KLC LEGISLATIVE ADVOCACY

LEGISLATIVE AGENDA

2019 EDITION | KENTUCKY LEAGUE OF CITIES

KLC

LEGISLATIVE ADVOCACY

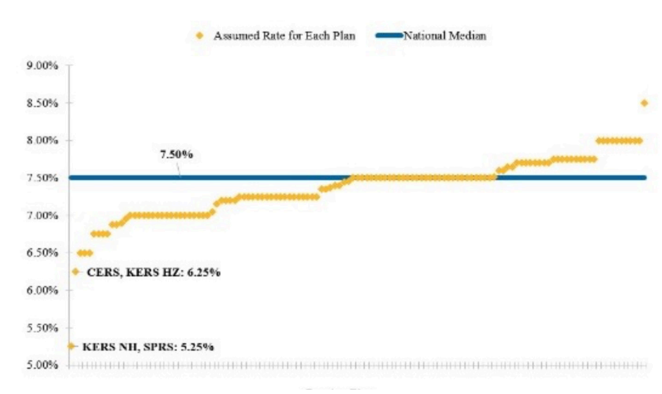
CERS SEPARATION

Pensions dominated the discussion in the 2018 Regular Session. Legislators passed a pension reform bill, Senate Bill 151, and a bill that provided a phase-in of assumption rates for employers in the County Employees Retirement System (CERS). However, legislation enacted in 2018 failed to address the ongoing need of CERS employers and employees to separate the system from the Kentucky Retirement Systems (KRS) to allow for local control of the local tax dollars that fund the local pension system.

LEGISLATIVE PRIORITY: Separation of the governance and administration of the County Employees Retirement System (CERS) from the Kentucky Retirement Systems (KRS) remains the Kentucky League of Cities top legislative priority for the 2019 Regular Session of the General Assembly.

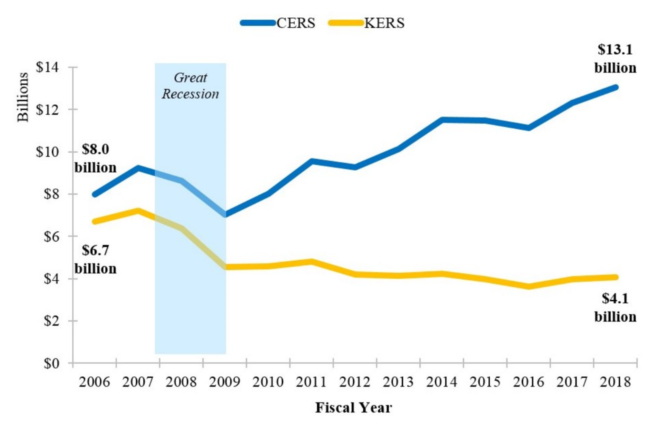
KLC is not alone in the call for an untethered pension system. A coalition of 25 employer and employee groups has advocated for separation to fix the management problems with KRS. The coalition has voiced concerns about the future of the pension system, the lack of adequate representation on the KRS Board of Trustees and the lumping of the higher funded CERS into reforms proposed for the Kentucky Employees Retirement System (KERS) that is funded at a crisis level.

INVESTMENT RETURN ASSUMPTIONS FOR STATE RETIREMENT PLANS NATIONWIDE



While the KRS Board of Trustees recently voted to lower the CERS assumption rate to 6.25 percent, the second lowest rate in the nation outside of KERS, the local pension system is still seeing gains and trending upward. Separation will help ensure it continues its path to being fully funded without being unduly influenced by decisions made by a board that is comprised mostly of gubernatorial appointees and representatives of the state's pension systems. Local management of CERS assets can better ensure the local tax dollars are invested in funds that are more lucrative for the healthier system.

TOTAL PLAN NET POSITION



Plan net position equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflow of resources

CERS includes several groups, including city, county and school employees (not teachers). It is the largest system in the Kentucky Retirement Systems, with more than 236,000 members and $8.97 billion in pension assets. Despite CERS accounting for 75 percent of the assets in KRS, it has only 35 percent representation on the board that oversees the funds.

Additionally, state lawmakers allocate no money directly from the budget toward the CERS actuarially required contribution (ARC); it is funded with local tax dollars. KLC and other agencies that support separation believe these local tax dollars are worthy of their own management and focus.

The current separation proposal would create a new nine-member CERS Board of Trustees. It would be focused solely on CERS management and investments without political influence, regardless of future administrations.

