



Implication of Agricultural Value Deflation and Inflation

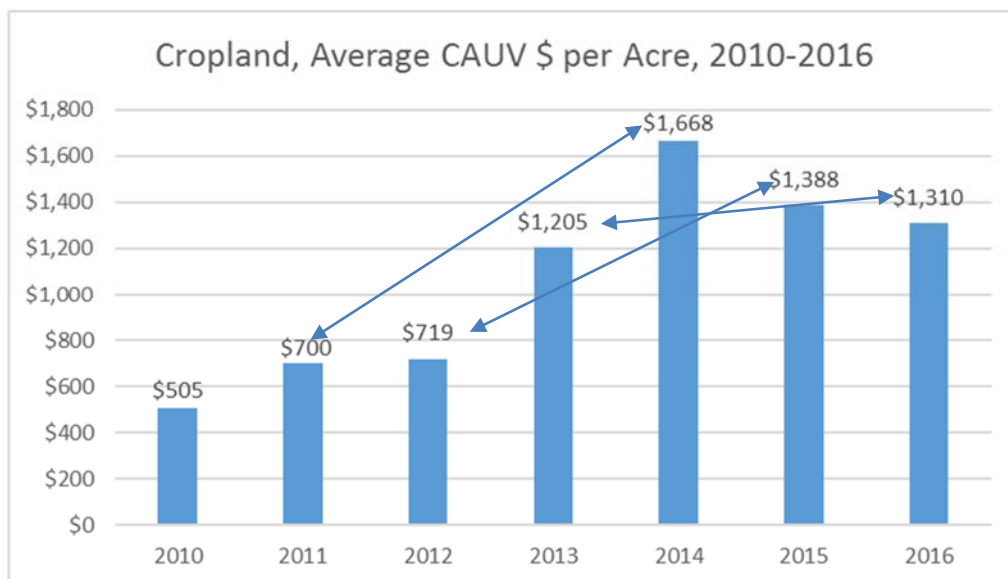
Public Finance Resources
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Introduction

Often the largest component of a school district's agricultural values is the CAUV classification, which has seen significant increases in recent years. These value increases impacted agriculturally heavy districts' local revenue and also residential versus agricultural taxpayer burden. There has also been impact on state aid as the per pupil formula provides supplemental agricultural reliance funding. A district can be impacted by all three dimensions.

Recent market forces and new state policy have caused downward CAUV valuation pressure, which is expected to continue. For those counties going through reappraisal/update in 2014, Graph 1 shows that average statewide CAUV value peaked at \$1,668 which is 238% higher than the \$700 recorded in 2011's reappraisal/update. The average statewide CAUV dropped to \$1,388 in 2015 (for those counties impacted) which is an increase of 93% over 2012's reappraisal/update of \$719 per acre.

Graph 1





Districts going through reappraisal/triennial update in 2016 are experiencing a nine percent increase to \$1,310 in CAUV valuation per acre statewide relative to 2013. The implication for 2017 reappraisal/update counties is that the \$1,668 average valuation in 2014 is high relative to the indicators from 2015 and 2016. On average values could decline to a level more in line with 2016's \$1,310 per acre. If this were to occur then, on average the values in the 2017 reappraisal/update counties could decline about \$350 per acre or 21%.

Impact on Local Revenue and Taxpayer Burden

If a district's effective tax rate is at its full voted rate, their Class I (agricultural/residential) real estate revenue could drop commensurate with the CAUV valuation decline unless there are offsetting increases in residential values. If the district's effective tax rate is sufficiently below their full voted tax rate, effective rate increases (reverse reduction) would limit lost revenue to inside millage only.

Generally speaking, as agricultural (specifically CAUV) values increases faster than residential values then a greater proportion of the district's Class I (agricultural/residential) real estate revenue is derived from agricultural taxpayers. Conversely, as agricultural values decline faster than residential values the concept is reversed and burden would shift back to the residential taxpayers. This concept is quite complex but is directly related to the setting of the tax rates relative to inflationary/deflationary valuation changes.

