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Development, Use, and Results of Current Agricultural Use Value Taxation in Ohio

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DEVELOPMENT, USE, AND RESULTS OF CURRENT AGRICULTURAL USE VALUE TAXATION IN OHIO

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"The great and chief end therefore, on men's uniting into commonwealth, . . . and putting themselves under government . . . is for the preservation of property."—John Locke

INTRODUCTION

Private property ownership vs. public control of property has been a concern throughout our nation's history. Although ultimate control of property is vested in governmental authority, we have effectively used the economic market process as the basic land use allocation device. Certain market constraints are employed to protect the property use rights of both the individual and the society. Until the last decade, the supply of land was sufficiently abundant, relative to demand, that "society" imposed modest constraints on the market allocation activity.

During the last decade the developing demands for land services and concern for the "environment" resulted in major changes in land use policy. Controls are becoming increasingly necessary if land resources are to serve the competing goals of satisfying the growing demands of the domestic population and increasing agricultural exports. The realization that productive agricultural land is a finite resource, and that both domestic and export demands for the products of land use are rapidly increasing, are used to justify the need for more government land use controls.

In many areas of Ohio, urban users have provided strong competition for land. Conversion of farmland to non-farm uses is a national concern. This concern has encouraged the development of the constitutionally mandated police power controls (zoning, agricultural districts, purchase of development rights), eminent domain, and taxation. Additionally, the use of government controlled public spending as a means of influencing land use has increased.

Results of these changes in land use controls indicate that within the past 2 decades we have effectively evolved from a relatively free real estate market to one that is highly constrained. Recognition of developing needs and the unique and finite character of our most productive farmland resources have been cited by farm owners and urban residents alike as justification for developing policies and programs designed to preserve our farmland. Without governmental constraint, certain land owners, because of location and other unique characteristics of "their" land, could reap unacceptable benefits.

Land use controls often reflect the unique state and local situations. A review of recent developments of our real property tax system will help us better understand why changes in farmland taxation were sought in Ohio. The judicial and legislative antecedents that prompted the Ohio electorate to select a "preferential agricultural use value" taxation will be identified, and followed by a description of the CAUV taxation method, an evaluation of its performance, and its relationship to the continuing land use control debate.

BACKGROUND

"Home rule" is an important tenet of Ohio governance. Under Ohio law, the local governmental unit has a superior political power. A township, municipality, or school district has the power to tax, to regulate, to authorize, etc. However, county and state governments can influence these local programs through political controls and spending programs. "Home rule" permits the local electorate to control both the millage rate imposed and the allocation of tax revenues generated.

"Equity," or the equal treatment of all individual citizens, is another governance cornerstone. For taxation purposes, equity requires properties having identical monetary value to be taxed so that the imposition of 1 mill will generate exactly the same amount of revenue.

"Tax neutrality," a third tenet of the real property governance system, requires that the tax imposed, in and of itself, should neither influence the property use, nor force a change in use as determined by the economic market process. Market forces, and not taxes, should aid owners in determining the "best" use for their property.

Throughout the history of Ohio, the electorate has recognized the political and economic importance of the agricultural sector. Historically, the allocation of land and land use in Ohio resulting from this constrained market process has been satisfying. The market process has permitted land to be released from agriculture when demand indicated a transfer was desirable and profitable.

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Recent changes in demand for land services have resulted in the development of additional market constraints. One component developed by the Ohio body politic which modifies the function of the market is the possibility for a farmland owner to have an opportunity to be taxed using a different basis of valuation than can be used by owners of other classes of property.

Our society seeks to develop land use policies designed to consider a longer decision time frame than those served by the market. It is significant to note that "society" is the ultimate long term land owner. The individual land owner is granted a tenant type right to enjoy and use land resources as prescribed by the "society."

In Ohio, the county functions as the dominant governance control for real property taxation. The county auditor as the chief tax assessment officer determines the taxable value for each parcel of real property. It must be recognized that each auditor is an elected official who serves at the constituents' pleasure.

Changes in production and market technologies, demands for land, and land use controls can greatly influence the value of a parcel of property. The composite impact of many interacting forces must be ascertained in order to discover the appraised taxable value of a property. Ohio's 88 county auditors and county boards of revision function independently; thus, considerable variations among county tax programs exist. Public programs including schools, police, welfare, roads, and drainage authorities represent user demands for tax revenues. Although users' demands differ, all compete for a share of the tax revenues generated.

In order to minimize disparity among counties and classes of real property, the State Department of Tax Equalization must review, request modification, and approve the tax duplicate as submitted by each county auditor before tax collection is authorized.

The real property tax system is designed with many controls and safeguards. Problems of discriminatory taxation, however, continue to exist as was summarized in a legislative service commission report:

> "It has been found, upon the examination of Ohio property tax laws over the past century (administrative, statutory and judicial), that the Ohio property taxpayer, in the absence of fraud or conspiracy, has generally enjoyed little legal protection from unlawful taxation resulting from discriminatory assessment. Tax assessments generally have not met the constitutional test of equity and uniformity. Throughout real property tax history, Ohio's county auditors have ignored the statutory assessment standards, and the General Assembly (Legislature) and the county (judiciary) and other state agencies have been unwilling or unable to compel general compliance." (21)

BENEFICIARIES OF TAXATION

A primary purpose of taxation is the extraction of revenue from the real property owners for the support of public programs. In Ohio, the local school district is a major user of property tax revenue. Welfare programs, public hospitals, transportation, police, and the judiciary are also funded from this tax revenue.

The real property taxation program has been developed and modified to achieve certain other publicly determined goals. For example, the homestead exemption was developed to reduce the tax burden of qualified older real property owners. The Ohio forest tax assessment program, first enacted into law in 1925, provides for a 50% market value tax reduction if specified forest husbandry practices are followed. This tax relief is designed to encourage forest land owners to use approved forestry management practices. Two other recently enacted tax program modifications are Current Agricultural Use Value taxation and the water and sewage rotary fund.

The Current Agricultural Use Value taxation benefits qualified agricultural land owners by both providing for a preferential tax treatment for continued farm usage of land and by discouraging conversion of land for development, speculative investment, and other non-farm uses. A change from a farm to a non-farm use taxed under CAUV provisions involves a tax recoupment or penalty.[2]

The water and sewage rotary fund makes possible the installation of needed water and sewer lines for developed land areas, but defers the cost to owners of affected but undeveloped farmland until the land is actually developed. When the conversion from farming is actually made, the water and sewer improvement assessments must be paid. Thus, the water and sewer rotary allows a farmland owner to continue farming by deferring the payment of the improvement cost.