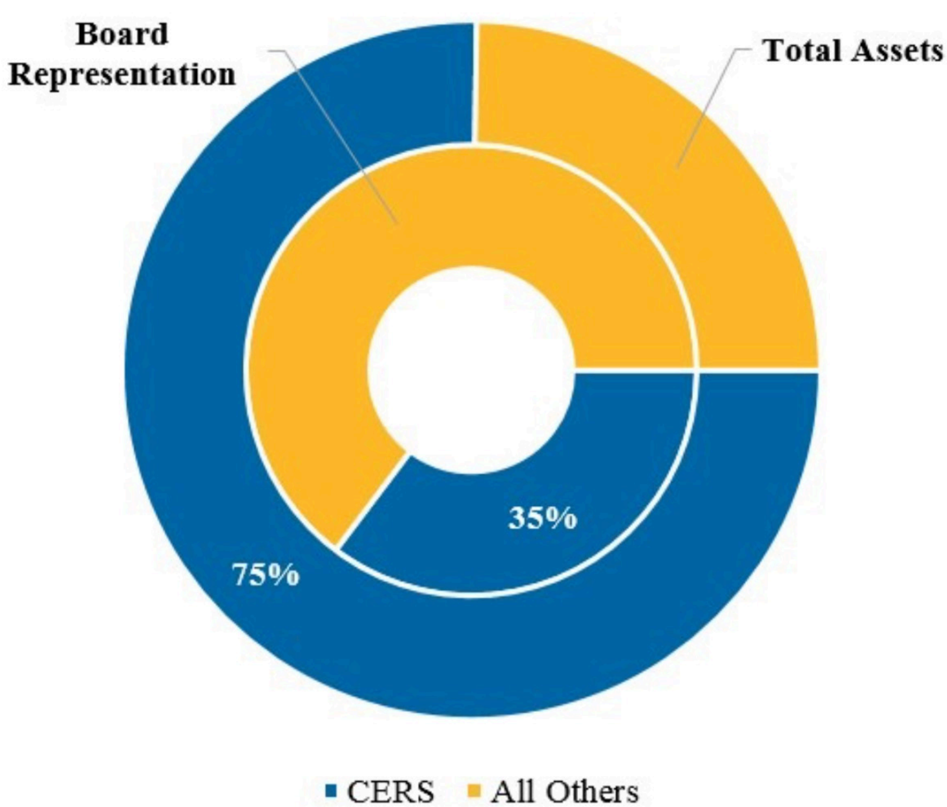
Once separated, CERS would still report to the Public Pension Oversight Board (PPOB). PPOB has appointed an advisory committee that has begun meeting to evaluate the various aspects of separation. The committee is required to report recommendations to PPOB no later than December 1, 2019. The Kentucky League of Cities advocated for the separation study to be part of Senate Bill 151, the pension reform law.

Local control of local pensions is a mantra that local governments vow to continue. It is important for the local employees who make up our communities. They are the workers who maintain our city halls and county courthouses, safely drive our children to school on the bus, protect our communities and feed our children. These CERS members deserve a pension system that puts their needs and future at the forefront.

Follow us on twitter @freeCERSky or search for #freeCERS.

www.LocalPensionControl.com

TOTAL ASSETS VS. BOARD REPRESENTATION OF THE KENTUCKY RETIREMENT SYSTEMS



ROAD FUNDING FORMULA

The legislature created the municipal road aid program in 1972 to provide cities a share of funds from the motor fuels tax to ensure the upkeep and safety of roads and bridges. While the population of Kentucky's cities has grown exponentially since that time, the amount of money provided to cities has not changed.

LEGISLATIVE PRIORITY: Cities are looking to the legislature to adopt a new road funding formula that provides for a fairer proportion of new state gas tax revenues for the construction and maintenance of city streets.

