

**2015**

**ASSESSMENT  
ADMINISTRATION  
MANUAL**

**OFFICE  
OF THE  
PVA**



# **ASSESSMENT ADMINISTRATION MANUAL**

**OFFICE OF THE  
PROPERTY VALUATION ADMINISTRATOR**

**COMMONWEALTH OF KENTUCKY  
DEPARTMENT OF REVENUE  
OFFICE OF PROPERTY VALUATION**

**2015**



## PREFACE

An assessment administration manual has been part of Kentucky property tax professionals' libraries for over sixty years. In January 1950, following the historic 1949 Special Session of the General Assembly, the "Kentucky Property Assessment Administration Manual" was printed and distributed to all 120 Tax Commissioners (since renamed Property Valuation Administrators, or PVAs). This manual has taken various forms throughout the years, and became a mandate when the 1988 General Assembly directed the Department of Revenue to develop up-to-date manuals outlining uniform procedures for assessing all categories of real and personal property (KRS 131.140).

This manual is to be used by all PVAs and staff to ensure a standardized approach to property tax assessment administration across the Commonwealth. It is updated periodically to reflect changes in the law or revisions of policy that may affect administration and valuation processes. Kentucky Revised Statute (KRS) citations have been included in the body of the text for additional reference, emphasis, or clarity. Full versions of statutes are available at [www.lrc.ky.gov](http://www.lrc.ky.gov). Deviations from the standardized methods or procedures due to unique or exceptional circumstances may be permitted upon specific authorization from the Office of Property Valuation. Detailed information on virtually any aspect of assessment administration is available under the numerous offerings of the Office of Property Valuation Education Program, as well as other instructional functions such as the annual Conference on Assessment Administration. Any PVA with a question regarding technical or administrative procedures is encouraged to contact the Office of Property Valuation.

This version of the Assessment Administration Manual supercedes all previous versions.

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**CHAPTER ONE**  
**GENERAL DUTIES AND PROFESSIONAL DEVELOPMENT**  
**OF THE PROPERTY VALUATION ADMINISTRATOR**

A. Introduction to the Market Value Standard

The primary duty of the Property Valuation Administrator (PVA) is to equitably assess the value of real and personal property. The Constitution of Kentucky requires that “All property, not exempted from taxation by this Constitution, shall be assessed for taxation at its fair cash value, estimated at the price it would bring at a fair voluntary sale.” This language has not been amended since the current (fourth) Constitution was adopted in 1891. KRS 160.460 states unequivocally that “...all real property located in the state and subject to local taxation shall be assessed at one hundred percent (100%) of fair cash value.” These mandates, backed up by the historic (1965) *Russman v. Luckett* decision, establish the market value standard as law in Kentucky.

For the purposes of assessment administration, “market value” and “fair cash value” should be considered synonymous. Market value is defined by the International Association of Assessing Officers (IAAO) in Property Assessment Valuation, Third Edition (2010) as follows:

*Market value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.*

Obviously, the most reliable indicator of market value for a particular parcel of property is a recent sale price that meets the criteria established above. If a recent market price is not available, the PVA must establish the fair cash value based on the most probable price a willing buyer would pay a willing seller, provided both parties are fully informed and act voluntarily. This hypothetical "sale price", or value, must be derived through the use of standard appraisal practices. Every effort should be made to arrive at a fair assessment, as "any grossly discriminatory valuation shall be construed as an intentional discrimination." (KRS 132.450) The information needed for an appraisal can be gathered through visits with the taxpayer, property tax returns, inspection of the property, deeds and records, and from any other source the PVA may be able to obtain, including from the PVA's personal knowledge.

#### B. General Duties

In the process of accomplishing the primary function of the PVA office, to assess all property at market value, many supporting functions must be performed. Tax rolls, maps, photographs, and computer data must be constantly maintained and updated. Personal property tax returns must be entered into the centralized statewide computer system. Property owners must be informed of pertinent filing dates and of changes affecting property tax liabilities, and various means of locating and taxing omitted property must be pursued. PVAs also provide a variety of information management services as custodians of the parcel ownership database, most of which is public information.

In order to effectively carry out the many duties required of the PVA office, an office staff must be hired, trained, and directed by the PVA. A bank account must be maintained for the management of local funds and a budget set to purchase needed supplies and equipment. The Property Valuation Administrator is a statutory state official and the deputies and assistants in the PVA office are unclassified state employees (KRS 132.370). As part of the executive branch of state government, the PVA office, although responsible for assessments in only one county, is a state office and subject to state office statutory provisions. The PVA is required to keep scheduled office hours and be engaged in official duties at least five days a week (KRS 132.410).

PVAs are elected in the same year as other local officials and take office the first Monday in December. They are sworn in by the county judge-executive with the following oath of office:

*I do solemnly swear (or affirm, as the case may be) that I will support the Constitution of the United States and the Constitution of this Commonwealth, and be faithful and true to the Commonwealth of Kentucky so long as I continue a citizen thereof, and that I will faithfully execute, to the best of my ability, the office of Property Valuation Administrator according to law; and I do further solemnly swear (or affirm) that since the adoption of the present Constitution, I, being a citizen of this State, have not fought a duel with deadly weapons within this State nor out of it, nor have I sent or accepted a challenge to fight a duel with deadly weapons, nor have I acted as a second in carrying a challenge, nor aided or assisted any person thus offending, so help me God.*

### C. Continuing Education Requirements

Due to the extensive and ever-changing body of knowledge needed to successfully run the PVA office, PVAs participate in two separate statutory continuing education programs, both based upon completion of annual requirements for hours of education. Since 1986, qualifying PVAs

have received an expense allowance of \$300 per month which is tied to classroom attendance at educational functions; and since 2000, qualifying PVAs have been awarded an annual training incentive, based on continuing participation in the Education Program and adjusted by the consumer price index. Each of these programs have separate rules, but PVAs are allowed to earn hours of education toward both concurrently.

The specific requirements that PVAs must meet to qualify for the annual expense allowance are identified in KRS 132.597. Each PVA must participate in a minimum of 30 classroom hours of “professional instruction conducted or approved by the Department of Revenue” within each calendar year in order to qualify for the \$3,600 expense allowance for the subsequent calendar year. Hours of education in excess of the 30 hour requirement lapse at the end of the year in which they have been earned, and cannot be carried forward into subsequent years. PVAs who have earned the Senior Kentucky Assessor (SKA) designation must meet a reduced requirement of just 15 classroom hours per calendar year in order to qualify for the annual expense allowance for the subsequent year. The requirements for the professional designations are described in the following section. Should a PVA fail to meet the educational requirement in any year, the annual expense allowance will be withheld for the subsequent year.

House Bill 538, enacted by the 2000 General Assembly, provided PVAs with an additional training incentive. This program, codified into the statute governing PVA compensation (KRS 132.590), was modeled after a similar incentive created for the benefit of county officials in 1998. As a result, in addition to the \$300 per month expense allowance described above, PVAs also receive a lump sum training incentive for each training unit completed.

Under the training incentive program, PVAs must earn a training unit of forty hours of education per calendar year in order to qualify for the training incentive payment. Unlike the expense allowance program, up to forty hours of approved education in excess of the training unit are allowed to be carried over into the next calendar year, to qualify for that year's training unit. Payment is in a lump sum at the end of the month following the attainment of the training unit of forty hours. Therefore, a PVA carrying over the maximum of forty hours can qualify in January of the succeeding calendar year and be approved for payment during February. PVAs may earn only one training incentive per year, but can receive up to four per year depending on tenure and accumulated training units. The statutory amount of the incentive (\$977.43 in year 2014 dollars) is adjusted annually with the consumer price index, so the actual payment varies from year to year.

More specific rules and procedures governing the training incentive program for PVAs are included in the Education and Professional Designation Program Student Manual, published by the Office of Property Valuation, Education and Compliance Branch.

#### D. Professional Designation Program

The Department of Revenue, in cooperation with the Kentucky PVA Association, has developed an education and professional designation program, with two professional designations available to PVAs, their staffs, and Department of Revenue employees. To obtain the first level designation, Certified Kentucky Assessor (CKA), a candidate must complete a structured program of 120 hours of classroom instruction, pass comprehensive examinations over the

subject matter, and have three years of experience in Kentucky property tax administration. An advanced designation, Senior Kentucky Assessor (SKA), can be earned by successfully completing an additional 90 hours of classroom instruction, passing comprehensive examinations over the material, and acquiring an additional two years of experience in property tax administration (KRS 132.385).

A standard curriculum has been designed to meet the education requirements. A variety of Kentucky property tax courses have been developed in-house and more are being designed. The curriculum also includes courses offered by the International Association of Assessing Officers (IAAO), which is the leading professional organization in the field of property tax assessment administration. For a more detailed analysis of these courses as well as professional designation requirements, please refer to the Education and Professional Designation Program Student Manual published by the Office of Property Valuation, Education and Compliance Branch.

PVA deputy reclassification is also tied to the completion (and passing the respective examinations) of 30 hours of education per year.

## **CHAPTER TWO**

### **PROPERTY TAX DUTIES OF THE DEPARTMENT OF REVENUE**

#### **A. Introduction**

The Department of Revenue is an agency of the executive branch of state government. Within this department, the Office of Property Valuation has three divisions charged with various responsibilities regarding property tax assessment administration: the Local Support Division, the State Valuation Division, and the Minerals Taxation and GIS Services Division. The statutory authority of the Department of Revenue requires it to "exercise all administrative functions of the state in relation to the state revenue and tax laws" (KRS 131.030). The Office of Property Valuation is charged with administering the property tax assessment administration process throughout the state, which includes monitoring and providing assistance to the state's 120 Property Valuation Administrators.

#### **B. The Annual Conference on Assessment Administration**

In order to provide a flexible program of continuing education and updates in the administrative and appraisal process, the Department of Revenue is required by law to conduct an annual conference on assessment administration (KRS 131.140). This conference, a tradition in Kentucky property tax administration since 1918, is normally held in the fall for no more than five days. All PVAs are required to attend the conference "unless prevented by illness or other reason satisfactory to the commissioner" of the Department of Revenue. If the PVA takes part in

all sessions of the conference and submits itemized receipts for actual and necessary expenses related to attending, the PVA will be reimbursed, with 50 percent of the expenses paid by the respective county and 50 percent by the Department.

C. Monitoring Responsibilities of the Department of Revenue

The 1988 General Assembly enacted legislation which significantly increased the responsibility and authority of the Department of Revenue in monitoring assessment quality and equity throughout the state. In addition, the 1990 General Assembly amended KRS 132.370 to grant the Commissioner of the Department of Revenue the authority to remove a PVA from office for the following reasons:

1. Willful disobedience of any just or legal order of the department;
2. Misfeasance or malfeasance in office;
3. Willful neglect in the discharge of official duties;
4. Intentional underassessment or overassessment of properties;
5. Chronic underassessment of properties.

"Chronic underassessment" is defined as a widespread pattern and practice of assessing properties at levels substantially below fair market value and persisting for a period of two or more years. Assessment/sales ratio studies, random sample appraisals, special audits, or other means reasonably calculated to present an accurate determination of assessment practices in a county are used to determine the presence or absence of chronically underassessed property. An

assessment/sales ratio level of below eighty percent for two consecutive calendar years indicates the presence of chronic underassessment in a county, and automatically triggers a special audit by the department (KRS 133.250).

If the commissioner determines that a PVA should be removed from office, the PVA must be notified in writing. The notice shall state the specific reasons for removal and the PVA has the right to a preremoval conference and an administrative hearing. The PVA has six (6) working days from the date on which the notice is received to request a preremoval conference. The conference shall be scheduled within seven (7) working days of the date on which the request is received and the commissioner has five (5) working days after the conference in which to render a decision. A PVA removed from office by the Commissioner of the Department of Revenue has the right to appeal the action within 30 days after the entry of the final order from the Commissioner. The appeal proceedings shall be held in the Circuit Court of an adjacent judicial circuit. PVAs who are unsuccessful in the appeal process shall be ineligible to serve in the office at any future date and shall forfeit all certification from the Department of Revenue pertaining to the office of Property Valuation Administrator (KRS 132.370).



**CHAPTER THREE**  
**PROPERTY SUBJECT TO TAXATION**

A. Introduction

The foundation for property taxation in Kentucky is the Constitution of Kentucky (Sections 3, 170, 171, and 172), which requires that all property be assessed for taxation at fair cash value. Property assessed by the PVA is broken down into two basic types: real property and personal property. Real property consists of the three general classes of farm, residential and commercial/industrial property. Personal property is comprised of the categories of tangible and intangible personal property. The legislature is authorized by the Constitution to divide property into classes and to determine which classes are exempt from local taxes. All real property is taxable for state purposes unless specifically exempted by the Constitution. However, the legislature has the authority to exempt personal property from taxation. All assessments shall be equitable and the tax rates uniform within the same class of property.

B. Real Property Classification

For the purposes of assessment administration real property is divided into three primary sub-classes: residential, farm, and commercial/industrial. Interests in real estate such as unmined minerals (oil, gas, limestone and coal) and timber are also assessed as real property.

Residential property is comprised of small parcels (generally less than ten acres), usually measured in square footage, linear front footage, or acreage. This property typically contains residential improvements; however, vacant land intended or zoned for residential purposes is also classified as residential property. Duplexes and single family dwellings converted to multiple family use are generally classified as residential; however, apartment buildings and complexes (which are intended solely for income producing purposes) must be classified as commercial property. Condominiums are considered to be residential property, since they are individually owned and conveyed.

Commercial property is land with buildings constructed for business purposes, such as retail, wholesale, or manufacturing. Vacant land intended for business purposes is also classified as commercial. Many commercial improvements are specially constructed for a particular use, and their use for any other purpose would require major alteration. Commercial parcels may be relatively small, such as in the central business districts of urban areas, and measured by the square foot or linear front footage; however, large shopping centers or industrial parks may cover many acres. Industrial property is included with other commercial property for assessment administration purposes. In general, industrial property can be described as land and/or buildings intended for the use of manufacturing. Typically, fairly large tracts of land are needed for industrial purposes. Most manufacturing improvements are designed and constructed specifically for a particular manufacturing process.

Farm property is land used for the purpose of producing agricultural products such as corn, tobacco, wheat, soybeans, fruit, vegetables, pork, beef, poultry, and livestock such as horses.

Timberland is also classified as farm property. In practice, any large (generally over 10 acres) parcel of land that is not specifically used for commercial or residential purposes is classified as farm property. This does not mean, however, that all property classified as farm is eligible for the agricultural deferment program (please refer to Chapter 5).

The real estate owner may sever and/or transfer the ownership of timber rights or subsurface rights such as coal, oil, and gas to another person or corporation. These rights are assessed as real property against the person or corporation to whom the rights are transferred. A lessee may be liable for property tax on a leasehold interest if it has value. The separation of the ownership of improvements from land is also recognized. The building owner and the land owner may thus be assessed separately.

### C. Personal Property Classification

Personal property is broken down into two sub-classes for appraisal purposes: tangible personal property and intangible personal property.

In general, tangible personal property is physical property which is not real property, usually movable, that has intrinsic value and utility. In determining whether an item is real property or tangible personal property, the following aspects must be considered: (1) annexation - the manner in which the item is fixed or attached to the real estate, (2) adaptation - whether the item adapted or applied to the use or purpose of the part of the realty to which it is connected or annexed has

been devoted, (3) intention of the party who attached the item (to leave it permanently or to remove it at some future time).

Generally items remain personal property if they can be removed without serious damage to the real estate or to the item itself. Machinery bolted to the floor to prevent movement while in operation would remain personal property. If the machinery were built into the building in such a manner that its removal would produce considerable damage to the building, it would be part of the real estate.

Intangible personal property is property which represents evidence of value or the right to value. Examples of intangible personal property include bonds, notes, mortgages, receivables, copyrights and patents. Other than domestic life insurance capital, no intangible personal property is subject to local property tax rates. KRS 132.208 exempts most intangible personal property with the exception of property assessed under KRS 132.030 or KRS Chapter 136.

#### D. Property Subject to Preferential Rates

Kentucky utilizes the classified rate structure to distribute the property tax burden among various types of property, and therefore taxpayers. While other states use mill rates, dollars per thousand or a combination of rate schemes, property tax rates in this state are expressed in dollars and cents per \$100 of assessed property value. Most property tax rates are established locally, and vary from year to year. These rates are discussed further in Chapter 7.

While the Constitution stresses that all property must be assessed for taxation unless specifically exempted, some classes of property require further explanation, having been virtually exempted by statute through low tax rates. The General Assembly, for reasons related to economic development, has reduced rates on some types of property to the level where it is not economically feasible to collect the tax. Section 171 of the Constitution of Kentucky states in part, "The General Assembly shall provide by law an annual tax, which, with other resources, shall be sufficient to defray the estimated expenses of the Commonwealth for each fiscal year." A tax rate of 1/10¢ per \$100, or an effective tax rate of .001 percent, will yield only one dollar in tax revenue per one hundred thousand dollars of assessed value. Considering the cost of discovery, listing, valuation, billing and collection, it is not feasible for the PVA office to initiate the assessment process for any property where the final bill would be less than \$5.00, which in the 1/10 ¢ per \$100 rate class would have an assessed value of under \$500,000.

Farm machinery and livestock are taxed at the state rate of 1/10¢ per \$100 of valuation and are exempt from local property taxes. Fluidized bed energy facilities have also earned the 1/10¢ per \$100 rate in recognition of their environmental benefits. No special effort should be made by the PVA to secure listings of any of these types of property. If a taxpayer does file a return with only these items listed, the PVA should file or scan the return for reference, but no tax bill should be generated unless the amount to be collected obviously exceeds the cost of assessing the tax for this property.

An amendment to the Constitution passed by the voters in 1998 gave the General Assembly the authority to exempt any class of personal property. This allowed the 2000 General Assembly to

pass legislation (HB 749) exempting personal property placed in a warehouse or distribution center for subsequent shipment to an out of state location from state tax. This bill also phased out local property tax rates (other than for special taxing districts) for this type of property.

In 2005, the General Assembly exempted most intangible personal property with the passage of HB 272, the tax modernization bill. (See Chapter 4).

**CHAPTER FOUR**  
**PROPERTY EXEMPT FROM TAXATION**

A. Introduction

Sections 170 and 171 of the Kentucky Constitution identify several types of property that are exempt from property taxation in Kentucky. These exemptions are administratively categorized into the following classifications:

1. Federally owned property;
2. State owned property;
3. County owned property;
4. City owned property;
5. Educational property;
6. Religious property;
7. Homestead and Disability exemptions;
8. Cemeteries and property owned by purely public charities.

