

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 6th Meeting of the 2023 Interim

November 2, 2023

Call to Order and Roll Call

The 6th meeting of the Interim Joint Committee on Appropriations and Revenue was held on November 2, 2023, at 1:00 p.m. in Room 149 of the Capitol Annex. Representative Jason Petrie, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jason Petrie, Co-Chair; Senators Gary Boswell, Matthew Deneen, Donald Douglas, Shelley Funke Frommeyer, David P. Givens, Gerald A. Neal, Michael J. Nemes, and Robin L. Webb; Representatives Kim Banta, Danny Bentley, Adam Bowling, Josh Bray, George Brown Jr., Myron Dossett, Patrick Flannery, Ken Fleming, Deanna Frazier Gordon, Chris Freeland, Al Gentry, Mark Hart, DJ Johnson, Shawn McPherson, Ruth Ann Palumbo, Josie Raymond, Brandon Reed, Steve Riley, Cherlynn Stevenson, and Ken Upchurch.

Guests: From the October 18 Meeting; Richard Dobson, Executive Director, Office of Sales & Excise Taxes, Department of Revenue; Kimberly Hensley, Director, Division of Miscellaneous Taxes, Department of Revenue; Javier Correoso, Director, Public Affairs, Uber Technologies; Sean Vinck, Associate General Counsel & Senior Director, Turo Inc.; Jennifer Breiwa Smith, Executive Director, Government & External Relations, Western Kentucky University; Bryan Russell, Chief Facilities Officer, Western Kentucky University; Eric Gentry, Vice President, University Advancement & Executive Director, Northern Kentucky University Foundation, Northern Kentucky University; Dr. Cady Short-Thompson, President, Northern Kentucky University; Jordan Smith, Executive Director, Governmental & Institutional Relations, Murray State University; Mary Vosevich, Vice President for Facilities Management & Chief Facilities Officer, University of Kentucky; Angie Martin, Vice President for Financial Planning & Chief Budget Officer, University of Kentucky; Dr. Jay Morgan, President, Morehead State University; Dr. Kim Schatzel, President, University of Louisville; Dr. Mary DeLetter, Interim Dean, University of Louisville School of Nursing; Dr. Jeff Bumpous, Vice President, Academic Medical Affairs, Interim Dean, University of Louisville School of Medicine; Shannon Rickett, Associate Vice President of Government Relations, University of Louisville; Dr. Gerry Bradley, Interim Provost, University of Louisville; Dan Durbin, Executive Vice President, Finance & Administration, University of Louisville; Dr. David McFaddin, President, Eastern Kentucky University; Barry Poynter, Senior Vice President, Finance & Administration, Eastern Kentucky University; Buddy Combs, Acting Vice President, Administrative Services, Kentucky Community & Technical College System; Sandy Adkins, Director, Capital Budgets, Kentucky Community & Technical College System; Andy Casebier, Assistant Vice President, Facilities Support Services, Kentucky Community & Technical College System; Chairwoman Tammi Dukes, Board of Regents, Kentucky State University; Jennifer Linton, Interim Director of Facilities Management & Capital Projects, Kentucky State University; Dr. Koffi C. Akakpo, President, Kentucky State University.

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, Adam Johnson, Sarah Watts, and Fantasia Tackett.

Approval of Minutes

Representative Reed made a motion, seconded by Representative Johnson, to approve the minutes from the October 18, 2023, meeting.

Centralized Tax Reporting & Distribution System for State & Local Transient Room Taxes November 1 Report

Mr. Dobson and Ms. Hensley presented a report on the centralized tax reporting and distribution system for state and local transient room taxes. The report, mandated by House Bill 360, was summarized in a PowerPoint presentation.

Mr. Dobson testified that, under House Bill 8, online facilitators assisting Kentucky hosts are legally required to collect and report to local jurisdictions. The idea of centralizing administration, while feasible, was noted to involve significant time, expense, and personnel considerations.

In response to a question from Representative Petrie, Mr. Dobson testified integrating a centralized tax reporting program into the Department of Revenue's (DOR) ongoing project, DORIS, would be a complex and time-consuming process. The current statewide transient room tax is part of DORIS's first release, set for implementation in late 2024. Introducing a new process would require careful consideration, and the estimated timeline for programming and implementation would be at least another 12 months, with a projected cost of \$2.4 million.

Tax structures in several border states including Virginia, Indiana, and Tennessee were reviewed. In these states, there is a mix of centralized and local administration for various taxes. For example, Virginia has a local option sales tax centrally administered by the state, but transient room taxes are locally administered. Indiana has a history of local and central administration for different taxes, and Tennessee primarily relies on local administration for transient room taxes. None of these states has a fully mandated centralized administration for transient room taxes.

