

# **Why Did My CAUV Values Increase So Much?**

By Larry Gearhardt

Director of Local Affairs

Ohio Farm Bureau Federation

DECEMBER 28, 2010

## **INTRODUCTION**

Many rural landowners are shocked when they discover the 2010 CAUV values. Depending on the soil types, some values increased several hundred percent over 2007 values. As a result, questions arise about the CAUV program. Unlike fair market value appraisals, CAUV values are calculated for each soil type in Ohio (approximately 3500 soils) by a formula that is based on five factors. The numbers that are inserted in the formula are designed to reflect the true nature of agriculture in the State of Ohio.

## **WHY NOW? REAPPRAISAL AND UPDATES**

By law, county auditors are required to reappraise every parcel of land in the county every six years. Further by law, auditors are required to establish the fair market value of each of four components for every parcel. The four components are:

- 1.) the home
- 2.) a one-acre home site
- 3.) any other outbuildings on the property
- 4.) any other land

Fair market value is defined to be the value that land would transfer between a willing seller and a willing buyer in an arms-length transaction. Foreclosure sales, public auctions and sales between family members are not considered arms-length transactions.

Because property values were rapidly increasing in the 1960's and 1970's, a law was passed in 1976 that established the triennial update. This law requires county auditors to adjust property values every third year after a reappraisal. The difference between a reappraisal and a triennial update is that the reappraisal is based upon an inspection of the property and a triennial update is determined in the auditor's office and is based upon sales of property in the county.

The Ohio Department of Taxation calculates CAUV values annually and sends the values out to the auditors. The auditors then use the CAUV values, as determined by the Ohio Department of Taxation, for those years when the county does a reappraisal or an update.

The counties performing a reappraisal in 2010 are: Adams, Columbiana, Hancock, Hocking, Holmes, Lawrence, Meigs, Monroe, Paulding, Scioto, Tuscarawas, and Washington.

The counties performing a triennial update in 2010 are: Carroll, Champaign, Clark, Fairfield, Logan, Marion, Medina, Miami, Ross, Union and Wyandot.

## **WHAT IS CAUV?**

In 1972, Ohio voters approved a constitutional amendment that allowed qualified agricultural land to be valued at its current agricultural use value for real property tax purposes rather than fair market value. The home, home site and outbuildings are still valued at fair market value.

Current agricultural use value can be determined by the capitalization of the typical net income from agricultural crops on a given parcel of land assuming typical management, cropping patterns, and yields for the types of soil present on the tract.

## **HOW IS CAUV CALCULATED?**

The CAUV values are based upon a formula containing five factors applied to three crops: corn, soybeans, and wheat. Hay was dropped from the formula this year. The five factors are:

- 1.) Cropping pattern- based upon the acres of corn, beans and wheat compared to the total acres of those three crops
- 2.) Crop prices- based upon a survey of elevators in Ohio
- 3.) Crop yields- based upon FSA yields per acre for each soil type, adjusted for actual average yields in Ohio
- 4.) Non-land production costs- based upon farmer surveys by The Ohio State University.
- 5.) Capitalization rate- based upon the interest rate for a 15-year fixed rate mortgage at Farm Credit Services, with 40% attributed to equity and 60% to debt.

The crop prices, non-land production costs and capitalization rate are calculated by taking the previous seven years of numbers, eliminating the highest number and the lowest number, and then averaging the remaining five numbers. The prices, cropping pattern, costs and yields are then added and subtracted to determine the net profit per acre of soil type, and that number is then divided by the capitalization rate. This calculation is performed for each of the 3500 soil types in Ohio.

## **SO WHAT MADE THE VALUES INCREASE?**

- 1.) The 2007 values were some of the lowest in CAUV history. Starting in the year 2000, CAUV values decreased at an unprecedented rate. 2005 represented the bottom when the average value for all soil types in Ohio was \$123/acre. 2006 values were just a little higher. CAUV values are now trending upward. Because of low 2007 values, it doesn't take much of an actual increase to represent a 200% to 300% increase over 2007 values.
- 2.) Crop yields per soil type were increased. Beginning in 2006, crop yields were adjusted to become more accurate. It was discovered in 2005 that FSA had not adjusted its crop yields since 1984. For example, FSA lists the corn yield for Millgrove Silt Loam (arguably the best soil in the state) at 144 bushels per acre. In fact, the average corn yield per acre in 2005 for all soil types was 152 bushels per acre. The same holds true for soybeans, wheat and hay.

Beginning in 2006, the yields per acre for each soil type for each of the four crops was adjusted by multiplying the FSA yield by a factor that was determined by comparing the average of the last 10-years of actual yield to the FSA yield. In 2010, the corn yield for Millgrove Silt Loam went from 144 to 171 bushels per acre. For Miamian Silt Loam, a medium productivity soil, the yield went from 108 to 128 bushels of corn per acre.

- 3.) The capitalization rate decreased. The capitalization rate decreased from 8.4% to 7.8%. Lower capitalization rates mean higher land value. For example, if we assume a net return per acre of \$40, an 8.4% capitalization rate produces a value of \$476 per acre and a 7.8% capitalization rate produces a value of \$513 per acre.
- 4.) Crop Prices Doubled. The biggest reason for the increase in CAUV values is the increase in crop prices. Prices for corn, beans and wheat doubled. With a seven year rolling average and three years between value adjustments, three years of crop prices drop out of the formula and are replaced by three new crop prices. For corn, the three crop prices that dropped out were \$2.00, \$2.00, and \$2.00. These numbers were replaced by \$3.30, \$3.95, and \$3.95. For beans, the prices that dropped out were \$4.80, \$4.80, and \$4.40, replaced by \$6.25, \$10.10, and \$9.60. For wheat, the prices that dropped out of the formula were \$2.10, \$2.05, and \$2.50, replaced by \$3.30, \$5.50, and \$5.80. The costs of production did increase, but not nearly in the same proportion as prices.

## **AN INCREASE IN LAND VALUE DOES NOT EQUATE TO THE SAME % INCREASE IN TAXES**

A big mistake that landowners make is to take the increased land values and multiply the value by last year's millage rate. Because of tax credits, the possible expiration of certain mils, and most notably, the tax reduction factor, the actual taxes paid by the landowner will not increase in the same proportion as the value. Actual millage rates cannot be calculated at the present time.

## **SUMMARY**

There is nothing wrong with the CAUV formula. It is this writer's opinion that Ohio has the best CAUV formula in the country. It is the same formula that gave us the lowest values in CAUV history in 2005. The values are reflective of the farm economy. Even in this period of recession, the farm economy has remained strong.

It is not CAUV's purpose to guarantee the lowest values for landowners, but rather to accurately reflect what is happening in the farming community. The problem is that landowners became accustomed to the low values in 2003 and 2006. Even with the increased values, CAUV landowners are paying taxes on approximately 15 to 20% of fair market value. It is a program that farmers must have to survive.