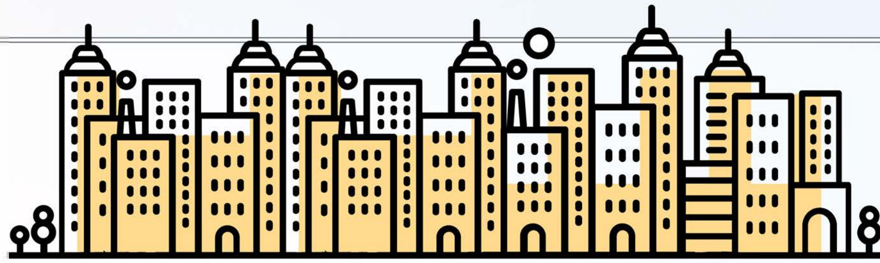
LEGISLATIVE AGENDA

2020 EDITION || KENTUCKY LEAGUE OF CITIES



KLC ADVOCATES FOR CITIES

WHAT IS THE KENTUCKY LEAGUE OF CITIES?

Established in 1927, the Kentucky League of Cities serves as the united voice of cities in Kentucky. Committed to the principle of home rule, KLC believes local decisions are best made at the local level. We are governed by a 62-member Board of Directors that sets the Legislative Agenda for each session. KLC also has an 18-member Executive Board.

This year, the Board's top legislative priority for cities is ensuring separate governance of the County Employees Retirement System (CERS) that is free from political influence and solely focused on CERS to ensure it is not unduly impacted by decisions made for the struggling Kentucky Employees Retirement System (KERS). Top priorities for 2020 also include modernization of the state's road funding formula, revenue flexibility and protection, and solutions for the growing problem of blighted, deteriorated and vacant properties.

The goal of KLC and its members is enhancing the quality of life within our cities.

WHO DOES KLC SERVE?

The Kentucky League of Cities represents cities and the officials who serve them.

SERVICES PROVIDED BY KLC:

- Community Development
- Financial Services
- Municipal Law & Training
- Insurance & Loss Control
- *Kentucky City* Magazine
- KLC Conference & Expo

KLC LEGISLATIVE ADVOCACY EFFORTS:

- Local State and Federal Relations
- Annual Legislative Agenda for Cities
- Annual Legislative Update for Cities
- Legislative Wrap-Ups for Cities
- Awards and Recognition of Legislators Who Go Above & Beyond for Cities
- KLC City Limit News Website
- Weekly Legislative Bulletin
- Bill Drafting/Tracking During Session
- Research
- City Census
- Wage & Salary Survey/Report
- City Government Month

CITIES ARE BOOMING!

City populations are continuing to grow at a faster pace than unincorporated areas, growing by 4.1 percent since 2010. In the past year alone, Kentucky cities have added 8,000 people. In this decade, 80 percent of the state's population increase has occurred within city limits. Today, 2.47 million people live in Kentucky cities. Four out of five jobs in Kentucky are in cities and our city governments spend more than $5.25 billion each year.

SERVICES PROVIDED BY CITIES:

Public Safety
Sidewalks & Street Lights
Clean Drinking Water
Sewer Systems & Waste Treatment
Economic Development
Safe Roads
Public Transportation & Bike Paths
Tourism and Recreation
Code Enforcement
Parks & Public Facilities
Utilities & Regulation
Youth & Senior Services
Trash & Recycling Collection
Historic Preservation
Job Training
Public Housing