Ohio has also permitted certain "preference" tax treatments (deferrals, abatements, and reductions) to attract "desirable" industry, for historic preservation, to assist nonprofit organizations, and to encourage desired land use. Each program provides some particular benefit, but in addition each effec-

[2]The dis-incentive penalty is identified as a "recoupment" of the tax difference between the Current Agricultural Use Value appraisal and market value appraisal for the 4 years prior to the conversion of the land from an agricultural use.

tively modifies the Ohio real estate market and system of taxation.

It must be remembered that real property taxation is one of several society-imposed real property controls. Land use policy is the composite of all such constraints that influence the use and expectations as interpreted by people owning, using, and bidding for land services.[3]

VALUATION OF LAND

Value implies the capacity to satisfy some of the many wants that are expressed by people. Economic value is a subjective concept dependent on the human desire to possess and to use property and upon the user's ability and willingness to offer consideration or money in exchange for possession (2). Real estate appraisers argue for a distinction between the concept of value and price (29). "Value and price are influenced by each other, but they seldom coincide. Price is the result of the impact of economic conditions on value. Value is more enduring than price and fluctuates less." (8)

Income capitalization is a direct and primary approach to value (8, 24). The income capitalization method of discovering value is based on the "stream" of monetary returns that may be expected from the productive use of a property.

Reiss has demonstrated a direct correlation between soil productivities and net rents earned by Illinois farmland owners (23). Highly productive Illinois soils were found to have higher earnings and higher market values than lower yielding soils. Through the use of the capitalization process, annual or periodic incomes can be used to discover the investment value. (The capitalization formula is $V = R/i$, with V=value, R= annual net return to land, and i=capitalization rate.) The value of land based on income earnings from agricultural production requires that net income and the capitalization rate be determined.

Economic rent accruing to the land can be the income above the production costs (12). Income to land, (R), is the difference between production receipts and production expenses exclusive of land costs. Physical quantities of inputs and products times the appropriate prices yield the monetary income of the land.

The fact that production involves a mix of land, labor, capital, and management inputs does not permit a simple land contribution determination. Using the marginal productivity approach, rent is considered as income after all other inputs have been costed. This requires that the non-land factor contributions be derived using an accounting process.[4]

The capitalization rate, (i), in the formula should reflect the same return as that for any comparable investment. This rate is the expected opportunity return adjusted for risk differences. Crouse and Everett (8) suggest that the following factors influence the capitalization rate as expressed by the market:

1. Money market—prevailing farm mortgage interest rate and terms
2. Physical and economic risk and uncertainty
3. Investment liquidity
4. Competition

ANTECEDENTS OF CURRENT AGRICULTURAL USE VALUE TAXATION IN OHIO

Several factors led to the recognition of a need for developing an agricultural land tax treatment that was different from the historic and existing taxation treatment. This recognition evolved as a result of legislation and administration of the real property tax program.

Over a period of several years, major modifications in the administration of the real property tax program resulted from independent actions by the county auditors. Sizable variation occurred in assessment among classes of property (residential, agricultural, commercial, industrial) and among counties (21). For example, in a selected county, commercial properties were assessed at 40%, residential at 35%, and agricultural at 30% of the appraised market values. Also, adjacent properties situated in adjoining counties were found to have widely different valuations. Although a standardized sexennial reappraisal was required, different percentages, both in the market value by property class and in bases for appraisal, resulted in major tax bill disparity.

Example: Real Property Tax Computation

$100,000	Appraised value (100% of market)
X 35%	Assessment ratio (percent of market value for tax determination)
$ 35,000	Assessed tax value
X 0.042	Voted millage rate
$1470.00	Annual tax bill (payable in two installments) An assessment ratio of 30% would reduce the tax bill to $1260 and a ratio of 40% would increase the bill to $1680.

[3]Several other provisions involved in the Ohio tax system will not be detailed as part of this presentation. These include roll-back provisions and school foundation funding.

[4]This may represent actual cash paid and/or estimates of a normal cost. Using this approach, the marginal product of land equals the residual.
Farm cash receipts — cash expenses — depreciation ± inventory ± capital gain = farm income. Farm income — charge for labor — charge for nonland inputs = residual return for use of land.

County auditors had effectively institutionalized this variation in appraisal and assessment treatments as a part of the tax system. However, the procedures used were not supported by the Ohio constitution. Nevertheless, the institutionalized assessment differentials by class of property were accepted by the taxpayers and had gained credibility at all levels of Ohio governance.

As time passed, the tax disparity was increased. Certain property owners suffering heavy tax burdens sought judicial relief. These taxpayers petitioned the judiciary, challenging the auditors' institutionalized differential tax assessment procedures. This challenge culminated in a "landmark" Ohio Supreme Court trial. The decision rendered was that such assessment procedures were unconstitutional, and the court further prescribed that the mandated constitutional procedures must be followed. It was stated in the decision that equity treatment required each parcel of property in the state to be appraised as of the same date, that all real property be appraised at 100% of market value and assessed at 35% of that market value. The resulting appraised taxable value would then be multiplied by the mandated and voted millage rate and the tax bills formed accordingly.

Auditors using conservative agricultural property appraisals and assessment ratios had benefited farmland owners relative to other property owners. The Ohio Supreme Court ruling required that farmland be taxed on the same basis as all other classes of property. This would effect a considerable increase in the farm real property taxes. These increases would be greatest in areas having an urban value influence. Farmland owners would be obligated to carry a significantly large share of the real property tax burden as a result of this standardized 35% assessment requirement (21).

Farmers, farm organization leaders, legislators, and others recognized that such increases in farm real estate taxes would cause economic distress among many farmland owners. Farmland tax increases of 100% to 300% would be in effect for several urban counties. Farmland tax increases would relieve other property owners; however, farm properties constitute less than 10% of the total real property tax value base in Ohio (19). During the 1960's and early 1970's, farmland was experiencing developmental and urban related pressures along with vigorous agricultural demand.

In Ohio, much of our agricultural real estate is enhanced in value by close proximity to urban concentrations including Cleveland, Cincinnati, Columbus, Dayton, Toledo, Lima, Akron, Canton, Springfield, and Youngstown. These metropolitan areas, along with many other smaller cities, provide a large rural and urban land interface. In Ohio it is difficult to identify farmland that does not have some price pressure emanating from the urban sector. Farmland encroachment for residential, commercial, transportation, and industrial uses can be found in every county.

