

cost of living index. As a result, the exemption amount has gradually increased from \$6,500 in 1974 to \$40,500 in 2022. The exemption is expected to continue to increase in future years. SB 147 incorporates the two-year statutory index adjustment that is already provided by KRS 132.810 into Section 170 of the Kentucky Constitution.

SB 147 will not have a fiscal impact for the 2022 calendar year, 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 147 may have on local property tax revenues received by counties, cities, school districts, and other local special districts with taxing authority is dependent upon 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. At this time, the tax rates for the 2023 tax year have not been set. Therefore, the fiscal impact of SB 147 cannot be accurately determined, but would be expected to result in a reduction in revenues due to the proposed expansion of the homestead exemption.

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 is likely to 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 147 to local governments due to adding a constitutional amendment to a ballot would be minimal. The costs associated with SB 147 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 received in early 2020, Harp Enterprises, a vendor which provides electronic voting machines to almost 100 Kentucky counties, there are

additional programming costs associated with adding a new category (local option question or constitutional amendment) 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 286 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.

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:** CHM **Date:** 2/17/22