Property Valuation Administrators' Duties and Responsibilities

Presented to
Property Valuation Administrator's
Office Task Force

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Responsible for assessing all real and tangible property at 100 % of its fair cash value as of a January 1 assessment date

- Real Property – Residential, Farm, Commercial
- Tangible – Cars, Boats, Airplanes, Trailers, Business Inventory, Business Furniture, and Business Fixtures

Ad valorum tax structure

- “Ad Valorum” - Tax based on value of property
- In Kentucky it is 100% fair market value as stated in the constitution
- Unlike income tax or sales tax, very stable
- Primary source of income for fiscal courts, schools, libraries, and other special tax districts
- Produces over $3.2 Billion in taxes annually

By Statute

Property Valuation Administrators are state officers with county jurisdiction

Deputies are non-merit, at will, state employees

Fiscal courts to provide office space, furniture, and utilities to PVA office

Department of Revenue authorizes the PVA office budget

Audits of each PVA office are responsibility of State Auditor’s Office

PVAs must have their assessments certified by Department of Revenue annually

Certifications Rely On Sales Ratio Studies

All arms length real estate transactions are measured by a ratio of assessment/sales price

- Example – House was assessed for $90,000; sells for $100,000; ratio of 90%
- Example- House was assessed for $110,000: sells for $100,000; ratio of 110%
- Must range all sales from low to high and the median (the one in the middle) must be between 95 and 105.

Mandated Reassessments When Median Sale is Not between 95-105%

- If sales ratio study results are not between 95 – 105%, assessments must be raised or lowered to reflect the total assessment at 95 – 105 %
- Example: Sales ratio median at 89%, Total Assessment at $500 million
- Must raise 6%

$500,000,000 * .06 = $30,000,000

Must raise assessments $30 million to be certified

Tax bills

- Assessment * tax rate = amount of taxes paid
- Tax rates are set by taxing districts
- H.B. 44 allows for increases of up to 4% of tax dollars collected from previous year without a voter referendum
- If assessments increase, districts can keep the same tax rate and still get a 4% increase in revenue
- If assessments decrease, districts may raise their rate to get the same revenue amount

What Do PVAs Do?

- Assess 2.2M Properties Statewide
  - Mapping/Identification of these Properties
  - Maintaining characteristic data of properties including sketches and photos
  - Maintaining Ownership Information of Properties (and Returned Tax Bills)
- Transferring Property Records
- Administering Homestead & Disability Exemptions for 440k Individuals Statewide
- Recording 131K Personal Property Returns Annually
- Accounts for ownership & assessments of nearly 5M Vehicles, Boats & Campers

What Do PVAs Do (continued)

- PVAs do not raise or lower taxes, they assess property to reflect the market of the real estate sales in their county
- Required to review all properties once every 4 years
- Quadrennial plan of on-site inspections, (usually includes new pictures, measurements of new buildings or additions)
- Revaluations usually occur in quad plan areas

State-Wide Real Property Assessment Growth

2019	$269,457,855,661	3.93%
2018	$259,264,352,154	3.33%
2017	$250,983,684,739	3.79%
2016	$241,822,891,516	3.37%
2015	$233,949,029,669	2.52%
2014	$228,209,410,703	

PVAs have a Return on Investment (ROI) of $48-$1

- In 2017*:
- Real & Tangible Property Tax Income to State $600 Million
- Real & Tangible Property Tax Income to Local Districts $2.6 Billion
- Total Income Produced for State and Local Districts $3.2 Billion
- State Expenditure $56 Million
- Local Expenditure $10.5 Million
- Total $66.5 Million

- Return on Investment (ROI)
- State income to budget contribution $11 - $1.00
- Local tax districts income to budget contribution $248 - $1.00
- Total Income to total cost to all districts **$48 - $1.00**

*Rounded

PVA Budget

- PVA local funds come from county and cities using the PVA tax rolls
- Statutory formulas used to calculate PVA local funds each year
- PVA submits personnel costs calculated by Revenue to fiscal court to be paid by September 1
- Remainder of local funds paid quarterly to PVA office

Funding

Practices implemented by PVA’s to reduce and absorb prior cuts along with possible concepts to help PVA funding.

