



June 7, 2018

Arkansas School Boards Association
523 S. Ringo St.
Little Rock, Arkansas 72201

Dear Senator Hendren, Representative Jean and Members of the Tax Reform and Relief Legislative Task Force:

Thank you for the opportunity to provide information to be considered by the Tax Reform and Relief Legislative Task Force. We view your work as being very important going forward and applaud your efforts to carefully gather and consider as much information as is practical during the process. Regrettably, the time frame to prepare an oral presentation coupled with previously scheduled obligations of staff members left ASBA unable to present at the meeting you requested. We have reviewed much of the information presented to the task force thus far and find many of our concerns already addressed in some form. At the risk of duplication of comments or concerns, we would like to submit the following for your consideration:

Issue #1: Property taxes have long been relied upon as one of the most stable and consistent forms of taxation. Property taxes in Arkansas provide 18% of total state and local tax revenue and 37% of the foundation funding in the Funding Matrix. The revenue generated by growth in assessment is a stable source of funds to help support a necessary annual cost of living increase. In 2017, the total amount added to foundation funding was generated by the increase in local property taxes. Increases in property taxes are voted on locally and reflect the wishes of local communities and their taxpayers.

Recommendation: Use cautious reserve when considering any adjustments to the tax structure in Arkansas that would reduce the stable stream of revenue generated by local property taxes or impact the ability of local people to support their local schools through millage issues.

Issue #2: Selling bonds is a critical part of generating funds to support new school facility construction and renovation. The Uniform Rate of Tax (URT) contributes to a clearly established funding source for operational district expenses which allows voted bond revenues to be committed to much needed modernization of local school facilities. A substantial amount of local tax revenues have been generated and committed to help fund over \$3.3 billion in K-12 school construction projects through the Facilities Partnership Program since 2006. The entire school funding process should contribute to achieving and maintaining a strong bond rating for school construction in the state. Those good bond ratings allow districts to get better bond rates and to do more with their local tax dollars, thereby reducing the obligation of the district and the state in regard to school construction costs. Favorable bond rates also promote economic growth across the state through construction projects and job opportunities.

Recommendation: Protect the role of the URT and property assessment process to help meet foundation funding needs. Maintain a strong commitment of state participation in support of school facility construction. Ensure that local school districts retain the ability to secure and commit locally voted taxes to the repayment of bond proceeds for school facility construction in order to help maintain a highly favorable bond rating in the state.

Issue #3: The changes made by Act 659 of 2015 are now proving to be problematic at several levels. Since both the state and local school districts rely on stable and timely property tax collections, the ability of an individual or company to delay paying real property taxes pending the outcome of an appeal can have a significant impact on cash flow in districts; especially those that rely on local property taxes for a significant portion of operational revenue. Since the state "trues up" districts to 98% of the first twenty-five mills of assessment, appeals of a significant amount could impact both the state and the local districts effected. Since Act 1105 of 2017 now limits districts to a maximum carry forward balance of 20% of annual current revenue, a sudden shift in local property tax collections could have a devastating short term (and possibly long term) effect on a local district. Local districts commit to personnel employment contracts early in the tax year so there is no real opportunity to reduce staff until that contract period ends a year later.

Recommendation: *Consider repealing any changes that were made under Act 659 of 2015 that resulted in consequences unfavorable to the assessment and collection of local property taxes in a timely manner. Consider shortening the amount of time taxpayers have to notify the assessor of an intent to appeal. Consider placing a short time limit on the period of time allowed for hearing and dispensing of an appeal. Hold any contested amount of real property tax in escrow (as is done with personal property tax) until the appeal process is completed.*

Issue #4: In Arkansas, county property appraisers often approach taxable valuation as the property's "highest and best use". However, some have suggested that brick and mortar stores should only be taxed as if they were warehouses holding the merchandise, regardless of the use of the building. Such a "dark store" application to our local property tax appraisal approach would cause the state, counties and local school districts to lose millions of dollars in property taxes. A notably lower collection total in property taxes would likely trigger the need to increase other taxing methods in the state just to maintain current funding levels.

Recommendation: *Review, clarify and standardize the definitions on taxable property and resist any attempts to tax facilities in a manner that would deviate away from the "highest and best use" standard.*

Issue #5: There are some health provider entities in the state that contend since they do not turn away patients, they should be classified as charitable and, therefore, not taxed. Yet, they continue to bill patients and use bill collectors. To accept their logic would remove revenue from property tax revenues and could encourage other health providers to manipulate their services in such a manner as to exempt their property from local taxes as well.

Recommendation: *Maintain and clarify, if necessary, the intended definition and application of charitable in regard to taxable property so as not to expand the category beyond its current interpretation.*

Again, thank you for this opportunity and for your thorough review of the tax system and reform possibilities in Arkansas. As you conduct the review process and prepare recommendations, we are confident that the task force will place a very high degree of importance on ensuring the generation and maintenance of adequate funding for K-12 education in our state.

Respectfully submitted,



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Executive Director