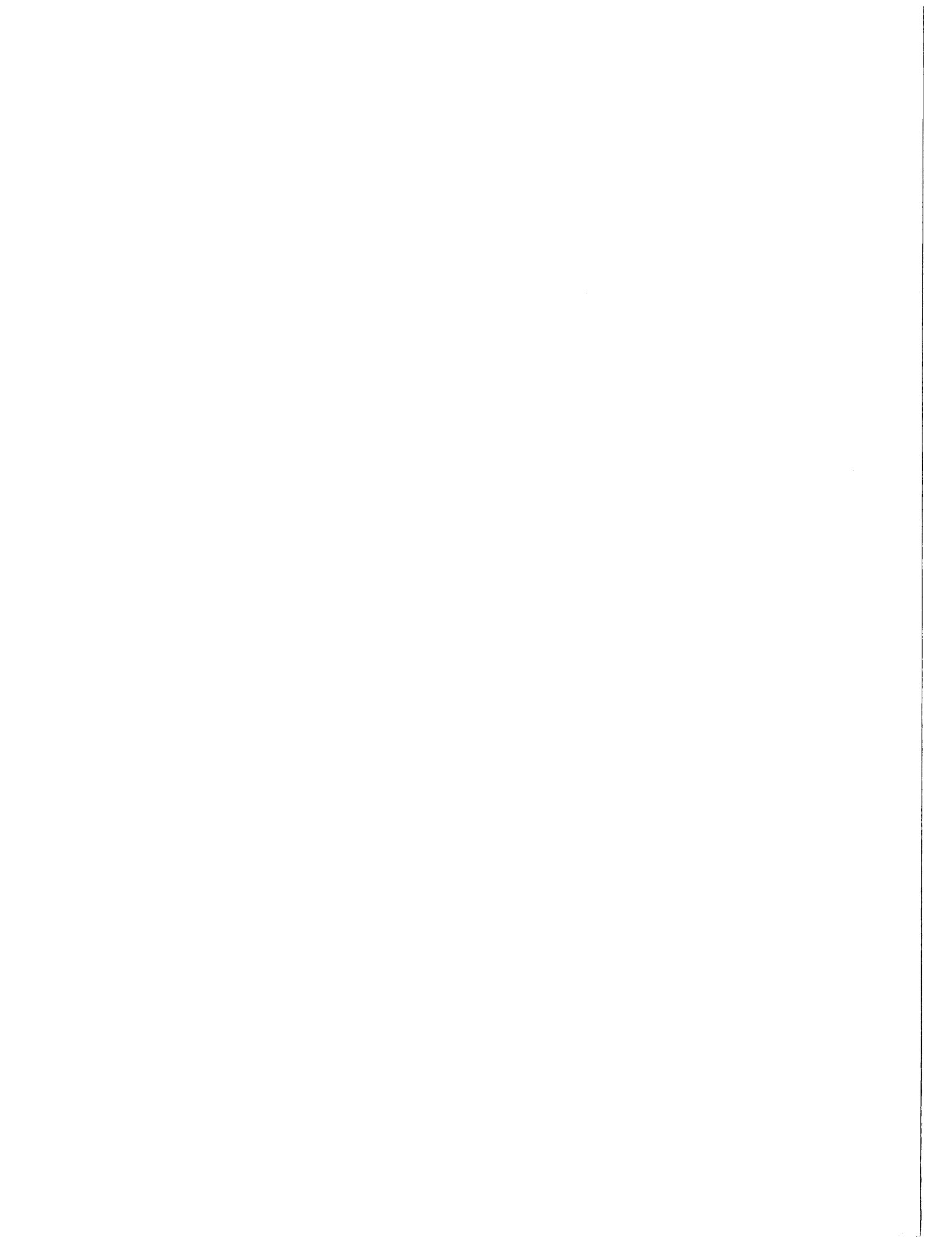


**Report of the
Task Force on Local Government Taxing Structures**

Research Memorandum No. 479

**Legislative Research Commission
Frankfort, Kentucky**



Report of the Task Force on Local Government Taxing Structures

Prepared by
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Edited by
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Research Memorandum No. 479

Legislative Research Commission

***Frankfort, Kentucky
November, 1997***

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MEMORANDUM

TO: Members, Legislative Research Commission

FROM: Representative Arnold Simpson, Chair
Task Force on Local Government Taxing Structures

RE: Final Report of the Task Force on Local Government Taxing Structures

DATE: November 14, 1997

The ability of governments to meet the needs of their citizens in an efficient and effective manner has been and should always be the goal of elected officials at the federal, state and local levels. But in order to meet these needs, governments must be equipped with the powers and financial tools necessary to accomplish these goals.

Unlike other levels of government, Kentucky's local governments are dependent on the state for the powers and responsibilities which they have in the financial management and taxation areas. In response to the concerns of local officials across the state, the 1996 General Assembly enacted SB 179, which called for the creation of the Task Force on Local Government Taxing Structures. The legislation directed that there be an analysis of the local government tax structure in Kentucky. This would be done to determine whether or not local governments have an adequate and stable tax base as well as the needed flexibility to meet the needs of and provide services to their citizens.

The Task Force on Local Government Taxing Structures was formed in November 1996. Through the work of two subcommittees and the full task force, they have completed their review of the financial mechanisms utilized by local governments and offer the following report and recommendations for consideration by the Legislative Research Commission and the members of the 1998 General Assembly.

Finally, I would like to stress one comment that was frequently repeated in the deliberations of the task force and the subcommittees. That comment was that any actions which may be taken as a result of the findings of this report should reflect the diversity of

our local governments. We should never be too quick to adopt the "one size fits all" mentality when looking at the needs of local governments. Legislation concerning local governments should reflect these differences whether it be size, location, or population. It is only through such careful deliberations that we will be able to assist local governments in meeting the challenges they face and succeed in making the Commonwealth a better place for all of our citizens.

TABLE OF CONTENTS

TABLE OF CONTENTS.....	i
FINAL REPORT.....	1
APPENDICES	
I. Agendas and Minutes of the Task Force.....	9
II. Agendas and Minutes of the Subcommittee on City Finance.....	43
III. Agendas and Minutes of the Subcommittee on County Finance.....	85

**REPORT OF THE 1996-97
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES**

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AND THE
INTERIM JOINT COMMITTEE ON LOCAL GOVERNMENT
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SUBCOMMITTEE ON CITY FINANCE

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Representative Arnold Simpson, Ex-Officio

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

COMMITTEE ACTIVITY

The 1996 General Assembly enacted 96 SB 179, which included language creating the Tax Force on Local Government Taxing Structures. This task force was the realization of the need to assist local governments in the development of an adequate and stable tax base from which to provide the necessary services to and meet the needs of the citizens of the Commonwealth. The thirty member task force was composed of legislators, executive branch representatives, city and county officials, and interested citizen members.

The task force held its organizational meeting in November in Lexington, Kentucky, in conjunction with the annual meeting of the Kentucky Association of Counties. This meeting was thus scheduled to take advantage of the presence in one location of county officials from around the state.

At the Lexington meeting, the task force heard testimony from various county and city representatives regarding their needs and the problems which many of them are currently encountering regarding flexibility in the generation of local revenues for the provision and expansion of local services. Also at this meeting, the Chair announced the formation of two subcommittees in order for the task force to be able to complete its activities in a timely manner. The Task Force also developed a tentative work plan, which did not call for the full group to meet again until the completion of subcommittee activity. The Chair decided that this would allow the subcommittees adequate time to complete their activities and make their recommendations to the full Task Force.

At its second meeting, in July, 1997, the Task Force accepted the reports of its subcommittees: the Subcommittee on City Finance and the Subcommittee on County Finance. They then began going through the individual recommendations of each group.

And lastly, they began a discussion regarding the different tax capacities of the seven states which surround Kentucky. Significantly, Kentucky was very similar to its neighboring states in terms of the type of taxes it levies and the level of taxes.

When the Task Force met in August, it was given an overview of the activities and recommendations of the Kentucky Commission on Tax Policy, which had been formed by the Jones administration to develop a better tax code for the Commonwealth.

The Task Force was then presented a national overview of state-local finance issues by a representative of the National Conference of State Legislatures (NCSL). The NCSL representative also gave the members a list of policy issues which have been identified as those that should be considered prior to any changes in a state's tax policies.

The final meeting of the Task Force took place on September 29, 1997. At that time, the group opted to compile a final list of twenty recommendations for submission to the Legislative Research Commission and the Interim Joint Committee on Local Government. Many of the recommendations came from the final reports of the subcommittees, but a few new recommendations were added. The group opted not to prioritize this final listing, letting each recommendation stand independently, instead, for further consideration.

The final recommendations of the Task Force are as follows:

1. Create more flexibility in taxing methods for local governments through constitutional amendment and statutory changes.
2. There needs to be a legislative re-evaluation of the offsetting of local taxes.
3. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, shared services, and equipment between local governments, or local government officials and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding). This should include multi-county agreements.

4. There is a lack of adequate funding for the incarceration of prisoners, including juveniles, by local governments. There needs to be a reworking of the judicial system so that the state will absorb more or all financial responsibility for the incarceration of prisoners. This should include all costs for the incarceration of all prisoners from the initial time of incarceration.
5. There needs to be more accountability of special districts to local governments and an analysis of their total taxing authority, as well as the provision of adequate sanctions for noncompliance.
6. There need to be stricter requirements to be placed on the Revenue Cabinet to certify county property assessments in a more timely manner.
7. A local government data base with uniform reporting is needed.
8. Study feasibility of someone other than the sheriff collecting property tax bills, and in turn, fund the sheriff's office at an adequate level.
9. Members of the General Assembly should be encouraged to support the task force's recommendations on a bi-partisan basis.
10. There should be a reevaluation of the effects of increased road mileage in the road funding formula.
11. There needs to be a complete examination of the funding system for sheriffs' offices to ensure that funding is adequate for the service required.
12. All local governments should be encouraged to maximize existing revenues.
13. There should be a review of the penalties for the failure to impose and collect taxes.
14. There needs to be legislation that makes insurance agents or insurance companies for identifying the correct location of policyholders for insurance premium tax collection purposes.
15. Current road fund levels are inadequate. There should be increased funding for all road funds.

16. Unfunded mandates need to be more intensively reviewed and considered by state government.
17. A better local government data base is needed, with consideration being given to a single depository for all such information.
18. Protect present local taxing options (insurance premium tax, occupational tax) until alternative funding mechanisms are in place.
19. Overall state and local tax reform should be considered simultaneously.
20. Restore area development funds to meet local needs.

Subcommittee on City Finance

The Subcommittee on City Finance held its organizational meeting in early December. At this meeting, the subcommittee was given a presentation by the Kentucky League of Cities regarding the findings from a recent study funded by the league relating to the financial condition of cities throughout the state.

At its January meeting, the Subcommittee heard various state tax experts give an in-depth review of the history and utilization of the three primary tax resources used by cities: ad valorem tax, the municipal insurance premium tax and occupational license fees.

At its February meeting, the Subcommittee continued its review of Kentucky's municipal tax base. At this meeting, they heard a discussion by a team of professors which had prepared a research paper challenging whether Kentucky's cities actually need increased taxing authority. There was then a brief summary and discussion of special purpose governments, a.k.a. "special districts." The Subcommittee also heard the pros and cons about the creation, structure and function of special districts.

The Subcommittee turned its attention to roundtable work sessions at its March meeting. From the various work groups, the Subcommittee formulated an initial list of

recommendations for the members to consider as part of their final report to the full Task Force.

At its final meeting, in April, 1997, the Subcommittee gave final approval to a prioritized list of recommendations which were to be forwarded to the full Task Force. In addition, the Subcommittee heard testimony from two city management professionals who pointed out that increased taxing authority is not the only area which needs to be reviewed in the effort to improve the capabilities of cities to effectively and efficiently provide for their citizens.

Subcommittee on County Finance

The Subcommittee on County Finance held its organizational meeting on December 4, 1996. At this meeting the subcommittee heard testimony from representatives of the Department of Local Government regarding the Department's recent experiences with county government finance issues and the financial problems which they see counties encountering most often.

At its next meeting, on January 8, 1997, the Subcommittee reviewed the current revenue sources available to counties. The Department for Local Government detailed the required duties and obligations of counties, the current financial methods by which they are funded, and the constraints under which they operate.

For its third meeting, the Subcommittee turned its attention to a discussion of the interaction of fee officers with the county revenue structure. Representatives of the county clerks and sheriffs discussed the issues of concern to their particular groups. The sheriffs indicated that their current funding levels were inadequate in relationg to their responsibilities. The county clerks indicated that their funding levels were, for the most part, adequate.

At its March meeting, the Subcommittee opted to break into roundtable work groups to begin formulating recommendations for submission to the full Task Force. During this meeting, the work groups developed 21 recommendations for the full group to consider and prioritize.

The Subcommittee began its last meeting, in April, with testimony regarding the tax collection procedure in counties and how it affects fee officials. The last action of the group was the discussion, selection and prioritizing of the Subcommittee's final recommendations to the full Task Force.

APPENDIX I

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 1

TIME: 10:45 a.m.

PLACE: Regency Ballroom
Hyatt Regency Hotel
Lexington, Kentucky

DATE: Thursday, November 21, 1996

1. Call to Order and Roll Call
2. Introduction of Task Force Members
3. Opening Remarks:
 - Rep. Arnold Simpson, Chair
4. Discussion with Local Government Interest Groups regarding their Viewpoints and Expectations of Task Force Activities:
 - Kentucky Association of Counties
 - Mr. John Griggs, Executive Director
 - Kentucky County Judge Executive Association
 - Kentucky Magistrates and Commissioners Association
 - Kentucky County Clerks' Association
 - Kentucky Sheriffs' Association
 - Kentucky Property Valuation Administrators Association
 - Kentucky League of Cities
 - Mayor Charles Honeycutt, President
 - Mr. Neil Hackworth, Deputy Director
 - Mr. Bill Thielen, General Counsel
5. Review of Tentative Work Schedule
6. Comments and Questions from the Audience
7. Adjournment

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the First Meeting of the 1996-97 Interim

November 21, 1996

The first meeting of the Task Force on Local Government Taxing Structures was held on Thursday, November 21, 1996 at 10:45 AM, in the Regency Ballroom of the Hyatt Regency Hotel in Lexington, Kentucky. Representative Arnold Simpson, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Arnold Simpson, Chair; Senator Senators Paul Herron, Denny Nunnolley, and Elizabeth Tori; Representatives Joe Clarke, Gippy Graham, J. R. Gray, Kathy Hogancamp; and Steve Riggs; Commissioner Bob Arnold, Donna Cantrell, Philip Ciafardini, James Coffman, Gregory Engleman, Christina Heavrin, Mayor Charles Honeycutt, Vince Lang, Mayor Bert May, Judy Ratliff, Jerry Stewart, Judge Thomas Turner, and Deborah White-Dunlap.

Guests: Tim Kimmel, Kentucky Chamber of Commerce; Dan Tuttle, Tom Armstrong, Gene Stinchcomb, and Mary Lee Collier, Department for Local Government; John Griggs, Karen Garrison, Ann Wright, and Mary Ellen Graves, Kentucky Association of Counties; David Hughes, Franklin County Judge/Executive; Jerry Wagoner, Fleming County Sheriff; Ted Collins, Franklin County Sheriff; Bobby Stratton, Shelby County Judge/Executive; John Black, Oldham County Judge/Executive; Louie Floyd, Pulaski County Judge/Executive; Tom Moorman, Breckinridge County Judge/Executive; Neil Hackworth and Bill Thielen, Kentucky League of Cities; Astor Kenneth, Simpson County Magistrate; Robert Samples, Kentucky Magistrates and Commissioners Association; Rick Brown, Laurel County; James Bailey and Kenneth Utley, Simpson County Government; and Ronny Pryor, Kentucky Farm Bureau.

LRC Staff: Jamie Franklin, Donna Weaver, Mark Mitchell, and Cheryl Walters.

Judge Thomas Turner, president-elect of the Kentucky Association of Counties (KACo) and member of the Task Force, opened the meeting by welcoming everyone and introducing Representative Arnold Simpson, Chairman of the Task Force. He then turned the meeting over to Chairman Simpson.

Chairman Simpson announced that the Task Force appreciated the opportunity to be meeting in conjunction with KACo's annual convention. He then asked the members to introduce themselves.

Chairman Simpson told the audience that the Task Force was a result of the passage of 1996 SB 179, which directed that a task force be created to study the legislative measures that may be necessary to reform and simplify local government taxing structures and procedures to ensure that local governments have an adequate and stable tax base. He stated that there needs to be a complete analysis of local government taxing structures in Kentucky, recognizing the many sources of revenue that local governments have available to them. Chairman Simpson noted that the Task Force would submit a report, as opposed to piece-meal legislation, as to the taxing needs of local governments. He said hopefully, legislation would be drafted to simplify the taxing structure of local governments.

Chairman Simpson told the audience of local government officials that the Task Force needed their input as the Task Force conducts its study. He said the Task Force wants to hear what financial problems local governments are having and what would make it easier for them to meet their needs.

Chairman Simpson stated that the first order of business would be a discussion with local government interest groups regarding their viewpoints and expectations of the Task Force's activities. He recognized Mr. John Griggs, Executive Director of KACo, to introduce various local officials to address the Task Force.

Mr. Griggs first introduced Franklin County Judge/Executive David Hughes. Judge Hughes told the Task Force that there was no sharing of tax revenues with the city. He noted that county businesses sometimes moved into the city by annexation or for other reasons which brought up the question of revenue sharing. He said today, most new businesses are being created in the counties and revenue sharing could help out everyone. Judge Hughes stated that he would like to see emphasis placed on the issue of tax revenue sharing between the city and county.

The next speaker was Jerry Wagoner, Fleming County Sheriff and President of the Kentucky Sheriff's Association. Sheriff Wagoner told the Task Force that the sheriff's office was a fee office and that tax collection fees were a big part of that office. He noted that the sheriff's office recently lost the collection of automobile taxes and that all they have is the property tax collection. Sheriff Wagoner stated that the sheriffs would be opposed to changes in the current tax collection structure. He said the sheriffs would like to be able to offer their input before any decisions were made and that their association want to be very involved with the activities of the Task Force.

Chairman Simpson asked if the Sheriff's Association had any recommendations. Sheriff Wagoner said it would depend upon where you live. He pointed out that the larger counties' collections may be adequate, but the smaller counties do not collect enough. Sheriff Wagoner encouraged that a study of sheriffs' fee collection be conducted.

Shelby County Judge/Executive Bobby Stratton addressed the Task Force next. Judge Stratton informed the members that his county had executed an interlocal agreement with the city to share revenue sources, which is working well.

Chairman Simpson praised Shelby County for using the interlocal agreement process in such a way. He also said that he is hopeful that other local governments will also explore such activities.

Judge John Black, Oldham County Judge/Executive and former mayor of LaGrange, told the Task Force that the property tax limitations from HB 44 was still limiting local governments. He noted that his county does have the occupational license tax as a limited source of revenue, but their main source of revenue comes from the insurance premium tax. Judge Black pointed out that there is also a problem with getting the proper amount of money from the Department of Insurance. He estimated that \$100,000 may have been lost to other governments because of bad bookkeeping by the insurance agent. He noted that improper zip codes often create these problems and that there should be a better way or more stringent requirement for better record keeping.

