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

Part I: Measure Information

Bill Request #: 296

Bill #: HB 61

Bill Subject/Title: AN ACT relating to the allocation of severance tax revenues to local governments.

Sponsor: Rep. J. Gooch, Jr.

Unit of Government: x City; x County; x Urban-County; x Charter County; x Consolidated Local; x Unified Local Government

Office(s) Impacted:

Requirement: x Mandatory ___ Optional

Effect on Powers & Duties: x Modifies Existing ___ Adds New ___ Eliminates Existing

Part II: Purpose and Mechanics

This proposal amends various sections of Chapter 42 of the Kentucky Revised Statutes to increase the percentage of coal and mineral severance and processing tax revenues that are allocated to the Local Government Economic Assistance Fund (LGEAF) and the Local Government Economic Development Fund (LGEDF) instead of the general fund, as well as increase the percentage of the money transferred from the LGEDF to the LGEAF.

Currently, 50% of the total revenues from mineral severance and processing taxes are moved from the general fund to the LGEAF; 50% of the total revenues from coal severance and processing taxes are moved from the general fund to the LGEDF; and 15% of the total revenues from coal severance and processing taxes are moved from the LGEDF to the LGEAF, leaving 35% that stays in the LGEDF. Under the provisions of this bill, the percentages of revenues moved from the general fund to the LGEAF and the LGEDF would gradually increase over a 5-year period as follows:

Fiscal Year Beginning	Mineral Severance and Processing Taxes		Coal Severance and Processing Taxes		
	General Fund	General Fund to LGEAF	General Fund	General Fund to LGEDF	General Fund to LGEDF to LGEAF
Before July 1, 2018	50%	50%	50%	35%	15%
On July 1, 2018	40%	60%	40%	40%	20%
On July 1, 2019	30%	70%	30%	45%	25%
On July 1, 2020	20%	80%	20%	50%	30%
On July 1, 2021	10%	90%	10%	55%	35%
On July 1, 2022	0%	100%	0%	60%	40%

Total receipts from coal severance and processing taxes for the first quarter of fiscal year 2016–2017 (from July–September 2016) were $24.27 million. Approximately $2.70 million was used for “Off-the-Top” allocations, leaving $21.57 million to be distributed, with the general fund and the LGEDF each getting $10.78 million. Of the $10.78 million allocated to the LGEDF, 15%, or $3.24 million, was immediately transferred to the LGEAF, leaving 35%, or $7.55 million in the LGEDF.

Under the 2016 budget bill, the $7.55 million in the LGEDF was transferred to the LGEAF, but $2.85 million from other revenue sources was allocated from the general fund to the LGEDF, leaving $2.85 million in the LGEDF and $10.78 million in the LGEAF. The $10.78 million allocated to the general fund was reduced by “Off-the-Middle” appropriations to a net $5.66 million. The $10.78 million in the LGEAF was reduced by debt service to a net $4.61 million

Total receipts from mineral severance and processing taxes for the first quarter of fiscal year 2016–2017 (from July–September 2016) were $4.41 million. Both the general fund and the LGEAF received 50% of these revenues, or $2.21 million each. Ultimately, in the first quarter of fiscal year 2016–2017, the LGEDF was allocated $2.85 million for use and the LGEAF was allocated $6.82 million for use.

The local mandate relates to the amount of revenue that could be received by a county in any particular fiscal year starting with fiscal year 2018–2019.

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

The fiscal impact of HB 61 on any particular county is **positive, but indeterminable**. The impact is expected to range from significant to substantial. Funds from the LGEAF can be used for grants to coal-producing and coal-impact counties. Funds from the LGEDF are distributed only to coal-producing counties. Since coal severance and processing tax revenues have “Off-the-Top” and “Off-the-Middle” appropriations, and some additional funds are often transferred amongst the funds in the budget bills, the expected impact is indeterminable.

However, if this bill were passed, it would supersede the current budget bill, and the revenues would be distributed according to the percentages in the table above. If it is assumed that no future budget bill changes the allocations of this bill and that after fiscal year 2020 severance and processing tax receipts remain constant (since we do not have forecasts beyond fiscal year 2019–2020), the allocations to each fund are as follows:

Fiscal Year	General Fund	LGEAF	LGEDF
2017–2018	$63.26 million	$24.23 million	$39.03 million
2018–2019	$48.93 million	$30.60 million	$42.79 million
2019–2020	$34.79 million	$36.03 million	$45.13 million
2020–2021	$23.19 million	$42.61 million	$50.15 million
2021–2022	$11.60 million	$49.19 million	$55.16 million
2022–2023	$0	$55.78 million	$60.18 million

Coal severance and processing tax revenues are several times larger than mineral severance and processing tax revenues. Receipts from coal severance and processing tax are expected to decrease in the future, but this bill would allocate more of the receipts to the LGEAF and the LGEDF, potentially softening the effects of this decrease.

Data Source(s): LRC Appropriations and Revenue Staff, Department for Local Government, Office of the State Budget Director

Preparer: Amit M. Shanker **Reviewer:** JWN **Date:** 1/18/17