



**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.



Analysis of the HB 398 & SB 246 Changes to the CAUV Formula
Howard Fleeter, Ohio Education Policy Institute
December 7, 2016

Since 1973 Ohio has provided a tax adjustment that determines farmland property valuation according to the land’s Current Agricultural Use Value (CAUV) instead of on the basis of its market (or “best and highest use”) value. The CAUV adjustment is employed in order to improve the equity of the property tax with regards to the state’s farmers, as economic trends (such as suburbanization) can increase the market value of farmland well beyond its agricultural use value. The Ohio Department of Taxation’s Division of Tax Equalization is responsible for preparing the annual CAUV calculations.

The CAUV formula takes into account various factors including farmland utilization, crop prices and interests rates. Crop prices are incorporated on a 7-year rolling average basis with the high and low value excluded. This method typically minimizes the impact of large fluctuations in agricultural prices. The CAUV formula does not take into account the impact of federal farm subsidies.

Table 1 shows the CAUV statewide average value per acre as computed annually by Tax Equalization. In 2005 the average CAUV value was only \$123 per acre, which was a record low. CAUV values then increased every year through 2014, which appears to be a record high for CAUV. The CAUV increases over this period were driven primarily by increasing crop prices (which lead to higher incomes and thus make farmland more valuable) and historically low interest rates (which lower production costs by making the cost of borrowing cheaper). At the same time, the Tax Department made adjustments and updates to the CAUV formula that corrected flaws that had led to record low CAUV values in TY 2005.

Table 1: CAUV Average Value per Acre, Tax Years 2005-2016

Tax Year	Avg. CAUV Value Per Acre	Tax Year	Avg. CAUV Value Per Acre
TY05	\$123	TY11	\$700
TY06	\$177	TY12	\$719
TY07	\$181	TY13	\$1205
TY08	\$249	TY14	\$1668
TY09	\$459	TY15	\$1,388
TY10	\$505	TY16	\$1,310

Source: Ohio Department of Taxation Division of Tax Equalization Calculations

In response to the 10-year period of increasing CAUV values, the Tax Department again modified the CAUV formula in 2015. Table 1 shows that the formula changes in combination with the reversal of the

underlying crop price and interest rate trends have led to a decline in CAUV values in 2015 and again in 2016. This reversal in CAUV value suggests that the modified CAUV formula is working as intended to lower values from the TY 2014 level.

Another perspective on CAUV values is shown in Table 2. Table 2 compares statewide totals of CAUV value to the “Best and Highest Use” property values that provide an approximation of the market value of farmland. This data is compiled annually by the Ohio Department of Taxation in Table PD32 that can be found on the Department’s “Tax Data Series” webpage. Table 2 shows that the gap between CAUV and market value for the state’s farmland has narrowed considerably since the CAUV “low water mark” in 2005, particularly in the past five years. However, Table 2 also shows that even the high percentages of CAUV relative to Best and Highest Use values in recent years are not necessarily out of line with historical levels. In both 1985 and 1995, CAUV was more than 30% of Best and Highest Use value, which is not inconsistent with the ratios in 2011, 2012 and 2013. And those who remember the original intent of the CAUV program when first enacted in 1973 report that the initial goal was to provide tax relief to farmers through CAUV of roughly 50% of Best and Highest Use value.

Thus it is only the two most recent years on the table (2014 and 2015) when statewide CAUV compared to market value exceeds the original CAUV target of 50%. It is important to note that the reason that the CAUV values as a percentage of Best and Highest Use value continued to increase in 2015 despite the CAUV values themselves declining (as shown in Table 1) is due to the three year property reappraisal or update system employed in Ohio. The 2016 ratio of CAUV to market value will likely be similar to that of 2015, however CAUV values are expected to fall significantly for counties undergoing reappraisal or update in 2017 under the current CAUV formula.