Ms. Hensley testified about conversations with the Kentucky League of Cities and the Louisville Metro Revenue Commission. Both entities expressed concerns about the state's collection of local revenue, citing long-standing opposition to breaching local autonomy in tax administration. The Kentucky League of Cities emphasized that, despite the state's passage of House Bill 8, there are no compelling reasons to reverse their position. Louisville Metro, which levies an 8.5 percent transient room tax, has been collecting taxes from online travel companies in compliance with House Bill 8. They invested significantly in software for tax collection, and they believe a centralized system is unnecessary and could impede timely and accurate revenue distribution.

Mr. Dobson testified with 108 local jurisdictions and eight potential rate combinations in Kentucky, the DOR does not currently advise taking on additional duties for local transient room tax administration. Instead, Mr. Dobson suggested allowing House Bill 8 to take effect, enforcing compliance by short-term vacation rental platforms with local jurisdictions. The equalization of the base under House Bill 8 was underscored and the challenges of centralization given the ongoing integrated tax system project was emphasized.

In response to a series of questions from Representative Petrie, Mr. Dobson testified the existing decentralized collection system does not pose any conflicts with the Streamline Sales and Use Tax Agreement (SSUTA), as the issue falls outside the purview of the sales tax system.

In response to a series of questions from Representative Flannery, Mr. Dobson testified the number of local jurisdictions required for facilitator reporting is estimated to be a minimum of 108 tourism districts. Regarding Wayfair, it was emphasized that it pertains to companies with no physical presence, whereas online facilitators are engaged in activities performed within the state. In response to inquiries about objections to a streamlined collection process, the DOR's current lack of capacity and resources for such a system was highlighted, along with the acknowledgment that facilitators already possess the technological capacity to comply. Openness to simplifying processes through collaboration with local jurisdictions was expressed.

Senator Boswell commented that the proposed solution seems unnecessary, characterizing it as a solution seeking a problem. He stressed the idea that if local governments institute taxes, they should handle the tax collection process.

Motor Vehicle Rental/Ride Share Business & Associated Fees

Richard Dobson, Executive Director, Office of Sales & Excise Taxes, Department of Revenue; Kimberly Hensley, Director, Division of Miscellaneous Taxes, Department of Revenue; Javier Correoso, Director, Public Affairs, Uber Technologies; Sean Vinck, Associate General Counsel & Senior Director, Turo Inc.

Mr. Dobson and Ms. Hensley provided an overview of the current implementation of legislation effective from the beginning of the year. The presentation covered key provisions of KRS 138.472, outlining the businesses subject to the motor vehicle rental/ride share excise tax, which includes various transportation services.

Mr. Dobson testified the 6 percent excise tax is imposed for the privilege of providing motor vehicles for sharing or rent within the commonwealth. Receipts from the tax are deposited into the general fund. Changes made in House Bill 360, enacted in 2023, retroactively excluded certain Human Services Transportation delivery receipts from the tax, specifically those related to non-emergency medical transportation services funded by Medicaid. The exclusion was intended to prevent inadvertent impacts.

Representative Petrie commented on the thorough discussion that took place during a previous meeting, expressing gratitude for the information provided by Mr. Dobson and others on the topic.

Ms. Hensley testified about the motor vehicle rental/ride-share excise tax registration process which commenced on December 15, 2022. Currently, there are 130 approved registrants, all opting for online filing. Tax filing began in February 2023, with the initial return and payment due on February 21. Electronic filing is mandatory by the 20th of each month, and late submissions are subject to penalties and interest. The total collection since February amounts to \$25.1 million.

Mr. Dobson expressed satisfaction with the program's performance and addressed frequently asked questions. The testimony covered topics such as businesses subject to the tax, the definition of gross receipts, tax implications for services in the commonwealth, and specific scenarios related to ride origins and terminations. The due date for tax payments, the electronic filing portal, and distinctions between the new excise tax, the loaner rental program, and the "you drive it" tax were also discussed. The absence of exemptions for service providers was

emphasized and information was provided on certifications and motor carrier classifications subject to tax.

Ms. Hensley presented an example of the DOR's website for the motor vehicle rental/ride-share excise tax. The user-friendly interface, electronic registration links, and filing guides available for taxpayers were highlighted. The website also offered general information about the tax, including contact details for further inquiries.

