

Mission: "Restore Fair Taxation to CAUV Landowners"; Coordinator: Marrison.2@osu.edu

Participation: Ohio Farmers Union (OFU), Ashtabula & Geauga County Auditors, Tree Farmers Association, Ohio Forestry Association, Ohio State University-Ag, SWCD, and AEDE Extensions, CAUV Landowners from 7 counties, Ashtabula County Commissioners and Chaired by State Representative John Patterson. Ohio Farm Bureau Federation (OFBF) of NE OHIO showed strong interest and leadership in 3&4Q14.

Recommendations Made: Three previous "white papers" were summarized in a 11/25/14 letter to Ohio Department of Taxation (ODT) and shared with the Ohio Ways & Means Committees 12/3/14.

Endorsements: We endorsed the initial 4 recommendations as written in the mid-December 2014 OFBF and OFU newsletters and press releases. Just recently ODT has been motivated to revive and accept them! But our calculations show these 4 recommendations can give us back only a third of the last CAUV increase. So we have put together our "**A list**" solutions and "**B list**" recommendations.

Five "A-List" CAUV Solutions: The following 5 solutions can restore historic CAUV levels, improve accuracy. simplify the program and reduce the cost of tax preparation. These are constitutional. When our 5 solutions are added to the 4 already in progress, 2015 CAUV would go back to 2012 CAUV levels.

A-1: Add Additional Risk to CAUV Formula. Risk is constitutionally allowed in CAUV and a very important component. The Oil and Gas industry has embedded a 13% risk factor in their formula. Our calculations using Crop Insurance inputs show agricultural risk is 17%. Risk can also be calculated from the (Beta) statistics of historical OSU-AEDE database "Returns to Land" year by year. Our calculations show the addition of a conservative amount of risk will be a **60% reduction** of 2014 CAUV increase. There is a 10/1/14 letter to Ohio Taxation from our Ashtabula Auditor detailing this recommendation. This addition will reduce the volatility of CAUV year to year changes. Contributor: Bruce Vance, Landowner "Adding Risk" (based on Crop Insurance Indicators) 12/7/14 Presentation.

A-2: Remove "Artificial" Minimum Cap on CAUV \$/acre: Ohio tax law does not permit any caps on valuations. Therefore the current minimum caps on soil types are unconstitutional. ODT has raised the minimums over the years. This has raised CAUV for the poorest soil types. When the CAUV Woodland clearing cost is updated from \$500 (circa 1980's) to the current \$2560/acre (per OFA), it will drive all CAUV woodlands to the minimum \$/acre. This would deny the full benefit intended if the minimum is not removed. Removal of the minimums can **reduce** the 2014 CAUV increase **by 10% for Cropland and by 50% for Woodland.** Source: 11/25/14 letter to ODT.

A-3: Shorten the Valuation Input Period. Reduce the Duplication and Complexity of CAUV Program. This can be done by using "**1-year historical and 1-year forward looking**" Commodity "Budget Statistics" database by OSU-AEDE more extensively instead of the longer 7-year period price inputs and capitalization rate calculations developed in parallel by ODT. The impact would be increased accuracy, less volatility and reduced ODT cost of tax preparation. Everyone agrees less baggage is better.

A-4: Make Woodlands CAUV Resonate with Environmental OFA and TFA: Adopt \$0 tax for Woodlands Lake Erie or Scenic Waterway water sheds. (Eleven states have \$0 tax for woodlands). Adopt a flat 80% reduction for other Woodlands. If this recommendation were to be enacted it could entirely replace the convoluted complexity for the Woodlands CAUV formula. Many farms have at least some woodlands. Therefore it is reasonable and convenient for all parties to leave Woodlands as part of CAUV. Woodland owners want to stay in the CAUV program especially if recoupment remains. Contributors: Paul Mechling, Ashtabula, David Coldwell, Columbiana County and Ron Ott, Harrison County, OFA and TFA.

A-5: Use 2012 CAUV Valuations for 2015 CAUV and future years until "A-list" solutions have been implemented. Watch out: We learned ODT usually makes a journal entry in February of each year to set the CAUV rates for the (2015) year. We have been told changes may take 1 or more years to implement. Therefore we ask ODT to enter 2012 CAUV for all counties as an incentive to wrap up and implement changes and not unfairly penalize CAUV landowners. Also this prevents the need for retroactive payments by the State to CAUV landowners.