Table 2: CAUV vs. “Best and Highest Use Property Values, 1985-2015

Tax Year	State Total CAUV Taxable Value	State Total Highest & Best Use Taxable Value	CAUV % of H&B Use Value
TY85	\$2,487,057,900	\$7,103,922,525	35.0%
TY90	\$1,492,337,350	\$5,746,719,340	26.0%
TY95	\$2,126,748,790	\$6,675,227,110	31.9%
TY00	\$2,586,780,930	\$9,728,204,780	26.6%
TY05	\$1,817,459,950	\$12,863,218,938	14.1%
TY06	\$1,862,224,624	\$13,567,040,800	13.7%
TY07	\$2,000,934,434	\$14,088,846,920	14.2%
TY08	\$2,671,876,240	\$15,174,386,360	17.6%
TY09	\$3,082,737,365	\$15,422,091,180	20.0%
TY10	\$3,621,292,584	\$15,789,157,320	22.9%
TY11	\$5,220,439,230	\$16,862,869,980	31.0%
TY12	\$5,629,159,220	\$17,242,302,370	32.6%
TY13	\$6,803,976,520	\$18,100,946,150	37.6%
TY14	\$10,526,289,150	\$20,404,203,890	51.6%
TY15	\$11,512,585,665	\$21,195,578,535	54.3%

Source: Ohio Department of Taxation PD32 data files, 1985-2015

HB 398 (and its companion bill SB 246) would further lower the value of agriculture property by altering the method by which capitalization of land appreciation and equity are included in the CAUV formula. In addition, HB 398 & SB 246 would also alter the method by which land used for conservation purposes would be valued in the CAUV formula. This change would also lead to reductions in CAUV value.

HB 398 would have several effects, which are discussed in detail below.

1) Tax Shifting from Agricultural Taxpayers to Residential Taxpayers

First, any reductions in CAUV values will lead to increases in taxes paid by residential taxpayers. This effect operates through two channels. The first channel is what are known as fixed-dollar levies. These are generally bond levies and school district emergency levies. These levies are designed to raise a designated amount of revenue annually, regardless of what happens to property values. Decreases in agricultural values, all else 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.

The second channel is through the HB 920 tax reduction factors. HB 920, which was enacted in 1976, was designed to insulate property taxpayers from escalating tax bills resulting from inflationary increases in property values. This is done through a complex mechanism of “tax reductions factors” which serve to effectively reduce effective property tax rates after property reappraisal increases values. To give a simplistic example, if the real property in taxing district increased by 10%, the tax rate would adjust downward by approximately 10% so that the total amount of property taxes collected in the taxing district remained roughly the same (tax revenues from new construction are allowed to rise, unlike the fixed-dollar levy case). HB 920 also works in reverse: if property values decrease then property tax rates will adjust upward (although with some limits) in order to keep the total amount of property taxes collected the same. Finally, HB 920 only applies to “real” property (land and buildings) and not to the Tangible Personal Property (equipment and fixtures) of public utilities.

As if the above paragraph were not complicated enough, a 1980 Constitutional amendment separated real property into two classes. “Class 1” property is that owned by residential and agricultural taxpayers. “Class 2” property is that owned by business and commercial entities.

The tax shifting that will result from the CAUV changes contained in HB 398 occurs because agricultural and residential property are both in Class 1. If CAUV values go down, HB 920 will cause the property tax rates of all Class 1 taxpayers within a given taxing district to increase. Agricultural taxpayers will generally receive a net tax reduction in their property taxes owed because their decrease in property value will typically be larger than the increase in tax rates. However, residential property owners will experience an increase in taxes owed because their values are remaining the same, yet their tax rates are increasing as a result of the CAUV value decrease triggering the district-wide increase in tax rates.

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)

The Ohio Department of Taxation has simulated the impact of the proposed CAUV changes in eight counties. The results of these simulations show that, as expected, the greater the proportion of agricultural property in the county, the larger the tax shift to residential taxpayers. In counties with a reasonably large share of agricultural property it was not uncommon to finding taxing districts where residential taxes increased by more than 10% as a result of the HB 398 CAUV decreases. In Van Wert County where agricultural property was 51.3% of total Class 1 property value in Tax Year 2014 (the 4th highest percentage in the state) **the average increase in residential taxes was 7.8%** according to the Tax Department' calculations.