The Supreme Court also ruled that the Board of Tax Appeals (the State Tax Equalization Authority at the time) must implement the decision or be held in contempt. The Board of Tax Appeals countered that it did not have the finances or legislative responsibility to execute the decision as rendered. This and subsequent actions delayed implementation of the court order. Agricultural leaders, recognizing the problems associated with the increased farmland burden, initiated a campaign for developing an acceptable farmland tax treatment. Prior testing in the courts had made it clear that a constitutional amendment was necessary if any basis other than comparable sales or "market value" was to be used for tax appraisal and assessment.[5] An educational campaign was developed by farm organizations and the Cooperative Extension Service to inform the electorate of the effects of the Supreme Court decision on farmland taxation. The importance of agriculture and the potential problems resulting from large and rapid increases in farmland taxes were made known. The campaign culminated with an endorsement of a preferential farmland tax treatment by the mayors of Ohio's ten largest cities, the leaders of the four major farm organizations, the majority and minority leaders of both the House and Senate, and the Governor. A constitutional amendment providing for the enabling legislation was placed on the 1973 general election ballot. The 76% favorable vote was reported as the largest plurality vote ever achieved for an Ohio constitutional amendment.

With this support, the legislators quickly developed the legislation required for preferential agricultural tax treatment, and prescribed its initiation for the 1974 tax year. The Board of Tax Appeals was empowered to develop the implementation rules and to execute the programs. The Cooperative Extension Service conducted a second educational program to inform county officials, agricultural service representatives, and interested individuals about the current agricultural use value program.

One goal of this preferential farmland tax treatment was to permit the individual to continue as the "land use" decision maker at an acceptable cost to society. The Current Agricultural Use Value assessment makes it possible for farmland to be taxed according to its capitalized farm income value rather

[5]1972 Supreme Court decision that use value assessment for taxation as provided in Senate Bill 455 was unconstitutional.

than market value which may include developmental and/or speculative values. The farmland owner electing this basis for taxation is obligated to pay taxes consistent with the income "typically" derived by farming the land.

THE SYSTEM

Basic elements for effectively implementing and administering any taxation system include: 1) administrative simplicity, 2) ease of understanding, and 3) acceptable administrative costs. An acceptable real property taxation system must be easily understood by both county administrators and taxpayers. Additionally, the cost of appraising each parcel of property was a major concern. Recent sexennial "market value" reappraisals had been completed at a cost of $4 to $6 per parcel.

Taxation of land according to typical "use value" requires that the productivity of a farm property be ascertained. With the "market value" or "comparable sales" technique, land, rather than buildings, embodied the non-farm value influences. The acceptance of a modest modification in procedure was recognized as desirable to users and administrators compared to a radical change. Since the land fraction of farm property value reflected the non-farm value influence, the building fraction of value for the taxation procedures could be left in place.

It has been demonstrated that soil productivity and land use capability indices can be used to accurately measure land productivity with typical management (25). The soil productivity index rates yield potential; land use capacity measures the hazards associated with a particular use of a land area. A soils inventory has been completed in 52 of Ohio's 88 counties and 20 other counties are in process of being inventoried. Many individual farms have been inventoried in the remaining 16 counties. Perhaps more significant, the urban and urban related counties have been inventoried. This soils inventory information is basic in the development of the CAUV system.

Soil Identification

More than 350 different soil types have been inventoried as identified under the different geologic, topographic, and drainage conditions found in Ohio. These distinct soil types have been grouped into 8 major soil regions and 63 soil management groups. Soils in a management group have similar characteristics, properties, and yield potentials. Each of the 63 individual soil management groups can identify the representative crop yield potential for typical management and costs for the member soil identities (6).

Land Capability

Area suitability for various crop production activities and potential hazards related to slope, drainage, and erodibility are identified by use of the Land Capability Index.[6] Cropping patterns are determined according to land use capability class. A high percentage of intertilled crops can be grown on the Class I and II soils. Conversely, more soil protecting crops (small grains and meadows) should be grown on Class III and IV soils. The percent of crops that can be typically produced by capability class had been developed by Howell (Table 1) and these figures are used in determining the gross income by capability class (14).

[6]Soil Conservation Service Land Capability Classes are designated by Roman numerals I through VIII. The numerals indicate progressively greater limitations and narrower choices for practical use. Classes are defined as follows:

Class I soils have few limitations that restrict their use.
Class II soils have moderate limitations that reduce the choice of plants or that require moderate conservation practices.
Class III soils have severe limitations that reduce the choice of plants, require special conservation practices, or both.
Class IV soils have very severe limitations that reduce the choice of plants, require very careful management, or both.
Class V soils are not likely to erode but have other limitations, impractical to remove, that limit their use largely to pasture, range, woodland, or wildlife.
Class VI soils have very severe limitations that make them generally unsuited to cultivation and that restrict their use largely to pasture, range, woodland, or wildlife.
Class VII soils have very severe limitations that make them unsuited to cultivation and that restrict their use largely to pasture, range, woodland, or wildlife.
Class VIII soils and landforms have limitations that preclude their use for commercial plants and restrict their use to recreation, wildlife, water supply, or esthetic purposes.

TABLE 1.—Percent of Crops Produced by Land Capability Classes.

Land Capability Class	Percent of Crop Produced			
	Corn	Soybeans	Wheat	Meadow
I	40	40	10	10
II	32	32	18	18
III	20.5	20.5	26	33
IV	18	0	22	60
V-VIII	Pasture or woodland			

Soil identification and land capability classification can be used to develop the typical income for cropland, pastureland, and woodland uses. Representative commodity prices applied to crop yields provide the gross income for a selected year (1). In order to minimize year-to-year price variations, the most recent 5-year moving average of farm commodities was used.

Annually a Current Agricultural Use Value Advisory Committee reviews changes in production and marketing technology, costs, prices, and other factors that may influence farmland values. The Department of Tax Equalization is responsible for developing the farmland value tables by soil productivity and land use capability classes for use of the county auditors. Land in Classes I through IV is valued as having crop potential and in Classes V through VII as pasture and woodland.

It is recognized that certain input costs must be incurred in order to generate crop income. Major field crops production information is provided by the Cooperative Extension Service and the Ohio Agricultural Research and Development Center (18). The production levels are developed to represent typical production inputs, methods, and costs. The net income used for capitalization is the difference between the gross farm income and the non-land production input costs.

