

INTERIM JOINT COMMITTEE ON LOCAL GOVERNMENT

Minutes of the 3rd Meeting of the 2022 Interim

August 25, 2022

Call to Order and Roll Call

Pursuant to the approval of the President of the Senate and Speaker of the House, the Senate Standing Committee on State and Local Government, and the House Standing Committee on Local Government, met jointly during the 2022 Special Session at the Kentucky State Fair on Thursday, August 25, 2022, at 1:00 PM, in South Wing C, Rooms 101 & 104 of the Kentucky Fair and Exposition Center, in Louisville, Kentucky. Senator Robby Mills, Chair, and Representative Michael Meredith, Chair, called the meeting to order, and the secretary called the roll for each committee.

Present were:

Members: Senator Robby Mills, Co-Chair; Representative Michael Meredith, Co-Chair; Senators Christian McDaniel, Michael J. Nemes, Wil Schroder, Adrienne Southworth, Damon Thayer, and Phillip Wheeler; Representatives Danny Bentley, Josh Bray, George Brown Jr., Jonathan Dixon, Ken Fleming, Deanna Frazier Gordon, Keturah Herron, Mary Beth Imes, DJ Johnson, Matt Lockett, Jerry T. Miller, and Walker Thomas.

Guests: Sarah Davasher-Wisdom and Shelby Williams Somervell, Greater Louisville Inc.; J.D. Chaney, Brianna Carroll, and Michele Hill, Kentucky League of Cities; Jim Henderson and Shellie Hampton, Kentucky Association of Counties; and Andi Johnson, Commerce Lexington.

LRC Staff: Mark Mitchell, Joe Pinczewski-Lee, Christopher Jacovitch, and Cheryl Walters.

Welcome Remarks

Ms. Sarah Davasher-Wisdom, President and CEO of Greater Louisville Inc., welcomed the committees to Louisville.

Constitutional Amendment relating to Local Taxation

Representative Meredith told the committees that the issue of local taxation is not new. Last year a bill on the issue passed the House but time ran out before it could pass the Senate. In addition, there was focus on state tax reform efforts.

Representative Meredith stated that Mr. Carter Hendricks, Co-Chair of “You Decide Kentucky”, a statewide organization dedicated to tax reform, was unable to be at the

meeting. Representative Meredith informed members that previous testimony from Mr. Hendricks included discussion about competition among businesses at the Kentucky/Tennessee line. Kentucky businesses near the line compete with Tennessee. Bowling Green and Simpson County have been successful in recruiting businesses over the years, but that is not what has been seen across the state. Hopkinsville has been hampered. The Clarksville region in Tennessee today has around 130,000 people, while the City of Hopkinsville and Christian County has roughly 35,000 to 50,000 people. Thirty years ago, those cities were the same size. The lack of an income tax at the state and local level has allowed growth in Tennessee.

Two or three years ago, the General Assembly lowered the overall income tax rate by a percentage point. This year the General Assembly passed legislation that places Kentucky on a path to reduce or eventually eliminate the income tax as certain revenue triggers are tripped. This will be without raising the property tax or the sales tax while maintaining necessary revenue.

Only 17 states allow a local income tax. Thirty-eight states have local sales taxes. Kentucky is one of the states that is most reliant on local income tax. Local governments rely heavily upon business and payroll taxes. Section 181 of Kentucky's Constitution needs to be amended to get the flexibility to help local governments transition away from those types of taxes. The constitutional amendment will not be the only policy passed, and talks continue to begin to develop the framework of post-constitutional amendment local tax legislation.

Mr. Jim Henderson, Executive Director, Kentucky Association of Counties (KACo), stated that tax reform has been discussed over the 25 years of his service to counties. Most county officials would like to see a sales tax as an alternative source of revenue. Every county is different. What works for one county may not work for another. Everything is academic until the Constitution is amended. As a rule, what is taxed at the county level is limited, and does not always necessarily reflect the sectors of the economy that are growing. The tax reform conversation should continue.

Mr. J.D. Chaney, Executive Director/CEO, Kentucky League of Cities (KLC), said this present issue is not about a handout or about home rule for cities. Property taxes, occupational taxes, and franchise fees are the only three forms of revenue that the General Assembly can authorize. Amending Section 181 of the Constitution would allow the General Assembly to authorize taxes consistent with the other provisions of the Constitution. Nothing can happen until the General Assembly sets the policy and the resultant conditions arising from the policy. Cities will trust the General Assembly to enact policies that help local governments. Cities are extremely reliant on occupational license taxes. Opening up the possibility to shift the tax burden exclusively from residents is a worthwhile policy discussion.

Ms. Andi Johnson, Chief Policy Officer, Commerce Lexington, told the committees that Commerce Lexington is the Lexington area chamber of commerce and works with leaders in a nine-county region in Central Kentucky to attract and retain jobs in the region.

The regional leaders have been working with a national economic development consultant to develop a plan to improve regional competitiveness. Through this process, Commerce Lexington has looked at how the region compares to competitor regions. Kentucky's local tax policy structure stood out in comparison to the competitor regions as a barrier and impediment, not just to business creation, but also in attracting people to Kentucky. Commerce Lexington encourages the modernization of the local tax code and the resultant flexibility while including appropriate guardrails. Commerce Lexington would like to see local tax codes mirror more closely what has been done at the state level through lowering or eliminating taxes on personal income and net profits taxes on business.

Ms. Shelby Williams Somervell, Vice President of Governmental Affairs and Communications, Greater Louisville Inc. (GLI), pointed out that GLI's membership covers 15 counties in Kentucky and Indiana and has over 1,800 members.

Kentucky needs to build more competitive local tax structures to support economic growth, promote business development, and attract and retain talent. Kentucky made great strides by passing statewide tax reform last session, but the impact of those needed changes will never be fully realized if local tax reform is not addressed as well. Section 181 of the Constitution needs to be changed to start.

"You Decide Kentucky" has been started to educate the public on this issue, and among the panel testifying at this meeting, she and Mr. Chaney serve on the group's board.

Representative Meredith noted that the Appropriations and Revenue Committee will discuss this issue in October. Research is being conducted to secure tax data. The working class and property owners are overtaxed. The local governments need more revenue coming in to offset those sources of tax revenue for those citizens who feel overburdened. In regards to remote working, some communities gain occupational tax revenue while other communities lose that revenue.

In response to a question from Representative Miller, Representative Meredith replied that this present initiative is not envisioned to be anything like the local option sales tax legislation proposed a few years ago which included the requirement of an affirmative result from a public question in order to levy the sales tax. That effort was a specific project add-on tax, and not meant to shift the overall local tax code in any meaningful way.

Representative Meredith announced that the next meeting would be held on September 27th.

There being no further business, the meeting was adjourned at 1:45 p.m.