The Tax Department is currently working on simulations of additional counties with large percentages of agricultural property to verify that Van Wert's experience is not an anomaly. Note also that the Tax Department simulations do not take into account the changes that HB 398 would make to the valuation of conservation land.

2) Reductions in Tax Revenue for Schools and other Local Governments

While the HB 920 tax rate adjustment factors will generally function in a way that adjusts Class 1 effective tax rates upward in response to CAUV decreases in order to maintain property tax revenue collections at the existing level, there are two exceptions to this.

The first is the case of Inside Millage. The Ohio Constitution allows for the imposition of 10 mills of property taxes that can be imposed without voter approval. These 10 mills are often referred to as "unvoted" or "inside" mills. Inside mills have been allocated by counties across different units of local government. School districts typically have between 3.5 and 5 inside mills. Inside mills are pertinent to this discussion because they are exempt from HB 920. This means that when property values increase, inside mills generate more tax revenue, and when values decrease inside mills will generate less tax revenue. Thus, if HB 398 reduces CAUV values, all units of local government that have inside millage will experience a decrease in tax revenue.

The second exception to the "residential tax shift" scenario is 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 scenario 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 the see a reduction in tax revenue as result of the CAUV decrease.

The discussion of points 1) and 2) above demonstrates that there are only two possible outcomes of the proposed CAUV changes on local taxes: 1) residential taxpayers will pay higher taxes; or 2) local governments will see a reduction in tax revenue. In the case of local governments that have both inside mills and voted levies (such as school districts) both of these effects could occur simultaneously.

The LSC Fiscal note on HB 398 estimates two scenarios. In one scenario, schools and other local governments would experience a net tax revenue loss of \$30 million and residential property owners would experience an increase in property taxes of \$71million. In the other scenario, each of these effects will be roughly half as large. The two scenarios differ in terms of how the proposed CAUV formula capitalization rate changes would be implemented.

3) Adverse Impact on Future Tax Levy Yield

A third effect of the proposed CAUV decreases contained in HB 398 would be that future property tax levies will not generate as much local revenue as they would currently. This means that a higher millage rate will be required to generate given amount of tax revenue for a library, school district, township, or other local government entity. In essence, this is really a second tax shift, as residential taxpayers will now pay slightly higher property taxes than they would have without the lower CAUV values. For agricultural taxpayers, however, the higher millage rate will be offset by the decrease in table property value.

4) Impact on the School Funding Formula

A fourth effect of the proposed CAUV decreases will be on the state's school funding formula. Beginning with the Fiscal Year (FY) 14 school year, the funding formula now determines the state and local share of school funding for each of Ohio's 610 school districts by computing the State Share Index (SSI). The SSI is a complicated series of calculations that takes into account each school district's property value per pupil as well as the income of district residents. Without going into undue detail, the main calculation of the SSI is to compute the total property value per pupil in each school district and then compare this figure to the statewide average property value per pupil. The HB 398 CAUV decreases will affect the SSI in two ways:

- 1) The Statewide average property valuation per pupil will decrease. This is because the state total property value will decrease due to lower CAUV values, while the number of students remains the same.
- 2) Every school district with CAUV value will also see a decrease in its own valuation per pupil figure (for the same reason as above).

The combined impact of these two effects is that the state share of school funding will change for all 610 school districts in the state. Districts with significant CAUV decreases will have lower ratios of value per pupil to the state average and thus receive more state aid. And districts with nominal (or even no CAUV value) will now have higher value per pupil ratios compared to the state average, and thus receive less state aid. Finally, it is imperative to note that these increases and decreases in state aid will occur even though the HB 920-induced tax shifts described above will work to keep local tax revenue largely unchanged (although districts with CAUV property will lose revenue from inside millage).