B. Procedures for Listing Exempt Property

Even though the above classes of property are exempt, the PVA must review and appraise all exempt real property every year in the same manner that taxable property is valued (KRS 132.220). The exempt property is not added to the tax roll; however, the PVA shall maintain a

listing of all exempt property. Each property should be described completely, the location of the parcel should be given, and a breakdown of value between land and improvements should be included. A copy of this listing is then submitted to the Department by March 31, thirty days after the close of the listing period. The Department submits each county's exempt list to the Governor's office and the Legislative Research Commission by April 30 of each year for review.

### C. Government Owned Property

The first four classes of exempt property listed in Subsection A are fairly easy to identify, and include such property as courthouses, municipal buildings, and municipal water treatment plants. If the property is publicly owned and used for public purposes, it is usually tax exempt. Some projects that are financed through bond issues, such as airports, roads and industrial parks, are also exempt. However, they can become taxable when the bond is retired and the property reverts to private ownership; furthermore, it is possible for a manufacturing facility to be partially taxable if only a portion of it has been financed through an Industrial Revenue Bond. PVAs should check with the Economic Development Cabinet regarding the status of Industrial Revenue Bonds (refer to Subsection H for further information regarding leased publicly financed property).

#### D. Educational Property

Educational property includes the property of any non-profit institution located in Kentucky where a systematic method of learning is taught. It does not include schools that teach dancing, horse back riding or other areas of special accomplishment. Income-producing property of an educational institution is also exempt when the income is used solely for educational purposes. For example, if an institution operates income-producing properties such as a laundry, a printing department, or a craft shop, and the profit from these endeavors supports its education programs, the properties are exempt.

#### E. Religious Property

Section 170 of the Constitution states that: ". . . real property owned and occupied by, and personal property both tangible and intangible owned by, institutions of religion" are exempt from property taxation. Clearly, the property tax exemption applies to all personal property owned by a church. As such, all motor vehicles, office equipment, furniture, and any other personal property held in the church's name are exempt from taxation.

Tax exemptions granted to real property owned by a church are not as straightforward. Real property must not only be owned but also be occupied by the church in order to qualify for the tax exemption.

The test for determining taxability of church-owned real estate relies on the actual use of the property. Is it being regularly used in a religious capacity? The following properties would be considered both owned and occupied by a religious institution, and therefore tax exempt:

1. Places of religious worship
2. Minister occupied parsonages
3. Land and improvements used for church camps
4. Church meeting halls and social centers used by its members
5. Outdoor recreation areas held for use by church members

A common example of property that needs to be on the tax roll is vacant land held for future expansion on which no religious activities occur. This type of property cannot be considered to be occupied by the church and must be taxed. Other examples of taxable church owned property include property that is leased to or used by another individual or business for a non-religious purpose, residential housing held by a church but not used as a parsonage, and acreage utilized as farm land.

It is inevitable that many situations will be encountered that will require an examination of all the facts and circumstances involved. PVAs with questions should supply the Department with as many details as possible surrounding the issue and the Department will issue a recommendation regarding whether a property should be exempt.

#### F. Homestead/Disability Exemption

The Homestead exemption applies to any real property owned and maintained as the permanent residence of a taxpayer who is sixty-five years of age or older. Either husband or wife may qualify for the exemption as long as one of them is at least sixty-five years old. Only one exemption is allowed per household, however, even if both the husband and wife meet the age requirement. Once an application has been filed and accepted, the application is good for subsequent years as long as the original applicant owns and lives on the property. If the property is sold, the new owner must apply for the exemption if eligible. In other words, the exemption is tied to the owner, not to the property.

The Homestead exemption is also extended to anyone who is totally disabled under a program authorized or administered by an agency of the United States Government or any retirement system either within or without the Commonwealth of Kentucky. To qualify, the applicant must have maintained the disability classification for the entirety of the particular taxation period, must have received disability payments under this classification, and must submit verification documentation before December 31. Most applicants qualifying for a homestead exemption due to their total disability will only need to file an initial application. House Bill 284, passed by the 2008 General Assembly, amended KRS 132.810 to exempt “service-connected totally disabled veterans of the United States Armed Forces” from the yearly filing requirement. Therefore, after the initial application process has been completed for a totally disabled veteran, it will not be necessary for that property owner to reapply for the exemption in subsequent years. The 2011 General Assembly further expanded this exception to include totally and permanently disabled

individuals found disabled under the applicable rules of the social security administration, the applicable rules of the Kentucky Retirement System, or any other provision of the Kentucky Revised Statutes. Only applicants who are classified as totally disabled by a state or local agency outside of Kentucky must continue to apply annually with the PVA office to receive the disability exemption.

Form 62A350 is used for both the age exemption and the disability exemption. These forms must be kept on file in the PVA office. Approval does not exempt the entire value of the property from taxation; only the amount approved by the Department of Revenue may be deducted from the assessed value of the property. This amount is adjusted every two years, as required by law, to account for changes in the purchasing power of the dollar. The exemption has increased from \$6,500 in 1972 to \$36,900 for the 2015 and 2016 property tax assessment periods (KRS 132.810).

#### G. Other Constitutionally Exempt Property

The last classification of constitutionally exempt property includes such items as cemeteries and all property owned by purely public charitable organizations. Cemeteries are exempt if they are not held for private or corporate gain. However, it needs to be noted that this exemption applies only to the real property. Any tangible property owned by a cemetery remains taxable.

Institutions that perform charitable work in Kentucky must be nonprofit in order to qualify for the exemption. The work performed can be either character building, such as in Boy Scout and

Girl Scout organizations, or care giving as in nonprofit hospitals. Some very worthwhile organizations are not tax exempt because they are considered to be private charities. Examples of this type of organization include the Masons, Rotary Clubs and Elks Clubs.

#### H. Leased Property

Any real or personal property owned by a tax exempt entity, but leased to a profit making business, is subject to the same tax rates on the leasehold interest in the property as nonexempt property owners (KRS 132.193, 132.195). The taxes are to be assessed to the lessee and collected in the same manner as regular concerns except that past due taxes shall not become a lien against the property.

An example of this situation occurs when a nonprofit hospital leases office space, medical equipment, and parking facilities at less than market rent to a physician engaged in a profit making practice. The difference between the market rent and the actual rent is taxable to the physician at the applicable tax rates on both the tangible and real property.

All privately-owned leasehold interests in industrial buildings which are owned and financed by a tax-exempt governmental unit qualify for the 1½¢ per \$100 of value state rate (KRS 132.020) and are exempt from local ad valorem taxes (KRS 132.200). However, if the tenant provides private financing for the project, that portion of the total value of the leasehold interest represented by private financing is not eligible for the 1½¢ state rate only. Instead, it would be taxed at full state and local rates. If the debt on the structure has been retired, and the occupant is

paying less than market rent to the governmental unit, the leasehold interest created is fully taxable to the lessee.

#### I. Application for Exemption

Revenue Form 62A023, *Application for Exemption from Property Taxation*, should be filled out by any organization applying for the first time for exempt status. The application should be returned to the PVA's office for approval. If the PVA is unsure if the organization qualifies, then all the information submitted should be forwarded to the Department for review. The Department will issue a written recommendation addressing whether or not the organization qualifies for an exemption to the PVA. The PVA then sends an official ruling letter to the entity. Exempt status has been established for a number of organizations; however, the PVA should check with the Department for verification if an organization indicates that it has been previously approved.

#### J. Personal Property Exempt by Statute

As was mentioned in the previous chapter, the legislature now has the authority to exempt any type of personal property. House Bill 229, of the 1998 General Assembly, put the question to a referendum (Amendment 2), which passed by more than a three to one majority on November 3, 1998. This Amendment, which also expanded the eligibility requirements for the disability exemption, added the following sentence to Section 170 of the Constitution:

*Notwithstanding the provisions of Sections 3, 172, and 174 of this Constitution to the contrary, the General Assembly may provide by law an exemption for all or any portion of the property tax for any class of personal property.*

The General Assembly has been cautious in exercising its newly acquired authority, primarily due to budget concerns. Only two types of personal property have been exempted since 1998:

- KRS 132.097 exempts from state taxation personal property placed in a warehouse or distribution center for the purpose of subsequent shipment to an out-of-state destination within six months of its being placed. KRS 132.099 exempts the same personal property from county, city, and school taxes, and taxation is optional for special taxing districts.
- KRS 132.208 exempts certain types of intangible personal property, primarily stocks and mutual funds, in response to the *St. Ledger v. Revenue Cabinet* decision; In 2005, the General Assembly amended KRS 132.208 to include “All intangible personal property except that which is assessed under KRS 132.030 or KRS Chapter 136...”

Two other statutes which had been considered by many to be unconstitutional exemptions of personal property are now clearly constitutional since the passage of Amendment 2 in 1998:

- KRS 132.190 (1) (a) exempts twenty-five domestic fowl to each family;
- KRS 290.635 exempts deposits in Kentucky credit unions.

No application process is necessary for personal property exempt by statute. It is not required to be listed on a property tax return, since the listing statutes refer to “any tangible personal property *taxable* in this state” (KRS 132.220).

For more detailed information about property tax exemptions, a “Property Exemption Guidelines” manual and a “Guidelines for Administering the Homestead Exemption” manual have been developed to assist PVAs in this area of property tax assessment administration. The manuals are on the PVA network: <http://revenue.ky.gov/pvanetwork/>

**CHAPTER FIVE**  
**PROPERTY TAX RELIEF PROGRAMS**

A. Introduction

Several property tax relief programs have been approved in Kentucky and require special consideration for appraisal and taxing purposes. Included in this area are agricultural value, assessment moratoriums, foreign trade zones, tax increment financing, and brownfields.

B. Agricultural Value

The purpose of the agricultural value program is to stimulate the continuation of farming operations and encourage the preservation of farmland in Kentucky by providing property tax relief. The value of land used for farm production is assessed at a “use” value, which results in a lower taxable dollar value per acre than the fair cash value for the same land. This program was enacted through a constitutional referendum in 1969 to keep rising property assessments, particularly in developing areas, from forcing farmers out of business and accelerating the land conversion process.

The statutory definition of “agricultural land” stipulates that any tract of land, ten acres or more, used for the production of agricultural products, including timber, qualifies for this preferential treatment. Any tract of land five acres or more used for aquaculture is also defined as agricultural. “Horticultural land” is defined as a tract of at least five acres commercially used for

the cultivation of orchard or ornamental plants (KRS 132.010). Land occupied by improvements related to the income-producing nature of the farm, including barns, silos, sheds, tenant houses, ponds, etc., is included under this acreage requirement; but land used for residential purposes, including the primary residence of the property owner, lawns, drives, pools, etc., must be excluded from the calculation of qualifying agricultural land. A farm residence occupied by the farm owner must be assessed at its fair cash value and is not eligible for an agricultural value. However, houses used by farm managers or tenants actually working on the farm can be valued according to the contribution they make to the agriculturally related income production.

In some cases, where a farm has little developmental potential, it may be found that the fair cash value and the agricultural value of land are nearly the same. The difference is most pronounced for farms located at the urban fringe. Each year both the fair cash value and the agricultural value must be determined by the PVA for all property which qualifies for the agricultural value program (KRS 132.450). These values are calculated based on standard appraisal techniques, using the methodology established by the Office of Property Valuation, which is the subject of Kentucky Property Tax Course Ninety, "Farm Real Property Appraisal".

### C. Assessment Moratorium Program

The assessment moratorium program was established in 1982 in order to provide incentives for repairing, rehabilitating, restoring or stabilizing qualifying residential or commercial buildings in Kentucky. Approval for the moratorium must come from the local governing bodies of a county

or city. Certain guidelines and standards must be met before approval is granted (Ky. Const., Sec. 172, KRS 99.595-600, 132.010, 132.190, 132.452).

The PVA should maintain two values on property that has been approved for an assessment moratorium: a “frozen” value and a “current” value. The value of the property as of January 1 of the year in which the moratorium is granted as well as the value of the property on January 1 of each year of the moratorium period must be assessed. The logic behind this dual assessment lies in the fact that the property tax break applies only to those counties and cities that have adopted the program. Local tax rates for participating governments are applied to the original value under moratorium, and the state rate, school rate, and non-participating local rates are applied to the market value of the property as the improvements are made. A home may be on the tax roll at \$25,000 one year (value before any improvements); at \$50,000 the next year (improvements made in that year); and at \$100,000 the following year (value after the restoration project is completed). The state rate and local rates for non-participating governments are applied to the increasing values and the local rates for participating governments continue to be applied to the original value of \$25,000. The assessment moratorium is limited to a five year period for individual properties, with the possibility of a subsequent reapplication within three years of the original moratorium.

#### D. Foreign Trade Zones

Foreign trade zones are established for the purpose of stimulating economic activity under the federal Foreign Trade Zones Act (see 19 C.F.R. §18). Within a foreign trade zone, tangible

personal property is nearly exempt, being subject to the 1/10¢ per \$100 state rate and no local rates. However, the foreign trade zone must be *activated* (19 C.F.R. §146.6 (e)). Until it is activated in accordance with the governing federal regulations, the property does not qualify for the preferential rate. Currently foreign trade zones are located in Jefferson County and Northern Kentucky, however each of these zones have subzones which are located throughout the state.

#### E. Tax Increment Financing

The 2000 and 2001 General Assemblies passed several bills for the purpose of enabling an economic development incentive known as tax increment financing (TIF). This concept is based on the use of “tax increments”, or the difference between current revenues and future revenues to be derived from revitalized areas. Under TIF, an urban renewal/community development agency enters into a contract with the state and/or local taxing districts (the current TIF structure specifically excludes school districts) to release to the agency the tax increments, which must be used solely within the development area. The administration of the property tax portion is left to the “official charged with collection of taxes”, i.e. the sheriff, who must determine the amount of the increment and distribute the funds.

TIF, being based on revenues, does not enter into the assessment process except as the basis for an increase in the increment, particularly in a situation where property tax rates are declining under the House Bill 44 process. Therefore, property located within the boundaries of a TIF zone must be assessed at the current year market value.

F. Brownfields

House Bill 272, passed by the 2005 general assembly, contained a provision that allows brownfields (environmentally contaminated real property) to receive the leasehold interest property tax rate of 1.5¢ per \$100 tax rate (state rate only) for a period of three years (KRS 132.020(c)).



## **CHAPTER SIX**

### **THE KENTUCKY PROPERTY TAX CALENDAR**

#### A. Introduction

The framework of the Kentucky Property Tax Calendar is established by the major statutory deadlines of various components of the assessment cycle. These dates have been mandated by the legislature in an attempt to establish uniformity of the cycle across the state, and ensure continuity of services provided by taxing jurisdictions, as well as to promote the equitable and timely assessment and collection of property taxes. All activities of the PVA are arranged to follow this schedule.

The Property Tax Calendar is split along the lines of duties associated with real and personal property assessment. After the common assessment date of January 1, real property duties follow a schedule which allows maximum individual and public input into the assessment process. Personal property duties, administered through a centralized computer system, follow a schedule which is more closely related to data management and income tax return preparation. The Property Tax Calendar is reunified at the point of tax roll certification, from which the rate setting, billing and collection processes commence for all classes of property.

A diagram of the property tax calendar is presented on the following page.

# KENTUCKY PROPERTY TAX CALENDAR

## REAL PROPERTY

## PERSONAL PROPERTY

Assessment Date	January 1	January 1
Listing Period	January 1 - March 1	January 1 - May 15
First Recap to Department of Revenue	First Monday in April	
Public Inspection of Tax Roll/PVA Conferences	13 Days Beginning First Monday in May (6 days per week, including Saturday)	
Final Recap to Department of Revenue	No Later Than 6 Work Days After the Close of Inspection	
Department of Revenue Certification	Upon Completion of Action by Department	Upon Completion of Action by Department
Board of Assessment Appeals	5 Days Beginning 25 to 35 Days After Inspection	
Delivery of Assessment/Sales Ratio Study to PVA	Sept. 1 or Within 30 Days After Final Recap	
Tax Bills Delivered to Sheriff	By September 15	By September 15
Pay With Discount	By November 1	By November 1
Pay Without Discount	November 2 - December 31	November 2 - December 31
Tax Bills Delinquent	January 1	January 1
Pay With 5 Percent Penalty	January 1 - January 31	January 1 - January 31
Pay With 10 Percent Penalty and 10 Percent Sheriff's Add-on Fee	After January 31	After January 31
Tax Bills Transferred to County Clerks	April 15 - Sheriff collects tax through close of business	April 15 - Sheriff collects tax through close of business
County Clerk's Sale of Certificates of Delinquency	July 14 through August 28*	
Sheriff's Settlement	September 1	

\*Counties with delinquent unmined mineral or oil and gas tax bills have an additional 60 day time period to schedule their tax sale

## B. Assessment Date

The assessment date for most property, both real and personal, is January 1 (KRS 132.220). Some centrally assessed properties have an assessment date one day earlier (December 31 of the year prior to the tax year) in order to coordinate information with the income tax filing process (KRS 136.120). The value of the property is established as of the assessment date for the entire assessment and collection cycle, and the owner of record as of January 1 is liable for the taxes regardless of whether the property has been sold, transferred, destroyed or otherwise disposed of.

## C. Listing Period

The listing period for real property is from January 1 through March 1 (KRS 132.220), other than minerals (KRS 132.820) and centrally assessed properties (KRS 136.130). During this period, taxpayers may declare the value of all land and improvements in person or by mail, with the PVA. A property which was purchased in the preceding year and for which a value was stated in the deed according to the provisions of KRS 382.135 may be considered by the owner to be listed for the current year if no changes that could potentially affect the assessed value have been made to the property (KRS 132.220(2)). Any deed value that is used must be based on an arm's length transaction. Once real property is on the tax roll, the owner is not required to list it again in the following years, unless changes have occurred which could potentially affect the assessed value of the property. However, it is the responsibility of the PVA to adjust the value of the property when necessary due to changes in the market.

Tangible personal property (exclusive of motor vehicles) and property of public service companies listed under KRS 136.120 is listed from January 1 through May 15. This deadline recognizes the need to integrate personal property assessment with the income tax schedule, since most tax preparers are handling the same documents related to both taxes. The tangible property tax form, (62A500) is available on the Department of Revenue website: <http://revenue.ky.gov/business/proptax.htm>

It is the responsibility of the owner to annually list all personal property for assessment purposes; no data regarding personal property may be entered into the centralized assessment system without a corresponding return filed by the taxpayer.

