

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 5th Meeting of the 2022 Interim

October 19, 2022

Call to Order and Roll Call

The 5th meeting of the Interim Joint Committee on Appropriations and Revenue was held on Wednesday, October 19, 2022, at 1:00 PM, in Room 149 of the Capitol Annex. Senator Christian McDaniel, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Christian McDaniel, Co-Chair; Representative Jason Petrie, Co-Chair; Senators Danny Carroll, Donald Douglas, David P. Givens, Alice Forgy Kerr, Stephen Meredith, Michael J. Nemes, and Stephen West; Representatives Lynn Bechler, Danny Bentley, John Blanton, Randy Bridges, Myron Dossett, Ken Fleming, Chris Fugate, Al Gentry, David Hale, Jason Nemes, Ruth Ann Palumbo, Melinda Gibbons Prunty, Josie Raymond, Brandon Reed, Steve Riley, James Tipton, and Lisa Willner.

Guests: Michael Meredith, State Representative, House District 19; Jennifer Hays, Committee Staff Administrator, Appropriations & Revenue Committee; J.D. Chaney, Kentucky League of Cities; Shellie Hampton, Kentucky Association of Counties; Andi Johnson, Commerce Lexington, Inc.; Shelby Williams Somervell, Greater Louisville, Inc.; Lena Muldoon, You Decide, Kentucky!; Amanda Davenport, Lake Barkely Partnership; and Andrew McNeil; Bluegrass Institute.

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, Sarah Watts, Hunter Branham, and Lexi Bensberg.

Approval of Minutes

Upon motion and second, the minutes from the September 21, 2022 meeting were approved without objection.

Proposed Constitutional Amendment & Overview of Local Taxes

Jennifer Hays, Committee Staff Administrator, Appropriations & Revenue Committee, provided a broad overview of local taxation processes.

Mrs. Hays testified that the revenue related to local taxation is primarily generated by various license fees and property tax, with occupational license fees generating a significant amount of revenue for both cities and counties. Occupational license tax can be

based on either the net profit of businesses or a percentage of the salaries of employees within a local jurisdiction. She explained that certain sections of the Kentucky Constitution outline the General Assembly and local jurisdiction's role in local tax structure. She provided an overview of Sections 181, 180, 157, 170, 174, 172, and 171 of the Kentucky Constitution.

Mrs. Hays testified that when considering proposing changes to local taxation, the existing constitutional provisions and the 100+ references to local taxes throughout KRS chapters must be considered.

Michael Meredith, State Representative, House District 19; J.D. Chaney, Kentucky League of Cities; Shellie Hampton, Kentucky Association of Counties; Andi Johnson, Commerce Lexington, Inc.; Shelby Williams Somervell, Greater Louisville, Inc.; Lena Muldoon, You Decide, Kentucky!; and Amanda Davenport, Lake Barkely Partnership, testified on behalf of the provisions contained in HB 475 from the 2022 Regular Session.

Representative Meredith testified that the goal of this bill is to transition from reliance on income based taxes to consumption based taxes at the local level. The provisions contained in HB 476 from the 2022 Regular Session would ensure that the General Assembly has supremacy over what happens in local jurisdictions regarding taxes.

Ms. Johnson testified that it is important to diversify local tax revenue to increase Kentucky's ability to compete with other states. Ms. Somervell added that making this change would help attract businesses and talent to Kentucky. Ms. Davenport testified that allowing local jurisdictions to have more control over their tax policy allows them to be agile in addressing problems specific to their jurisdiction. Ms. Hampton testified that this topic has been the focus of multiple task forces in recent decades, with the final recommendation including a constitutional amendment.

Andrew McNeil, Bluegrass Institute, testified that the focus of this issue should remain on competitiveness rather than increased revenue. To achieve this, Mr. McNeil provided three principles that tax policy changes should meet which include revenue neutrality, preference for taxing consumption over income, and preference for individuals and entrepreneurs over narrow special interests.

In response to a question from Chair McDaniel, Representative Meredith clarified that the constitutional amendment, if passed, would remove the existing obstacle that prevents local jurisdictions from widening their tax base. He added that the accompanying legislation, 2022 RS HB 476, would ensure that no new tax structure can be created in local jurisdictions without explicit authorization from the General Assembly through statutory framework.

In response to a question from Representative Nemes, Representative Meredith testified that the ultimate goal of this legislation is to allow for a consumption based tax model at the local level so that local jurisdictions can effectively compete for new constituents and businesses. He added that there will be a need to draft policy to protect the baseline revenue.

In response to a question from Senator Meredith, Mr. McNeil testified that to achieve revenue neutrality, the additional revenue from a tax base expansion should be used to lower the income tax rate. Representative Meredith added that this legislation is an attempt to lower the local jurisdictions' reliance on income-based taxes.

In response to a question from Representative Raymond, Representative Meredith testified that this legislation would complement the tax rate reduction introduced in 2022 RS HB 8. He added that, in order to protect baseline revenue in local jurisdictions, an offset would have to be implemented.

In response to a question from Representative Bechler, Mr. McNeil testified that the principles he provided earlier in the meeting would be applicable after the legislation was passed. However, he acknowledged that to ensure tax structure changes made in response to this legislation met these principles, safeguards could be put in place.

In response to a question from Senator Carroll, Mr. Chaney testified that in order to be more competitive, consumption based elements must be added to local tax structures. Representative Meredith added that, in the context of local tax reform, this legislation has been the primary focus in the House for the past few years.

Chair McDaniel made the committee aware of the additional materials provided in their folders, including the Interim Budget Allotment Adjustments for FY 2023, the Interim Appropriation Revisions for Second Quarter FY 2023, and reports received by the Appropriations and Revenue Committee since the September meeting.

With there being no further business, the meeting was adjourned at 3:05 p.m.