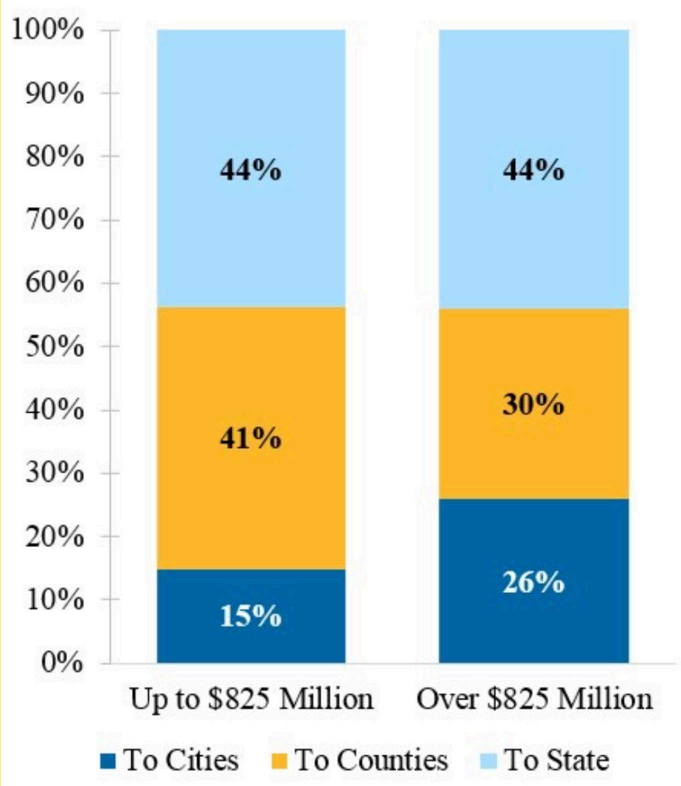
Kentucky cities spend hundreds of thousands of dollars a year maintaining roads and bridges within their city limits. In all, Kentucky cities are responsible for more than 10,000 miles of public roads. The cost of maintaining those streets falls largely on municipal governments, as state and federal road funds provide only about one-third of the cost. A disproportionate amount of the gas tax collected in Kentucky goes to rural, low-population counties with roads that are used less frequently than busy city streets.

Gas tax revenues are distributed largely by a system established in 1948 that is known as the "formula of fifths." It is heavily slanted toward rural counties and has not changed in 70 years. The formula allocates one-fifth to all counties, one-fifth is divided based on rural population, one-fifth is determined by rural road miles and the remaining two-fifths is divided by rural land area. The formula does not account for the population boom of cities nor the high cost of maintaining those heavily traveled roads. In fact, it can penalize counties with rapid growth.

The Kentucky League of Cities and the Kentucky Association of Counties agreed on a proposal to update the gas tax formula. It will equally divide revenue above $825 million, the total available for revenue sharing in Kentucky in Fiscal Year 2014. Under the new plan, the amount above the threshold will be split equally between cities and counties at 13 percent each. This will help ensure cities, that are often the center of commerce and activity in a county, will have the funds necessary to ensure the upkeep and safety of high-traffic areas while also holding counties harmless.

Currently, 61 percent of yearly vehicle miles traveled in Kentucky are on rural roads, yet counties receive 85 percent of road aid funds. Urban roads account for 39 percent of vehicle miles traveled, but cities receive only 15 percent of road aid monies. The new formula equalizes distribution and ensures cities have the funds necessary to maintain roads and bridges that are often in need of more frequent repair and maintenance.

ROAD AID DISTRIBUTION COMPROMISE



REVENUE FLEXIBILITY AND PROTECTION

When it comes to local taxation in Kentucky, all things are not created equal. Cash-strapped cities are restricted on what type of revenue can be generated. As city populations continue to grow, the need for equitable and modern tax codes becomes more pronounced. Kentucky cities are required to provide quality of life services to residents and those who work and visit, but city leaders are given few options for ways to pay for those needed services.

House Speaker Pro Tem David Osborne (R-Prospect) and Senate President Robert Stivers (R-Manchester) have impaneled a Tax Expenditure Task Force to review possible tax reform. Modernization is one of its focal points. An update to a few tax policies could provide new funding options for booming municipalities so they can tailor their tax policies to the needs of the local community.

CONSUMER-BASED RESTAURANT FUNDS

Only former fourth and fifth class cities can collect consumer-based restaurant revenue – that is just over half of the cities in the state. In those cities, 100 percent of the earnings are allocated to the local tourism commission to be used for marketing purposes. Expansion and modernization of the funding source could provide cities money to pay for community development that boosts tourism while improving neighborhoods.

LEGISLATIVE PRIORITY: The Kentucky League of Cities will seek legislation that equalizes the utilization of consumer-based restaurant revenue to ensure all cities have access to the option if needed, with a maximum of 75 percent of the proceeds staying with the city.

The proposal to extend the option to all cities would provide more funds to tourism while providing cities more flexibility in determining how the receipts are used to best benefit the community. Of the 75 percent total, one-third of the income retained by the city would be dedicated to recreation projects within the community. The local tourism commission will receive at least 25 percent of the total revenue generated for marketing, branding and promotional activities.

Existing restaurant revenue collection generated $22.7 million for Kentucky tourism commissions in Fiscal Year 2016. If all cities collected 3 percent under this proposal, tourism commissions would receive nearly $50 million a year. That would generate approximately $6.1 million for the City of Bowling Green and $2.0 million for its local tourism commission. An equal collection rate in Georgetown would mean about $1.7 million for the city and $573,000 for tourism. Covington would generate around $2.2 million for city improvements and $740,000 to promote tourism.

