

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2017 REGULAR SESSION**

**MEASURE**

2017 BR NUMBER **0296**

**HOUSE** BILL NUMBER **61**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE** **An ACT relating to the allocation of severance tax revenues to local governments.**

**SPONSOR** **Representative Gooch**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT     NO IMPACT     INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE     LOCAL     FEDERAL

BUDGET UNIT(S) IMPACT: **Local government economic assistance fund and local government economic development fund**

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

**FISCAL SUMMARY**

<b>FISCAL ESTIMATES</b>	<b>2016-2017</b>	<b>2017-2018</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>	(\$0)	(\$0)	(\$63.25 million)*
<b>EXPENDITURES</b>			
<b>NET EFFECT</b>	(\$0)	(\$0)	(\$63.25 million)*

( ) indicates a decrease/negative

\*Assuming that mineral and coal severance and processing tax revenue stays level from FY 2017–2018 through FY 2022–2023.

**MEASURE’S PURPOSE:** The purpose of this measure is to increase the percentage distribution of coal and mineral severance and processing tax revenues to counties from 50% currently to 100% over five years.

Currently 50% of the severance and processing tax revenues for minerals other than coal is allocated to the general fund and 50% is allocated to the Local Government Economic Assistance Fund (LGEAF). Currently 50% of the severance and processing tax revenues for coal is allocated to the general fund and 50% is allocated to the Local Government Economic Development Fund (LGEDF). From the 50% allocated to the LGEDF, 15% of the total coal severance and processing tax collected is transferred from the LGEDF to the LGEAF, leaving the LGEDF with 35% of the coal severance and processing tax revenues.

Under the provisions of HB 61, mineral severance and processing tax revenues would increasingly go to the LGEAF, until reaching 100% of revenues in FY 2022–2023. Coal severance and processing tax revenues would increasingly go to the LGEDF, until reaching 100% of revenues in FY 2022–2023. The transfer from the LGEDF to the LGEAF would increase until reaching 40% of the total coal severance and processing tax revenues in FY 2022–2023.

**PROVISIONS/MECHANICS:** Section 1 amends KRS 42.450 to create a schedule increasing the percentage of revenue collected from the mineral severance and processing tax that is allocated to the LGEAF.

Section 2 amends KRS 42.4582 to create a schedule increasing the percentage of revenue collected from the coal severance and processing tax that is allocated to the LGEDF.

Section 3 amends KRS 42.4585 to create a schedule increasing the percentage of total revenue collected from the coal severance and processing tax that is transferred from the LGEDF to the LGEAF.

The schedules are laid out in the table below:

Fiscal year beginning:	Percentage of mineral severance tax		Percentage of coal severance tax		
	To LGEAF	To general fund	To LGEDF	To LGEAF	To general fund
Before July 1, 2018	50%	50%	35%	15%	50%
July 1, 2018	60%	40%	40%	20%	40%
July 1, 2019	70%	30%	45%	25%	30%
July 1, 2020	80%	20%	50%	30%	20%
July 1, 2021	90%	10%	55%	35%	10%
On or after July 1, 2022	100%	0%	60%	40%	0%

**FISCAL EXPLANATION:**

Currently 50% of the revenues from mineral and coal severance and processing taxes remain in the general fund where it is appropriated for various purposes. The other 50% is transferred to the LGEAF and LGEDF. This measure would gradually move toward transferring 100% of the revenues from mineral and coal severance and processing taxes to the LGEAF and LGEDF.

According to the latest forecast from the Consensus Forecasting Group, mineral severance tax revenue is projected to be \$18.1 million in FY 2016–2017 and \$18.9 million in FY 2017–2018; coal severance tax revenue is projected to be \$120.7 million in FY 2016–2017 and \$107.6 million in FY 2017–2018. If this measure passes, the general fund would not be affected in FY 2016–2017 or FY 2017–2018, since the rate changes do not take effect until fiscal year beginning July 1, 2018 (FY 2018–2019).

However, looking at the implementation of this measure, the general fund would experience a loss. Assuming, since there is no economic analysis available, that mineral and coal severance

tax revenues stay level from FY 2017–2018 through FY 2022–2023, the general fund would lose about \$12.65 million in FY 2018–2019, increasing to a loss of \$63.25 million in FY 2022–2023 and beyond.

**DATA SOURCE(S): LRC Staff, CFG December 2015 Official Estimates**

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