Local Mandate Fiscal Impact Estimate Kentucky Legislative Research Commission 2017 Regular Session

Part I: Measure Information

Bill Request #: 469							
Bill #: HB 102							
Bill Subject/Title: AN ACT proposing an amendment to Section 170 of the Constitution of Kentucky relating to property exempt from taxation.							
Sponsor: Representative Darryl T. Owens							
Unit of Government:	XCityXCountyXUrban-CountyXCharter CountyXConsolidated LocalXGovernment						
Office(s) Impacted: Local government tax revenues							
Requirement: X Mandatory Optional							
Effect on Powers & Duties:	X Modifies Existing Adds New Eliminates Existing						

Part II: Purpose and Mechanics

HB 102 proposes an amendment to Section 170 of the Kentucky Constitution to increase the homestead exemption. The bill proposes to exempt from state and local property taxes real property maintained as a permanent residence of the owner, when the owner is a totally disabled veteran of the United States Armed Forces with service-connected disabilities.

For all other homeowners, who qualify for the homestead exemption, HB 102 proposes that the homestead exemption be indexed every two years. In 1974, KRS 132.810 was amended to state that the \$6,500 homestead exemption amount shall reflect the purchasing power of the dollar in 1972 and allow for a two-year adjustment of the exemption amount based on the United States Department of Labor cost of living index. As a result, the exemption amount has gradually increased from \$6,500 in 1974 to \$37,600 in 2017. The exemption is expected to continue to increase in future years. HB 102 incorporates the two-year statutory index adjustment into Section 170 of the Kentucky Constitution.

Section 2 of HB 102 proposes that the following question be submitted to the voters: "Are you in favor of amending the Constitution of Kentucky to provide an increased homestead exemption equal to the full assessed value of the property for totally disabled veterans of the United States Armed Forces, whose disabilities are service-connected?"

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

HB 102, if enacted and ratified, could reduce property tax revenues payable to local taxing districts by veterans disabled due to a service-related injury. It will not affect the tax revenues payable to local taxing districts by other homeowners that qualify for the homestead exemption, since KRS 132.810 already incorporates the index adjustment and it has been applied since 1974.

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 could result in some taxing districts being impacted more than others. Jefferson, Hardin, Fayette, Boone, and Christian counties have the highest number of resident disabled veterans. The taxing districts within these counties are impacted more due to the increased number of disabled veterans residing in larger city populations or near the military bases, Fort Knox and Fort Campbell. Therefore, these areas could experience more tax revenue loss and thus, impose a higher tax rate to compensate. On the flip side, counties like Estill, Owsley, and Robertson, which have no disabled veterans, would not be impacted by this amendment.

According to the US Census Bureau, the average assessment value of a home owned by a disabled veteran is \$141,793. If you remove the already approved homestead exemption of \$37,600 from the value, the additional exemption granted by HB 102 is estimated at \$104,193 per home. The US Department of Veterans Affairs reports that 9,120 veterans that are 100% disabled reside in Kentucky. Assuming each 100% disabled veteran owns a home, the total additional exemption is estimated at \$950,242,311. Using the average local property tax rate in Kentucky, the total amount of local tax dollars that could be at stake is \$12,000,000. However, if imposed, the impacted local jurisdictions could recoup their lost tax revenues through the compensating tax rate.

Data Source(s):LRC Economist and Staff, U.S. Census Bureau, American Community
Survey, Public Use Micro-data Sample, U.S. Department of Veterans
Affairs, National Center for Veterans Analysis and Statistics, Kentucky
Department of Revenue

Preparer:	Cynthia Brown	Reviewer:	JWN	Date:	1/13/17
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