

PROPERTY VALUATION ADMINISTRATOR'S OFFICE TASK FORCE

Minutes of the 3rd Meeting of the 2020 Interim

September 15, 2020

Call to Order and Roll Call

The 3rd meeting of the Property Valuation Administrator's Office Task Force was held on Tuesday, September 15, 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: Kim Holt, Department of Revenue; Dave Schroeder, Director, Kenton County Public Library; Jessica Powell, Director, Oldham County Public Library; Chief Adam Jones, Buechel Fire Protection District; and Andrew Powell, PVA, Henderson County.

LRC Staff: Cynthia Brown, Jennifer Hays, and Chase O'Dell.

Revenue Generated by the PVA Office and Any Office Expense Issues or Challenges

Kim Holt, Department of Revenue; Dave Schroeder, Director, Kenton County Public Library; Jessica Powell, Director, Oldham County Public Library; Chief Adam Jones, Buechel Fire Protection District; and Andrew Powell, PVA, Henderson County, discussed revenue generated by PVA offices and any office expense issues or challenges.

Kim Holt testified that PVA offices receive appropriations from the general fund, as well as from counties and cities. The bulk of PVA money comes from the general fund. The general fund appropriation to PVAs totaled \$56.4 million this year. PVA offices also receive miscellaneous income from interest, printing tax bills, and fee schedules.

General fund appropriations are not enough to cover all PVA personnel costs for the year. This year, 64 percent of income generated by the PVA offices had to be submitted back to the Department of Revenue (DOR) to cover personnel costs. Typical operating expenses for an office include computer services, aerial photography, and more. KRS 132.597 allows for a PVA to receive an expense allowance of \$3,600 per year. For the last

few years this language has been superseded by the enacted budget bill, which allows for a \$2,400 annual expense allowance.

PVA deputy classifications follow the state salary schedule, which was last updated June 1, 2019.

A motion was made by Representative Bridges, seconded by Representative Heavrin, to approve the minutes of the August 18, 2020 meeting. The motion passed by voice vote.

Andrew Powell testified that PVAs in Kentucky assess and process over two million real estate parcels, 130,000 tangible property returns, five million motor vehicles, boats, and campers, and 440,000 homestead and disability exemptions. Every property in the Commonwealth must be mapped and sketched.

Mr. Powell stated that the \$56.4 million appropriation from the general fund is only for PVA office payroll expenses. Local fund allocations are based on the size of the tax roll. These allocations total \$11.6 million statewide. Mr. Powell discussed the miscellaneous income for his office.

The state allocation to PVA offices covers roughly 83.5 percent of payroll needs. Offices must come up with an additional \$11,250,000 just to make payroll. Seventy-three percent of local allocations go towards paying office staff. This leaves \$3,100,000 of local allocations to pay for operating expenses. PVA offices generate over three billion dollars in revenue every year. There is a \$48 return in revenue for every dollar spent on PVA offices.

PVA offices are locked into pay grades that are 11 years old. Mr. Powell reviewed his office expenses, which includes aerial imagery, computers and software, vehicles, postage, and more. Mr. Powell projected that expenses for contracted services would drastically increase. PVA offices self-impose a 90 day hiring freeze.

There are 120 PVAs in Kentucky. Almost half of the PVAs are in their first two terms. There are 598.5 allocated deputy positions, but many are not filled due to a lack of funds.

The state allocation to PVA offices does not fully fund salary requirements. Mr. Powell stated that the miscellaneous income for PVA offices is under attack.

Thirty-eight full-time positions within PVA offices statewide have been eliminated, which saves \$1,500,000 annually. The 90-day hiring freeze saves \$650,000 a year. As of last year, almost 90 positions had not been filled due to a lack of funds.

Mr. Powell testified that adding three cents to the state real property tax rate dedicated to the PVA budget would fully fund offices.

Mr. Powell discussed the possibility of PVAs charging a fee on Special Purpose Governmental Entities (SPGE) based on a percentage of their gross receipts, for the use of tax rolls. At six percent of receipts, this fee would generate \$125 million statewide. Mr. Powell argued that SPGEs bring in money using PVA tax rolls, but don't pay for its use.

PVA offices are intended to be autonomous. The job of a PVA is to objectively assess property.

Mr. Powell discussed the various services his office charges fees for, including copies of property assessment cards and maps of properties.

