

1 AN ACT relating to the valuation of multi-unit rental housing subject to
2 government restriction on use.

3 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

4 ➔Section 1. KRS 132.010 is amended to read as follows:

5 As used in this chapter, unless the context otherwise requires:

- 6 (1) "Department" means the Department of Revenue;
- 7 (2) "Taxpayer" means any person made liable by law to file a return or pay a tax;
- 8 (3) "Real property" includes all lands within this state and improvements thereon;
- 9 (4) "Personal property" includes every species and character of property, tangible and
10 intangible, other than real property;
- 11 (5) "Resident" means any person who has taken up a place of abode within this state
12 with the intention of continuing to abide in this state; any person who has had his or
13 her actual or habitual place of abode in this state for the larger portion of the twelve
14 (12) months next preceding the date as of which an assessment is due to be made
15 shall be deemed to have intended to become a resident of this state;
- 16 (6) "Compensating tax rate" means that rate which, rounded to the next higher one-
17 tenth of one cent (\$0.001) per one hundred dollars (\$100) of assessed value and
18 applied to the current year's assessment of the property subject to taxation by a
19 taxing district, excluding new property and personal property, produces an amount
20 of revenue approximately equal to that produced in the preceding year from real
21 property. However, in no event shall the compensating tax rate be a rate which,
22 when applied to the total current year assessment of all classes of taxable property,
23 produces an amount of revenue less than was produced in the preceding year from
24 all classes of taxable property. For purposes of this subsection, "property subject to
25 taxation" means the total fair cash value of all property subject to full local rates,
26 less the total valuation exempted from taxation by the homestead exemption
27 provision of the Constitution and the difference between the fair cash value and

1 agricultural or horticultural value of agricultural or horticultural land;

2 (7) "Net assessment growth" means the difference between:

3 (a) The total valuation of property subject to taxation by the county, city, school
4 district, or special district in the preceding year, less the total valuation
5 exempted from taxation by the homestead exemption provision of the
6 Constitution in the current year over that exempted in the preceding year; and

7 (b) The total valuation of property subject to taxation by the county, city, school
8 district, or special district for the current year;

9 (8) "New property" means the net difference in taxable value between real property
10 additions and deletions to the property tax roll for the current year. "Real property
11 additions" shall mean:

12 (a) Property annexed or incorporated by a municipal corporation, or any other
13 taxing jurisdiction; however, this definition shall not apply to property
14 acquired through the merger or consolidation of school districts, or the
15 transfer of property from one (1) school district to another;

16 (b) Property, the ownership of which has been transferred from a tax-exempt
17 entity to a nontax-exempt entity;

18 (c) The value of improvements to existing nonresidential property;

19 (d) The value of new residential improvements to property;

20 (e) The value of improvements to existing residential property when the
21 improvement increases the assessed value of the property by fifty percent
22 (50%) or more;

23 (f) Property created by the subdivision of unimproved property, provided, that
24 when the property is reclassified from farm to subdivision by the property
25 valuation administrator, the value of the property as a farm shall be a deletion
26 from that category;

27 (g) Property exempt from taxation, as an inducement for industrial or business

1 use, at the expiration of its tax exempt status;

2 (h) Property, the tax rate of which will change, according to the provisions of
3 KRS 82.085, to reflect additional urban services to be provided by the taxing
4 jurisdiction, provided, however, that the property shall be considered "real
5 property additions" only in proportion to the additional urban services to be
6 provided to the property over the urban services previously provided; and

7 (i) The value of improvements to real property previously under assessment
8 moratorium.

9 "Real property deletions" shall be limited to the value of real property removed
10 from, or reduced over the preceding year on, the property tax roll for the current
11 year;

12 (9) "Agricultural land" means:

13 (a) Any tract of land, including all income-producing improvements, of at least
14 ten (10) contiguous acres in area used for the production of livestock,
15 livestock products, poultry, poultry products and/or the growing of tobacco
16 and/or other crops including timber;

17 (b) Any tract of land, including all income-producing improvements, of at least
18 five (5) contiguous acres in area commercially used for aquaculture; or

19 (c) Any tract of land devoted to and meeting the requirements and qualifications
20 for payments pursuant to agriculture programs under an agreement with the
21 state or federal government;

