

# **INTERIM JOINT COMMITTEE ON STATE GOVERNMENT**

## **Minutes of the 2nd Meeting of the 2019 Interim**

**August 22, 2019**

### **Call to Order and Roll Call**

The second meeting of the Interim Joint Committee on State Government was held on Thursday, August 22, 2019, at 11:00 AM, at the Kentucky Fair and Exposition Center, Louisville, Kentucky. Representative Kevin D. Bratcher, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Wil Schroder, Co-Chair; Representatives Jerry T. Miller, Co-Chair, and Kevin D. Bratcher, Co-Chair; Senators Christian McDaniel, Morgan McGarvey, Robby Mills, and Damon Thayer; Representatives McKenzie Cantrell, Jim DuPlessis, Larry Elkins, Joseph M. Fischer, Derrick Graham, Joe Graviss, Scott Lewis, Mary Lou Marzian, Reginald Meeks, Patti Minter, Tim Moore, Jason Petrie, Attica Scott, Steve Sheldon, James Tipton, Ken Upchurch, and Les Yates.

Guests: Chuck Kucera, VFW Post 696, Owensboro KY; Representative Matthew Koch; BG (Ret) Benjamin Adams III, Kentucky Department of Veterans Affairs.

LRC Staff: Alisha Miller, Karen Powell, Michael Callan, Roberta Kiser, and Peggy Sciantarelli.

### **Approval of Minutes**

The minutes of the July 19 meeting were approved without objection, upon motion by Senator Thayer. (This occurred following the Welcome and Projects Report offered by Secretary Landrum.)

### **Welcome and Projects Report by Secretary Landrum**

Finance and Administration Cabinet Secretary William Landrum III welcomed the committee to the State Fair. He discussed major projects and ongoing activities relating to facilities and properties owned or managed by the cabinet.

Secretary Landrum said the cabinet recently entered into an agreement between Kentucky Kingdom and the State Fair Board to provide additional parking spaces and much needed upgrades to roads and infrastructure at the Kentucky Fair and Exposition Center (Expo Center). Demolition of Cardinal Stadium and the transportation building has also provided almost 3,000 additional parking spaces. Safety and security needs and digitizing of all signage are key features of the planned upgrades. He thanked the legislators for the

2018 Executive Branch budget (HB 200) appropriation of \$7 million in the first year of the biennium for capital improvements at the Expo Center, through the Governor's Office of Agricultural Policy. He also commended Warren Beeler, Executive Director of the Office of Agricultural Policy, for his assistance in moving the projects forward.

Secretary Landrum said that after the two-year \$207 million renovation of the Kentucky International Convention Center (KICC), it reopened "on time and on budget." Louisville tourism's goal of selling 655,000 booked rooms was exceeded during the past year with an historic amount of 711,000 booked rooms. In 2019, KICC will host events with an economic impact of more than \$95 million.

Secretary Landrum commended Andy Casebier, an engineer in the cabinet's Department for Facilities and Support Services, and other members of the team that have worked on the remodel of the Kentucky Center for the Performing Arts after the fire in June 2018. Completion of the project is expected in early November. Downtown Louisville's L & N Building, which primarily houses the state's Cabinet for Health and Family Services, has been upgraded. The new office building in downtown Frankfort was recently named the Mayo Underwood Building in recognition of the publicly-funded African-American school of the same name that once sat on the same property. The Public Protection, Labor, Education and Workforce, and Tourism Cabinets are to be housed in the new 358,000 square foot, five-story building.

Representative Scott asked about the estimated cost and timeline to implement digital display signage. Secretary Landrum said the cost is currently being determined and should be available within 6-8 weeks.

Representative Scott asked about the upgrades to the Convention Center and the L & N Building. Secretary Landrum said that KICC had a complete remodel, rebuilt from the ground floor up, pursuant to an agreement with the city of Louisville. The goal was to make it the best convention center in the state and the nation. He said David Beck, President and CEO of Kentucky Venues, which manages KICC and the Kentucky Exposition Center, can provide detailed information about the upgrades. The cost to upgrade the L & N Building was \$9.5 million.

