



**Current Agricultural Use Valuation and Property Taxation
May 2013**

INTRODUCTION

Since 2005, Ohio landowners enrolled in the Current Agricultural Use Valuation (CAUV) program have seen their property values and resulting property taxes increase. CAUV values are based upon an objective calculation which uses an income approach to value land for its agricultural use only. Values have increased due to higher crop prices and lower interest rates, but continue to provide an average 67% reduction from fair market value.

ISSUE

In 2005, CAUV values reached their all time low with an average statewide value of \$120/acre. However, even as the general economy began to suffer, the farm economy began to prosper – returning record yields, receipts and farm incomes. In turn, CAUV values also began to increase. Increases, even of relatively small dollar amounts, were large percentage-wise because values had been so low in the mid-2000s.

CAUV was first introduced in 1973 as a ballot initiative to help preserve farmland by negating development pressure when taxation values were determined. Ohio voters approved the constitutional amendment by an overwhelming majority, and the program began in 1975. The constitutional amendment and resulting laws espoused the idea that farmland valuation would follow the farm economy, ensuring that value was tied to ability to pay by using the income approach to valuation. The income approach used for CAUV ensures that only agriculture is considered when the property is valued, instead of the typical “highest and best use” standard. The income approach also does not consider the fair market value, or the price at which the property would change hands, which can also be strongly influenced by development pressure and demand.

Today’s basic CAUV calculation is:

$$((\text{Yield/acre}) * (\text{Price})) - ((\text{Yield/acre})(\text{cost of production}))/\text{Capitalization Rate}$$

The calculation uses yield, price and cost data from corn, soybeans and wheat and is performed for each of the 3,500 individual soil types in the state of Ohio with a slope less than 25%. Any soils with a slope above 25% are placed on minimum value, which the Ohio Department of Taxation sets based on general trends in agricultural values. For more information on the formula, visit <http://ofbf.org/news-and-events/news/894/>

Although it is clear that the data in the formula is correct, and this is essentially the same formula that provided the lowest CAUV values on record; many claim that taxes have simply been increased by local or state officials to make farmers pay more. This is certainly not the case, as increased values are simply a product of the calculation. Furthermore, the CAUV program was not intended to either exempt farmers from taxes or to simply give them low taxes, but instead to ensure land’s value was consistent with its productivity capabilities based on the agricultural market alone. CAUV was created to follow the farm economy, and the last several years of increased values have shown that it has done just that. Current average sale value of

farmland sits at \$5,000/acre statewide – far from the average CAUV value which in 2012 was \$955/acre.

It also must be remembered that while property taxation funds your local governments and schools, increased CAUV values do not mean that property tax receipts have gone up. State law has mechanisms already in place to ensure that increases in property value do not create huge windfalls, and with very few exceptions, levies and millage are rolled back to collect the same amount of money every year despite changes in property values. As changes to CAUV are considered though, it is important to remember that CAUV already lowers the tax base for local governments and in turn, lowers local funding. CAUV also means that farmers are paying taxes on only about 1/3 of the fair market value of their property. This means that while CAUV is popular with farmers and agricultural landowners, it is not without opposition. Tables 1 and 2 below illustrate the comparison between CAUV and fair market valuation for a high and low value county.

Table 1. Comparison of CAUV vs. Fair Market Valuation*

	CAUV	Fair Market Valuation
Avg. 50 Acres	@ \$1,551/acre= \$77,550	@\$3,898/acre=\$194,900
35% Assessment	\$27,143	\$68,215
Net Tax Rate – 55.68	\$1,511.00	\$3,798.00
10% Rollback	-\$151)	-\$379)
Tax Amount	\$1,360.00	\$3,419.00

*Uses Henry County Average Values. This is a simplified version of tax accounting.

Table 2. Comparison of CAUV vs. Fair Market Valuation*

	CAUV	Fair Market Valuation
Avg. 50 Acres	@ \$364/acre= \$18,200	@\$1,459/acre=\$72,950
35% Assessment	\$6,370	\$25,533
Net Tax Rate – 36.31	\$231.00	\$927.00
10% Rollback	-\$23)	-\$93)
Tax Amount	\$208.00	\$834.00

*Uses Carroll County Average Values. This is a simplified version of tax accounting.

OHIO FARM BUREAU FEDERATION STATE POLICY
Current OFBF State Policy regarding Issue

Policy 482 CAUV and Property Taxes (Pg 66)

We encourage OFBF to help protect CAUV in Ohio and to promote the integrity of the program by supporting the enforcement of its standards.

We favor maintaining the 10 percent and 2-1/2 percent property tax rollback, the rate adjustment factor, the 10 mill limitation on inside millage, and the present Current Agricultural Use Value (CAUV) formula.

Real property tax reappraisals and triennial updates should be done in a manner that accurately reflects the true value of home sites, buildings, and land. We support legislation that would change the meaning of the county auditors' definition "true market value" or "market value." These terms should mean the current purchase price of the land, even if it is sold by auction.

We encourage that the CAUV formula be thoroughly reviewed to ensure that data used in the calculation is recent, relevant, and reflective of Ohio's agricultural economy.

We oppose including the value of government payments or subsidies to be used in the calculation of CAUV.

We encourage that a study be done to more accurately reflect woodland values in CAUV.

We encourage that a study be done to determine whether the capitalization rate used in the CAUV formula is accurate

DISCUSSION QUESTIONS

- A suggestion is often made to include livestock in the CAUV calculation. How can livestock be included in the calculation? What species of livestock should be included? Since stocking rates for livestock can vary so widely (one cow per acre vs. 100 steers on one acre feedlot), how would you build a formula that accounts for this variation? Is there another way to give livestock (or other commodities) individual consideration without changing the formula itself?
- Should there be individual consideration by operation type afforded to landowners? Examples could include: certain additions/deductions made to calculated values based on type of operation or commodities produced using market data; or additions/deductions for certain land hazards. How would that individual consideration be administered? By the auditor? A governmental board/committee? How will such an increase in auditor discretion, or bureaucracy, affect the CAUV program and its integrity?
- Does the addition of other commodities, individual auditor discretion, or bureaucracy hurt the transparency and accessibility of the calculation by making it more complicated?
- While values have increased, they still represent significant savings afforded only to agricultural land, how does this affect local funding for governmental services, schools, etc.?
- Is revising CAUV the best answer, or are there other ways to introduce savings to off-set some property tax increases?