

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
DECEMBER 6, 2017

The Tax Reform and Relief Legislative Task Force met Wednesday, December 6, 2017, at 9:00 a.m., in Room A-MAC, Little Rock, Arkansas.

Task Force members present: Senators Jim Hendren, chair, Jonathan Dismang, Joyce Elliott, Bart Hester, Missy Irvin, Larry Teague, and David Wallace; Representatives Lane Jean, chair, Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Warwick Sabin.

Other legislators present: Senators Ronald Caldwell, Jimmy Hickey, Jr., and Bill Sample, Representatives Fred Allen, Charles Blake, Ken Bragg, Bruce Coleman, Andy Davis, Charlotte Douglas, Dan M. Douglas, Vivian Flowers, Jimmy Gazaway, Steve Hollowell, Douglas House, Roger Lynch, John Maddox, Ron McNair, Aaron Pilkington, Marcus Richmond, Johnny Rye, Brandt Smith, Nelda Speaks, Danny Watson, Jeff Williams, and Carlton Wing.

Representative Jean called the meeting to order.

Representative Ferguson made a motion to allow the tax reform co-chairs to approve the preliminary report by PFM Group Consulting, LLP (PFM) that is due December 31, 2017, and, with a second by Senator Hester, the motion carried.

Comparison of Tax Reform Efforts in Various States [Exhibit E]

Mr. Randy Bauer, Project Manager, and Ms. Deanna Yocco, Senior Analyst, PFM Group Consulting, LLP, were recognized to speak on Arkansas' tax structure in comparison to the benchmark states with similar population and demographics. Mr. Bauer noted that all bordering states have higher sales tax rates compared to Arkansas. Since 2008, 18 states cut individual income taxes and 15 states reduced their corporate income taxes. Between fiscal years 1979 and 2018, recessions drove 15 states to increase net tax and fees totaling \$4.9 billion, while 12 states proposed net decreases totaling \$1.2 billion. Mr. Bauer was asked to include in the benchmarking, Indiana, North Carolina, and states that have diversity and are doing well.

Presentation on Arkansas' Property Tax and Exemptions [Exhibit C]

Mr. Bauer and Ms. Yocco gave an overview regarding property taxes in Arkansas and comparison to other states, how property taxes relate to funding education in the state, and state provisions for reassessment of real estate for tax purposes. Compared to other states, Arkansas' property taxes are lower than benchmark states while funding education is on the higher end. K-12 education is uniformly the largest component of local property taxes among 49 states.

Discussion on the Impact of Property Tax on Schools and State Variances

Mr. Bear Chaney, Executive Director; Ms. Angela Hill, Deputy Director; and Mr. John Nichols, Staff Attorney, Assessment Coordination Division, were recognized to answer questions regarding Arkansas' inventory and property tax collections, and assessing minerals. Mr. Chaney said the state's inventory tax collections totaled \$64.9 million, of which \$51.2 million was distributed to schools and \$13.7 million was distributed to counties. Mr. Chaney will provide an inventory by county list and yearly overall growth

report to the staff for distribution to task force members. Ms. Hill explained that ACD works with the county clerk's office each year with computing roll-back evaluations. Millage rates are evaluated on an aggregate increase of 10% or greater.

Dr. Richard Abernathy, Executive Director; Ms. Robyn Keene, School Finance Consultant; and Mr. Mike Mertens, Assistant Executive Director, Arkansas Association of Educational Administrators (AAEA), were recognized to give a PowerPoint presentation [Exhibit D2] regarding how the Foundation Funding and Partnership Program are funded in part by property taxes and used as stable resources to pay for building projects and educational needs. Ms. Keene spoke about the difficulty school districts face financially due to low property tax assessments and property assessment disputes.

Mr. Johnny Key, Commissioner, Arkansas Department of Education, was recognized to answer questions regarding school funding, forecasting, and budgeting.

Discussion on the Impact of Local Property Taxes and the Collection Process [Exhibit E1]

Mr. Chris Villines, Executive Director, and Ms. Lindsey Bailey, General Legal Counsel, Association of Arkansas Counties, were recognized. Mr. Villines explained that 80% of property tax collections goes to schools and 20% is divided between cities, counties, libraries, county hospitals, and various other entities. Mr. Villines noted that many who pay state property taxes live out of state. Ms. Bailey presented a PowerPoint presentation [Exhibit E1] on Real and Tangible Personal Property, exemptions, how counties determine assessed property values, and constitutional amendments.

Mr. Mark Hayes, Director of Legal Services, Arkansas Municipal League, was recognized and gave a brief overview on how millage rates for cities and counties are set through the Quorum Court and in the general election process.

Discussion on the Impact of Property Tax on Agriculture and Business Interests

Mr. Jeff Pitchford, State Affairs Director of Public Affairs and Government Relations, Arkansas Farm Bureau, was introduced and gave an overview of how Amendment 59 of 1980 to the Arkansas Constitution overhauled the Property tax system regarding valuing and taxing agriculture, pasture, crop, and timber land. He said property taxes are based on Use value regardless of location. Mr. Pitchford stated that Arkansas Farm Bureau supports the task force's tax reform efforts but is concerned about equitable treatment and fairness to taxing agriculture. Mr. Pitchford suggested the task force benchmark how other states exempt parts and labor on farm equipment.

The next Tax Reform task force meeting will be Monday, January 8, 2018.

The meeting adjourned at 2:00 p.m.