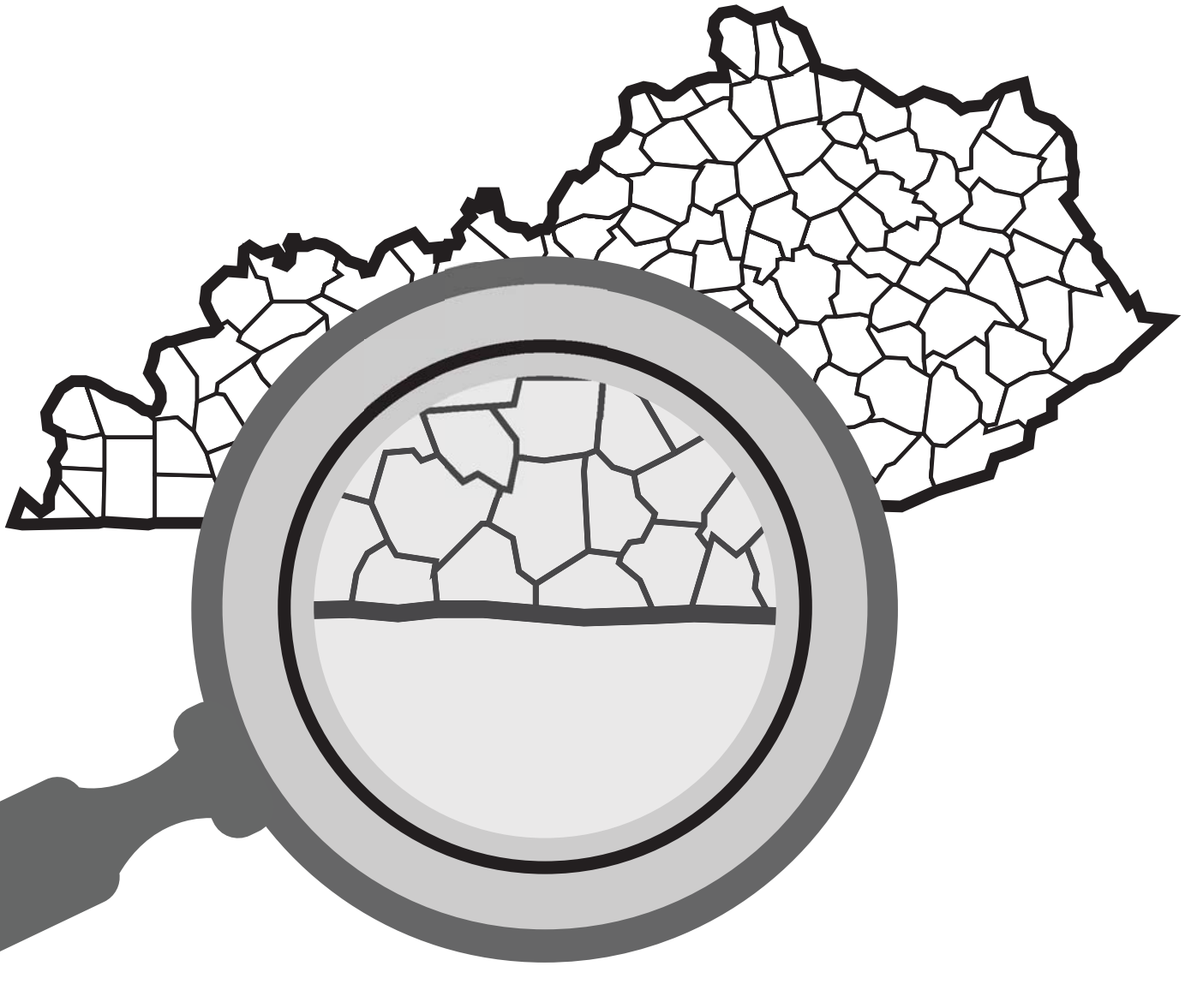


Final Report of the Task Force on Local Taxation

House Bill 272



Research Memorandum No. 500

Legislative Research Commission
Frankfort, Kentucky
lrc.ky.gov

June 27, 2006

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Johnny Ray Turner
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Dan Seum
Majority Whip

Joey Pendleton
Minority Whip



LEGISLATIVE RESEARCH COMMISSION

State Capitol 700 Capital Avenue Frankfort KY 40601

502/564-8100

Capitol FAX 502-223-5094

Annex FAX 502-564-6543

lrc.ky.gov

Robert Sherman
Director

HOUSE MEMBERS

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M E M O R A N D U M

TO: Members of the Interim Joint Committees on Appropriations and Revenue and Local Government

FROM: Senator Damon Thayer and Representative Charlie Hoffman
Co-Chairmen, Task Force on Local Taxation

SUBJECT: Report of the Task Force on Local Taxation

DATE: June 27, 2006

2005 House Bill 272 established the Task Force on Local Taxation to examine the local tax system in Kentucky and to make recommendations on how the system can be improved. The task force was originally scheduled to report by November 1, 2006; however, the Legislative Research Commission extended this deadline to July 1, 2006, because the task force members were not appointed until the end of August 2005. The task force met seven times over a 10-month period to gather information and formulate recommendations. In accordance with the provisions of 2005 HB 272, as extended by the Legislative Research Commission, the task force report is attached.

Final Report of the Task Force on Local Taxation (House Bill 272)

Legislative Members

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Rep. Charlie Hoffman, Co-Chair

Sen. Denise Harper Angel
Sen. Ernie Harris

Rep. Steve Riggs
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R.T. (Tucker) Daniel
Bert May
Gary Larimore
Steve Hoskins

Mayor Tom Guidugli
Bill Thielen
Vince Lang
Richard Tanner
Kevin Leonard
Willie McElroy

Project Staff

Pam Thomas, Sheri Mahan, Jamie Franklin, Mike Clark, Barry Boardman, Donna
Gaines, Mark Mitchell, Joe Pinczewski-Lee, and Charlotte Quarles

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June 27, 2006

Foreword

The Kentucky General Assembly established the Task Force on Local Taxation in 2005 to examine the local tax system in Kentucky and to make recommendations on how the system can be improved. Legislative Research Commission staff, at the direction of the task force, prepared this report.

Special thanks to David Wildasin, Paul Coomes, Commissioner of the Department of Revenue Mark Treesh, and Tom Crawford who provided background information about the local tax system to the task force. Additional thanks to those who took the time to attend the task force meetings and to provide testimony to the task force.

