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

Part I: Measure Information

Bill Request #: 1256

Bill #: HB 342

Bill Subject/Title: AN ACT relating to taxation

Sponsor: Representative Jim Wayne

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

Office(s) Impacted: Tax revenues

Requirement: X Mandatory ___ Optional

Effect on Powers & Duties: X Modifies Existing ___ Adds New ___ Eliminates Existing

Part II: Purpose and Mechanics

The purpose of HB 342 is comprehensive tax reform. HB 342 would repeal KRS 132.017 and eliminate the right of recall of certain increases in local real property or ad valorem tax rates imposed by a "local governmental entity," i.e. a county, city, urban-county government, consolidated local government, charter county government or other taxing district, or school board. The current method for calculating local property tax rates is a consequence of, 1) a 1965 decision of Kentucky's highest court that non-exempt real property must be assessed at 100% of its fair market value, and 2) the enormous increases in the assessed value of real property in the 1970's. These two events caused property owners to pay greatly increased property taxes. In response, in 1979 the Kentucky General Assembly passed HB 44 to place some controls on increases in local tax rates. As a consequence of that bill and under current law, the Department of Local Government sets a compensating property tax rate for each local government that is the rate which, applied to the current year's assessment of property subject to taxation by a taxing district, produces an amount of revenue approximately equal to that produced in the preceding year from real property taxes. That rate takes into account the amount of growth in property value in the current year. New construction is not included in this calculation. The compensating tax rate has the effect of limiting growth in tax revenue to that resulting from adding new property to the tax rolls and to improvements to existing property, rather than inflation. Using the compensating tax rate as a base, the local government may apply any constitutionally allowable tax rate to the value. A local taxing district may not levy a tax rate which exceeds the compensating tax rate without giving notice and holding a public hearing. Under KRS 132.017, that portion of a tax rate levied which will produce revenue from real property, exclusive of revenue from new property, more than four percent over the amount of revenue produced by the compensating tax rate is subject to a recall vote on petition by the citizens, or reconsideration by the taxing district. Section 67 of HB 342 would repeal KRS 132.017, eliminating the recall provisions. Sections 46 – 64 of the bill would amend the relevant statutes to delete references to the recall provisions of KRS 132.017 and to make conforming and technical changes. Section 19 of HB 342 would create a new section of KRS 6.905 to 6.935 to require review and sunsetting of tax increment financing, tourism development, and economic development programs. Section 70 would establish the local government taxing changes effective on January 1, 2017.

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

HB 342 would have a minimal to moderate positive financial impact on local governments

The primary positive impact would be removal of the restriction on year-over-year property tax increases. The current statutory scheme serves to cap cities' property tax rates below the four percent growth rate. About three-quarters of cities currently levy the compensating tax rate or a rate below that (see table below), which means they don't have to publish the rate in the newspaper or have a public hearing.

Real Property Tax Rate Selected by Cities – 2014	% Selecting Rate
Less than Compensating Rate	10%
Compensating Rate	62%
Between Compensating Rate and 4% Growth Rate	14%
4% Growth Rate	13%
More than 4% Growth Rate	1%

From 2007 to 2014, city real property tax inflation-adjusted revenues have increased only four percent. HB 342 would allow local governments to more easily increase their property tax revenues, potentially producing additional revenues each year. Some of these gains may be offset in some locales by the sunset of some specific economic development incentives (such as tax increment financing). However, the potential increases in the property taxes would likely offset possible losses in other areas.

Data Source(s): Kentucky League of Cities, LRC staff, Stephen J. Vasek, Jr. & C. Craig Bradley, Jr., Kentucky Law Survey, *Kentucky Taxation*, 68, Ky.L.J. 777 (1980)

Preparer: Mary Stephens **Reviewer:** JWN **Date:** 3/3/16