



Peter A. Cooper

*Bill Analysis*  
*Legislative Service Commission*

**H.J.R. 14**  
123rd General Assembly  
(As Introduced)

**Reps. Mottley, Peterson, Logan, Mead, Flannery, Bender, Allen, Van Vyven,  
Hoops, Austria, Hollister, Jolivette, Terwilleger**

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**BILL SUMMARY**

- Proposes a constitutional amendment to create a third class of real property, current agricultural use value (“CAUV”) property, for the purpose of computing separate “H.B. 920” tax reduction factors for each class.
- The addition of a third class of real property means that effective property tax rates would be computed separately for (i) CAUV property, (ii) residential and non-CAUV agricultural property, and (iii) all other real property (commercial and industrial). Thus, effective tax rates on CAUV property would depend only on appreciation in CAUV property values, and would not be influenced by appreciation in residential or non-CAUV property values.

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**CONTENT AND OPERATION**

**Property tax revenue limitation--current law**

(Article XII, Section 2a)

Currently, the Ohio Constitution authorizes the General Assembly to divide real property into two separate classes solely for the purpose of limiting the revenue generated by property tax levies. (See **COMMENT.**) The revenue limitation prevents property tax revenue from increasing in proportion to appreciation in real property values. (The revenue limitation law is known as the “H.B. 920” law, after the legislation that enacted it.) Revenue is permitted to increase only in response to the addition of new property to a class, either from construction of new property or from existing property moving from one class to

the other.<sup>1</sup> The revenue limitation applies only to tax levies that either (i) require voter approval because they are in excess of the 1% constitutional limitation on unvoted taxes, (ii) are not levied to raise a fixed sum of money or an amount to repay debt, or (iii) are levied pursuant to a municipal charter.

**Create new class of real property for revenue limitation**

The bill proposes to move some agricultural property from the residential/agricultural class of property to a new, third class for the purposes of the revenue limitation law. The new class consists of agricultural property that qualifies as “land devoted exclusively to agricultural use”--known in the Revised Code as current agricultural use value (CAUV) land (also see Article II, Section 36, Ohio Constitution). Homesteads (residences) standing on or near CAUV land would not be included in the new class; they would remain in the residential and non-CAUV agricultural class.

Land devoted exclusively to agricultural use is land that qualifies under the Ohio Constitution to be valued for taxation at the value it has when devoted to agriculture, as opposed to some other use. In other words, the land is valued at the price it would sell for if its use were restricted to agriculture. Under existing law, this value is estimated by capitalizing the net income the land could be expected to produce through farming or other agricultural or horticultural pursuits. Valuing land in this way is distinguished from how most other real property must be valued for taxation, which is to approximate the property’s fair market value based on its highest and best economic use, rather than on how the property actually is used. A parcel of property’s current agricultural use value will tend to deviate from its fair market value in areas where other, nonagricultural uses are possible, particularly areas where there is economic pressure to convert agricultural land over to residential, commercial, or industrial use.

In order to qualify for current agricultural use valuation under current law, land must satisfy the following criteria:

- The land must have been devoted exclusively to one of the following pursuits, for a commercial purpose, for at least three consecutive years: producing crops, tobacco, fruit, vegetables, timber, nursery stock,

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<sup>1</sup> *Revenue is limited by reducing the total amount to be collected from a given tax rate. If appreciation in property values in one of the property classes is, e.g., 10%, then the revenue that otherwise would be collected from that tax rate is reduced by 10%; this 10% is the “tax reduction factor.” The “effective tax rate” for a class of property is the hypothetical rate of tax that would have to be levied to raise this reduced amount of revenue.*

ornamental trees, sod, or flowers; raising animals or poultry; aquaculture; or apiculture. Or, if the land is used for timber but not for commercial production, the land must be contiguous to land that otherwise qualifies for CAUV treatment or is held under a federal land conservation or retirement program.

- If the land is less than 10 acres in total, it also must have yielded at least \$2,500 annually during that three-year period, or be expected to yield that amount in the year when the CAUV application is made (unless the land is held under a federal land conservation or retirement program).
- Land that has been classified as CAUV may lie fallow for up to three years before becoming disqualified.

To the extent that current CAUV law might be modified in the future, the modification will affect the composition of land that is included in the new class proposed in the bill.

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## COMMENT

The existing revenue limitation necessitated a constitutional amendment only because the Ohio Constitution otherwise requires all real property to be taxed “by uniform rule.” Prior to the 1980 constitutional amendment, the total revenue from all real property was limited, regardless of how the property was used. But residential property appreciated much faster than other real property, particularly commercial and industrial property. Thus, as taxes were reduced for all real property on the basis of appreciation primarily in residential property, commercial and industrial property owners as a group benefited disproportionately, because their taxes were reduced by more than was needed to offset their collective property value appreciation. At the same time, residential property owners as a group were not experiencing tax reductions sufficient to offset the effect of residential property appreciation. This caused the overall property tax burden to be shifted away from commercial and industrial property owners toward residential property owners. Thus, the 1980 constitutional amendment was adopted to authorize separate tax reductions for (i) residential and agricultural real property and (ii) commercial and industrial property. This prevented property value appreciation in one class from influencing the limit on taxes charged against property in the other class, and ended the unintended shift of the property tax burden.

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## HISTORY



| ACTION     | DATE     | JOURNAL ENTRY |
|------------|----------|---------------|
| Introduced | 03-09-00 | p. 1640       |

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