Ideally, the capitalization rate is discovered by comparing the known net income to the known market price for a property. When such data are not available, a capitalization rate must be developed.[7] For this purpose, the mortgage equity (Ellwood) method was prescribed (24). A 5-year moving average of the following data sets is used to develop the capitalization rate: 1) Federal Land Bank farm real estate mortgage terms and interest rate, 2) market return on comparable investments, and 3) the appreciation of agricultural land. Annually, a "market" study is made to obtain these sets of data.

The typical farmland net income for each soil management group is divided by the derived capitalization rate to yield the appraised per acre value. These results are reported in a table for the 63 major soil management groups on one axis and the 8 land use capability index categories on the other axis (see Appendix). Within each cell, cropland, pastureland, and woodland, use values are reported. For lands that can be economically converted from woodland to cropland, or pastureland to woodland, the appraised value was reduced by the conversion cost. When conversion is uneconomical, the residual income value for woodland or pasture use is capitalized. The resulting tabled information is provided to each county auditor. The value in a cell is the actual appraised value for 1 acre of land for a particular tax year. The auditor must identify the soil management group and land use capability to determine the appraised land value.

Farmland owners are obligated to make application, pay an initial $10 application fee and pay an annual $2 renewal fee prior to the first Saturday in March in order to use the CAUV method (see Appendix). A farmland owner applicant is required to report the acres of land in each soils management group by existing use. Assistance for soil identification and acreage measurement required for the application is available from the auditor's staff, the Soil Conservation Service, and county agricultural Extension agents. Acreage in each soil management group must be multiplied by the tabled values to ascertain the total farmland appraised value. The building value obtained using the market technique is added to the land value to ascertain the total appraised farm value. This system has been computerized in several counties, and the annual appraisal adjustment can be made by inputting the current data.

The county auditor is responsible for certifying each application.[8] Land can be qualified only if the annual gross sale of agricultural products is $2,500 or if the area used for commercial agricultural production totals 30 or more acres. Recreational uses, such as pasturage for riding horses, would not qualify. However, if horses were kept to produce offspring that were sold and yielded more than $2,500 per annum, the land could be qualified. The garden store with a producing nursery was another type of concern. Land used for production of plants sold through the store outlet would qualify as an agricultural use. However, land used for the store operation would not.

The auditor is obligated by law, prior to approval of an application, to physically view property and to certify if the required agricultural use requirement is satisfied.

Recoupment Penalty for Conversion

Both the "market or comparable sales" and "Current Agricultural Use Value" assessment information must be maintained by the auditor for each

[7]The Advisory Committee on Agricultural Use Value Taxation is appointed by the Commissioner of the Department of Tax Equalization and is selected to represent many of the agricultural interest groups found in Ohio. This committee is called each year for a review of the forthcoming year's recommendations as formed by the Department of Tax Equalization that will be provided to the county auditors.

[8]To qualify for the Current Agricultural Use Value tax treatment, the taxpayer of a tract, lot, or parcel must own 30 acres or more of land used exclusively for commercial agricultural production. If the tract is less than 30 acres, an average annual gross from agricultural sales of at least $2,500 must be earned for a 3-year period (11).

qualified parcel. Conversion from an agricultural use can be made at any time; however, a "recoupment" is levied. Recoupment is defined as the difference in the tax that would have been based on "market value" and tax that was actually paid using CAUV assessment during the past 4 years. The farmland owner has no other penalty. If the 30 acre or $2,500 annual gross requirements can be satisfied, parcels can be split, with CAUV treatment continued for the fraction remaining in a qualified agricultural use. Converted land would be eligible for recoupment and would be appraised using the "market value" assessment in the future. It is important to note that under Ohio law, taxes assessed and the recoupment penalty are liens against the land and not against the owner. Thus, unless other provisions are made, the owner of the land at the time of the conversion is legally responsible for the payment of the recoupment penalty.

RESULTS

Some important aspects of the preferential tax assessment as experienced by farmland owners and other participants in real property taxation will be identified. Objectives of CAUV taxation assessment were: 1) that the farmland owner continue as the dominant land use decision-maker, and 2) that the owner be encouraged to continue a farm use for land.

Historically, through the informal action of the county auditors, farmland owners received preferential taxation treatment. Because of taxpayers' objections and court actions, any preferential treatment was ruled unconstitutional. Under Ohio law a taxpayer can petition a tax objection if the bill is higher than prescribed. However, a taxpayer cannot legally object because another taxpayer's bill is lower than his bill for comparable property. Over time, county auditors had been able to achieve a differential taxation without individual taxpayers having a legal opportunity to effectively complain. However, the institutionalized assessment procedure did violate the equity concept and when tested by the Ohio Supreme Court was found unconstitutional. Mitigating market forces were operative, and farm real estate market values were also influenced by speculation. Such values were anticipatory and much higher than could be supported by the income produced. Society, when informed of the ultimate consequences of such tax treatment, supported and voted for a major change in farmland taxation.

It is noted that for certain other classes of property, the capitalization of the income stream was used for determining the taxable value. In some instances, capitalized income assessment techniques were utilized because "comparable sales" or "market value" appraisals were difficult or impossible to identify. Oil refineries, potteries, shopping centers, and specialized manufacturing uses of properties are often unique and have few and infrequent "arms length" sales. For such properties, the taxing authority has resorted to capturing an income stream for tax appraisal.

Non-farm demands for land often influence selling at prices above current or anticipated earnings potential. Because of strong equity positions, farm buyers are typically found among the bidders. These bidders, however, are forced to bid against developers and land speculators and other non-farm users of land. In some instances a market sale was deemed to be an anticipated questionable indicator of farmland value for taxation assessment. As a result, the Ohio body reduced the tax responsibility of farmland owners in order to gain long-term benefits associated with the retention of a farm use.

Conversion of Land

Ohio reached its peak farm acreage in 1900 with 24.9 million acres of the total 26.2 million acres classified as farmland. During the next 3 decades, farmland acreage decreased by about 3 million acres. Of this amount, 2.5 million acres reverted back to forest use. Most of the remaining land was located in urban counties. During the depression years (1930-1940), Ohio experienced a slight increase in farmland acreage. For the 35 years following the depression (1940-1975), farmland acreage further decreased from 21.9 to 15.7 million acres. More than half of the 6.2 million acres (56%) reverted to forest use. The remaining 2.7 million acres (44%) were converted to urban-related uses.[9]

From 1975 to 1980, conversion continued at an accelerated rate. Despite the decline in total cropland, acreage has been maintained at 12 million acres for the past 80 years (26). Clearing and drainage of woodland and conversion of pasture to cropland compensated for cropland loss. The possibility of continued conversion is diminishing, and the investment cost for conversion is high and increasing.