Robert Sherman
Director

Legislative Research Commission
Frankfort, Kentucky
June 27, 2006

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Summary

The Kentucky General Assembly established the Task Force on Local Taxation in 2005 to review the current structure of local taxation in Kentucky. The 20-member task force, made up of legislators and local government representatives, was charged with the following responsibilities:

- The task force shall review the current structure of local taxation, including:
- (a) The constitutional requirements regarding local taxation;
 - (b) Current taxes imposed by local governments including the rates and tax base;
 - (c) The local tax burden in various Kentucky cities and counties;
 - (d) Revenues generated by type of tax, including all permissible local taxes; and
 - (e) Existing economic development incentives available to local governments and how effectively those incentives are used by local governments.

The task force was required to submit written recommendations and any proposed legislation to the Interim Joint Committees on Appropriations and Revenue and Local Government no later than July 1, 2006.¹ The requirements for the report and recommendations are as follows:

- (a) The identification of any constitutional impediments to the development of a modern local tax system, and proposed constitutional amendments to address any identified issues related to existing constitutional language;
- (b) An analysis of the existing tax structure, including identification of the taxes that are effective and those that are ineffective;
- (c) The identification and recommendation of alternative methods for generating a comparable amount of local revenue, including the imposition of a local sales tax; and
- (d) An analysis of the existing economic development incentive programs available to local governments, and recommendation of alternative methods for promoting capital investment and job creation on the local level.

The task force met seven times over a 10-month period to hear testimony, gather information, and formulate recommendations. The primary recommendation of the task force relates to removing the constitutional impediments to the development of a modern

¹ The provisions of 2005 HB 272 required the task force to report by November 1, 2005, however the members of the task force were not appointed until late August of 2005, so the reporting deadline was extended by the Legislative Research Commission to July 1, 2006.

local tax system, which is the first step in addressing issues relating to the effectiveness of the existing system, and allowing alternative methods for generating local revenue.

A summary of the 11 recommendations made by the task force and one minority recommendation follows.² Additional detail regarding the basis for each recommendation can be found in Chapter 2 of the report.

Recommendations Relating to Amendment of the Constitution of Kentucky

1. **Proposed Constitutional Amendment.** The task force recommends that a constitutional amendment be proposed to Section 181 of the Constitution to allow the General Assembly in the future to establish a more flexible and efficient local government tax structure.
 - a. The task force recognizes that if the constitutional amendment passes, the General Assembly will have the ability to determine whether local governments should be provided with greater tax flexibility at the local level or whether a state/local revenue sharing arrangement should be developed.
 - b. The task force recognizes that if the Constitutional amendment passes, the General Assembly can establish statutory programs through legislation that will direct the parameters and conditions under which revenue sharing can occur or increased local tax flexibility can be granted, including the option of concurrent tax decreases at the state or local level to offset other authorized levies.
 - c. The task force recommends that if the constitutional amendment passes, any revenue sharing programs implemented should require a specified level of local effort before a local government is permitted to participate in state/local revenue sharing initiatives. The concept is that local governments should help themselves before seeking assistance from Frankfort. As an example, local governments may be required to levy the property tax at the maximum rate permitted before recall provisions apply prior to seeking participation from the state.

Recommendations Relating to Special Taxing Districts

2. **Elimination of Special Taxing District.** The task force recommends that the statutes be amended to allow fiscal courts to eliminate special districts in a more streamlined and efficient manner.
3. **Centralized Registry for Special District.** The task force recommends that all existing and newly created special districts be required to register with the Governor's

² In addition to recommendations agreed upon by the task force, the report includes a minority recommendation. The task force could not reach consensus on the recommendation but because several members were interested in the recommendation, task force members agreed to include it as a minority recommendation..

Office for Local Development (GOLD) within a specified time frame. Registration should be required as a condition of the special district retaining the authority to operate.

4. **Reporting Requirements for Special Districts.** The task force recommends that special taxing districts created by fiscal courts, other than those regulated by the Public Service Commission (PSC), be required to have all rates and fees, including rate or fee changes, approved by the fiscal court.
5. **Budget Submission.** The task force recommends that special taxing districts be required to submit budgets and tax rates to fiscal courts in a timely manner to comply with the county budgeting process.

Recommendation Relating to City/County Tax Base Issues

6. The task force generally supports the development of incentives to encourage local governments to voluntarily engage in revenue sharing and to eliminate tax credit conflicts. Local governments are encouraged to focus on matching revenues to the provision of services and to implement efficient tax collection procedures and standardization when possible. The task force encourages jurisdictions with overlapping taxes that are not uniform and that have local ordinances with differing requirements to develop interlocal agreements to reduce compliance burdens, including the filing of multiple tax forms by businesses.

Recommendation Relating to Data Systems Improvements

7. **Creation of a Local Government Financial Database.** The task force recommends that a credible local government financial database including counties, cities, and special districts be created and maintained to provide relevant information about local government finances to decision makers. It is recognized that this recommendation will require an expansion of services and resources at GOLD. The database should use the ConnectKY initiative to the extent possible to implement this goal.

Miscellaneous Recommendations

8. **Require Additional Information on Insurance Applications.** The task force recommends that legislation be proposed to require insurance agents and insurance companies to place on every application for insurance the name and tax identification number of the jurisdiction where the risk is located. Penalties should be imposed for willful failure to comply.
9. **Road Aid Formula.** The task force encourages the General Assembly to study the road aid formula, which has not been significantly amended since 1948.

10. **911 Services.** The task force recommends that the method for funding 911 services be expanded to allow alternative funding sources due to the declining base caused by a reduction in the number of land lines as people switch to cellular telephones.
11. **Property Valuation Administrators.** The task force recommends that the General Assembly establish a dedicated funding source for Property Valuation Administrator (PVA) offices by devoting 2.11 cents of the state real property tax rate to fund PVA personnel.

Minority Recommendation

Allow All Cities and Counties To Impose A Restaurant Tax. The task force report includes a minority recommendation reflecting support for allowing all classes of cities and counties to impose a local option restaurant tax. Any legislation authorizing a broader imposition of a restaurant tax should hold local tourist and convention commissions harmless while allowing receipts generated from the tax to be used for quality of life expenditures.

