



Working together for Ohio farmers to advance agriculture and strengthen our communities.

Chairman Blessing, Chairman Roemer and the members of the Joint Property Tax Review Committee, my name is Leah Curtis and I serve as Policy Counsel and Sr. Director of Member Engagement for the Ohio Farm Bureau. In my role, I work with our members to understand important legal concepts that affect their homes, property and business - including property taxes. We appreciate the invitation and opportunity to provide background and context about the Current Agricultural Use Valuation Program as you undertake this important and monumental task of reviewing Ohio's complicated property tax system.

History and Basics of Current Agricultural Use Valuation

The Current Agricultural Use Valuation program is not a tax exemption or a tax credit. Instead, it is a different method of valuing property. Instead of using the property's fair market value for property tax purposes, land that enrolls and qualifies for the CAUV program is valued for its agricultural producing potential only. This was a choice made by Ohio's voters and authorized through a constitutional amendment in 1973 - with over 75% of the vote. Today, nearly every state in the country has a similar program that provides for a differential assessment of agricultural land.

The CAUV program serves as the front-line defense to preserve Ohio's farmland and open space. While a criticism lobbed at CAUV is that the values don't take into account the development potential of land, that is precisely the point of the program (and programs like it in nearly every other state of this country). By removing the upward value pressure development places on farmland, farmers are able to continue producing food, feed, fiber and fuel and are not taxed off of their land.

While CAUV uses a different method of valuing property, once that value is set, it operates as you have heard from others. The value is reduced to 35% to determine the taxable value and the Class 1 millage rate is applied to that taxable value.

Components of the CAUV Formula

CAUV land takes its value from a calculation that is performed by the Ohio Department of Tax. That calculation is done for every one of Ohio's 3500+ soil types, considering the yield, crop prices, input prices and cropping pattern to determine a net income from Ohio's top crops - corn, soybeans and wheat. That net income number is then divided by a capitalization rate. The data used in the formula is averaged over multiple years and obtained from reliable government sources. Additional deductions are made from the values to determine soil values for property that is used as woodland. A minimum value is also set by the Tax Department as a floor for CAUV values - though there is no corresponding ceiling or cap on values. The county auditor applies the values to a landowner's property based on the soil types that are present. In the packet we provided, you will see this year's



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explanation of value from the Ohio Department of Taxation which provides sample calculations for two soil types.

In 2017, Ohio Farm Bureau and other agricultural groups like the Ohio Farmers' Union, lobbied for changes to the CAUV calculation to ensure its accuracy. The changes made largely dealt with the capitalization rate, which at that time was based upon interest rates and assumptions not tied to agriculture. Those changes resulted in a more accurate capitalization rate in the CAUV formula. Additionally, the law was changed so that land that qualified as conservation land and certified as such would be valued at the minimum value as set by the Tax Department. We have provided you supplements that include the Tax Department's explanation of 2023 CAUV values, and a brief guide to the calculation.

Who can enroll in CAUV?

To receive the benefits of CAUV, landowners must annually enroll and qualify with their county auditor. To qualify for CAUV, landowners must show they have at least 10 acres of land devoted to commercial agricultural production, or if less than 10 acres, that they can evidence at least \$2500 gross annual revenue from agricultural production on that land. Additionally, land enrolled in federal conservation programs qualifies, and non-commercial woodland that is connected to otherwise qualifying land can also qualify. You previously heard a criticism that landowners can meet minimum qualifications and enroll all residual land to receive a tax benefit- but that is simply not the case. Landowners must qualify all their land into one of those 4 categories to qualify the acreage for CAUV. Additionally, landowners must show that the land has been used in such a way for 3 years before it can enroll in the program, often referred to as the 3 year waiting period. Auditors can, and often do, split list properties so that only the property that qualifies for CAUV gets that treatment, while other land is taxed at fair market value. In fact, the auditor is required to remove at least 1 acre of land from CAUV when a home is present on the parcel. CAUV does not apply to buildings, homes, or the 1-acre homesite - all of which are taxed at their regular fair market value. It is the statutory duty of the county auditor to approve CAUV enrollment and to annually inspect properties to ensure they qualify. In our experience, most auditors do a good job of maintaining a balance of ensuring qualified land is on the program and assisting landowners. However, with 88 county auditors, there are 88 ways of doing things and it is not uncommon to find a landowner who qualifies in one county when the same situation would be denied in another county.

And, CAUV provides both a carrot-and-stick approach. If a landowner fails to renew their CAUV status or converts the land from agricultural use, they are levied a recoupment penalty that is equal to three years worth of tax savings. Essentially, the auditor looks at what the landowner paid in taxes on the CAUV program, and what they would have paid had they not been - and charges the



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landowner three years worth of that difference. Depending on fair market values in an area, recoupment can easily top 10s of thousands of dollars.