Any consumer-based restaurant revenue collected would be in lieu of the collection of net profits or gross receipts taxes on restaurants. Cities would be allowed to levy payroll taxes on restaurant employees and maintain regulatory business licensing requirements.

Consumer-based restaurant funds would be generated by more affluent Kentuckians since people spend more in restaurants as their means increases. Wealthier Americans spend 51 percent of their food budget eating out, while people in a low-income range report spending an average of 35 percent of their budget in restaurants. People in high-income brackets also tend to eat in more expensive establishments. If cities collected 3 percent of the revenue, the average monthly increase for people in a low-income bracket would be $3.40, while the increase would amount to $15.80 for high-income citizens.

City	2017 Population Estimate	Estimated Restaurant Sales	City Share of 3% tax	Local Tourism Share of 3% Tax
Ashland	20,669	$98,388,000	$2,214,000	$738,000
Bowling Green	67,067	$271,892,000	$6,118,000	$2,039,000
Covington	40,455	$98,673,000	$2,220,000	$740,000
Danville	16,735	$60,749,000	$1,367,000	$456,000
Florence	32,305	$225,874,000	$5,082,000	$1,694,000
Frankfort	27,621	$91,633,000	$2,062,000	$687,000
Jeffersontown	27,395	$140,047,000	$3,151,000	$1,050,000
Lexington	321,959	$851,026,000	$19,148,000	$6,383,000
Paducah	24,941	$187,487,000	$4,218,000	$1,406,000
Winchester	18,486	$61,060,000	$1,374,000	$458,000

OCCUPATIONAL LICENSE TAX

As cities struggle to do more with less, populations in Kentucky's cities continue to grow. In the past year, Kentucky cities added 13,377 people while unincorporated areas in the state only added 4,699 people. Cities are helping drive the state's economy and bring jobs. It is important that changes to tax policies don't impede city expansion and that municipalities retain the few revenue-generating options they have available to provide services to the growing workforce.

Occupational license taxes may be imposed by a city or county on the net profits of businesses and/or on the salaries and wages that employees earn. The money raised with the tax provides the essential services businesses and their employees rely upon while they do business in the community. If a city and county with a population of 30,000 or more both levy an occupational license tax, the amount paid to the city can be credited towards the amount owed to the county.

LEGISLATIVE PRIORITY: KLC will advocate for legislation that maintains the protection taxpayers currently have to credit payment of any occupational license tax paid to a city against any county tax owed and oppose any effort to remove the credit.

The credit helps ensure taxes are not stacked on local businesses and workers. People who conduct business in a city's limits count on city services (police, fire, water, etc.). Removing the crediting provision would ultimately result in taxpayers funding duplicate services. Eliminating the credit could result in higher taxes for people who work and operate businesses in several communities where the city accounts for a majority of the employment and population.

CONSUMPTION-BASED LOCAL TAXATION

Modernizing Kentucky's tax code may require a constitutional amendment. The Kentucky Constitution severely limits how cities generate revenue and does not allow local communities to tax consumption. This type of limitation puts a stranglehold on a city's ability to maintain infrastructure, expand essential services and improve the types of amenities that attract citizens and businesses.

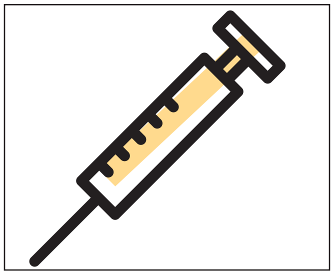
LEGISLATIVE PRIORITY: The Kentucky League of Cities supports an amendment to the Kentucky Constitution that would permit a city to impose a local sales tax.

Kentucky cities rank 44th in the country for local taxes collected, even though more than half of revenue that pays for city services comes from taxes. Currently, 38 states permit one or more cities or counties to levy a local sales tax. Permitting a local community to collect consumption-based funds would allow cities more flexibility in tailoring their tax policy in a manner that best suits their local community.

Over the past seven years, cities in Kentucky have continued to grow at a faster pace than rural areas. The boom is putting a strain on communities that are extremely limited in how they finance needed services and programs. City leaders are looking to the legislature to modernize and equalize tax laws that haven't been updated in decades. Expanding current tax provisions to allow all cities the same options and enacting new statutes that are more in line with 21st century consumer behavior will go a long way toward ensuring the state's economic and population growth are not stunted.