Judge Turner asked how the taxing structure of the city and county compare. Judge Black replied that cities are always trying to come up with new sources of revenue, but counties are much more limited in the type of financial tools which they can use.

Representative Riggs commented that the insurance premium tax either goes to the city or the county, not both. He said there is an offset, that if one foregoes the tax, then the other one will get it.

Mr. Griggs commented that local governments need to know about offsets on all taxes.

Breckinridge County Judge/Executive Tom Moorman suggested expanding the ability to use special purpose taxes districts which could raise revenue without a public vote. He pointed out that cities have more options for these type of revenue sources than counties, such as the automobile sticker and sales taxes. Judge Moorman noted that the ad valorem tax is all that his county has.

The next speaker introduced was Mr. Neil Hackworth, Deputy Director of the Kentucky League of Cities (KLC). Mr. Hackworth stated that taxes at all levels of local

government have to be considered because we are seeing more demands in the way of services. He noted that people are also leaving the workforce as the population ages and this will have an effect on the occupational license tax.

Mr. Hackworth told the Task Force that the tendency to single out particular taxes is a concern of the League's because all communities need flexibility to use taxes which are best for them. He stated that local sales taxes needed to seriously be reviewed. Mr. Hackworth noted that cities are struggling to make ends meet because they also have limited sources of revenue. He informed the members that the League conducted a survey of the taxing structures of cities and would provide copies to them.

Mr. Bill Thielen, General Counsel for KLC, told the Task Force that there is very little organized data available on local government taxes. He stated that the state should provide funding for such a data base. Mr. Thielen noted that they tried to point out in their report why taxes are so critical. He emphasized that the focus of the Task Force should be for a fair and equitable taxing structure while providing flexibility.

Mr. Griggs commented that KACo would like to see more options for revenues sources for counties.

Judge Louie Floyd, of Pulaski County, told the Task Force that counties over 30,000 in population have been crippled because of threats of the city to take away the county's occupational license tax. He said there needs to be a protective measure for them. Judge Floyd noted that mandates without funding is still creating problems for local governments. He stated that annexation is a problem when the city annexes and taxes the industries which then offsets the taxes that the county was collecting.

Chairman Simpson thanked all of the speakers for addressing the Task Force. He pointed out that included in the members' folders was a tentative work schedule. Chairman Simpson told the members that there would be two subcommittees: one on city finance and one on county finance. He noted that the Task Force's report had to be submitted to LRC by August, 1997.

Chairman Simpson then opened the floor to comments and questions from the audience.

Judge Black commented that his county had no authority to use development impact fees or assessment charges for new growth. He also commented that there should be legislation to give local governments flexibility so they can do what's best for them.

Mr. Astor Kenneth, Simpson County Magistrate, told the Task Force that the state is taking the tax away from the ambulance board.

Mr. Robert Samples, representing the Kentucky Magistrates and Commissioners Association, told the Task Force that the Association appreciates the work that they are going to have to do, and would like to be involved in the process.

There being no further business, the meeting was adjourned at 12:15 p.m.

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 2

TIME:	1:00 p.m.
PLACE:	Room 131, Capitol Annex
DATE:	Wednesday, July 30, 1997

1. Call to Order and Roll Call
2. Approval of Minutes of November 21, 1996 Meeting
3. Subcommittee Reports
4. Discussion of Local Government Tax Materials
5. Discussion of Remaining Task Force Activities
6. Adjournment

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Second Meeting of the 1996-97 Interim

July 30, 1997

The second meeting of the Task Force on Local Government Taxing Structures was held on Wednesday, July 30, 1997 at 1:00 PM, in Room 131 of the Capitol Annex. Representative Arnold Simpson, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Arnold Simpson, Chair; Senators Paul Herron, Nick Kafoglis, Denny Nunnelley, Albert Robinson, Dan Seum, and Elizabeth Tori; Representatives Adrian Arnold, Joe Clarke, Walter Gee, Gippy Graham, J. R. Gray, and Steve Riggs; Tom Armstrong, Commissioner Bob Arnold, Philip Ciafardini, James Coffman, Gregory Engleman, Mayor Charles Honeycutt, Vince Lang, Mayor Bert May, and Judge Thomas Turner.

Guests: John Brazel, Kentucky Chamber of Commerce (Proxy for Tony Sholar); Bill Froehlich, Kentucky County Judge/Executive's Association; Ed Davidson, Kentucky Sheriff's Association; Bill Thielen and Jerry Deaton, Kentucky League of Cities; Tracy Goff Herman, Jefferson County Clerk's Office; Ted Collins, Franklin County Sheriff; John Black, Oldham County Judge/Executive; Mike Magee and Karen Garrison, Kentucky Association of Counties; and Richard Tanner, Kentucky Magistrates and Commissioners Association.

LRC Staff: Jamie Franklin, Donna Weaver, Mark Mitchell, Joseph Hood, Joe Pinczewski-Lee, Rebecca Mullins, Brian Wilkerson, and Cheryl Walters.

Upon the motion of Representative Gray, seconded by Judge Turner, the minutes of the November 21, 1996 meeting were approved.

Representative Simpson first recognized Senator Herron for some introductions. Senator Herron introduced Judge Bill Froelich, the new Executive Director of the Kentucky County Judge/Executive's Association, and Mr. Mike Magee, the new Executive Director of the Kentucky Association of Counties, who were present in the audience.

Representative Simpson then told members that the purpose of today's meeting was to discuss recommendations made by the Task Force's Subcommittees on City and County Finance, and to review information which compares what other states are doing in regard to local government taxation. He also informed members that next month, a representative from the National Conference of State Legislatures (NCSL) would be invited to address the Task Force on what the standard is across the states in regard to local governments' ability to raise revenues.

Representative Simpson noted that the Task Force would work as a whole and submit one report. He announced that the last meeting would be in September, at which time the Task Force would submit its final report to LRC.

Representative Simpson next asked Mr. Mark Mitchell, LRC Staff, to explain the report of the Subcommittee on County Finance, which was included in the members' notebooks. Mr. Mitchell told the Task Force that the Subcommittee met a total of five times and developed the following recommendations:

1. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, shared services, and equipment between local governments, or local government officials and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding). This should include multicounty agreements.

2. There is a lack of adequate funding for the incarceration of prisoners, including juveniles, by local governments. There needs to be a reworking of the judicial system so that the state will absorb more or all financial responsibility for the incarceration of prisoners. This should include all costs for the incarceration of all prisoners from the initial time of incarceration.

Mr. Armstrong commented that about 40 to 50 percent of a county's budget go to the operation of jails.

3. Create more flexibility in taxing methods for local governments through constitutional amendment and statutory changes.

Representative Simpson asked if there were any specific recommendation regarding Recommendation #3. Mayor May commented that there are so many different things that cities and counties do not have options from which to choose. Representative Simpson also asked if sales taxes was discussed during any of the subcommittee meetings. Mayor May said sales taxes were not discussed much.

4. There needs to be a complete examination of the funding system for sheriffs' offices to ensure that funding is adequate for the service required.

Representative Simpson commented that there was testimony from the Kentucky Sheriff's Association regarding Recommendation #4.

5. There needs to be a legislative re-evaluation of the offsetting of local taxes.

Judge Turner commented that Recommendation #5 refers to the offsetting of occupational and insurance premium taxes. He noted that this recommendation was somewhat in conflict with the Subcommittee on City Finance's Recommendation #9, which stated, "Protect present local taxing options until comprehensive state and local tax reform is achieved."

Mayor May commented that there is an interlocal agreement between his city and county in regard to occupational tax.

Mayor Honeycutt commented that his city and county have interlocal agreements but not on that one particular issue.

6. Consider the ramifications of reducing the number of local governments.

Judge Turner commented that not only should the idea of merged counties be considered, but also cities merged with counties, and cities with merged with other cities.

Representative Simpson noted that it would require a constitutional amendment to reduce the number of counties.

7. There should be increased accountability of special districts to state and local government.

Judge Turner commented that there is no accountability of special districts back to the Department for Local Government.

Mr. Armstrong commented that there is no penalty for special districts who are in non-compliance regarding the submission of financial reports to DLG. He suggested a cutoff of state funds. However, he noted that only a few types of special districts receive any state funds.

8. There needs to be stricter requirements on the Revenue Cabinet to certify county property assessments in a more timely manner.

Mr. Lang commented that this administration has been working to get every county back in sync with the tax calendar. He noted that there are only five or six counties who are behind on the tax calendar, and that the Revenue Cabinet is currently addressing this problem.

9. Reevaluate the process of combining the office of jailer with the sheriff.

Representative Gray commented that this recommendation would require a referendum by the voters of each county.

Senator Robinson commented that this recommendation should continue to be looked at on a county by county basis.

10. There needs to be the creation of a local government data base with uniform reporting.

Mr. Armstrong commented that DLG strongly supports this recommendation.

11. There needs to be further investigation into the problem of the usage of zip codes for the distribution of insurance premium taxes.

Mr. Armstrong stated that there is a problem in using zip codes because in counties which have only one zip code, there is no way to determine those taxes which have been assessed on homeowners who live within the city or county so that you can remit them to the proper recipient.

12. There needs to be a vehicle for the sharing of state and local revenues, which would require a constitutional amendment.

13. County finance could be improved by individual counties cracking down on tax evaders.

14. Current road fund levels are inadequate and there should be increased funding for all road funds.

15. Study feasibility of someone other than the sheriff collecting property tax bills, and in turn, fund the sheriff's office at an adequate level.

16. Members of the General Assembly should be encouraged to support the task force's recommendations on a bi-partisan basis.

17. There should be a reevaluation of the road fund to reevaluate the effects of increased road mileage in the road funding formula.

18. There needs to be a feasibility study done regarding utilizing the county clerk's office for the collection of outstanding parking fines.

Representative Simpson next asked Ms. Donna Weaver, LRC Staff, to explain the report of the Subcommittee on City Finance, which was also included in the members' notebooks. Ms. Weaver told the Task Force that the Subcommittee met a total of five times and developed the following recommendations:

1. Local governments need more revenue options and flexibility so that they can provide essential services. If necessary, there may need to be a constitutional amendment.

2. Flexibility and diversity issues should be included in all local government financing options (Example: differences in classifications, location or population of the various local governments).

3. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, and shared services between local governments and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding).

4. Unfunded mandates need to be more intensively reviewed and considered by state government.

5. There should be increased education and technical assistance (example: training) to local officials and citizens regarding existing financial options or any new financial tools.

6. Overall state and local tax reform should be considered simultaneously.

7. There should be the creation of a better local government data base.

8. There needs to be more accountability of special districts to local governments and an analysis of their total taxing authority as well as the provision of adequate sanctions for noncompliance.

9. Protect present local taxing options (insurance premium tax, occupational tax) until comprehensive state and local tax reform is achieved.

10. Allow revenue base adjustment in property tax to provide a new service.

11. There should be a study of the long-term and demographic effects of the aging population on local government revenues and expenditures.

12. Establish criteria for use of tax sources (efficiency, cost, ease).

13. Restore area development funds to meet local needs, i.e. welfare reform.

Lastly, Representative Simpson asked Ms. Jamie Franklin, LRC Staff, to explain the tax information, which was included in the members' notebooks, on what other states are doing.

Ms. Franklin began by noting that the tax data came from NCSL. She pointed out that there were 33 states which have some sort of local government sales tax on businesses. Regarding occupational license taxes, Ms. Franklin stated that in some states, the employee pays an occupational license tax, which is called a payroll tax. She explained that 12 states have business license taxes, which is a flat rate tax on certain occupations.

Ms. Franklin mentioned that some states allow receipts from transient room taxes to be used differently than Kentucky, which uses them for recreation and tourism. She noted that the adoption of the tax was left to the discretion of the local governments. Ms. Franklin added that Kentucky, with the exceptions of Jefferson and Fayette Counties, is limited to 3%, and an optional extra 1% if there is a convention center. She said cities of the fourth and fifth classes are allowed to collect a tax of up to 2% from restaurant receipts in addition to the receipts from the transient room taxes.

Ms. Franklin next discussed a chart which listed the taxing capacity of local governments in neighboring states. Ms. Franklin noted that regarding property taxes, local governments in all states can set their own rates. Regarding personal taxes, Ms. Franklin explained that some states allow local governments to collect an admissions tax, which is an extra tax on concert tickets, fees, etc. She noted that Kentucky utilities are exempt from tax, however, there is a franchise fee. Ms. Franklin added that school districts can have a utility tax.

Ms. Franklin stated that in gathering this information, it was discovered that Kentucky is really not that different from other states. She did point out that other states, unlike Kentucky, do not have the prohibition against state-local revenue sharing.

Mr. Coffman commented that the entire state-local tax issue is very complex because different states categorize their taxes differently.

Senator Robinson commented that there needs to be a review of the distribution of taxes. He suggested that a comparison be done with other states regarding what Kentuckians are paying in taxes in comparison to what other people in states are paying.

Representative Simpson told the members that included in their notebooks for their review was information relating to local sales taxes that they may want to take home with them to read.

Representative Simpson stated that there is no set number of recommendations that the Task Force must develop for their final report. He said that after the next meeting, the Task Force should be able to begin putting together their final recommendations and report.

Representative Simpson announced that the next meeting of the Task Force would be August 28th.

There being no further business, the meeting was adjourned at 2:30 p.m.

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 3

TIME: 1:00 p.m.
PLACE: Room 149, Capitol Annex
DATE: Thursday, August 28, 1997

1. Call to Order and Roll Call
2. Approval of Minutes of July 30, 1997 Meeting
3. Review of Final Report of Kentucky Commission on Tax Policy
 - Mr. James R. Ramsey, State Budget Director
Governor's Office for Policy and Management
4. National Overview of State-Local Finance Issues
 - Mr. Scott Mackey
National Conference of State Legislatures
5. Adjournment

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Third Meeting of the 1996-97 Interim

August 28, 1997

The third meeting of the Task Force on Local Government Taxing Structures was held on Thursday, August 28, 1997 at 1:00 PM, in Room 149 of the Capitol Annex. Representative Arnold Simpson, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Arnold Simpson, Chair; Senators Paul Herron, Nick Kafoglis, Denny Nunnelley, Albert Robinson, Dan Seum, and Elizabeth Tori; Representatives Adrian Arnold, Walter Gee, Gippy Graham, J. R. Gray, Kathy Hogancamp; and Steve Riggs; Donna Cantrell, Gregory Engleman, Christina Heavrin, Mayor Charles Honeycutt, Vince Lang, Mayor Bert May, Judy Ratliff, Tony Sholar, Jerry Stewart, and Judge Thomas Turner.

Guests: James Ramsey and Merle Hackbart, Governor's Office for Policy and Management; Scott Mackey, National Conference of State Legislatures; Bill Thielen and Jerry Deaton, Kentucky League of Cities; John Brazel, Kentucky Chamber of Commerce; Lyle Cobb, MEPAK; Aime Joseph, Kentucky Task Force on Hunger; and Neil Hansen, Lexington-Fayette Urban-County Government.

LRC Staff: Jamie Franklin, Donna Weaver, Mark Mitchell, Vida Murray, Joseph Hood, and Cheryl Walters.

Mayor May stated that on page 3 of the minutes of the July 30, 1997 meeting, the words "insurance premium" should be deleted from a statement that he had made. Without objection, Representative Simpson said the minutes would be amended to reflect that change. Then, upon the motion of Representative Gee, seconded by Mayor Honeycutt, the minutes of the July 30, 1997 meeting were approved as amended.

The first item of business was a review of the final report of the Kentucky Commission on Tax Policy, which was included in the members' folders. Representative Simpson introduced Dr. James Ramsey, State Budget Director with the Governor's Office for Policy and Management (GOPM). Dr. Ramsey told the Task Force that appearing with him was Dr. Merle Hackbart who was also with GOPM.

Dr. Ramsey began by saying that the Kentucky Commission on Tax Policy was created in 1995, by Executive Order of Governor Jones, to develop a better tax code for Kentucky. He noted that the Commission was made up of 47 members, which included individuals from the executive branch, the legislature, and the private sector. Mr. Ramsey stated that there were four major goals of the Commission: 1) the tax structure should be fair; 2) the tax structure should be simple; 3) the tax structure should generate adequate revenue; and 4) the tax structure should enhance economic competitiveness.

Dr. Ramsey said the Commission found that there are 14 states which Kentucky competes with for jobs. He added that they have 18 common businesses and companies similar to Kentucky with which our companies and businesses compete. Dr. Ramsey noted that Kentucky's business tax structure is very competitive with these states.

Dr. Ramsey stated that the final meeting of the Commission was not well attended and some people did not vote on the adoption of the plan. He said the Commission recommended several changes: 1) bring Kentucky's taxing structure in line with the federal income tax; 2) make changes in the corporate income tax by reducing the rate to 7%; (3) elimination of intangible taxes and the elimination of the health care provider tax on doctors; and 4) expand the sales tax in Kentucky to selected services.

Representative Riggs commented that before the Commission's report, he thought a study had already been done to reduce inheritance taxes, intangible taxes, and automobile taxes. Dr. Ramsey said that was correct. Representative Riggs asked what outcome did those changes make in regard to where Kentucky stands with those 14 competing states. Dr. Hackbart replied that it moved Kentucky toward the middle. He noted that the Commission's study did not lead to any major tax reform, which was not the intention of Commission.

Representative Simpson asked what the Commission recommended in regard to the local government taxing structure. Dr. Ramsey stated that the Commission did not concentrate a lot on local governments. He noted that the Commission was concerned about the lack of accountability by special districts. Dr. Ramsey stated that there wasn't any good data available on local taxes. He pointed out that a study of state and local taxing structures should be done together.

Representative Simpson asked if the sales tax option to local governments will have an effect on Kentucky being competitive. Dr. Ramsey explained that our cities rely more heavily on income taxes than occupational tax. He said if you replaced the occupational tax with the sales tax, it would put Kentucky on a more economically competitive level. But if you just added the sales tax, it would not make Kentucky more economically competitive.

The last item of business was a national overview of state-local finance issues. Representative Simpson introduced Mr. Scott Mackey, a financial specialist with the National Conference of State Legislatures (NCSL). Mr. Mackey first pointed out that the information on local option taxes that he was going to present, was from a report that NCSL, along with a group of legislators, staff and the private sector from all over the country, have been working on for two years. He noted that this topic was chosen by NCSL as one they thought was going to be a key issue that legislatures will face in the fiscal area in the next few years. Mr. Mackey also cited the other reasons for choosing the topic of local option taxes in that it fits with the "devolution" theme we are seeing at the national level; states are in a tax cutting mode because of the "good" national economy; a balanced federal budget equals less money; property tax limitations; and user fees are being maximized.

Mr. Mackey next gave an overview of what has happened in state and local taxation nationally over the last 20 or 25 years. He noted that state tax levels have stayed pretty constant over the past 25 years, having been on an even keel since the mid-1980's. However, Mr. Mackey pointed out that local taxes took a dramatic dip in the late 1970's and early 1980's, as more and more states passed property tax limitations, and since property taxes, in most states, are the primary, if not the only, source of local revenue. Since the bottoming out in 1982, he explained that there has been a slow rebound of local tax revenues throughout the 1980's and 1990's as local governments found additional taxing options.