22 (10) "Horticultural land" means any tract of land, including all income-producing
23 improvements, of at least five (5) contiguous acres in area commercially used for
24 the cultivation of a garden, orchard, or the raising of fruits or nuts, vegetables,
25 flowers, or ornamental plants;

26 (11) "Agricultural or horticultural value" means the use value of "agricultural or
27 horticultural land" based upon income-producing capability and comparable sales

1 of farmland purchased for farm purposes where the price is indicative of farm use
2 value, excluding sales representing purchases for farm expansion, better
3 accessibility, and other factors which inflate the purchase price beyond farm use
4 value, if any, considering the following factors as they affect a taxable unit:

- 5 (a) Relative percentages of tillable land, pasture land, and woodland;
- 6 (b) Degree of productivity of the soil;
- 7 (c) Risk of flooding;
- 8 (d) Improvements to and on the land that relate to the production of income;
- 9 (e) Row crop capability including allotted crops other than tobacco;
- 10 (f) Accessibility to all-weather roads and markets; and
- 11 (g) Factors which affect the general agricultural or horticultural economy, such
12 as: interest, price of farm products, cost of farm materials and supplies, labor,
13 or any economic factor which would affect net farm income;

14 (12) "Deferred tax" means the difference in the tax based on agricultural or horticultural
15 value and the tax based on fair cash value;

16 (13) "Homestead" means real property maintained as the permanent residence of the
17 owner with all land and improvements adjoining and contiguous thereto including
18 but not limited to lawns, drives, flower or vegetable gardens, outbuildings, and all
19 other land connected thereto;

20 (14) "Residential unit" means all or that part of real property occupied as the permanent
21 residence of the owner;

22 (15) "Special benefits" are those which are provided by public works not financed
23 through the general tax levy but through special assessments against the benefited
24 property;

25 (16) "Manufactured home" means a structure manufactured after June 15, 1976, in
26 accordance with the National Manufactured Housing Construction and Safety
27 Standards Act, transportable in one (1) or more sections, which when erected on

1 site measures eight (8) body feet or more in width and thirty-two (32) body feet or
2 more in length, and which is built on a permanent chassis and designed to be used
3 as a dwelling, with or without a permanent foundation, when connected to the
4 required utilities, and includes the plumbing, heating, air-conditioning, and
5 electrical systems contained therein. It may be used as a place of residence,
6 business, profession, or trade by the owner, lessee, or their assignees and may
7 consist of one (1) or more units that can be attached or joined together to comprise
8 an integral unit or condominium structure;

9 (17) "Mobile home" means a structure manufactured on or before June 15, 1976, that
10 was not required to be constructed in accordance with the National Manufactured
11 Housing Construction and Safety Standards Act, transportable in one (1) or more
12 sections, which when erected on site measures eight (8) body feet or more in width
13 and thirty-two (32) body feet or more in length, and which is built on a permanent
14 chassis and designed to be used as a dwelling, with or without a permanent
15 foundation, when connected to the required utilities, and includes the plumbing,
16 heating, air-conditioning, and electrical systems contained therein. It may be used
17 as a place of residence, business, profession, or trade by the owner, lessee, or their
18 assigns and may consist of one (1) or more units that can be attached or joined
19 together to comprise an integral unit or condominium structure;

20 (18) "Modular home" means a structure which is certified by its manufacturer as being
21 constructed in accordance with all applicable provisions of the Kentucky Building
22 Code and standards adopted by the local authority which has jurisdiction,
23 transportable in one (1) or more sections, and designed to be used as a dwelling on
24 a permanent foundation when connected to the required utilities, and includes the
25 plumbing, heating, air-conditioning, and electrical systems contained therein;

26 (19) "Prefabricated home" means a manufactured home, a mobile home, or a modular
27 home;

