



**State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement**

Bill: HB1894

Bill Subtitle: TO ESTABLISH A METHOD OF VALUATION FOR REAL PROPERTY USED FOR AFFORDABLE HOUSING; AND TO ESTABLISH A METHOD OF VALUATION FOR CERTAIN REAL PROPERTY UNDER ARKANSAS CONSTITUTION, ARTICLE 16, § 5.

Sponsors:

Rep. Beaty and Sen. Gilmore

Basic Change:

HB1894 establishes a new method of valuation for certain real property. Specifically, HB1894 requires certain real property to be appraised using an income-based approach, including properties that have federally-imposed or state-imposed rent limitations, operations requirements, or any other restrictions on a property connected to:

- The real property being eligible for an income tax credit under 26 U.S.C. § 42 (providing certain low-income housing credits);
- Real property constructed with the use of the United States Department of Housing and Urban Development HOME Investment Partnerships Program;
- Real property constructed with the use of incentives provided by the United States Department of Agriculture Rural Development; or
- Real property that receives any other state or federal subsidy provided with respect to the use of the real property for housing purposes.

HB1894 defines "income-based approach" as a computation that:

- Divides the actual net operating income of a parcel of real property by an appropriate market-derived capitalization rate;
- Does not exceed the average of the current market data available in the county in which the parcel of real property is located, as determined by analyzing sales of comparable income-producing properties that reflect prevailing investment conditions, risk factors, and expected returns; and
- Is not calculated using federal tax credits, state tax credits, or any other subsidy.

The requirements of HB1894 do not apply after the expiration of a land-use restriction agreement.

HB1894 is effective for assessment years beginning on or after January 1, 2026.

Fiscal Impact:

Unknown impact to property tax collections.

Taxpayer Impact:

Certain real property will be valued using an income-based approach.



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Resources Required:

Publication of new valuation guides by the Assessment Coordination Division will be required as well as promulgation of new rules by the ACD and the Public Service Commission (PSC). Education and training of ACD and PSC staff will be required. Revision of ACD courses and replacement of all educational materials will be required. Education and training will be required for county assessors and collection staff in addition to other county officials including county judges, boards of equalization, school boards, other local taxing entities, as well as third-party appraisers contracted for Arkansas mass appraisals.

Time Required:

Current reappraisal contracts in place do not have requirements for the time and expenses involved with the proposed changes. Without significant actions by ACD on behalf of the counties it would take four years for this change to be incorporated into new contracts. Counties would need to plan for the time and expenses needed to adjust current contracts to comply.

Procedural Changes:

Changes in appraisal methods of both real and personal property in all 75 counties.

Other Comments:

None.

Legal Analysis:

None.