Some of Ohio's most productive farmland was included in the land converted to urban-related uses during the past 2 decades. The development of the interstate "limited access" highway system contributed significantly to the loss of farm acreage. Interstate 75 from Toledo to Cincinnati, I-70 from east to west, I-71 from Cleveland through Columbus to Cincinnati, and I-77 from Cleveland to Marietta exhibit this urban encroachment. Along each interstate highway, housing, industrial parks, recreational fa-

[9]Urban and built-up areas, industrial sites, highways, railroads, airports, golf courses, mines, etc.

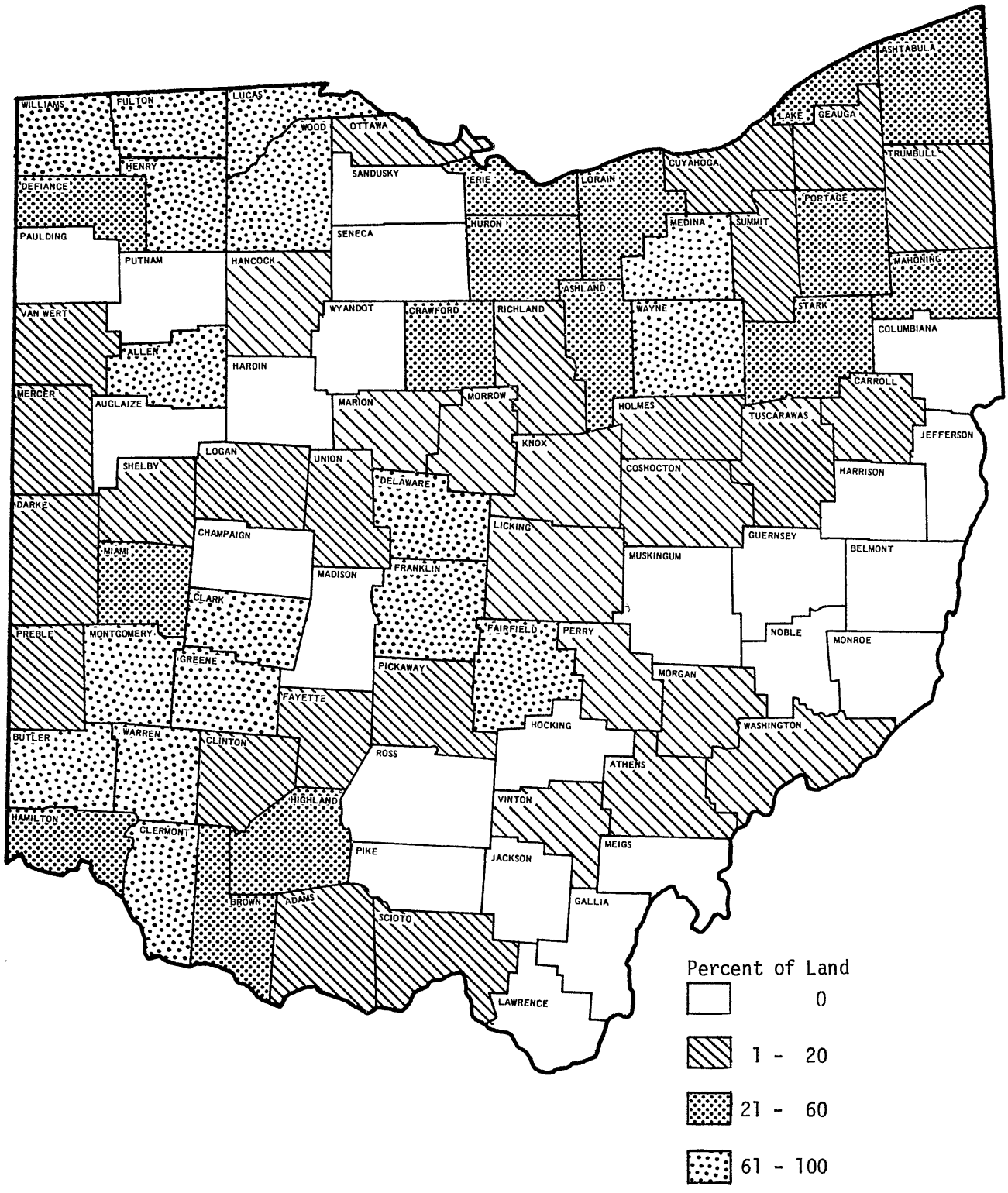

FIG. 1.—Percent of eligible agricultural land taxed using CAUV, Ohio, 1979.

TABLE 2.—Acres of Farmland Qualified for Current Agricultural Use Value Taxation in Ohio, 1975-1978.*

Year	Acres Qualified for CAUV Taxation	Percent of Total Farmland Qualified	Counties with Qualified Land
	(1,000 acres)		
1975	398	2.5	34
1976	1,087	6.9	37
1977	2,006	12.8	49
1978	3,346	21.4	55
1979	4,038	25.7	62

*A total of 15,668,000 acres of land in farms was reported in the 1975 Census of Agriculture, U. S. Dept. of Commerce.

cilities, and utility uses have evolved. Society must ultimately bear the economic and social costs associated with such conversion. The sponsors of CAUV taxation expressed the opinion that conversion of farmland might be tempered by implementation of a preferential farmland taxation program. For the 1979 tax year (collected in 1980), more than 4 million of the 15.7 million acres in farms (1 acre out of 4) were qualified for CAUV (Table 2).

Qualified acreage was located in 62 of Ohio's 88 counties (Fig. 1). Counties reappraised in accordance with the Supreme Court ruling experienced a significant use of CAUV while the 26 counties yet to be reappraised in the sexennial cycle reported few applications.

The completion of the sexennial reappraisal cycle and the initiation of an intervening triannual index updating of values are accelerating participation. Given the clarity of legislation and the enforcement capabilities afforded, the county auditors and County Boards of Revision are obligated to achieve a more equitable appraisal and assessment for all classes of property (15).