Representative Graham said he hopes discussions will continue regarding development of the area formerly occupied by the Frankfort Convention Center. He commended Secretary Landrum for the naming of the Mayo Underwood Building and voiced approval of the favorable economic impact that the new office building will provide to the Frankfort business community. Secretary Landrum said a restaurant was not included in the new building in order to support downtown businesses and because the nearby Transportation Building has a restaurant facility. It is anticipated that occupants will begin moving into the new building in mid-October.

Senator Thayer thanked Secretary Landrum for his report on the Frankfort and Louisville projects. He said that what happens in Louisville affects the entire state and that the state-funded Louisville projects are extremely important. He commended the Secretary for the cabinet's collaborative work on the projects and for providing good stewardship of taxpayer dollars.

There were no further questions, and Representative Bratcher thanked Secretary Landrum.

#### **Discussion of 20 RS BR 127 and 20 RS BR 247**

Chuck Kucera, Adjutant for VFW Post 696, Owensboro, Kentucky, spoke in support of BR 127, prefiled by Representative Bratcher on July 9, 2019. The bill proposes to amend Section 170 of the Constitution of Kentucky to exempt certain veterans' organizations from property taxation. Mr. Kucera said he is a retired environmental engineer, former Army artillery officer, Vietnam combat veteran, and also son of a career Army officer and Korean War veteran who is now buried in Arlington Cemetery. He said he appreciates the invitation to address the committee. He provided a handout entitled "Veteran's Service Organization (VSO) Property Tax Issue."

Mr. Kucera said there are numerous VSOs in the nation, the largest being Veterans of Foreign Wars, American Legion, and AMVETS. They are chartered by Congress and operate under a large body of rules, regulations, and bylaws. There are 26 veterans' organizations in Kentucky, with approximately 36,200 members among the three largest VSOs. These 501(c)(19) organizations are exempt from federal income tax. Veterans' posts raise their operating funds through membership fees, donations, fundraisers, canteen sale of foods and beverages, and licensed charitable gaming. Operating expenses include mortgages, utilities, payroll, accounting services, supplies, licensing fees, state sales tax, and local property taxes. Typically they operate at break-even; in some years there may be a modest surplus, but in many years they may lose money. VSOs provide assistance to active duty military personnel and their families. They contribute greatly to the community by providing donations to such organizations as high schools, scouts, police departments, and first responders. Post 696 in Owensboro attends over 100 honor guard and military funeral burials each year, free of charge to the bereaved. In 2016, the president of the post's auxiliary received a Governor's award for outstanding community service.

Mr. Kucera said that Post 696 owns a modest building on Veteran's Boulevard. Subsequent to Owensboro's \$300 million revitalization, the property's appraisal began to skyrocket. In 2019, the property tax increased 243 percent from the previous year and is threatening the post's existence. About five years ago the American Legion could not pay its property tax and was forced to leave. He said that in 2016 he became aware of an opportunity for VSOs to request an exemption from property tax through language in Section 170 of the Kentucky Constitution that includes "institutions of purely public charity" in categories that shall be exempt from taxation of property. "Public charity" is

not defined in Kentucky law or regulations, although it is in Federal IRS rules. In 2016, a Kentucky Department of Veterans Affairs (KDVA) attorney advised that the Kentucky Department of Revenue looks favorably on exemption applications of organizations that give 50 percent of net revenue to charitable causes. Post 696 applied for the exemption, but the Owensboro Property Valuation Administrator did not want to decide on the application, and the request for exemption as a “purely public charity” was denied by the Department of Revenue.

Mr. Kucera said that in 2018, Representative D. J. Johnson prefiled BR 7, to exempt VSOs from city and county property taxes if the majority of net revenue was donated to charitable causes. That bill later became HB 153 in the 2019 regular session, sponsored by Representatives Walker Thomas, Tim Moore, and others, but it did not leave committee. D. J. Johnson is now the Governor’s legislative liaison and remains interested in this issue. It is also a priority of KDVA. Representative Bratcher has prefiled BR 127 for the 2020 regular session, to exempt certain veterans’ organizations from property taxation if the organization has qualified and been approved for exemption from federal income taxation.