Construction in progress should be reported as a partial assessment based on the cost of construction completed as of January 1. The PVA must be aware of ongoing construction in the county because property owners may unknowingly fail to report incomplete improvements for taxation. This may be accomplished through a review of building permits or a field review. Every person renting space to mobile homes is required to annually report the names and residences of mobile home owners to the PVA, as well as a description of the property on forms prescribed by the Department of Revenue (KRS 132.260). For counties containing a city of the first class or consolidated local government, utility providers are required to report new customers to the PVA on a weekly basis (KRS 132.275). If real property which is not on the tax roll is discovered through any means by the PVA, the PVA must list such property, assess it, initiate the current year billing cycle and pass the information on to the County Clerk for billing as omitted property for up to five prior years (KRS 132.290, KRS 132.310, KRS 132.230).

Omitted personal property is located and assessed by the State Valuation Division of the Office of Property Valuation (KRS 132.320, KRS 132.360).

D. Estimate to the County Judge/Executive

An estimate of net assessment growth must be submitted by the PVA to the County Judge/Executive by April 1 (KRS 133.040). This estimate enables the County Judge/Executive to tentatively figure the tax base for the purpose of projecting property tax revenue. Once this is done, the County Judge/Executive can begin planning the budget for the upcoming year.

E. Notification of Taxpayers

The PVA is continuously in the process of updating values. If any property is assessed at a higher value than the previous year or as indicated by the taxpayer, or if previously unlisted property is assessed, a notice of assessment increase must be given by the PVA to the taxpayer (KRS 132.450).

It is appropriate, if the PVA so chooses, to annually inform real property owners of the assessed value of their property. The most efficient procedure is to notify every property owner by mail. A simple postcard, preferably computer-generated, is all that is necessary. If a mailing is used, the information should be given even if the assessment has not changed from the previous year. Notification by mail is more economical than using the office staff to assist the public in the

inspection of the assessment roll, and can be a good opportunity to verify or collect property characteristic information.

#### F. Preparation of the Tax Roll and PVA Recapitulation

March 1 is the closing date for the listing and assessing period for real property. Under KRS 133.040, the PVA is then required to complete the tax roll for all real property in the county before the first Monday in April.

The PVA's recap (Revenue Form 62A304) is used to report the grand total assessments for residential, farm and commercial properties. Unmined mineral property is assessed by the Minerals Taxation and GIS Services Division (KRS 132.820), and the totals are submitted to the Local Support Division during the certification process.

The Department then computes the preliminary levels of assessment in each category of real property to determine if the assessed values appear to meet the established fair cash value standards. The coefficient of dispersion (COD), a measure of assessment equity discussed later in this manual, will also be reviewed to ensure that it is in compliance with the Department's guidelines. If the level of assessment and the COD are acceptable, the Department issues an approval letter and the PVA may begin preparing for the final recap. If they are not acceptable, the Department directs the PVA to reexamine the assessments and take corrective action. Various options are available should the assessment quality fail to meet the Department's standards (KRS 133.040, 133.150, 132.660).

G. The Inspection Period

Beginning on the first Monday in May and for thirteen days following, the law requires the tax roll be open to public inspection so that property owners may review the current assessment placed on their property (KRS 133.045). However, a reasonable extension of time or a time other than that provided by the statutes may be granted by the Department of Revenue if the PVA submits a written request for the change and the change is considered necessary. The inspection period cannot be held before the first Monday in May. If the PVA is advised by the Department that the assessment level does not meet the legal requirement of fair cash value, the inspection period will be scheduled for a later date.

H. Notice of the Inspection Period

The PVA is required to give notice of the inspection period in the newspaper with the largest circulation in the county. This notice must state that the real property tax roll is open for public inspection; give the dates and time the public can review the tax roll; state that a taxpayer desiring to appeal an assessment must first request a conference to be held with the PVA prior to or during the inspection period; and include information on how to file an appeal if a taxpayer who has had a conference with the PVA disagrees with the assessment made by the PVA. The Fiscal Court is required to supply the funds to cover the cost of this advertisement. A notice of the inspection period should also be posted at the courthouse door at least seven days before the inspection period is to begin. If the Department authorizes a change in dates, the same requirements apply for notifying the public of the revised inspection period (KRS 133.045).

## I. Board of Assessment Appeals

Once the inspection period has drawn to a close, the Board of Assessment Appeals, a locally appointed three member tribunal, convenes in each county to hear any appeals taxpayers may bring against the assessments placed on their property (KRS 133.020). The board also has the responsibility to review the assessments of the PVA's own property, as well as that of the deputy PVAs (KRS 132.470). Members of the board must take an oath administered by the County Judge/Executive to “fix at fair cash value all property assessments” under appeal (KRS 133.020). On matters involving exempt property issues, the board must “obtain and follow the advice from the Department of Revenue relative to the taxability of such property” (KRS 133.123). The Department of Revenue is responsible for preparing and furnishing to each PVA guidelines and materials for an orientation and training program to be conducted for the board by the PVA on the first day that the board convenes (KRS 133.020, 133.030).

The property tax calendar states that the local Board of Assessment Appeals shall convene no earlier than twenty-five (25) nor later than thirty-five (35) days after the end of the tax roll inspection period (KRS 132.460, 133.030). The board will continue to meet for no more than five (5) days unless an extension has been granted by the Department of Revenue. If more than 100 appeals have been filed, additional panels of the local board may be appointed, with the approval of the Department of Revenue. The PVA or an authorized deputy must be present at all hearings held before the Board (KRS 133.020).

#### J. Kentucky Board of Tax Appeals

Once the local board has heard the appeal, the taxpayer is notified of the decision through the mailing of the "Notice to Property Owner of Final Ruling of Board of Assessment Appeals", Revenue Form 62A354. The County Clerk is responsible for mailing this notice to the taxpayer. The notice should be mailed within three days of the decision and should be sent by certified mail (KRS 131.340(2)). Should a taxpayer or the PVA remain dissatisfied with an assessment after the Local Board of Assessment Appeals has issued its ruling, an appeal may be made to the Kentucky Board of Tax Appeals (KBTA). An individual property owner may represent himself or herself before the KBTA, but a corporation, trust, estate, partnership, joint venture, limited liability corporation (LLC), or any other artificial legal entity, must be represented by an attorney. In the event an appeal is made to the KBTA, it is the duty of the PVA to attend the hearings (KRS 132.460). In addition, the county attorney is required to represent the PVA in a hearing before the KBTA. The Office of Property Valuation is available upon request to assist the PVA in preparing for the hearing before the KBTA.

#### K. Final Recap to the Department of Revenue

The final recap of the property tax roll is due in Frankfort six working days after the end of the tax roll inspection period. Upon completion of the tax roll inspection period, the county clerk has three working days to provide the PVA with a copy of each appeal petition and summary of all appeals filed. The PVA then has three working days from the receipt of the appeals summary to submit a final recapitulation of the property tax roll to the Department (KRS 133.125).

The assessments of all properties under appeal must be listed for recapitulation and certification purposes at the value claimed by the taxpayer. Any other assessment changes that have been made since the first recap was submitted must also be reflected in the final recapitulation. After submission of the final recapitulation to the Department of Revenue, the tax roll is complete except for the correction of certain clerical, mathematical or procedural errors (KRS 133.110), or if property has been assessed to the wrong owner (KRS 133.130). Assessed values may not be changed based on appraisal methodology or opinion of value, other than those adjustments ordered by the board (KRS 133.125(1)).

#### L. Department of Revenue Certification

When the final recap and all other related forms have been submitted to Frankfort, the Office of Property Valuation is required to certify to the County Clerk the assessment and the amount of state taxes due (KRS 133.180). The certification is issued after completing action on the assessment. When a county has been certified, it is then permissible to begin setting local tax rates and preparing the tax bills for the current year (KRS 133.185).

#### M. Tax Bill Preparation

When the tax rates for the various taxing jurisdictions have been established, the County Clerk is responsible for calculating the taxes due and preparing a tax bill for each individual taxpayer. For this effort, the County Clerk is reimbursed thirty cents (30¢) per account, half of which is paid by the state and half of which is paid by the county (KRS 132.550). In most counties, the

printing is performed under contract by the County Clerk to another party, such as the PVA or a private contractor. The tax bills are then delivered to the Sheriff for mailing (KRS 133.220).

N. Tax Bills Delivered to Sheriff

The tax bills must be delivered to the Sheriff by the County Clerk on or before September 15. The Sheriff is responsible for the actual mailing of the tax bill to each taxpayer and for collecting the receipts from the tax bills (KRS 133.220).

O. Payment of Tax Bills

Most property taxes are due and payable beginning September 15 of each year. Any tax bill paid by November 1 is discounted two percent. Bills paid between November 2 and December 31 are due at face value, and on January 1, any unpaid bill becomes delinquent. A five percent penalty is added to delinquent tax bills if paid by January 31. Bills still outstanding after January 31 receive a ten percent penalty (KRS 134.015). In addition, a ten percent fee is applied to the total due to compensate the sheriff for all delinquent taxes collected from the time the ten percent penalty becomes applicable (KRS 134.119). The sheriff's ten percent add-on fee is calculated on the total of the tax and ten percent penalty, effectively increasing the amount due by 21 percent.

When the collection schedule is delayed through no fault of the taxpayers, a revised schedule must be implemented. The two percent discount applies for bills paid within 30 days from the date the bills were actually mailed. The face amount is due for the next 30 days with the five

percent penalty effective for the following 30 days. As with the original schedule, all bills outstanding after this period receive a ten percent penalty (KRS 134.015) and are subject to the sheriff's ten percent add-on fee.

**CHAPTER SEVEN**  
**PROPERTY TAX RATE STRUCTURE**

A. Introduction

The property tax rate structure in Kentucky is first divided between real and tangible personal property. Each class is further divided into property taxed at both the state and local level or property taxed at the state level only. These rates vary even within the same classes and the state rate on real property is recalculated annually. In order to compile an accurate tax roll, the PVA must have a good working knowledge of the appropriate tax rates applicable to the various property classes. A summary of the property tax classified rate structure as of January 1, 2014 is shown at the end of this chapter (Ky. Const., Sec. 171, KRS 132.200, KRS 132.020).

B. Real Estate Rates

All real estate is subject to full state and local rates except leasehold interest in real estate owned and financed by tax exempt organizations, which is subject to a 1.5¢ per \$100 state rate only and intrastate railroad real property, which is subject to 10¢ per \$100 state rate and local taxation. Coal and other unmined “minerals” such as oil and gas, clay, and limestone are taxed in the same manner as other real estate, with full state and local rates in effect. The state real property tax rate varies from year to year and is computed by the Office of Property Valuation by July 1, or when at least 75 percent of the counties or 75 percent of the total real property assessment has been determined by the Office of Property Valuation to be acceptable, in accordance with KRS

132.020. Since January 1, 2005, new property is excluded from the state rate calculation, similar to the method used to calculate local property real property tax rates.

The state rate on real property has remained 12.2¢ since 2008.

#### C. Tangible Property Tax Rates

The tangible property tax rate structure contains a variety of rate categories. Unlike the state rate for real property, which is subject to change from year to year, state rates for personal property remain constant. However, local rates on tangible personal property are set every year.

#### D. Intangible Property Tax Rates

KRS 132.208 exempts most intangible property; however, the following is still taxable: bank deposits (KRS 132.030), and domestic life insurance capital and reserves (KRS. 136.320), which are taxed at 1/10¢ per \$100, and domestic and foreign savings and loan associations, which are taxed at 10¢ per \$100.

#### E. Setting Local Tax Rates

After the Office of Property Valuation has certified a county's tax roll, the assessment information is furnished to the Department for Local Government (DLG) and the Department of

Education (DOE). DLG and DOE use this information to compute the compensating tax rate (KRS 132.010), and the four percent increase tax rate to recommend to each county and school district. These rates represent the range of options available - without being subject to a recall petition - under House Bill 44, the 1979 tax reform legislation that limited property tax revenue growth. The County-Judge Executive, the Fiscal Court, school boards and the individual taxing jurisdictions in a county must then choose the rates they wish to implement for the current year.

F. Tax Rates by Property Class

The classified property tax rate structure, including state and local rates, is presented on the following pages. For a listing of all property tax rates, including those for the over 1,600 local taxing districts, please refer to the publication, *Kentucky Property Tax Rates*. This publication can be found on the Department of Revenue website, at:

<http://revenue.ky.gov/business/proptax.htm>

# Classified Property Tax Rate Structure

## REAL PROPERTY

Property Type	Statute	*State Rate	County Rate	School Rate	City Rate
RESIDENTIAL (Land & Improvements)	132.020(1)(a)	Full	Full	Full	Full
FARM (Land & Improvements)	132.020(1)(a)	Full	Full	Full	Full
COMMERCIAL (Land & Improvements)	132.020(1)(a)	Full	Full	Full	Full
LEASEHOLD INTERESTS	132.020(1)(a)	Full	Full	Full	Full
LEASEHOLD INTERESTS (Owned & Financed by tax exempt organization)	132.020(1)(b)	.015	None	None	None
MOBILE HOMES	132.751	Full	Full	Full	Full
OIL AND NATURAL GAS PROPERTY (Producing & Undeveloped)	132.820	Full	Full	Full	Full
TIMBER PROPERTY	132.020	Full	Full	Full	Full
UNMINED COAL	132.820	Full	Full	Full	Full
OTHER UNMINED MINERALS (Limestone, Clay and Fluorspar)	132.820	Full	Full	Full	Full
INTRASTATE RAILROAD	136.180	.10	*	*	*
BROWNFIELDS (3 year limit to qualifying properties)	132.020(1)(c)	.015	None	None	None

\* Computed Annually

### INTANGIBLE PERSONAL PROPERTY

Property Type	Statute	State Rate	County Rate	School Rate	City Rate
BANK DEPOSITS	132.030(1)	.001	None	None	None
DOMESTIC LIFE INSURANCE:					
Capital Reserves	136.320	.001	.15	None	.15
		.001	None	None	None
PRODUCTION CREDIT ASSOCIATION	136.300	.10	None	None	None
SAVINGS & LOAN ASSOCIATION	136.300	.10	None	None	None

### TANGIBLE PERSONAL PROPERTY

Property Type	Statute	State Rate	County Rate	School Rate	City Rate
AGRICULTURAL PRODUCTS					
In Hands of Producer or Agent	132.020(1)(e)	.015	None	None	None
In Storage - Not at Mfg.	132.200(6)	.015	.045	None	.045
Tobacco In Storage	132.020(1)(d)	.015	.015	None	.015
AIRCRAFT					
Commercial	132.020	.45	Full	Full	Full
Non - Commercial	132.020(1)(p)	.015	***	***	***
ALCOHOL PRODUCTION FACILITIES	132.020(1)(l)	.001	None	None	None
BOATS AND MARINE EQUIPMENT (under floor plan financing)	123.020(1)(n)	.05	None	None	None
BUSINESS FURNITURE & FIXTURES	132.020(1)(r)	.45	Full	Full	Full
CAR LINES	136.120(4)	*	**	**	**
COLLECTIBLES (Stamp, Coin, Art)	132.020(1)(r)	.45	Full	Full	Full
COMPUTER EQUIPMENT	132.020(1)(r)	.45	Full	Full	Full
CONSTRUCTION EQUIPMENT	132.020(1)(r)	.45	Full	Full	Full

**TANGIBLE PERSONAL PROPERTY  
(Continued)**

Property Type	Statute	State Rate	County Rate	School Rate	City Rate
DISTILLED SPIRITS	132.020(1)(n)	.05	Full	Full	Full
DISTRIBUTION CENTER GOODS (property in storage, not in transit)		.05	Full	Full	Full
DRILLING & MINING EQUIPMENT	132.020(1)(r)	.45	Full	Full	Full
FARM MACHINERY(used in farming)	132.020(1)(f)	.001	None	None	None
Dealer's Inventory	132.020(1)(n)	.05	None	None	None
FLUIDIZED BED ENERGY FACILITIES	132.020(1)(l)	.001	None	None	None
INVENTORIES IN TRANSIT Exempt for all except special taxing districts	132.097 132.099	Exempt	Exempt	Exempt	Exempt
LIVESTOCK & POULTRY	132.020(1)(g)	.001	None	None	None
MANUFACTURER'S MACHINERY (owned or leased)	132.020(1)(i)	.15	None	None	None
MANUFACTURER'S RAW MATERIALS	132.020(1)(n)	.05	None	None	None
MANUFACTURER'S FINISHED GOODS	132.020(1)(n)	.05	***	Full	***
MERCHANTS INVENTORY	132.020(1)(n)	.05	****	Full	****
MOTOR VEHICLES					
Regular	132.487	.45	Full	Full	Full
Recreational	132.487	.45	Full	Full	Full
Apportioned	132.220(1)	*	**	**	**
Historic	132.020(1)	.25	None	None	None
Motor Vehicles Held for Sale	132.020	.05	None	None	None
Salvage Titled (Insurance Co. only)		.05	None	None	None
POLLUTION CONTROL FACILITIES	132.020(1)(k)	.15	None	None	None
PRECIOUS METALS (Bullion)	132.020(1)(r)	.45	Full	Full	Full
RADIO-TELEVISION-TELEPHONIC	132.020(1)(j)	.15	None	None	None

**TANGIBLE PERSONAL PROPERTY  
(Continued)**

Property Type	Statute	State Rate	County Rate	School Rate	City Rate
RECYCLING EQUIPMENT	132.200(15)	.45	None	None	None
WATERCRAFT (Commercial & Recreational)	136.181	.45	Full	Full	Full
Documented Boats	132.020(1)(q)	.015	***	***	***
TANGIBLE PERSONAL PROPERTY Not Elsewhere Specified		.45	Full	Full	Full

The tax rates are expressed in dollars per \$100 dollars of assessed value.

\* Computed annually

\*\* Included in the state rate

\*\*\* Local exemption optional

\*\*\*\* Pursuant to KRS 132.028 and KRS 68.246, a City, County or Urban Government may levy a rate on Merchant's Inventory that is less than the prevailing rate of taxation on other tangible personal property.



**CHAPTER EIGHT**  
**ASSESSMENT/SALES RATIO STUDY PROGRAM**

A. Introduction

For over seventy-five years, the assessment/sales ratio study has been the primary means of evaluating assessment quality from the state level. While the statistical techniques employed in the study may seem rather involved to persons unfamiliar with this field, the mechanics are simple: the ratios of assessed values divided by their corresponding sale prices indicate the percentage of fair cash value attained within a study sample. For practical purposes, a study sample consists of data from sales of a class of property (residential, commercial or farm) within a particular county. Further statistical analyses may be conducted from the same data to provide a measure of the uniformity of assessments.