Mr. Mackey stated that the sales tax has continued to be the anchor of state finance, although the income tax has really expanded significantly from 1970 to the present. He pointed out that there has been an erosion of excise taxes, also known as selective sales taxes, throughout the period. Contrary to public opinion, Mr. Mackey stated that the corporate income tax has stayed pretty constant and it has never been a huge source of state revenue.

Turning to major local tax sources, Mr. Mackey stated that obviously the major tax is the property tax. In the 1970's, he said about 20 states relied on property taxes for more than 40% of their total tax revenue. Now there is only a handful of states that still rely for more than 40% of revenue from the property tax. He noted that Kentucky is one of the lowest in terms of property tax reliance. Overall, Mr. Mackey explained that property tax, as a share of local government revenue, dropped from 85% to 75% during the 1970-1990 time period. He stated that most of that 10% drop was made up by an expansion of local option general sales taxes from about 5% to just over 10% of local revenue. There was also a little expansion on the excise tax side. Mr. Mackey said that interestingly, there was not a lot of expansion of local government taxing authority on the personal income tax. There has been a fairly significant increase in other types of taxes, the primary one being the proliferation of local option hotel occupancy and tourism related taxes that have

gone either to local general funds or into economic development funds that have promoted tourism, urban renewal and economic development.

Looking at the use of local option taxes across the county, Mr. Mackey pointed out that particularly in the West and in the Southeast, there is a substantial use of local option taxes. He noted that the only region that does not allow local option taxes, because of the geographic size of the states, is New England. Mr. Mackey added that Kentucky is one of the states that does not allow the local option sales taxes.

Representative Simpson asked relative to local sales tax, if there is a normal range that is typical for localities on sales tax rates. Mr. Mackey said yes, that typically states will authorize such a tax in increments of one-half percent and that the median local rate would be about 1%.

Mr. Mackey mentioned that some other local option taxes are business, cigarette, motor fuel, lodging, and restaurant taxes.

Mr. Mackey next listed ten of the primary policy issues that the legislators and staff have identified which should be considered prior to the provision of additional taxing authority. He noted that not all of these issues are relevant in all states : 1) limit state revenue options. Mr. Mackey explained that anytime more taxing options are granted to local governments, sometime down the road when the state needs revenue, they may run into some additional difficulties; 2) administrative and compliance costs. Mr. Mackey said this was more of a design issue. He said the costs could be minimized depending on how the local option system was designed; 3) state-local tax system balance. Mr. Mackey noted that in regard to the distribution of major state and local taxes, Kentucky, in terms of how it fits in with the other Southeastern states, has a much lower reliance on property tax than other states; 4) growth and stability of local revenues. Mr. Mackey stated that there is a real concern about the future of the viability of the sales tax as a growth funding source. He said income taxes are more responsive to growth. So in terms of growth and stability, if the state is going to be giving local governments more programs, they need to look carefully at what revenues are given to them, and whether or not they are going to match the growth in those programs; 5) local fiscal disparities. Mr. Mackey stated that a lot of people are concerned about disparities in education funding and trying to shift off the property tax. He said one of the things that are found when shifting to other sources, is that there may be actually more disparities; 6) local competition. Mr. Mackey stated that local sales taxes can create a lot of competition for retail. He said there should be some kind of a uniform rate; 7) state-local tax system incidence. Mr. Mackey stated that Kentucky has a fairly progressive tax system overall, especially when compared to some of its Southeastern neighbors that rely very heavily on the sales tax. He noted that obviously, the income tax at a local option is going to make the tax system generally more progressive, and the use of sales and excise taxes would

make it more regressive; 8) statewide versus enumerated localities. Mr. Mackey explained that only the largest cities, certain home rule cities, or only cities of a certain population are allowed to levy these taxes in other states. He noted that only the largest cities are often allowed to have this additional taxing authority. A situation is created where the large cities become the high taxed places, and then more friction is created, and possibly more competition and disparities between cities and suburbs. In turn, the suburbs try to lure away businesses from the cities and they can compete with lower taxes; 9) voter approval. The state must decide whether voter approval is going to be required for these local option taxes, or whether the locally elected body will be allowed to do it. Mr. Mackey stated that obviously there is the trade off between accountability on the one hand, and the fact that a lot of these things just are not going to pass if voters are required to approve them; and 10) federal deductibility. Mr. Mackey explained that sales and excise taxes are not deductible, where property and income taxes are. Thus, anytime a deductible is replaced with a non-deductible revenue source, federal taxes will be increased, particularly on people who itemize.

Representative Riggs asked how Kentucky's occupational tax rate compares to other states. Mr. Mackey stated that Kentucky's rates are fairly common with other states. He noted that counties in Kentucky have a 1% cap and cities do not have a cap.

Representative Simpson asked if any states have conducted reviews of their tax codes. Mr. Mackey replied that some states have, but not a lot of action has been done as a result of the studies.

Representative Riggs asked what the most common user fees were. Mr. Mackey replied highway tolls, garbage collection, libraries and city services such as public swimming pools.

Mayor Honeycutt asked if any local governments in other states are without property taxes. Mr. Mackey replied that every state permits the levy of a local property tax.

In conclusion, Mr. Mackey stated that due to the current economic climate, legislatures are likely to get more local option requests. He said states need to look at the impact on the state-local system and weigh policy issues when considering these requests.

Representative Simpson announced that the next meeting of the Task Force would be held on September 29th at 10:00 a.m. He said that meeting would be devoted to actually discussing the final report and recommendations of the two subcommittees. However, Representative Simpson stressed that the Task Force is not limited to those recommendations already made and the members should be thinking about any other comments they want to add to the final report.

There being no further business, the meeting was adjourned at 2:50 p.m.

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 4

TIME:	10:00 a.m.
PLACE:	Room 129, Capitol Annex
DATE:	Monday, September 29, 1997

1. Call to Order and Roll Call
2. Approval of Minutes of August 28, 1997 Meeting
3. Discussion regarding Preparation of Final Report
4. Adjournment

TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Fourth Meeting of the 1996-97 Interim

September 29, 1997

The fourth meeting of the Task Force on Local Government Taxing Structures was held on Monday, September 29, 1997 at 10:00 AM, in Room 129 of the Capitol Annex. Representative Arnold Simpson, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Arnold Simpson, Chair; Senators Paul Herron, Nick Kafoglis, Denny Nunnelley, Albert Robinson, Dan Seum, and Elizabeth Tori; Representatives Adrian Arnold, Joe Clarke, Walter Gee, Gippy Graham, and Steve Riggs; Philip Ciafardini, Gregory Engleman, Christina Heavrin, Mayor Charles Honeycutt, Vince Lang, Mayor Bert May, Judy Ratliff, Tony Sholar, and Judge Thomas Turner.

Guests: Ed Davidson, Kentucky Sheriff's Association; Bill Thielen and Jerry Deaton, Kentucky League of Cities; Jerry Alleyne, Kentucky Education Association; Bill Forehlich, Kentucky County Judge/Executives Association; Tom Troth, Department for Local Government; Neil Hansen, Lexington-Fayette Urban-County Government; Jim Carloss, Home Builders Association of Kentucky; Richard Turner, Kentucky Magistrates and Commissioners Association; and Mike Magee and Karen Garrison, Kentucky Association of Counties.

LRC Staff: Jamie Franklin, Donna Weaver, Mark Mitchell, Vida Murray, Joe Pinczewski-Lee, Joseph Hood, and Cheryl Walters.

Upon the motion of Representative Arnold, seconded by Senator Kafoglis, the minutes of the August 28, 1997 meeting were approved.

Representative Simpson announced that this would be the last meeting of the Task Force, and would be devoted to discussing the recommendations from the two subcommittees for inclusion into the Task Force's final report. He told members that unless a specific recommendation was brought up and voted on, that it would not be included in the final report. Representative Simpson noted that the members were not limited to just these recommendations, and that new recommendations could be developed.

The Task Force first considered the recommendations of the County Finance Subcommittee.

Senator Robinson asked that Recommendations #3 (create more flexibility of taxing methods for local governments through constitutional amendment and statutory changes), and #5 (there needs to be a legislative re-evaluation of the offsetting of local taxes) of the County Finance Subcommittee be explained. Representative Clarke explained that there are sever limitations from the Constitution on local governments' tax raising abilities. He noted that he will offer such an amendment to the Constitution during the 1998 session.

Judge Turner explained that the reason for Recommendation #5 was the concern that there is an offsetting provision relating to occupational and insurance premium taxes which often times pits cities and counties against one another, especially when it comes to annexation. He said there needs to be some sort of provision that would allow the tax base to be shared instead of strictly offsetting one fee for the other. Judge Turner noted that it could be done without a constitutional amendment.

Representative Clarke moved, seconded by Mayor May, to include Recommendation #3 in the final report. The motion passed unanimously on a roll call vote.

Judge Turner moved, seconded by Mr. Lang, to include Recommendation #5 in the final report. The motion carried by voice vote.

Senator Nunnelley moved, seconded by Representative Riggs, to include Recommendation #1 in the final report. The motion carried by voice vote. Recommendation #1 states that there needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, shared services, and equipment between local governments, or local government officials and other governmental entities. It also states that there should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding), and should include multicounty agreements.

Judge Turner moved, seconded by Ms. Ratliff, to include Recommendation #2 in the final report. the motion carried by voice vote. Recommendation #2 states that there is a lack of adequate funding for the incarceration of prisoners, including juveniles, by local governments. Also, there needs to be a reworking of the judicial system so that the state will absorb more or all financial responsibility for the incarceration of prisoners. This should include all costs for the incarceration of all prisoners from the initial time of incarceration.

Representative Arnold noted that some interim committees are working on that issue for the upcoming regular session.

Representative Riggs moved, seconded by Representative Arnold, to include the following recommendations in the final report: Recommendation #4 (there needs to be a complete examination of the funding system for sheriffs' offices to ensure that funding is adequate for the service required); Recommendation #7 (there should be increased accountability of special districts to state and local government); Recommendation #8 (there needs to be stricter requirements on the revenue cabinet to certify county property assessments in a more timely manner); Recommendation #10 (there needs to be the creation of a local government data base with uniform reporting); Recommendation #15 (need to study the feasibility of someone other than the sheriff collecting property tax bills, and in turn, fund the sheriff's office at an adequate level); Recommendation #16 (members of the General Assembly should be encouraged to support the task force's recommendations on a bi-partisan basis); and Recommendation #17 (there should be a reevaluation of the road fund to reevaluate the effects of increased road mileage in the road funding formula). The motion carried by voice vote.

Referring to Recommendation #13 (county finance could be improved by individual counties cracking down on tax evaders), Mr. Ciafardini stated that should be a normal operating procedure instead of a recommendation.

Representative Riggs noted that the point of Recommendation #13 is that counties are asking for more money while there are already methods for them to increase their revenues that they are not using or using effectively.

Mr. Ciafardini moved, seconded by Senator Kafoglis, to amend Recommendation #13 to read as follows: "Encourage all local governments to use all sources available to maximize their revenues." The motion carried by voice vote. Representative Simpson noted that Recommendation #13 would be included in the final report as amended.

Judge Turner commented that there needs to be some sort of requirement that local governments must collect a certain amount of taxes and be penalized if they don't. Mr. Lang pointed out that there are penalties in the statutes already for failure to collect taxes. He said there needs to be a review of this issue because the penalties could be much stricter.

Representative Simpson stated that he knows there are penalties for cities, but he asked if there were penalties for counties. Mr. Lang replied that the penalties apply to both cities and counties.

Representative Riggs asked if it's the property tax that local governments aren't collecting and are the bills being sent out. Mr. Lang stated that the bills are being sent out, the taxes are just not being collected.

Judge Turner moved, seconded by Representative Arnold, to recommend that there be a review of the penalties imposed on local governments for failure to collect taxes. The motion carried by voice vote. Representative Simpson noted that this would be a new recommendation to be included in the final report.

Representative Riggs asked for an explanation of Recommendation #11 (there needs to be further investigation into the problem of the usage of zip codes for distribution of insurance premium taxes). Representative Simpson stated that as it was explained during subcommittee meetings, there is a problem in using zip codes because in counties which have only one zip code, there is no way to determine those taxes which have been assessed on homeowners who live within the city or county so that you can remit them to the proper recipient.

Mayor May moved, seconded by Ms. Ratliff, to amend Recommendation #11 to read as follows: "There needs to be legislation passed that puts the responsibility on insurance agents or the company to identify the territory affected by insurance premium taxes." The motion carried by voice vote. Representative Simpson noted that Recommendation #11 would be included in the final report as amended.

Judge Turner moved, seconded by Mr. Lang, to include Recommendation #14 (current road fund levels are inadequate and there should be increased funding for all road funds) in the final report. The motion passed on a roll call vote of 12 yeas and 5 nays.

Mr. Sholar stated that he had a philosophical problem with blanket increases for any program unless the increases are identified. Representative Simpson commented that he had reservations also.

Representative Simpson pointed out that included in the members' notebooks was a memorandum from Mr. Coffman who could not attend the meeting. He said Mr. Coffman listed two suggestions that the Task Force should consider: 1) the Task Force should strongly support the seeking of a constitutional amendment in 1998 to remove the constitutional impediments placed on local government taxation; and 2) further examination of Kentucky's tax structure should include both state and local government.

The Task Force next considered the recommendations of the City Finance Subcommittee.

Mayor Honeycutt moved, seconded by Judge Turner, to include Recommendation #4 (unfunded mandates need to be more intensively reviewed and considered by state government) in the final report. The motion carried by voice vote.

Mr. Sholar moved, seconded by Senator Tori, to amend Recommendation #7 (there should be the creation of a better local government data base) to add the words "with a single depository for the information." The motion carried by voice vote. Mr. Sholar then moved, seconded by Senator Tori, to include Recommendation #4, as amended, in the final report. The motion carried by voice vote.

Mayor May moved, seconded by Representative Honeycutt, to amend Recommendation #9 (protect present local taxing options, insurance premium and occupational taxes, until comprehensive state and local tax reform is achieved) to delete the words "comprehensive state and local tax reform is achieved" and insert in lieu thereof "alternative funding mechanisms are in place." The motion carried by voice vote. Mr. Ciafardini then moved, seconded by Judge Turner, to include Recommendation #9, as amended, in the final report. The motion carried by voice vote.

Representative Riggs commented that Recommendation #9 was a very important recommendation, and that he understands that legislation relating to present local tax options will be proposed during the 1998 session of the General Assembly.

Mr. Ciafardini moved, seconded by Mayor May, to include Recommendation #6 (overall state and local tax reform should be considered simultaneously) in the final report. The motion carried by voice vote.

Mr. Engleman moved, seconded by Mayor Honeycutt, to combine Recommendation #8 (there needs to be more accountability of special districts to local governments and an analysis of their total taxing authority as well as the provision of adequate sanctions for noncompliance) with Recommendation #7 from the County Subcommittee, which had already been approved for inclusion in the final report. The motion carried by voice vote.

Judge Turner moved, seconded by Mr. Lang, to include Recommendation #13 (restore area development funds to meet local needs, i.e. welfare reform) in the final report and to delete the words "i.e. welfare reform." The motion carried by voice vote.

Representative Simpson thanked the members for their time in serving on the Task Force. He said the final report would be mailed to the members within the next week.

Representative Graham asked how the report would be utilized. He said he would hate to see nothing come from the Task Force's work. Representative Simpson said he did

not know. He noted that the report would be sent to LRC and then LRC would assign it to a standing committee, which probably would be the Interim Joint Committee on Local Government.

There being no further business, the meeting was adjourned at 11:30 a.m.

APPENDIX II

SUBCOMMITTEE ON CITY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 1

TIME:	10:00 a.m.
PLACE:	Room 129, Capitol Annex
DATE:	Wednesday, December 4, 1996

1. Call to Order and Roll Call
2. Presentation and Discussion of "Funding Our Future: A Report on Kentucky City Tax Structure"
 - Ms. Sylvia Lovely, Executive Director
 - Mr. Bill Thielen, General Counsel
Kentucky League of Cities
3. Review of Tentative Work Schedule
 - Representative Gippy Graham, Chair
4. Comments and Questions from the Audience
5. Adjournment

SUBCOMMITTEE ON CITY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the First Meeting of the 1996-97 Interim

December 4, 1996

The first meeting of the Subcommittee on City Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, December 4, 1996 at 10:00 AM, in Room 129 of the Capitol Annex. Representative Gippy Graham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Gippy Graham, Chair; Senator Denny Nunnelley; Representatives Joe Clarke, and Kathy Hogancamp; Donna Cantrell, Philip Cifardini, James Coffman, Gregory Engleman, Mayor Charles Honeycutt, and Representative Arnold Simpson, ex-officio.

Guests: Representative Walter Gee; Sylvia Lovely and Bill Thielen, Kentucky League of Cities; Lonnie Campbell, Department for Local Government; Ed Davidson and Ted Collins, Kentucky Sheriffs' Association; Teri Bennett, Kentucky Property Valuation Administrators' Association; Rochelle Boland, Lexington-Fayette Urban-County Government; David Ewen, Northern Kentucky Area Development District; Mike Haydon, Revenue Cabinet; and James Everett, Kentucky Council of Area Development Districts.

LRC Staff: Donna Weaver, Jamie Franklin, Mark Mitchell, Vida Murray, Joseph Hood, and Cheryl Walters.

The first order of business was introduction of Subcommittee members and staff.

The next order of business was a presentation and discussion of "Funding Our Future": A Report on Kentucky City Tax Structure" by the Kentucky League of Cities (KLC). Chairman Graham introduced Ms. Sylvia Lovely, Executive Director, and Mr. Bill Thielen, General Counsel, of KLC to explain the report.

Ms. Lovely told Subcommittee members that KLC, located in Lexington, has a staff of 40 people which provide technical assistance to cities. She noted that the League is under the guidance of a 150 member board that takes leadership and pushes issues that are important to cities and the state and its future. Ms. Lovely pointed out that there are 435 cities in Kentucky, 347 of which are members of KLC. She said one half of the

population in Kentucky lives within city borders, and many others use city service through various user fees.

Ms. Lovely stated that the League thought a comprehensive study of local taxation needed to be conducted. She noted that KLC worked on the report for two years, with the overriding issues being that there needed to be some sort of flexibility and education of what taxes are available for local government and what level of services need to be funded in the fairest and most equitable way. Ms. Lovely mentioned that civic leaders do not know what taxation options are available to them. She stressed that the League was not seeking tax increases as reported by the media but wanted to look at these complex problems and to offer solutions.

Ms. Lovely stressed that more responsibilities have been given to local governments through state and federal mandates. She noted that welfare reform, for example, will affect additional local revenues.