Chapter 1

Introduction

Over the past 10 years, Kentucky's state and local tax systems have been the subject of numerous studies and reports. After 10 years of review and discussion, the 2005 General Assembly enacted House Bill 272, a wide-ranging tax reform bill proposed by Governor Ernie Fletcher. House Bill 272 primarily addressed the state tax code and state tax issues, and made very few changes that impact the local tax structure. However, the bill also established the Task Force on Local Taxation and directed the President of the Senate and the Speaker of the House to appoint the members of the task force.

Charge to the Task Force on Local Taxation

The 20-member task force, made up of legislators, executive branch representatives, and local government representatives, was charged with the following responsibilities:

The task force shall review the current structure of local taxation, including:

- (a) The constitutional requirements regarding local taxation;
- (b) Current taxes imposed by local governments including the rates and tax base;
- (c) The local tax burden in various Kentucky cities and counties;
- (d) Revenues generated by type of tax, including all permissible local taxes; and
- (e) Existing economic development incentives available to local governments and how effectively those incentives are used by local governments.

The legislation directed the task force to report written recommendations and any proposed legislation to the Interim Joint Committees on Appropriations and Revenue and Local Government no later than July 1, 2006.¹ The requirements for the report and recommendations are as follows:

- (a) The identification of any constitutional impediments to the development of a modern local tax system, and proposed constitutional amendments to address any identified issues related to existing constitutional language;
- (b) An analysis of the existing tax structure, including identification of the taxes that are effective and those that are ineffective;
- (c) The identification and recommendation of alternative methods for generating a comparable amount of local revenue, including the imposition of a local sales tax; and

¹ The provisions of 2005 HB 272 required the task force to report by November 1, 2005; however, the members of the task force were not appointed until late August 2005, so the reporting deadline was extended by the Legislative Research Commission to July 1, 2006.

- (d) An analysis of the existing economic development incentive programs available to local governments, and recommendation of alternative methods for promoting capital investment and job creation on the local level.

Work of the Task Force

The task force met seven times over a 10-month period. The first three meetings were devoted to gathering information and learning about the history and structure of Kentucky's local tax system. The task force reviewed the constitutional requirements regarding local taxation, examined the current taxes imposed by local governments, discussed the local tax burden, and examined revenues generated by type of tax. The task force also received an overview of the elements of a good tax system and discussed Kentucky's economic competitiveness. The ability of the task force to thoroughly examine and discuss the existing local tax system was hampered by the lack of good data. The task force was also unable to fulfill its fifth charge, which was to review existing economic development incentives available to local governments because no data is collected centrally regarding these programs and initiatives.

The fourth and fifth meetings of the task force were devoted to public testimony. The task force heard testimony from each of the groups represented on the task force, as well as other entities, organizations, and individuals interested in local taxation. The final two meetings were devoted to adopting recommendations and approving the final report.

The remainder of this chapter addresses areas required by the provisions of HB 272. The second chapter sets forth the recommendations of the task force. The appendices include supporting materials and documents used by the task force during its deliberations.

Provisions of House Bill 272

The remainder of this chapter addresses the specific areas of study required of the task force by the provisions of 2005 HB 272. In examining the existing tax system, the task force relied on two documents prepared by LRC staff and presented to the task force over the course of the first two meetings. The first document, a background paper on local taxation, is attached as Appendix A. The second document, addressing the composition of local government revenues, is attached as Appendix B. Both documents are referenced throughout this chapter.

Constitutional Impediments to the Development of a Modern Local Tax System

The Kentucky Constitution includes several provisions relating to the taxing authority of counties, cities, and the state. The Constitution provides broad authority to the General Assembly to establish the parameters of the taxing power of local governmental units, limited only by other provisions of the Constitution.

The broadest authorization for the delegation of authority to cities is found in Section 156b of the Constitution:

The General Assembly may provide by general law that cities may exercise any power and perform any function within their boundaries that is in furtherance of a public purpose of a city and not in conflict with a constitutional provision or statute.

This provision, ratified by the voters in 1994, is the basis for the broad taxing authority granted cities. Counties are granted similar latitude through the County Home Rule Act, which includes a broad delegation of the power to tax by allowing counties to levy all taxes not in conflict with the Constitution or the statutes.²

Limitations placed on the General Assembly relating to local taxation are primarily found in Section 181 of the Constitution. Section 181 prohibits the General Assembly from levying taxes for the benefit of any county, city, town, or other municipal corporation, but allows the General Assembly to pass general laws granting local governmental units the power to assess and collect taxes.

Section 181 of the Constitution also limits the powers of taxation that may be delegated to counties, towns, cities, and other municipal to the following:

- License fees on stock used for breeding purposes;
- License fees on franchises, trades, occupations, and professions;
- Taxation on personal property, tangible or intangible, based on income licenses or franchises in lieu of an ad valorem tax thereon. First class cities cannot omit the imposition of an ad valorem tax on the property of any steam railroad, street railway, ferry, bridge, gas, water, heating, telephone, telegraph, electric light or electric power company.³

The task force identified the limitations included in Section 181 of the Constitution as the primary constitutional impediments to the development of a modern local tax system. The limitations included in Section 181 prevent direct revenue sharing programs between state government and local governments. The limitations included in Section also prevent the General Assembly from permitting local jurisdictions to levy certain types of taxes, such as a local sales tax. Without increased flexibility, which requires a constitutional amendment, the options available to improve the local tax system are limited.

Current Taxes Levied by Local Governments

Counties and cities derive a major portion of their tax revenues from three sources: the ad valorem property tax, the occupational license tax, and the insurance premium tax. In addition to these broadly levied taxes, local jurisdictions are permitted to levy many other

² KRS 67.083; see KRS 67A.060 for urban-county governments.

³ For statutes establishing the power of local governments to impose taxes, see KRS 91.200 to 91.270 and 92.280 to 92.320.

taxes and special assessments. Some taxes are imposed through the use of special taxing districts or specially created service districts and others are imposed directly by the county or city. A detailed description of the tax options available to local jurisdictions can be found in Appendix A.

It is difficult to determine which of the permissible local taxes are effective and which are ineffective because effectiveness of a particular levy varies from jurisdiction to jurisdiction depending on the levy in question and the tax base available. General concerns relating to the effectiveness of the three primary revenue sources are noted below.