PVA Fund Sources

- General Fund Appropriation - $56,446,700
  - (Used for Personnel Expenses (ONLY) for 120 Counties)
    - Minimum of 2 employees/county by statute
    - 592.5 deputies total (Lost 38 fulltime positions over 10 yrs)
    - 120 PVAs
- Local Funds - $11.6 M
  - (Used For Operating Expenses)

    - Funds received by a PVA office from it's county and cities' use of Tax Roll. The local funds are set by a statutory formula using assessments and have a capped limit.
    - Miscellaneous Funds from sale of maps, tax roll, data, & printing tax bills

    - *Note: Special Districts do not pay any amount for use of tax roll.*

Common Operating Expenses for a PVA Office

- Operating expenses out of local funds only
- Shortfall / Deputy Hire: Local Funds used to “plug” the State Shortfall
  - For 2020, 73% of Operating Expense Funds are being “billed” to meet personnel expenses in an effort to avoid massive & devastating statewide layoffs
- Vehicles/Fuel/Insurance or Mileage Reimbursement
  - Necessary for property inspections
- Computers, GIS systems, aerial maps, copiers, database software & Technology (including Pictometry; not affordable for many counties)
- Postage (Assessment Notices)
- Printing/Office Supplies/Field Supplies, Etc.

PVA Initiated Savings to Make Budget

- Measures have been taken to maintain our staff and keep offices functioning

- 90 Day mandatory delay in rehiring of vacated staff positions
  - FY 19-20 saved $840,000, delays initiated in 2009
  - Average annual savings of $500,000-$900,000

- 38 Permanent positions lost through attrition that have not been rehired
  - $10,500,000 to date, initiated in 2010
  - FY 2019-20 cumulative savings of $1,500,000. It should be noted that these positions should be reassigned as new additional positions to counties experiencing growth when funding allows

So What Are Our Real Personnel Expenses in FY 20-21?

State Budget Allocation	$ 56,446,700
PVA Deputy Contribution from local funds	3,500,000
PVA Shortfall Contribution from local funds	5,000,000
Excess Vacancy Credits	500,000
90 Day Delay Savings	750,000
Annual FAD Savings from staff attrition	1,500,000
Total Cost of Personnel Funding	**$ 67,696,700**

*This includes statutory grade "freezes" for every County since 2008. Employees have not been able to promote using state funds and are "locked" into the available grades they had 10 years ago.
**PVA offices are forced to use additional local funds (operating expenses) of approximately $1.6M to hire additional employees or promote in order to retain staff.

Reduction in PVA Funding Means Greater Risk to Taxing Districts

- Money out of taxing districts pockets. Not finding new properties that have been built and will not be on the tax rolls. New properties are not included in HB 44 calculations, a windfall for tax districts
- Tax calendar. It takes longer to do the same amount of work with less people. A state tax rate cannot be set until 75% of the previous year's assessments are certified. If the tax bills are late, tax districts will have to borrow money rather than collect taxes
- For example: several years ago in Campbell County tax rates were delayed for 2 additional months; the library was forced to borrow \$250,000 and a school district \$176,000 in order to pay employees and other bills

Our Suggested Solution to PVA Funding

- The 1978 state real property tax rate was 31.5 cents/$100 assessment
- Today it is 12.2 cents/$100 assessment

- Dedicate a portion of the state tax rate to fund property tax

Full Funding of State Personnel Costs

Dedicate a portion of the state real property tax rate to fund the cost of personnel in PVA offices. It would allow the property tax system to fund the costs associated with state and local tax districts which collect over

$3.2 Billion.

