

Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
Session
RS 16
Part I: Measure Information

Bill Request #: 122

Bill #: HB 52 HCS

Bill Subject/Title: AN ACT relating to distributions from the Local Government Economic Fund and to declare an emergency.

Sponsor: Representative Mike B. Denham

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

Office(s) Impacted: _____

Requirement: Mandatory Optional

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

Part II: Purpose and Mechanics

HB 52 HCS 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 52 HCS 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 50% 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 50% of its quarterly payment, the remainder would carry forward to be offset in successive quarters as necessary until it is accounted for in full.

HB 52 HCS makes the following changes in the bill:

HB 52 HCS defines "refunds" as an authorized payment from the State Treasury to a taxpayer representing all or part of an overpayment previously made for severance and processing taxes.

HB 52 HCS defines "severance and processing taxes on coal collected annually" as the total amount of money collected from coal tax in a given fiscal year, reduced by the total amount of refunds of that tax paid during the prior fiscal year.

HB 52 HCS spreads the total prior year refund equally over each of the current quarterly transfers.

HB 52 HCS changes the formula used for allocating Local Government Economic Development Funds and Local Government Economic Assistance Funds back to the coal producing counties. HB 52 HCS proposes to use a ratio of coal severed in each respective county to the coal severed statewide. Currently, a ratio of coal tax collected is used.

HB 523 HCS provides that if the amount of funds allocated to an incorporated area is less than \$25 in any given quarter, then the allotment shall be distributed to the county to which the funds were allocated.

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

HB 52 HCS 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 50% 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 50% 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.

HB 52 HCS declares an emergency to ensure an effective date coinciding with the start of the fiscal year, July 1, 2016.

Data Source(s): LRC Staff, near identical to RS 2015, HB194

Preparer: Wendell F. Butler **Reviewer:** JWN **Date:** 2/10/16