Ms. Lovely discussed various fiscal obstacles and opportunities that the study identified: We have to begin to think outside of our city borders and county lines. Our citizens do not realize when they are passing outside of city borders or county lines and do not understand issues involving city borders and tax bases. The citizen is the customer and we have to begin thinking as a "community"--not separate units of government;

We are a more mobile society--we have to figure out a way to capture revenue from people who move in and out of communities and use services (for example, street repair);

We are an aging society--many communities rely heavily on a payroll tax on earned income and as society ages, there will be less of that money available;

The costs of suburban flight and downtown revitalization;

The costs of unfunded mandates, such as ADA, workers' compensation, and clean air and water;

A lack of urban awareness in Kentucky, acknowledging that even small communities have urban issues such as extending water lines, etc.;

Finding incentives to bring cities and counties together as citizens demand more services; and

The lack of flexibility to raise revenues. More flexibility is needed at the local level to allow local leaders to make taxation decisions.

Mr. Thielen began his presentation by telling the Subcommittee that the KLC study was conducted for two purposes: (1) to educate--to provide knowledge of what exists in the state; and (2) to generate a discussion of the local taxation problems that exist.

Mr. Thielen stated that there are four issues that need to be addressed: (1) the state Constitution is an obstacle to progress at the local level. He said at some point, the General Assembly must look at this because counties have changed from simply being an "arm of the state" and now have "home rule." Mr. Thielen noted that there was a great mistrust of cities 104 years ago when the Constitution was written; (2) establish flexibility of revenue options for cities in the statutes; (3) identify and prioritize community service needs that exists. He mentioned that the state lacks good, current data. Mr. Thielen noted that the League had to use data that was one and a half years old for this study; and (4) revenue capacity has to coincide with service responsibilities.

Mr. Thielen stated that taxes are an important part of the revenue picture for city government. He noted that Section 181 of the Constitution sets out four categories of taxes that are eligible to be used. However, Kentucky only utilizes two types of revenue sources: (1) tax from license fees on professions; and (2) property taxes on real and personal property. Mr. Thielen pointed out that 45% of all city taxes come from occupational or payroll taxes, 29% come from property taxes, and 26% come from business taxes. He noted that 65% of all business taxes come from the insurance premium tax, which is the only tax available to produce significant amounts of revenue for many cities.

Referring to city expenditures, Mr. Thielen stated that the largest expenditure group is public works at 31% which is funded by user fees. He said most essential services of cities have to be funded by taxes which is why statutes need to be flexible to meet city needs. The tax sources are limited by law and circumstance, and these existing tax sources will be further eroded as we move through the next 25 to 30 years. Property tax revenue will be lowered as the population ages because of the homestead exemption. Also, inflation, suburban flight, unfunded mandates, changing technology, and infrastructure delay in cities will all affect city revenue.

Mr. Thielen concluded by making the following recommendations: (1) change the Constitution to provide a flexible tax base for local governments; (2) develop a local government data base; (3) identify revenue problems and look for innovative ways to help; and (4) educate the general public.

Representative Clarke thanked the League for conducting the study and agreed with all of their suggestions. He said the Constitution does need to be changed but it will

be difficult. Representative Clarke stated that an argument could be made that providing more flexibility will lead to fairer taxes.

Mr. Coffman agreed with Representative Clarke. He asked if there was any reason why cities and counties need different taxes. Mr. Thielen replied that there is no reason why cities and counties should have different taxes. He commented that they both need flexibility and that there should be some form of tax base sharing.

Mr. Coffman commented that flexibility could result in competition between cities for industries, which might be good.

Chairman Graham announced that the next meeting of the Subcommittee would be held on January 8th.

There being no further business, the meeting was adjourned at 11:00 a.m.

SUBCOMMITTEE ON CITY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 2

TIME:	11:00 a.m.
PLACE:	Room 113, Capitol Annex
DATE:	Wednesday, January 8, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from December 4, 1996 Meeting
3. Discussion of Taxation and HB 44
 - Mr. Jim Coffman
Kentucky Revenue Cabinet
4. Discussion of the Occupational Tax and the Municipal Insurance Premium Tax
 - Commissioner Bob Arnold
Department for Local Government
5. Comments and Questions from the Audience
6. Review of Ongoing Work Schedule
 - Representative Gippy Graham, Chair
7. Adjournment

SUBCOMMITTEE ON CITY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Second Meeting of the 1996-97 Interim

January 8, 1997

The second meeting of the Subcommittee on City Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, January 8, 1997 at 11:00 AM, in Room 113 of the Capitol Annex. Representative Gippy Graham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Gippy Graham, Chair; Senator Elizabeth Tori; and Representatives Joe Clarke, Kathy Hogancamp, and Arnold Simpson, ex-officio; Philip Ciafardini, James Coffman, Gregory Engleman, Mayor Charles Honeycutt, and Deborah White-Dunlap.

Guests: Commissioner Bob Arnold and Tom Armstrong, Department for Local Government; Bill Thielen and Jerry Deaton, Kentucky League of Cities; Ed Davidson, Kentucky Sheriff's Association; Sam Crawford, Kentucky Farm Bureau; Joe Ewalt, Lexington-Fayette Urban-County Government; Dave Ewen, Northern Kentucky Area Development District; Kathi Marshall, Frankfort; David Morris, City of Louisville; Karen Garrison, Kentucky Association of Counties; and Mike Haydon, Department of Property Taxation.

LRC Staff: Donna Weaver, Jamie Franklin, Mark Mitchell, Vida Murray, Tanya Monsanto, Joseph Hood, and Cheryl Walters.

Upon the motion of Mayor Honeycutt, seconded by Representative Simpson, the minutes of the December 11, 1996 meeting were approved.

The first order of business was a discussion of property taxation and House Bill 44. Representative Graham introduced Mr. Jim Coffman with the Revenue Cabinet, who is also a member of the Subcommittee. Mr. Coffman began by saying that he wanted to discuss the property tax, particularly as it relates to local government in Kentucky, and focusing on cities. But he said he would also cover some of the county provisions too because they are very similar.

Mr. Coffman told the Subcommittee that the property tax is an ad valorem tax, which means, "according to value," it is a tax on the property itself, not a tax on the person or the owner, although the owner has the responsibility to pay the tax. He pointed out that that is a key legal distinction, particularly when it comes to the collection of the property tax, because we can go against the property to collect, as well as against the owner of the property on January 1 of each year. Mr. Coffman noted that Kentucky has had a property tax in Kentucky ever since 1792. He said the state was created on June 1 of 1792, and 18 days later the legislature enacted a property tax that took affect July 1. So Kentucky's assessment dates used to be July 1 and were for many years. Mr. Coffman mentioned that the property tax is the only tax levied in all 50 states--every state uses the property tax, all of the Canadian Provinces, and many foreign countries also utilize the property tax. He noted that in many of these areas they have fairly different procedures, but the concept is a tax on property, a tax on wealth.

Mr. Coffman stated that Kentucky has a fairly complex administrative structure, with the combination of the Kentucky Revenue Cabinet, and the locally elected property valuation administrators being responsible for the assessment, the county clerks having significant responsibilities in the preparation of bills, collection of motor vehicle taxes and collection of delinquent taxes. He added that the sheriffs collect most of the property taxes other than for cities, and that cities generally have their own city treasurer, city clerk, or someone from the city office do the collection.

Mr. Coffman stated that the property tax burden in Kentucky is low, that Kentucky is one of the lower property tax burdened states. He said depending on what study is read, Kentucky will range anywhere from 42 to 46 in its overall property tax burden, and these studies usually take into account the entire property tax burden, state and local. Mr. Coffman noted that Kentucky is unique in that most states do not levy a significant state property tax. He said in most states, the property tax is used purely for local government purposes--it is collected at the local level and stays at the local level. Mr. Coffman stated that about one-third of Kentucky's total property tax collected each year goes to the state general fund, and about one-third of it goes to the school districts. He said Kentucky's total collection is about 1.4 billion dollars a year, which was a estimate because there are not any absolute figures available on the local collection. Mr. Coffman explained that the remaining third of the property tax collection goes to the counties, and special districts, and also to the cities. He pointed out that the figure in the League of Cities' report was \$160 million a year in property tax for cities. But again, he said that was an estimate.

Mr. Coffman told the Subcommittee that Kentucky's property tax is a constitutional tax. Unlike Kentucky's other taxes that are based on statutory provisions and can be changed by the legislature each session, he said the property tax itself, the basic structure, can only be changed by constitutional amendment. He noted that does not mean the legislature cannot do a lot within their statutory authority, however. Mr.

Coffman stated that Kentucky's current constitution, which was implemented in 1892, calls for all property to be assessed at fair cash value, estimated at the price it would bring at a voluntary sale--in other words, what do you think you can sell it for, what would a willing buyer pay for it, and what would a willing seller accept. He said that is the figure that should be shot for by the appraiser, whether it is at the PVA office or in the Revenue Cabinet--for all types of property, not just real estate, but also tangible, personal property and intangible personal property. Mr. Coffman pointed out that the other key constitutional provision is that all property is taxable unless exempted by the constitution itself. So, he explained that the exemption of property from the tax can only be done through a constitutional amendment. Mr. Coffman noted that a legislative solution that greatly alleviates the property tax burden is to set a lower rate, and initially in Kentucky's 1892 constitution, all property was taxed at the same rate. However, Mr. Coffman stated that in 1915, there was a constitutional amendment to allow the General Assembly to determine what property is subject to local tax and to set lower state rates on property. So what Kentucky has now is a very complex structure of the rate system, but what it also allows is that for local purposes, not state purposes, including cities, the legislature can determine which property is going to be subject to the property tax and which property is going to be exempt.

Mr. Coffman referred to a handout that listed constitutional and statutory exemptions. He noted that the constitutional exemptions are those that are listed in the constitution itself, there is no state or local tax on these types of properties. Mr. Coffman said examples are public property used for public purposes; real property owned and occupied by religious institutions; any personal property of religious institutions; libraries, household goods--your clothing, furniture, etc. in your house is not taxed; crops--noting that crops are exempted by constitution but livestock is not--bonds; and then of course the big one that came in a constitutional amendment in 1971 is the real property homestead exemption, which for 1997 and 1998 is \$24,400 a year. He explained that this was an effort to relieve people who may have a difficult time paying the property tax, noting that it was really designed for people who are age 65 or older or classified as totally disabled. So the \$24,400 would come off of their assessment. Mr. Coffman gave the following example: if someone has a \$75,000 house, then you would subtract \$24,400 from that \$75,000 and property tax would be levied on the remainder.

Still referring to the handout, Mr. Coffman stated that there are also a number of statutory exemptions, which are the properties that the legislature has relieved from local tax, which would include things that cities cannot levy a tax on. He said the first one listed was intangible personal property, with the exception of domestic life insurance capital--stocks, bonds, and accounts receivable. Mr. Coffman added that all of those intangible properties, intangible property being property representative of value rather than having value in itself (cash is a good example of intangible property) is not subject to the city tax or the county or special districts, this is reserved purely for the state. Mr.

Coffman stated that farm machinery, livestock and poultry, also have very low state rates, and a number of these are designed either to give relief to farmers or for economic development incentives. For example, he explained that manufacturing machinery is exempted from the local tax, which is a large assessment statewide, but has no local tax on it, there is a state tax at a reduced rate. Manufacturer's, raw materials and goods in process; pollution control facilities and recycling machinery are exempted from the local tax, again, with a perceived public need to get granted a tax break. Mr. Coffman emphasized that the only real property that is exempted from local tax is leasehold interests in industrial revenue bond financed property, essentially manufacturing plants that are financed by a government entity.

In summarizing what he had discussed so far, Mr. Coffman stated that practically all real property is taxed both at the state and local level, with intangible personal property is taxed only at the state level, and tangible personal property having a mix of some of it being subject to local tax and some of it being exempt. He also listed some statutory low rates: tobacco in storage, agricultural products, and domestic life insurance capital. Mr. Coffman explained that there are also some optional rates--the General Assembly, which has the ultimate authority to allow local governments to levy taxes, has authorized cities and counties, but not school districts, to set lower rates or to eliminate their property tax rates on non-commercial aircraft, merchant's inventory, manufacturer's finished goods, and goods stored in public warehouses.

Mr. Coffman stated that he next wanted to discuss rate procedures and HB 44, noting that there are a lot of misconceptions about HB 44. He mentioned that HB 44 was enacted during a special session in 1979 partly as a result of the inflationary increase in real estate values at that point in time. Property tax rates were generally not lowered by the taxing districts as values increased, so consequently the property tax tended to go up, and there was a great deal of concern about that. Mr. Coffman pointed out that Kentucky also had just experienced the year prior to that, Proposition 13 in California, which was a very famous property tax restriction measure that actually put a clamp on assessments. He noted that Kentucky very wisely did not follow the California model. Mr. Coffman stated that instead of putting a clamp on the assessed value of property, Kentucky put a restriction on the amount of revenue that could be gained from assessment increases. A lot of people mistakenly believe that their assessment can only go up 4% a year--that is not true--it is the revenue gained by the local taxing district and exceptions can be seen there. He explained that there are three options for local governments: first, they can set a compensating tax rate which gets them the same revenue from property this year that they got last year. So if the assessment goes up, the rate goes down--a very simple equation. Mr. Coffman said then, any new property that was built since last year is subject to that same rate, so the taxing district would get a revenue increase from the new property, which is called the "compensating rate." Regarding local provisions, he explained that taxing districts--cities, special districts or county governments, can do this

with no public hearing, and does not require any particular concern or risk from their point of view. He added that the 4% rate can be set and either lowered or raised, and normally, this would be considered as a lowering of the rate, but the rate can be set so that the total revenue from last year's property increases up to 4%. So if the assessment went up 10%, then the rate would still go down in order to let the taxing district get a 4% increase in revenue. But if the assessment did not go up 10%, for example the assessment only went up 2%, the taxing district could still set the 4% rate, which would actually be an increase in the rate rather than a decrease in the rate. Mr. Coffman noted that was not in the original HB 44, but the 1990 legislature made an amendment to take off what was considered to be the maximum rate, which was the previous year's rate. He said part of the reason for this is that cities suffered under HB 44 because typically, a PVA would not necessarily reappraise city property every year. If a PVA were appraising property in the county or in a different city in the county, then often what happened is the assessment for one city might only go up 2% this year, and next year it might go up 12%. Mr. Coffman pointed out that what was happening was that the cities were only going to get 2% more revenue in the year the assessment went up 2%, but then the year the assessment went up 12%, they would only get 4% more revenue. So it was artificially driving down the rate, and that was changed in the 1990 legislative session. He explained that cities can get this 4% rate by having a public hearing, but the rate is not subject to recall. In other words, the public cannot call that rate to be set back. He added that the local taxing districts including cities, also have the ability, however, to go above that 4%, and that many people mistakenly believe that the 4% is an absolute cap, which is not true. Mr. Coffman said a city council could choose to raise their revenue 10% or 15% if they wanted to. However, if they do that, they have to have a public hearing, the voters are entitled to petition for a referendum, and that would go before the voters in an election. He pointed out that obviously that is something that most city governments, county governments and special district governments do not want to risk, so very few taxing districts will face the referendum and try to go above the 4%. Mr. Coffman noted that there is a provision that says that if the governing body chooses to go above the 4% and a petition is filed, then they can meet and roll it back to the 4% level, which happens on several occasions too because that really is a bail-out provision for the local government. He added that what also happens in some cases, particularly for some of the smaller special districts and also for a lot of the smaller cities, is they will leave the same rate they had last year, assessments went up. Mr. Coffman explained that they may be getting significantly more than 4% revenue, but if no one filed or starts a petition drive, then they get the increase, and legally they get it now. He noted that prior to 1990, many of them got it in violation of the statutes, but it is perfectly legal at this point in time.

In summary, Mr. Coffman stated that HB 44 has a fairly complex structure. It is designed to roll back revenue or roll the rate back as assessments increase, but any city or local district can get a 4% increase in revenue each year, plus they get the benefit of any new property that is built during that preceding year. So in the growing areas, he said

cities that have new subdivisions or new commercial establishments being built , that the new property can be as much as 2% to 3%, but typically it will be anywhere from 1% to 3% a year. Mr. Coffman noted that some of the cities that are constricted by their boundaries and do not have much new property, they are pretty much going to be stuck with the 4% increase unless they are willing to go for the referendum.

Mr. Coffman told the Subcommittee that in 1978, the average city property tax rate was 29.3 cents, and in 1995 it was 21.9, so that shows that the property tax rate for cities went down almost 8 cents from 1978 to 1995. During that same period of time, he pointed out that the county general rate, the rate levied by the fiscal court, went from 14.1 cents down to about 10.7 cents. But what happened in the county as a result of creating special districts--in other words if a county fiscal court could not provide ambulance service, then an ambulance district might be created that could levy a tax rate-- the county total rate, when you include the special districts, in 1978, prior to HB 44, was 22.0 cents, the statewide average and for 1995 it was 21.2. So cities have had a significantly greater decrease in their property tax rate than have counties. Depending on the way you look at it, Mr. Coffman said you can say the cities have been hurt greater by HB 44, or the counties have had that ability to create special districts in order to gain revenue that they could not provide through their normal fiscal court budget. He noted that there is also a provision in HB 44, at the local level, for a separate rate on tangible personal property, and the average rate for tangible personal property for cities is 25.1 cents. Mr. Coffman explained that was not changed, that initially it started out the same rate as real estate in the early 1980's as a result of some tax burden shifting away from tangible property, which is typically business owned property onto residential property. He added that there was a provision that let the tangible rate be set higher, so it is about three and a half cents higher now than the real estate rate for cities.

Mayor Honeycutt asked if it was true that a city could charge more than the 4% increase as long as no one questioned it. Mr. Coffman replied that in any one year, a city can go above the 4% rate. If the residents choose not to petition the rate, it would go into effect. He pointed out that the city would have to conduct a public hearing that would be advertised. He noted that and it would be the responsibility of the citizens in that taxing district to initiate a petition drive to get it placed on the referendum.

Lastly, Mr. Coffman covered some of the advantages and disadvantages, or criticisms, of the property tax. He said the property tax, as he mentioned before, is levied in all states, which is a stable source of revenue that tends not to have the fluctuations that the sales and use tax has or occupational tax or the various forms of income taxation.

Mr. Coffman explained that the property is also a logical tax used to finance property related services. He noted that with police protection, fire protection, etc., that protect property as well as people, property should bear part of the burden of that service,

which also means that a non-resident owner will help to pay for the services--non-resident owner being someone that was not subject to an occupational tax or did not even pay sales tax. But if they have property in that district, then they will contribute to the upkeep of the community.

Mr. Coffman pointed out that real property tax is very difficult to evade--real property is there, it is visible--the PVA's have procedures to review real property, get it on the tax rolls and there is also an automatic lien on real property that if the property tax bill goes delinquent, then ultimately can result in a foreclosure and master commissioner sale to get the property tax collected. He noted that is not true for personal property, that there are problems in terms of getting personal property on the tax rolls and in sometimes getting the payments.

Mr. Coffman stated that the property tax also supports autonomy of local governments. He said there have been various theorists that have said the very broad based widespread property tax we have had in this country has contributed greatly to the support of a multiplicity of local governments, and that is why we have so many cities, counties, special taxing districts, etc. because the property tax is a fairly easy means of funding and financing these operations.

Mr. Coffman next listed the criticisms of property tax. He noted that property tax generally is rated in most polls of citizens and taxpayers as being very unpopular second only to the federal income tax, but generally the sales tax is considered to be a very popular tax.