- The 2019 real property assessment was $269B.
- 1 cent of state tax rate yields approximately $25 Million
- The 2019-20 PVA state budget appropriation is $56,446,700.
- Fully funded actual costs are $67,696,700.
- A dedicated rate of **2.7** cents would fund our personnel costs.
- Let Property Tax Fund Property Tax
- Providing a dedicated funding stream ensures that the Commonwealth receives all the property tax funds to which it is entitled. Reductions in funding negatively affects the ability of the state to collect funds it is due.

Partial Funding Streams Requiring Legislative Remedies

- Special Districts do not pay any amount for their use of the property tax rolls. Enact a reasonable fee for their use of the tax roll.

- County and cities contribute funding for PVA offices using formulas developed decades ago. These funds have statutory limits. Enact a CPI to gradually increase the limits. *Note- The last two Budget bills have increased the upper limits of local funding for the largest jurisdictions.*

- Set a fee attached to tax bills, including MOTAX. There are approximately 2.2 million tax bills generated each year through the county tax rolls.

Cost Savings/Efficiency Measures For Consideration

Solicit Master Agreements for Commonly Used Software Purchases and Training

- An example is the ESRI Master Agreement. It allows PVA offices to share in the cost of purchasing ESRI products with Revenue at reduced costs for all participants.

- Potential Future Agreements with:
  - CLEAR or Lexis Nexis –information services for counties to check compliance with homestead and disability exemptions. Also used for finding mailing addresses for taxpayers with returned tax bills.
  - Pictometry- State-wide flights would be less expensive than individual county flights and allow small counties to participate, along with other state government entities including Homeland Security, Transportation, Forestry, Fish and Wildlife, KY State Police, E-911, Division of Water, Sanitation, KY Dept of Education and ADD districts.
  - Change Finder Technology- This is an application that allows an old map to be compared to a new map, highlighting structure differences in the two maps. This recognizes new construction, deletions, and additions for further review by PVA.

Allow internet classes to qualify for annual education requirements.

- This would require a small change in current statute. Staff determination that education credits must be earned in a physical classroom rather than web or internet based. On-line classes would be a less expensive method of obtaining education eliminating travel costs and time away from the office.

- *Note : Due to Corona Virus Restraints on travel and required social distancing measures, On-Line classes will be allowed for meeting all education requirements for 2020.*

Use of E-Mail as Primary Mailing Address

- This concept would allow taxpayers to sign up for using an email address rather than physical mailing address. Correspondence such as assessment notices along with tax bills could be sent by email creating considerable savings in postage and mailing costs if it was permissible in statute.

Develop an online electronic business tangible form, similar to electronic state income tax form.

- Tangible returns are already self reported. The form is received by a PVA office from a taxpayer, entered by staff into the AVIS system, sent to Revenue in a file, and returned to the PVA office upon certification for inclusion in the county tax roll. PVA acts as a “Middle Man” regarding tangible filing. This could be sent by the taxpayer directly to a Revenue site and returned to the PVA office upon certification. This would significantly reduce PVA office staff from data entering and would eliminate key punch errors and generate more filings from CPA’s.

- Additionally the software used for input is outdated. Tangibles are entered in the “AVIS” platform; however tangible entry is not supported in the “KAVIS” system. A self-reporting system could eliminate the need for the antiquated AVIS system resulting in savings in terms of service and maintenance.

Review of Internet Cost and Speed

- The cost of internet service in PVA offices should be analyzed. In many cases it may be more cost effective, with faster connection speeds, to utilize a local carrier. The Office of Property Valuation currently pays for internet in our local offices if they are on the state network. Many counties in recent years have opted to leave the state network due to slow line speeds. In so doing they have incurred an extra burden on the local budget, while the state saves money. A comprehensive review of all counties is needed and a solution that suits both parties could result in substantial savings.

Issues Potentially Affecting Property Tax and Funding

- Potential funding cut of 13-17% due to affects of pandemic
- Dark Store Appraisals Being Tested in KY Courts
- Large national corporations want data for free

Questions?