For the 1979 tax year, 1 acre of every 4 classified as farmland in Ohio was taxed in accordance with the Current Agricultural Use Value. Qualified farmland owners paid approximately $9 per acre less tax annually using CAUV than they would have paid using "market value" assessments. The tax paid using CAUV was actually about 50% of the tax that would have been levied using the market value assessment procedures. Effectively this reduction has the same result as an increase in net income to the farmland owner. To generate a net increase in income of $9 per acre requires an increase in gross income four or five times the net amount or $35 to $45 per acre.

Location of Land Taxed Using CAUV

The farm-urban interface was an important causative factor in the increase in farmland values. The pressure for land emanating from the metropolitan concentrations was accompanied by an increase in the agricultural demand. Counties with modest urban-related demand and having modest agricultural price pressure should have the same appraised valuation using either market comparable sales or Current Agricultural Use Value approaches to discovering value.

Two factors important in the use of the CAUV provision are the increase in urban demand and in the agricultural use price for land. It was found

TABLE 3.—Acres and Tax Value per Acre of Farmland Assessment by Market and CAUV Selected Areas, Ohio, 1979.

Area	Acres (000)		CAUV as Percent of Total	CAUV Land Appraised Value		Percent CAUV of Market
	Total*	CAUV		Market	CAUV	
Cincinnati	1220	750	61	478	185	39
Cleveland	2172	1002	46	268	129	48
Columbus	617	466	76	554	251	45
Dayton-Springfield	748	560	75	481	288	60
Lima	209	183	88	548	241	44
Toledo	925	872	94	461	267	58
Other	14469	737	5	265	518	51
Total	20360	4570	22	447	213	48

*Acres classified as agricultural land on tax duplicate.

that the percentage of farmland eligible to be taxed using CAUV is high in the urban counties and low in the rural counties (Table 3). The Toledo area had 94% of the eligible land taxed according to the CAUV provision in 1979. For the Columbus, Dayton, Lima, and Springfield areas, three-fourths or more; Cincinnati, two-thirds; and Cleveland, about half of the eligible farmland acreage was qualified for CAUV treatment. County auditors in 24 of the rural counties located in the south, southeast, and northwest areas did not report any use of CAUV in 1979. Counties with a modest urban influence reported less than 20% of the eligible land taxed using CAUV.

The reduction in value or the advantage to the owner for using CAUV is another important factor. In 1979, 4.5 million acres were taxed using a CAUV assessed value that was 48% of the "comparable sale" or "market value."

In the metropolitan areas this ranged from 39 to 60%. If the same millage rate was used, a tax bill reduction of 40 to 61% would have been enjoyed by these farmland owners. The counties experiencing a strong demand for agricultural land proximal to an urban influence reported a large number of users (Fig. 1).

An important non-cost factor related to adoption of CAUV was the auditors' handling of CAUV. In some counties the auditors were reluctant to receive applications, while in other counties the auditors provided information and encouragement. This disparity will be eliminated as the enforcement of the rules by the Department of Tax Equalization is effected.

Individual Reactions

Farm owners, county auditors, planning commission representatives, and real estate agents were contacted in Fairfield and Pickaway counties regarding CAUV (26). General expressions provided were: 1) Many smaller and older farmers were able to continue farming who might otherwise be forced to terminate their operations. 2). Development of land for non-farm use would continue but at a reduced rate. In areas suffering severe urban related pressures, CAUV taxes were about one-third to one-fourth the amount that would have been paid using the "market value" appraisal. 3) Several respondents stated that the recoupment penalties are not a significant conversion deterrent. 4) Local government revenues for school and other programs were not adversely affected. 5) Owners in areas that had experienced little urban influence considered the CAUV savings worthwhile. General conclusions are that the CAUV appraisal compared to market does permit farm owners to continue farming activities and that the recoupment cost does not provide a meaningful deterrent to conversion.

Use in Urban and Rural Areas

On a county-by-county basis, this program relates well to the ability to accommodate the change in revenue sources. Farmland owners in or near metropolitan counties are most benefited by tax relief. Typically, in these urban counties farm real estate taxes are a small part of the total tax base. It is in these same counties that a large tax base from other classes of properties exists which can provide the added revenue needed to accommodate the farmland tax reduction. Society has beneficially preserved "open space" compensating farmland owners by reducing taxes.

In predominantly agricultural counties, little or no difference between the market and Current Agricultural Use Value tax appraisals is found. Counties highly dependent on famland tax revenues, and having small urban influence, would generate the same property tax revenue using either the market value or the Current Agricultural Use Value assessment.

Certain weaknesses are recognized in the CAUV system. Location differences are reflected only as they are associated with soil production differences. For example, a farm proximal to a terminal grain elevator and another farm 50 miles distant from the terminal having the same soil identities have exactly the same tax appraisal per acre. Income potentials, however, differ. Climatic, market proximity, farm size, and historic management differences are not considered.

THE FUTURE

The debate of public control vs. private ownership of land use rights continues. The Current Agricultural Use Value taxation is only one element in this continuing debate. Other societally held property controls are being changed and will alter the ownership use rights of farmland and all classes of property.

Shifting of the tax burden from real property to personal income for support of education and other public programs is also being considered, along with agricultural zoning legislation. In Ohio, CAUV taxation has been found to be workable, is politically supported, is acceptable to farmland owners, and has shifted the tax incidence in such a way that both public and private sectors are reasonably benefited and satisfied.

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APPENDIX

BTA Form 109 (Rev. 8-75) — National Graphics Corp., Cols., O. Form No. A9-9

TAX YEAR

COUNTY — APPLICATION NUMBER

TAXING DISTRICT — PARCEL NUMBER

APPLICATION FOR THE VALUATION OF LAND IN ACCORDANCE WITH ITS CURRENT AGRICULTURAL USE. TO BE FILED PRIOR TO FIRST MONDAY IN MARCH

(Sec. 5713.31, R.C.)

SEE REVERSE SIDE FOR INSTRUCTIONS BEFORE COMPLETING APPLICATION

Owner's Name _____

Owner's Address _____

Description of Land As Shown on Tax Statement _____ No. of Acres _____

Location of Property _____ (STREET OR ROAD) _____ (TAXING DISTRICT)

List the acreage in each crop or land use. If under 30 acres, list the gross income from the sale of agricultural products for the past three years on initial application. On renewal application show information for last year only.