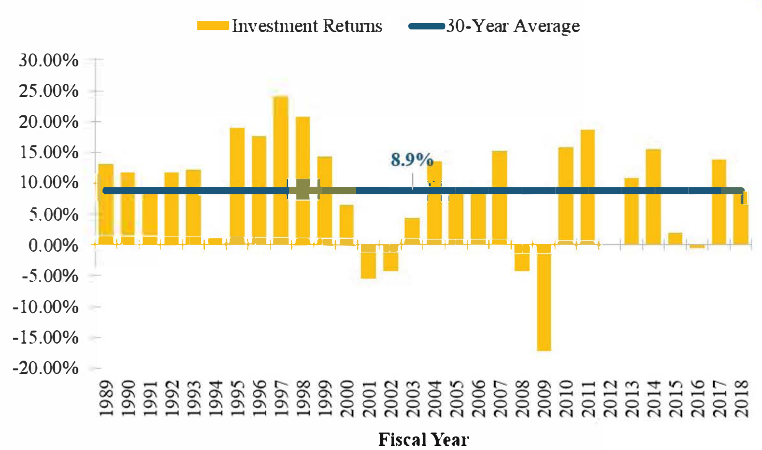
CERS REFORM/SEPARATION

Across the state, cities face the mounting cost of a pension debt that now threatens the future availability of services residents enjoy and expect. While the legislature provided a much-needed phase-in of employer contribution rates in the 2018 session, the pension bill continues to grow. It is vital to the health of the County Employees Retirement System (CERS), its employers and members that the local pension system is put on a path that ensures investment and management decisions are based on what is best for CERS. That will require a separate administration of CERS to ensure its funding status grows and that the system remains viable for future generations.

LEGISLATIVE PRIORITY: KLC will advocate for the affordability of CERS and for separate governance that is free from political influence and solely focused on CERS assets and investments to ensure the local pension system is not unduly affected by decisions made for the struggling Kentucky Employees Retirement System (KERS).

From investment strategies to the adoption of assumption rates, CERS has felt the impact of decisions that best benefit KERS. The Kentucky Retirement Systems (KRS) Board of Trustees decided in 2018 to take a less aggressive approach to investing and move from equity funds to fixed-income investments.

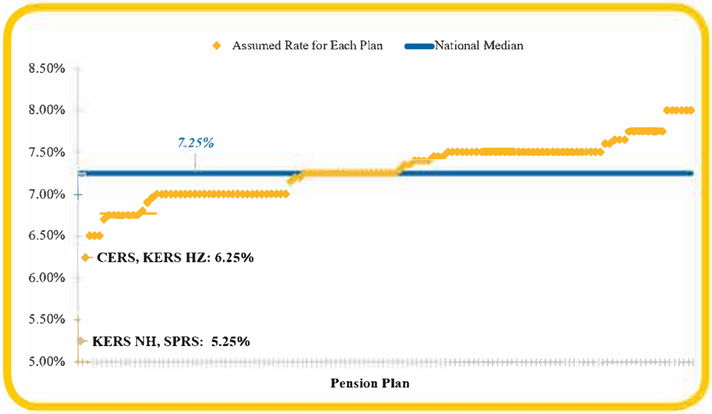
CERS NONHAZARDOUS INVESTMENT RETURNS



Information KRS provided to the Public Pension Oversight Board (PPOB) in June 2019 highlighted the impact that decision has had on CERS. Investment income earned by the CERS nonhazardous pension system was one-quarter the amount earned in the same period for the prior fiscal year.

KRS leadership argues its systems are too poorly funded to take risks, but CERS is funded at 50.2 percent after changes made to the mortality rate assumption in April 2019. It is KERS that is funded at 12 percent and is considered the worst-funded pension system in America. KRS Executive Director David Eager has testified that the Kentucky Teachers' Retirement System (KTRS) sees much better investment returns than KRS because it is “not in as bad of a shape as KERS” and can invest more aggressively. However, KTRS is currently funded at 57.7 percent, and it uses drastically different assumption rates than those adopted for CERS.