- 1 (20) "Recreational vehicle" means a vehicular type unit primarily designed as temporary
2 living quarters for recreational, camping, or travel use, which either has its own
3 motive power or is mounted on or drawn by another vehicle. The basic entities are:
4 travel trailer, camping trailer, truck camper, and motor home. As used in this
5 subsection:
- 6 (a) "Travel trailer" means a vehicular unit, mounted on wheels, designed to
7 provide temporary living quarters for recreational, camping, or travel use, and
8 of a size or weight that does not require special highway movement permits
9 when drawn by a motorized vehicle, and with a living area of less than two
10 hundred twenty (220) square feet, excluding built-in equipment (such as
11 wardrobes, closets, cabinets, kitchen units or fixtures) and bath and toilet
12 rooms;
- 13 (b) "Camping trailer" means a vehicular portable unit mounted on wheels and
14 constructed with collapsible partial side walls which fold for towing by
15 another vehicle and unfold at the camp site to provide temporary living
16 quarters for recreational, camping, or travel use;
- 17 (c) "Truck camper" means a portable unit constructed to provide temporary living
18 quarters for recreational, travel, or camping use, consisting of a roof, floor,
19 and sides, designed to be loaded onto and unloaded from the bed of a pick-up
20 truck; and
- 21 (d) "Motor home" means a vehicular unit designed to provide temporary living
22 quarters for recreational, camping, or travel use built on or permanently
23 attached to a self-propelled motor vehicle chassis or on a chassis cab or van
24 which is an integral part of the completed vehicle;
- 25 (21) "Hazardous substances" shall have the meaning provided in KRS 224.1-400;
- 26 (22) "Pollutant or contaminant" shall have the meaning provided in KRS 224.1-400;
- 27 (23) "Release" shall have the meaning as provided in either or both KRS 224.1-400 and

1 KRS 224.60-115;

2 (24) "Qualifying voluntary environmental remediation property" means real property
3 subject to the provisions of KRS 224.1-400 and 224.1-405, or 224.60-135 where the
4 Energy and Environment Cabinet has made a determination that:

5 (a) All releases of hazardous substances, pollutants, contaminants, petroleum, or
6 petroleum products at the property occurred prior to the property owner's
7 acquisition of the property;

8 (b) The property owner has made all appropriate inquiry into previous ownership
9 and uses of the property in accordance with generally accepted practices prior
10 to the acquisition of the property;

11 (c) The property owner or a responsible party has provided all legally required
12 notices with respect to hazardous substances, pollutants, contaminants,
13 petroleum, or petroleum products found at the property;

14 (d) The property owner is in compliance with all land use restrictions and does
15 not impede the effectiveness or integrity of any institutional control;

16 (e) The property owner complied with any information request or administrative
17 subpoena under KRS Chapter 224; and

18 (f) The property owner is not affiliated with any person who is potentially liable
19 for the release of hazardous substances, pollutants, contaminants, petroleum,
20 or petroleum products on the property pursuant to KRS 224.1-400, 224.1-405,
21 or 224.60-135, through:

22 1. Direct or indirect familial relationship;

23 2. Any contractual, corporate, or financial relationship, excluding
24 relationships created by instruments conveying or financing title or by
25 contracts for sale of goods or services; or

26 3. Reorganization of a business entity that was potentially liable;

27 (25) "Intangible personal property" means stocks, mutual funds, money market funds,

1 bonds, loans, notes, mortgages, accounts receivable, land contracts, cash, credits,
2 patents, trademarks, copyrights, tobacco base, allotments, annuities, deferred
3 compensation, retirement plans, and any other type of personal property that is not
4 tangible personal property;

5 (26) (a) "County" means any county, consolidated local government, urban-county
6 government, unified local government, or charter county government;

7 (b) "Fiscal court" means the legislative body of any county, consolidated local
8 government, urban-county government, unified local government, or charter
9 county government; and

10 (c) "County judge/executive" means the chief executive officer of any county,
11 consolidated local government, urban-county government, unified local
12 government, or charter county government;

13 (27) "Taxing district" means any entity with the authority to levy a local ad valorem tax,
14 including special purpose governmental entities;

15 (28) "Special purpose governmental entity" shall have the same meaning as in KRS
16 65A.010, and as used in this chapter shall include only those special purpose
17 governmental entities with the authority to levy ad valorem taxes, and that are not
18 specifically exempt from the provisions of this chapter by another provision of the
19 Kentucky Revised Statutes;

20 (29) (a) "Broadcast" means the transmission of audio, video, or other signals, through
21 any electronic, radio, light, or similar medium or method now in existence or
22 later devised over the airwaves to the public in general.

