

MINUTES

SENATE AND HOUSE INTERIM COMMITTEES ON
CITY, COUNTY, AND LOCAL AFFAIRS

August 8, 2018

The Senate and House Interim Committees on City, County, and Local Affairs met Wednesday, August 8, 2018 at 3:30 p.m. in the Embassy Suites Hotel, Rogers, Arkansas. The meeting was held during the Annual Conference of the Association of Arkansas Counties (AAC).

Committee members present: Senators Alan Clark, Co-Chair, Linda Collins-Smith, Jim Hendren, and Lance Eads. Representatives Tim Lemons, Co-Chair, Justin Boyd, Carol Dalby, David Fielding, Lanny Fite, Jimmy Gazaway, Mike Holcomb, Fredrick Love, Roger Lynch, Andy Mayberry, Johnny Rye, and Jeff Williams.

Other members present: Representatives Andy Davis, Trevor Drown, Joe Jett, Jack Ladyman, Austin McCollum, Ron McNair, Rebecca Petty, Donald Ragland, Dan Sullivan, and Carlton Wing.

Comments by Committee Chairs

Representative Lemons called the meeting to order. He asked legislators to introduce themselves. Senator Clark thanked the legislators for attending the committee meeting and the 50th anniversary AAC Conference.

Consideration of Motion to Approve Minutes – May 23, 2018 [Exhibit C]

A motion to approve the minutes of the May 23, 2018 committee meeting was made by Representative Dalby and seconded by Representative Mayberry. The motion carried.

Welcome and Introductions

Representative Lemons recognized Chris Villines, Executive Director, Association of Arkansas Counties (AAC). Mr. Villines described upcoming conference sessions and events. He invited legislators to attend the events and participate in the sessions. He recommended two specific sessions, a presentation and discussion on Act 9 bonds and economic development, and a presentation and discussion on Crisis Communication. Mr. Villines said Governor Hutchinson will give the keynote address on Thursday during the AAC General Session. On Thursday afternoon, the City, County, and Local Affairs Committees will meet jointly with the State Agencies and Governmental Affairs Committee at 2:15 p.m. Discussion will focus on 911 Communication Centers throughout the state.

Discussion and Consideration to Adopt Interim Study Proposal 2017-008 by Representative Lanny Fite “Requesting that the House Committee on City, County, and Local Affairs Conduct an Interim Study of Improvement Districts to Evaluate Performance, Benefits, and Efficacy” [Exhibit E]

Representative Lemons recognized Representative Fite for comments. Representative Fite discussed the draft legislation he and Representative Love worked on during the 91st General Session. If passed, the legislation should help resolve issues pertaining to governing improvement districts. Multiple problems still exist, which have not been resolved, including improvement district violations. Representative Fite said he, Representative Love, and Senator English have been reviewing these issues, which led Representative Fite to introduce his Interim Study Proposal

(ISP) 2017-008. He thinks a holistic review of all improvement districts statewide, with the exception of fire and levy districts, will be beneficial. The staff of both the AAC and the Arkansas Municipal League (AML) have agreed to provide their assistance with any needed research and reviews of the districts. Representative Fite made a motion to adopt his ISP and Representative Love seconded the motion. The motion to adopt the ISP passed unanimously.

Overview and Discussion of Improvement Districts

Representative Lemons recognized Mark Whitmore, Chief Legal Counsel, AAC, and Mark Hayes, Chief Counsel and Interim Director, Arkansas Municipal League (AML). Mr. Whitmore reviewed legislation the legislature passed during previous years regarding improvement districts. Representative Fite described many areas that have not been addressed by legislation and where changes are needed. One area is a lack of transparency, specifically financial records. Members of improvement districts across the state are unable to access records showing how their assessments are calculated. In some instances, improvement districts have actually disposed of records, while others have not retained their records for a reasonable length of time. Mr. Whitmore said he agrees with Representative Fite's proposal to use a comprehensive approach in reviewing the improvement districts, with the goal of holding the districts accountable to their members.

Mr. Hayes told legislators he agrees with Representative Fite and Mr. Whitmore that all improvement districts need accountability. He said legal issues regarding these districts are extremely complicated, making it even more important to use the overall approach recommended in Representative Fite's draft legislation. The AML will review and chronicle the issues involving the improvement districts from its perspective, while the AAC will provide its county perspective.

Discussion of Proposal to Amend the Homestead Property Tax Credit [Exhibit G]

Representative Lemons recognized Chris Villines, Mark Whitmore, and Representative Fite to discuss the proposal to amend the homestead property tax credit.

Mr. Villines discussed Act 9, the constitutional amendment that created the Property Tax Relief Fund. The fund provides a minimum tax credit, known as the Homestead Tax Credit in the amount of \$350.00 per household. This credit is funded through the collection of a 1/2 cent statewide sales tax. Mr. Villines said the fund has been variable throughout the years, but in the previous two to three years the amount of the fund has grown significantly. He described a meeting between himself, Representative Fite, Governor Hutchinson and his staff where the proposal to increase the amount of the homestead credit was discussed. Following these discussions in March, 2018, Governor Hutchinson announced his proposal to increase the amount of the credit from the current \$350.00 amount up to \$375.00. During the Governor's announcement, he said his intent is to ask the General Assembly to consider this proposal during the 92nd legislative Session. Mr. Villines said further discussions between AAC staff and Representative Fite will help craft a proposal to establish a formulaic calculation to create a method that would automatically trigger an increase in the amount of the homestead credit when the 1/2 cent sales tax collections exceed specific levels. The AAC staff consulted with the Arkansas Department of Finance and Administration (DF&A), who administers the tax collections. It was determined that when tax collections exceed \$40 million, this would trigger an increase to the homestead tax credit for the following year. Mr. Villines told legislators the AAC staff worked with the legal staff at the Bureau of Legislative Research to draft legislation to implement the increased homestead credit amount based on the formulaic calculation. The formula would divide the number of homesteads receiving the credit to create a quotient. Should the quotient

amount exceed \$25.00 the homestead credit amount would reflect an increase in the amount. The formula would also provide for a decrease in the event tax collections decrease due to an economic downturn. Mark Whitmore told legislators his understanding of the intent of Act 9 was to provide citizens with modest homestead relief from property taxes.

Legislators discussed the Property Tax Relief Fund, Arkansas's state income tax, and Arkansas's sales tax collections. Senator Hendren told legislators the Tax Reform and Relief Legislative Task Force has done extensive work reviewing all the state's tax issues, noting that Arkansas's property tax is one of the lowest in the U.S., whereas, the state's sales and income taxes are much higher than other states. One conclusion from the discussion is to ask the General Assembly to consider a more flexible approach to the use of the Property Tax Relief Fund rather than the current narrow definition of reducing property taxes.

Representative Fite told legislators it his personal opinion that because the Property Tax Relief Fund was created through a vote by the citizens of the state, any substantive changes should be voted on by taxpayers.

There being no further business, the meeting adjourned at 4:30 p.m.

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