determining such a significant change in the valuation of farmland be considered in the context of the large budget bill.

County Auditors represent the interests of all real property tax payers including residential, businesses, and farmers. Significant changes to the value of commercial agricultural property may have the unintended consequences of impacting the value of other properties and/or reducing the revenue to taxing districts including schools. County Auditors are also struggling with the implementation of the bill's provisions on conservation practices.

As an interested party to SB 36, the CAAO believes this major policy change must be considered outside of the highly charged environment of the biennial budget bill and through a thorough legislative committee process. The time constraints that underlie the budget bill do not offer the opportunity for due consideration of the intricacies and details contained within SB 36. We are confident that with detailed and systematic analysis and dialog a solution may be possible that does not pick winners and losers.

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. In the recent past those factors experienced a significant market change.

A primary culprit was that in 2006 the Ohio Department of Taxation (ODT) discovered that in the process of using the formula to calculate values, crop yields had not been adjusted from 1984 to 2005. This contributed to the historic low average value for all 3,500 soil types in Ohio in 2005 of \$123 per acre. The yields were changed to reflect current conditions. During this same period both 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. In response, in 2015 ODT in consultation with the Tax Commissioners' Agricultural Advisory Committee, 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. ODT's preliminary CAUV calculation for 2017 indicates that those counties on the 2017 reappraisal/update cycle (41 counties) will likely see a decrease in CAUV values from their 2014 CAUV values.

It appears that although the already-occurring market changes and adjustments made by ODT have not yet been fully realized, we expect to see continued downward pressure on commercial agricultural real estate values without any further changes.

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

Tax Shifting from Agricultural Taxpayers to Residential Taxpayers

Any reductions in CAUV values will lead to increases in taxes paid by residential taxpayers. This effect operates on fixed-dollar levies. These are generally bond levies and school district emergency levies that are designed to raise a designated amount of revenue annually, regardless of what happens to property values. Decreases in agricultural values, all else being equal, will mean that tax rates will have to increase in order to generate the necessary revenue. This means that taxes will go up on all other property in the district, including residential property.

Reductions in Tax Revenue for Schools and other Local Governments

An exception to the “residential tax shift” happens when the millage rate of an individual property tax levy cannot adjust upward by a large enough amount to offset the decrease in valuation and preserve the original level of tax revenue. This occurs when the tax rate increase necessary to offset the decrease in CAUV value would cause the millage rate of the levy to exceed its originally voted millage rate. Under Ohio law the effective millage rate of a voted levy cannot ever exceed its initially voted level. In this case the local government unit (be it a school, library, township, or other entity) would then see a reduction in tax revenue as a result of the CAUV decrease.

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.

We hope you will consider this information and resist attempts to include CAUV changes in the biennial budget bill. Thank you very much for the opportunity to address you and for your kind attention. I would be pleased to answer any questions you may have at this time.