Local Government Mandate Statement Kentucky Legislative Research Commission 2022 Regular Session

Part I: Measure Information

Bill Request #: 1035		
Bill #: SB 267		
Document ID #: <u>6678</u>		
Bill Subject/Title: AN ACT proposing an amendment to Section 170 of the Constitution of Kentucky relating to property exempt from taxation.		
Sponsor: Senator Jimmy Higdon		
Unit of Government:XCityXCountyXUrban-CountyXCharter CountyXConsolidated LocalXGovernment		
Office(s) Impacted:		
Requirement: X Mandatory Optional		
Effect on Powers & Duties: X Modifies Existing Adds New Eliminates Existing		

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

This bill proposes an amendment to Section 170 of the Kentucky Constitution to increase the homestead exemption, to exempt from state and local property taxes real property maintained as a permanent residence of the owner, when the owner has a permanent and total one hundred percent service-connected disability rating from the United States Department of Veterans Affairs. It caps the exemption at an assessed valuation of \$100,000, which is to be indexed every two years to the purchasing power of the dollar. It also has a provision to allow the tax exemption to transfer to the surviving spouse upon the death of the veteran and remain with the property until the surviving spouse passes away, moves, or remarries.

For all other homeowners, who qualify for the homestead exemption, this bill proposes that the homestead exemption be indexed every two years to the purchasing power of the dollar. In 1974, KRS 132.810 was amended to state that the \$6,500 homestead exemption amount shall reflect the purchasing power of the dollar in 1972 and allow for a two-year

adjustment of the exemption amount based on the United States Department of Labor 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. This bill incorporates the two-year statutory index adjustment provided by KRS 132.810 into Section 170 of the Kentucky Constitution.

If the bill is enacted and ratified, the homestead exemption would increase the exemption for veterans who qualify from \$40,500 up to \$100,000. The exemption would also transfer to the veteran's surviving spouse, which extends it beyond the veteran's life span. This bill will not affect the tax revenues payable by other homeowners that qualify for the homestead exemption, since KRS 132.810 already incorporates the index adjustment and it has been applied since 1974.

The impact this constitutional amendment 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. At this time, the tax rates for the 2023 tax year have not been set. Therefore, the fiscal impact of SB 267 can only be estimated based on the 2021 tax rates that are currently available. Overall, the fiscal impact is expected to result in a reduction in revenues due to the proposed expansion of the homestead exemption.

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 choses 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. An increase of collection issues is likely to result in decreased tax revenues for the local taxing districts.

Jefferson, Hardin, Fayette, and Christian counties have the highest number of resident disabled veterans. The taxing districts within these counties are impacted more due to the increased number of disabled veterans residing in larger city populations or near the military bases, Fort Knox and Fort Campbell. Therefore, these areas could experience more tax revenue loss and thus, may impose a higher tax rate to compensate. On the flip side, counties like Elliott, Owsley, Robertson, and Gallatin, which have very few disabled veterans, would not be significantly impacted by this amendment.

There are an estimated 10,540 totally disabled veterans and surviving spouses who would qualify for the proposed increase in the homestead exemption under SB 267. The estimated local fiscal impact is expected to be approximately \$7.1 million for a full fiscal year. This estimated fiscal impact will vary each year as tax rates, property values, and the number of qualifying veterans fluctuate. Each impacted locality may elect the compensating tax rate in order to try and recoup any lost tax revenues.

The costs of SB 267 to local governments due to adding a constitutional amendment to a ballot would be minimal.

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 267 to local governments due to adding a constitutional amendment to a ballot would be minimal.

The costs associated with SB 267 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 3 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; Department of Revenue; US Department of Veterans Affairs,
	National Center for Veterans Analysis and Statistics; US Census Bureau,
	2019 American Community Survey 1- year estimates; Harp Enterprises

Preparer:Cynthia BrownReviewer:KHCDate:3/8/22