	LAST YEAR		2 YEARS AGO		3 YEARS AGO	
	Acres	Income	Acres	Income	Acres	Income
Crops: Corn		$		$		$
Soybeans						
Wheat						
Oats						
Hay						
Other:						
Perm. Pasture						
Woodland						
Homesite(s)						
Roads & Waste						
TOTAL ACRES						
OTHER SOURCES OF AGRICULTURAL INCOME:						
TOTAL GROSS INCOME FROM AGRICULTURAL PRODUCTS		$		$		$

Do you have a Soil Map of this farm? Yes ____ No ____ Aerial Map? Yes ____ No ____

If "Yes" file a copy of map(s) with initial application.

BY SIGNING THIS APPLICATION, I AUTHORIZE THE COUNTY AUDITOR OR DULY APPOINTED AGENT TO INSPECT THE PROPERTY DESCRIBED ABOVE TO VERIFY THE ACCURACY OF THIS APPLICATION. I DO HEREBY AFFIRM UNDER THE PENALTIES OF SECTIONS 5713.37 AND 5713.99, R.C. THAT IN MAKING THIS APPLICATION MY REAL PROPERTY QUALIFIES AS SET FORTH IN SECTIONS 5713.30 THROUGH 5713.99, R.C. I DECLARE UNDER THE PENALTIES OF PERJURY THAT THIS APPLICATION (INCLUDING ANY ACCOMPANYING EXHIBITS) HAS BEEN EXAMINED BY ME AND TO THE BEST OF MY KNOWLEDGE AND BELIEF IS A TRUE, CORRECT AND ACCURATE REPORT.

Date _____ SIGNATURE OF OWNER — Section 5703.25

RECEIPT FOR PAYMENT OF FEE

I HEREBY CERTIFY THAT THE OWNER HAS PAID THE FILING FEE OF $_____ ON THE DATE THIS APPLICATION WAS FILED WITH ME.

(Initial Fee $10.00, Renewal Fee $2.00)

COUNTY AUDITOR

BELOW THIS LINE FOR COUNTY AUDITOR'S USE ONLY

INITIAL APPLICATION?_____ RENEWAL APPLICATION?_____

DATE FILED WITH COUNTY AUDITOR

Name on Tax List _____

Taxing District _____ Parcel No. _____

Description _____ No. of Acres _____

INSTRUCTIONS FOR COMPLETING APPLICATION FOR THE VALUATION OF LAND IN ACCORDANCE WITH ITS CURRENT AGRICULTURAL USE ON FORM BTA-109

(SECTION 5713.31, R.C.)

WHEN TO FILE? The application for the valuation land, for real property tax purposes, in accordance with its current agricultural use, must be filed in the County Auditor's office of the county in which the land is located after the first Monday of January and prior to the first Monday in March of any year for which such valuation is asked. (i.e. 1975 for 1975 taxes)

WHO MAY FILE? An owner of land devoted exclusively to agricultural use who is defined in Section 5713.30 (D) of the Revised Code of Ohio as:

> "(D) 'OWNER' INCLUDES, BUT IS NOT LIMITED TO, ANY PERSON OWNING A FEE SIMPLE, FEE TAIL, LIFE ESTATE, OR A BUYER ON A LAND INSTALLMENT CONTRACT."

WHAT DOES "LAND DEVOTED EXCLUSIVELY TO AGRICULTURAL USE" MEAN? Section 5713.30 (A), R.C. defines "Land Devoted Exclusively to Agricultural Use" as follows:

> "(1) TRACTS, LOTS, OR PARCELS OF LAND TOTALING NOT LESS THAN THIRTY ACRES WHICH, DURING THE THREE CALENDAR YEARS PRIOR TO THE YEAR IN WHICH APPLICATION IS FILED UNDER SECTION 5713.31 OF THE REVISED CODE, AND THROUGH THE LAST DAY OF MAY OF SUCH YEAR, WERE DEVOTED EXCLUSIVELY TO COMMERCIAL ANIMAL OR POULTRY HUSBANDRY, THE PRODUCTION FOR A COMMERCIAL PURPOSE OF FIELD CROPS, TOBACCO, FRUITS, VEGETABLES, TIMBER, NURSERY STOCK, ORNAMENTAL TREES, SOD, OR FLOWERS OR THAT WERE DEVOTED TO AND QUALIFIED FOR PAYMENTS OR OTHER COMPENSATION UNDER A LAND RETIREMENT OR CONSERVATION PROGRAM UNDER AN AGREEMENT WITH AN AGENCY OF THE FEDERAL GOVERNMENT;
>
> (2) TRACTS, LOTS, OR PARCELS OF LAND TOTALING LESS THAN THIRTY ACRES THAT, DURING THE THREE CALENDAR YEARS PRIOR TO THE YEAR IN WHICH APPLICATION IS FILED UNDER SECTION 5713.31 OF THE REVISED CODE AND THROUGH THE LAST DAY OF MAY OF SUCH YEAR, WERE DEVOTED EXCLUSIVELY TO COMMERCIAL ANIMAL OR POULTRY HUSBANDRY, THE PRODUCTION FOR A COMMERCIAL PURPOSE OF FIELD CROPS, TOBACCO, FRUITS, VEGETABLES, TIMBER, NURSERY STOCK, ORNAMENTAL TREES, SOD, OR FLOWERS WHERE SUCH ACTIVITIES PRODUCED AN AVERAGE YEARLY GROSS INCOME OF AT LEAST TWENTY-FIVE HUNDRED DOLLARS DURING SUCH THREE YEAR PERIOD OR WHERE THERE IS EVIDENCE OF AN ANTICIPATED GROSS INCOME OF SUCH AMOUNT FROM SUCH ACTIVITIES DURING THE TAX YEAR IN WHICH APPLICATION IS MADE, OR THAT WERE DEVOTED TO AND QUALIFIED FOR PAYMENTS OR OTHER COMPENSATION UNDER A LAND RETIREMENT OR CONSERVATION PROGRAM UNDER AN AGREEMENT WITH AN AGENCY OF THE FEDERAL GOVERNMENT;" * * *
>
> (3) A TRACT, LOT, OR PARCEL OF LAND TAXED UNDER SECTIONS 5713.22 TO 5713.26 OF THE REVISED CODE IS NOT LAND DEVOTED EXCLUSIVELY TO AGRICULTURAL USE.