INVESTMENT RETURN ASSUMPTIONS FOR STATE RETIREMENT PLANS NATIONWIDE

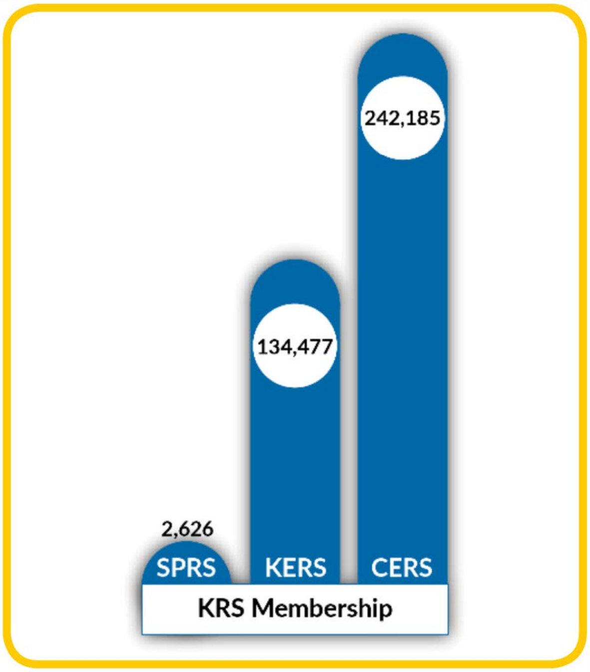


Source: National Association of State Retirement Administrators, 2019

In 2017, the KRS Board of Trustees moved the CERS assumed rate of return to 6.25 percent. It remains the second lowest rate in the nation outside of the KERS nonhazardous pension plan and the Kentucky State Police Retirement System (SPRS), which are overseen by the same KRS Board of Trustees. Since that change was adopted, KRS has reported a 10-year investment rate of return for CERS of 9.6 percent.

Separating the governance of CERS from KERS will help ensure the local pension system is free from political influence, regardless of future administrations. Additionally, it will guard against CERS being lumped into decisions that are made for the benefit of the state's struggling system.

The KRS Board of Trustees is comprised mostly of gubernatorial appointees and representatives of KERS, even though it does not account for most of the assets or members in KRS. CERS is growing and now has 242,185 members compared to 134,477 in KERS. That makes CERS 64 percent of the membership and KERS 32 percent. While KERS lost 10,710 employees from Fiscal Year 2009 to Fiscal Year 2018, CERS reported an increase in employment numbers.

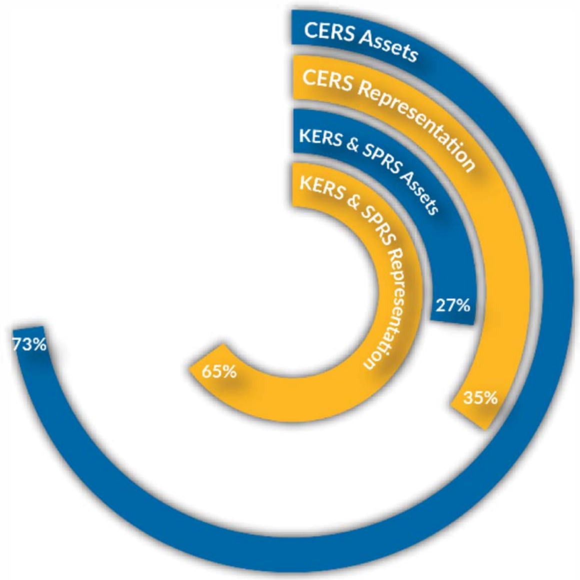


The local pension system holds a large chunk of the funds KRS manages, $13.4 billion compared to $4.4 billion in KERS. Despite being 73 percent of KRS assets compared to the 27 percent held by KERS and SPRS, it is the KERS funding crisis that drives decisions and discussions at KRS. Testimony given by Eager before a May 2019 PPOB meeting on why KRS wanted to change the funding formula for all the systems it manages did not include any data on how such a move would impact CERS.

CERS representation on the KRS Board of Trustees accounts for just six of the 17 seats — 35 percent. It makes up 11 percent of the KRS Investment Committee and 14 percent of its Actuarial Subcommittee. That unfair representation is one of the reasons those advocating for separate governance believe it is necessary to ensure decisions are made in the best interest of the local pension system, regardless of the plight of other systems managed by KRS.

Because CERS is 64 percent of KRS membership, it pays 64 percent of its administrative expenses. Those are continuing to climb every year and are much higher than other state pension systems that run independently of KRS.

CERS is a local pension system, made up of city, county and school board employees (excluding teachers). It is important for the municipal employees who keep our cities safe and desirable places to live. They maintain our city halls, parks and streets. These members provide police and fire protection and create an environment that drives economic development. They deserve a pension system that is also safe and secure; one that is managed by people who put their needs and interests first.