CAUV and the State Funding Formula

Conceptually if districts with a high concentration of agricultural valuation experience increasing values then per pupil valuation (wealth) could increase and the state share index (SSI) would decrease over time. Conversely, if agricultural values decline, the district's SSI could increase over time. It will take three years for valuation changes to fully impact the district's SSI because of the use of three-year valuation averaging in calculating per pupil valuation. The table below is an excerpt from PFR's forecasting software using actual district data. Table 1 shows a significant drop (from 38.4% to 28.04%) in SSI in 2018 as higher agricultural values from a 2014 triennial update become more pronounced in calculating per pupil valuation.



Table 1

	2016	2017	2018
1.2 Core Aid State Share Index	38.40%	38.40%	28.04%
1.1 State Core Funding Per Pupil	\$5,900	\$6,000	\$6,100
1.3 Formula ADM (Current Year ADM)	779	793	790
1.5 Core Aid Total Funding	\$1,765,787	\$1,826,217	\$1,350,677
District Adjustments to Modeled Core Aid			
1.7 Total Core Aid to Detail Note	\$1,765,787	\$1,826,217	\$1,350,677
Year-Over-Year Change		\$60,430	-\$475,539

At the same time that a district may experience changing SSI, it could conceivably receive increased or decreased targeted assistance and capacity funding depending on relative per pupil impact and the concentration of agricultural valuation.

Table 2 shows an example for a heavily agricultural district that went through a triennial update in 2014. The sharp increase in agricultural valuation causes two-year declines (2017 and 2018) in wealth-based targeted assistance and capacity aid, but an increase in agricultural-based targeted assistance.

Table 2

	2016	2017	2018
Local Wealth(PP) = 50% (PPV)+50% FAGI(PP)	\$162,680	\$179,839	\$193,506
		10.5%	7.6%
Statewide Local Wealth Per Pupil	\$158,140	\$162,266	\$167,134
		2.6%	3.0%
Statewide Threshold Local Wealth PP	\$198,415	\$205,705	\$212,905
		3.7%	3.5%
Targeted Assistance Wealth Index	0.9721	0.9023	0.8637
2.1 Wealth Based Targeted Assistance	\$161,427	\$110,309	\$78,890
Three-Year Average Real Valuation	\$117,394,870	\$134,929,263	\$152,268,030
Three-year Average Ag Valuation	\$67,990,340	\$84,933,263	\$101,865,870
Ag Percentage of Real Valuation	57.9%	62.9%	66.9%
2.2 Agricultural Assistance Funding	\$875,817	\$1,000,988	\$1,089,477
4.7 Capacity Funding			
District Yield per Mill	143,172	171,292	189,904
Statewide Median Yield Per Mill	221,870	226,368	220,709
Capacity Ratio (zero if district yield > state yield)	0.55	0.32	0.16
Avg Statewide ADM for Districts Below Median Yield	1,028	1,047	1,033
Capacity Aid Per Pupil	215.81	216.31	213.58
4.7 Capacity Aid	254,283	192,968	95,761



The net impact on what happens to this district depends on whether it is on the cap, formula, or guarantee in FY 2017 and what the guarantee base is in FY 2018. Naturally the information above assumes a continuation of the current per pupil state funding formula. For more specific modeling of state funding please contact PFR regarding their financial forecasting software tools.

Conclusion

Current state policy and market conditions have contained agricultural value growth and likely will cause a reduction in agricultural (CAUV) values in many counties beginning in 2017.

Local revenue could be significantly impacted if the school district's effective tax rate is the same as or close to its full voted rate which would limit the reverse impact of tax rate reduction factors.

Local revenue could be less significantly impacted if the district's valuation loss is limited to impacting only revenue derived from the district's inside millage tax rate (usually a much smaller component of the total effective rate).

Agricultural valuation increases that outpace residential valuation increases generally cause tax burden to shift to agricultural taxpayers. Agricultural values when declining more than residential values generally cause tax burden to shift to residential taxpayers.

State revenue could be impacted in three key areas:

1. State Share Index (goes up with declining per pupil valuation, down with increasing per pupil valuation)
2. Targeted Assistance Funding
3. Capacity Aid