Kentucky's first systematic ratio study was performed in 1937, encompassing 31 of the state's largest counties. The statewide mean ratio was calculated at approximately 60 percent. The modern standard for assessment performance as indicated by the ratio study is 100 percent, with an allowable range of plus or minus ten percent. This standard is based on the "fair cash value" mandate of the Constitution of Kentucky, upheld by such landmark court decisions as rendered in Russman v. Lockett (1965), Department of Revenue v. Oldham County (1967), and Butler v. Allphin (1981). KRS 160.460, created as part of the Kentucky Education Reform Act of 1990 (KERA) states unequivocally that "...all real property located in the state and subject to local taxation shall be assessed at one hundred percent (100%) of fair cash value."

The allowable range is based upon the International Association of Assessing Officers (IAAO) *Standard on Assessment-Ratio Studies*, which states: "The overall assessment level of a jurisdiction or stratum should be within ten percent of the legal level of assessment." Since property in Kentucky is assessed at 100 percent of its fair cash value, the allowable range for assessment/sales ratio studies is 90 to 110 percent. The fair cash value standard comes into play during the assessment certification process. PVAs of counties which fail to make 90 percent or exceed 110 percent in a particular class of real property should make a corresponding adjustment in assessed values.

The assessment/sales ratio study is conducted in three major phases: (1) data collection and verification; (2) statistical analysis; (3) release of information.

#### B. Data Collection and Verification

From the standpoint of the validity and accuracy of the final ratio figures, data collection and verification are key components of the study. They are also the most time-consuming. The data collection period is six months, beginning on July 1 and ending on December 31. For the 2015 assessment year, sales from July 1 through December 31, 2013 will initially be used. However, a PVA may also choose to use a ratio based upon sales that occurred from July 1 through December 31, 2014. Data is submitted from the PVA offices to the Department.

Not all sales are used in an assessment/sales ratio study. In order to be included in the ratio study, a sale must be an arms-length transaction, between a willing buyer and a willing seller on the open market, with neither party under any pressure to buy or sell.

Although not all sales are usable in the ratio study, all sales should be initially coded and submitted by the PVA. Table 8-1 provides a list of reasons why a sale may be excluded from the study by the Department. The letter codes indicate the reason the sale is invalid. Codes A through T are used for invalid sales. Codes U,W and Z are valid sales. If a PVA uses a coding system other than the one below, a list of those codes needs to accompany the sales when they are submitted to Frankfort.

**TABLE 8-1**  
**ASSESSMENT/SALES RATIO STUDIES:**  
**SALES CONDITIONS CODES AND DEFINITIONS**

- (A) **Partial Sales** - Sales in which only a part of any assessed parcel is sold.
- (B) **Close Relative Sales** - Sales between close relatives, for example, parents, grandparents, brothers and sisters, in laws.
- (C) **Property Use Change** - Property for which the use has changed, for instance farm to residential.
- (D) **Personal Property Sales** - Sales that include a significant amount of personal property.
- (E) **Forced sales** - Forced sales and sales in which a government agency or charitable group is involved as a party.
- (F) **Annual twice-sold property** - Property which has sold twice within a one-year period. The first time a property sold may be a valid sale and included in the ratio study.
- (G) **<\$1,000 Consideration** - Transfers of less than \$10,000 sale price. Although the TRIM screen will continue to show a \$1,000 threshold, a “sliding scale” approach to increase

this threshold amount has been implemented. The new threshold values for excluding sales are as follows:

Over 300 sales in the study	Sales < \$40,000 will be excluded
40 to 299 sales in the study	Sales < \$20,000 will be excluded
20 to 39 sales in the study	Sales < \$15,000 will be excluded
Under 20 sales in the study	Sales < \$10,000 will be excluded

- (H) **Changed Transfer Sale** - Sales in which the transferred property has been changed through construction or destruction after the assessment date and before the sale date.
- (I) **Transfer Tax not paid** - Sales in which the transfer tax was not paid.
- (J) **Expansion Sale** - Sales in which the purchaser owns adjoining property (expansion sale).
- (K) **Multiple properties** - Sales for which a single sale price applies to more than one assessed property.
- (L) **Foreclosure proceedings** - Transfers under foreclosure proceedings.
- (M) **Obligation Transfers** - Transfers solely to provide or release security from a debt or obligation, including an auction sale.
- (N) **Master Commissioner Sales** - Master Commissioner Sales, deeds of correction and quit-claim deeds.
- (O) **Delinquent Tax Transfers** - Transfers required for delinquent taxes or assessments.
- (P) **Corporate Merger Transfers** - Transfers involving corporate mergers.
- (Q) **Real Estate Exchanges** - Transfers involving exchanges of real estate as all or part of the consideration.
- (R) **Affiliated Organizations** - Transfers between affiliated organizations.
- (S) **Other** - Any other reason that can reasonably be felt to render a transfer not representative of fair market value provided such reason is fully documented and approved by the Office of Property Valuation.
- (T) **Vacant Lots/Builders** - Sales of vacant lots by builders and developers.
- (U) **Mobile Home Sales with lots** - Are included as a valid sale. They will be used in the ratio study. This code will be used to help in the stratification of sales.

(W) **Lake Properties/Riverfront** - Are included as a valid sale. They will be used in the ratio study. This code will be used to help in the stratification of sales.

(Z) **Arms Length Transaction** - Arm's length transaction; a valid sale.

At this point, the PVA or an authorized deputy may assist in the screening process, adding whatever local insight may be available regarding conditions of the sale which are not apparent upon scrutiny of the deed alone. For example, the PVA or deputy might recognize family transactions between relatives of different surnames.

Again, any of the conditions coded A through T in Table 8-1 could result in the exclusion of a transfer from the assessment/sales ratio study. Any other influence on the conditions of a sale which affect its validity as an objective transaction in the open market may also result in the exclusion of the sale, provided that such influences are identified and fully documented to the satisfaction of the Department of Revenue.

At the end of the initial screening, the data is submitted to the Department. All counties are required to submit ratio data electronically in a file format specified by the Department of Revenue.

### C. Statistical Analysis

Processing this data involves editing, data manipulation and applied mathematics. The deadline for completion of ratio calculations and submission of ratio figures to the respective PVAs is

September 1, or within 30 days of the receipt of the final recapitulation by the Department, whichever date is later (KRS 133.250).

The assessment/sales ratio study spreadsheet is subjected to an edit program which checks for data entry errors and invalid sales, based on parameters specified by the Department. This computer edit is the final screening for the data, which at this point is ready to be run through the actual ratio calculation program.

#### D. Median Ratios

It is helpful at this juncture to have an understanding of several basic terms which come into play during the ratio program's statistical analysis. The measure of central tendency utilized in the calculations is the median. A median is simply the middle value in an array of figures, which separates the array into two sets with an equal number of figures. For example, in the array of ratios (88, 90, 95, 98, 105) the median ratio is 95. If an array has an even number of figures, the two middle values are averaged in order to produce the median. The median is expressed as a percentage or decimal. The ratio program performs this exercise for all three classes of property within a county, and produces a median ratio figure. While there are other measures of central tendency, use of the median is preferred in assessment quality evaluation because of its straightforward nature and ease of interpretation, as well as the fact that it is less vulnerable to influence by extremely high or low ratios, also known as "outliers".

#### E. Coefficient of Dispersion

The two primary measures of assessment quality are level and uniformity. Measures of central tendency, such as the median, provide an indication of assessment level. Measures of dispersion provide an indication of assessment uniformity. In addition to producing the median ratio, the ratio study program also calculates a measure of dispersion known as the coefficient of dispersion, or COD. The COD, like the median, is expressed as a percentage or decimal. It represents the average percentage of deviation among all assessment/sales ratios from the median ratio. A small COD means that most properties are assessed at about the same percentage of market value. A high COD indicates substantial inequity in assessment level.

#### F. Interpretation of the Median Ratio and COD

Coefficients of dispersion may vary from zero to any positive number. A COD of zero indicates perfect assessment equity and a coefficient of dispersion greater than 20% generally indicates problems with assessment equity. According to the International Association of Assessing Officers *Standards on Assessment Ratio Studies*, the following standards are recommended:

Coefficients of dispersion for single-family residences generally should be less than 15%, and less than 10% for areas of new single family residences.

Coefficients of dispersion for income producing properties should be less than 15%.

Coefficients of dispersion for all other properties should be less than 20%.

The median ratio and the COD therefore complement each other by providing an indication of assessment health from two different perspectives, level and uniformity. Both are extremely important considerations in the assessment certification process. A county whose median ratio for residential property assessments is 90 percent with a COD of 15 percent is far more equalized than a county with a median residential ratio of 95 percent and a COD of 45 percent. The median assessment/sales ratio relates to the duty of the PVA to maintain assessments at market value, thus ensuring that education and government are adequately funded within the county, while the COD relates to the responsibility of equalizing the property tax burden among taxpayers.

#### G. The Significance of the Assessment/Sales Ratio

After the results of the assessment/sales ratio study have been released, the ratio continues to play a significant role in assessment certification and school district funding. The ratio is used in the calculation of the level of assessment figures that are used in the assessment certification process.

The level of assessment is the extent to which the property valuation administrator has achieved the statutory requirement of 100% fair cash value for all classes of property during a particular tax year. The median ratio, which was calculated through an assessment/sales ratio study for each class of property, is used to set a level of assessment requirement for each property class. Therefore, a level of assessment is established for residential property, a second level requirement for farm property and a third level requirement for commercial property.

The assessment level for each class of property is calculated as follows:

1. Divide the net assessment of the previous year by the current ratio. The result of this calculation represents the full value (target) figure for the current year.
2. Determine the current year's net assessment
3. Divide the current year's net assessment by the full value figure obtained in step 1.

It is important to note that the level of assessment calculations involve the net assessment values for both current and prior years. For residential and commercial property, the net assessment value for the prior year is arrived at by first adding the prior year's taxable assessments and homestead exemption values together. This total is then reduced by the current year's deletions from that class of property. The deletions are detailed on the *Record of Additions and Deletions* form (62A323). The result after subtracting the deletions is the prior year's net assessment value. The computations for farm property are the same with the exception that the prior year's taxable and homestead exemption amounts for farm must also be combined with the previous year's assessment amount deferred under the Agricultural Land Use Act. The current year's deletions are then subtracted from this total to arrive at the prior year's net assessment for farm.

After the prior year's net assessment value for each class of property has been calculated, this number is then divided by the appropriate ratio to arrive at a projected full value target for the current year's assessment. The ratio used is the result of the Department's annual assessment/sales ratio study. The full value target represents the assessment total necessary to achieve 100% fair cash value for that class of property.

To compute the current year's net assessment value, the current year's taxable amounts for each property class must be added with the current homestead exemption amounts. For farm property, the current year's agricultural deferred amounts must also be included. This amount is then reduced by the current year's additions to arrive at the current year's net assessment. The level of assessment in each class of property is then computed by dividing the current year's net assessment value by the projected full value target for each category of property.

A detailed illustration of the level of assessment calculations is on the next page.

OFFICE OF PROPERTY VALUATION  
ASSESSMENT MEASUREMENT

COUNTY: BLUEGRASS

FINAL  
RECAPTIULATION

CLASS OF PROPERTY	2014 ASSESSMENT	2015 RATIO	FULL VALUE	CLASS OF PROPERTY	2015 ASSESSMENT
Residential Taxable	17,030,185			Residential Taxable	18,056,306
Plus Hex	<u>2,892,916</u>			Plus Hex	<u>3,109,566</u>
Total FCV	19,923,101			Total FCV	21,165,872
Less Deletions	<u>441,538</u>			Less Additions	<u>575,300</u>
Net 2014	<u>19,481,563</u>	92.5%	21,061,149	Net 2015	<u>20,590,572</u>
Farm Taxable	26,265,590			Farm Taxable	27,651,395
Plus Hex	2,532,892			Plus Hex	2,546,636
Plus Deferment	<u>40,358,826</u>			Plus Deferment	<u>41,293,327</u>
Total FCV	69,157,308			Total FCV	71,491,358
Less Deletions	<u>267,000</u>			Less Additions	<u>1,015,360</u>
Net 2014	68,890,308	94.5%	72,899,797	Net 2015	70,475,998
Commercial Taxable	2,739,497			Commercial Taxable	2,785,097
Plus Hex	<u>2,739,497</u>			Plus Hex	<u>29,400</u>
Total FCV	2,739,497			Total FCV	2,814,497
Less Deletions	<u>5,500</u>			Less Additions	<u>1,200</u>
Net 2014	<u>2,733,997</u>	95.3%	2,868,832	Net 2015	<u>2,813,297</u>
Class of Property	Net 2015		Full Value	Measure	
Residential	20,590,572		21,061,149	98%	
Farm	70,475,998		72,899,797	97%	
Commercial	2,813,297		2,868,832	98%	

The level of assessment is used to gauge the effectiveness of the PVA in achieving fair cash value assessments for the year, and is applied during the assessment certification process. After the first Recapitulation of the Property Tax Roll has been submitted, the level of assessment is calculated. For the 2015 assessment year, if the ratio utilized in the level of assessment computation is based upon sales that occurred during the last six months of 2013, the acceptable range for the level of assessment calculation will be 95%-105%. However, if the ratio used in the level of assessment computation is based upon sales that occurred during the last six months of 2014, the acceptable range for the level of assessment can be expanded to 90%-110%. Whenever a PVA's level of assessment fails to meet either of these standards, the PVA will be contacted to discuss the appropriate actions that need to be taken.

The assessment/sales ratio is also used to identify chronic patterns of underassessment. If a county's ratio falls below eighty percent for two consecutive years, a special audit program is triggered for that county. Chronic underassessment is grounds for the removal of a PVA under KRS 132.370.

The assessment/sales ratio study program has an impact on taxpayers across the state, whether it is used to evaluate assessment quality in 120 counties, or to determine levels of funding among the state's 178 school districts. Its value as an administrative tool has been proven over the years, as it is the primary means of evaluating the level and uniformity of assessments statewide.

PVAs and deputies are encouraged to take Kentucky Property Tax Course 40 and IAAO Course 400, which are the state and national level assessment administration courses, for a greater understanding of the assessment/sales ratio study process.

#### H. Release of Information

The Department is required to provide each PVA with the results of the ratio study within 30 days of the date of the submission of the final recapitulation, or by September 1, whichever is later (KRS 133.250). The median ratio and COD figures for all three classes of real property are included, as well as the sales and assessment data utilized in the study and an explanation of the sampling methodology, if necessary. The PVA should use this information as a guideline in the subsequent revaluation of the county which is required by KRS 133.250(2) to commence immediately following the submission of the final recapitulation.



**CHAPTER NINE**  
**ASSESSMENT QUALITY AND EQUALIZATION**

A. Introduction

To carry out the monitoring responsibilities delegated to the Department of Revenue by KRS 131.140, the Department conducts performance audits in every PVA office. The purpose of these audits is to assure assessment quality and equalization across the state. The actual audit process includes an inspection of maps and records, an appraisal study of real property, and an evaluation of the overall effectiveness of the Property Valuation Administrator's office. After the audit is completed, the Department prepares a comprehensive report based on the information gathered from the audit for submission to the Legislative Research Commission.

B. Biennial Performance Audit and Record and Mapping Review

The biennial performance audits are conducted by staff from the Office of Property Valuation. To begin this process, a sample of twenty residential parcels, ten commercial parcels and ten farm parcels are randomly selected from the county tax roll. These selections are randomly made by the lead field representative of the audit team. The area of the county covered by the most recently inspected portion of the PVA's quadrennial plan (KRS 132.690) is examined.

The assessment record cards for the selected parcels are pulled and the data compared to the information on the tax roll. Any discrepancies are noted on the review sheet by the field

representative. At the same time, the map records are checked for accuracy and the homestead and agricultural deferment applications are reviewed. Independent appraisals of each selected parcel are made and the values are used to arrive at an indication of the assessment quality in the county. When the audit process is complete, the review sheets are returned to Frankfort. These appraisals may also be used to supplement the data utilized in the Department's annual assessment/sales ratio studies

### C. Equalization Methods

The Department of Revenue has the statutory authority to intervene in the assessment process if it determines that action should be taken. The first step usually employed is the rejection of a PVA's recapitulation (KRS 133.040). Additionally, emergency assessments can be declared by the Department if no regular assessments have been received from a county, if the county records have been lost or destroyed, if complaint is made by the owners of not less than ten percent in value of the taxable property in the taxing district, or if an investigation by the Department reveals that the assessments are grossly inequitable and an emergency exists (KRS 132.660). The PVA can avoid Department intervention by constantly analyzing sales data in the county and making the appropriate assessment adjustments.

## CHAPTER TEN

### PHYSICAL EXAMINATION OF REAL PROPERTY

#### A. Introduction

The Property Valuation Administrator is required by law to physically examine each parcel of taxable real property no less than once every four years, and to revalue all real property annually (KRS 132.690). The PVA is required to submit a schedule to the Department specifying the time in which the quadrennial inspections are to be accomplished, and maintain records of inspections and revaluations for each parcel of real property (KRS 132.690).

#### B. Assessment Planning

The Property Valuation Administrator has several options available when planning the quadrennial examination schedule. The county can be divided geographically into four quadrants with one quadrant scheduled for review each year (this method was upheld by the Court of Appeals in Revenue Cabinet v. Leary). Another option would be to divide the county into only three sections with one section inspected each year until the fourth year, which would be left open for addressing special needs. Scheduling by class of property or a combination of geographic area and class would also be an acceptable approach. Regardless of the method used, the workload should be distributed as evenly as possible over the four year period and boundaries should be drawn so that both sides of a street are examined within the same year.

### C. Submission of Review Schedule

Every PVA is required to submit a planned method of complying with the quadrennial physical examination to the Office of Property Valuation for review and final approval. This plan should include an estimate of the total number of parcels in the county and the number to be examined each year, the staff members who will be assigned to the physical examination and the estimated time required to complete the process each year. Adherence to the plan is checked as part of the biennial performance audit. Once the plan has been submitted, it cannot be changed without prior approval of the Department.

### D. Guidelines for Quadrennial Physical Examination

When conducting a physical examination of real property, PVAs, deputies, and mapping technicians have the legal right to measure the exterior dimensions of a structure in the absence of the property owner (KRS 132.220). Entry onto the property in order to collect data necessary for an assessment does not constitute trespassing; however, care must be taken to leave the property undisturbed.

