

# Cutting Ohio farmers' tax bills may hike what others pay



Roger Baker and his dog, Bentley, farm more than 1,000 acres in northeastern Ohio's Wayne County, including this freshly mown field of rye. He and other Ohio farmers say they are reeling from property tax bills that have been skyrocketing in recent years. [Mike Schenk, The (Woster) Daily Record]

## Monday

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By Marc Kovac / GateHouse Media Ohio

Roger Baker farms more than 1,000 acres in northeastern Ohio's Wayne County, the heart of Ohio's dairy-producing region, and he and other Ohio farmers are reeling from the skyrocketing tax bills they've received in recent years.

"It's stretching everybody," Baker said, noting that his annual tax bill went up \$9,000 or \$10,000 in the past few years, about a 250 percent increase.

Enter state lawmakers, who for months have been considering ways to address the issue. The Ohio House and Senate have taken slightly different approaches, in a budget bill amendment and a standalone bill passed by the respective chambers, and a compromise solution is possible in coming weeks.

In the meantime, both farmers and school districts are watching closely to see how that final version will affect them. If farmers are winners, school districts expect to lose money, which they say will put a greater burden on residential taxpayers.

An analysis by the state's nonpartisan Legislative Service Commission on the Senate's version of tax relief for farmers projected losses of \$20 million or more for local governments and school districts after a three-year phase-in. It said the House version would result in losses of \$14 million annually after a six-year phase-in. Some of those losses "would be partly offset by higher effective tax rates on residential property owners and also on farmers," the commission said.

Groups representing school districts would prefer that the legislature study the formula used to determine farmland taxes — the "current agricultural use value," or CAUV — and its effects before signing off on law changes.

"We understand the impact this is having on farmers," said Jay Smith, deputy director of the Ohio School Boards Association.

"But we also ... see that the CAUV formula is working, and that those increases that they have seen based on economic conditions, they're coming down. They may not be coming down as fast as farmers would like."

While income and sales taxes dominate the state's general revenue fund, property taxes flow mostly to local coffers.

More than \$16.8 billion in property taxes were payable last year, not including tax credits reimbursed by the state, according to the Ohio Department of Taxation. School districts received the biggest share, about \$10.5 billion, followed by counties with nearly \$3 billion.

Barbara Shaner, associate executive director of the Ohio Association of School Business Officials, voiced her group's opposition to the Senate bill in testimony last month, saying it would "significantly reduce local valuations for agricultural property" and "the resulting expansion of benefits to agriculture landowners will create a shift in tax burden ... to residential owners."

She cited a study by the Ohio Education Policy Institute that shows residential property owners paid nearly 64 percent of total property taxes in 2015, up from about 44 percent in 1990.

Stan Dixon, a deputy state tax commissioner for tax equalization, told lawmakers that a review in eight counties of the effects of the proposed changes found that "property tax increases paid by residential landowners increased from minimal amounts to upwards of 10 percent in some taxing districts. The magnitude of the shift is largely driven by the ratio of agricultural property to residential property in a taxing district. Generally, the more rural the district, the larger the shift."

On the other side of the issue, farmers say their rising property tax bills affect their willingness to support local levies.

Frank Phelps, past president of the Ohio Cattlemen's Association, told lawmakers this year that farmers could be more open to local ballot issues after changes in the CAUV formula.

The group's members are "struggling with levies in their own individual school districts," he said in submitted testimony. "Our association believes that if the tax burden was more manageable, and the non-agricultural factors were removed, rural districts would be able to support more levies."

For farmers, Baker said, it's not about a handout or a tax cut.

"We're not asking for tax breaks," he said. "All we're asking for is for the equation to get a little more real time and real numbers to today's economy and the environment that we're working in."

Making adjustments is complicated, which is why opponents of the current proposals are asking the General Assembly to slow down and take a closer look before making changes.

