

The maximum amount a city can receive and expend from all sources and for all purposes that shall exempt the city from the annual audit is increased from \$75,000 to \$150,000. After July 1, 2022, if the city claims to be exempted for four consecutive fiscal years, the city must have an independent CPA or the Auditor of Public Accounts attest that the city is qualified to be exempted. This must be completed by March 1 following the conclusion of the fiscal year for which the attestation engagement is required. An electronic copy of the attestation shall be submitted to the DLG no later than April 1. Notice that the attestation has been prepared and copies have been provided to each local newspaper, news service, and each local radio and television station that have requested copies shall be published by the city in a local newspaper of general circulation. Any city publishing an attestation is exempted from publishing its financial statement. Additionally, all work papers related to the attestation engagement shall be provided to the Auditor of Public Accounts upon request.

HB 399 HCS 1 amends KRS 174.100 to provide that before a local government expends state-derived tax revenues on road and bridge projects, they must give an opportunity to the public to provide input in a public meeting given under KRS 61.823(2) to (4).

Impact:

The Kentucky League of Cities, the Kentucky Association of Counties, and the Kentucky Department of Local Government were contacted for input. As of the time this Local Mandate Statement was submitted, only the Kentucky League of Cities (KLC) has responded. When we receive additional response, the statement will be updated accordingly.

KLC strongly supports HB 399 HCS 1 because it reduces administrative burdens and costs for many cities. It allows cities to forego a separate public hearing on Local Government Economic Assistance funds, which would eliminate the need to hold and advertise about a special meeting. These meetings are rarely well attended – if at all – and HB 399 HCS still requires public input at a regular meeting of the city’s legislative body. The same provisions would apply to projects using municipal road aid funds, **which produce a similar minimal positive fiscal impact for all cities.**

By raising the audit exemption to \$150,000, the number of cities exempt from audit would nearly double. Currently 30 cities meet the \$75,000 threshold. This could save a number of cities of 5% or more of their annual operating budget. **This is a significant impact to small cities.**

HB 399 HCS would require cities that went four consecutive years without conducting an audit to submit an attestation engagement prepared by an independent CPA, similar to special purpose governmental entities. The annual requirement to submit a financial statement to DLG in non-audit years still applies. **These provisions would provide a minimal to moderate positive fiscal impact** on many of the commonwealth’s smallest cities with the lowest level of services.

The measure also extends the completion deadline of municipal audits from February 1 to March 1 and the filing deadline from March 1 to April 1. Many cities have reported to KLC that they have been unable to find auditors who can perform the audit within the prescribed period of time. This provision may have no impact or a minimal positive administrative impact for cities that get state funding withheld for missing the deadline.

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

HB 399 HCS 1 keeps all the provisions of HB 399 as filed and clarifies that public meeting is a meeting for which notice has been given under KRS 61.832(2) to (4). This has no impact on the proposal.

Part II refers to HB 399 as introduced. There are no prior versions of this bill.

Data Source(s): LRC Staff, Kentucky League of Cities

Preparer: Wendell F. Butler (mo) **Reviewer:** KHC **Date:** 2/2/22