Mr. Correoso testified about Uber's role in connecting riders and drivers in Kentucky since 2015. The flexibility and responsibility provided to drivers as independent contractors were emphasized, particularly regarding the impact of inflation on their costs. The introduction of an additional 6 percent tax for all Transportation Network Company trips through House Bill 8 was highlighted, along with the unique challenges and costs faced by the industry. The collaborative efforts between Uber and the legislature to ensure compliance with Kentucky law were outlined, affirming the company's commitment to being a crucial transportation option.

Mr. Vinck testified Turo operates as a peer-to-peer car-sharing platform in Kentucky, allowing vehicle owners to share their cars for alternative transportation. Unlike ride-sharing, Turo serves as an alternative to traditional car rental services. The regulatory framework for peer-to-peer car sharing in Kentucky includes measures for consumer protections and insurance requirements. Readiness to address any committee questions was expressed, particularly those related to taxes under House Bill 8, and the opportunity to discuss various aspects of Turo's business was welcomed.

In response to a question from Senator Boswell, Mr. Correoso testified that while Uber has paid millions in excise taxes since January, unique regulatory requirements, particularly concerning insurance, may have negatively impacted consumer prices in the ride-sharing industry. He suggested exploring regulatory changes, specifically addressing auto insurance costs, could potentially benefit consumers.

University Capital Project Requests

Several universities testified about their capital project requests.

Ms. Smith and Mr. Russell from Western Kentucky University presented their top five capital projects to the committee.

Ms. Smith testified the first project is the replacement of the academic complex which houses the College of Health and Human Services. The second project focuses on renovating and expanding the Innovation Campus, serving as an economic hub for South Central Kentucky and accommodating a small business accelerator and national headquarters. The campus, situated in an old mall in Bowling Green, requires significant upgrades.

Mr. Russell testified the third project focused on the renovation of Henry Harden Cherry. Currently using asset preservation funds for initial renovations, the university plans to allocate \$30 million to address the construction needs identified by architects and engineers.

Ms. Smith testified about the next project titled "Renovate Potter College Arts and Letters Facilities," focusing on the Fine Arts Center built in the 1970s. Home to various programs related to arts and letters, including recital halls, communication programs, foreign languages, theater,

and dance, the building requires a much-needed renovation. The final project in the university's top five priorities is to renovate Raymond Craven's Library, built in 1969, which requires a comprehensive overhaul. Ongoing needs were mentioned, including the request for the reauthorization of agency bond authorization for the Gordon Ford College of Business project funded in the 2022 budget, reauthorization for athletics projects, and continued appreciation for asset preservation funds from the 2022 budget.

Dr. Short-Thompson and Mr. Gentry testified about three project request priorities for Northern Kentucky University. Dr. Short-Thompson testified the first priority involves replacing the enterprise resource planning system, with a request for \$15 million in state bonds. The second priority is seeking support for the state asset preservation from 2024 to 2026, expressing gratitude for the previous investment from 2022 to 2024. The proposed amount for the next cycle is \$48,458,000, aimed at addressing the significant capital renewal backlog of approximately \$350 million. The university faces challenges in matching funds for this preservation cycle. The final priority is the renewal and renovation of Steely Library, built in 1974. A request for \$69 million in state bonds aims to transform the 49-year-old building into an academic hub, housing an Academic Commons to support student success initiatives.

Mr. Smith testified about Murray State University's (MSU) project requests, beginning with the top priority of a \$60 million asset preservation pool, MSU's portion of the CPE-requested \$700 million asset preservation pool. The university seeks a waiver of the match requirement but is willing to match from existing bond proceeds and restricted agency funds if necessary. The second project is a Learning Commons with a housing component, a \$38 million request, driven by a record enrollment and the need to address a housing shortage on campus. The third request is for the School of Nursing and Health Professions building, phase two. Although the General Assembly funded \$45.5 million for a new building in the last budget cycle, MSU is seeking an additional \$122.2 million in total for phase two to fully complete the project as originally planned, including laboratory and clinical spaces. The list of projects also includes requests for residence hall HVAC systems, an asset preservation pool for residence halls, a new auxiliary services building, replacement of College Courts Apartments, and the construction of additional residential housing.

Representative Petrie commented on the common theme of bonds and reauthorization across different institutions. He expressed the need to analyze and differentiate between ongoing and new requests, highlighting that this would be an area of focus moving forward.

Ms. Martin and Ms. Vosevich testified about the University of Kentucky's (UK) project requests.

Ms. Martin testified the size and scope of the institution, including the academic Medical Center and UK Healthcare, might make the requested projects and funding appear significant. However, she emphasized the top four priorities involve a combination of university funding, state partnership, and a share in the Council on Postsecondary Education's asset preservation pool request.