The following guidelines should be used by all PVAs to ensure compliance with the quadrennial inspection requirement:

1. The field review must include checking, verifying, and correcting property records. All necessary records such as maps, property record cards or printouts must be taken to the field for the actual review process.

2. The review must pick up new improvements and additions to existing improvements. New photographs should be taken as needed. Property characteristics such as building sketches, square footage, and other information about the improvements should also be reviewed and updated as necessary.
3. Any omitted real property must be added to the tax roll and the omitted billing process initiated. Land or improvements found to be omitted can be assessed for up to five preceding omitted years.
4. The assessment on each parcel of property must be reviewed. If the assessment appears to be appropriate with respect to one or more of the three recognized approaches to value, it is not necessary to change it. If the assessment is too high, it should be lowered. If the assessment is too low, it should be raised.
5. Each parcel of property must be assessed separately. If "stacking" (assessing more than one non-contiguous parcel as a single parcel with one value) is discovered, the parcels must be separated and assessed individually. Combining property so that only one tax bill is generated is acceptable as long as they are assessed, valued, and maintained on the assessment roll as separate parcels. It is recommended, however, that separate tax bills be prepared unless the taxpayer prefers otherwise.
6. It is recommended that land and improvements be valued separately. If a parcel has more than one improvement, each improvement should be valued individually.
7. A record must be made of the date of the physical inspection. This may be done on individual cards or on a folder if folders are kept for each parcel. The ideal record is an automatic notation, such as is recorded on a digital photograph, for each parcel.

#### E. Periodic Revaluations

The "Welcome Stranger" ruling of the U.S. Supreme Court declared unconstitutional West Virginia's practice of reassessing recently sold property on the basis of sale price without reassessing similar properties that had not been sold. This decision had little effect in Kentucky, as the Supreme Court did not find fault with the practice of assessing property on the basis of the sale price. This is a common practice in Kentucky and is perfectly acceptable, as long as the Kentucky constitutional mandate of maintaining current values for unsold parcels is upheld.

The Court endorsed two elements of a modern assessment program: frequent individual appraisals and supplemental increments based on trends. In Kentucky, the Constitution, statutes, and court cases support these concepts. By observing the following procedures, the Property Valuation Administrator should be in compliance with both Kentucky constitutional requirements and U.S. constitutional requirements.

1. The sale price should be considered as a good value indicator but the PVA should watch for deeds or affidavits that either understate or overstate sale prices. If an actual appraisal indicates either a higher or lower value, the sale price is probably not indicative of market value and should not be used. The property should be appraised as if no sale occurred, and the field representative gathering information for the assessment/sales ratio program should be informed of those sales considered invalid by the PVA.
2. The quadrennial physical examination should be carried out as required by law with the assessment for each parcel being reviewed during the four year cycle. By properly following this procedure, the overall assessment should reflect recent market trends.
3. It is necessary for the PVA to keep sales records, sales maps, and/or sales files. This information is used to develop market units of comparison and local cost data needed in mass appraisals.

## CHAPTER ELEVEN

### MAINTENANCE OF PROPERTY IDENTIFICATION MAPPING SYSTEMS

#### A. Introduction

A complete, accurate and up-to-date mapping system is the cornerstone of every efficient and equitable real property tax assessment effort. Property identification maps, if they are in a Geographic Information System (GIS), or paper maps, also known as cadastral maps, tax maps, and a variety of other names, are a graphic representation of the tax roll. Every parcel identified on the maps must have a corresponding tax roll record, and every real property account should be represented on the maps. Property identification maps are the only means of ensuring that all parcels of taxable real property are assessed, and that no parcel is assessed twice. No tax roll listing should be made unless the parcel has been mapped correctly. The mapping process includes not just delineating property boundaries, but also gathering all data which is necessary to make and support real property appraisals. This information includes property characteristic data pertaining to the land and all improvements, documented by sketches and photographs. Data may be maintained on cards or within a computer system, and then referenced to the respective parcel with a unique identifying number. Thus, the entire assessment data record is tied together by its computerized or manual mapping system.

Property identification maps are indispensable to the PVA office for revaluation purposes. They provide appraisal personnel with a means of routing field inspections, and can be used to plot sales and other data for planning and management applications. If the maps are printed on a

recent aerial photography base, they can also be used for discovery of improvements which may not be visible from the road or principal dwelling. Maps depict the boundary lines of each property, thus displaying location, shape and relationship to other parcels, as well as to various physical and cultural features which may exert an influence on value. These maps and data also represent a significant resource for public agencies, businesses and individuals other than assessment personnel. Mapping system maintenance must therefore be an ongoing effort rather than a periodic one and should remain an integral part of every PVA's assessment methodology.

#### B. Maintenance of Maps and Records

During the period 1949 - 1995, the task of furnishing every county with a complete set of property identification maps was legislatively mandated and accomplished. Since 1996, the Department has been actively involved in converting mapping systems to Geographic Information Systems (GIS) and this task was completed in 2006. The Cartography/GIS Branch continues to provide assistance and support to ensure that PVA offices can upgrade and maintain their mapping systems by assisting with technical support and GIS software training.

It is important that PVAs in counties which do not currently have a GIS, but need working copies of the maps contact Frankfort periodically. PVA map updates can be re-scanned, geo-referenced, digitized, and a new digital color map printed for office use. This service is provided at no cost to the PVAs. PVAs without a working GIS system should make these manual revisions on the new printed digital maps to help the Cartography/GIS Branch as they update the digital parcel file and print the new map copies. If an entire county or a significant portion of its maps thereof is to be

updated in such a manner, the PVA should provide notice to the Cartography/GIS Branch in order to assure prompt turnaround.

Counties utilizing GIS should consider the Department as a partner and as a valuable resource. A goal of maintaining an up-to-date cadastral layer in GIS should be part of the philosophy of both state and local levels of administration. The Cartography/GIS Branch has coordinated 34 county conversion projects with Correctional Industries. This Branch has also worked with the Area Development Districts and universities to complete parcel digitizing in additional counties. Other counties have been digitized in house at the Office of Property Valuation when the workload allows. The option of performing this task in house at the PVA office has also been utilized in counties which have personnel with the appropriate skills. The Department should again be consulted by PVAs considering this option for training and advice on procedures and accuracy specifications.

A number of events can result in changes to maps, from simple "splits" of parcels to subdivision development. In any case, the changes should be kept current, whether on the PVA's paper copies of maps or in a dynamic GIS. Each parcel split should have a corresponding map number change, which is the link to the revised ownership and assessment data.

A critical part of maintaining maps involves keeping the corresponding parcel data record current. This means adjusting not only acreage sales and ownership data in the case of parcel splits or transfers, but property characteristic data when improvement changes are made. All new improvements built in every county must have their characteristics collected and maintained by

the respective PVA office staff. If this policy is pursued by all counties, steps toward building a reliable data base in a cost-efficient manner will have been taken. Inevitably, property characteristics must be maintained for all of Kentucky's estimated 2.2 million parcels of real property, if property tax assessment administration is to have credibility. These characteristics also have great value to numerous other community agencies and businesses.

In addition to collecting characteristic data on all new improvements, it is recommended that all property which transfers be inspected and the characteristics updated. This information is essential to sales analysis, as a parcel can be the subject property today and the comparable sale property tomorrow. Property characteristic data should include, as a minimum, the following:

1. Square Feet of Living Area
2. Year of Construction
3. Type of Building (number of stories, etc.)
4. Exterior Type (frame, masonry, etc.)
5. Foundation Type (poured concrete, block, etc.)
6. Interior Data (number of bathrooms, etc.)
7. Garage Data (capacity, type, etc.)
8. Basement Data (size, percent finished, etc.)
9. Utilities (city water, heating and a/c, etc.)
10. Subjective Factors (Location, Neighborhood, Condition, Utility, etc.)

Although property record cards vary with regard to the level of detail or number of characteristics, nearly all contain space for a photograph and building sketch. The latter functions have been automated in many counties, based on cost and efficiency considerations. Polaroid snapshots, for decades the choice of PVAs, have been replaced by digital photographs. The latter can be obtained for a fraction of the cost of traditional photography, can be tied to the database in the field through the entry of property identification map numbers, are easily updated on the next quadrennial inspection cycle, and can be automatically coded with the inspection date and time. If nothing else, the photograph constitutes proof to the taxpayer that the property has actually been physically inspected by the PVA office staff.

Plotting deeds is an excellent means of verifying property boundaries and converting verbal property descriptions to graphic form. All deeds of current conveyances of property should have their legal property descriptions plotted and referenced or transferred to the respective property identification map. This procedure is particularly critical for parcel splits and subdivisions. While plotting deeds used to be a time-consuming process involving a parallel glider and protractor, computer programs now exist that can do the work in a few keystrokes using coordinate geometry (“COGO”). Deeds plotted in this manner can be dropped into the appropriate digital location in a GIS.

### C. The Future of Mapping

Many technological advances have been developed within the past ten to fifteen years that make the task of creating and maintaining maps easier. Geographic Information Systems (GIS) were in use in several of the urban counties in the late 1980's. With the decreasing cost of computer hardware, paralleled by a corresponding increase in capability, GIS has proliferated throughout the smaller counties during the past five years. GIS can be combined with Global Positioning Systems (GPS) to ensure the accuracy of parcel boundaries and improvements. An automated mapping system not only enables the PVA office to perform much more effectively, but it is an invaluable community resource and a potential source of cost recovery. As the statewide base map and other layers of data have become available, PVAs have assumed a role as the custodians of the parcel layer and the associated ownership data.

### D. Upgrading Obsolete Mapping Systems

Despite numerous efforts by the Department, past and present PVAs with the best intentions, it is a fact that mapping systems can become obsolete relatively quickly. Some outdated mapping systems are the result of poorly executed mapping projects, while others were allowed to decay through lack of constant updating. Regardless of the reasons, some PVAs are faced with the seemingly insurmountable task of upgrading an obsolete mapping project.

The approach to bringing an obsolete mapping project into current status depends upon the degree of obsolescence and the available resources. Some property identification mapping

systems have fairly accurate property lines but incomplete characteristic data. Others are totally unreliable, with duplicate or inconsistent parcel numbers. It is obvious that in either case a full-scale mapping project is in order. Counties which have maintained their maps over the years but need updated aerial photography face a lesser cartographic task. Now current color digital aerial photography is available for download on the Kentucky Geography Network internet website (kygeonet.ky.gov). This website is a valuable resource for an enormous amount of digital geographic data. In any event, all substandard mapping projects are being identified with the biennial review of mapping systems required under KRS 132.670. These reviews consider ownership records as well as maps, and will form the basis for remapping, revision, and updating projects to be conducted by the Department.

PVAs in counties with up-to-date mapping systems must continue to follow the standards as outlined herein, and in accordance with the IAAO *Standard on Cadastral Maps and Parcel Identifiers*. PVAs with substandard or obsolete mapping systems should also attempt to adhere to these standards, in order to begin the effort that must be initiated and sustained for the upgrading process to be successful. The most expensive and time-consuming part of any mapping or revaluation project is the data collection effort. PVAs with outdated mapping resources or needing mapping technical assistance should contact the Department for assistance.

E. Map Sales and Data (customer requests)

Original reproducible mylar copies of the property identification maps for many counties were previously maintained at the Office of Property Valuation facilities in Frankfort. These maps are

no longer available for inspection and sale to the general public unless there is a special request for a copy of a scanned map image in .jpg format. Digital maps are printed and sold to the public at a cost of \$25.00 per map sheet using the latest updated parcels and newest aerial photo background available to the Department for this use. For the counties that utilize total digital maps it is important to send current copies of the parcel layer periodically to Cartography/GIS Section for map sales printing. Since the May 2005 map sales price increase, 80% of map sales money is routed to the local PVA offices. Map printing funds are sent to the PVA's periodically by the Finance Cabinet as funds are distributed into the county account. This program was initiated to help PVA's recover the cost of a GIS system or to help purchase new computers and GIS software in counties where needed.

The GIS/Cartography Branch assists counties with customer requests for purchases of parcel data and tax roll data when needed. Branch personnel also assist with the preparation of a GIS license agreements to help protect data from being given or re-sold to unauthorized, unlicensed users. For assistance with parcel and data requests contact the Cartography/GIS Branch at 502-564-8334.

## **CHAPTER TWELVE**

### **ASSESSMENT OF REAL PROPERTY**

#### **A. Introduction**

The valuation of real property is not only the largest job of the Property Valuation Administrator, it is also the most complex. In addition to revaluing all property in the county on an annual basis and reinspecting each parcel quadrennially, the PVA must collect and maintain property characteristics on all parcels, maintain the property identification mapping system, and develop a sales file with cost and income data where relevant.

Classic appraisal theory rests upon the three approaches to value: sales comparison, income, and cost. Each of these approaches has its roots in the twelve basic principles of value, which have evolved from economic doctrine. An in-depth discussion of these principles, in the context of their influences on the approaches to value, is presented in Property Assessment Valuation (Third Edition, 2010, International Association of Assessing Officers), the textbook for the basic IAAO Courses.

#### **B. The Sales Comparison Approach**

While all three approaches to value have some basis in market analysis, the sales comparison approach, also known as the “market approach”, is a method for predicting the market value of a subject property based on a direct comparison of recently sold similar properties. This approach

can range in complexity from a simple correlation of data on property record cards to very sophisticated computer analyses. Whatever the level of detail employed, the critical step is the selection of comparable properties. In addition to possessing the desired characteristics (i.e., bearing a similarity to the subject property), the comparables must represent recent arms-length transactions. Not only is this in keeping with standard statistical, economic and appraisal theory, but it is the key to meeting the “fair market value” standard of the Constitution of Kentucky.

The ideal market situation is one in which a large number of recent sales have occurred between buyers and sellers who are prudent, knowledgeable and familiar with local market conditions. Homogeneity, a market trait in which most properties resemble one another, is a very desirable condition which can be optimized through delineation of the jurisdiction into neighborhoods. While the scenario described above is generally available in Kentucky’s more populous counties, a PVA is typically faced with a situation in which sales must be carefully screened for validity and the “neighborhood” consists of entire towns, or every rural residential parcel in the county. While a less than an ideal market situation presents a challenge and can result in values which are somewhat less defensible, the basic steps in the sales comparison approach remain the same:

1. Data collection and analysis;
2. Selection of appropriate units of comparison;
3. Adjustment of comparable properties to the subject property;
4. Correlation of the data to the value of the subject property.

The first step, data collection and analysis, is the most time-consuming and should be an ongoing effort in every PVA office. Determining what data to collect and maintain is a crucial decision with long-term consequences. Data collection and maintenance are usually the most costly aspects of a mass appraisal system; therefore collecting data that are of little importance should be avoided.

The next step (selection of appropriate units of comparison) involves selecting the characteristics that the PVA considers to have the most influence on value, which the subject and comparables have in common. For residential property this includes characteristics such as square footage, number of bathrooms, lot size, etc. Commercial properties must be compared based on the types of characteristics which potential buyers would consider, such as stalls per garage, number of units in an apartment complex, etc. The contributory value of each of these characteristics must be considered, which can again be based on the PVA's judgement or a computerized formula-driven cost approach. Cost manuals and standard depreciation tables may also be used to determine the value of various characteristics, as long as they have been calibrated to the local market.

Once the comparable sale properties and the units of comparison have been identified, the appropriate adjustments must be made to the comparables for each characteristic by which they differ from the subject property. A total adjustment in the sale price of each comparable property is based on a series of adjustments for each characteristic considered. These adjustments, which can be expressed in percentages, although usually in dollar amounts, are always applied to the sales prices of the comparable properties and never to the subject property. In effect, each sale so

adjusted becomes an indication of value of the subject. Characteristics for which the comparable property is inferior to the subject property are adjusted upward, based on the unit value of the characteristic times the difference in characteristic values. Conversely, characteristics for which the comparable is superior to the subject are lowered in the same manner. The net result yields an adjusted sale price for each comparable property.

The final step, correlation to the final value estimate, involves a bit more intuition on the part of the PVA. It is considered extremely inappropriate to simply average the adjusted sale prices of all comparable properties in order to produce a value estimate for the subject property. Therefore, the PVA must reconcile all of the adjusted sale prices into a single value estimate for the subject. This should be done by examining each of the comparable properties and selecting the most comparable, or two of the most comparable, and inferring a value. It is of course much easier to deduce a value for the subject if all or most of the comparable value indications fall within a narrow range. Otherwise, the most comparable property will be the one with the fewest adjustments, or the adjustments of the least magnitude. By placing the greatest reliance on actual sales data in this manner, the PVA has the benefit of proof from the marketplace, provided that the objective data are correct, the sales are representative of market conditions, and the proper judgements have been exercised based on the PVA's experience.

### C. The Cost Approach

The cost approach to value relies upon the theory that the value of a parcel equals the sum of the land value plus the depreciated cost of improvements. This approach has its roots in the

principle of substitution, which holds that an informed buyer will pay no more for a property than the cost of acquiring an acceptable substitute property of similar utility within a reasonable period of time. The cost approach can be table-oriented or formula-driven in the context of mass appraisal. The table-oriented cost approach, which is the most commonly utilized, relies upon cost data supplied in the form of manuals or in computer format by national appraisal service organizations, with adjustment factors (such as time-location multipliers) for local conditions. Formula-driven cost approach programs are computer-assisted methods for deriving unit costs (per bathroom, per fireplace, etc.) which are calibrated to the local market.

The cost approach involves the following basic steps:

1. Estimate land value, as if vacant;
2. Estimate replacement cost new (or reproduction cost new) of improvements;
3. Estimate the amount of accrued depreciation;
4. Subtract the estimated depreciation from replacement or reproduction cost new of improvements;
5. Add resulting improvement value to land value.

The first step is to estimate the land value. The sales comparison approach should be used if adequate vacant land sales are available. After geographic (neighborhood) stratification, land should be valued according to appropriate units of comparison based on market factors. These units of comparison can be square footage, front footage, lot shape, or per parcel or lot for

residential parcels, square footage or frontage for commercial land, and square footage or acreage for industrial land.

When vacant land sales are scarce, the PVA must use an alternative method to determine the land value. The land residual technique combines aspects of the sales comparison and cost approaches. Using this method, building values estimated using the cost approach are subtracted from sales prices of recently sold improved parcels to yield residual land value estimates. These land residuals can then be used to supplement sales data in areas where vacant sales are scarce.