Mr. Kucera said that passage of a constitutional amendment is a “high hurdle” and that a KDVA attorney has advised that the goal could be accomplished by changing language in existing law. He said that Representative Matthew Koch has prefiled BR 247, which would create a new section in KRS Chapter 132 to exempt veteran service organizations from ad valorem taxation if over 50 percent of the organization's annual net income is expended on behalf of veterans and other charitable causes. It would also define veteran service organization and apply to property assessed on or after January 1, 2021.

Mr. Kucera said his handout provides preliminary estimates of the potential annual impact of the property tax exemption on revenue to the state and counties. Loss to the state from all of the three largest VSOs (VFW, American Legion, AMVETS) is estimated at \$25,000-\$30,000. Loss to all counties and cities combined is estimated at \$250,000-\$300,000. The impact on counties and cities would vary widely, depending on assessed value of the property.

Representative Koch, sponsor of BR 247, testified briefly in support of the property tax exemption. He said he is a Marine veteran who has served in Afghanistan and Kosovo and is proud to sponsor BR 247. He paraphrased a declaration by George Washington that the willingness with which future generations are willing to serve is directly proportional to how they see veterans of previous wars treated.

Representative Graviss asked whether there has been a study of how many posts might close if the legislation does not pass. Mr. Kucera said he does not have those details but has heard that “a lot of people out there are struggling.” Benjamin Adams (BG/ret), Commissioner of the Department of Veterans Affairs, testified in response. He said they are looking into that statistic. He thinks that every closure is also a loss to the community.

In his tenure as commissioner for the past 18 months, he has traveled the state and has seen numerous vacancies from post closures. Posts are struggling to increase membership and to stay open.

Representative Graviss asked whether there is a dollar figure for the 50 percent of net revenue that VSOs may return to communities. Commissioner Adams said that they are working to develop that number and the amount of income going into the VSOs. He noted that not all posts will qualify for the property tax exemption. VSOs do a lot of charitable work and are being encouraged to return 50 percent. The Department is also in the process of gathering information for Representative Moore and Senator Robinson. He emphasized the importance of having information on the potential financial impact.

Representative Graviss asked about the ballot language for the constitutional amendment proposed in BR 127. Representative Bratcher said the wording for the ballot is not yet final.

Senator Schroder asked Mr. Kucera if he has a better estimate of the percentage of revenue going to charitable causes and the amount of funds that remain after operating costs. Mr. Kucera said that at his post between 50 and 56 percent of net revenue is expended on behalf of veterans and other charitable causes. The amount of funds remaining after payment of operating expenses varies from year to year. Senator Schroder said he looks forward to future discussions of this in more detail.

Representative Marzian suggested contacting Owensboro's state Representative Jim Glenn to include him in this bipartisan effort. Mr. Kucera said he would be contacting Representative Glenn.

Representative Marzian voiced concern about the loss of property tax income to school districts, especially smaller districts like Harlan County, which recently was affected by a coal company bankruptcy. She suggested conferring with some of the school districts to discuss possible ways to supplement their income if the property tax exemption becomes law. Mr. Kucera said that the impact on local districts and counties would vary widely. The loss to larger counties would be greater but would probably represent a much smaller percentage of their overall budget. The median loss is calculated to be about \$4,000.

Representative Scott said that everyone may not be aware of how VSOs benefit local communities. She mentioned as an example the American Legion Auxiliary's support for the Girls State and Boys State programs. She encouraged bipartisan support for the proposed property tax exemption.

Representative Miller offered to help with the legislation. He also suggested that the language should be more precise in describing the issue.

Commissioner Adams said it is important to continue supporting veterans and that it would be detrimental if any VSOs are forced to close. He thanked the committee and said the Department will be happy to provide any information that is needed. He also expressed thanks for the passage of past legislation to support veterans.

Representative Bratcher thanked the speakers and expressed thanks to all veterans for their service. Business concluded, and the meeting was adjourned at 12:02 p.m.