"B-List" Four Additional CAUV Considerations Discussed Recently by Ashtabula CAUV Task Force:
Submitter: Fred Pierce-Ruhland , fpierceruhland@gmail.com, 440-224-2150.

B-1: Use cash rent as the CAUV Valuation if the landowner rents his land and has no other income from the land. A relatively high and increasing percentage (50-60%) of CAUV landowners rent their land. Some have to borrow when paying increased CAUV taxes because cash rent is not enough. Cash rents are increasingly made by formerly active farmers at their advance age when they can no longer actually do farm labor. So the elderly is more likely to rent than operate the farm. It represents the last stage of farming group before the land is sold. All farmers indicate they want the most for their land and usually fragmentation delivers the highest bid. Surveys of average cash rents by county need to be continued and could be improved by through County Auditor inputs. Cash rents are built into costs as part of the Budget Statistics OSU AEDE database and could be made available to ODT. Cash rents are currently well below the minimum \$/acre for even the poorest soil type. If cash rent becomes CAUV valuation it could **reduce CAUV below 2013 levels.** Source: Discussion at 1/26/15 Task Force meeting re Barry Ward OSU AEDE (Agriculture, Environmental, D presentation discussion.

B-2: Use local farm millage to Improve CAUV Accuracy: instead of state average millage. Current millage ranges from 32-138. Use of local farm millage would continue to encourage farming near metro areas. Current use of the state average (42 mils) does not give credit for the higher taxes paid in CAUV near metro areas. For example farms in a 100 mil jurisdiction are now paying 2/3 of their calculated profit in taxes. The **CAUV reduction could be as high as 15%** near metro areas.
Contributed by: Bruce Kettelle, Montgomery County, near Dayton Ohio.

B-3: Install a Benchmark Target Requirement for CAUV Taxation: not to be in excess of appraised land valuation changes or commodity index changes during the same period. Currently there are no

B-3 Continued: independent benchmark target ranges. This allows the ODT unlimited freedoms to increase CAUV disproportionately and unfairly. This year some parcels received CAUV valuations higher than appraised Real Estate Values which should not be possible. ODT has branded these as "artificial caps" and say they "will not consider" them. However the CAUV landowners **insist** this type of oversight is a necessary function of the CAUV Advisory Committee to improve accuracy, keep the CAUV inputs in sync with market conditions and guide ODT to keep the program continuously updated in a more timely manner. ODT should be required to reiterate and adjust the formula until they are inside benchmark targets **before** they are allowed to change taxes.

Source: 11/254/14 letter to Mr. Joseph W. Testa, Commissioner of ODT. ODT responded indirectly through GONGWER notes of 1/23/15.

B-4: Develop a path for Complaints and Appeals: There is no appeal process available to CAUV landowners for valuation issues. County auditors will simply dismiss complaints as "not in their jurisdiction". Landowners must be able challenge the rules adopted by ODT to change their CAUV valuations. A landowner request to amend the Constitution would be a higher degree of difficulty. ODT should show valuation appeal method on their website. This process will give ODT "360 degree reviews" for ways to continuously improve Taxation Department performance.

Source: 1/26/15 CAUV Task Force Meeting.

B-5: Rely on CAUV Advisory Committee Inputs More Extensively: The concern is while committee members are the best experts in their fields and the committee is well rounded, their powers do not seem to be used extensively enough. We believe the following types of interaction between Landowners, CAUV Advisory Committee and ODT will all lead to fairer taxation and quicker resolution of differences. Something like this could be added to their bylaws:

- a). Each Advisory Committee member should have equal powers meaning decisions can't be controlled by the minority or any single committee member regardless of that member's affiliation.
- c). No legislative body (directly or indirectly) should control the actions of the Advisory Committee.
- d). The Advisory Committee can become a "clearing house" for solutions and ideas for the ODT from CAUV taxpayers, Task Force Study Groups and of course from their own organizations.
- e). The committee should be given oversight control over the ODT at the first opportunity when ODT observes CAUV changes will exceed benchmark target ranges.
- f). "A- list", "B-list", recommendations from other contributors and administrative changes proposed by ODT should be reviewed, amended and voted into ODT action by majority CAUV Committee vote.

We thank you for your understanding and support for this effort. Now please go forth and spread the truth so fair taxation can result. We don't know all the pathways to success but it's all we know to do..