



### **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