In response to a question from Representative Bridges, Mr. Powell expressed his hope that legislation would be drafted which would stipulate that property must be appraised according to its highest and best use value. In response to another question, Mr. Powell stated that the tax roll will go up as PVA assessments get better, which will increase revenues across the board. In response to further questions, Mr. Powell stated that the state Geographic Information System (GIS) offer did not meet his office's needs. Aerial imagery offers change finder, which works for detecting structural changes, but visual, in-person inspection is still necessary for assessing condition of a property.

In response to a question from Senator Nemes, Ms. Holt stated that the PVA office salaries are not necessarily frozen, rather the grades are.

In response to a question from Representative Heavrin, Mr. Powell testified that it would be challenging to get every PVA on board with using the same assessment software, but he added that it could be valuable.

Dave Schroeder testified that most libraries are SPGEs. Libraries which are SPGEs are almost entirely funded through property taxes. Libraries do not receive payroll taxes or taxes on insurance or utilities. Libraries that are not SPGEs receive funding from other local sources.

Libraries use PVA data to set tax rates. Sheriffs send out bills and collect taxes. County clerks collect some of those taxes. Libraries pay a small fee to the county clerk and the sheriff for the services provided.

State aid was eliminated for all libraries in the 2020 Regular Session. Many libraries were relying significantly on state aid, and some branches will close if this is not changed in the upcoming session. Most libraries use state aid to assist with staffing and buying materials. Libraries are also facing challenges with pension costs. There are also costs

associated with training, healthcare, and internet and broadband services. Libraries are tasked with providing both electronic and paper formats of materials.

Jessica Powell testified that libraries have reinvented how they serve the public in the last six months. Libraries have always supported the economy through online resume help, job applications, and more. Ms. Powell stated that libraries are critically important in putting Kentucky back to work after COVID-19. Libraries are providing these services with the same budgets and often with fewer staff.

Senator Nemes stated that it is important for the state to fund small libraries. He continued to say that small libraries with a smaller property tax base will go under without state funds or backing from the Kentucky Department for Libraries and Archives (KDLA).

In response to a question from Representative Bridges, Mr. Schroeder testified that Kenton County Public Libraries has a policy of keeping three months' worth of revenue in reserves. He continued to say that most of the money to libraries comes during the months of October, November, and December. In response to another question, Mr. Schroeder said that the Kenton County Public Libraries receive about \$1.2 million in revenues per month.

Senator Mills requested a list of the 12 libraries that are in danger of closing without state aid. In response to a question from Senator Mills, Mr. Schroeder stated that the fee that libraries pay to county clerks and sheriffs is set per county. Senator Mills requested a report on the fee structure by county. In response to another question from Senator Mills, Mr. Schroeder testified that the statutorily required annual 20 hours of continuing education for library staff has been in place since at least 1986. New regulations are being presented to change some of the continuing education requirements.

Senator Harper Angel added that she would like to know how the fees paid to county clerks and sheriffs was calculated and how long they have been in existence.

Adam Jones testified that professional firefighters are required to take 100 hours of continuing education every year. Fire districts are battling increased costs with limited revenue. Fire districts' tax rate is capped at 10 cents per \$100, which was established in 1944. Fire departments have continued to increase services over time. Departments nationwide have seen a 65 percent increase in volume since 2008. Fires have gone down, but medical calls and other services have increased. Fire districts are also seeing increased administrative costs through health insurance, training, and pensions. PVAs provide tax rolls to fire districts. Fire districts have very limited additional revenue outside of the tax base.

SPGEs are affected when reassessments are delayed. Fire districts cannot afford increased costs without increased revenue. Some fire districts are beginning to limit services or lay off staff as a result. Chief Jones testified that taxing a fire district would

create an undue burden because the districts cannot increase revenue due to the capped tax rate.

In response to a question from Representative Bridges, Chief Jones stated that the Jefferson County PVA did not do a zone of reassessments this year because of COVID-19 restrictions and issues throughout the county. The PVA has said they will do two assessment zones next year. When that assessment was not done, an SPGE within the county lost out on \$350,000 of increased revenue.

Representative Bridges discussed how PVA offices generate more revenue if they are able to complete assessments. Chief Jones added that assessments can lead to properties declining in value.

Mr. Powell stated that the Jefferson County PVA will double its assessments next year. He continued to say that revenues in Jefferson County still went up, just not as much as was expected.

With no further business before the committee, the meeting was adjourned.