State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HJR1012
Bill Subtitle: AN AMENDMENT TO THE ARKANSAS CONSTITUTION TO REPEAL PROVISIONS CONCERNING THE REAPPRAISAL AND REASSESSMENT OF REAL PROPERTY; AND TO AMEND ARKANSAS CONSTITUTION, AMENDMENT 79, CONCERNING REAL PROPERTY TAXES.

Sponsor:

Rep. R. Scott Richardson

Basic Change:

HJR1012 proposes a constitutional amendment to amend Amendment 79, §§ 1, 2, and 4, and to repeal and replace Article 16, § 14 of the Arkansas Constitution. Under HJR1012, the assessed value of real property would be fixed unless the property is conveyed, newly constructed, substantially improved, or the use of the real property changes.

Amendment 79 currently limits the annual increase in the taxable value of real property. The limit is 5% for homestead property and 10% for non-homestead property. Amendment 79 also provides that the taxable value of a homestead used by a disabled person or a person 65 years of age or older is assessed at the lower of the assessed value of the home as of the date of purchase or construction, the date the person becomes disabled, the date the person turns 65 years of age, or a later assessed value. Article 16, § 14 provides a procedure for adjustment of taxes after reappraisal or reassessment of property.

Under HJR1012, the assessed value would instead be determined and fixed by the most recent county-wide reappraisal on or before December 31, 2026, except:

- Real property sold, transferred, assigned, or otherwise conveyed after January 1, 2027, would be assessed on the value of the real property at the time of the conveyance;
- Real property that includes new construction or substantial improvements completed after January 1, 2027, would be assessed on the value of the real property including the new construction or substantial improvements; and
- If the use of the property changes, the assessed value would be based on the assessed value of the property according to the new use.

If approved by voters, the amendment would become effective for assessment years on and after January 1, 2027.

Fiscal Impact:

If approved by the voters, undetermined but significant reduction may result to property tax collections.

Taxpayer Impact:

If approved by the voters, a taxpayer would not realize increases on real property values unless they purchase a new property or make substantial improvements to existing property.

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Overall property values and property tax collections would decrease dramatically, and there would be unpredictably high increases in the property values and property tax bills on newly purchased properties in relation to their prior values and tax bills. A homebuyer would not be able to compare recent property bills to judge what he or she would pay, since the property would be reappraised after the sale.

Real estate turnover may decrease as taxpayers seek to keep their property tax bill low and therefore not buy and move to another home reducing available homes on the market.

<u>Resources Required</u>:

Counties would be required to employ appraisal personnel. With no ability to plan timing of new valuations, contracting with reappraisal contractors would be difficult and costly. County assessors will require changes to software used to value and track property for ad valorem purposes.

<u>Time Required</u>:

Current reappraisal contracts that assessors and counties have entered into with private companies may need to be renegotiated to end the current reappraisal process. At the time of the 2026 election, the approved reappraisal contracts would need to be in force through 2030. Current cycles that are terminated without completion would not end with current market value.

<u>Procedural Changes</u>:

Reappraisal contractors, in-house reappraisal counties, and county assessors would need to develop new plans on discovery and valuation of sold properties, new construction, and substantial improvements. Development of system would be needed to determine if the sales price is correct market value at time of sale or was the price affected by outside factors.

The Assessment Coordination Division of the Department of Finance and Administration (ACD) would need to develop new audit procedures and change the ratio study process required to test county data. ACD rules must be amended and submitted through the promulgation process.

Education and outreach would be required for ACD personnel, county officials and their employees, taxpayers, and local tax entities that receive property tax revenue.

<u>Other Comments</u>:

None.

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Legal Analysis:

Provisions of the Arkansas Code implementing Amendment 79, county reappraisals, and rollback processes would need to be addressed by the General Assembly with changes to comply with the proposed amendment.