ADDITIONAL AGENDA ITEMS

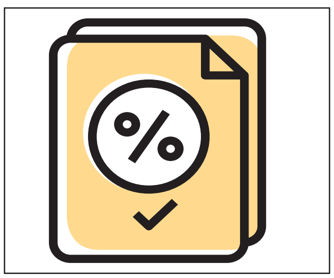
Drug Abuse



The Kentucky League of Cities has maintained an active position on battling the drug abuse epidemic in Kentucky since 2013. It remains a top legislative priority for 2019. All cities in the state are impacted by the social, criminal and economic impacts of the drug crisis.

LEGISLATIVE PRIORITY: KLC will continue to support legislation that addresses the drug problem in Kentucky. The League will have an active position on and participate in efforts to combat the criminal aspects of drug trafficking and abuse as well as a proactive stance on treatment, rehabilitation, training and workforce reentry.

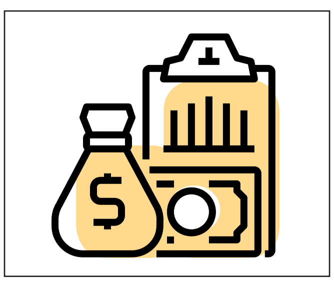
Classification Reform 2.0



Cities across Kentucky continue to see inequities between local governments depending on population or prior classification. In 2015, the state changed its former arbitrary classification system, creating two city classes: first class and home rule cities. While the classification system is designed to allow cities certain rights and responsibilities, several state laws are still applied based on city population or previous classification.

LEGISLATIVE PRIORITY: Cities seek statutory changes to eliminate inequities among city governments in Kentucky based on population or that were grandfathered during previous classification reform.

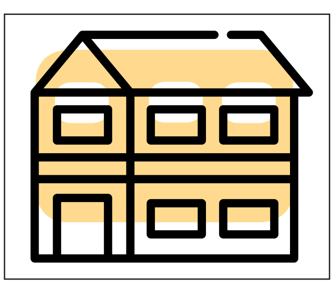
Economic Development



The success and growth of Kentucky cities depends on economic development, which brings job growth and financial prosperity to local communities.

LEGISLATIVE PRIORITY: KLC will support legislation that enhances economic development opportunities in our cities.

Deteriorated & Vacant Properties



Blighted, deteriorated and abandoned properties pose a danger to neighborhoods, provide cover to criminals and decrease property values in a community. Local governments find dealing with these types of eyesores a challenging and expensive endeavor.

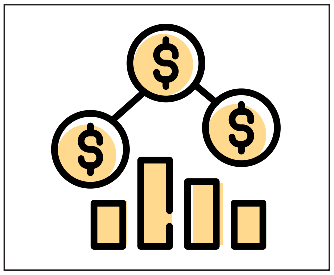
LEGISLATIVE PRIORITY: New tools are needed to help cities with the enforcement and rehabilitation of dangerous and blighted properties.

Modernization of Newspaper Publication Requirements

As cities continue to look for ways to streamline operations and improve efficiencies, modernization is key. It is imperative that cities are good stewards of tax dollars and utilize all available avenues to cut costs. One antiquated expense that cities are looking to update is the publication of official acts and information in newspapers. These types of documents and public reports can be made available on a city's website at low to no cost. Anyone can access the information online, without the required cost of a newspaper subscription, and the data is available for a longer period of time. Temporary legislation was passed in the 2018 session to allow county governments with a population of more than 90,000 and the cities within those counties to post ordinances, audits and bid solicitations online with an advertisement in the local newspaper on where to find the web-based material. This is only permitted for two years and only impacts 135 Kentucky cities.

LEGISLATIVE PRIORITY: The Kentucky League of Cities will advocate for modernization of the publication law to allow cities of all sizes to publish full documents on their website with an advertisement about the online material published in the local newspaper.

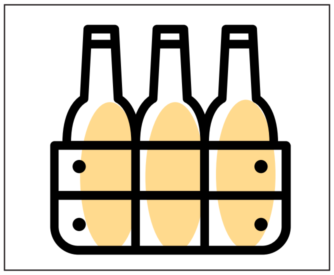
Local Government Investments



Local governments are limited in the types of investments they can make, greatly inhibiting a potential financial windfall for taxpayers. Legislation passed in the 2018 session provided the first major modification of the investment statute in 20 years, but it was vetoed by Governor Bevin. He claimed the bill limited local government investment options; however, it expanded options to include new avenues.

LEGISLATIVE PRIORITY: KLC will look to the legislature to again pass legislation that allows additional investment options for city governments that are safe but allow for greater returns to the public.