Mr. Coffman said property tax is a tax on unrealized capital gains. He noted that inflation or an increase in the real value, even if you discount inflation, of property means that sometimes people can be property rich and cash poor, and it becomes a very difficult thing for some people to pay their property tax bills. Mr. Coffman stated that is why we have the homestead exemption, and that is also the reason for the agricultural value that we have for farmers, which was a constitutional amendment in 1969. He explained that farmers do not pay on the market value of the fair cash value of their farm, they pay on the agricultural value. The valuation is based on its income producing potential, which is designed not to drive people off of the family farm.

Mr. Coffman explained that the property tax also is unpopular because typically it is a lump sum payment once a year. He noted that in Kentucky, we unfortunately send that bill out right before Christmas and expect people to pay it. Mr. Coffman pointed out that there are some states that have attempted to solve that problem by going to installment payments, quarterly payments, or twice a year payments, which might tend to help.

Mr. Coffman stated that unlike the sales tax, we know how much we pay in property tax--no one knows how much they pay in sales tax unless you have kept pretty good records. He said unlike the income tax, where we tend to be happy to get a refund back, you do not get a refund back in property tax. Mr. Coffman pointed out that even though ultimately if you look at your tax liabilities, you pay a lot more in income tax in Kentucky than you do in property tax.

Mr. Coffman explained that there is a taxpayer anxiety about reappraisal. He said since property taxes are ad valorem taxes based on an opinion of value, then obviously there are differing opinions. The property owner believes one thing, the PVA office believes something else. Mr. Coffman stated that generally, if reappraisals are done on a fairly regular and often basis, research has indicated in other states that there is less anxiety and more taxpayer acceptance of the property tax. He noted that Kentucky probably has a pretty good structure in Kentucky with its annual revaluation and periodic physical examination.

Mr. Coffman stated that there is also a criticism of the property tax because as a result of being an ad valorem tax, sometimes appraisals are inequitable. He explained that some PVA offices do a better job than others obviously, often the special purpose, very high value property tends to get under valued because it does not have the comparable sales, the whole judgment concept.

Mr. Coffman said that the property tax generally, is costly to administer. He explained that it costs more to administer a property tax system than it does other taxes because of the necessity to get the property on the tax roll. Mr. Coffman stated that the property is not a taxpayer administered tax as our income tax is, for example, or merchant administered taxes or sales taxes, so it does require more money to administer the property tax.

The next order of business was a discussion of the occupational tax and the municipal insurance premium tax. Representative Graham introduced Commissioner Bob Arnold, Department for Local Government, who is also a member of the County Finance Subcommittee, and Mr. Tom Armstrong, the State-Local Finance Officer with the Department.

Commissioner Arnold told the Subcommittee that 65% of a city's total budget comes from insurance premium, property, net profits taxes, and occupational taxes. He noted that cities have no limit on the rate they can set for occupational taxes, and municipal insurance premium taxes. Commissioner Arnold stated that the insurance premium rates vary from 1% to 13%. Occupational taxes can run from .25% to 2.25%. He mentioned that 315 cities have the municipal insurance premium tax, which generates 10% of the taxes.

Commissioner Arnold explained that in counties with population under 30,000 with an occupation tax, the citizens in that city have to pay both city and county taxes. He said in counties with population over 30,000, city citizens working in the city only have to pay city taxes.

Commissioner Arnold explained that if cities have trouble generating new funds, one option they have is through annexation.

Mr. Coffman commented that the average property rate for cities is 21.9 cents but some cities have rates of 40 cents, and some cities have rates of 10 cents. He said HB 44 froze in time what basic revenue cities have from property tax.

Mr. Armstrong commented that cities cannot lower local effort, that local effort is combined.

Mr. Coffman also commented that if a city discovers they are in good shape one year and think about lowering the tax rate, they usually do not because that higher rate may be needed for the next year.

Representative Tori commented that the economy is good now, but just regionally. She said tax money is going to be more scarce and cities are having trouble providing the services that the citizens are demanding. She asked Commissioner Arnold to share his thoughts on the merging of cities and perhaps metro-government. Commissioner Arnold replied that he thought it was inevitable because there is going to be less money from the federal government and the state, and it is coming down to the local governments to provide those services because citizens are still demanding the services. Commissioner Arnold stated that local governments are going to have to look at sharing services, whether in the form of merger or metro-government. Representative Tori commented that this issue needs to be discussed and looked at. She agreed that merged governments was inevitable.

Representative Arnold commented that local governments may need to look at making the interlocal agreement process less cumbersome.

Mayor Honeycutt commented that there are lots of quality differences throughout the state as far as levels of services, programs, and differences in tax levels. He stated that the solution is through interlocal agreements because they work well.

Commissioner Arnold commented that there has only been one merger to pass so sharing of services is more realistic than merger.

Commissioner Arnold invited the full task force to meet during the Governor's Local Issues Conference, May 20-22 in Louisville.

Representative Graham referred members to an article regarding Washington County's fiscal court holding a public hearing to discuss an occupational tax or alternative ways of dealing with the county's financial crisis.

Representative Graham announced that the next meeting would be held on February 5th. He noted that at that meeting the Subcommittee would hear a report by Dr. Jim Graves and Dr. Tom Hughes of Kentucky State University entitled "Do Kentucky Cities have Adequate Revenue Sources?". Representative Graham stated that if time allows, the Subcommittee would also hear a report on the fairness of sales taxes and discuss information relating to special districts. He told members that if they had any topics that they wished to discuss to let staff know.

Mr. Engleman asked that copies of the County Finance Subcommittee's minutes be included in their notebooks.

There being no further business, the meeting was adjourned at 12:25 p.m.

SUBCOMMITTEE ON CITY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 3

TIME:	10:00 a.m.
PLACE:	Room 125, Capitol Annex
DATE:	Wednesday, February 5, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from January 8, 1997 Meeting
3. Discussion of Report entitled, "Do Kentucky Cities have Adequate Revenue Sources?"
 - Dr. Jim Graves and Dr. Tom Hughes
Kentucky State University
4. Comments and Questions from the Audience
5. Review of Ongoing Work Schedule
 - Representative Gippy Graham, Chair
6. Adjournment

SUBCOMMITTEE ON CITY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Third Meeting of the 1996-97 Interim

February 5, 1997

The third meeting of the Subcommittee on City Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, February 5, 1997 at 10:00 AM, in Room 125 of the Capitol Annex. Representative Joe Clarke called the meeting to order, and the secretary called the roll.

Present were:

Members: Senators Denny Nunnolley, Dan Seum, and Elizabeth Tori; Representatives Joe Clarke, Kathy Hogancamp, and Representative Arnold Simpson, ex-officio; Tom Armstrong, Donna Cantrell, James Coffman, Gregory Engleman, Mayor Charles Honeycutt, and Tony Sholar.

Guests: Senator Nick Kafoglis; Representative Hoby Anderson; Tommy Turner, Larue County Judge/Executive; Vince Lang and Mike Haydon, Revenue Cabinet; Tina Heavrin, Deputy Mayor, Bob Butler, Board of Aldermen, and J. David Morris, City of Louisville; Bill Thielen and Jerry Deaton, Kentucky League of Cities; Dave Ewen, Northern Kentucky Area Development District; Carl Sumner, Insurance Institute of Kentucky; Richard Tanner, Kentucky Magistrates and Commissioners Association; Mike Magee, Kentucky County Judge/Executives Association; and Karen Garrison, Kentucky Association of Counties.

LRC Staff: Donna Weaver, Jamie Franklin, Mark Mitchell, David Thomas, Linda Hill, Vida Murray, Tanya Monsanto, Joseph Hood, and Cheryl Walters.

Representative Clarke chaired the meeting for Representative Graham who was unable to attend.

The minutes of the January 8, 1997 meeting were approved unanimously.

The first item of business was a report entitled, "Do Kentucky Cities have Adequate Revenue Sources?". Representative Clarke introduced Dr. Jim Graves and Dr. Tom Hughes, professors at Kentucky State University and authors of the report.

Dr. Graves told the Subcommittee that tax reform was a paramount issue for the Commonwealth. Dr. Graves referred to two reports published by the Kentucky League of Cities (KLC). The first one, entitled "The State of the Cities", in 1993, stated that there is a fiscal crisis pending for a number of Kentucky's cities. He said the second report, "Funding Our Future: A Report on Kentucky City Tax Structure", discussed the need to find new sources of revenue for cities and to study the mix of taxes that Kentucky has and to come up with an appropriate taxing structure for our cities. Dr. Graves noted that one of the League's recommendations was that cities needed flexibility established of revenue options. He pointed out that HB 44 was a flexible tool that has not been used to the fullest.

Dr. Hughes told the Subcommittee that he wanted to summarize their observations of the League's reports. He said the conclusion regarding local revenue is that there is "inelasticity" of present revenue sources, and "inflexibility" of revenue options for cities. The League's specific recommendations for obtaining flexibility included the modification of HB 44.

Dr. Hughes stated that cities are having an out-migration of population, but retaining retired and elderly people. He said the homestead exemption helps with this.

Dr. Hughes mentioned that there is an inconsistency in the League's analysis in their observation that there is out-migration of city population, but an increase in demand for services. He noted that these people would be prime candidates to pay an occupational tax. Dr. Hughes pointed out that even with the population decline, of the largest cities, Louisville was the only one that lost population. However, the smaller cities losing population are in counties losing population as well.

Dr. Hughes stated that the League's second flexibility recommendation would allow cities to adopt a local sales tax.

Dr. Hughes said if the retired or elderly are still in the city, not out-migrating, their spending liability (food and medical care) would most likely be tax exempt, letting the air out of sales tax. Regarding the flexibility of a local consumption tax--with the 400 plus exemptions at the state level--the state tax remains quite flat relative to the growth of other income and is vulnerable to recessions. Dr. Hughes stated that where there is growth in retail outlets, they are located outside city limits, and in order to take advantage of this growth, there must be greater flexibility to annex areas.

Dr. Hughes stated that Kentucky's local share of total tax collection is low compared to other states. On the other hand, Kentucky's intergovernmental relationship from a revenue side ranks Kentucky as one of the top ten centralized states because while the national average of state aid to public education averages 50 to 60%, Kentucky's share is right at 80%.

Dr. Hughes pointed out that there is a comparative disadvantage if sales tax is approved by some areas and not by others. If a price differential is created, people will seek a lower price.

Referring to a handout, Dr. Hughes stated that point for sales tax comparisons are 1) average combined state-local tax rate of surrounding states is 6.25%; and 2) average state tax rate of all states allowing local sales taxes is 4.9%.

Regarding the comparison of neighboring states, Dr. Graves noted that Tennessee has no state income tax.

Dr. Graves wondered how probable is it that the legal changes that this task force may recommend actually be ratified. He noted that constitutional change is difficult. Dr. Graves stated that people need to be educated on the changes and services.

Mayor Honeycutt commented that he appreciates the study, but has questions about it. He said the majority of Kentucky's cities are small and diversified. Mayor Honeycutt noted that his city of Glasgow is one of the ten fastest growing cities. He said they live and die by the payroll tax. Mayor Honeycutt explained that no one wants to raise taxes, that it is a very unpopular. He noted that for the last 13 years, the tax rate has gone down.

Regarding no more unfunded mandates, Mayor Honeycutt said welfare reform will be a mandate on local governments. He noted that in Glasgow, 1,800 mothers with children are on welfare.

Mayor Honeycutt commented that annexation is a two-edged sword--it allows more income but raises liability and responsibility.

Senator Tori commented that it is good for everyone to see the other side. She said however, that we need current numbers and a current study. Senator Tori stated that we must look at combining cities and reducing counties. She said a tax increase will not fly, that it should not even be considered. Senator Tori said she would like to see an in depth study of combining cities. She noted that 30 cities are in bankruptcy.

Representative Clarke commented that we seem to be looking at local taxes without looking at the state. He noted that in 1990, for KERA the original idea was to include sales tax for services, but there was a competitive problem due to no surrounding states having it. Representative Clarke said politically, it is very hard to do.

Senator Nunnelley commented that he has never seen voters pass a higher tax rate. Regarding the full utilization of HB 44, he pointed out that from his experiences where school boards have tried it, it has always failed. He said if school boards can't utilize HB 44, how can cities and counties.

Dr. Hughes stated that when voters do approve a tax increase, it is because the tax is packaged and dedicated to a special purpose.

Representative Clarke mentioned that we have made mistakes in tax reform when cutting taxes. He noted that it should be done piece by piece.

The last item of business was a brief discussion on special districts. Representative Clarke introduced Ms. Jamie Franklin, LRC Staff, to give the Subcommittee some background information regarding special districts. Ms. Franklin first noted that there was not enough time for the Subcommittee to conduct an in-depth study of special districts.

Ms. Franklin told the Subcommittee that the Subcommittee chairman asked that information regarding special purpose local governments in Kentucky (i.e. special districts) be presented to them as they consider those entities and organizations that affect local government finances.

Ms. Franklin explained that special districts began to be used in this country as a method by which governmental units could raise operating fees for a public service without having to fund such services by general tax increases or other general fund expenditures. She said the services which these "districts" provide is often of a specialized nature which for some reason the existing local government cannot or chooses not to provide in the traditional governmental manner. Ms. Franklin stated that funding for special districts comes primarily from one of two sources. Districts receive annual appropriations from the "originating" local government which created them, or they may have independent ad valorem taxing authority which means they can generate their own income. In addition to these methods, she noted that some special districts have the capacity to issue debt, levy other types of taxes, enact user fees, or charge membership dues.

Ms. Franklin stated that Kentucky, like other states, has seen a tremendous growth in the number of special purpose local governments over the last three and a half decades that they have been operating in our state. She said special districts have assumed an important role in the provision of local services within our state and local communities. In many areas, they have become a primary source of water and sewer service, fire protection, library services, flood control, conservation efforts, airport facilities, riverport development, solid waste services, etc.

Ms. Franklin explained that the Kentucky Revised Statutes authorize the creation of approximately 31 different types of special districts. As close as any one can estimate, approximately 1682 currently exist.

Ms. Franklin explained that while the advantages and problems of special districts have been discussed for over three decades, the legal and political complexity of this issue has

thwarted many previous efforts to address this issue in a comprehensive manner. She mentioned that a major effort to address the accountability issue was completed in 1984 with the enactment of legislation that required the annual adoption of budgets, financial statements, and audits for most special districts. Then in 1990, all special districts and local governments were required to submit a "uniform financial information report" which tied the receipt of state funds to the annual submission of this annual financial report. And lastly, in 1996, after a study of special districts in the interim period, the General Assembly considered three (3) legislative proposals which dealt with the accountability of special districts and their officers and the financial administration of special districts. Ms. Franklin said of these three proposals, two of them (96 HB 151 and 192) were enacted. But even with this and other regulatory statutes, she noted that there are reported problems which seem to still exist concerning the public accountability of special districts and their board members.

Ms. Franklin stated that there seems to be two major criticisms of special districts as they now exist in our state. One of the criticisms of special districts is a lack of accountability due to the inability of state and local governments to enforce current financial reporting requirements. She said it seems the only available threat of action for state officials is the withholding of state funds, but only a few types of special districts receive any state funds at all. So any financial incentive to comply with the financial reporting statutes is at best very weak. Ms. Franklin added that the 1996 legislative proposal (HB 150) which was not enacted, attempted to address this problem. It recommended that all special districts submit their annual budgets to the fiscal court during the county budget preparation period for the fiscal court's review. The fiscal court would receive the budget for information purposes only and would have no regulatory oversight of the special district's budget. If a special district did not comply with this requirement, they would be prohibited from expending any funds.

Ms. Franklin said another major criticism of special districts is the lack of ethical conduct standards for members of the various types of districts. This issue has been of particular concern since the recent adoption of state laws and local ordinances which establishes codes of ethics for city and county officials. Many people had assumed that special districts would have to comply with these ethics code requirements but attorney general's opinions have stated that special districts are exempt from such provisions.

Ms. Franklin told the members that included in their folders for their information, was a packet of information regarding special districts which was compiled during the aforementioned interim review of special districts.

Senator Nunnelley asked Mr. Armstrong if the Department for Local Government (DLG) had adequate staff to review special districts, in addition to what the Department already is required to review. Mr. Armstrong replied that DLG does not have adequate staff. He said they try to review all of the audits that are submitted. Mr. Armstrong noted that there is not penalty for a special district that does not comply to submitting a budget.

Representative Simpson asked if there is any kind of control on special districts levying taxes. Ms. Franklin replied that it depends upon which type of special district it is.

Senator Seum commented that some special districts have the potential to be corrupt. He suggested establishing a fee to police themselves.

Mr. Coffman asked if anyone has ever looked at the efficiency of special district to provide services. Ms. Franklin said not to her knowledge.

Representative Clarke announced that the next meeting of the Subcommittee would be held on March 5th.

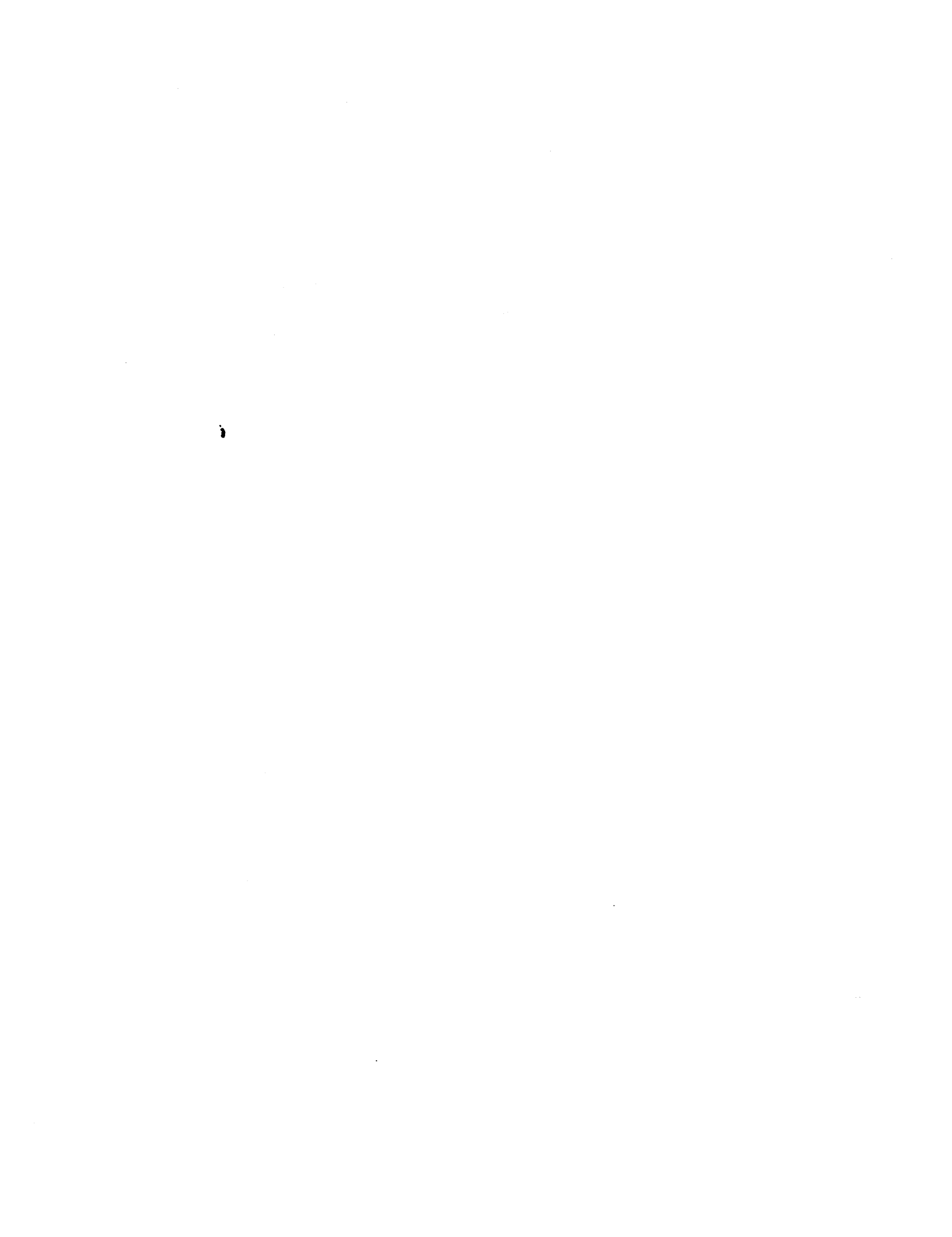
There being no further business, the meeting was adjourned at 11:35 a.m.

