

# PROPERTY VALUATION ADMINISTRATOR'S OFFICE TASK FORCE

## Minutes of the 1st Meeting of the 2020 Interim

July 27, 2020

### Call to Order and Roll Call

The 1st meeting of the Property Valuation Administrator's Office Task Force was held on Monday, July 27, 2020, at 3:00 PM, in Room 171 of the Capitol Annex. Senator Robby Mills, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robby Mills, Co-Chair; Representative Randy Bridges, Co-Chair; Senators Denise Harper Angel and Michael J. Nemes; Representatives Samara Heavrin and Nima Kulkarni; and Tom Crawford.

Guests: Mack Bushart, Executive Director, Kentucky PVA Association

LRC Staff: Cameron Childress, Jennifer Hays, Chase O'Dell, and Sarah Watts

### Overview of the PVA's Job Duties and Office Funding

Mack Bushart, Executive Director, Kentucky PVA Association, presented an overview of the PVA's Job Duties and Office Funding.

Mack Bushart testified that PVAs are responsible for assessing all real and tangible property at 100 percent of its fair cash value as of a January 1 assessment date. Real property consists of residential, farm, and commercial property. Tangible property consists of cars, boats, airplanes, trailers, business inventory, business furniture, and business fixtures.

The ad valorem tax structure is based on 100 percent of fair market value, as stated in the Kentucky constitution. Property tax revenues are stable in comparison to income and sales taxes. Property taxes are the primary source of income for fiscal courts, schools, libraries, and other special tax districts. Property taxes also produce over \$3.2 billion in state and local tax revenues annually.

By statute, PVAs are state officers with county jurisdiction. Deputies are non-merit, at will, state employees. The Department of Revenue (DOR) authorizes each PVA's office budget. Audits of every PVA office are the responsibility of the State Auditor's Office. PVAs must have their assessments certified by the DOR annually. Certifications rely on a

sales ratio study. All arm's length real estate transactions are measured by a ratio of the assessment to the sales price.

The assessment on a property multiplied by the tax rate will equal the amount of taxes that must be paid. Tax rates are set by each taxing district individually. House Bill 44 allows for increases of up to four percent of tax dollars collected from the previous year without a voter referendum.

PVAs assess over two million properties statewide. PVAs also maintain property ownership and transfer records. Homestead and disability exemptions for 440,000 individuals statewide are administered by PVAs. PVA offices also process 131,000 tangible property returns annually. In addition, they assess five million vehicles, boats, and campers. PVAs do not raise taxes; they assess property, which reflects the market of real estate sales. PVAs must review all properties once every four years.

State-wide real property assessment values grew by roughly ten billion dollars from 2018 to 2019. This roughly equated to an additional \$12 million in tax revenues for the state.

In 2017, real and tangible property tax revenues for the state and local districts totaled \$3.2 billion. The state and local districts spent \$66.5 million on PVAs in the same year. Thus, PVAs had a return on investment (ROI) of \$48 earned for every \$1 spent.

PVA local funds come from counties and cities using the PVA tax rolls. Statutory formulas are used to calculate PVA local funds each year.

In 2020, PVAs received a general fund appropriation of a little over \$56 million. This appropriation is only to be used for personnel costs. There are 592.5 deputy positions statewide. PVAs received \$11.6 million in local funds for 2020. These funds are used for operating expenses.

In 2020, PVAs will send 73 percent of their total operating expense funds back to the DOR for the purpose of paying the last two months of payroll. This will be done in order to avoid laying off deputies. Other common operating expenses for a PVA office include vehicle costs or mileage reimbursement, computers, GIS systems, database software and technology, postage, printing, and office supplies.

PVAs have implemented a mandatory 90 day delay in the rehiring of vacated staff positions. This leads to an average annual savings of \$500,000 to \$900,000. PVA offices have lost 38 permanent positions through attrition since 2010. PVAs will see real personnel expenses totaling \$67 million, versus the \$56 million appropriation.

Mr. Bushart testified that less PVA personnel going out into the counties and finding new properties will mean less money for taxing districts. Less personnel also puts the tax calendar at risk.

The state real property tax rate is 12.2 cents per \$100 assessment. Mr. Bushart testified that a portion of the state tax rate could fund the property tax structure completely. A dedicated rate of 2.7 cents per \$100 assessment would completely fund PVA personnel costs. This would help ensure that the Commonwealth receives all of the property tax funds it is entitled to. It would also prevent issues related to lack of personnel.

The Kentucky PVA association believes it would be reasonable to enact a fee on special districts for the use of property tax rolls. The association also recommends setting a fee attached to property tax bills.

Mr. Bushart reviewed several potential cost savings measures including master agreements for commonly used software purchases and training, allowing online classes to qualify for annual education requirements, and more.

Mr. Bushart also reviewed issues that could potentially affect property tax and its funding. There could be a potential funding cut of 13 to 17 percent from the state due to the pandemic. Dark store appraisals are being tested in Kentucky courts. Another issue is that large corporations want data for free.

Tom Crawford complimented Mr. Bushart's presentation.

Representative Bridges expressed his appreciation for Mr. Bushart's presentation.

In response to a question from Senator Nemes, Mr. Bushart testified that dark store appraisals have negatively affected jurisdictions. He continued to further explain dark store appraisals.

In response to a question from Senator Mills, Mr. Bushart stated that special taxing districts have never been required to pay for the use of tax rolls. In response to a follow-up question, Mr. Bushart testified that he was not aware of special taxing districts paying for the use of tax rolls in other states.

Senator Harper Angel expressed her hope that the task force would thoroughly investigate the need for a permanent funding mechanism for PVA offices.

Senator Mills suggested that members of the task force get feedback from their local PVAs.

With no further business, the meeting was adjourned.