Another technique for land valuation is the land ratio technique, which is based on the theory that, for a given area and property type, there tends to be a consistent overall relationship between land and improvement values. If the typical ratio of land to improvement value can be determined, it can be applied to the subject neighborhood in order to extract land values from sales data. Appraised values may also be utilized, but are generally less preferable than actual sales. These values may be used to establish average unit (per square foot) or base lot values (in areas of homogeneous lot sizes) to be applied to the rest of the subject neighborhood. The advantage of this technique over the land residual technique is that it is not necessary to make as many estimates of improvement values, which enables it to be useful in established or older neighborhoods with fewer vacant land sales or recently improved parcels.

These techniques for land valuation, as well as others, are explained in detail in the IAAO textbook Property Assessment Valuation.

Once an estimate of land value has been made, it is necessary to estimate the cost of improvements. Two concepts of cost are generally recognized: replacement cost and reproduction cost. Replacement cost is the cost of reconstructing an improvement of identical utility, using modern design, materials and workmanship. Reproduction cost is the cost of producing an exact replica of an improvement, using the same or very similar materials, design and workmanship. Replacement cost is more appropriate in mass appraisal and requires fewer adjustments for depreciation.

The process of estimating replacement cost must consider all direct and indirect costs of labor, materials and any other expenditures required to construct a building, such as overhead and profit. The concept of market value implies that all costs must be considered. Therefore, the improvement and all of its components must be identified in terms of size, age, and condition.

Four major types of cost estimation are recognized: the quantity survey method, the unit-in-place method, the comparative unit method, and the factored historical cost method. The quantity survey method is the most detailed and expensive type of cost estimation, and as such has little place in practical mass appraisal. Its primary use is for contractor bidding. PVAs must be aware of this method, however, as it could be presented in the process of a listing or appeal. The unit-in-place method is not quite as detailed as the quantity survey method, as many direct and indirect component costs are combined into unit costs. This method is feasible for specialized appraisals such as large scale commercial or industrial properties. The comparative unit method is based on units of cost in which all direct and indirect costs of construction have been combined. This method is not as accurate on an individual parcel basis as the two previous

methods, but it does have the advantage of ease of application and explainability, two very desirable traits in mass appraisal. It is probably the most widely used method of cost estimation in the field of assessment administration. The factored historical cost method is the least detailed method of cost estimation. It is based on the application of building cost indices to the original cost of a structure. This requires data regarding the age or effective age of the structure, as well as typical cost data for the period of construction in order to ensure that the original cost was representative of the era. This method has limited usefulness in the case of unusual or special-purpose structures, and, in the context of mass appraisal, is more applicable to personal property than real property.

The third step in the cost approach is estimation of the amount of accrued depreciation, which is basically defined as a loss in value due to any cause. Depreciation may be estimated indirectly or measured directly. Indirect methods include the comparative sales data method and the income capitalization method. The comparative sales data method is particularly suited to mass appraisal, in that it is easily calculated based on existing data. The values of comparable sale properties, less their estimated land values, are subtracted from the replacement cost of the sale property to yield estimates of accrued depreciation. These estimates are then converted to percentages which can be applied to subject properties. Direct methods of estimating accrued depreciation include the overall age/life method, the engineering breakdown method, the observed condition method, and the use of depreciation tables. Of these the latter is the most suitable for mass appraisal; however, it takes time to develop in-house localized depreciation tables, and, while there are some excellent sources available on the market, they must be tested in order to determine local applicability. The overall age/life method is also widely used in mass

appraisal, due to its simplicity. It is based on the ratio of effective age to total economic life multiplied by replacement cost, which yields an estimated accrued depreciation.

When the three figures described above (land value, replacement cost new, and accrued depreciation) have been calculated, it becomes a simple matter to arrive at a value through the cost approach. The estimated accrued depreciation is subtracted from replacement cost new to produce a value for the principal building and any other improvements which are to be considered; then the land value is added to the improvement value to arrive at the total parcel value.

#### D. The Income Approach

The income approach to value is based upon the theory that the current market value of a property is the present worth of the net return (income) that it can be expected to produce during its useful life. The income-producing capability of property should therefore be reflected in the market, as knowledgeable investors will offer no more than the present worth of anticipated benefits, represented by a return of the capital investment (principal) and a return on the capital (interest). This return is measurable through a process known as capitalization. Mathematically, capitalization is simply the division of the net income by a capitalization rate representing recovery of the investment, interest and depreciation to obtain an indication of value, or as expressed by the following simplified formula, commonly known as the “IRV” formula:

$$\text{VALUE} = \frac{\text{INCOME}}{\text{RATE}}$$

Use of the income approach requires the PVA to have access to income and investment data in addition to the usual property characteristics. The eight steps in the income approach are as follows:

1. Estimate potential gross income;
2. Deduct for vacancy and collection loss;
3. Add miscellaneous income to obtain the effective gross income;
4. Determine operating expenses;
5. Deduct operating expenses from the effective gross income to determine net income before discount, recapture, and taxes;
6. Determine the appropriate capitalization procedure to be used;
7. Select the proper capitalization rate;
8. Capitalize the net operating income into an estimated property value.

The first step is to determine the potential gross income of the subject property. This is the maximum economic income before the deduction of any expenses; it also connotes 100 percent occupancy in the case of rental units. From this figure, vacancy and collection losses are deducted (step two), based on amounts which are typical of the market. After the vacancy and collection losses have been deducted from the potential gross income, any miscellaneous income other than rents must be added to result in an effective gross income figure. Miscellaneous income includes parking fees, vending machines, coin laundries, etc.

Step four consists of determining operating expenses. Taxpayers will sometimes provide an operating statement; however, it should be reviewed carefully to ensure all expenses are allowable for appraisal purposes. Proper expenses include management, insurance, salaries, utilities, repairs, maintenance, supplies, or reserves for replacement. Property taxes are sometimes deducted here by private sector appraisers, but it is recommended that assessors incorporate property taxes into the capitalization process. While it is mathematically correct to deduct property taxes as an expense, it is more logical to account for them in the capitalization rate as a typical effective tax rate, since the valuation process precedes the establishment of tax rates and amounts due. Examples of expenses which are inappropriate and should be disallowed include depreciation and debt service (which are incorporated into the capitalization rate), capital improvements (which may be considered under a cost approach application), income taxes, and business expenses of the owner which are not directly related to maintaining the income stream. Once the operating statement has been analyzed and proper expenses have been determined, they are deducted from the effective gross income.

The capitalization rate is comprised of three components: the discount rate, the recapture rate, and the effective tax rate. The discount rate represents the investor's return on the investment. The recapture rate represents the return of the investment. The third component is the effective tax rate, which is the ratio of the property tax to the market value of the property. The capitalization rate should be complete with the discount rate, recapture rate and effective tax rate. For cases in which the property is unimproved, the recapture rate is left out of the equation (because the land will always have a value which is independent of the improvements). The overall capitalization rate expresses a direct relationship between income and value. If the

overall rate is based on a representative market sample, it can be applied to similar subject properties through direct capitalization in order to produce reliable value estimates.

#### E. The Concept of Mass Appraisal

The concept of mass appraisal involves applying one or more of the three approaches to value described above to more than one subject property; in practice, this typically means hundreds or thousands of subject properties. The goal of fair market value remains the same. Instead of applying to only one appraisal, however, it must prevail over a broad spectrum of properties representing all ranges of sizes, age and quality within the jurisdiction. Mass appraisal procedures must employ a consistent methodology, be based on dependably accurate data, and be evaluated through the use of standard statistical testing methods, in order to ensure adherence to the fair market value standard. For a more detailed presentation of the methods used in mass appraisal, please refer to the IAAO *Standard on Mass Appraisal of Real Property* and the *Standard on the Application of the Three Approaches to Value in Mass Appraisal*.

**CHAPTER THIRTEEN**  
**ASSESSMENT OF PERSONAL PROPERTY**

A. Introduction

The trend toward centralized personal property assessment began in 1984 with the implementation of the motor vehicle assessment and collection system (MOTAX). This system provided a mechanism for systematic, uniform assessments, and had an immediate impact on the high delinquency rates that were experienced in the early 1980s. The standardized valuation of motor vehicles greatly reduced the time and effort required to assess motor vehicles and incorporated a greater degree of equity in assessment. The implementation of the centralized tangible personal property assessment system in 1988 had a similar impact on the assessment of this property class. The tangible personal property system relies upon input through an on-line statewide network, with computer terminals and accessory equipment in every PVA office in order to create and maintain a centralized personal property tax roll.

The basic design characteristics of the system include:

1. On-line inquiry screen structure that allows a five year history of returns to be reviewed by the Department as well as in PVA offices.
2. On-line maintenance of current year returns, including data entry and maintenance, and calculation of assessed values by rate class.
3. An electronic tax roll file furnished back to the counties or their data processing service companies based on the returns existing on the centralized data base as of the certification date. (This tax roll is the input to the county billing systems.)

4. A method to “flag” all entries made to the file after the certification cutoff date so that these late entries can be identified for omitted billing from the statewide accounts receivable system, as opposed to current entries which are billed through the local accounts receivable systems.
5. A system of over fifty batch programs designed to create extract files, edit files, print user requested reports and create tapes, perform statistical analyses, and execute system support functions such as backup and recovery.

B. Listing of Personal Property

Taxpayers are required to list all tangible personal property (with the exclusion of registered motor vehicles and boats) with either the Property Valuation Administrator or the Office of Property Valuation by May 15 of each year. Revenue Form 62A500, *Tangible Personal Property Tax Return*, is used to list tangible personal property. Although taxpayers may file returns in Frankfort, returns received timely by the Department are forwarded to the PVA offices for districting and data entry.

C. Return Processing and Entry

The processing of personal property returns should be accomplished in two phases: preparation and verification, followed by actual data entry. Preparing a return for data entry involves the following steps:

1. Check for complete taxpayer identification information, including correct name and address;
2. Check for Social Security Number (SSN) or Federal Employer Identification Number (FEIN). If a taxpayer neglects to provide a social security number, an attempt should be made to obtain it through the MOTAX screen or voter registration records;

3. Verify that the property location has been given by street address or geographic location for the purpose of tax district identification;
4. Inquire for prior year or current year filing status;
5. Record the proper tax district code and PVA account number;
6. Determine the values for property not valued on the return;
7. Check for misclassifications of property;
8. Check for property omissions, such as materials and supplies, inventories, furniture and fixtures, etc.;
9. Verify all computations for mathematical accuracy;
10. If a return is received after May 15, date stamp it and mail it to the State Valuation Division, 501 High Street, Frankfort.

Once these steps have been completed, the return is ready for data entry. For specific details on data entry and system functions, please refer to the *Tangible Personal Property System User Manual* or the *Personal Property Data Entry User's Guide*.

#### D. Valuation of Personal Property

Personal property can be valued using all three approaches to value: sales comparison, income, and cost approach. More often than not, one of the three approaches will be the primary, if not the exclusive, method of valuation. Some property, such as automobiles, have an extensive market for units of all models and ages. Whenever such markets exist, the sales comparison approach is the most appropriate method of valuation. This approach should be used for property such as aircraft, boats, automobiles, trucks, motorcycles and recreational vehicles. The Department provides each PVA office with valuation guides each year for this purpose. The

income approach has more limited use than the other two methods of valuation, due to the difficulty in obtaining the necessary data. However, it can be used to value machinery in cases where sufficient data is available to establish an income stream over the remaining economic life of the property. The most probable use of the income approach would be to appraise leased equipment since the income stream is usually a known factor in lease situations. The most common method of valuing personal property is by using the cost approach. This approach is particularly suited to the valuation of inventories, supplies, furniture and fixtures, machinery, equipment and professional trade tools.

**CHAPTER FOURTEEN**  
**SPECIAL OR UNIQUE VALUATION PROCEDURES**

A. Introduction

Some properties, because of their unique nature or legal requirements, must be valued by different methods than other real property. In 2005, the general assembly passed major tax reform legislation, which transferred the assessment responsibility of all telecommunication companies' real property from the Public Service Branch to the PVA beginning with the 2006 assessment year.

B. Telecommunications Property

House Bill 272, enacted by the 2005 General Assembly, transferred the assessment responsibility for all telecommunications companies' real property from the State Valuation Division, Public Service Branch, to the county PVAs effective January 1, 2006. As a result, thousands of parcels and tower sites, as well as other types of real property owned by telecommunications companies, were assessed by PVAs for the first time beginning with the January 1, 2006 assessment. Telecommunications tangible personal property continues to be centrally assessed under the new law but uses the same valuation procedures as with locally assessed tangible personal property (KRS 132.825).

The following table illustrates where the assessment responsibility lies with respect to telecommunications companies, tower management companies, TV and radio companies, and public service companies real and personal property. In addition, recapitulation classification and the proper personal property tax form each type of company should be using are listed.

	Real Estate Assessment Responsibility	Personal Property Assessment Responsibility and Form	Recap Area	Classification
Telecom Companies	PVA	PSB Form 61A500	Telecom Telecom	Real Personal
Tower Management Companies	PVA	PVA - PPB Form 62A500	Commercial Commercial	Real Tangible
TV and Radio Companies	PVA	PSB Form 62A500	Commercial Commercial	Real Tangible
Public Service Companies	PSB	PSB Form 61A200	Commercial Commercial	Real Tangible

**Abbreviations**

- PVA - Property Valuation Administrator
- PPB - Personal Property Compliance Branch
- PSB - Public Service Branch

**Revenue Forms**

- Form 61A500 - Tangible Personal Property Tax Return for Communication Service Providers and Multi-channel Video Programming Service Providers
- Form 62A500 - Tangible Personal Property Tax Return
- Form 61A200 - Public Service Company Tax Return

Telecommunications companies formerly assessed under KRS 136.120 consist of three basic types of companies: communication service providers such as long distance, local exchange, and wireless telephone companies; multi-channel video providers such as cable television and satellite television; and tower management companies. Prior to the January 1, 2006 assessment, all telecommunications company real property and personal property other than satellite television was centrally assessed under the provisions of KRS 136.120 - 180. These statutes

required, in relevant part, that all property owned, leased, or operated by a public utility be included as part of the public service company assessment. Therefore, telecommunication and tower companies' real and personal property were centrally assessed. With the new law, the owner of the property is required to report both the real and personal property. Since tower management companies are not telecommunication companies, all of their real and personal property will now be locally assessed. TV and radio companies will continue to report their real and personal property locally as well. However, towers and all other personal property owned by telecommunications companies will still be centrally assessed. This distinction is important as it creates a unique assessment situation. Most real property will be locally assessed but the personal property assessment responsibility will be split between local and central assessment depending on who owns the tower. Note: real property owned by a public service company still subject to the provisions of KRS 136.120 with a tower will continue to be assessed as a public utility company.

As with any real estate valuation, PVAs should determine the market values for tower sites based on what is typical for this type of property. The Division of State Valuation recommended a Gross Rent Multiplier of 9 as the basis of valuation of tower sites. However, the ultimate values for each site should be consistent. In some instances this could create a leasehold interest to the lessee. This is when the site is leased at less than typical market rent. When property is leased from an exempt entity, the real property is a leasehold interest to the lessee under KRS 132.193 and KRS 132.195. In such instances, the real estate notice and bill should be sent to the lessee. The real estate would also be classified as telecommunication company real estate for recap purposes.

HB 272 removed the telecommunication industry from KRS Chapter 136 and placed it under KRS Chapter 132. It also changed who is responsible for listing and reporting real and personal property. Under the prior law, any property owned, leased, or operated was assessed to the telecommunication company. With the new law it is assessed to the owner. The only exception to this is capital leases, which is in essence a sale of the property to the lessee, and property leased from a tax exempt entity. Therefore, real property leased from a for-profit entity is now taxable to that entity. Real property leased by a telecommunication company from a tax exempt entity is taxable to the telecommunication company and such property would be classified as telecommunication real property for recap purposes.

These same rules apply to personal property as well. Any property leased to a telecommunication company by a for-profit entity should be listed by the for profit entity on the locally assessed *Tangible Personal Property Tax Return* (Revenue Form 62A500). Only tangible personal property owned by a telecommunication company or leased by a telecommunication company from a tax-exempt entity should be listed on the *Telecom Personal Property Tax Return* (Revenue Form 61A500).

Due to HB 272, assessment recapitulation procedures were modified starting January 1, 2006 to include the telecom real property by tax district. This change was necessary since school districts and special districts rely in part on telecommunication company real property assessments to determine the amount of distribution each district receives from the Growth Fund established under HB 272 (see KRS 136.654). Each PVA provides a summary of telecommunication real property assessed value for purposes of the new Telecommunication Company Tax.

## CHAPTER FIFTEEN

### MOTOR VEHICLE ASSESSMENT (MOTAX) SYSTEM

#### A. Introduction

The centralized system for property tax assessments on motor vehicles (MOTAX) is a "piggyback" program that is supported by the Automated Vehicle Information System (AVIS). AVIS contains ownership records and various facts on motor vehicles and is maintained by the Transportation Cabinet. Information is entered and maintained through on-line computer terminals located in each County Clerk's office and in each PVA office. A person who titles a vehicle or boat with the County Clerk is also listing the vehicle with the PVA for property tax purposes. (Boats are included in the BOATAX system and are registered in the same manner as motor vehicles.) This titling/registration process leads to a property tax assessment based on values determined by a standardized market approach. The property tax is collected by the County Clerk during the registration process. If a vehicle's taxes are not paid by the time of transfer, a transfer notice is sent to the January 1 owner.

#### B. Vehicle Valuation

Each year the MOTAX Section receives a NADA tape with the current January 1 trade-in value for most vehicles. This is the method used to assess the majority of vehicles. As of January 1, 2014, there were 4.4 million vehicles in Kentucky. Brand new vehicles that have not established a trade-in value, vehicles older than 18 years, and all special type vehicles (trailers, motorcycles, recreational vehicles, etc.) values are not included on this tape. If any of these type vehicles were

assessed in the previous year, their assessments are adjusted centrally during the valuation process. If these vehicles are “new” to the system, they may require manual assessment. This is one responsibility of the PVA office. Determining taxable situs and taxable status is also the PVAs’ responsibility.

The valuation of non-standard vehicles, any situs change initiated by the PVA office, and the creation of any new tax liability entered into the system will not require an exoneration to be completed. Any changes in assessment or taxable status do require an exoneration to be signed by the taxpayer and documentation to be attached when noted on the exoneration form. Exonerations must be kept for three years and are subject to review and audit by the Department of Revenue.