SUBCOMMITTEE ON CITY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 4

TIME:	8:30 a.m.
PLACE:	Room 149, Capitol Annex
DATE:	Wednesday, March 5, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from February 5, 1997 Meeting
3. Work Session: Compilation of Recommendations
4. Review of Ongoing Work Schedule
 - Representative Gippy Graham, Chair
5. Adjournment



SUBCOMMITTEE ON CITY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Fourth Meeting of the 1996-97 Interim

March 5, 1997

The fourth meeting of the Subcommittee on City Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, March 5, 1997 at 8:30 AM, in Room 149 of the Capitol Annex. Representative Gippy Graham, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Gippy Graham, Chair; Senators Denny Nunnelley and Dan Seum; Representatives Joe Clarke and Kathy Hogancamp; Tom Armstrong, Donna Cantrell, Philip Ciafardini, James Coffman, Gregory Engleman, Mayor Charles Honeycutt, and Tony Sholar.

Guests: Bill Thielen, Kentucky League of Cities; and J. David Morris, City of Louisville.

LRC Staff: Donna Weaver, Jamie Franklin, Mark Mitchell, Vida Murray, Peggy Hyland, Joseph Hood, and Cheryl Walters.

Upon the motion of Mr. Sholar, seconded by Representative Clarke, the minutes of the February 5, 1997 meeting were approved.

The meeting was a round-table work-session to compile preliminary recommendations for the Subcommittee to present to the full Task Force in two months. Three groups of up to five members each were assembled and individually presented recommendations. These recommendations were merged and compiled as follows:

1. Local governments need more revenue options and flexibility so that they can provide essential services. If necessary, there may need to be a constitutional amendment.
2. Flexibility and diversity issues should be included in all local government financing options.
3. There should be the creation of a better local government data base.

4. There should be increased education and technical assistance (example: training) to local officials and citizens regarding existing financial options in any new financial tools.

5. There should be further study of the effects of the aging population on local government revenues and expenditures.

6. Unfunded mandates need to be more intensively reviewed and considered by state and federal governments.

7. There needs to be more accountability of special districts to local governments and an analysis of their total taxing authority.

8. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, and shared services between local governments and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding).

9. Allow revenue base adjustment in property tax to provide a new service.

10. Allow a local option sales tax to reach a thriving underground economy. Need a better system of ensuring compliance. (LRC study between KY and TN.)

11. Restore area development funds to meet local needs, i.e. welfare reform.

12. Shift tax generating ability from the state to the local level. Local revenues have not kept in line with demands on local governments--creates accountability.

13. Protect present local taxing options (insurance premium tax, occupational tax).

14. Overall tax reform.

15. State appointment of PVA's.

16. Establish criteria for use of tax sources (efficiency, cost, ease).

17. Broaden the state tax base in other taxes to permit property tax to be devoted to local government usage.

After a short break, members of the Subcommittee met as a whole group to discuss the recommendations of the small groups. Members were then directed by Representative

Graham to rank each of the 17 recommendations in order of their importance. It was explained that staff would compile the rankings of the members' recommendations for discussion at the next meeting.

Representative Graham announced that the next meeting of the Subcommittee would be held April 9, 1997, at 10:00 a.m.

There being no further business, the meeting was adjourned at 11:10 a.m.

SUBCOMMITTEE ON CITY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 5

TIME:	1:00 p.m.
PLACE:	Room 125, Capitol Annex
DATE:	Wednesday, April 9, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from March 5, 1997 Meeting
3. Discussion of a Local Official's Perspective on the proposed Subcommittee Recommendations
 - Mr. Ken Thompson, City Manager
City of Frankfort
4. Review of Subcommittee's Final Report and Recommendations
5. Adjournment

SUBCOMMITTEE ON CITY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Fifth Meeting of the 1996-97 Interim

April 9, 1997

The fifth meeting of the Subcommittee on City Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, April 9, 1997 at 1:00 PM, in Room 125 of the Capitol Annex. Representative Arnold Simpson called the meeting to order, and the secretary called the roll.

Present were:

Members: Senators Dan Seum and Elizabeth Tori; Representatives Joe Clarke, Kathy Hogancamp, and Representative Arnold Simpson, ex-officio; Tom Armstrong, Donna Cantrell, James Coffman, Gregory Engleman, Mayor Charles Honeycutt, and Tony Sholar.

Guests: Vince Lang, Revenue Cabinet; Ken Thompson, Frankfort City Manager; Jim Rogers, Frankfort City Finance Director; Bill Thielen, Kentucky League of Cities; Tracy Goff Herman, Jefferson County Clerk's Office; and Dave Ewen, Northern Kentucky Area Development District.

LRC Staff: Donna Weaver, Jamie Franklin, Mark Mitchell, Joseph Hood, Karen Crabtree, Jan Harris, and Cheryl Walters.

Representative Simpson chaired the meeting for Representative Graham who was unable to attend.

Upon the motion of Mayor Honeycutt, seconded by Senator Tori, the minutes of the March 5, 1997 meeting were approved.

The first item of business was discussion of a local official's perspective on the proposed Subcommittee recommendations. Representative Simpson introduced Mr. Ken Thompson, City Manager for the City of Frankfort. Mr. Thompson told the Subcommittee that appearing with him was Mr. Jim Rogers, Finance Director for the City of Frankfort.

Mr. Thompson began by saying that the ability to keep up with the public's need for more services, particularly safety needs, are greatly exceeding the cities' revenue

capacity. He noted that some of the limitations on tax sources greatly restrict cities, and that attention needs to be given to those limitations.

Mr. Thompson stated that there are five areas that need fixing. First, is the sharing of services on a cross-jurisdictional basis. He explained that the City of Frankfort is a model for the use of interlocal agreements because both parties have benefited and there has been savings to both the city and county. Mr. Thompson noted that cities are trying to do everything they can ahead of time. He said consolidation of services should be done when it makes sense, and needs to be explored.

Mr. Thompson pointed out that the statutes which set out charter county government guidelines were very unfair to cities. He said the prior guidelines were very specific on what services could be shared or consolidated. Mr. Thompson noted that there is not a level playing field for the two negotiating parties. For example, he said there are uneven appointments on the commission--45% is city representation and 55% is county representation, and the county judge/executive is automatically given the chairmanship. Mr. Thompson said the statute should be changed and made fair to both the city and county.

Mr. Thompson stated that Kentucky lien laws was the second area that needed to be changed. He said he would like to see them strengthened so that they can be better enforced. Mr. Thompson noted that when it comes to the collection of user fees, there needs to be some teeth put into the law regarding when these liens become due and payable.

House Bill 44 (KRS 132.027) was the third area that Mr. Thompson discussed. He stated that the limitations in HB 44 are disincentives to use the payroll tax. Mr. Thompson noted that the 4% ceiling was not a realistic percentage on a multi-year basis. He said anything above the 4% has the impression of being excessive; 4% is not enough of a percentage for cities to raise the rate. Mr. Thompson stated that he has seen very few cities go above the 4% rate. He said we need to let the political process work. If a board of commissioners or fiscal court is levying a rate for a purpose that the people think is not justified, let them go ahead and answer to the public on that without installing all of the requirements of Section 3 of KRS 132.027. Mr. Thompson told the Subcommittee that he would like the General Assembly to consider amending HB 44 by striking Section 3(a) (regarding voter recall provisions), or allow the use of Section (3) only in cases of extreme price escalations or abnormal inflation.

Representative Simpson commented that HB 44 was enacted in 1979 and yet local governments have not gone "in crisis" but have levied other fees to raise revenue. Mr. Thompson stated that those fees are usually small in nature so the flexibility of the ad valorem tax, the occupation and net profits tax need to be looked at.

Mr. Thompson stated that the fourth area of concern was the occupation and net profits tax as it relates to services and accountability of costs. He said there are problems with this tax, which is inflationary tied. It is a very valuable tax and cannot be replaced. He noted that this tax is a way to get revenue where other taxes cannot be reached. The problem is in the way the tax was installed in that it does not apply to every city and county--only to those cities that took the lead in levying the tax. Then counties under 30,000 in population levied the same tax for unincorporated areas. When you have the same tax, based on boundaries, in two jurisdictions in the same county, it causes difficulty. There is resistance to annexation due to the loss of these funds. When boundaries change this creates a battle ground. Only a few annexations are done in Kentucky a year versus 2000 a year nationally.

Representative Simpson asked Mr. Thompson what services the City of Frankfort receives from the county. Mr. Thompson replied the sheriff, regional jail, library, health department, and agricultural extension office.

Representative Simpson asked Representative Clarke what the intention of the amendments to annexation laws in the 1980's were in regard to annexation. Representative Clarke stated that it was really an effort to end annexation. He said that in his opinion, annexation cannot be done in this state unless it is an empty lot.

Mayor Honeycutt commented that his city does not annex anyone unless they ask to be annexed. He noted that the city does buy vacant land and turn it into industrial parks and then annexes it.

The fifth area Mr. Thompson discussed was the extent of exempt property, which has come up mainly in relation to exemption on the basis of age. Mr. Thompson stated that the City of Frankfort has a lot of exempt property due to being the center of state government. He noted that out of a tax base of \$1,179,473.00, for the City of Frankfort, 28% is exempt due just to public property alone, not the age issue. Mr. Thompson explained that 28% equates to \$666,827 annually, based on their current rate, lost revenue. He pointed out that Frankfort receives a payment in lieu of tax of \$195,000 per year from the state to fund public safety at a higher level than the city would normally do if it was not for the protection of state facilities. Mr. Thompson said if any jurisdiction in the state has significant amounts of exempt property, the state ought to look at the payment in lieu of the tax route and somehow make this in relation to the state costs associated.

Mr. Thompson stated that he agreed with the Subcommittee's proposed recommendations. He suggested that the Subcommittee look at sales tax to be shared with local governments.

The last item of business was review of the Subcommittee's proposed recommendations. Representative Simpson explained that the members would discuss each recommendation one at a time in order to determine if there is a majority consensus of the Subcommittee to refer the recommendations on to the full task force.

Recommendation #1. Local governments need more revenue options and flexibility so that they can provide essential services. If necessary, there may need to be a constitutional amendment. There was a consensus to refer Recommendation #1 to the full Task Force.

Recommendation #2. Flexibility and diversity issues should be included in all local government financing options. Recommendation #2 was expanded for clarification as follows: "(Example: differences in classifications, location or population of the various local governments)."

Recommendation #3. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, and shared services between local governments and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding). There was a consensus to refer Recommendation #3 to the full Task Force.

Recommendation #4. Unfunded mandates need to be more intensively reviewed and considered by state and federal governments. Mr. Sholar moved, seconded Mayor Honeycutt to delete the words "and federal" and to delete the "s" on government. The motion carried by voice vote.

Recommendation #5. There should be increased education and technical assistance (example: training) to local officials and citizens regarding existing financial options in any new financial tools. The Subcommittee agreed to change the word "in" to the word "or". Senator Tori stated that since there was no cost affixed to this recommendation, she was hesitant to refer it to the full Task Force. Senator Tori then moved, seconded by Representative Simpson, to delete Recommendation #5. The motion failed by voice vote. Recommendation #5 was referred to the Full Task Force.

Recommendation #6. Overall tax reform. Representative Simpson asked someone to explain Recommendation #6. Representative Clarke explained that you cannot do an effective job of freeing up taxes for local governments unless you first go in and see if you can't broaden the base on some of these major state taxes. He recommended changing Recommendation #6 to read, "Overall state and local tax reform should be considered simultaneously." The Subcommittee concurred.

Recommendation #7. There should be the creation of a better local government data base. There was a consensus to refer Recommendation #7 to the full Task Force.

Recommendation #8. There needs to be more accountability of special districts to local governments and an analysis of their total taxing authority. Mr. Armstrong commented that there needs to be something to entice special districts to comply with the law. Mr. Armstrong then moved, seconded by Ms. Cantrell, to add after the word "authority", the words "as well as the provision of adequate sanctions for noncompliance". The motion carried by voice vote.

Recommendation #9. Protect present local taxing options (insurance premium tax, occupational tax). Ms. Cantrell moved, seconded by Mr. Sholar, to add after the closing parenthesis, the following: "until comprehensive state and local tax reform is achieved". The motion carried by voice vote.

Recommendation #10. Allow revenue base adjustment in property tax to provide a new service. Mr. Coffman offered an explanation of Recommendation #10. He said it goes back to the creation of HB 44 in 1979 where the rate that a city had at that point in time became their base forever. For example, there might be two cities with similar populations--one was providing ambulance and fire protection--another one was not. Mr. Coffman explained that the ability of that second city that was not providing certain services was forever limited simply because they could not make an adjustment in their base rate. He noted that counties got around that by having special districts. If a county wanted to provide ambulance service, they could create a special district to levy a tax to provide ambulance service. Mr. Coffman pointed out that this recommendation would allow cities in essence to do the same type thing--if this new city service needs to be provided, and that service was not in the revenue base prior, then the revenue base could be adjusted to provide for that service, and from then on it would fall under the normal HB 44 provisions. There was a consensus that Recommendation #10 be referred to the full Task Force.

Recommendation #11. Shift tax generating ability from the state to the local level. Local revenues have not kept in line with demands on local governments--creates accountability. Mr. Coffman moved, seconded by Mr. Armstrong, to delete Recommendation #11. The motion carried by voice vote.

Recommendation #12. Allow a local option sales tax to reach a thriving underground economy. Need a better system of ensuring compliance. (LRC study between KY and TN.) Representative Simpson moved, seconded by Mr. Coffman, to delete Recommendation #12 because it is already covered under Recommendation #6. The motion carried by voice vote.

Recommendation #13. There should be further study of the effects of the aging population on local government revenues and expenditures. Ms. Cantrell moved, seconded by Representative Simpson, to amend Recommendation #13 to read "There should be a study of the long-term and demographic effects of the aging population on local government revenues and expenditures. The motion carried by voice vote.

Recommendation #14. Establish criteria for use of tax sources (efficiency, cost, ease). Ms. Cantrell explained that those criteria usually deal with the distribution of tax incidence, who is paying and are people paying their fair share. She noted that whether a tax is proportional, regressive or progressive are types of academic concepts of tax incidence. There was a consensus to refer Recommendation #14 to the full Task Force.

Recommendation #15. Restore area development funds to meet local needs, i.e. welfare reform. There was a consensus to refer Recommendation #15 to the full Task Force.

Recommendation #16. State appointment of PVA's. Mr. Coffman moved, seconded by Representative Simpson, to delete Recommendation #16. The motion carried by voice vote.

Recommendation #17. Broaden the state tax base in other taxes to permit property tax to be devoted to local government usage. Mr. Coffman moved, seconded by Representative Simpson, to delete Recommendation #17. The motion carried by voice vote.

Representative Simpson announced that this was the last meeting of the Subcommittee, and that the full Task Force would meet on May 7th. He told the members that one of things he would like the full Task Force to undertake is the question of not whether or not cities and counties have an adequate tax base, but to go beyond that to see if the current tax system is fair, is it the best system we can have, and is there a better system which would ensure everyone making a fair contribution that the Task Force could propose.

There being no further business, the meeting was adjourned at 2:50 p.m.

APPENDIX III

SUBCOMMITTEE ON COUNTY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 1

TIME:	1:00 p.m.
PLACE:	Room 129, Capitol Annex
DATE:	Wednesday, December 4, 1996

1. Call to Order and Roll Call
2. Opening Remarks
 - Senator Paul Herron, Chair
3. Discussion of Taxing Issues from Department for Local Government's Perspective
 - Mr. Bob Arnold, Commissioner
 - Mr. Tom Armstrong, State/Local Finance Officer
4. Discussion of Future Subcommittee Activity
5. Adjournment

SUBCOMMITTEE ON COUNTY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the First Meeting of the 1996-97 Interim

December 4, 1996

The first meeting of the Subcommittee on County Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, December 4, 1996 at 1:00 PM, in Room 129 of the Capitol Annex. Senator Paul Herron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Paul Herron, Chair; Senator Nick Kafoglis; Representatives Adrian Arnold, J. R. Gray, Steve Riggs, and Arnold Simpson, ex-officio; Commissioner Bob Arnold, Christina Heavrin, Vince Lang, Mayor Bert May, Judy Ratliff, Jerry Stewart, and Judge Thomas Turner.

Guests: Senator Elizabeth Tori; Donna Cantrell, Commissioner of Finance, Lexington-Fayette Urban-County Government; Philip Ciafardini, Finance Director, City of Newport, and Gregory Engleman, Finance Director, City of Covington; Tom Armstrong and Dan Yeast, Department for Local Government; Rochelle E. Boland, Lexington-Fayette Urban-County Government; David Ewen, Northern Kentucky Area Development District; Teri Bennett, Kentucky Property Valuation Administrators Association; Melissa Tate and Mike Haydon, Revenue Cabinet; Ed Davidson and Ted Collins, Kentucky Sheriffs Association; Bill Thielen, Kentucky League of Cities; Jim Clayville, Auditor of Public Accounts Office; Jill Robinson, Franklin County Magistrate; David Hughes, Franklin County Judge/Executive; John Griggs and Karen Garrison, Kentucky Association of Counties; Teresa Barton, Deputy Franklin County Judge/Executive; Richard Tanner, Kentucky Magistrates and Commissioners Association; and James Everett, Kentucky Council of Area Development Districts.

LRC Staff: Mark Mitchell, Jamie Franklin, Donna Weaver, Vida Murray, Joseph Hood, and Cheryl Walters.

Chairman Herron told the audience that in the last Regular Session of the General Assembly, Senate Bill 179 was passed that mandated the study of Kentucky's local government taxing structures. As a result, he stated that a task force was created, made up of citizen members of the Commonwealth, city, county and state government employees, and legislators. Chairman Herron mentioned that the Task Force will look at the question

of whether or not the tools available to cities and counties are enough to provide them with the revenue to, in turn, provide the citizens the services they want and deserve.