Alcohol Regulatory License Equity



Cities continue to see a disparity in the number and types of alcohol licenses that can be issued at the state level compared to those issued by city governments. This makes regulation of the licenses at the local level more difficult, if not impossible. There is also a discrepancy in the imposition of an alcohol regulatory fee. In general, only former third and fourth class cities can impose a percentage-based regulatory fee on gross receipts.

LEGISLATIVE PRIORITY: Equalization of alcohol licensing would allow cities to issue licenses that are currently only issued by the state and would expand the authorization of alcohol regulatory fees to all cities regardless of former classification.

Garnishment and Execution of Property

Property owned by a city is purchased with public money for the use and benefit of the public.

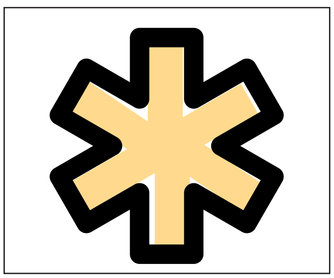
LEGISLATIVE PRIORITY: Protecting public property and the tax dollars used to acquire it requires an amendment to current law to prohibit or limit garnishment or execution against public property following a court judgment.

Elimination of Untrained Constables

Untrained constables pose a threat to the safety and security of cities. Several incidents have already been documented of these elected officers abusing their power and putting citizens in danger. In 2012, a committee created by the Kentucky Justice and Public Safety Cabinet issued a report recommending lawmakers review powers granted to constables under the Kentucky Constitution to either eliminate or restrict the position or to grant local governments the right to set limitations on constables.

LEGISLATIVE PRIORITY: KLC supports legislation to amend state law to eliminate the peace officer powers of constables unless they are certified by the Kentucky Law Enforcement Council and approved by the county fiscal court.

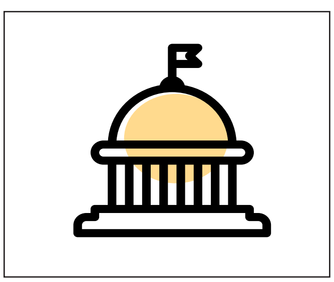
Paramedic & EMT Training



Local governments are finding it more and more difficult to acquire qualified and certified candidates for paramedics and emergency medical technicians (EMTs). The current method used by the Kentucky Board of Emergency Medical Services makes certification difficult to obtain, which can delay the hiring and training process for cities in need of medical first responders.

LEGISLATIVE PRIORITY: Changes in the way the Kentucky Board of Emergency Medical Services certifies paramedics and EMTs can make it easier for cities to find qualified and certified candidates.

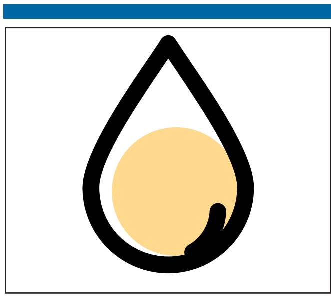
Elected City Officials on State Boards



Many times local elected officials are called upon to serve on a state board or commission to ensure the needs and opinions of cities are not overlooked.

LEGISLATIVE PRIORITY: Cities are looking to the legislature to clarify that an elected city official may hold a seat on a state board or commission without it qualifying as an incompatible office.

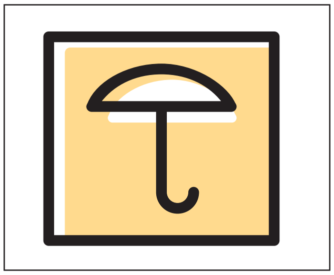
Water and Wastewater Training



Current certification requirements by the Kentucky Division of Water can make it difficult for local governments to find qualified water and wastewater treatment employees.

LEGISLATIVE PRIORITY: KLC will advocate for changes to how the Division of Water certifies plant and field operators to make it easier to find qualified and certified candidates.

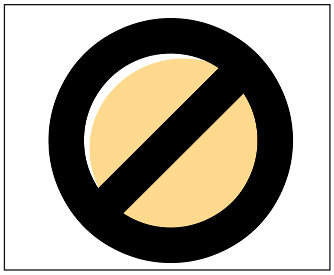
Elected City Official Career Retirement



In most Kentucky cities people serving in an elected position do so to serve their community. It is a part-time job with minimal pay. Their full-time career may involve the public sector, working for the local school or another employer that participates in one of the state's retirement systems. For instance, the mayor may be a school bus driver, or a member of a city's legislative body may work in law enforcement. Retiring from that career could require the city official to also resign from their elected position, even if that was not their intent.

LEGISLATIVE PRIORITY: Cities are seeking legislation to permit an elected city official participating in the County Employees Retirement System (CERS) who has a full-time job with an employer participating in the Kentucky Retirement Systems (KRS) to retire from that career without having to also resign from his or her elected office.

