Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2015 Regular Session

Part I: Measure Information

Bill Request #: 368

Bill #: HB 194 GA

Bill Subject/Title: AN ACT relating to the impact of refunds of natural resources severance and processing tax upon distributions from the local government economic assistance fund and declaring an emergency.

Sponsor: Rep. Mike Denham

Unit of Government: **X** City **X** County **X** Urban-County Unified Local Government **X** Charter County **X** Consolidated Local Government

Office(s) Impacted: The legislative body of each local government

Requirement: ____ Mandatory ____ Optional

Effect on Powers & Duties: ____ Modifies Existing ____ Adds New ____ Eliminates Existing

Part II: Purpose and Mechanics

HB 194 GA would lessen the upfront financial impact on counties and cities receiving funds from the Local Government Economic Assistance Fund (LGEAF), based on the tax collected on minerals severed in the county, in the event that a tax refund is issued which reduces the total amount of revenues going into this fund.

One-half of the revenues collected from state severance and processing tax on minerals are transferred into the LGEAF and allocated among the counties based on the tax collected on minerals severed in that county, with 10% of that amount allocated to incorporated cities within the county. In the event that a tax refund is issued which reduces the total tax collections, the local allocation is therefore also reduced. The local share of the refunded amount is paid by reducing the current quarterly allocations as necessary, including carrying the refund forward to future quarterly allocations if the current quarterly amount is insufficient to satisfy the refund in full.

Such a reduction in the local allocation would often be unexpected and, depending on the size of the refund, may in some cases result in a financial hardship on a county or city that had already budgeted the estimated LGEAF receipts.

HB 194 GA would lessen the local impact by amending KRS 42.470 to provide that a mineral producing county's quarterly LGEAF payment may be reduced by no more than 20% as a result of any tax refund issued to the taxpayer severing and/or processing the minerals in the county. If a tax refund is paid and the county's allocated share of the refunded amount is greater than 20% of its quarterly payment, the remainder would carry forward to be offset in successive quarters as necessary until it is accounted for in full.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

HB 194 GA would have no impact on the total amount of local LGEAF allocations over time. Eventually, the full local share of any tax refund would be paid just as it is today. However, the bill would have a positive impact within any given quarter in which more than 20% of the allocation would be offset by the state under current procedures to account for a refund.

In any case where the local share of the amount to be refunded is more than 20% of a county's allocation, this bill would act to smooth out the offset over time, thereby reducing the current negative impact on relevant local governments.

This bill relates to tax refunds, which may arise in a multitude of taxpayer-specific situations. It is impossible to accurately estimate the number and amount of refunds that may occur that would impact any given county's LGEAF allocations under the provisions of this bill. Furthermore, the impact on local governments would not be uniform across the state, but would vary based on refunds paid and the amount of minerals severance tax collected in each county.

Data Source(s): DOR; LRC staff

Preparer: Eric Kennedy **Reviewer:** MCY **Date:** 1/26/15