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ROAD FUNDING FORMULA

As cities continue to do more with less, the high cost of maintaining vital infrastructure becomes more of a struggle. The condition of our city roads and bridges directly impacts the ability of a community to grow and attract new business. While the population of Kentucky cities has continued to expand, the funding formulas of important transportation networks have remained unchanged for 48 years. It is critical that we modernize these formulas to ensure transportation needs are met in Kentucky cities.

LEGISLATIVE PRIORITY: Cities support adopting a new road funding formula to ensure city governments receive a fairer proportion of new state gas tax revenues for the construction and maintenance of city streets.

From Kentucky's smallest cities to Louisville and Lexington, neighborhoods need reliable roads to bring jobs and improve quality of life. Cities are the economic engines of Kentucky and are often the heart of the state's infrastructure network. They must provide consistent, safe services while also dealing with slow financial growth.

While transportation needs have grown, the method used to pay for our vital infrastructure has not been amended in decades. Since 2013, 27 other states have increased their motor fuel tax revenue, including nearby Indiana and Tennessee. Kentucky has remained flat. Cities have seen spending on streets and roads climb 24 percent since 2010, while state and federal support has dropped 13 percent.

Money collected in the motor fuels tax goes into the state's Road Fund, of which 48.2 percent is shared between cities and counties. How those assets are divided is largely determined 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 equally to all counties, one-fifth based on rural population, one-fifth by rural road miles and the remaining two-fifths 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.

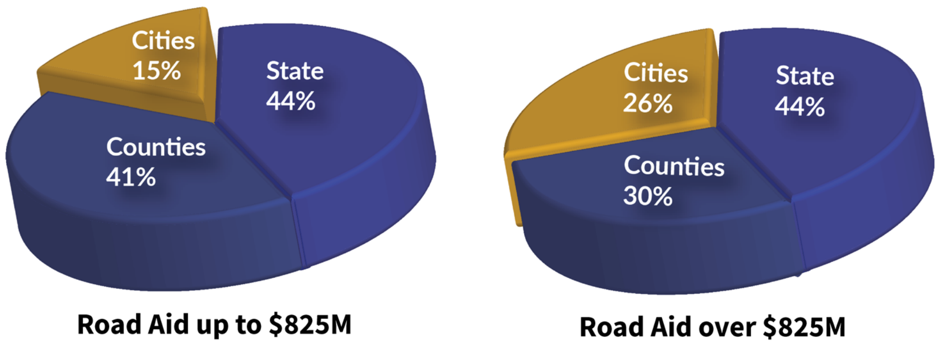
The last update to the system was instituted in 1972 when the legislature created the municipal road aid program. It has not changed since that time, despite a sizeable increase in the population of Kentucky's cities. Municipalities are now responsible for more than 10,000 miles of public streets. State and federal road revenue provides only about one-third of the cost of maintaining those thoroughfares.

A proposal to update the state's road funding formula acknowledges the growth and demand on city streets by equally dividing motor fuels income over $825 million, the total available for sharing in Kentucky in Fiscal Year 2014. The amount above that threshold will be split between the municipal and county road aid programs at 13 percent each. This will help ensure cities, which are often the center of commerce and activity in a county, can pay to keep high-traffic areas safe 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 revenue. Urban roads account for 39 percent of vehicle miles traveled, but cities receive only 15 percent of the state's road aid allocations. It is time the state modernized the road funding formula to equalize distribution and ensure cities have the money to maintain roads and bridges that often need more frequent repair and maintenance.

Road Funding Formula Modernization

The revenue split will remain the same until the total amount exceeds $825 million, the historical high mark from Fiscal Year 2014. Cities and counties will then equally split the local government portion above $825 million at 13% each.



BLIGHTED, DETERIORATED & VACANT PROPERTIES

They can be the scourge of a neighborhood, bringing down property values and posing safety risks. Blighted, deteriorated and vacant buildings are an eyesore and invite crime into a community. Dealing with the problem is often an expensive, time consuming and complicated process for cities.

LEGISLATIVE PRIORITY: Expand the tools currently available to cities to address these types of properties, including creating a conservatorship for rehabilitation of qualifying areas.