### C. Valuation Guides

The Department furnishes every PVA office with the following standard guides for valuing motor vehicles:

1. Late model used cars one to seven years old, NADA Value Guides, Official Used Car Guide, and NADA e-evaluator software.
2. Automobiles and light trucks eight to eighteen years old, NADA Appraisal Guides, Official Older Car Guide,
3. Motorcycles, NADA Appraisal Guides, Motorcycle/Snowmobile/ATV/Personal Watercraft Guide,
4. Recreation Vehicles and Camping Trailers, NADA, Recreational Vehicle Appraisal Guide,

5. Classic Cars, NADA, Classic, Collectible, and Special Interest Car Appraisal Guide.
6. Boats, NADA Marine Appraisal Guide

The NADA e-Valuator for Commercial trucks is also available upon request.

All automobiles, trucks, boats, boat trailers, motorcycles and recreational vehicles must be assessed at the NADA or appropriate guide trade-in value as of January 1 of each year. More detailed information on motor vehicle assessment procedures can be found in the MOTAX User's Manual provided by the Department.

#### D. The Collection of Motor Vehicle Taxes

The County Clerk is the collector of motor vehicle property tax. The clerk does have the ability to waive penalty during the collection process; however, any changes will be subject to audit review as well. Generally tax is due on or before the last day of the month in which the registration renewal is required.

#### E. Reports From the Department

The Motor Vehicle Branch of the Office of Property Valuation generates several reports which allow the PVA to create, correct, and modify the motor vehicle tax roll.

The On Line County Transfer Report is a printout of all motor vehicle records which have been transferred into a county from another county. County code changes are made by the PVA when a vehicle is relocated intrastate during the assessment cycle. The PVA can only transfer vehicles out of the county; therefore, the purpose of the county transfer report is to inform the PVA of vehicles that have been transferred into the county by another PVA office. These vehicles must be assigned to the proper taxing district by the PVA so that the respective tax rates can be applied by the system.

The Batch Vehicle Record Update is a printout of all vehicles that have been entered into the AVIS system for a county during the month and will be included on the tax roll for the next year. It includes all new vehicles registered in a county, all transfers of ownership, all address changes, and all other changes in the registration record. The update must be examined by the PVA and correct tax districts and other information changes entered directly into the computer terminal. An update for the month of July 2014 will be effective in the 2015 tax year. This makes the sequence in which updates are entered very important. If updates for more than one month are accumulated by a PVA office, they must be entered into the system in chronological order (earliest month first). If this is not done, correct tax districts could easily be changed to incorrect prior districts.

The Ad Valorem Monthly On Line Change Report is a comprehensive listing of all actions performed in a PVA office which have changed a vehicle tax record for the previous month. A change report is sent to the PVA, but does not require PVA action. It is simply a record of PVA activities and should be reviewed each month. Each record listed on the report shows the status

of the vehicle before and after any change. Changes shown are county code, tax status, tax district, and value.

The Department will provide each PVA with an estimate of the amount of property tax which may be collected for each taxing jurisdiction for each month. Since this projection is based on the assumption that vehicles in the AVIS data base will be registered during the year, some variation between projected revenues and actual collections can be expected. Vehicle taxes may not be collected in some situations, including those sold out of state and those wrecked beyond repair, and will reduce actual revenues collected. However, delinquent property taxes, collected every year by the clerk, will add to revenues projected. Every January, the Department will distribute a report to all PVA's listing all vehicles that require manual valuation. This "88 report" lists all vehicles in order of renewal month that have not been sitused for the current year.

F. Delinquent Motor Vehicle Taxes

Property taxes due on motor vehicles become delinquent if they have not been paid by the earlier of the end of the month in which registration renewal is required by law or the last day of the second calendar month following the month in which a vehicle was transferred. KRS 134.810(3) provides a penalty of 3 percent if the taxes are paid within thirty days of being delinquent and 10 percent if they are not paid within thirty days. In addition, interest at an annual rate of 15 percent shall accrue on said taxes and penalty from the date of delinquency. This statute allows for the waiver of these penalties if the tax is paid within five days of becoming delinquent.

KRS 186.021 permits a person other than the owner of record to pay any delinquent property taxes due on a motor vehicle to facilitate transfer of registration. County clerks are also prohibited from requiring the person to pay the delinquent taxes due on all other motor vehicles owned by the owner of record from which he is purchasing his motor vehicle as a condition of registration. KRS 186.020 allows for the waiver of penalty and interest on delinquent taxes of military personnel stationed or assigned to a base outside the United States. The following conditions must be met to qualify for this waiver: The motor vehicle must have been stored on a military base during the time of deployment and not been operated on the public highways during that time and the vehicle's registration must have expired during the individuals' absence.

G. Assessment Appeals

Any taxpayer questioning the value of a motor vehicle should first present evidence to the PVA showing why the assessment is incorrect. The standard guides are based on vehicles in average condition but if a vehicle has obviously depreciated at a greater rate due to neglect, collisions, or excessive mileage, etc., the PVA should adjust the value accordingly and document the change on an exoneration form. If the taxpayer continues to dispute the value after talking with the PVA, documentation should be presented to the Department of Revenue for review and possible adjustment.

## CHAPTER SIXTEEN

### ASSESSMENT OF MINERAL PROPERTY

#### A. Introduction

KRS 132.820 grants the Department of Revenue sole authority for assessing unmined coal, oil and gas reserves and other mineral or energy resources. Mineral resources are assessed by the Mineral Resource Valuation Branch of the Office of Property Valuation.

#### B. Reporting of Mineral Resource Property

Taxpayers are required to list all mineral resource property (coal, oil, gas, clay, and limestone reserves) with the Department by April 15 (KRS 132.820). The Department mails the forms to taxpayers in January of each year.

The Department has developed separate forms for each type of mineral resource property:

- 62A200 - Unmined Coal Property Tax Information Return
- 62A384G - Natural Gas Property Tax Return
- 62A384O - Oil Property Tax Return
- 62A384L - Limestone, Sand and Gravel Property Tax Return
- 62A384C - Clay Property Tax Return

These forms require that many different types of maps be submitted. These maps are used in developing and maintaining a Geographic Information System (GIS). The Mineral Resource

Valuation Branch utilizes this information to calculate the tonnage of remaining mineable coal on a parcel basis for compliance purposes.

C. Billing and Appeals Procedures

The Department calculates the tax and sends the bills to the sheriff for collection. Protests of mineral property assessments are made directly to the Department of Revenue.

D. Responsibility of the PVA

The main responsibility of the PVA is directing technical questions and information concerning the valuation of unmined minerals to the Mineral Resources Valuation Branch. PVAs also assist by submitting transfers of mineral properties to the Department. This information is vital in ensuring compliance.

**CHAPTER SEVENTEEN**  
**STATE ASSESSED PROPERTY**

A. Introduction

Several types of property are assessed directly by the Department of Revenue based on information submitted by property owners or their representatives. The Property Valuation Administrator should direct questions concerning assessments on the following property to the Department.

B. Domestic Life Insurance Companies

Domestic life insurance companies are assessed for the total capital and reserves that they own. The Department assesses a state tax at the rate of 1/10¢ per \$100 of taxable capital and taxable reserves. In addition, both the county and city in which a life insurance company's main office is located may impose a tax at the rate of 15 cents per \$100 of taxable capital. The Department assists in the assessment of this local tax by "certifying" the value of each company to the respective county clerk by September 1 of each year.

C. Domestic & Foreign Savings and Loan Associations

The Department is charged with the complete responsibility for administering the domestic savings and loan tax. Local governments are prohibited from taxing any of the intangible

personal property of these financial institutions, and Kentucky residents do not pay intangible personal property tax on their deposits in domestic savings and loan associations (KRS 136.290, KRS 136.300, KRS 136.310).

#### D. Banks for Cooperatives

At the present time, there is only one cooperative bank in Kentucky. A state rate of one dollar per \$1,000 of value is assessed by the state in lieu of any other taxes on intangible personal property. Kentucky residents do not need to list their shares of stock or deposits in this institution for taxation (KRS 136.290, KRS 136.300, KRS 136.310).

#### E. Production Credit Associations

Production Credit Associations (also known as Agricultural Credit Associations) are assessed at a state rate of one dollar per \$1,000 of value only. No other intangible personal property taxes are assessed. The assessment is handled by the Office of Property Valuation and Kentucky residents do not need to list their shares of stock or deposits in these institutions for taxation (KRS 136.290, KRS 136.300, KRS 136.310).

#### F. Bank Deposits

An intangible personal property tax of 1/10¢ per one hundred dollars is assessed on funds on deposit in any financial institution. This tax is assessed by the State Valuation Division and paid

directly to the Department of Revenue. No other property tax shall be assessed by the state or any county, city or other taxing district on the deposits or against the depositors on account of the deposits, except as provided in KRS 136.575. (KRS 132.030, KRS 132.040).

#### G. Public Service Companies

Public Service Companies (companies that provide services such as electricity, gas, water, oil and gas transmission) are regulated by federal and/or state laws. By regulating these companies, restrictions are placed on the profit they may earn on investments and on the areas in which they may operate. The Public Service Branch of the Department has full responsibility for assessing Public Service Companies (KRS 136.120). Many facts and reports are used for the lengthy valuation process. The assessed value of operating property is allocated among the various taxing districts in Kentucky.

Effective with the January 1, 2006 assessment, telecommunication companies, as defined in HB 272, were moved from KRS 136.120 and are now assessed under the provisions of KRS 132.825. However, the personal property of such companies is centrally assessed using the same valuation standards as for locally assessed property.

Once the valuations are determined, the Department will certify to the County Clerk the amount due for county, city, or district tax in the qualifying counties. These tax assessments are billed by the Clerk and collected by the Sheriff. All state taxes due are billed and collected directly by the Department. Any public service company seeking information from the PVA should be directed

to the Public Service Branch of the Office of Property Valuation (KRS 136.120 through KRS 136.180).

H. Commercial Watercraft

House Bill 562, enacted by the 2006 General Assembly, expanded the legislation enacted in 2005 under House Bill 350. HB 350 created a new statute that centralized the assessment, billing, collection, and distribution of local property taxes on commercial watercraft. The 2006 changes, effective for tax years on or after January 1, 2008, removed barge lines from the provisions of KRS 136.120, nonresident watercraft under KRS 136.181 and locally assessed commercial watercraft under KRS Chapter 132 and created a single procedure for the central assessment of commercial watercraft under the provisions of 136.1801 through 136.1806. The 2006 legislation simplified the allocation of local property taxes by using a standardized procedure and providing a ten year hold harmless clause to prevent any revenue loss for local governments due to the change. Kentucky based taxpayers owning commercial watercraft must now file such property on the Commercial Watercraft Property Tax Return (Revenue Form 61A207). Tangible property other than the fleet of commercial watercraft must still be listed on the Tangible Personal Property Tax Return (Revenue Form 62A500) and be filed locally with the PVA in the county of situs. Also, as of January 1, 2008, real property of barge lines formerly assessed under KRS 136.120 must be reported locally to the PVA in the county of situs.

I. Distilled Spirits

The state tax rate on distilled spirits in bonded warehouses is 5¢ per \$100 of value, with full local rates applicable (KRS 132.020). The Public Service Branch of the Department is required to assess this property (KRS 132.140). When the value is set by the Department, it is reported to the County Clerk to be billed on behalf of county, city, and other taxing districts.

J. Trucks, Tractors, Semi-trailers and Buses

Effective January 1, 2007, the property tax on apportioned vehicles was replaced with an ad valorem fee that will be collected at the time of registration through the International Registration Plan administered in conjunction with the Kentucky Transportation Cabinet. Taxpayers no longer have to file the Apportioned Vehicle Property Tax Return. Commercial trailers that were previously assessed under the apportioned vehicle provisions were exempted effective January 1, 2007. Other vehicles that have regular Kentucky registration will be taxed through the Motor Vehicle Tax System (MOTAX), administered by the County Clerks.



**CHAPTER EIGHTEEN**  
**PROPERTY TAX COLLECTION**

A. Introduction

Property tax collection duties are usually the responsibility of the Sheriff or collecting agent of individual counties, although some taxes are collected directly by the Department of Revenue and motor vehicle and boat taxes are collected by the County Clerk. Although the PVA is not actively involved in the collection process, the office will typically receive numerous inquiries from taxpayers about their tax bills. For this reason, the PVA should have a thorough understanding of the tax bill collection schedule and of the various penalties, interest and fees that are applied to delinquent property tax bills.

The property tax collection cycle is outlined on the following pages.

B. Property Tax Collection Cycle

<u>Date</u>	<u>Action</u>
January 1	Assessment Date
September 15 - November 1	Taxes due and payable: A 2% discount is applicable. (KRS 134.015)
November 2 - December 31	Taxes are payable at face value. (KRS 134.015)
January 1 following January assessment date	Unpaid taxes become delinquent and property assessed has a lien against it by operation of law. A 5% penalty applies. (KRS 134.015)
February 1 and thereafter	A 10% penalty and an additional 10% sheriff's add on fee apply. The sheriff can distrain or attach nonexempt personal property of taxpayer. (KRS 134.015)
April 15	All delinquent property tax bills are transferred from the sheriff's office to the county clerk's office as of the close of business. The county clerk begins accepting payments on April 16. (KRS 134.122)
By May 15	The county attorney mails the first notice to all delinquent taxpayers advising them of the delinquency, that the delinquent tax bill is subject to being sold to a third party purchaser at a later date and that a partial payment plan is available. (KRS 134.504)
By June 15	The county attorney mails the second notice to all delinquent taxpayers who did not respond to the first notice. (KRS 134.504)
Starting July 14 and continuing for the next 45 calendar days	The county clerk will offer for sale all current year certificates of delinquency. (KRS 134.128)

By September 1

The sheriff shall make settlement with all taxing districts and a quietus shall be issued from the Office of Property Valuation.  
(KRS 134.192)

10 years following the date personal property tax bills become delinquent.

All further action on personal property tax bills is barred by statute of limitations.

11 years after the date real property tax bills become delinquent.

All further action on certificates of delinquency (real property) is barred by statute of limitations.



**CHAPTER NINETEEN**  
**OMITTED PROPERTY**

A. Introduction

The responsibility of locating and assessing omitted property is assigned to either the PVA or the Office of Property Valuation, depending on the class of property involved. Omitted real property (with the exception of unmined minerals) is assessed by the PVA and omitted personal and unmined mineral property is assessed by the Department.

B. Omitted Real Property

Real property is classified as omitted if it has not been listed for taxation, for any year in which it is taxable, by the time the Board of Assessment Appeals adjourns for that year (KRS 132.290). Omitted property may be listed at any time by either the property owner or the PVA. Once the property is listed and assessed, the PVA must immediately notify the taxpayer of the amount of the assessment. Revenue Form 62A379, *Listing of Omitted Property*, is used to list omitted real property. The PVA certifies the omitted assessment in triplicate and delivers all copies to the County Clerk. The Clerk prepares the tax bill, retains one copy of the form, returns one copy to the PVA, and mails one copy to the Office of Property Valuation. A separate bill must be prepared for each year that the property is omitted. Applicable interest rates for omitted assessments are listed at the bottom of Form 62A379. A ten percent penalty is added to assessments voluntarily listed and the penalty is twenty percent penalty if the property is involuntarily listed by the PVA.

### C. Omitted Personal Property

The location and assessment of omitted tangible personal property is the responsibility of the State Valuation Division. Omitted personal property is defined by the Department of Revenue as any personal property which has not been listed for taxation, for any year in which it is taxable, by May 15 of that year.

A property owner may list omitted personal property with the Department or with the PVA; however, the PVA must forward any submissions to the Department for further action.

KRS 132.290 provides a five (5) year statute of limitations for the assessment of omitted property. This limitation period begins on the due date and ends five (5) years subsequent.

Omitted assessments are subject to statutory penalties and interest. Inquiries from taxpayers on any personal property omission should be referred to the Division of State Valuation of the Office of Property Valuation (KRS 132.310 - KRS 132.340).

**CHAPTER TWENTY**  
**EXONERATIONS AND PROPERTY TAX REFUNDS**

A. Introduction

Occasionally, errors made in assessments go unnoticed until the tax bills have been printed and sent to the property owner. In some cases, a property owner may pay an erroneous assessment and then discover an error. The PVA is usually instrumental in verifying and correcting these errors.

B. Exonerations

Exonerations are made when clerical errors, mathematical errors, unintentional omissions, or duplications have been made on a taxpayer's bill. Revenue Form 62A366, *Executive Order Correcting Erroneous Assessment*, is used to correct a tax bill that is not yet delinquent. Revenue Form 62A366-D is used after a bill has become delinquent.

The PVA must approve all exonerations and sign the proper forms. Four copies of the exoneration forms are needed so copies can be sent to the Department of Revenue, the Sheriff and the taxpayer. If property has been assessed to an incorrect owner, the PVA must immediately list it to the rightful owner. The PVA cannot change any errors resulting from an exercise of judgment, such as changing property from one class to another or to a lower assessment (KRS 133.110).

### C. Property Tax Refunds

When a taxpayer pays an incorrect tax bill, a refund is due if it is requested within two years from the date of payment or the date the amount due was finally determined (KRS 134.590). Documentation must be provided by the taxpayer showing that the bill was actually paid. This verification can be obtained from the Sheriff. The PVA will prepare a special exoneration form used when a refund is involved (62A366-R), which will describe the reason an assessment adjustment is being made and the amount of the change.

The refund, even if it is for a prior year, can be issued from the current year's tax funds in the sheriff's possession. If sufficient funds are not available in the sheriff's office, the refund request must be directed to each taxing district in the county. Each district will then refund its share of the total paid to the taxpayer. Refund requests for the state's portion of the amount should be sent to the Office of Property Valuation (KRS 134.590).

**CHAPTER TWENTY-ONE**  
**ASSESSMENT APPEALS**

A. Introduction

Taxpayers have extensive rights for appealing their property tax assessments. Locally assessed real property is appealed on the local level, and appeals for personal property and state assessed property are administered from the state level.

Any real property owner who does not agree with an assessment on real property has the right to appeal under the provisions of KRS 133.120. The property owner may file an appeal with the county clerk at any time before the inspection period and no later than one workday following the conclusion of the inspection period.

B. Conference with Taxpayer

Property owners wishing to appeal their real property assessment must first have a conference with the PVA or a designated deputy. This conference should be held prior to or during the period that the tax roll is open for public inspection. During this conference, the PVA or designated deputy is required to explain the constitutional and statutory provisions governing property tax administration, including the appeals process and the procedures followed in deriving the taxpayer's assessment. The PVA should keep a record of the conference which includes the initial assessed value, the value claimed by the taxpayer, an explanation of any

changes offered or agreed to by each party and a brief accounting of the conference's outcome. The Department provides form 62A307, *Property Owner's Conference Record*, for this purpose. A copy should be given to the property owner as proof that a conference was held with the PVA.