Ms. Vosevich testified the first project involves constructing and enhancing the medical administrative facility, specifically expanding the UK Healthcare hospital with the construction of a new bed tower that would add approximately 700 beds. The initial phase is projected to be completed by mid-2029. The second project focuses on asset preservation, addressing the need for improvements in building systems, utility infrastructure, and potential major renovations to

existing facilities, emphasizing the importance of maintaining and upgrading aging infrastructure on campus. The third project pertains to the construction of an agricultural research facility, replacing an existing vintage research facility and including teaching labs for the College of Agriculture, Food, and Environment. The completion date for this project is set for 2026. Lastly, the university seeks to construct a new research facility similar to a previous multidisciplinary research facility, aiming for completion in 2026.

Dr. Morgan testified about Morehead State University's project requests. Expressing gratitude for the current biennial budget and asset preservation dollars, he advocated for an expansion of funding language. Funding for a new multidisciplinary classroom building to replace and consolidate older structures was requested. The second priority involved phase two of the science and engineering building project, aiming to eliminate older buildings. Additionally, a renovation project for a classroom building was presented. Agency bond reauthorization for a new residence hall was sought and gratitude was expressed for support in expanding The Craft Academy. Continued assistance for constructing a third satellite for the campus's space science program was requested.

Dr. Schatzel and Ms. Rickett testified about the University of Louisville's (UofL) project requests. Dr. Schatzel expressed gratitude for the support received in the last budget cycle. The proposed Health Sciences Simulation Center and collaboration Hub were deemed critical to addressing the shortage of nurses in Kentucky. The facility aims to increase nursing program capacity by over 50 percent and provide state-of-the-art simulation spaces. The collaboration with Jefferson Community and Technical College (JCTC) and support from Norton, UofL Health, JCTC, and the city of Louisville was emphasized. The second priority focused on a new academic building in STEM fields to prepare students for high-demand areas like computer science and neuroscience, addressing the predicted shortage of STEM workers.

Dr. McFaddin and Mr. Poynter of Eastern Kentucky University testified, focusing on projects that build on previous General Assembly support. Dr. McFaddin highlighted the first project, the Aviation program's growth, welcoming 400 students, and the need for a dedicated classroom building at the Central Kentucky Regional Airport. The second project emphasized the ongoing work on phase two for the laboratory school, a unique educational environment serving over 1,000 P-12th graders. The third project discussed was the Alumni Coliseum renovation, funded in the last legislative session, crucial as a central gathering point for the campus. Dr. McFaddin expressed gratitude for past investments in facilities, addressing essential aspects like steam lines, electrical systems, plumbing, and HVAC.

Mr. Combs and Mr. Casebier testified about Kentucky Community & Technical College System's (KCTCS) project requests.

Mr. Combs testified KCTCS has 63 capital projects.

Mr. Casebier thanked the committee for past asset preservation funding and outlined an estimated \$360 million in asset preservation needs for the next biennium. Several continuation projects were presented, including the expansion and renovation of the Elizabethtown Community and Technical College's Occupational Training building, the replacement of a 12-story tower at Jefferson Community College for science programs, and the replacement of an aging building at Somerset Community College to accommodate program growth. Strategic projects related to the economic growth along the I-65 Corridor were discussed, including the

relocation of nursing and technology programs in Bowling Green, the establishment of a new campus to support the technology sector, and the addition of a second building at the South Central campus for local manufacturers and businesses. The statewide impact of KCTCS facilities was underscored, highlighting that the investment in their projects reaches every part of the state, benefiting the broader Kentucky community.

Dr. Koffi C. Akakpo testified about Kentucky State University's project requests. The first request is a \$50 million allocation for a new Health Sciences building to accommodate the rapidly growing nursing program, currently housed in inadequate facilities. The second request is for \$25 million in asset preservation to address urgent issues, including a dorm with asbestos concerns. The need for IT upgrades to revitalize the neglected institution was highlighted.

Correspondence Received

Representative Petrie encouraged committee members to review the follow-up information and correspondence received. The follow-up information consisted of information from the Kentucky Department of Education and the Kentucky Infrastructure Authority. Correspondence received included the Council on Postsecondary Education's 2024-2026 Capital Investment Recommendation; Interim Emergency Appropriation Increases for FY 2024 and Interim Allotment Adjustments for FY 2024 from Jenny Bannister; and Reports Received Since October 18, 2023, from Jennifer Hays.

Adjournment

With there being no further business, the meeting was adjourned at 2:26 p.m.