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

Part I: Measure Information

Bill Request #: 486
Bill #: HB 263
Bill Subject/Title: AN ACT relating to taxation.
Sponsor: Rep. Jim Wayne
Unit of Government: x City x County x Urban-County Unified Local x Government
Office(s) Impacted: Property tax revenues; economic development incentives.
Requirement: Mandatory _x Optional
Effect on Powers & Duties: x Modifies Existing Adds New Eliminates Existing Power W. Promoso and Machanics

Part II: Purpose and Mechanics

This bill is a comprehensive tax reform proposal. Most of the provisions in the bill relate to state tax revenues and tax expenditures. The bill does include several provisions that modify the duties and responsibilities of local governments.

Under this bill, local governments may apply for grants under the Local Government Economic Development Program (LGEDP) using, as the basis for the grants, costs that were the basis for the skills training investment credits that expire under this bill.

Local governments were "eligible companies" for the Kentucky Alternative Fuel and Renewable Energy Fund Program that expires under this bill. When the program expires, local governments may no longer apply for these funds.

Tax increment financing (TIF) provisions are expiring under this Act. Local governments may no longer submit applications for TIF when these provisions expire.

Under current law, local governments have to annually calculate a property tax rate that may provide no more than a 4% increase from the previous year in property tax revenue. This restriction is eliminated under this Act.

Local government ad valorem property taxes are no longer subject to recall petitions under this Act.

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

The fiscal impact of the additional potential for local governments to apply for grants under the LGEDP is indeterminable, but is expected to be minimal. Since local governments are not able to apply for the skills training investment credits that expire under this Act, we do not have data for what costs they would be able to use as the basis for an application for a grant under the LGEDP.

While local governments were "eligible companies" for the Kentucky Alternative Fuel and Renewable Energy Fund Program that expires under this act, none have received money from this fund. Therefore, there is no anticipated fiscal impact on local governments from the expiration of this program.

There is no fiscal impact on local governments with the expiration of TIF under this Act. While local governments may lose an indeterminable amount of revenue indirectly as a result of companies potentially making alternative business plans, there is no direct cost or revenue to local governments.

Current law provides that an increase in the ad valorem tax rate levied by a local government that results in a 4% or larger increase in revenues is subject to a recall vote by the voters of the local jurisdiction. These recall provisions have been codified since 1979 and were instituted to respond to significant property tax increases that were caused by inflation induced rapidly rising property values. This bill removes these recall provisions.

The fiscal impact of the removal of these recall provisions is indeterminable. Whether there is any impact at all depends on whether the possibility of recall or general public sentiment in opposition to higher taxes is the true factor dissuading local governments from collecting substantially more revenue from property taxes. If the possibility of a recall action was a barrier to local governments from levying higher tax rates, then the removal of the recall provisions may have some impact in the future. However, nothing will change without affirmative action by cities, counties, and special districts to increase the tax rate that is levied beyond what is currently permitted by the statute.

Data Source(s): LRC Appropriations and Revenue staff; Cabinet for Economic

Development; OSBD Tax Expenditure Analysis

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