The Ad Valorem Tax House Bill 44 Limitations

House Bill 44, enacted during the 1979 Special Session of the General Assembly, generally limits to 4 percent the overall growth from the tax that may be levied on real property within any taxing district without the possibility of a voter recall, exclusive of new property. This legislation was enacted in 1979 because the high rate of inflation was causing property values, and the resulting tax, to increase quickly. The House Bill 44 limitations are significant only if a number of taxing jurisdictions levy up to the limitation on a regular basis. Research published by the Kentucky Long Term Policy Research Center in 2001 reviewing taxing data for counties indicate that only 10 percent of the counties imposed a rate that is at the House Bill 44 limit in any given year. Most counties levy a rate that is between the compensating rate and the House Bill 44 limit (Wildasin 77-78).⁴ A survey conducted in 2005 by the Kentucky County Judge Executives Association reflected that 41 out of 112 counties reporting levied at the House Bill 44 limit. Nonetheless, the limits established by House Bill 44 are often cited as one of the reasons that local governments are not able to generate sufficient revenues.

Tax Base Exemptions

Local governments are prohibited from taxing intangible property and most tangible personal property due to constitutional or statutory exemptions. The local property tax base is therefore much narrower than the state property tax base.

Limited Latitude for Property Tax Relief

The Constitution establishes strict limitations on permissible exemptions from the ad valorem tax on real property. Therefore, the state and local jurisdictions are limited in what they can offer in the form of economic development incentives based on property tax relief.

The Occupational License Tax

The occupational license tax has become an increasingly popular revenue source for cities and counties. Imposition of the tax does not require a popular vote and there are no recall provisions.

⁴ For information about the compensating rate and the property tax rate setting process see Appendix A.

Complicated Structure

Any county or city may impose an occupational license tax; however, there are different requirements depending on the population of the county or the classification of the city. In the past, the different requirements and limitations based on county size have resulted in controversy when counties that adopted a tax under one set of rules grew in population so that another set of rules applied. The General Assembly has addressed these types of issues over the years through the enactment of piecemeal legislation, which has further complicated the structure of this tax.

Revenue Considerations

The occupational license tax can generate significant revenues in cities and counties with a strong business and employment base; however, the tax is of limited use as a revenue source in jurisdictions that do not have significant employment and business activity.

Offset Provisions

The provisions of the occupational license tax that have generated the most controversy over the years are the provisions that require an offset of city occupational taxes against county occupational taxes. KRS 68.197 provides that, effective for license fees imposed by counties with populations of more than 30,000 after July 15, 1986, persons who pay a license fee both to a county and a city contained within the county shall be allowed to credit their city license fee against their county license fee. This language is controversial for many reasons:

- Prior to the addition of the offset language, counties and cities were permitted to enter into agreements to share revenues from the occupational license tax. If no agreement existed, taxpayers living within both the city and the county were required to pay both the county tax and the city tax. The offset provisions were added to remedy what many viewed as an unfair situation for taxpayers.⁵
- In many counties, a majority of the significant business and employment activity is within the cities. The offset requirement therefore has the effect of substantially reducing the potential tax base for county governments.
- The offset has resulted in increased tension between cities and counties, because a city located in a county that first enacted an occupational tax after 1986 can come in after the city has enacted its tax and enact a city occupational tax. Because the city tax can be offset against the county tax, the enactment of the city tax results in a direct reduction in tax receipts for the county.

⁵ This is still the case in counties with populations less than 30,000. The offset provisions only apply to counties with populations more than 30,000.

The Insurance Premium Tax

The insurance premium tax may also be imposed without a popular vote and any tax imposed is not subject to recall.

Lack of Uniformity

The statutory authorization for the imposition of insurance premium taxes is broad. There is no upper limit on the rate that may be imposed, and there are few statutorily mandated exemptions from the tax. Cities and counties are permitted to tax different lines of insurance at different rates and may exempt some lines of insurance entirely.

Compliance Difficulties

The insurance premium tax is difficult for insurance companies to comply with because of the number of jurisdictions that impose the tax, the variation among the different jurisdictions regarding the types of premiums subject to the tax, and the rates applied to each type of premium. Each insurer must file a separate return with each locality. Group filings are not permitted. In addition, in those areas where the tax is imposed by both the county and a city within the county, the insurer must determine where the insured risk is located and which jurisdiction is entitled to tax payment. This is even more complicated in counties that include cities that impose a rate that is lower than the county rate. In this situation, the insurer must pay both the city and the county.

The Local Tax Burden in Cities and Counties and Revenues Generated by Type of Tax

During its second meeting, the task force heard testimony from Barry Boardman and David Wildasin. They discussed the composition of local government revenues in Kentucky and how Kentucky's local tax system compares to other local tax systems and to the "ideal" tax system. They noted that the biggest obstacle in analyzing revenues generated locally by type of tax was the lack of usable data. Counties, cities, and special taxing districts are authorized to levy various taxes at the local level. Unfortunately, there is no good, reliable source of data about the taxes imposed and revenue generated. Local governmental units (cities, counties, and special taxing districts) are required to report revenues by type of tax to the Governor's Office for Local Development (GOLD) on an annual basis through the filing of a uniform financial information report (UFIR).

The UFIR must reflect information about all taxes imposed by the unit of local government, including tax rates and revenues. The report must be filed by May of the year following each fiscal year (11 months after the close of the fiscal year to which the report relates). The UFIR data can be used for limited purposes when accounting for tax collections and rates by local taxing districts. The data has limitations. First, not all districts report. For example, an estimated 30 percent of special taxing districts do not consistently report, so information is not available regarding those districts. Second, the UFIR only allows for broad generalizations of tax collections, which may or may not be

similar across local taxing jurisdictions. Finally the data includes errors in the information submitted as well as processing errors.

Because of the limitations of the UFIR data, Boardman used information collected by the U.S. Census Bureau on local governments, which includes counties, cities, special districts and school districts to identify the general types of revenue sources used by local governments. Boardman also discussed how tax collections are distributed across the different local governments. Because the census data does not provide enough detail to review individual local government finances, Boardman was only able to offer information about how the “average” local government in Kentucky generates revenue. Boardman’s memorandum to the task force is attached as Appendix B.

In general, Kentucky’s local governments rely on the property tax far less on average than do other local governments in the United States. Kentucky’s local governments obtain a comparatively larger share of revenues from income-based taxes (wages and profits) than do other local governments, while other local governments collect more revenues from local excise taxes, primarily local sales taxes. Kentucky is also more centralized in its revenue collection practices than are most states, with more revenue collected and redistributed at the state level.

Economic Development

Little is known about the impact of economic development incentives and initiatives at the local level. There are several statutes that permit local governmental units to provide economic development incentives of various types; however, there is no central agency or entity charged with collecting information regarding the use and effectiveness of local economic development incentives.

