

Assessing the Impact of Property Tax on Distilled Spirits (DSP) Revenue on the University of Kentucky Cooperative Extension System

Background on Request

The Kentucky Distiller's Association (KDA) shared the estimated net revenue loss by county with a potential repeal of the property tax on distilled spirits (DSP) at the initial meeting of the General Assembly's Bourbon Barrel Taxation Task Force on June 24, 2022. Affected agencies were asked to reconcile the KDA's data and update committee staff. The information provided herein responds to that request, outlining the potential impact on the UK Cooperative Extension (CES).

Impact on County Services, Programs and Personnel

The College of Agriculture, Food and Environment (CAFE) worked with representatives of the KDA to reconcile the estimated impact on CES (see Table 1). Reconciliation identified an impact of nearly \$462,000 in 2021, which is less than the impact initially estimated by the KDA but still significant for CES. Any decline in revenue, regardless of the amount or county, will require the Extension District Board (EDB) in that county to make expenditure adjustments that may impact programming, personnel and service delivery.

The revenue impact will be disproportionate by county across the system. Significant declines will occur in some counties based on unique financial constraints, county tax rates, CES expenditures, and the EDB's budgetary oversight in the county. We expect the greatest financial hardship will be felt in counties managing a \$100,000 decline in tax revenue and/or counties with smaller operating budgets and local tax bases. The counties of greatest concern include:

- Anderson County
- Boyle County
- Bullitt County
- Daviess County
- Franklin County
- Grant County
- Marion County
- Nelson County
- Woodford County

Finally, we expect the financial impact on CES to grow over time based on growth in industry inventory and lost opportunity for revenue growth and investment back in county-based CES services. For example, in 2022 the estimated financial impact is approximately \$620,000, a more than 34 percent increase over the previous fiscal year.

Potential Policy Relief for CES

CAFE continues to explore potential policy solutions and is open to alternative proposals that provide relief to CES in counties facing a large financial impact. This is not an endorsement of or formal request for any recommendation below, but potential solutions may include:

- Proportionally increasing the state's contribution to the University of Kentucky's state-mandated program budget line supporting Cooperative Extension.
- Sunsetting the existing barrel tax over time to give EDBs time to adjust.
- Increasing the EDB tax a proportional amount to supplant lost revenue.
- Exempting EDBs from the compensating rate threshold requiring fiscal court approval.

We look forward to the continuing work of the Task Force, discussing policy options and appreciate the opportunity to submit this information on behalf of UK Cooperative Extension.

Table 1: Distilled Spirit Tax Revenue Estimation

County	DS Inventory (2021)	DS Inventory (2022)	2021 Tax Rate (Cents/\$100)	2021 Revenue	2022 Revenue* Estimate
Anderson	\$180,354,106	\$196,728,236	1.400	\$25,249.57	\$27,541.95
Boone	\$417,830	\$538,251	3.780	\$157.94	\$203.46
Bourbon	\$8,270	\$7,794	4.320	\$3.57	\$3.37
Boyle	\$15,123,969	\$28,616,210	18.500	\$27,979.34	\$52,939.99
Bullitt	\$296,724,156	\$354,606,517	1.300	\$38,574.14	\$46,098.85
Campbell	\$1,793,788	\$3,926,302	5.000	\$896.89	\$1,963.15
Christian	\$181,631	\$234,936	3.280	\$59.57	\$77.06
Daviess	\$82,036,828	\$98,461,579	0.859	\$7,046.96	\$8,457.85
Fayette	\$292,429	\$304,423	0.510	\$14.91	\$15.53
Franklin	\$332,546,385	\$416,878,391	2.840	\$94,443.17	\$118,393.46
Gallatin	\$62,846	\$167,744	5.600	\$35.19	\$93.94
Grant	\$11,654,317	\$46,838,878	16.300	\$18,996.54	\$76,347.37
Hardin	\$98,075	\$179,546	2.670	\$26.19	\$47.94
Henry	\$801,557	\$7,409,068	6.640	\$532.23	\$4,919.62
Jefferson	<i>At this time, the Jefferson County Extension District does not assess any local taxes</i>				
Jessamine	\$33,961,616	\$40,043,608	2.770	\$9,407.37	\$11,092.08
Kenton	\$9,419	\$12,271	1.310	\$1.23	\$1.61
Marion	\$238,466,622	\$277,841,552	4.350	\$103,732.98	\$120,861.08
Mason	\$36,550	\$97,315	4.190	\$15.31	\$40.77
McCracken	\$33,634	\$4,108	11.050	\$37.17	\$4.54
Muhlenburg	\$9,232	\$50,036	2.560	\$2.36	\$12.81
Nelson	\$809,767,365	\$883,689,601	1.000	\$80,976.74	\$88,368.96
Oldham	\$7,549,814	\$9,221,878	1.450	\$1,094.72	\$1,337.17
Shelby	\$95,236,309	\$103,990,079	2.000	\$19,047.26	\$20,798.02
Simpson	\$3,724	\$8,106	1.900	\$0.71	\$1.54
Warren	\$6,661,043	\$9,699,455	0.810	\$539.54	\$785.66
Washington	\$655,509	\$2,456,953	17.688	\$1,159.46	\$4,345.86
Woodford	\$176,995,588	\$196,987,958	1.800	\$31,859.21	\$35,457.83
TOTAL				\$461,890.31	\$620,211.45

(*2022 DS x 2021 tax rate)