Most cities in Kentucky have faced the question of how to handle blighted and abandoned property. From homes to businesses and industrial structures, an empty building can quickly fall into disrepair. A study conducted by the Lincoln Institute of Land Policy found unused homes and businesses can cost a city millions of dollars in lost tax revenue and lead to a feeling of community isolation for citizens who live near the site.

Creating a conservatorship for buildings that have been vacant for at least one year will help bring the facility into compliance with local code. Rules would be set to help the court determine if a property is “abandoned and blighted,” and local governments would be responsible for developing a plan for rehabilitation and potential funding. It would give local governments another option to ensure the financial and aesthetic value of the community.

As the problem with deteriorated properties continues to grow, cities are forced to find solutions. The nonprofit organization Next City recently shared the results of a study conducted by an urban economist. He found that each abandoned building can cost a community roughly $155,000 in its first year alone, and there is often a 10 percent increase in crime within 250 feet of the structure.

City leaders are continuing to look for new and innovative ways to deal with the problem. Creating a conservatorship is one legislative solution to this multifaceted problem.

REVENUE DIVERSIFICATION

Across the state cities are faced with a growing population that expects the amenities and security that municipalities provide. However, these essential services are being threatened as financial strains take a toll on revenue-limited local governments. City leaders are now at a crossroads where future economic development and neighborhood growth may be stifled by antiquated and restrictive statutes that have not been changed for decades.

LEGISLATIVE PRIORITY: Cities seek equalization and modernization of funding options. This includes expanding to all cities the ability to collect consumption-based restaurant revenue, amending the state constitution to permit the option of a local sales tax, protecting the crediting of occupational license taxes paid to a city against any county tax owed, and opposing centralized collection.

Kentucky law restricts how cities collect income, and as pension costs and other expenses skyrocket, local elected officials are forced to make tough decisions. If the legislature doesn't enact reforms, mayors warn that public safety and community services could be reduced or eliminated. While many cities have been able to cut budgets and trim staff, there is only so much local elected leaders can do as costs continue to climb.

A solution currently being discussed is modernization of Kentucky's tax structure. Cities are the economic engines of the state, and it is only through economic growth that Kentucky can establish the type of prosperity necessary for stability and improvement. Diversifying income options for cities would empower local governments to find the funding sources that best fit their community.