### C. Local Board of Assessment Appeals

If, after the conference with the PVA, the property owner is still not satisfied with a real property assessment, it may be appealed to the local board of tax appeals.

All appeals are filed in the county clerk's office. The county clerk will schedule the appeals, and notify the affected property owners as to when and where their appeals will be heard. The last day to file an appeal is one working day after the close of the inspection period.

The local board of assessment appeals consists of three members. The judge/executive appoints one member, the fiscal court appoints one member and the mayor of the city with the largest assessment using the county tax roll appoints one member. The terms of board members run for three years and are staggered to allow for continuity.

Each board member must have extensive knowledge of real estate values, preferably through involvement in real estate appraisals, sales, management, financing or construction. Mayors of first, second, or third class cities must appoint a certified real estate appraiser unless sufficient proof is submitted to the Department that a person with such a designation cannot be found.

However, the appointing authorities may appoint qualified property owners residing in adjacent counties when qualified members cannot be located within the county (133.020).

The first meeting of the board is devoted to a training program conducted by the PVA office, a review of the assessments of property owned by the PVA and his staff and a review of the appeals filed. If no appeals were filed, the board adjourns after one day. The board meets for no more than five days unless an extension is requested by the judge/executive and authorized by the Department (KRS 133.030).

Property owners filing an appeal before the local board must provide factual evidence to support the appeal. This includes the physical characteristics of the land and improvements, insurance policies, the cost of construction, real estate listings, income and expense statements for commercial property, and loans and mortgages. If the property owner fails to provide reasonable information to support a lower value, the appeal will be denied (KRS 133.120).

The local board may only hear and consider evidence which has been submitted in the presence of both the PVA or a designated deputy and the property owner or an authorized representative.

The local board must provide a written opinion justifying its actions for each assessment either decreased or increased. The Department furnishes standardized forms for this purpose.

#### D. Personal Property and State Assessed Property Appeals

Protests and appeals for personal property valuations, which are derived through the centralized assessment system, are made directly to the Department of Revenue (KRS 132.486), as well as those of other centrally assessed properties. A notice of valuation is automatically sent through the system to the taxpayer for each tangible personal property assessment that has been increased, similar to the same requirement that governs the activities of PVAs. Notices of valuation are also sent by the Department to centrally assessed taxpayers, such as public service companies (KRS 136.180) and owners of unmined minerals (KRS 132.820). The taxpayer has 45 days from the date of notice to file a protest (KRS 131.110). After a timely protest has been filed, the taxpayer may make a written request for a conference with the Department. After considering the taxpayer's protest, including any matters presented at the conference, the Department of Revenue issues a final ruling on the matter, stating the matters in controversy and its position. The final ruling also presents the taxpayer with the option of further appealing the issue to the Kentucky Board of Tax Appeals (KBTA). It is important to note that the taxpayer must pay all state and local taxes due on the valuation claimed by the taxpayer as stated in the protest. Adjustments are billed later if the appeal results in the assessment being increased over the value claimed in the taxpayer's protest.

#### E. Kentucky Board of Tax Appeals (KBTA)

If the property owner is still not satisfied with an assessment after the final ruling of the local board, it may be appealed to the Kentucky Board of Tax Appeals (KBTA). The KBTA consists

of three members appointed by the Governor. Each member of the board must be at least thirty-five years old and at least one member must be an attorney who has been a resident of the state for two years and practiced law for at least eight years. The other two members shall be persons with a general business background.

A property owner who fails to file an appeal with the local board or to appear before the local board after filing an appeal, is not eligible to continue the appeal with the KBTA.

All proceedings before the board shall be de novo. Findings by the board shall be restricted to those issues raised by the parties to the appeal (KRS 131.110). Members of the local board of assessment appeals may be required to give evidence in support of the board's findings in any appeals from its actions to the KBTA (KRS 131.120). The Department is available to assist PVAs in preparing for hearings before the KBTA.

#### F. Appeals to the Courts

KRS 131.370 provides that decisions of the KBTA may be appealed to the Circuit Court. The Circuit Court's action may be appealed to the Court of Appeals and from there to the Kentucky Supreme Court.



**CHAPTER TWENTY-TWO**  
**DELINQUENT PROPERTY**

A. Introduction

As noted in Chapter 18, property tax bills become delinquent on January 1<sup>st</sup> following the assessment date. At the close of business on April 15<sup>th</sup>, the tax bills are transferred from the sheriff's office to the county clerk's office and the delinquent bills are officially known as certificates of delinquency. There are many statutory provisions that are followed by both the county attorney and county clerk that lead to the sale of the certificates of delinquency to third party purchasers at the tax sale conducted by the clerk.

The PVA's role in this process is limited to preparing exonerations where it can be shown an assessment error was made on a certificate of delinquency. Other types of errors – such as a mistake in the address that was made by the PVA office – can be handled through the penalty waiver process that is available and not by exonerating the certificate of delinquency. Guidelines on the waiver of penalties and fees have been furnished to the sheriffs, county attorneys and county clerks. PVAs should work with these officials to obtain a waiver if it is discovered an error made by the PVA office contributed to a particular tax bill going delinquent.

Exonerations issued prior to the tax sale can be processed by the county clerk in the appropriate manner. If an exoneration only partially reduces the assessed value on a property, then all delinquent penalties and fees must continue to be paid; however, they will be based

on a lower amount. If a mistake is discovered after a certificate of delinquency has been sold to a third party purchaser, an exoneration can still be issued, but the third party purchaser must also be notified so that a refund can be applied for in the county clerk's office. It is also acceptable to initiate the refund process on behalf of the third party purchaser.

PVAs should be cautious when evaluating whether or not an exoneration should be issued for a certificate of delinquency that has been acquired by a third party purchaser. Exonerations should be limited to the granting of homestead exemptions based on age or other assessment adjustments that can be documented to have been caused by a mathematical, clerical or procedural error. As noted above, certificates of delinquency are NOT to be exonerated for address changes or incorrect property descriptions.

**CHAPTER TWENTY-THREE**  
**OPEN RECORDS PROCEDURES**

A. Introduction

The Open Records Act was originally enacted by the General Assembly in 1976 and became effective on July 15, 1976. The Act has been substantially amended four times and can be found in KRS 61.870 through 61.884.

A 1992 legislative amendment, KRS 61.871 provides:

The General Assembly finds and declares that the basic policy of KRS 61.870 to 61.884 is that free and open examination of public records is in the public interest and the exceptions provided for by KRS 61.878 or otherwise provided by law shall be strictly construed, even though such examination may cause inconvenience or embarrassment to public officials or others.

The General Assembly in a 1994 legislative amendment to KRS 61.8715, provided that, “to ensure the efficient administration of government and to provide accountability of government activities, public agencies are required to manage and maintain their records according to the requirements” of a comprehensive records management system (KRS 171.410 - 171.740) and the Open Records Act. The General Assembly further recognized that “while all government agency records are public records for the purpose of their management, not all these records are required to be open to public access, some are exempt under KRS 61.878.”

Therefore, all public records shall be open for inspection by any person, except as otherwise provided by the Act. Additionally, KRS 61.884 provides:

Any person shall have access to any public record relating to him or in which he is mentioned by name, upon presentation of appropriate identification, subject to the provisions of KRS 61.878 (exceptions to disclosure of records).

## B. Definitions

As used in KRS 61.872 to 61.874, unless the context requires otherwise:

1. “Public record” is defined in KRS 61.870(2) as:  
“Public record” means all books, papers, maps, photographs, cards, tapes, discs, diskettes, recordings, software, or other documentation regardless of physical form or characteristics, which are prepared, owned, used, in the possession of or retained by a public agency.
2. “Public agency” is defined in KRS 61.870(1) to include:
  - (a) Every state or local government officer;
  - (b) Every state or local government department, division, bureau, board, commission, and authority;
  - (c) Every state or local legislative board, commission, committee and officer;
  - (d) Every county and city governing body, council, school district, special district board, and municipal corporation.
3. “Commercial purpose” is defined in KRS 61.870(4) as:
  - (a) ‘Commercial purpose’ means the direct or indirect use of any part of a public record or records, in any form, for sale, resale, solicitation, rent, or lease of a service, or any use by which the user expects a profit either through commission, salary, or fee.
  - (b) ‘Commercial Purpose’ shall not include:
    - i. Publication or related use of a public record by a newspaper or periodical
    - ii. Use of a public record by a radio or television station in its news or other informational programs; or
    - iii. Use of a public record in the preparation for prosecution for defense of litigation, or claims settlement by the parties to such action, or the attorneys representing the parties.

### C. General Requirements

Each public agency must make suitable facilities available for the inspection of public records. Any person shall have the right to inspect public records without stating a purpose. However, if the public record is to be used for a commercial purpose, the requester must specify that purpose.

The PVA may require a written application, signed by the requestor, to inspect public records. This application may be hand delivered, mailed or sent via facsimile.

The PVA must respond to the request in writing, to the requestor, within three (3) business days (excepting Saturdays, Sundays, and legal holidays). The general response must contain the PVA's statement of whether he/she will comply with the request; and, if inspection of any or all of the request is denied, the reason for denial (KRS 61.880).

If the public record is unavailable, the PVA shall immediately notify the requestor if the public record is in active use, in storage, or not otherwise available, and provide a detailed explanation of the cause of the delay and the place, time, and earliest date on which the public record will be available for inspection.

If the public record does not exist, the PVA should specifically indicate that fact to the requestor. There is no duty to compile information or to create a document that does not already exist in response to an open records request.

If the requestor desires that copies of public records must be mailed, the PVA, upon receipt of all fees and the cost of mailing, must mail the copies. The PVA should utilize discretion in billing for diminutive fees and postage.

#### D. Public Records Open for Inspection

KRS 133.047 specifically provides what is public record in the office of the PVA, which includes the following:

1. Certified property tax rolls. These should be maintained for five (5) years. Additionally, any current, but uncertified real property tax rolls should be made available upon request;
2. Documents in the PVA office received from other public offices, such as building permits;
3. Lists of automobiles, boats or airplanes, whether compiled by the Office of Property Valuation, the PVA office, or any other source;
4. Real property record cards (mapping cards) and maps;
5. Real property assessment cards, except for those portions containing information on personal property other than motor vehicles, boats, and aircraft;
6. Records concerning an individual's own property or the individual. The PVA may request identification.

#### E. Public Records NOT Open for Inspection

Pursuant to KRS 133.047, certain records are not open for inspection, including the following:

1. Personal property tax returns, accompanying documents, and assessment records (confidential under KRS 131.190 and KRS 131.081(15)).

2. Real property tax returns and accompanying documents (confidential under KRS 131.190 and KRS 131.081(15)).

Pursuant to KRS 61.878(1) these public records are subject to inspection only upon a court order. The PVA should contact the Department of Revenue if a court order requests confidential records.

#### F. Fee Schedule for Open Record Requests

Pursuant to KRS 133.047, the Department of Revenue must develop and provide to each PVA a reasonable fee schedule for compensating the cost of providing information and assistance to persons seeking information to be used for commercial or business purposes.

However, any person seeking information on his/her own property shall not be subject to fees for personnel time. Also, any person, including the press, seeking information directly related to property tax assessment, appeals, equalization, requests for refunds, or similar matters shall not be subject to fees for personnel time (KRS 133.047(4)).

A copy of the current fee schedule is shown on the following pages; however, this schedule is in the process of being revised and a regulation is being prepared to formalize the updated schedule. When this has been completed (hopefully by the spring of 2015) all PVA offices will be notified.

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PVA OPEN RECORDS COMMERCIAL FEE GUIDELINES

COPY CHARGES	\$ .10	8½ X 11 OR 8½ x 14 (actual costs if higher may be charged)
FAX CHARGES (This charge is in addition to the fee for the actual data.)	\$2.00 \$5.00	To fax information to a local number To fax information to a long distant number
DEED PLOTTING	\$10.00	per tract (where available)
REQUEST FOR OWNERSHIP and/or ADMINISTRATIVE INFORMATION	\$2.00	per account (no building characteristics)
REQUEST FOR COMPARABLE SALES and/or PROPERTY CHARACTERISTICS	\$5.00 \$2.00	per property (no more than 1 building) each additional building
BULK RATE FOR PROPERTY CHARACTERISTICS - ENTIRE COUNTY	\$1.75 \$2.00	per property (no more than 1 building) each additional building
REQUEST FOR MAILING LIST	\$50.00	per request Plus 8 cents per record for the first 5,000 Plus 7 cents for the next 10,000 Plus 5 cents for the next 15,000 Plus 4 cents for each additional record over 30,000
REQUEST FOR SALES & TRANSFER FILE & COMP BOOKS		
PROVIDED ANNUALLY	\$150.00	per request Plus 30 cents per record for the first 1,000 records Plus 15 cents for next 5,000 Plus 5 cents for each record over 6,000
PROVIDED QUARTERLY		add an additional 10% of annual cost
PROVIDED MONTHLY		add an additional 25% of annual cost
REQUEST FOR PROPERTY TAX ROLL FILE		
	\$250.00	per request Plus 20 cents per record for the first 5,000 records Plus 15 cents for the next 10,000 Plus 10 cents for the next 15,000 Plus 5 cents for each additional record over 30,000

THE PVA ASSUMES NO LIABILITY FOR THE VALIDITY OF THIS DATA

**COMMERCIAL WEBSITE FEE GUIDELINES\***

WEBSITE SUBSCRIPTION FEE SCHEDULE:

120 records/year	\$100
300 records/year	\$200
600 records/year	\$400
1200 records/year	\$750

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**COMMERCIAL GIS FEE GUIDELINES**

***BASIC GIS MAPS AND PRODUCTS***

1. **Standard Topographic Map: (24 x 36 sheet in hard copy form containing all base layers; price per sheet)**

\$25.00/Standard Map  
Mylar prints (where available) at higher rates.

**Map Size Variations (pre-made prints in hard copy format):**

8½ x 11	\$2.50
8½ x 14	\$5.00
11 x 17	\$7.50
17 x 22	\$10.00
22 x 34	\$20.00
34 x 40	\$25.00

**Additional Layers:**

Layers of coverage will vary, as they are dependent on how involved the GIS program is to the area. The need for (and types) of layers will increase with the size and urbanization of the area. The more advanced programs with detailed layers will be more expensive since the start-up costs for them will be higher. Therefore, there is no fair way to establish a uniform set of prices for layer across the state. Each PVA office using GIS will have to determine their own layering schedules based on the amount of money invested into their program.

2. **GIS/Topographic Data (in digital electronic data format):**

\$50.00 PER REQUEST PLUS:

No Data (shape file only - no parcel number) \$0.30 (per parcel)

Individual or Custom Parcel Data \$0.40 (per parcel)  
With parcel number ownership and mailing address only

3. **Aerial Photography:**

As a point of clarification, DOQQ's or aerial photos provided by the Department of Geographical Information (DGI) cannot be sold by PVA offices. For purchase of DOQQ's, contact DGI, (502) 573-1450. Flight patterns flown by and paid for by the county are okay for resale.

Standard PVA Maps (GIS) \$25.00

4. **Digital Images or Sketcher:**

\$1.00 each with a \$5.00 minimum order

5. **Media:**

Diskette \$2.00  
CD \$10.00  
Zip Disk \$16.00

6. **Staff Time:**

If special GIS programming is required, typical rate for staff time charged by PVA offices is \$20.00 per hour.

7. **Mailing Fees:** Actual costs

8. **Updates:**

Annual renewals at discount of 10% of original amount of purchase, plus cost of media.  
Other formats: call for quote

\* These are suggested fees only, actual cost of reproduction, actual cost of staff time, and actual cost of the creation, purchase or other acquisition of records may be recovered if higher.

G. Other Records in the PVA Office

Other real property records in the PVA office shall be subject to the provisions of the Open Records Act.

Pursuant to KRS 131.190(1) records concerning unmined coal are not open for inspection. KRS 131.190(1)(b)(5) does not extend this prohibition to:

Providing an owner of unmined coal, oil, or gas reserves, and other mineral or energy resources assessed under KRS 132.820(1), or owners of surface land under which the unmined minerals lie, factual information about the owner's property derived from third-party returns filed for that owner's property, under the provisions of KRS 132.820(2), that is used to determine the owner's assessment. This information shall be provided to the owner on a confidential basis, and the owner shall be subject to the penalties provided in KRS 131.990(2). The third-party filer shall be given prior notice of any disclosure of information to the owner that was provided by the third-party filer.

Pursuant to KRS 131.355, in cases of appeals of unmined mineral assessments where the records before the board include information provided to the Department of Revenue by the taxpayer or its lessees, and were generated at the taxpayer's expense, the records shall not be considered public records. Additionally, no recorded or transcribed testimony concerning these records shall be considered public record. Neither records containing confidential information nor testimony shall be disclosed to parties outside the appeals proceedings.

Thus, all protests of unmined mineral assessments to the Department of Revenue and appeals before the KBTA and the courts are confidential.



## **CHAPTER TWENTY-FOUR**

### **RECORDS RETENTION**

#### **A. Introduction**

All local and state agencies come in contact with thousands of records every year, and the PVA office is no exception. PVA records are classified as public records, and as such, must be maintained, stored, and disposed of under the guidelines of the Kentucky Revised Statutes and the State Archives and Records Commission. This body was created to advise the Department for Libraries and Archives on matters relating to the management and safekeeping of important documents. The Commission has the authority to review and approve schedules for the retention and destruction of records used by state and local agencies and the final decision on the retention and destruction of public records.

#### **B. Public Records**

KRS 171.410 defines public records as "all books, papers, maps, photographs, cards, tapes, disks, diskettes, recordings, and other documentary material, regardless of physical form or characteristics which are prepared, owned, used, in possession of, or retained by a public agency." The proper management of these records ensures that unnecessary records are not created, necessary records are maintained and used, and records are stored or disposed of according to the law.

The Department of Revenue's Record's Officer or the staff of the Department of Libraries and Archives is willing to work closely with Property Valuation Administrators in determining which records are permanent and how long other records should be kept before being destroyed. A copy of the Records Retention Schedule is on the PVA network

Permanent records are stored free of charge at the Archives Center. Non-permanent records (those records retained from two to twenty years) will be stored for a nominal fee. Since various forms must be completed before any records are transferred to Archives, the PVA should call the Department of Libraries and Archives at (502) 564-8300 for further instructions.

#### C. Local Disposal of Records

Local offices are responsible for the disposal of materials that do not require retention; however, care must be given to the method used. The Department of Archives recommends using landfills, shredders, or incinerators for this process. PVAs can follow the methods used by other agencies in the county when dealing with sensitive record disposal.