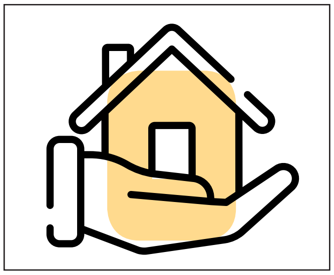
Employees Carrying Weapons



Private employers in Kentucky can prohibit their employees from carrying a weapon on the business' property or while on duty.

LEGISLATIVE PRIORITY: KLC will advocate for state law to be amended so cities are provided the same option private employers have to prohibit an employee from carrying weapons during his or her official duties.

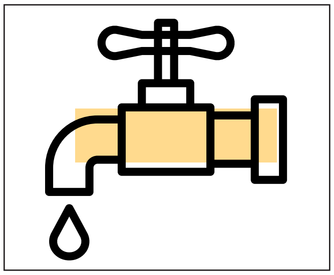
Disposition of Surplus Property



The Kentucky Model Procurement Code (KMPC) applies to the expenditure of public funds by cities and other local public entities. It also sets guidelines for how surplus or excess property can be disposed of or sold.

LEGISLATIVE PRIORITY: A change to the Local Government Model Procurement Code would allow cities that have adopted the code to dispose of surplus property in the same manner as other cities.

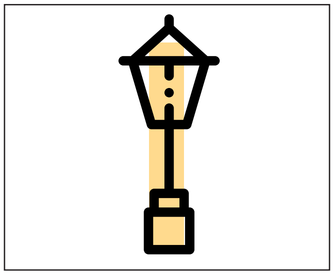
Wholesale Water Rates



Wholesale water rates are regulated by the Kentucky Public Service Commission (PSC). Proposed rate increases between municipal and regulated utilities can be appealed to the PSC, but municipal utilities may lose those potential proceeds during the appeal process, even if the increase is later approved.

LEGISLATIVE PRIORITY: Cities would like to see state law amended to provide that during a period of appeal to the PSC for a new wholesale rate in transactions between municipal utilities and regulated utilities, the proposed rate increase is escrowed rather than lost by the municipal utility.

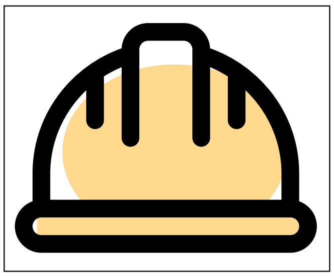
Efficient Street Lights



Streetlights are a necessity for public safety, but they can be a costly expenditure for cities. The use of light emitting diodes (LEDs) or other more efficient options can greatly improve the quality of streetlights while reducing costs.

LEGISLATIVE PRIORITY: KLC will advocate for legislation that permits city governments to use eminent domain or otherwise require electric utilities to use more efficient lighting options for street lights.

Encroachment Permits on Highways



Road work and other types of contracted jobs that are conducted along streets that fall within a city's limits can often result in disruptions and dangerous conditions. To ensure the public's safety, it is important that city officials are assured these contractors have obtained appropriate permits.

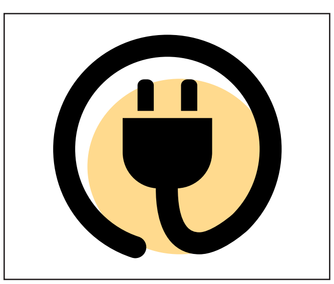
LEGISLATIVE PRIORITY: Cities are exploring ways to reduce incidences of contractors failing to obtain an encroachment permit from the state to help avoid traffic and other types of disruptions within city limits.

Signing of Contracts

City governments in Kentucky operate under one of these models: mayor-council, commission, city manager, consolidated local government and urban county government. In a city manager form of government, commissioners and a mayor are elected to the board of commissioners which appoints a city manager who acts as the chief administrative officer for the city.

LEGISLATIVE PRIORITY: KLC will seek to clarity in state statute that a mayor needs to sign all notes, bonds and contracts made and executed by the city operating under a city manager form of government.

Municipal Electric Joint-Action Agency



A municipal electric joint-action agency can ensure cities have a sufficient, economical electrical power supply while also ensuring conservation.

LEGISLATIVE PRIORITY: The creation of a new law that permits the development of a joint municipal electric agency for the sale of wholesale power among its members.

