

**Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2016 Regular Session**

REVISED 1/14/16

Part I: Measure Information

Bill Request #: 1093

Bill #: HB 206

Bill Subject/Title: AN ACT relating to TVA in-lieu-of-tax payments and making an appropriation therefor.

Sponsor: Representative Wilson L. Stone

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

Office(s) Impacted: Fiscal Courts

Requirement: Mandatory Optional

Effect on

Powers & Duties: Modifies Existing Adds New Eliminates Existing

Part II: Purpose and Mechanics

The Tennessee Valley Authority (TVA) is a publicly-owned utility created by the Federal Government, and therefore exempt from taxation in any manner or form by any State, county, municipality, or subdivision or district thereof. Properties acquired by the TVA are no longer subject to state and local taxation. In order to provide financial assistance to those taxing districts in which the TVA is located, Section 13 of the Federal TVA Act requires the TVA to make payments in lieu of taxation. These payments are based on equally weighted factors made up of

- the percentage of gross receipts earned within the state to total gross receipts and
- the percentage of the book value of power property within the state to total property.

Thirty percent (30%) of the total TVA payment made to Kentucky pursuant to the Federal TVA Act currently goes to the general fund and seventy percent (70%) is a local portion that goes to the counties, cities, and school districts.

HB 206 establishes the Regional Development Agency Assistance Fund (RDAAF) within the State Treasury and provides that a **portion of the in-lieu-of tax payment currently received from the TVA and designated to the general fund (the 30% state portion) be transferred from the general fund to the RDAAF.** The fund will provide moneys to local industrial development authorities as designated by the fiscal court of each county for the purposes of economic development and job creation; and for the purposes of acquiring federal, state, or private matching funds.

The Department of Revenue shall request from the fiscal courts of each county that receives a payment from the 70% local portion of TVA funds, the name and address of the **one** agency designated to receive the payment from the RDAAF. The fiscal courts must respond within 60 days with the name of the designated recipient or the payment otherwise due to the designated agency will be reallocated equally among the agencies so designated by the other fiscal courts. Any funds - inclusive of any interest earned - remaining in the fund at the close of the fiscal year shall be carried to the subsequent year.

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

The fiscal impact of HB 206 to local governments is expected to be significant. The diversion of general fund moneys to the impacted counties represents **funding in addition to** the TVA funds they currently receive. Impacted counties are those counties that have TVA property located within the county.

The amount going to the counties will be based on an increasing percentage through 2021 at which time it will be 50% and will remain at that percentage level thereafter. Additionally, HB 206 imposes an increasing ceiling through 2021 at which time the transfer amount cannot exceed six million dollars and will also remain at that ceiling thereafter.

Based on estimates from the Consensus Forecast Group regarding future TVA payments, the additional aggregate funding to the counties will break down as shown:

| | | FYE 2017 | FYE 2018 | FYE 2019 | FYE 2020 | FYE 2021 |
|---|---------|---------------|---------------|-----------------|-----------------|-----------------|
| Consensus Forecast Estimates | | \$ 10,248,314 | \$ 11,113,202 | | | |
| Based on the 2018 estimate. | | | | \$ 11,113,202 | \$ 11,113,202 | \$ 11,113,202 |
| | | 10% | 20% | 30% | 40% | 50% |
| Proposed transfer to the regional development agency assistance fund: | | | | | | |
| | Minimum | \$ 1,024,831 | \$ 2,222,640 | \$ 3,333,960.60 | \$ 4,445,280.80 | \$ 5,556,601.00 |
| | Maximum | \$ 1,200,000 | \$ 2,400,000 | \$ 3,600,000 | \$ 4,800,000 | \$ 6,000,000 |

Data Source(s): Tennessee Valley Authority

Preparer: Wendell F. Butler **Reviewer:** JWN **Date:** 1/14/16