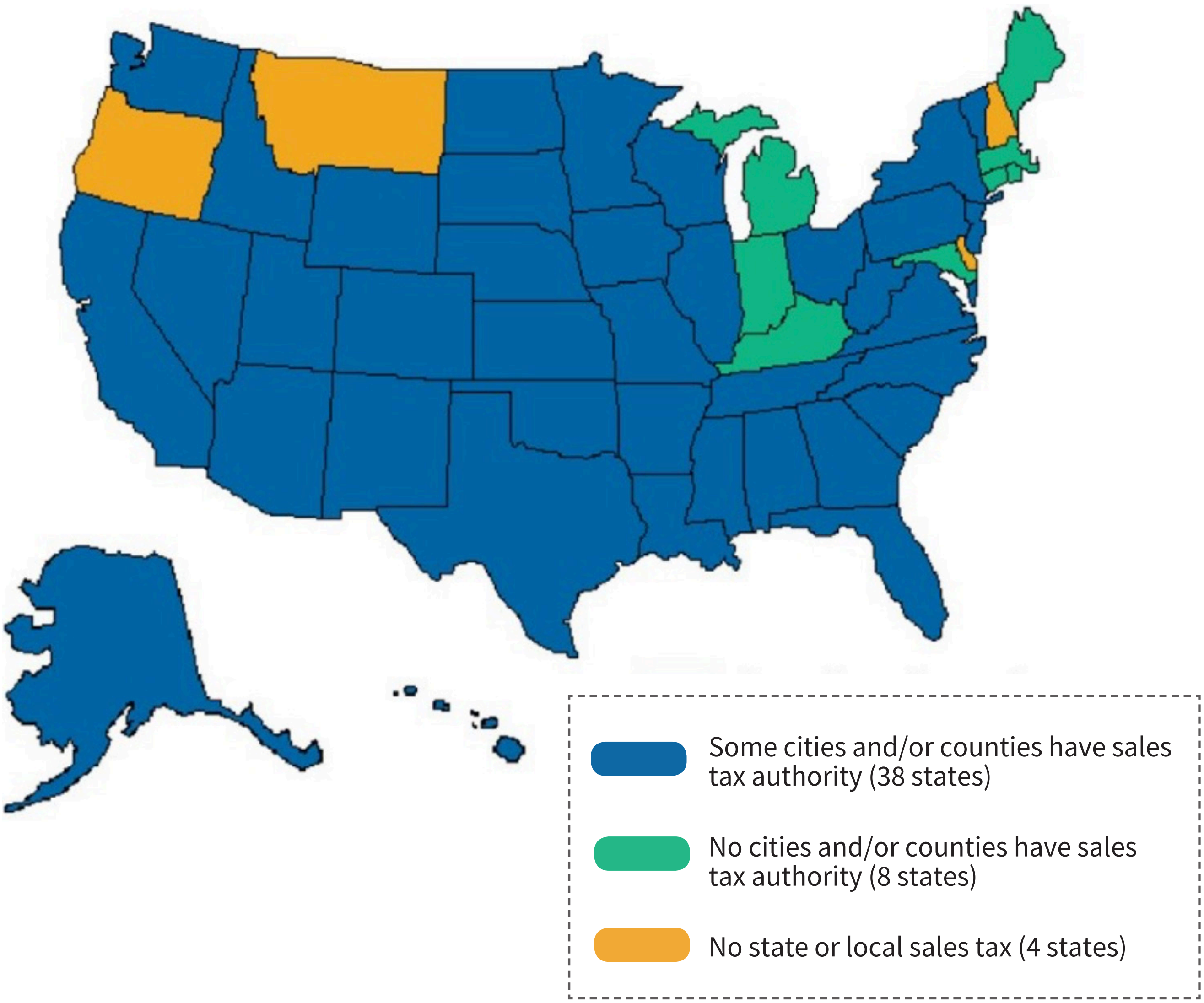
One option available to some municipalities is the collection of consumption-based restaurant revenue. Only former fourth and fifth class cities can collect the earnings, which preempts almost half of the state's cities from even considering this financial option. The money is collected from everyone who eats in local restaurants, including tourists and other visitors, and it does not impose an undue burden on local citizens.

Restaurants would not face an extra cost because the fee is collected in lieu of net profits or gross receipts taxes on the businesses. Cities would be limited to collecting no more than 3 percent, and a portion of the money would go to the local tourism commission. Mayors say it is a good way to spread the expense of a growing city among those who enjoy its amenities.

When it comes to collecting consumption-based restaurant revenue and other needed types of reform, the focus is often on leveling the playing field. Many Kentucky cities border Tennessee, which has no state income tax. Competing for business and jobs in these communities is a challenge.

Moving Kentucky toward a more consumption-based tax structure would be a big step toward modernization. That includes allowing cities the option to collect a local sales tax. Kentucky is one of only 12 states that does not allow one or more local governments to collect that funding.

It is important that changes to tax policies don't impede the few revenue-generating options cities have available. Both cities and counties can collect an occupational license tax on the net profits of businesses and/or on the salaries and wages that employees earn. The money raised provides the essential services business owners and their employees expect while doing 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 toward the amount owed to the county.



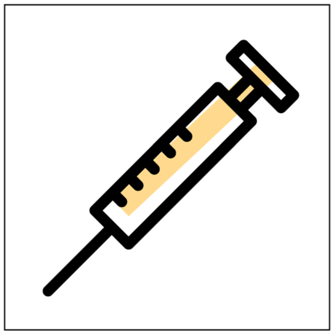
The credit helps ensure taxes are not stacked on local businesses and workers. People who conduct business in a city's limits count on city services (police, fire, streets, etc.). Removing the crediting provision would ultimately result in taxpayers paying for duplicate services. Eliminating the credit would result in millions of dollars of higher taxes for more than a quarter million Kentuckians.

State government should not interfere with the collection of local revenue that provides vital community services. Centralized collection of municipal funds would slow down the ability of city leaders to serve their citizens. Additionally, it could create an environment where money designated for local projects ends up swept into state coffers.