"The effects will be to lower property valuations, causing a tax shift to residential taxpayers, disrupting the school funding formula, and resulting in some losses in revenue for school districts," the school boards association's Smith said. "We urge you to remove this proposal and replace it with an independent review of the CAUV program."

### **The formula**

Property owners can sign to have their farmland taxed under a formula based on the land's current agricultural use value, rather than the higher value it would hold if developed. The system was established by voters in the early 1970s as a way to keep property taxes lower on land devoted to agricultural production and as an encouragement to keep those areas in production rather than developed for residential, commercial or other non-farming purposes.

The formula considers a variety of factors, including crop yields and prices, production costs and interest and equity rates.

For years, the formula worked as intended. According to the Ohio Department of Taxation, the average CAUV per acre statewide in 2008 was \$475, compared to a market value average of \$2,703. In Wayne County, southwest of Akron, the per-acre average was a little more than \$650, with a market value of \$3,706.

In the past decade or so, however, the formula has led to big upswings in property tax bills for farmers at a time of historic downswings in their income. The increase stemmed from a short period of rising crop prices boosting farm incomes a few years ago. While those prices have since dropped, low interest rates and other factors in the formula have not kept pace or led to comparable drops in resulting property tax bills, in part due to equity and other assumptions built into calculations.

"For some farmers, it's going to be hundreds (of dollars in increased tax bills)," said Leah Curtis, policy counsel for the Ohio Farm Bureau. "For some, it's thousands. ... Their values have gone up exponentially. Even if their tax rate stays the same, they are doubling or tripling their tax — quadrupling, in some cases."

Dixon, the deputy tax commissioner, has told lawmakers that CAUV rates had "gone from record lows in the mid-2000s to peaking to record highs in 2014."

According to the tax department, in 2016 the state CAUV average per acre had risen to \$2,081, with a market value average of \$3,889. In Wayne County, it was \$2,352 and \$5,233, respectively.

“The ag economy started to slide, and then all of the sudden the taxes started exploding,” Baker said. “They exploded to a level that I don’t think they’ve ever seen and I don’t think anyone dreamed.”

Sen Bob Peterson, R-Sabina, who is a farmer, added that “farms across the state, every three years, their taxes have doubled. If you were paying \$10,000 in taxes nine years ago, six years ago you paid \$20,000 ... three years ago, you paid \$40,000. These numbers get real big, real fast. A 1,000-acre farm, that’s probably \$25,000, \$50,000, \$100,000.”

It’s been a double whammy for dairy farmers, Baker said, with property taxes and feed costs rising as milk prices dropped.

Baker said he has “had plenty of farmers, especially in the dairy industry, say something’s got to give somewhere or we’re not going to keep doing this. That’s extremely troubling to me. If we start to lose dairy farms in our three-, four-county area here, it will change our demographics in a way that nobody — farmer or non-farmer — no member of this community will like.”

## **Different paths**

Both the House and Senate measures tweak the CAUV formula with an eye toward making it more reflective of current conditions and farm income while providing incentives for conservation. The House proposed a six-year phase-in on the changes, while the Senate proposed three.

“That will dilute the impact that it has on local governments (and) schools,” Rep. Kirk Schuring, R-Canton, who worked on the House language. “We think it’s a fair formula. ... Its impact will be minimal because of the way we structured it.”

The legislature could move forward with either the separate bill or the budget amendment. Senate President Larry Obhof, R-Medina, and Schuring said the latter approach would make sense, given the tax, spending and other policies covered by the biennial budget bill.

Either way, said Curtis, of the Farm Bureau, the proposals present the first major changes in the CAUV program since its inception, and either option would represent an improvement.

Some lawmakers remain concerned about the impact on residential taxpayers and schools.

Though the recent vote on Senate Bill 36 was unanimous, Sen. Joe Schiavoni, D-Boardman, said lawmakers need to do something to ensure that school budgets don’t take another hit.

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