## Local Government Mandate Statement Kentucky Legislative Research Commission 2020 Regular Session

## Part I: Measure Information

<b>Bill Request #:</b> 1235						
Bill #: HB 554						
<b>Document ID #:</b> <u>3162</u>						
Bill Subject/Title: AN ACT relating to annexation by home rule cities.						
Sponsor: Representative John Blanton						
Unit of Government:       X       City       County       Urban-County         Unified Local       Unified Local						
Charter County Consolidated Local Government						
Office(s) Impacted: city clerk						
Requirement: X Mandatory Optional						
Effect on Powers & Duties: Modifies Existing Adds New Eliminates Existing						

## Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

Under current law KRS 81.A.410 provides that a city, other than a city of the first class located within a consolidated local government, may annex territory on satisfaction of two conditions: (1) the territory proposed to be annexed is adjacent to or contiguous with the city, and (2) the territory is urban in character or suitable to be developed for urban purposes.

HB 554 would amend KRS 81.A.410 to include as an additional requirement for annexation that the area proposed for annexation have a population of at least 10 residents.

HB 554 would have a minimally negative fiscal impact on administrative costs to cities seeking to increase their territory, and could substantially inhibit a city's economic growth. The Kentucky League of Cities (KLC) reports HB 554 would restrict the ability of cities to annex land. KLC reports that most annexation of territory by cities is consensual, with the landowner requesting or agreeing to be annexed. Where annexation is not by consent, statutes require that the annexing city enact two separate ordinances – one

to initiate annexation and a final ordinance to complete annexation; the annexing city must provide notice by mail to each property owner in the territory proposed for annexation, the city clerk must certify addresses of those property owners, and a hearing must be held so that the property owners may be heard regarding the proposed annexation. Where annexation is agreed to by all property owners in the territory, no separate notice to the property owners is required and only a single public hearing on the proposed annexation is required. HB 554 would prohibit a city from annexing uninhabited areas such as rightsof-way, bodies of water, or roadways. Neither would a city be able to annex solely commercial property because of the 10 resident requirement.

**HB 554 would have an indeterminable indirect positive fiscal impact on counties.** Under current law, in a county that enacted a license fee ordinance on or after July 13, 1990, if both the county and a city within that county impose an occupational tax or insurance premium tax, the tax amount paid to the city is credited against the amount owed to the county, resulting in a loss of revenue to the county. As of June, 2019 the Insurance Institute of Kentucky reports that 362 municipalities and 42 counties currently impose insurance premium taxes. HB 554 would make it more difficult for cities to annex territory and so stem the loss of tax revenue to counties due to crediting of taxes paid to a city. The Kentucky Association of Counties (KACo) reports that the loss of revenue due to crediting of taxes is greater when a city annexes a strictly commercial property.

Hopkins County	Meade County
City of Dawson Springs (Life Only)	City of Ekron (Except Health & Life)
City of Saint Charles (Life Only)	
City of White Plains (Life Only)	
Pulaski County	Menifee County
City of Science Hill (Except Health)	City of Frenchburg (Except Health & Life)
Trimble County	Henderson County
City of Milton (Except Health)	City of Robards
Floyd County	Knott County
City of Wheelwright (Health Only)	City of Hindman (Except Health & Life)
City of Prestonsburg (Life Only)	

Below are the communities where the city insurance premium tax must be credited against the county tax (county tax ordinance was passed on or after July 13, 1990):

Below are the communities where the city insurance premium tax is **not** credited against the county tax (county tax ordinance was passed prior to July 1, 1990 so is "grandfathered" and no crediting is required):

Anderson County	Fulton County	Washington County
City of Lawrenceburg	City of Hickman	City of Springfield
	City of Fulton	

## Part III: Differences to Local Government Mandate Statement from Prior Versions

Part II addresses HB 554 as introduced.

 
 Data Source(s):
 Kentucky League of Cities; Kentucky Association of Counties; Insurance Institute of Kentucky website: iiky.org/local-government-insurancepremium-taxes-municipal-premium-taxes/; Kentucky Department of Insurance Website: insurance.ky.gov/ppc/Documents/2019-2020\_KY\_LGPT\_annualbulletin

Preparer: Mary Stephens Reviewer: K	KHC Da	ate:	3/10/20
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