23 (b) "Broadcast" shall not apply to operations performed by multichannel video
24 programming service providers as defined in KRS 136.602 or any other
25 operations that transmit audio, video, or other signals, exclusively to persons
26 for a fee;

27 (30) "Livestock" means cattle, sheep, swine, goats, horses, alpacas, llamas, buffaloes,

1 and any other animals of the bovine, ovine, porcine, caprine, equine, or camelid
2 species;

3 (31) "Heavy equipment rental agreement" means the short-term rental contract under
4 which qualified heavy equipment is rented without an operator for a period:

5 (a) Not to exceed three hundred sixty-five (365) days; or

6 (b) That is open-ended under the terms of the contract with no specified end date;

7 (32) "Heavy equipment rental company" means an entity that is primarily engaged in a
8 line of business described in Code 532412 or 532310 of the North American
9 Industry Classification System Manual in effect on January 1, 2019;

10 (33) "Qualified heavy equipment" means machinery and equipment, including ancillary
11 equipment and any attachments used in conjunction with the machinery and
12 equipment, that is:

13 (a) Primarily used and designed for construction, mining, forestry, or industrial
14 purposes, including but not limited to cranes, earthmoving equipment, well-
15 drilling machinery and equipment, lifts, material handling equipment, pumps,
16 generators, and pollution-reducing equipment; and

17 (b) Held in a heavy equipment rental company's inventory for:

18 1. Rental under a heavy equipment rental agreement; or

19 2. Sale in the regular course of business;~~and~~

20 (34) "Veteran service organization" means an organization wholly dedicated to
21 advocating on behalf of military veterans and providing charitable programs in
22 honor and on behalf of military veterans;~~and~~

23 **(35) "Government restriction on use" means a limitation on the use of at least fifty**
24 **percent (50%) of the individual dwelling units of a multi-unit rental housing in**
25 **order to receive a federal or state government incentive based on low-income**
26 **renter restrictions, including the following government incentives:**

27 **(a) A tax credit under Section 42 of the Internal Revenue Code;**

- 1 (b) Financing derived from exempt facility bonds for qualified residential
2 rental projects under Section 142 of the Internal Revenue Code;
3 (c) A low-interest loan under Section 235 or 236 of the National Housing Act
4 or Section 515 of the Housing Act of 1949;
5 (d) A rent subsidy;
6 (e) A guaranteed loan;
7 (f) A grant; or
8 (g) A guarantee;
9 (36) "Low-income" means earning at or below eighty percent (80%) of the area
10 median income as defined by the United States Department of Housing and
11 Urban Development for the location of the multi-unit rental housing; and
12 (37) "Multi-unit rental housing" means residential property or project consisting of
13 four (4) or more individual dwelling units and does not include:
14 (a) Assisted living facilities; or
15 (b) Duplexes or single-family units unless they are included as part of a larger
16 property that is subject to government restriction on use.

17 ➔Section 2. KRS 132.191 is amended to read as follows:

- 18 (1) The General Assembly recognizes that Section 172 of the Constitution of Kentucky
19 requires all property, not exempted from taxation by the Constitution, to be assessed
20 at one hundred percent (100%) of the fair cash value, estimated at the price the
21 property would bring at a fair voluntary sale, and that it is the responsibility of the
22 property valuation administrator to value property in accordance with the
23 Constitution.
- 24 (2) The General Assembly further recognizes that property valuation may be
25 determined using a variety of valid valuation methods, including but not limited to:
- 26 (a) A cost approach, which is a method of appraisal in which the estimated value
27 of the land is combined with the current depreciated reproduction or