Chapter 2

Recommendations

The task force used a consensus decision-making process to identify the recommendations included in this report. Many other recommendations were discussed that are not included in the report because consensus could not be reached. The report does include one recommendation on which consensus could not be reached. The task force voted to include a minority recommendation because a significant number of members believed that the recommendation should be made. That recommendation is located at the end of this chapter.

Recommendations Relating to the Amendment of the Constitution of Kentucky

The members of the task force determined that the most necessary and significant change that must be made for Kentucky to develop a modern, efficient local tax system is the amendment of the Constitution of Kentucky to allow more flexibility in local taxation and in the fiscal relationship between the state and local governments. Most recommendations offered by task force members or those testifying before the task force regarding alternative revenue sources or state/local revenue sharing would be prohibited under the current language of the Kentucky Constitution. Thus, amending the Constitution is a necessary first step. The task force agreed that any amendment to the Constitution should leave the responsibility of determining specifically when and how to expand local revenue sources and state/local revenue sharing to the General Assembly. The recommendations of the task force relating to the amendment of the Constitution are as follows:

1. **Proposed Constitutional Amendment.** The task force recommends that a constitutional amendment be proposed to Section 181 of the Constitution to allow the General Assembly in the future to establish a more flexible and efficient local government tax structure.
 - a. The task force recognizes that if the constitutional amendment passes, the General Assembly will have the ability to determine whether local governments should be provided with greater tax flexibility at the local level or whether a state/local revenue sharing arrangement should be developed.
 - b. The task force recognizes that if the constitutional amendment passes, the General Assembly can establish statutory programs through legislation that will direct the parameters and conditions under which revenue sharing can occur or increased local tax flexibility can be granted, including the option of concurrent tax decreases at the state or local level to offset other authorized levies.

- c. The task force recommends that if the constitutional amendment passes, any revenue sharing programs implemented should require a specified level of local effort before a local government is permitted to participate in state/local revenue sharing initiatives. The concept is that local governments should help themselves before seeking assistance from Frankfort. As an example, local governments may be required to levy the property tax at the maximum rate permitted before recall provisions apply prior to seeking participation from the state.

Recommendations Relating to Special Taxing Districts

Although special taxing districts were not specifically mentioned as part of the charge to the task force, special taxing districts play an important role in taxation at the local level. The task force spent a significant amount of time discussing special taxing districts and their impact on the local tax structure. There are approximately 760 special districts with the power to impose taxes locally in Kentucky. Under current law, county clerks are responsible for certifying special districts in their county, keeping an accurate inventory, and maintaining information about special districts; however, many taxing districts do not comply with the certification requirements and there are no meaningful penalties for failure to comply. Task force members learned through testimony provided by representatives from the Governor's Office for Local Development (GOLD) that it is difficult to gather information about the activities of special taxing districts. Special districts are required to file a uniform financial information report with GOLD; however, the compliance level for local districts is poor. There are penalties for failure to file; however, the penalties involve withholding state funds, and most special taxing districts do not receive state funds.

In addition, county officials expressed concern over the fact that they have little control over the finances of special taxing districts after the districts are created, and that they often have difficulty getting tax rate and budget information from special taxing districts in a timely manner. Task force members also expressed concern over the fact that administrators of special taxing districts are typically appointed rather than elected, which means that taxpayers do not have any direct recourse if they disagree with the actions of the taxing district administrators. To address some of these concerns, the task force makes the following recommendations regarding special taxing districts:

2. **Elimination of Special Taxing Districts.** The task force recommends that the statutes be amended to allow fiscal courts to eliminate special districts in a more streamlined and efficient manner.
3. **Centralized Registry for Special District.** The task force recommends that all existing and newly created special districts be required to register with GOLD within a specified time frame. Registration should be required as a condition of the special district retaining the authority to operate.
4. **Reporting Requirements for Special District.** The task force recommends that special taxing districts created by fiscal courts, other than those regulated by the

Public Service Commission, be required to have all rates and fees, including rate or fee changes, approved by the fiscal court.

5. **Budget Submission.** The task force recommends that special taxing districts be required to submit budgets and tax rates to fiscal courts in a timely manner to comply with the county budgeting process.

Recommendation Relating to City/County Tax Base Issues

Another area that generated a great deal of discussion among tax force members was the controversies that exist between cities and counties and their shared tax base. Two of the three significant taxes imposed by local governments—the occupational license tax and the insurance premium tax—include offset provisions that allow citizens of the county and city living in the city to offset the city tax paid against the county tax. Even when offsets do not occur, the fact that city and county tax bases significantly overlap impacts the local decision-making process regarding the imposition of taxes. Task force members discussed the need for cities and counties that are competing for the same tax dollars to work together to provide services and share revenues. The recommendation of the task force in this regard is as follows:

6. The task force generally supports the development of incentives to encourage local governments to voluntarily engage in revenue sharing and to eliminate tax credit conflicts. Local governments are encouraged to focus on matching revenues to the provision of services and to implement efficient tax collection procedures and standardization when possible. The task force encourages jurisdictions with overlapping taxes that are not uniform and that have local ordinances with differing requirements to develop interlocal agreements to reduce compliance burdens, including the filing of multiple tax forms by businesses.

Recommendation Relating to Data Systems Improvements

The work of the task force was hindered by the lack of a strong centralized source for local government financial data. Because of data limitations, the staff to the task force was unable to provide information about individual governmental entities that would allow task force members to compare and contrast different locations within the Commonwealth. In addition, all of the individuals presenting research and background information to the task force noted that their ability to conduct research on local government finances in Kentucky was compromised by the lack of available credible data. Representatives from GOLD reported that they are currently working on improving the UFIR data collection system and that the system should be completely Web-based soon. The UFIR database is more relevant for county revenues, as GOLD deals primarily with counties and does not currently have the capacity to devote additional resources to improving the system and checking the data submitted by cities and special districts. To address these concerns, the task force makes the following recommendation:

7. **Creation of a Local Government Financial Database.** The task force recommends that a credible local government financial database including counties, cities, and special districts be created and maintained to provide relevant information about local government finances to decision makers. It is recognized that this recommendation will require an expansion of services and resources at GOLD. The database should use the ConnectKY initiative to the extent possible to implement this goal.

Miscellaneous Recommendations

The remaining recommendations of the task force relate to a variety of topics. Each recommendation is followed by a brief rationale.

