

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

The fiscal impact of SB 88 on consolidated local governments is indeterminable but likely to be significant.

It is not known whether, under SB 88, areas within the County might seek to incorporate a new city or cities, or what the population of a new city would be; therefore, it is not possible to determine a dollar amount for the fiscal impact that passage of the bill would have on Louisville Metro Government.

A potential impact of the bill would be on Louisville Metro's ability to generate revenue through insurance premium license fees in the unincorporated portions of the County, particularly in the Urban Service District where Louisville Metro collects additional taxes and is responsible for providing enhanced municipal services. This issue is discussed further below. Both the cities and Louisville Metro may levy this tax, and payments to the city may be credited against those payable to Louisville Metro. Currently, 81% of the County, including the Urban Service District which is co-extensive with the boundaries of the former City of Louisville, is unincorporated. The 19% of Louisville Metro that is incorporated comprises now approximately 74 small to medium-sized cities. For purposes of taxation a consolidated local government is regarded as both a county and a city of the first class with all the taxing authority of each.

Under KRS 91A.080 a primary mechanism for producing revenues for local governments is the insurance premium license fee, which authorizes local governments to levy a license tax on insurance companies based on the amount of insurance premiums collected within their jurisdiction (not all types of insurance are subject to the premium tax, see KRS 91A.080 (10)). Within Jefferson County both the Louisville Metro Government and approximately 64 of the cities levy an insurance premium tax on insurance companies that collect premiums from, or insure risks within, their boundaries. Louisville Metro is authorized by local ordinance to levy an insurance premium tax of 5% on all risks located within Louisville Metro. The cities within Louisville Metro also impose insurance premium license fees, varying from 5% to 10% of premiums collected. The revenue generated by the tax can be significant, for instance, in 2015 the City of St. Matthews within Louisville Metro, population 18,025, received \$1,766,482.07 from the insurance premium tax alone; the City of Parkway Village, population 665, received \$47,484.09. KRS 91A.080 (12) provides that insurance companies may credit insurance premium taxes paid to a city against such fees assessed by the county or consolidated local government. Crediting the fees of 5% to 10% paid the cities against the 5% levied by Louisville Metro results in a "zeroing out," meaning Louisville Metro Government receives no revenue from the insurance premium license fee in the cities within its boundaries. Any new city created from the currently unincorporated County would be authorized under KRS 91A.080 to levy an insurance premium license fee and the insurance companies would be authorized to credit their payment against the fee levied by Louisville Metro Government, resulting in a loss of revenue to Louisville Metro. This loss would vary depending on the tax rates and the dollar value of the risks located within the new city.

The fiscal impact of the bill on Louisville Metro revenues from within the Urban Service District would be even greater than in the rest of unincorporated Louisville Metro. The statutes governing consolidation of city and county governments require maintaining the same level of services within the former City of Louisville (the Urban Services District) after consolidation, and also provide that “all ... obligations of the [City]” and the county existing on the date of consolidation continue as obligations of the consolidated local government (KRS 67C.147(1)). Under this authority Louisville Metro imposes a different tax rate within the Urban Services District than in the rest of the Metro area and provides greater services within the District (for example, Louisville Metro provides trash pick-up in the Urban Services District; other cities within Louisville Metro area provide for trash pick-up within their boundary; County residents contract with private trash haulers). In 2015 Louisville Metro collected \$16,190,970.36 in insurance premium taxes from premiums paid within, or paid on risks within, the Urban Service District and collected a total of \$38,597,252 in insurance premium taxes in the rest of unincorporated Louisville Metro. Thus, the revenue raised from premiums collected within the Urban Service District comprised almost 30% of the total revenue to Louisville Metro Government from that source. If areas within the Urban Service District “break out” and incorporate as a separate city, it is likely that the new cit(ies) would levy their own insurance premium license fee and so reduce or eliminate the revenue to Louisville Metro from this source. Louisville Metro also levies additional occupational taxes and real and personal property taxes on property within the Urban Service District, including on property of Public Service Corporations, and an additional franchise tax on bank deposits and life insurance shares on banks and life insurance companies located within the Urban Service District. It is unclear whether Louisville Metro would be required to continue providing enhanced services to a new city comprising an area formerly within the Urban Service District but without the added revenue from that area. As new cities within the Urban Service District incorporate under SB 88, Louisville Metro would lose revenue without necessarily a corresponding reduction in costs of providing services to the remaining District and without economies of scale.

Under KRS 67C.123(3)(c) and Louisville Metro Code of Ordinances §32.452 (C) the Louisville Metro Revenue Commission operating budget and payment of Louisville Metro’s general obligation debt (including re-financed debt obligations of the former City of Louisville existing at the time of merger) are paid from occupational taxes and insurance premium fees collected, including a group health insurance license fee collected only in the Urban Services District. The balance remaining is remitted to Louisville Metro Government. Incorporation of currently unincorporated areas within Jefferson County could reduce revenue to Louisville Metro that supports the Louisville Metro Revenue Commission and, as discussed above, that supports Louisville Metro’s obligation to provide city services within the Urban Services District and to service debt, without reducing its debt obligation.

Data Source(s): LRC staff; Louisville Metro Government; Kentucky Revised Statutes

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