- 1 replacement cost of improvements on the land;
- 2 (b) An income approach, which is a method of appraisal based on estimating the
- 3 present value of future benefits arising from the ownership of the property;
- 4 (c) A sales comparison approach, which is a method of appraisal based on a
- 5 comparison of the property with similar properties sold in the recent past;{
- 6 ~~and}~~
- 7 (d) A subdivision development approach, which is a method of appraisal of raw
- 8 land:
- 9 1. When subdivision and development are the highest and best use of the
- 10 parcel of raw land being appraised; and
- 11 2. When all direct and indirect costs and entrepreneurial incentives are
- 12 deducted from the estimated anticipated gross sales price of the finished
- 13 lots, and the resultant net sales proceeds are then discounted to present
- 14 value at a market-derived rate over the development and absorption
- 15 period; and
- 16 **(e) The approaches listed in subsection (5) of this section for multi-unit rental**
- 17 **housing that is subject to government restriction on use.**
- 18 (3) The valuation of a residential, commercial, or industrial tract development shall
- 19 meet the minimum applicable appraisal standards established by:
- 20 (a) The Kentucky Department of Revenue, as stated in its Guidelines for
- 21 Assessment of Vacant Lots, dated March 26, 2008; or
- 22 (b) The International Association of Assessing Officers.
- 23 (4) To be appraised using the subdivision development approach, a subdivision
- 24 development shall consist of five (5) or more units. The appraisal of the
- 25 development shall reflect deductions and discounts for:
- 26 (a) Holding costs, including interest and maintenance;
- 27 (b) Marketing costs, including commissions and advertising; and

1 (c) Entrepreneurial profit.

2 (5) (a) The property valuation of multi-unit rental housing that is subject to
3 government restriction on use may be determined:

4 1. a. Through an annual net operating income approach to value that
5 uses actual income and stabilized operating expenses that are
6 based on the actual history of the property, when available, and a
7 capitalization rate.

8 b. The methodology employed in the projection of income,
9 expenses, and capitalization rate used shall be consistent with
10 the Uniform Standards of Professional Appraisal Practice.

11 c. The capitalization rate shall be:

12 i. Based on the risks associated with multi-unit rental
13 housing subject to government restriction on use, including
14 diminished ownership control; income generating
15 potential; liquidity; the condition of the property; the class
16 of the property; and the property's location and size;

17 ii. Equal to or greater than the capitalization rate used for
18 valuing multi-unit rental housing that is not subject to
19 government restriction on use; and

20 iii. In the range of fifty (50) to one hundred fifty (150) basis
21 points above the most recent quarterly survey of the
22 national average cap rates of multifamily properties
23 published by realtyrates.com or a successor organization.

24 d. The department shall publish the capitalization rate range for
25 the property valuation administrators to use on its website at the
26 beginning of each year; or

27 2. By adjusting the unrestricted market value of the multi-unit rental

1 housing, computed without regard to any government restriction on
2 use applicable to the multi-unit rental housing, based on the ratio of
3 the average annual rent of those units of the property that are subject
4 to government restriction on use to the average annual rent of
5 comparable multi-unit rental housing that is not subject to
6 government restriction on use.

7 **(b) Income tax credits received under Section 42 of the Internal Revenue Code**
8 or from any state or federal program shall not be included in the methods
9 used under paragraph (a) of this subsection in determining the income
10 attributable to the multi-unit rental housing or in any separate intangible
11 assessment.

12 **(c) 1. The owner of multi-unit rental housing shall:**

13 **a. Notify the property valuation administrator if:**

14 **i. The property is subject to government restriction on use;**

15 **ii. The property is no longer subject to government restriction**
16 **on use; or**

17 **iii. A foreclosure action has been brought upon the property;**
18 **and**

19 **b. File with the property valuation administrator, on a form**
20 **prescribed by the department, the information necessary for the**
21 **multi-unit rental housing to be valued based on the methods**
22 **described in paragraph (a) of this subsection.**

23 **2. The notification shall be in writing and submitted to the property**
24 **valuation administrator within sixty (60) days of the date in which the**
25 **applicable circumstance as listed in subparts i., ii., and iii. of**
26 **subparagraph 1.a. of this paragraph occurred.**

27 **3. An owner who fails to comply with this paragraph may be subject to**

1 penalties in an amount not to exceed two hundred dollars (\$200) as
2 determined by the department.

3 (d) The department shall promulgate administrative regulations in accordance
4 with KRS Chapter 13A to adopt forms, penalties, and procedures to carry
5 out the provisions of this subsection.

6 ➔ Section 3. This Act shall apply to multi-unit rental housing assessed on or after
7 January 1, 2024.