

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION**

MEASURE

2016 BR NUMBER **0980**

SENATE BILL NUMBER **95**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE AN ACT proposing an amendment to Section 170 of the Constitution of Kentucky relating to property exempt from taxation.

SPONSOR Senator Clark

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(Minimal)	(Minimal)	(Minimal)
EXPENDITURES				
NET EFFECT		(Minimal)	(Minimal)	(Minimal)

() indicates a decrease/negative

MEASURE'S PURPOSE: SB 95 proposes to expand the constitutional homestead exemption from state and local property tax by applying the exemption to veterans of the United States Armed Forces and law enforcement officers who are partially disabled. The current exemption applies to individuals who are totally disabled. The amount of exemption that the partially disabled veterans and law enforcement officers would receive would be reduced from the full amount allowed proportional to their percentage of disability.

PROVISIONS/MECHANICS: If ratified by the people of the Commonwealth at the general election held in November 2016, Section 170 of the Constitution would be amended to allow partially disabled veterans and law enforcement officers a reduced homestead exemption, which is limited to \$36,900 for tax year 2016, based on the individual's percentage disability rating. For example, a qualifying person rated as 50% disabled would receive the homestead exemption up to the assessed value of \$18,450 on his or her permanent residence, if owned by the individual. The bill also proposes to make numerous typographical changes of a nonsubstantive nature for clarification purposes, as well as to update the limitation amount currently stated in the Constitution to reflect the inflation-adjusted amount actually allowed in tax year 2016. This amount would continue to be indexed for inflation on a biennial basis.

FISCAL EXPLANATION: SB 95, if enacted and ratified, would impact state revenues, and

could impact local revenues and school funding provided through the SEEK formula. These impacts will be discussed separately.

State Impact

If ratified, this constitutional amendment would have a negative impact on the state General Fund. The precise amount of the reduction in revenues cannot be estimated due to a lack of data on the number of partially disabled veterans and law enforcement officers in Kentucky, however staff expects it to be minimal. This reduction in General Fund revenues would not be offset by any change in the state tax rate on real property, which is only adjusted under KRS 132.020(2) to compensate for increases in statewide real property assessments rather than decreases resulting from expanded exemptions. No impact is expected on state expenditures, and any increase in administrative burdens upon the Department of Revenue are expected to be minimal to none.

Local Impact

The impact this amendment may have on local property tax revenues received by counties, cities, school districts, and other local special districts with taxing authority would depend on the tax rate levied by the given locality. Most local taxing jurisdictions undertake an annual rate setting process through which the governing body chooses a tax rate to impose for that year, which may or may not be subject to various public hearing and voter recall provisions based on the rate imposed for the prior year. Unlike the state, local taxing jurisdictions generally have the ability to offset a reduction in revenues that may occur as a result of reductions in the total assessment base, by imposing an increased tax rate on all property remaining subject to the tax through this annual process.

Specifically, most local taxing jurisdictions would have the statutory authority to impose a “compensating tax rate,” which would be the rate estimated to produce an amount of revenue in the current year approximately equal to the amount produced in the preceding year. If a jurisdiction chose to impose this rate, it would not be subject to voter recall and no reduction in revenues would occur despite the expansion of the homestead exemption. The practical effect of the amendment’s ratification within any local jurisdiction imposing the compensating tax rate would be a tax burden shift, from the newly exempted property to all other property remaining subject to tax at the increased rate.

This amendment would result in some additional administrative burdens upon each local property valuation administrator (PVA), due to increased exemption application activity.

School District SEEK Funding Impact

Local school districts are funded with a mix of state and local tax dollars, in amounts determined by the SEEK funding formula and based in large part upon the assessed value of taxable property in each district. If a district’s local assessment base is reduced, the amount of its required local tax effort is therefore reduced. The amount of state SEEK funding provided to that district may also change as a result, possibly impacting state General Fund appropriations to this program. The change in state funding would differ among districts, and is difficult to estimate, due to the numerous other factors in the SEEK formula.

DATA SOURCE(S): LRC Staff

PREPARER: Eric Kennedy **NOTE NUMBER:** 17 **REVIEW:** JRS **DATE:** 1/14/2016