

**Senate Ways and Means Committee**

**SB 36 Testimony**

**Ohio School Boards Association**

**Buckeye Association of School Administrators**

**Ohio Association of School Business Officials**

**March 8, 2017**

Good morning, Chairman Eklund, Ranking Member Williams. Thank you for the opportunity to share concerns and voice our opposition to current proposals to expand even further the property valuation discounts provided through Ohio’s Current Agricultural Use Value (CAUV) program. My name is Barbara Shaner, and I represent the Ohio Association of School Business Officials. With me today for the testimony and in answering your questions are Tom Ash with the Buckeye Association of School Administrators and Damon Asbury representing the Ohio School Boards Association.

While we support the concept of CAUV which allows farmers to pay property taxes based on the value of their land for farming rather than the market value of the land based on its development potential or other uses, we oppose the passage of SB 36.

SB 36 would significantly reduce local valuations for agricultural property. The resulting expansion of benefits to agriculture landowners will create a shift in tax burden from agricultural to residential property owners. This comes at a time when residential taxpayers have already experienced a major shift in responsibility for local property taxes.

According to data provided by the Ohio Department of Taxation and compiled by Dr. Howard Fleeter (consultant for the Ohio Education Policy Institute (OEPI)), Ohio’s many tax policy changes over the years have already resulted in a major shift in burden to residential taxpayers. Since 1990, the burden for residential taxpayers has increased by 50%. In other words, of the total local property tax burden, residential taxpayers are now paying a significantly higher portion than business and agriculture taxpayers.

According to Dr. Fleeter, statewide:

* In 1990 Residential taxpayers paid 44.2% of total property taxes
* In 2015 Residential taxpayers paid 63.8% of total property taxes

Further, on average, statewide values for agricultural property currently participating in the CAUV program (Tax Year (TY) 2015) are set at approximately 54% of market value. This allows farmers engaging in agriculture activity to benefit significantly from lower property taxes, a notably lower rate than their residential property owner counterparts. SB 36 would further expand this already generous benefit.

Because Ohio’s Constitution requires that local governments (including school districts) be permitted to collect the same tax revenue levels as their levies originally produced, any time property values are reduced for one landowner, the other landowners will make up the difference through higher tax rates. If properties in the CAUV program are granted reductions through the proposed legislation, residential taxpayers will see an increase in taxes. The magnitude of this tax shift will depend primarily on two factors:

1) The degree to which CAUV values are decreased (the larger the decrease in CAUV values, the larger the increase in residential property taxes)

2) The mix of agricultural and residential property in the taxing district (the larger the share of agricultural property, the larger the increase in residential taxes)

Furthermore, because of the complexities of HB 920, it is possible that even while residential taxpayers are experiencing tax hikes, schools and local governments could see an actual reduction in tax revenue. This depends on the amount of agricultural property contained within the district, how close individual levies are to their voted rates, and the amount of inside millage that is utilized.

Another consequence of the proposed reduction in agricultural values comes as a result of the interaction between local valuation and the state school funding formula. The formula determines the amount of money districts must contribute locally, based in part on local property valuations. Because the proposed CAUV reductions will lower the statewide average property value per pupil, hundreds of school districts with relatively little agricultural property will experience reductions in state foundation formula aid when the State Share Index is recomputed (such a recomputation typically occurs every two years through the biennial budget bill). They will appear wealthier than before as compared to their agriculture-intensive counterparts. This will reduce their state funding and therefore further increase the burden on local non-agricultural taxpayers.

We believe the current CAUV program provides a reasonable mechanism for reducing the tax burden for farmers. The Ohio Department of Taxation recently made adjustments to the way the CAUV formula is calculated to reflect more accurate and current data. This allows the formula to track more closely with real time experiences.

It is our position that if the legislature desires to make changes to the CAUV formula, a larger more independent review is called for. Making adjustments to one component of the formula based on recommendations from the industry itself may not achieve the desired result of a more sound public policy. We agree that the CAUV formula should be based on accurate appropriate data regarding the value of land when used for farming. We would support a comprehensive overview of the CAUV formula by a an objective party to examine in what ways the formula could be improved (for example, examination of how to value land used by livestock farmers as opposed to crop farmers).

Further, according to the Ohio Department of Taxation, agricultural property values are decreasing naturally through factors affecting the agricultural industry. This trend is shown in Table 1 of the attached analysis of CAUV by Dr. Fleeter. Also, as the housing market has rebounded, residential taxpayers are seeing increases in value. SB 36 will serve to exacerbate the disparity between residential and agricultural property values. We urge you to reject SB 36, or amend the bill to first require an independent review of the formula.

Attached to this testimony is an analysis of the proposal to expand CAUV benefits prepared by Dr. Fleeter. We hope it will be beneficial to you as you consider our request to defeat the bill. With your permission, Dr. Fleeter is here today and will now provide an overview of the analysis.