

cost of living index. As a result, the exemption amount has gradually increased from \$6,500 in 1974 to \$40,500 in 2021. The exemption is expected to continue to increase in future years. SB 31 incorporates the two-year statutory index adjustment that is already provided by KRS 132.810 into Section 170 of the Kentucky Constitution.

SB 31 will not have a fiscal impact during this biennium, since the provisions of the amendment apply to property assessed on the January 1st following the date the amendment is ratified. Any fiscal impact on local property tax revenues will occur beginning with the collection of property taxes for the January 1, 2023 assessment date.

The fiscal impact that SB 31 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.

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, 2022.

The costs of SB 31 to local governments due to adding a constitutional amendment to a ballot would be minimal. The costs associated with SB 31 would be related to the programming involved with adding a new category to the ballot for electronic voting machines and with the printing of paper ballots.

According to information supplied in early 2020 by Harp Enterprises, a vendor that provides electronic voting machines to most of Kentucky’s counties, the additional programming costs associated with adding a new category to the ballot on a scheduled statewide election would range from \$15 per precinct for larger counties such as Fayette

with 286 precincts (\$4,004) to \$45 per precinct for counties such as Franklin with 44 precincts (\$1,980).

There could be additional costs associated with extra paper (if the ballot language requires additional space) for paper ballots and absentee voting. It has been estimated that the cost of one extra page for a ballot is \$0.25.

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; Harp Enterprises

Preparer: Cynthia Brown **Reviewer:** KHC **Date:** 1/14/21