To best accomplish this, Chairman Herron pointed out that the Task Force was divided into two subcommittees--this Subcommittee, and another subcommittee that will study city finance. He noted that these subcommittees have been formed to look at the different needs and roles played by the various local government entities. Chairman Herron stated that each subcommittee will have approximately four months to study their individual topics, and will then issue their final recommendations to the full task force. Tentatively, the subcommittees are scheduled to submit their reports to the full Task Force on June 4, 1997.

Chairman Herron asked the members to introduce themselves, and then the staff was introduced.

The next order of business was a discussion of taxing issues from the perspective of the Department for Local Government. Chairman Herron introduced Commissioner Bob Arnold, who is also a member of the Subcommittee, Mr. Tom Armstrong, the State-Local Finance Officer, who is a liaison between the local governments and the state, and Mr. Dan Yeast, who has an in-depth knowledge of county governments. Chairman Herron told the members that the speakers will give the Subcommittee an introduction to local government finance and discuss what issues counties are facing.

Commissioner Arnold began by saying that government closest to the people is local government, and the reason for local government is to serve the people.

Commissioner Arnold told the Subcommittee that counties have three main ways to raise revenue: property, occupational, and insurance premium taxes. He noted that 44 counties have occupational taxes, 18 have insurance premium taxes, and only five have both.

Commissioner Arnold stated that the Task Force needs to look at a means to provide ways for counties to raise income to meet the service levels with less money. He noted that cities and counties should work together.

Representative Simpson asked what services counties provide. Commissioner Arnold replied housing prisoners; solid waste disposal; fire protection; ambulance; maintenance of county and rural roads; water; sewer; elections; offices of PVA, sheriff, and jailer; dog warden; and safety and health services by a health department, often through a county health tax. He noted that 12 counties do not have a health tax.

Regarding the funding of jails, Representative Simpson asked if there was a variety of funding sources available to them in addition to county funding. Commissioner Arnold replied that it depends. Using Franklin County as an example, he stated that counties with regional jails, like Franklin, were put in competition with other regional jails which caused a problem.

Judge Turner commented that some counties are spending up to 50% of general fund money on jails. He said his county spends \$10,000 a month on the housing of juveniles because very few facilities house juveniles.

Commissioner Arnold commented that jails are a tremendous burden on local communities.

Chairman Herron commented that his county had some problems with juveniles. He noted that when he was county judge/executive, it cost \$100 a day to house juveniles.

Representative Gray asked when the regional jail provision went into effect and how much money was appropriated to counties. Mr. Armstrong replied \$5 million to county general funds to cover loss of revenue to cities for loss of fees.

Representative Simpson asked what a typical county budget was and where do counties get most of their revenue. Mr. Armstrong replied that there are four funds in a county's budget: general, road, jail, and local government economic assistance funds. He said 44 counties receive their revenue from occupational taxes and all counties have property taxes.

Representative Simpson also asked if there are currently any constraints on counties to raise revenue, and if so, to give an example. Mr. Armstrong stated that Bullitt, Oldham, and Spencer Counties still have to provide services, but do not levy occupational taxes because most of their citizens live in Jefferson County, consequently an occupational tax would be of no help.

Mr. Armstrong pointed out that counties have only been able to use the insurance premium tax since the early 1990's. He added that the insurance premium tax is collected by insurance companies to be remitted back to the city and county. Mr. Armstrong noted that insurance companies use zip codes to route insurance premium tax moneys to either the city or county which collects them. In counties which have only one zip code, there is no way to determine what has been assessed from homeowners who live within the city or county in order to remit them to the proper recipient. He also noted that there is no incentive for the insurance companies to insure that the moneys are properly routed.

Ms. Donna Cantrell, Commissioner of Finance for Lexington-Fayette Urban-County Government and member of the Subcommittee on City Finance, commented that Lexington is relying more and more on user fees.

Mr. Armstrong commented that cities can do more than counties because they are not restricted.

Representative Simpson asked if there were any counties in crisis. Mr. Armstrong replied that Breathitt County had a \$200,000 shortfall.

Representative Simpson asked Mr. Armstrong if he had any examples of cities and counties that shared services. Mr. Armstrong said he did not have any examples.

Representative Simpson asked that the average size of a county was. Mr. Armstrong replied between 16,000 and 30,000.

Representative Arnold told the Subcommittee that a study on county consolidation was conducted a few years ago by LRC that might be useful to the Subcommittee.

Mayor May commented that there are revenue sources out there, that you just have to look for them. He stated the cities and counties have to work together.

Chairman Herron announced that the next meeting of the Subcommittee would be held on January 8th.

There being no further business, the meeting was adjourned at 2:00 p.m.

SUBCOMMITTEE ON COUNTY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 2

TIME:	2:00 p.m.
PLACE:	Room 113, Capitol Annex
DATE:	Wednesday, January 8, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from December 4, 1996
3. Discussion of Revenue Sources available to Counties and Services provided by Counties
 - Mr. Bob Arnold, Commissioner
 - Mr. Tom Armstrong, State-Local Finance Officer
Department for Local Government
4. Discussion of Future Subcommittee Activity
5. Adjournment

SUBCOMMITTEE ON COUNTY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Second Meeting of the 1996-97 Interim

January 8, 1997

The second meeting of the Subcommittee on County Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, January 8, 1997 at 2:00 PM, in Room 113 of the Capitol Annex. Senator Paul Herron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Paul Herron, Chair; Senator Nick Kafoglis; Representatives Adrian Arnold, Walter Gee, and Arnold Simpson, ex-officio; Christina Heavrin, Vince Lang, Mayor Bert May, Judy Ratliff, Jerry Stewart, and Judge Thomas Turner.

Guests: Representative Charlie Hoffman; Tom Armstrong and Dan Yeast, Department for Local Government; Dave Ewen, Northern Kentucky Area Development District; Ed Davidson, Kentucky Sheriff's Association; Sylvia Lovely, Bill Thielen, and Jerry Deaton, Kentucky League of Cities; Sam Crawford, Kentucky Farm Bureau; Teresa Barton, Franklin County Judge/Executive's Office; Richard Tanner, Kentucky Magistrates and Commissioners Association; Libby Marshall and Clyde Caudill, Kentucky School Boards Association; Steve Rowland, Jefferson County Government; and Karen Garrison, Kentucky Association of Counties.

LRC Staff: Mark Mitchell, Jamie Franklin, Donna Weaver, Vida Murray, Tanya Monsanto, Joe Hood, Karen Crabtree, and Cheryl Walters.

Senator Herron announced that he had to leave to attend another meeting and asked Judge Turner to chair in his absence.

Upon the motion of Mr. Lang, seconded by Ms. Heavrin, the minutes of the December 4, 1996 meeting were approved.

Judge Turner announced that the purpose of the meeting would be to discuss revenue sources available to counties. He then introduced Mr. Tom Armstrong, State-Local Finance Officer, and Mr. Dan Yeast, both with the Department for Local Government.

Mr. Armstrong began by saying that first, on behalf of Commissioner Arnold, he would like to invite the full task force to meet during the Governor's Local Issues Conference, May 20-22 in Louisville.

Mr. Armstrong next distributed copies of the Department's "Instructional Guide for County Budget Preparation and State Local Finance Office Policy Manual" to Subcommittee members. He noted that the Department conducts a budget workshop every year except, election year, for county officials.

Mr. Armstrong then read a list of statutory revenue sources, which was included in the members' meeting notebooks. He noted that all counties have a property tax and a motor vehicle tax. Mr. Armstrong stated that the occupational tax is imposed on the workers in a jurisdiction.

Regarding the emergency 911 surcharge in the revenue list, Representative Arnold asked if a city could ever have 911 without a county, or a county without a city have 911, or a city and county have separate 911 systems. Mr. Armstrong replied that it would not be feasible for both not to have 911.

Judge Turner commented that the telephone company required his county to make an agreement between the city and the county so there would not be a duplicate situation.

Judge Turner also commented that the biggest problem he has seen with the insurance premium tax is what if a county sets their tax at 10%, and the city is at 5%, in most cases the city will raise their tax to 10% because the feeling is that their constituency is paying it anyway and that it is offsetting and will not cost them any more.

Referring to excess fees, Mr. Armstrong stated that the return of excess fees depended upon the county. Some counties may return excess fees from the office, or may return them by letting the office spend the money. He added that fee offices in counties with a population of 70,000 plus have to send 25% of their excess fees quarterly to fiscal court. The fiscal court may then turn the excess back to the office in some manner other than a lump sum, like paying some of the office's expenses.

Mr. Yeast discussed a spreadsheet of the general fund, road fund, jail fund, and LGEA fund of 15 counties, which was prepared by him and distributed to Subcommittee members. He noted that the general fund is where counties are really hurting, and the road fund is fiscally one of the healthier funds in most counties.

Relating to the general fund total in Mr. Yeast's list, Representative Simpson asked if that is just for the fiscal court's budget. Mr. Yeast replied it is just limited to the fiscal court.

Representative Simpson asked if on a year by year basis, the funding sources are pretty stable, with no great fluctuations. Judge Turner replied yes, for the most part. He said the jail fund would probably be the greatest fluctuation from year to year in counties.

Representative Simpson asked if, other than the loss of a large industry, the basic fiscal challenge that most counties are seeing on an annual basis is the increased costs of housing prisoners. Judge Turner replied that he thought that housing prisoners was one of the major impacts that counties are having right now.

Regarding road funds, Representative Simpson asked if there has been any major problems over the last five years with counties maintaining their responsibility of providing roads. Judge Turner replied that most counties are spending approximately \$1000 a mile for road maintenance. He noted that counties need more money for roads, but roads are something that can be delayed to another time.

Judge Turner commented that smaller counties have difficulties funding the sheriff's office.

Regarding the sheriff's office and the performance of the basic requirements of the office, Representative Simpson commented that some jobs may need to be contracted out. Judge Turner replied that some of the smaller counties may only be able to carry out the basic requirements of the office, larger counties may dedicate funds to help the sheriffs to conduct investigations and perform other duties.

Representative Arnold commented that some counties cannot afford anything but a sheriff and deputy.

Representative Simpson directed staff to mail the minutes of both subcommittees to members, and to make sure information from both subcommittees is included in the members' notebooks.

There being no further business, the meeting was adjourned at 3:00 p.m.

SUBCOMMITTEE ON COUNTY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 3

TIME:	1:00 p.m.
PLACE:	Room 125, Capitol Annex
DATE:	Wednesday, February 5, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from January 8, 1997
3. Discussion of the Interaction of Fee Officers with the County Revenue Structure
 - Kentucky County Clerks Association
 - Mayor Bill May, Executive Director
 - Mr. James Lewis, Leslie County Clerk
 - Mr. Don Blevins, Fayette County Clerk
 - Kentucky Sheriffs Association
 - Sheriff Ted Collins, Legislative Chairman
 - Sheriff Charles Keesee, President and Pike County Sheriff
 - Sheriff Jerry Wagoner, Fleming County
 - Sheriff Robert Thomas, Hardin County
 - Finance and Administration Cabinet
 - Ms. Pat Rice, Division of Accounting
4. Discussion of Future Subcommittee Activity
5. Adjournment

SUBCOMMITTEE ON COUNTY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Third Meeting of the 1996-97 Interim

February 5, 1997

The third meeting of the Subcommittee on County Finance of the Task Force on Local Government Taxing Structures was held on Wednesday, February 5, 1997 at 1:00 PM, in Room 125 of the Capitol Annex. Senator Paul Herron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Paul Herron, Chair; Senators Nick Kafoglis, and Albert Robinson; Representatives Adrian Arnold, Walter Gee, J. R. Gray, Steve Riggs, and Arnold Simpson, ex-officio; Christina Heavrin, Vince Lang, Mayor Bert May, Judy Ratliff, and Judge Thomas Turner.

Guests: Representative Gippy Graham; Representative Hoby Anderson; Donna Cantrell, Lexington-Fayette Urban-County Government; James Coffman, Revenue Cabinet; Tom Armstrong, Department for Local Government; Gregory Engleman, City of Covington; Mayor Bill May, Kentucky County Clerks Association; James Lewis, Leslie County Clerk; Don Blevins, Fayette County Clerk; Ted Collins, Charles Keese, and Jerry Wagner, Kentucky Sheriffs Association; Pat Rice, Division of Accounting, Finance and Administration Cabinet; Carl Sumner, Insurance Institute of Kentucky; and Dave Ewen, Northern Kentucky Area Development District.

LRC Staff: Mark Mitchell, Jamie Franklin, Donna Weaver, Vida Murray, Tanya Monsanto, Joseph Hood, Karen Crabtree, and Cheryl Walters.

Press: Kentucky Educational Television.

The minutes of the January 8, 1997 meeting were approved unanimously.

The first order of business was discussion of the interaction of fee officers with the county revenue structure. The Kentucky County Clerks Association was the first group to address the Subcommittee. Senator Herron introduced Mayor Bill May, Executive Director of the Kentucky County Clerks Association.

Mayor May told the Subcommittee that the county clerk's offices are fee offices, and that they administer elections, take care of local vehicle transactions, and keep many other records. He then introduced Mr. Don Blevins, Fayette County Clerk, and Mr. James Lewis, Leslie County Clerk.

Mr. Blevins told the Subcommittee that the county clerks are divided by county population, the divider being 70,000. He said that clerks in counties with a population greater than 70,000 operate on 75% of their fees and turn 25% over to the fiscal court. Mr. Blevins noted that all moneys are deposited into the state treasury before disbursement, and that clerks settle on a term basis. He stated that clerks in counties with less than 70,000 population operate on 100% of their fees and must settle on an annual basis. Mr. Blevins explained that fee pooling, where the sheriff and the clerk deposit their funds into the county treasury, is done in around eight counties, which have a population of less than 70,000. He stated that the duties and fees of the county clerk are set by the General Assembly. Mr. Blevins noted that the county clerk's office is the one office in government that sees citizens more often than any other state or local office. He mentioned that the county clerk's budget is approved by the fiscal court. He added that this can be a source of conflict whereby a fiscal court can build in the return of excess fees into the clerk's budget. Mr. Blevins pointed out that this situation is a problem when the clerk has a bad relationship with the fiscal court.

Mr. Blevins stated that the majority of county clerks' sources of revenue come from gross receipts from licensing, titles, and tax collection on automobiles and motor boats. He noted that there are 71 counties with less than 20,000 population. Mr. Blevins stated 91% of gross receipts to his office come from revenues derived from vehicle transactions. He stated that the road use tax, or motor vehicle usage tax, is 6% of 90% of the MSRP on a car and is used to operate the road system. Mr. Blevins added that 51% of the gross revenues of his office are derived from these taxes. He explained that the auto industry has developed a leasing system that produces a tax by the month which is 6% of the gross rental or lease charged, and is paid by the permit holder each month. Mr. Blevins noted that this is the U-Drive-It tax and it bypasses the clerk, reducing the commission. He said about 40% of new cars are 2 or 3-year leased cars, and a large amount of money is lost there. If a new car is sold, the motor vehicle usage tax is collected up front with the clerk collecting his percentage. After the 2 or 3-year lease is up, 6% would be collected on the NADA value and the clerk keeps his percentage of that. The clerk only collects a fee when the automobile is sold, never when leased.

Mr. Blevins stated that ad valorem tax is 30% of the total revenue into his office, real estate is 7%, license fees are 10%, which is \$3 per transaction. But out of the 51% of the road usage tax, it only provides 16% of actual funds to operate the office. Ad valorem taxation is about 13% of the total revenues, recording is about 19% for real estate, and about 10.5% for UCC filings. He said that 70% of the gross receipts in his office goes to

state government, 15% goes to local schools, and 4.5% goes to the local government. The clerk nets, out of gross receipts, about 9.5%, and 25% of that goes straight to the local government. Mr. Blevins mentioned that he was not aware of any federal money that the county clerk takes in.

Representative Arnold asked Mr. Blevins how much money his office received from gross receipts. Mr. Blevins stated that the gross receipts equaled \$49 million for Fayette County, and his office receives \$4.6 million, of which 25% went to the local government and he operated the office on the remainder of the gross receipts.

Senator Herron asked if 75% was adequate funding. Mr. Blevins stated that the county clerk's office is adequately funded. He noted that all county clerks receive the maximum salary except for Robertson County, which is the smallest county in the state. Smaller counties are the first to feel any financial problems.

In response to a question by Representative Arnold, Mr. Blevins stated that some fiscal courts can indirectly control the number of employees by restricting the budgetary allotment, consequently producing additional revenue for the county through excess fees. He noted that this only occurs in a few counties.

Mr. Lewis stated that his county had the same duties as all the other counties, but the proportional composition of his gross revenue receipts was different due to the county not having a new car dealership.

Senator Herron asked Mr. Lewis if his office was adequately funded. Mr. Lewis replied that the fee structure has been adequate. He believed there were more clerks in 1996 who did not make the maximum salary. He also felt the number of employees were adequate in this office.

Representative Riggs pointed out that in the 1994 session of the General Assembly, county clerks' fees were doubled and tripled. He asked Mr. Lewis if his percentage of gross receipts was different. Mr. Lewis replied that every county clerk receives the same percentage from the collection of fees. However, the proportion of the gross receipts may change due to the different sources like his county not having a new car dealer.

Judge Turner reminded the Subcommittee of the statutory differences between counties and the way their respective clerks operate. He said counties with 70,000 plus population turn 25% of the fees over to the local government; clerks in less populated counties do not.

Senator Robinson stated that it was his understanding that car dealers could license vehicles in the county where their business is, or in the buyer's county. Mr. Lewis said that was correct. He added that the majority of dealers license in their own counties.

Representative Riggs asked what was the intent of the usage tax collected. Mr. Blevins replied that it goes to the road fund to build and maintain roads.

Mayor Bert May commented that the usage tax is different from a sales tax.

Representative Riggs commented that the smaller counties are losing money because they do not have a car dealership. He asked if anyone had thought of trying to allow dealers, by courier or computer, to try to keep that money in the smaller county--to have the car registered in the county of the purchaser's residence. Mr. Lewis stated that in 1988 the county clerks had a bill that would have required new car licensing or renewals to have been done in the county of the purchaser, but it never got out of committee.

The second group to address the Subcommittee was the Kentucky Sheriff's Association. Senator Herron recognized Sheriff Ted Collins, Franklin County Sheriff and Legislative Chairman of the Sheriff's Association, for introductions. Sheriff Collins introduced Sheriff Jerry Wagner, Fleming County Sheriff, who was going to discuss small counties, and Sheriff Charles Keesee, Pike County Sheriff and President of the Sheriff's Association, who was going to discuss the larger counties. Sheriff Collins said he was going to discuss medium sized counties.

Sheriff Wagner told the Subcommittee that fees for smaller counties are set just like the larger counties--the smaller counties just do not have as many of them. He said the duties are the same, which are tax collection, court services, law enforcement, and elections; the revenue just is not as great in the smaller counties as compared with larger ones. Sheriff Wagner noted that fees from tax collection are their biggest source of revenue, which is 75%. Robertson County received 83% of their operating expenses from tax collection. He said Fleming County also uses grants to help run their office. Sheriff Wagner noted that the fee increase from the 1996 session helped, but the loss of bank shares and intangible tax commission will hurt. He explained that not all sheriffs have someone on staff who can write a grant, and grants are only a one-time thing unless they are renewed. Sheriff Wagner noted that his office receives about 50% of his income from grants.