8. **Require additional information on insurance applications.** The task force recommends that legislation be proposed to require insurance agents and insurance companies to place on every application for insurance the name and tax identification number of the jurisdiction where the risk is located. Penalties should be imposed for willful failure to comply.

Rationale: Many members of the task force expressed frustration with the difficulties associated with ensuring that insurance premium taxes are allocated to the appropriate jurisdiction. The purpose of this recommendation is to require that agents and insurance companies identify the appropriate taxing jurisdiction on the front end.

9. **Road Aid Formula.** The task force encourages the General Assembly to study the road aid formula, which has not been significantly amended since 1948.

Rationale: As part of his testimony before the task force, Paul Coomes recommended that the local road aid formula be revisited. In further discussing the issue, task force members agreed that since the formula has not been significantly adjusted since 1948, that it should be reviewed.

10. **911 Services.** The task force recommends that the method for funding 911 services be expanded to allow alternative funding sources due to the declining base caused by a reduction in the number of landlines as people switch to cellular telephones.

Rationale: The task force heard testimony about the difficulties that local governments are experiencing with adequately funding 911 services. Currently, the primary funding source for 911 services is a local levy against landline telephones. The landline telephone base has been shrinking over the past several years because so many customers have switched to cellular telephones. It is expected that the base will continue shrinking.

11. **Property Valuation Administrators.** The task force recommends that the General Assembly establish a dedicated funding source for Property Valuation Administrators

(PVA) offices by devoting 2.11 cents of the state real property tax rate to fund PVA personnel.

Rationale: The task force heard testimony about the impact of reduced funding levels for PVA offices and what continued reductions will mean regarding the ability of the PVAs to continue to accurately and effectively assess property. Understanding that local governments rely on the PVAs to provide accurate assessment information, the members of the task force determined that this recommendation should be included in the report.

Minority Recommendation

One issue that received a significant amount of discussion was the restaurant tax. Under current law, only fourth and fifth class cities are permitted to levy a restaurant tax, and any proceeds from the tax must be used to support the tourist and convention commission. The Kentucky Supreme Court has held that counties are not permitted to levy a restaurant tax under the general home rule taxing authority; thus, the statutes must be amended for other units of local government to permissibly levy a restaurant tax. Although consensus could not be reached regarding this recommendation, support for the recommendation was strong enough that the task force members agreed to include it in the report. It should be noted that it is included as a minority recommendation rather than a consensus recommendation.

Allow All Cities and Counties To Impose A Restaurant Tax. The minority recommendation is that all classes of cities and counties be allowed to impose a local option restaurant tax. Any legislation authorizing a broader imposition of a restaurant tax should hold local tourist and convention commissions harmless while allowing receipts generated from the tax to be used for quality of life expenditures.

Work Cited

Wildasin, David E. *Financing State and Local Government Future Challenges and Opportunities*. Ky. Long-Term Policy Research Center: LRC 2001.

Appendix A

Local Taxation Background Paper

Prepared for the
Legislative Research Commission
Task Force on Local Taxation
May 2005

**Legislative Research Commission
Task Force on Local Taxation
Background Paper**

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Legislative Research Commission Task Force on Local Taxation Background Paper¹

Introduction

Over the past 10 years, Kentucky's state tax code has been discussed and examined by various commissions, task forces, legislative committees and the General Assembly. During this period, numerous reports were written, recommendations were made and legislation was introduced seeking to change Kentucky's tax code. In 2005, after 10 years of review and discussion, the 2005 General Assembly enacted House Bill 272, a wide-ranging tax reform bill proposed by Governor Ernie Fletcher. House Bill 272 primarily addressed the state tax code and state tax issues, and made very few changes that impact the local tax structure. However, house Bill 272 also established the Task Force on Local taxation to evaluate various issues related to taxes levied by local governments.

Charge to the Task Force on Local Taxation

The eighteen-member task force, made up of legislators and local representatives, is charged with the following responsibilities:

"The task force shall review the current structure of local taxation, including:

- (a) The constitutional requirements regarding local taxation;
- (b) Current taxes imposed by local governments including the rates and tax base;
- (c) The local tax burden in various Kentucky cities and counties;
- (d) Revenues generated by type of tax, including all permissible local taxes; and
- (e) Existing economic development incentives available to local governments and how effectively those incentives are used by local governments."

The task force is required to report written recommendations and any proposed legislation to the Interim Joint Committees on Appropriations and Revenue and Local Government no later than November 1, 2005. The report and recommendations must address the following areas:

- (a) The identification of any constitutional impediments to the development of a modern local tax system, and proposed constitutional amendments to address any identified issues related to existing constitutional language;
- (b) An analysis of the existing tax structure, including identification of the taxes that are effective and those that are ineffective;

¹ This paper addresses the basic details of the taxing authority of local governmental units. Additional information about how local governmental entities operate can be found in *Kentucky Municipal Statutory Law*. Legislative Research Commission Informational Bulletin No. 145, (2002), and *County Government in Kentucky*. Legislative Research Commission Informational Bulletin No. 115 (2003).

- (c) The identification and recommendation of alternative methods for generating a comparable amount of local revenue, including the imposition of a local sales tax; and
- (d) An analysis of the existing economic development incentive programs available to local governments, and recommendation of alternative methods for promoting capital investment and job creation on the local level.

Past Legislative Initiatives

It was noted in the introduction that prior to the enactment of HB 272 by the 2005 General Assembly, the state tax code had been the subject of numerous studies and reports. Likewise, over the past ten years, two other legislatively created entities have examined local taxation. A summary of the scope, jurisdiction and work of these entities is provided below.

1996 Task Force on Local Government Taxing Structures

The 1996 General Assembly enacted SB 179, which called for the creation of the Task Force on Local Government Taxing Structures. The task force consisted of thirty members, representing the legislative branch, the executive branch, local government and interested citizens. The legislation directed the task force to examine the local tax structure in Kentucky to determine if the funding resources for local governments were sufficient, and to identify any areas where additional flexibility was needed. The task force was formed in November 1996. The task force operated primarily through two subcommittees; one addressing issues relating to cities and the other addressing issues relating to counties. Each subcommittee made recommendations, which were combined to form the report of the task force. The task force report, listing twenty recommendations, was issued in November of 1997. No legislation was passed as a result of the task force recommendations.

2000 Advisory Committee on City and County Relations

The 2000 General Assembly enacted SB 163, creating the Advisory Committee on City and County Relations. The committee was created in response to concerns over provisions in the law requiring a credit against county occupational license taxes for comparable taxes paid to a city by city residents, and a concern about a change in rate requirements for counties exceeding the 30,000 population threshold.