WHAT DOES "TRACTS, LOTS OR PARCELS OF LAND" MEAN? Tracts, lots or parcels mean all distinct portions or pieces of land (not necessarily contiguous) where the title is held by one owner, as listed on the tax list and duplicate of the county, which are actively farmed as a unit if together the total acreage meets the requirements of Section 5713.30 (A) (1) or (2), R.C.

INSTRUCTIONS FOR COMPLETING APPLICATION:

Print or type all entries.

List description of land as shown on the most recent tax statement or statements. Show total number of acres in space at right hand side of form on this line.

Describe location of property by roads, etc., and taxing district in which located.

List the acreage of each crop or land use. If a crop or land use is not listed use blank lines or attach separate statement. If total acreage is less than thirty acres, list the gross income from the sale of agricultural products for the past three years on initial application. If under thirty acres and part or all of income is derived from livestock or livestock products, list these sources under "other sources of agricultural income." Show total acres and/or income in the spaces provided. On renewal application show information for the past year only.

Do not use space at bottom of form below the double line.

SOIL MAPS AND RELATED INFORMATION: Individual soil maps are not required to be filed with an application. However, if a soil map or a list of acreage of soil types is available, copies of these should be filed with the County Auditor to aid him in making an accurate valuation.

WORKSHEET FOR DEVELOPING CURRENT AGRICULTURAL USE VALUATION OF LAND

TABLE 78-08-0841 Supplemental

Land Use and Soil Type	Soil Management Group	Land Capability Class	Acres	*Price Per Acre	Indicated Value
CROPLAND					
Clarmont	S-6	III	60	410	$ 24600
Crosby	C-2	II	40	780	31,200
Brookston	C-4	II	40	960	38,400
Rossmoyne	S-5	II	20	640	12,800
PERMANENT PASTURE					
Clarmont	S-6	II	20	410	8,200
Crosby	C-2	II	10	780	7,800
WOODLOT					
Brookston	C-4	III	8	60	480
HOUSELOT					
			2	1200	2400
ROADS					
TOTAL			200		125880

*Use CAUV Land Tables

Current Agricultural Use Value of Land	125880	
Present Value of Buildings	28000	
Total CAUV Appraisal of Farm		153880
Farm Appraisal Land Value	182000	
Farm Appraisal Building Value	28000	
Total Appraisal Value of Farm		300,000
DIFFERENCE		146,120

Note: It would be advisable for the landowner in this situation to file an application for CAUV taxation since the CAUV is smaller than the fair market value of the farm.

DEPARTMENT OF TAX EQUALIZATION, STATE OF OHIO
1979 Current Agricultural Use Value of Land Tables
IMPORTANT NOTE: These tables for use only in counties appraised or updated in tax year 1979.

Table B Soil Region Alluvial and Terrace Soil of Regions V, VI, and VII of Eastern Ohio

Soil Management Group	Land Use	LAND CAPABILITY CLASS I	II	III	IV	V	VI	VII	VIII
B1	Cropland			360	190	----	----	----	----
	Pasture			*	*	160	90	50	50
	Woodland			60	60	50	50	50	50
B2	Cropland		500	320	170	----	----	----	----
	Pasture		*	*	*	140	80	50	50
	Woodland		60	60	60	50	50	50	50
B3	Cropland		580	360	190	----	----	----	----
	Pasture		*	*	*	160	90	50	50
	Woodland		60	60	60	50	50	50	50
B4	Cropland	910	640	400	220	----	----	----	----
	Pasture	*	*	*	*	170	100	50	50
	Woodland	485	215	60	60	50	50	50	50
B5	Cropland	1120	790	500	260	----	----	----	----
	Pasture	*	*	*	*	210	120	50	50
	Woodland	695	365	75	60	50	50	50	50
B6	Cropland	910	640	400	220	----	----	----	----
	Pasture	*	*	*	*	170	100	50	50
	Woodland	485	215	60	60	50	50	50	50

* Same as Cropland Less Cost of Conversion Base Class Underlined

BETTER LIVING IS THE PRODUCT

of research at the Ohio Agricultural Research and Development Center. All Ohioans benefit from this product.

Ohio's farm families benefit from the results of agricultural research translated into increased earnings and improved living conditions. So do the families of the thousands of workers employed in the firms making up the state's agribusiness complex.

But the greatest benefits of agricultural research flow to the millions of Ohio consumers. They enjoy the end products of agricultural science—the world's most wholesome and nutritious food, attractive lawns, beautiful ornamental plants, and hundreds of consumer products containing ingredients originating on the farm, in the greenhouse and nursery, or in the forest.

The Ohio Agricultural Experiment Station, as the Center was called for 83 years, was established at The Ohio State University, Columbus, in 1882. Ten years later, the Station was moved to its present location in Wayne County. In 1965, the Ohio General Assembly passed legislation changing the name to Ohio Agricultural Research and Development Center—a name which more accurately reflects the nature and scope of the Center's research program today.

Research at OARDC deals with the improvement of all agricultural production and marketing practices. It is concerned with the development of an agricultural product from germination of a seed or development of an embryo through to the consumer's dinner table. It is directed at improved human nutrition, family and child development, home management, and all other aspects of family life. It is geared to enhancing and preserving the quality of our environment.

Individuals and groups are welcome to visit the OARDC, to enjoy the attractive buildings, grounds, and arboretum, and to observe first hand research aimed at the goal of Better Living for All Ohioans!

The State Is the Campus for Agricultural Research and Development

Ohio's major soil types and climatic conditions are represented at the Research Center's 12 locations.

Research is conducted by 15 departments on more than 7000 acres at Center headquarters in Wooster, eight branches, Pomerene Forest Laboratory, North Appalachian Experimental Watershed, and The Ohio State University.

Center Headquarters, Wooster, Wayne County: 1953 acres

Eastern Ohio Resource Development Center, Caldwell, Noble County: 2053 acres

Jackson Branch, Jackson, Jackson County: 502 acres

Mahoning County Farm, Canfield: 275 acres

Muck Crops Branch, Willard, Huron County: 15 acres

North Appalachian Experimental Watershed, Coshocton, Coshocton County: 1047 acres (Cooperative with Science and Education Administration/Agricultural Research, U. S. Dept. of Agriculture)

Northwestern Branch, Hoytville, Wood County: 247 acres

Pomerene Forest Laboratory, Coshocton County: 227 acres

Southern Branch, Ripley, Brown County: 275 acres

Vegetable Crops Branch, Fremont, Sandusky County: 105 acres

Western Branch, South Charleston, Clark County: 428 acres