

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

Part I: Measure Information

Bill Request #: 1838

Bill #: HB 556

Document ID #: 5044

Bill Subject/Title: AN ACT proposing an amendment to Section 170 of the Constitution of Kentucky relating to property exempt from taxation.

Sponsor: Rep. Goforth

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

Office(s) Impacted: Property Valuation Administrator

Requirement: 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

HB 556 proposes an amendment to the Kentucky Constitution that would expand the homestead exemption from the current inflation adjusted amount of \$39,300 to the full valuation for property that is owned by and maintained as the permanent residence of a person that is 65 years of age or older. For all other homeowners who qualify for the homestead exemption, HB 556 proposes that the homestead exemption be indexed every two years.

In 1974, KRS 132.810 was amended to state that the \$6,500 homestead exemption amount shall reflect the purchasing power of the dollar in 1972 and allow for a two-year adjustment of the exemption amount based on the United States Department of Labor cost of living index. As a result, the exemption amount has gradually increased from \$6,500 in 1974 to \$39,300 in 2020. The exemption is expected to continue to increase in future years. HB 556 incorporates the two-year statutory index adjustment provided by KRS 132.810 into Section 170 of the Kentucky Constitution.

If HB 556 is enacted, the fiscal impact would be minimal. Section 256 of the Kentucky Constitution specifies that constitutional amendments are only added to the ballot for the general election in even numbered years (“next general election for members of the House of Representatives”). Therefore the constitutional amendment would be submitted to the voters in November, 2020.

According to Harp Enterprises, a vendor that provides electronic voting machines to 96 Kentucky counties, there are additional programming costs associated with adding a new category to the ballot on an already scheduled statewide election. For example, the cost to add a new category to the ballot for Lexington-Fayette Urban County Government, with 291 precincts, has recently been estimated at between \$3,500 and \$4,500, and for Franklin County, with 44 precincts, the cost has been estimated at between \$1,700 and \$2,500.

If ratified, the homestead exemption would increase from \$39,300 to the full valuation for property that is owned by and maintained as the permanent residence of a person that is 65 years of age or older. For all other homeowners who qualify for the homestead exemption, the exemption would not increase since KRS 132.810 has incorporated the index adjustment into the homestead exemption calculation since 1974.

There are approximately 439,531 residential houses in Kentucky that are owned by a person who is 65 years of age or older. Using the overall mean value of a house in Kentucky (less the current homestead exemption amount of \$39,300) and the average local property tax rates, the total estimated fiscal impact for local taxing districts reduces revenues by approximately \$750 million for FY21 and \$779 million for FY22, as expressed in the below box. This total will vary each year as tax rates, property values, and the number of qualifying individuals fluctuate.

	Avg. Tax Rate	Mean Home Value	Annual Tax	Number of Homes	Estimated Fiscal Impact - FY 2021	Estimated Fiscal Impact - FY 2022
Counties	\$ 0.34	\$ 167,606.00	\$ 436.24	439,531	\$ 191,741,179	\$ 199,151,976
Cities	\$ 0.22	\$ 167,606.00	\$ 282.27	439,531	\$ 124,067,822	\$ 128,863,043
School Districts	\$ 0.66	\$ 167,606.00	\$ 846.82	439,531	\$ 372,203,466	\$ 386,589,130
Special Tax Districts	\$ 0.11	\$ 167,606.00	\$ 141.14	439,531	\$ 62,033,911	\$ 64,431,522
Total					\$ 750,000,000	\$ 779,000,000

The fiscal impact that this Constitutional amendment may have on local property tax revenues received by counties, cities, school districts, and other local special districts with taxing authority would depend on the tax rate levied by the given locality. Most local taxing jurisdictions undertake an annual rate setting process through which the governing body chooses a tax rate to impose for that year, which may or may not be subject to various

public hearing and voter recall provisions based on the rate imposed for the prior year. Unlike the state, local taxing jurisdictions generally have the ability to offset a reduction in revenues that may occur as a result of reductions in the total assessment base, by imposing an increased tax rate on all property remaining subject to the tax through this annual process.

Specifically, most local taxing jurisdictions would have the statutory authority to impose a “compensating tax rate”, which would be the rate estimated to produce an amount of revenue in the current year approximately equal to the amount produced in the preceding year. If a jurisdiction chooses to impose this rate, it would not be subject to voter recall. The practical effect would be a tax burden shift from the newly exempted property to all other property remaining subject to tax at the increased rate. The shifting of the tax burden, in general, is meant to prevent a reduction in tax revenues from occurring. However, the unintentional consequence can be an increase in collection issues, especially in counties that already have a struggling economy. The increase of collection issues will result in decreased tax revenues for the local taxing districts.

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

The Part II section above pertains to the bill as introduced.

Data Source(s): US Census Bureau. American Communities Survey, 2014-2018 5 Year Public Use Microdata Sample; Kentucky Department of Revenue 2019 Property Tax Rate Book; LRC Staff

Preparer: Cynthia Brown **Reviewer:** KHC **Date:** 3/10/20