



For cities, the impact would be negative but is more difficult to discern. Cities would need to track each annexation separately in order to calculate the revenue that would need to be forwarded to the affected county. Additionally, it is possible that business operations may cease, relocate or expand. In each case, a separate determination would need to be made as to the funds attributable to the county. As a result, it is expected that cities would have increased staff costs. While business license fees and taxes directed to the county are not a direct loss of revenue for the cities (as they hadn't received them previously), the city would begin receiving property taxes after the annexation. Cities would also have increased costs as a result of providing city services to the annexed property.

Other considerations that will affect the fiscal impact:

- Annexations may increase property values as a result of receiving city services. This would increase property taxes that would benefit both the city and county.
- Since any court action related this legislation must be filed and maintained in Franklin County, both cities and counties would incur travel costs, staff time and other expenses associated with courting hearing in Frankfort.

The Kentucky League of Cities (KLC) and the Kentucky Association of Counties (KACo) provided input to the impact statement.

According to KLC, the legislation would be very problematic to properly calculate the taxes due and to enforce. It would likely have a minimal to moderate financial and administrative impact on cities that annex property.

KLC also points out issues several concerns they have with HB 627.

1. Indefinite time period – Keeping up with and continuing to pay out set dollar amounts associated with individual parcels of land would be very challenging to keep up with administratively. Some cities complete multiple annexations in a year, and keeping up with payments related to each of these in perpetuity would be extremely administratively burdensome.
2. Changes to the property – The use or function of land does not stay consistent forever. A business could dissolve, a person could move, the land could be repurposed, etc., all of which impact tax dollars. Usually, property values go up once land is annexed by a city, because it gets city services. This would increase property valuations, thereby increasing the tax base for the city as well as the county. Further, developed land results in significantly more tax revenue than undeveloped land. HB 627 does not consider the positive tax impact that development can have on county budgets, even when that development is located in a city.
3. Tax bills – Insurance premium taxes paid by insurance companies do not itemize the amount of tax based on each individual parcel of land. Plus, they are often paid by consumers to different companies. If it's a business, the amount of occupational license

tax may be challenging to compute to the parcel level as well. This would be particularly true for places with multiple locations within the county. Determining the proper amount of taxes paid could be rather challenging.

4. Court jurisdiction – Any legal challenge associated with the proper tax paid would have to take place in Franklin Circuit Court. This provision really does not make sense because it’s a local issue and the state government is not a party to the suit. This could be very challenging for localities that are far away from Frankfort and would have to pay considerable travel fees and staff time to attend court hearings or file briefs.

5. Consensual annexation – Most annexations are consensual, meaning they are not forced on the property owners. Often the property owner will request to be annexed, so they can receive city services or develop the land. HB 627 would serve as a disincentive for a city to conduct consensual annexation, thereby limiting the options available to the landowner.

According to KACo, it is difficult/impossible to calculate the impacts as it is impossible to know the fiscal impact until annexations occur in the future. KACo states that the passage of HB 627 would have no significant fiscal impact on counties, but failure to pass this legislation would have a significant negative impact on counties. The potential negative fiscal impact on counties is due to lost revenue from offsets (insurance premium taxes, occupational taxes, etc.) when cities annex into a county, which occurs frequently.

**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):** Kentucky League of Cities, Kentucky Association of Counties, LRC Staff

**Preparer:** Mark Offerman **Reviewer:** KHC **Date:** 3/10/20