



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

Bill: HB1386

Bill Subtitle: TO AMEND THE LAW CONCERNING THE ASSESSMENT OF PROPERTY; TO AMEND THE LAW CONCERNING SUBSTANTIAL IMPROVEMENTS TO REAL PROPERTY; AND TO AMEND THE METHOD OF VALUATION FOR REAL PROPERTY UNDER ARKANSAS CONSTITUTION, ARTICLE 16, § 5.

Sponsors:

Reps. Cavanaugh and Lundstrum

Sen. Bryant

Basic Change:

HB1386 amends § 26-26-1122 by defining the term "substantial improvement" and repealing language authorizing the Assessment Coordination Division of the Department of Finance and Administration (ACD) to define the term by rule. HB1386 defines "substantial improvement" to mean an improvement to real property that increases the square footage of the real property by at least 25%. A necessary repair made to real property to remedy damage done by a natural disaster would not constitute a substantial improvement.

The existing ACD definition of substantial improvement is, in relevant part, a "Renovation, reconstruction, and refurbishment occurring to further a change in the use and/or class of an improvement . . . Renovation, reconstruction, and refurbishment occurring that will add 25% or more to the contributory value of an improvement to the property." As defined by ACD, substantial improvement does not include normal maintenance on an improvement intended to only maintain its existing utility.

HB1386 also amends § 26-26-1202 regarding the valuation procedure for real property to require that only real property located in the state shall be considered in determining the market value of real property.

The act will be effective for assessment years beginning on or after January 1, 2025.

Fiscal Impact:

Indeterminate impact to collection of county property taxes. The number of substantial improvements normally recorded during appraisal may be reduced as not all improvements to real estate increase square footage by at least 25%.

Taxpayer Impact:

For real property tax purposes, a "substantial improvement" to real property must increase the square footage by at least 25% and will not include necessary repairs to remedy real property as a result of a natural disaster. Only real property located within the state shall be considered in determining the market value of property.



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

Bill: HB1386

Bill Subtitle: TO AMEND THE LAW CONCERNING THE ASSESSMENT OF PROPERTY; TO AMEND THE LAW CONCERNING SUBSTANTIAL IMPROVEMENTS TO REAL PROPERTY; AND TO AMEND THE METHOD OF VALUATION FOR REAL PROPERTY UNDER ARKANSAS CONSTITUTION, ARTICLE 16, § 5.

Resources Required:

Modifications of current appraisal procedures as well as amendments to existing ACD rules and education materials will be required. Assessment professionals, including assessors, county employees, and reappraisal contractors, will be required to attend additional training. Software changes may be required.

Time Required:

Due to changes to published materials, educational offerings, and rule changes, it may be difficult to implement to comply with the 2025 assessment effective date provided in HB1386.

Procedural Changes:

Changes to educational materials and publications provided for assessors and appraisers will be required. Changes to materials for existing classes and training offerings will be required.

Other Comments:

It is not possible to estimate the percentage of substantial improvements that would be assessed at lower rates as a result of this bill. The change of the definition of "substantial improvements" may eliminate, at a minimum:

- Improvements internal to a structure, even if they substantially affect the property's value;
- Significant alterations to structures such as the renovation of historic homes that do not increase the size of the structure; and
- Changes in use.

The change in definition does not address any alterations to the land under the structure (constituting part of the "real property" not contemplated by this bill, which focuses exclusively on structures) such as the creation of drainage ditches, repair or modification of existing driveways and outbuildings, and major upgrades to the structure and curtilage such as fencing, landscaping, or subterranean improvements to septic systems, slabs, and basements.

Legal Analysis:

HB1386 would not permit using non-Arkansas properties for comparison during the valuation process. However, unique commercial and industrial properties (for example, museums, environmentally-conscious manufacturing facilities, large distribution centers built on a single set of plans nationwide) may require comparisons to similar properties outside of the state for information purposes. The inability to use of out-of-state properties during appeals could limit an assessor's ability to defend his or her valuation.