The committee met five times to develop a legislative proposal focusing on coordination of local government finance. That proposal, introduced as 2002 HB 314, established a procedure for cities and counties to enter into tax base coordination agreements. Through the legislative process, the original proposal was amended so that as enacted, the proposal only addressed the tax issues created when a county with a population of less than 30,000 grew to exceed 30,000.

Local Governments and Taxation

Constitutional and Statutory Provisions – Authority to Tax

The Kentucky Constitution includes several provisions relating to the taxing authority of counties, cities, and the state, and how they interrelate. The Constitution provides broad authority to the General Assembly to establish the parameters of the taxing power of local governmental units.

The broadest authorization for the delegation of authority to cities is found in Section 156b of the Constitution, which provides that "The General Assembly may provide by general law that cities may exercise any power and perform any function within their boundaries that is in furtherance of a public purpose of a city and not in conflict with a constitutional provision or statute." This provision, ratified by the voters in 1994, and codified as KRS 82.082 is the basis for the broad taxing authority granted cities. The taxing authority of cities in general is provided for in KRS 91.260, 92.280 and 92.281, and for urban-county governments in KRS 67A.850. Counties are granted similar latitude through the County Home Rule Act², which includes a broad delegation of the power to tax by allowing counties to levy all taxes not in conflict with the Constitution or the statutes.

Section 181 of the Constitution prohibits the General Assembly from levying taxes for the benefit of any county, city, town or other municipal corporation, but allows the General Assembly to pass general laws granting local governmental units the power to assess and collect taxes.

The powers of taxation that may be delegated to counties, towns, cities and other municipal corporations under Section 181 of the Constitution include the following:

- License fees on stock used for breeding purposes;
- License fees on franchises, trades, occupations and professions;
- Taxation on personal property, tangible or intangible, based on income licenses or franchises in lieu of an ad valorem tax thereon. First class cities cannot omit the imposition of an ad valorem tax on the property of any steam railroad, street railway, ferry, bridge, gas, water, heating, telephone, telegraph, electric light or electric power company.³

Section 180 of the Constitution requires that every ordinance or resolution passed by any local legislative body shall specify the purpose for which the tax was levied, and that any tax collected for one purpose shall not be devoted to another purpose. KRS 68.100 requires that all county taxes shall be levied by order or resolution. KRS 68.100 also provides that failure to specify the purpose of the tax in the order or resolution shall render the order or resolution invalid. These same provisions are addressed for cities in KRS 92.330 and 92.340.

² KRS 67.083, see KRS 67A.060 for urban county governments.

³ For statutes establishing the power of local governments to impose taxes, see KRS 91.200 to 91.270 and 92.280 to 92.320.

Section 159 of the Constitution provides that whenever any city, county, taxing district or municipality is authorized to contract for indebtedness, that it shall be required at the same time to provide for the collection of an annual tax sufficient to pay the interest on the indebtedness and to create a sinking fund for the payment of the principal within not more than forty years from the time the indebtedness was contracted for.

Primary Taxes Levied by Counties and Cities

Counties and cities derive a major portion of their tax revenues from three sources - the ad valorem property tax, the occupational license tax, and the insurance premium tax. In addition to these broadly levied taxes, local jurisdictions are permitted to levy a myriad of other taxes and special assessments. Some taxes are imposed through the use of special taxing districts or specially created service districts and others are imposed directly by the county or city.

AD VALOREM TAXES⁴

All property is subject to taxation unless exempted by the Constitution or statute⁵. The ad valorem tax is imposed against all property based upon the assessed value of the property. The state, cities, counties, and school districts are required to levy an ad valorem tax on all property subject to taxation within the jurisdiction.⁶ The tax must be at a uniform rate upon all property of the same class subject to taxation within the territorial limits of the authority levying the tax.⁷ Cities of the first class⁸ are permitted to levy a license or franchise tax in lieu of an ad valorem tax on tangible personal property, except an ad valorem tax must be imposed against the personal property of any steam, railroad, street railway, ferry, bridge, gas, water, heating, telephone, telegraph, electric light or electric power company⁹. In addition, many special taxing districts are authorized to levy ad valorem taxes.

Ad valorem taxes are paid annually and the assessment is based upon 100% of the fair cash value of all property subject to the tax¹⁰, unless the property qualifies as agricultural or horticultural property, in which case the property is assessed at its agricultural or horticultural value¹¹.

The assessment made for state purposes, when supervised as required by law, is the basis for the levy of the ad valorem tax for county, school district and all special district purposes with a limited grandfathering provision for special districts and independent school districts in existence prior to January 1, 1975¹². Cities may, by ordinance, elect to use the county assessment or may establish an independent assessment office. Cities electing to use the county assessment are required to pay the PVA for the use of the county assessment, and

⁴ Ad valorem means "according to value".

⁵ Constitution, Section 3, KRS 132.190.

⁶ KRS 68.090 – counties, KRS 91.260 – cities of the first class, 92.280 – cities of the second through sixth classes.

⁷ Section 171 of the Kentucky Constitution.

⁸ City classification is based upon population. Louisville is the only city of the first class in Kentucky.

⁹ KRS 91.260.

¹⁰ Constitution of Kentucky, Section 172.

¹¹ Constitution of Kentucky, Section 172A.

¹² KRS 132.280.

must use the same assessment dates and due dates as the county. (KRS 132.285). Cities are required to use the Revenue Department assessment on motor vehicles. (KRS 132.285).

The Revenue Department centrally assesses several classes of property. In most cases, central assessment is undertaken because of the nature of the property or because the property is used in many local jurisdictions. In most cases taxes imposed against the centrally assessed property are collected locally, however there are some levies that are both assessed and collected by the Revenue Department on behalf of local jurisdictions. A list of centrally assessed property can be found in Appendix A of this document.

Section 170 of the Constitution exempts the following from property taxation:

- Public property used for public purposes;
- Places of burial not held for private or corporate profit;
- Real property owned and occupied by and personal property both tangible and intangible owned by religious institutions;
- Institutions of purely public charity;
- Institutions of education not used or employed for gain by any person or corporation, and the income of which is devoted solely to the cause of education;
- Public libraries, their endowments, and the income of such property as is used exclusively for their maintenance;
- Household goods of a person used in his home;
- Crops grown in the year of the assessment and in the hands of the producer; and
- Real property that meets the requirements for the homestead exemption for individuals over 65 years of age or disabled. For the 2004 assessment year, the homestead exemption amount is \$29,400.

