

the initial funds required from private sector investors, the consolidated local government, and the Commonwealth.

HB 588 places a 50% cap on the real property tax rate that can be levied by taxing districts on property that qualifies as residential property in a revitalization area.

Residential property in a revitalization area is described as residential property:

1. With a fair cash value that is one hundred percent (100%) of the median value of the residential property located in the jurisdiction of the consolidated local government;
2. Located in a development area; and
3. Maintained as the primary residence of the owner who owned the property as of January 1, 2021, or as the primary residence of an affiliated person, as defined in the bill, who inherited the property from the person who owned it as of January 1, 2021.

Once the West End Opportunity Partnership receives the initial funds from private sector investors, the consolidated local government, and the Commonwealth, HB 588 requires the partnership to advance money to the owners of residential property in a revitalization area. The amount of money to be advanced will be equal to the portion of real property taxes assessed on the owner's property that is above the amount of real property taxes the owner paid in 2021. HB 588 also requires the partnership's board to establish and make public an easy and convenient administrative process for the residents to receive the advanced funds prior to the expiration of the two percent discount permitted by KRS 134.015.

The fiscal impact of HB 588 is indeterminable. Due to the 50% cap HB 588 places on the property tax rates, the consolidated local government's property tax revenue received from residential property in a revitalization area would decrease in 2021. However, the data needed to determine the estimated amount of the negative fiscal impact is not available.

A consolidated local government has 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 imposed, the compensating tax rate would not be subject to voter recall. The compensating tax rate would provide the consolidated local government the ability to offset a reduction in revenues that may occur as a result of HB 588. Whether the compensating tax rate is higher or lower than the current tax rate depends on the total value of the property assessments in the consolidated local government's jurisdiction. When the compensating tax rate is higher, the unintentional consequence can be an increase in tax collection issues, especially if the consolidated local government has a struggling economy. Any increase in tax collection issues will result in a decrease in tax revenues for the consolidated local government.

This bill is expected to have a minimal impact on expenditures, as a verification method will need to be developed and administered to confirm that the property qualifies as residential property in a revitalization area.

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

Part II, above, pertains to the bill as introduced.

Data Source(s): LRC Staff

Preparer: Cynthia Brown **Reviewer:** KHC **Date:** 3/3/21