Representative Simpson asked what type of grants are available. Sheriff Wagner replied that grants are available for domestic violence, the DARE program, and community policing.

Senator Herron asked Sheriff Wagner if his county increases the ad valorem tax rate by the 4% allowed by HB 44 every year. Sheriff Wagner replied no. He added that the sheriffs in counties with populations of less than 70,000 operate on 100% of their revenues and do not turn over 25% to the local government. Also, the fiscal court can indirectly control the sheriffs just like they control the clerks.

Senator Herron affirmed the burden of sheriffs in smaller counties.

Ms. Ratliff asked Sheriff Wagner if the fiscal court subsidizes his office. Sheriff Wagner replied that the fiscal court gives \$10,500 a year to match a grant. Representative Arnold asked what percentage that was of the budget. Sheriff Wagner replied that it was 5%. He said the contribution was for a grant that pulled in \$40,000.

Regarding the loss of the fees as a result of the bank shares tax, Sheriff Wagner explained that the fiscal courts are required to make up for that loss, but as time goes on, the payment remains the same and once growth of new properties equals this sum, the payment is no longer required. The county pays for retirement and social security.

Senator Kafoglis asked Sheriff Wagner if the sheriff was responsible for law enforcement in the smaller counties. Sheriff Wagner replied yes. He added that the sheriff operates all the time on about the same money that the clerks do, who only work business hours.

Sheriff Collins told the Subcommittee that the duties of his office included tax collection, bailiffing the court, transporting of prisoners, serving civil process, and general law enforcement duties and election duties.

Sheriff Collins stated that the fees his office receives included commission on tax collections, fees received from state for bailiffing court and transporting prisoners, process fee on civil papers, and interest income which about 50% of that is turned over to the school board in Franklin County. He noted that this is a result of a law that requires them to turn the interest earned over to the schools. The sheriffs are allowed to retain interest earned in all other instances.

Sheriff Collins pointed out that the motor vehicle and water craft tax collection was removed from the sheriffs' office and given to the county clerks. He noted that for 1996, Franklin County lost approximately \$166,000 in commissions from motor vehicles and water crafts. Sheriff Collins added that during the 1996 session of the General Assembly, HB 416 eliminated bank shares which eventually will cost each sheriff's office several thousand dollars in commission. Also, a letter from the Revenue Cabinet was just received recently stating that the Supreme Court ruled corporate stocks are tax exempt.

He said this means another loss of tax commission in the amount of one-half to two-thirds on intangible taxes.

Sheriff Collins emphasized that with the loss of motor vehicles, boats, bank shares, and intangible tax commission could mean as much as \$200,000 in lost commissions to the Franklin County sheriff's office. He told the Subcommittee that the demands from the voters and constituents on the sheriff along with unfunded mandates from the state since 1982 have placed a greater burden on the sheriffs of the Commonwealth. With the increased demands of service and continuing loss of revenue it makes it very difficult to meet all the needs of the community.

Senator Herron asked if the sheriff's office gets a fee from the school board. Sheriff Collins stated that the sheriff's office gets a fee for negotiating a rate for money on hand that can be invested, but 50% of that interest must go the school board. Senator Herron also asked how much the Franklin County sheriff's office is losing due to that. Sheriff Collins replied that in Franklin County, the sheriff's office loses approximately \$25,000 of that money to the school board.

Sheriff Collins mentioned that HB 299 was passed during the 1996 session and increased fees for sheriffs, but it was just a band-aid because of the loss of the other revenues.

Sheriff Keesee told the Subcommittee that his office's major source of revenue is from collecting school taxes. He stated that 75% of fees collected goes to the state and 25% goes to the fiscal court. 55% to 60% of all tax money was turned over to the local school district. Sheriff Keesee noted that Eastern Kentucky has had problems with the assessment of taxes. He said they have been receiving their tax books late and run their office several months without income.

Sheriff Keesee explained that for many years the revenue of the sheriff has deteriorated and the duties have increased. He said sheriffs receive no compensation for serving domestic violence orders, which are dangerous and have increased. The sheriff's office tries to provide protective services to the many schools in Pike County also. Sheriff Keesee noted that he is unable to provide safety vests for his deputies, whose salaries are very low.

Sheriff Keesee stated that many sheriffs in the state do not make their statutory limit--those that do must work hard to do it. He noted that the fee system is bad. Sheriff Keesee mentioned that there needed to be mandatory training for sheriffs, but that the system of funding was the biggest problem. He added that his actual costs for serving a warrant may have been \$50, but that HB 299, passed during the 1996 session, was a help. Sheriff Keesee pointed out that sheriffs are unable to participate in the KLEFP fund and

do not receive hazardous duty retirement. Sheriff Keesee also pointed out that the tax calendar needs to be put back on schedule.

Representative Simpson asked Sheriff Keesee if his office provided law enforcement for the county. Sheriff Keesee replied that the sheriff serves 90% to 95% of the county's warrants. Representative Simpson wondered if special fee accommodations should be made for sheriffs who provide the bulk of law enforcement.

Representative Simpson also inquired about courthouse security. Sheriff Keesee said that since the changes during the last session of the General Assembly, it has been less of a problem, that the allowances are more appropriate now.

Judge Turner inquired about salaries of their deputies, and response from the sheriffs indicated that the salaries ranged from about \$15,500 per year to \$30,000.

The sheriffs also indicated that something needed to be done to get the tax calendar back in line--the process should be as scheduled in the statutes.

Ms. Pat Rice with the Division of Accounts in the Finance and Revenue Cabinet was the last speaker. Ms. Rice stated that a few counties pool their fees with the fiscal court. She noted that 25% goes to the fiscal court and 75% goes to run the office--the same ratio that counties with population over 70,000 must keep. Those counties can carry the deficit to the end of the term (with population over 70,000)--all other counties must settle at the end of the year.

Ms. Rice commented that the sheriffs are at the mercy of the district and circuit courts. She said sheriffs collect a fee only if someone is found guilty in district court. She also said that judges may have a person brought to court several times under warrant and each time the sheriff has to comply.

Judge Turner asked if there was a conflict with the calendar year. Ms. Rice replied that the conflict is that the year can carry over, but it must balance out, and that her office administers a state advancement program to help.

Representative Riggs asked what the fiscal impact was of HB 299. Ms. Rice said that it was 1.6 million dollars. She added that the most needed increase was court time at \$8.00 per hour. The courts demand time and personnel.

Senator Herron announced that the next meeting would be held on March 5th. He thanked all of the speakers for addressing the Subcommittee, and added that their input was very important to the work of the Subcommittee.

There being no further business, the meeting was adjourned at 2:45 p.m.

SUBCOMMITTEE ON COUNTY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 4

TIME:	1:30 p.m.
PLACE:	Room 149, Capitol Annex
DATE:	Wednesday, March 5, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from February 5, 1997
3. Work Session: Compilation of Recommendations
4. Discussion of Future Subcommittee Activity
5. Adjournment

SUBCOMMITTEE ON COUNTY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Fourth Meeting of the 1996-97 Interim

March 5, 1997

The fourth meeting of the Task Force on Local Government Taxing Structures was held on Wednesday, March 5, 1997 at 1:30 PM, in Room 149 of the Capitol Annex. Senator Paul Herron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Paul Herron, Chair; Senators Nick Kafoglis, and Albert Robinson; Representatives Adrian Arnold, Walter Gee, J. R. Gray, Steve Riggs, and Arnold Simpson, ex-officio; Tom Armstrong for Commissioner Bob Arnold, Christina Heavrin, Vince Lang, Mayor Bert May, Judy Ratliff, Jerry Stewart, and Judge Thomas Turner.

Guests: Ed Davidson, Kentucky Sheriff's Association; Joanne Kinker, Franklin County Judge/Executive's Office; Mike Magee, Kentucky County Judge/Executives Association; Richard Tanner, Kentucky Magistrates and Commissioners Association; and Libby Marshall, Kentucky School Boards Association.

LRC Staff: Mark Mitchell, Jamie Franklin, Donna Weaver, Vida Murray, Joseph Hood, and Cheryl Walters.

Upon the motion of Representative Gray, seconded by Mr. Lang, the minutes of the February 5, 1997 meeting were approved.

The meeting was a round-table work-session to compile preliminary recommendations for the Subcommittee to present to the full Task Force in two months. Three groups of up to five members each were assembled and individually presented recommendations. These recommendations were merged and compiled as follows:

1. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, shared services, and equipment between local governments, or local government officials and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding). This should include multicounty agreements.

2. There is a lack of adequate funding for the incarceration of prisoners, including juveniles, by local governments. There needs to be a reworking of the judicial system so that the state will absorb more or all financial responsibility for the incarceration of prisoners. This should include all costs for the incarceration of all prisoners from the initial time of incarceration.

3. There needs to be further investigation into the problem of the usage of zip codes for distribution of insurance premium taxes.

4. There needs to be more responsibility by local governments for the implementation of the financial systems that are utilized.

5. The fee system for funding local government offices should be abolished and such offices should be funded by state or local government. The method for payment for such offices could be similar to that utilized for county attorneys or PVA's.

6. There needs to be a legislative re-evaluation of the offsetting of local taxes.

7. There needs to be a feasibility study done regarding utilizing the county clerk's office for the collection of outstanding parking fines.

8. There needs to be stricter requirements on the Revenue Cabinet to certify county property assessments in a more timely manner.

9. County finance could be improved by individual counties cracking down on tax evaders.

10. Current road fund levels are inadequate and there should be increased funding for all road funds.

11. There should be increased accountability of special districts to state and local government.

12. Reevaluate the process of combining the office of jailer with the sheriff.

13. Create more flexibility of taxing methods for local governments through constitutional amendments and statutory changes.

14. Study feasibility of someone other than the sheriff collecting property tax bills, and in turn, fund the sheriff's office at an adequate level.

15. Reduction of the number of local governments.

16. There needs to be the creation of a local government database with uniform reporting.

17. There needs to be a vehicle for the sharing of state and local revenues. This would require a constitutional amendment.

18. There needs to be a complete examination of the funding system for sheriffs' offices to ensure that funding is adequate for the services required.

19. Members of the General Assembly should be encouraged to support the task force's recommendations on a bi-partisan basis.

20. Allow local governments to levy a tax on services because services are a growing part of the economy which are not currently being utilized by any governmental entity.

21. There should be a re-evaluation of the road fund to re-evaluate the effects of increased road mileage in the road funding formula.

After a short break, members of the Subcommittee met as a whole group to discuss the recommendations of the work groups. Members were then directed by Senator Herron to rank each of the 21 recommendations in order of their importance. It was explained that staff would compile the rankings of the members' recommendations for discussion at the next meeting.

There being no further business, the meeting was adjourned at 4:35 p.m.

SUBCOMMITTEE ON COUNTY FINANCE OF THE
TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Agenda - Meeting No. 5

TIME:	11:00 a.m.
PLACE:	Room 125, Capitol Annex
DATE:	Wednesday, April 9, 1997

1. Call to Order and Roll Call
2. Approval of Minutes from March 5, 1997
3. Discussion of Problems in the Administration of Sheriff's Office

Ms. Ann Day
Livingston County
4. Discussion of Subcommittee's Final Report and Recommendations
5. Adjournment

SUBCOMMITTEE ON COUNTY FINANCE OF THE TASK FORCE ON LOCAL GOVERNMENT TAXING STRUCTURES

Minutes of the Fifth Meeting of the 1996-97 Interim

April 9, 1997

The fifth meeting of the Task Force on Local Government Taxing Structures was held on Wednesday, April 9, 1997 at 11:00 AM, in Room 125 of the Capitol Annex. Senator Paul Herron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Paul Herron, Chair; Senators Nick Kafoglis and Albert Robinson; Representatives Adrian Arnold, Walter Gee, J. R. Gray, Steve Riggs, and Arnold Simpson, ex-officio; Vince Lang, Mayor Bert May, and Judy Ratliff.

Guests: Mayor Charles Honeycutt, City of Glasgow; Jim Coffman, Revenue Cabinet; Tom Armstrong, Department for Local Government; Ann Day, Livingston County; Ted Collins, Franklin County Sheriff; Bill Thielen, Kentucky League of Cities; Jim Clayville, State Auditor's Office; Rebecca Jackson, Jefferson County Clerk; Tracy Goff Herman, Jefferson County Clerk's Office; Libby Marshall, Kentucky School Boards' Association; Dave Ewen, Northern Kentucky Area Development District; and Mike Magee, Kentucky County Judge/Executives Association.

LRC Staff: Mark Mitchell, Jamie Franklin, Donna Weaver, Joseph Hood, Karen Crabtree, Jan Harris, and Cheryl Walters.

Upon the motion of Mr. Lang, seconded by Mayor May, the minutes of the March 5, 1997 meeting were approved.

The first item of business was discussion of problems in the administration of the sheriff's office. Senator Herron introduced Ms. Ann Day of Livingston County, who related a personal experience to the Subcommittee. Ms. Day told the Subcommittee that her husband had been sheriff for 12 years until he suffered a heart attack, which has left him in a comatose state. She said the deputies ran the office in his absence. Ms. Day noted that her husband could not sign his own resignation, so a hearing had to be held in order for someone to be able to sign it.

Ms. Day stated that there should be a different timing for the collection of taxes which would provide funding for the sheriff's office earlier in the year. She noted that if the present statutes were simply enforced, that would help.

Ms. Day explained that in Kentucky, the sheriff's office is a fee office and must generate its own income. She pointed out that for most counties, the main revenue is the commission on taxes, which usually comes during the last three months of the year. Ms. Day said it is possible for a sheriff to hold office up until tax season, and if a new sheriff takes over for some reason, the new sheriff receives the total revenue from the commissions and the previous sheriff receives none.

Ms. Day stated that KRS 64.121, which relates to a sheriff dying while in office, does not necessarily help, as it is dependent upon available fees. Also, KRS 84.140, which relates to the advancement loan program, does not necessarily help, as sheriffs must have approval from their fiscal court and judge/executive to enter into this program. For this and other reasons sheriffs may not take part in this program or completely utilize it. She noted that 21 sheriffs do not use the advancement loan program.

Ms. Day told the Subcommittee that there should be some legislation adopted to address the inequity as it exists regarding the availability of money for salaries. She mentioned that her husband had to borrow from the state fund and that he received no salary until the end of the year. Ms. Day noted that she used her own money to help meet payroll.

Senator Herron asked Ms. Day if she got her money back. Ms. Day replied that she eventually did because the new sheriff repaid her \$10,200 for mileage with excess fees, and that the receipts came in to cover her \$4,000 contribution to deputies' pay.

Mr. Lang commented that the Revenue Cabinet is trying to get tax collection back on the statutory schedule.

The last item of business was review of the Subcommittee's proposed recommendations. Representative Simpson moved, seconded by Senator Robinson, to discuss each recommendation one at a time. The motion carried by voice vote.

Recommendation #1. There needs to be more encouragement and exploration of cooperative arrangements, agreements, sharing of taxes, shared services, and equipment between local governments, or local government officials and other governmental entities. There should be the consideration of the provision for incentives, if necessary (ex.: tax credits or funding). This should include multicounty agreements. There was a consensus to refer Recommendation #1 to the full Task Force.

Recommendation #2. There is a lack of adequate funding for the incarceration of prisoners, including juveniles, by local governments. There needs to be a reworking of the judicial system so that the state will absorb more or all financial responsibility for the incarceration of prisoners. This should include all costs for the incarceration of all prisoners from the initial time of incarceration. There was a consensus to refer Recommendation #2 to the full Task Force.

Recommendation #3. Create more flexibility of taxing methods for local governments through constitutional amendment and statutory changes. There was a consensus to refer Recommendation #3 to the full Task Force.

Recommendation #4. There needs to be a complete examination of the funding system for sheriffs' offices to ensure that funding is adequate for the service required. There was a consensus to refer Recommendation #4 to the full Task Force.

Recommendation #5. There needs to be a legislative re-evaluation of the offsetting of local taxes. There was a consensus to refer Recommendation #5 to the full Task Force.

Recommendation #6. Reduction of the number of local governments. Representative Gray moved, seconded by Representative Riggs, to amend Recommendation #6 to read as follows: "Consider the ramifications of reducing the number of local governments." The motion carried by voice vote.

Recommendation #7. There should be increased accountability of special districts to state and local government. There was a consensus to refer Recommendation #7 to the full Task Force.

Recommendation #8. There needs to be stricter requirements on the Revenue Cabinet to certify county property assessments in a more timely manner. There was a consensus to refer Recommendation #8 to the full Task Force.

Recommendation #9. Reevaluate the process of combining the office of jailer with the sheriff. Representative Gray moved to delete Recommendation #9. The motion failed due to the lack of a second. Therefore, Recommendation #9 was referred to the full Task Force.

Recommendation #10. There needs to be the creation of a local government data base with uniform reporting. There was a consensus to refer Recommendation #10 to the full Task Force.

Recommendation #11. There needs to be further investigation into the problem of the usage of zip codes for distribution of insurance premium taxes. There was a consensus to refer Recommendation #11 to the full Task Force.

Recommendation #12. There needs to be a vehicle for the sharing of state and local revenues. This would require a constitutional amendment. There was a consensus to refer Recommendation #12 to the full Task Force.

Recommendation #13. County finance could be improved by individual counties cracking down on tax evaders. There was a consensus to refer Recommendation #13 to the full Task Force.

Recommendation #14. Current road fund levels are inadequate and there should be increased funding for all road funds. There was a consensus to refer Recommendation #14 to the full Task Force.

Recommendation #15. Study feasibility of someone other than the sheriff collecting property tax bills, and in turn, fund the sheriff's office at an adequate level. There was a consensus to refer Recommendation #15 to the full Task Force.

Recommendation #16. Members of the General Assembly should be encouraged to support the task force's recommendations on a bi-partisan basis. There was a consensus to refer Recommendation #16 to the full Task Force.

Recommendation #17. There needs to be more responsibility by local governments for the implementation of the financial systems that are utilized. Mayor May moved, seconded by Representative Gray, to delete Recommendation #17. The motion carried by voice vote.

Recommendation #18. The fee system for funding local government offices should be abolished and such offices should be funded by state or local government. The method for payment for such offices could be similar to that utilized for county attorneys or PVA's. Representative Simpson moved, seconded by Representative Gray, to delete Recommendation #18. The motion carried by voice vote.

Recommendation #19. There should be a reevaluation of the road fund to reevaluate the effects of increased road mileage in the road funding formula. There was a consensus to refer Recommendation #19 to the full Task Force.

Recommendation #20. Allow local governments to levy a tax on services because services are a growing part of the economy which are not currently being utilized by any

governmental entity. Senator Robinson moved, seconded by Representative Gray, to delete Recommendation #20. The motion carried by voice vote.

Recommendation #21. There needs to be a feasibility study done regarding utilizing the county clerk's office for the collection of outstanding parking fines. There was a consensus to refer Recommendation #21 to the full Task Force.

There being no further business, the meeting was adjourned at 12:15 p.m.