The Current State of CAUV Values

Many property owners saw their property values increase in the most recent round of reappraisals and updates. You have heard of 40 or 50% increases in residential home values. But, CAUV landowners in 41 counties saw their property values double or more in this last reappraisal cycle. While almost unheard of in residential or commercial real estate, increases of this nature have not been uncommon for CAUV in the last 20 years. In many cases, their taxes have also doubled or more as a result. While the formula does a good job of valuing farmland for productive potential, as you have heard from others, applying the current tax system to those values does result in a very high property tax burden. Additionally, the CAUV calculation was designed to follow a farm economy, but the farm economy of the 1970s is one that no longer exists. Instead, today farmers operate in a global marketplace and we have an incredibly volatile farm economy - where prices and costs can change dramatically not just from day to day but from minute to minute. Where the actions of a country halfway across the world will throw our industry into a tailspin in a moments notice. One flaw in the property tax system is that CAUV values are based upon the farm economy that was a year and further back, but we pay taxes in the present. By the time the tax bill comes due, the farm economy could be very different than the one the calculation considered. Additionally, because of the three-year cycle of updating values, the farm economy can change wildly from the time the values are calculated to the last year of those values application for tax purposes three years later. Our farmers are happy with the purpose and philosophy of the CAUV program, but all would prefer some more predictability in their values and more importantly, their tax bill.

CAUV, HB 920 and Tax Credits

As the HB920 reduction applies to the collection side, it applies to CAUV just as any other property. OFBF does strongly support the HB920 tax reduction factors that help to reduce inflationary aspects of the property tax system. However, the inflation attributable to the inside 10 mills and the 20 mill floor often result in large property tax increases.

As to the other credits, they generally do apply to CAUV properties when those credits apply to land. However, as the homestead credit applies to home values, and CAUV does not apply to homes or buildings, the homestead credit is not applicable to the CAUV context. The owner-occupied credit does apply where the owner occupies that parcel of land. CAUV landowners, like any other, would only benefit from those credits where their house is located. The non-business credit applies to most CAUV land, but in a strange caveat, is not permitted to apply to woodland, including that enrolled in CAUV.



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Board of Revision

Ohio farmers on the CAUV program largely do not engage in the Board of Revision process as to appeals of their values. As the auditor does not set their values, and instead they are set by a calculation run by the Tax Department, any appeal of value is often an exercise in futility. CAUV landowners have largely been instructed through court cases and precedent that challenging CAUV values requires a challenge to the Tax Commissioner's order setting the soil values and the methodology of the calculation. Litigation regarding this very issue as it pertains to woodland values is currently pending before the Ohio Supreme Court.

Farmers do use the Board of Revision process to appeal CAUV enrollment. If a landowner is denied CAUV, they have the opportunity to appeal that denial through the Board of Revision. Landowners can also challenge if they believe their soil types have been inaccurately recorded, or if their acreage has not been properly attributed to the different agricultural uses that may affect valuation (cropland vs. woodland vs. conservation land).

Conclusion

The CAUV program recognizes that while farmland is part of the system that pays property taxes, it provides less of a burden on the services provided by those taxes. In 2008, a cost of community services study was completed by the American Farmland Trust focusing on Madison Township in Lake County and found that for every \$1 agricultural land pays in property taxes, it receives about 30 cents in services. CAUV property represents a net good to the community from a funding context - because farmland does not send children to schools, it does not need police, fire or paramedic services at the same rate as densely populated areas, it does not access mental health or addiction or health services but the property taxes farmers pay on this land still pays for all of those important programs and services. In contrast, that study found that residential taxpayers receive approximately \$1.24 in services for every \$1 spent in property taxes. I would also note that this study was done during a time when CAUV values were at some of their lowest levels.

Ohio agriculture would not be the number one industry it is today in Ohio without the Current Agricultural Use Valuation program. The unchecked urban sprawl of the 1970s would have continued, driving up farmland property values and pushing farmers off of their land through increases in property taxes. Instead, Ohio enjoys some of the best and most productive farmland in the country - if not the world. The food security provided by Ohio agriculture is not just good for farmers, or good for the economy, but is a matter of national security. Still over 400,000 acres of Ohio farmland has been lost or compromised in 2022 alone, according to the most recent data from the U.S. Department of Agriculture. Ohioans of all areas - urban, suburban, and rural - want farms in their communities. However, that can only be maintained if farmers can afford to pay their property



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taxes while also supporting their businesses. I would again like to thank the Chairmen and the committee for inviting us today, and would be happy to answer any questions you may have.