Mayors and other local elected officials are calling on state legislators to support the principles of home rule and provide the tools cities need to keep the state on a path of progress and prosperity. Revenue diversification is a big part of the equation. By allowing cities to pursue economic solutions that are specific to their community's unique challenges, Kentucky will be embracing modern funding solutions that help ensure the state continues to thrive.

ADDITIONAL PRIORITIES

Substance Abuse



Since 2013, the Kentucky League of Cities has maintained an active position on battling the substance abuse epidemic throughout the commonwealth. It remains a top legislative priority for 2020. All cities in the state are impacted by the social, criminal and economic impacts of alcohol and drug abuse.

LEGISLATIVE PRIORITY: KLC will continue to support legislation that addresses the substance abuse 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 for those who suffer from alcohol and drug abuse.

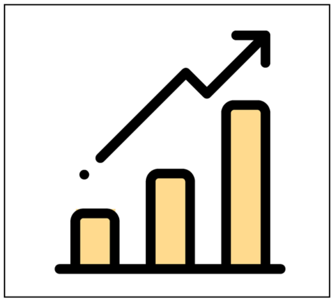
Modernization of Newspaper Publication Requirements

As cities continue to look for ways to streamline operations and improve efficiencies, modernization is key. It is imperative that cities be 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 or no cost. Anyone can access the information online, without the required cost of a newspaper subscription, and the data is available for a longer 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. It only impacted 135 cities and was only permitted for two years, meaning it will expire in 2020.

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.

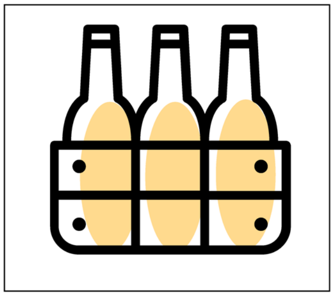
Economic Development



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.

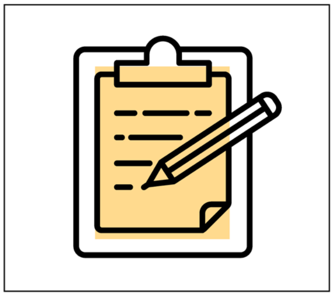
Alcohol Regulatory License Equity



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. Senate Bill 29, passed in the 2019 Regular Session, helped level the playing field by allowing some cities to impose a regulatory license fee upon the gross receipts of the sale of alcoholic beverages. However, it only applied to cities with a population of less than 20,000.

LEGISLATIVE PRIORITY: Expanding to all cities the ability collect an alcohol regulatory license fee will enable communities to offset some of the additional policing and regulatory costs associated with alcohol sales. Cities are also looking to the legislature to modify the two-year enactment requirement from a wet or moist election date.

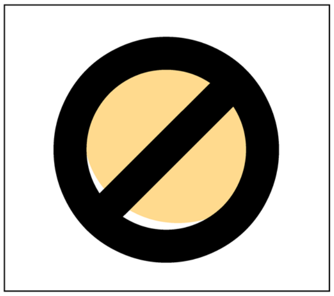
Open Records and Meetings Law Changes



Transparency is vital to ensure citizens have faith in the management of their city and tax revenue. However, it is important that efforts to improve and ensure open government are not detrimental to it running in an efficient and cost-saving manner. Senate Bill 230, passed in the 2019 Regular Session, provides citizens the ability to make a request for documents through the Open Records Act through email. This has created some unforeseen issues for city clerks. Additionally, city officials find there are occasions in which sensitive information needs to be discussed in private to protect the public's interest and finances. When cities are forced to release details on how much money could be spent on a project, the information could be used to drive up the cost.

LEGISLATIVE PRIORITY: KLC is seeking an amendment to Kentucky's Open Records Act to make compliance easier for cities, particularly in response to electronic submission of applications. Cities are also seeking an amendment to Kentucky's Open Meetings Act to allow going into closed session to authorize an agent to bid at an auction on the sale of property and to discuss contract negotiations.