KLC LEGISLATIVE STAFF

Jon Steiner
Executive Director/
CEO
jsteiner@klc.org

J.D. Chaney
KLC Deputy
Executive Director
jchaney@klc.org

Bryanna Carroll
Director of
Governmental Affairs
bcarroll@klc.org

Bert May
Contract Lobbyist

Carl Breeding
Contract Lobbyist

Rusty Cress
Contract Lobbyist

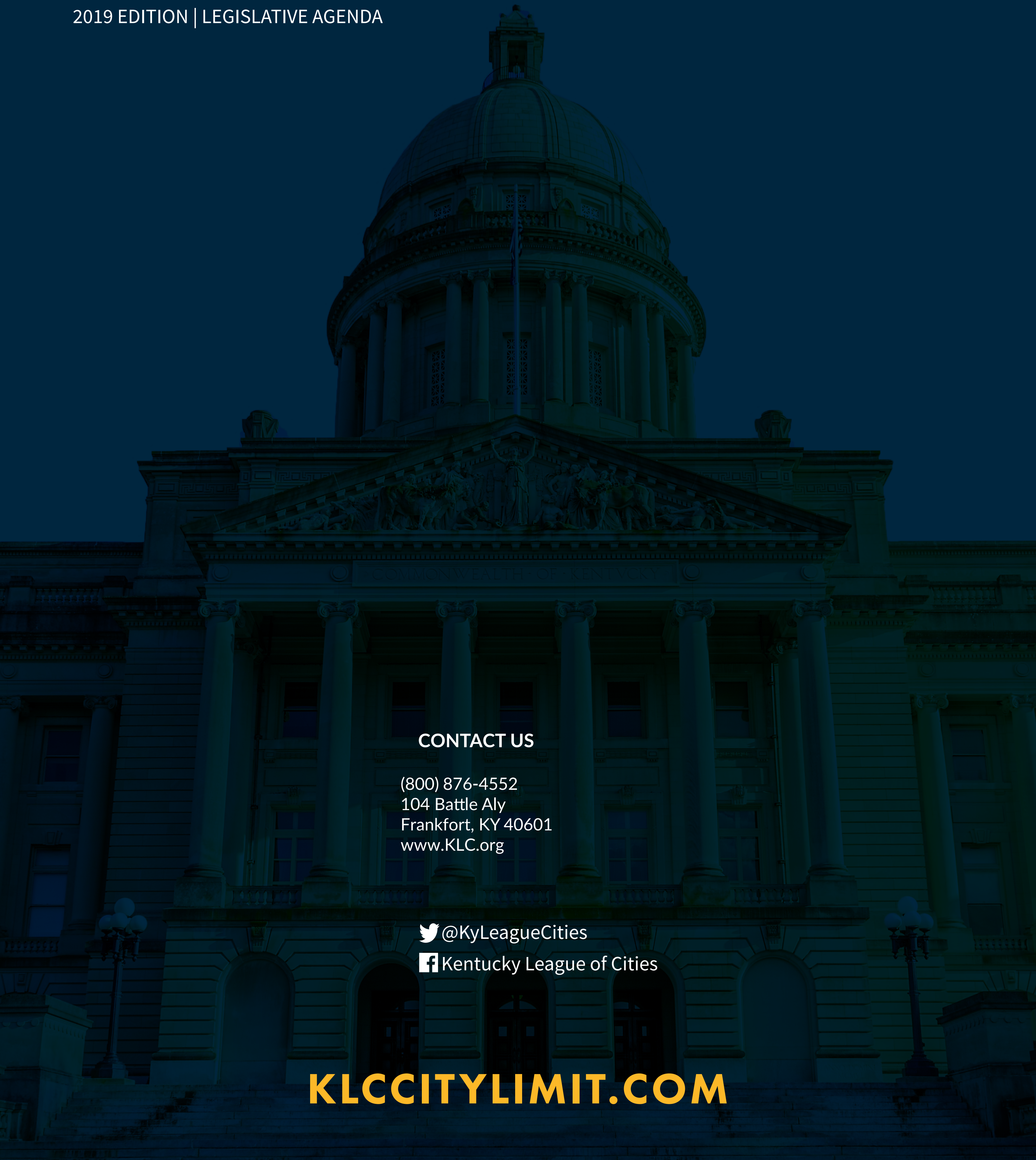
1-800-876-4552 klc.org

Visit KLCCityLimit.com for legislative updates on our most pressing issues!

NOTES:

KLC LEGISLATIVE ADVOCACY

2019 EDITION | LEGISLATIVE AGENDA



CONTACT US

(800) 876-4552
104 Battle Aly
Frankfort, KY 40601
www.KLC.org

@KyLeagueCities
Kentucky League of Cities

KLCCITYLIMIT.COM