Employees Carrying Weapons

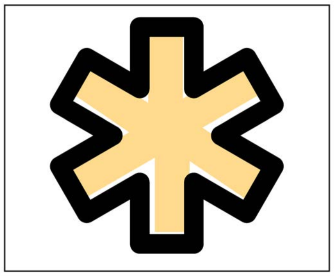


Private employers in Kentucky can prohibit their employees from carrying a weapon on the business' property or while on duty. Public employers cannot.

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.

ADDITIONAL PRIORITIES

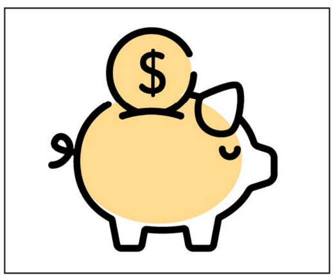
Paramedic & EMT Training



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.

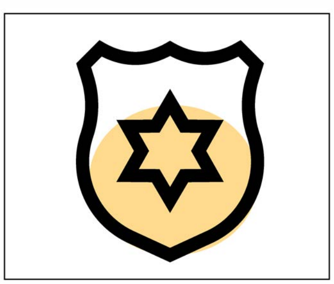
Elected City Official Career Retirement



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 city legislative body member may work in law enforcement. Retiring from that career could require the city official to also resign from his or her elected position, even if that was not the 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 to retire from that career without having to also resign from his or her elected office.

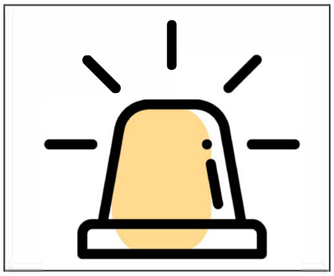
Untrained Constables



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.

Legacy Police and Fire Pension Plans



As pension costs continue to rise for local governments, it is important to streamline expenses. When the County Employees Retirement System (CERS) was established in 1958, it was designed to function as the pension system for local government employees. While most cities are in CERS, some legacy pension plans still linger.

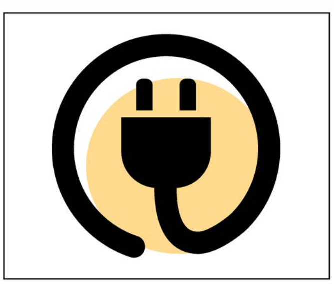
LEGISLATIVE PRIORITY: KLC will advocate for a modification in membership requirements for local boards of trustees of legacy pension plans and seek legislation that allows beneficiaries to be paid an annuity to expedite closure of these systems.

Annexation Filings with the Secretary of State

Many Kentucky cities are growing, adding to the population and city boundaries. When a city annexes nearby property, it is required to file a new map with the Secretary of State to ensure the state's database has the newest data.

LEGISLATIVE PRIORITY: Municipalities are seeking legislation that requires annexation submissions to include an electronic map to expedite entry of the new boundaries into the secretary's land database.

Interlocal Cooperation Act



The Kentucky Interlocal Cooperation Act gives local governments the ability to work together to ensure constituents receive the best services at the most advantageous cost.

LEGISLATIVE PRIORITY: Cities are looking to the legislature to update the Interlocal Cooperation Act to make it easier and more efficient for governments to cooperate.

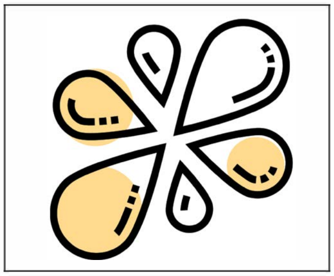
ADDITIONAL PRIORITIES

Planned-Unit/Homeowner Association Legislation

Neighborhood associations can often improve the quality of life in a city, providing amenities and creating a sense of community. However, in some cases the association cannot continue to afford the services it was designed to provide, leading to concern about how neighborhood programs will be funded.

LEGISLATIVE PRIORITY: KLC will seek legislation to help municipalities address problems created when homeowners' associations go defunct or planned-unit documents do not adequately cover the maintenance of common areas.

Splash Parks/Pads



Splash parks are growing in popularity as they offer cities a less expensive way to provide families more ways to enjoy the summer. These public areas have some ambiguity under current Kentucky law.

LEGISLATIVE PRIORITY: Cities are advocating for legislation that determines what laws and regulations apply to splash parks/pads compared to swimming pools.

KLC

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