Section 171 of the Constitution provides that the General Assembly may divide property into classes and may determine which class or classes of property shall be subject to local taxation. All real property is subject to taxation by all taxing districts of which of is a part. The General Assembly has addressed the classification and exemption of personal property for local tax purposes in KRS 132.200.

Section 172A of the Constitution permits the General Assembly to provide for reasonable differences in the rate of ad valorem taxation on real property within different areas of the same taxing districts. The differences must relate to differences between non-revenue-producing governmental services and benefits giving land an urban character, which are furnished in one or several areas in contrast to other areas of the taxing district. Differential rates are statutorily authorized for cities by KRS 82.085, for counties by KRS 67.650, for urban-county governments by 67A.150, and for consolidated local governments by 67C.145 and 67C.147. The types of services that differential rates may be imposed to support include police protection, fire protection, streets, street lighting, sidewalks, water service and sewer facilities.

Section 157 of the Constitution limits the maximum ad valorem tax rate imposed by cities, counties, and taxing districts other than for school purposes to the following:

Population	Maximum Rate
cities with a population greater than 15,000	\$1.50 per \$100
cities with a population between 10,000 - 14,999	\$1.00 per \$100
cities with a population of less than 10,000	\$0.75 per \$100
counties and taxing districts (all) ¹³	\$0.50 per \$100

Real Property

Overview

Virtually all real property located in the Commonwealth is subject each year to the ad valorem tax by each taxing authority in which it is located. The Constitution establishes very strict limitations on the ability of the General Assembly to enact real property tax exemptions through legislative action. Thus, all real property tax exemptions are either found in the Constitution or are specifically authorized by the Constitution¹⁴.

The Constitution permits the General Assembly to authorize favorable property tax treatment by local governments relating to real property in two situations:

- Section 170 of the Constitution authorizes the General Assembly to allow any incorporated city or town to exempt manufacturing establishments from municipal taxation for a period not to exceed 5 years as an inducement to their location within the city or town. The General Assembly has provided for this exemption in KRS 91.260 and 92.300.
- Section 172B of the Constitution provides that: "the General Assembly may provide by general law that the governing bodies of county, municipal and urban-county governments may declare property assessment or reassessment moratoriums for qualifying units of real property for the purpose of encouraging the repair, rehabilitation, or restoration of existing improvements thereon." The language also requires that property qualification standards and a limitation on the duration of any moratorium not to exceed 5 years. The General Assembly has provided for this exemption in KRS 99.600, KRS 132.452, and KRS 132.190.

House Bill 44 Limitations

House Bill 44, enacted during the 1979 Special Session of the General Assembly, generally limits the overall revenue growth from the tax that may be levied on real property by any taxing district without the possibility of a voter recall to 4% per year, exclusive of new property¹⁵. This legislation was enacted in 1979 in response to high rates of inflation that were causing property values, and the resulting tax, to increase quickly. The result of the HB 44 limitations is that, in many jurisdictions, the property tax rate actually decreases each year as the property values increase. A description of the rate setting process under HB 44 is

¹³ Note that under Section 157a of the Constitution, a county may levy up to an additional \$0.20 per \$100 of assessed valuation for the purpose of paying the indebtedness on debt issued for public roads if approved by the voters.

¹⁴ See KRS 132.190, 132.200.

¹⁵ As an example, when a new subdivision is built, the extra tax revenue from the taxation of the new housing in the first year it is assessed is ignored for purposes of determining the maximum rate that is under the 4% limitation.

provided in Appendix B. It should be noted that the HB 44 limitations apply to special taxing districts as well, however the provisions of HB 44 only apply to annual increases, and thus do not limit the initial rate at which a tax may be imposed.

Special Rates or Variations on Rates

Abandoned Urban Property (KRS 132.012)

Cities, consolidated local governments, and counties containing a city of the first class are permitted to levy a higher rate than is levied against other real property on abandoned urban property¹⁶. Prior to levying a tax upon abandoned urban property, the legislative body of a city shall delegate to the vacant properties review commission, if established, or another department or agency of city government the responsibility of determining which properties within the city are abandoned urban properties. The list shall be furnished to the property valuation administrator prior to the day fixed for the annual assessment of real property. Property that is rehabilitated, repaired or returned to productive use may be removed from the abandoned urban property list upon notification by the owner to the city, and the city finding that the property is no longer abandoned urban property.¹⁷

Enterprise Zones (KRS 154.45-090)

A local government may, by an act of the local legislative body, levy an ad valorem tax rate of \$0.001 upon each \$100 of value on qualified property within an enterprise zone regardless of the rates established in KRS Chapter 132.¹⁸ The lower rate may apply to real property as well as personal property.

Personal Property

Pursuant to the authority granted under Section 171 of the Constitution, the General Assembly has provided for the exemption of several types of personal property from local taxation. These exemptions are found primarily in KRS 132.200, and are listed in Appendix C of this report. In addition to the statutory exemptions, Section 171 of the Constitution provides that bonds issued by the state, counties, municipalities, taxing and school districts shall not be subject to state or local taxation.

The voters approved an amendment to Section 172 of the Constitution in 1998 to give the General Assembly the authority to exempt any class of personal property from ad valorem taxation. The 2005 General Assembly exempted all intangible property from the ad valorem tax beginning in January of 2006. This new exemption will not have a significant impact on local governmental units because local governmental units were not permitted to tax intangible property under the provisions of KRS 132.200.

¹⁶ "Abandoned urban property" means any vacant structure or vacant or unimproved lot in a predominantly developed urban area which has been vacant or unimproved for at least 1 year and is generally dilapidated, unsafe, vermin infested and unfit for its intended use, or has been tax delinquent for at least 3 years (KRS 132.012).

¹⁷ KRS 91.285, 92.305.

¹⁸ The Enterprise Zone program includes 10 zones, which are set to expire 20 years after their creation. Four zones have already expired with two additional zones expiring each year from 2005 to 2008. The Enterprise Zone program also includes sales and income tax incentives. The program was replaced with a new incentive program beginning in 2005. The new program does not include authorization for a local property tax rate incentive.

Special Rates, Variations on Rates and Assessment Practices

General Rates (KRS 68.248- counties, 132.024 – special districts, 132.029 – cities and urban county governments, 160.473 – school districts)

The fiscal court may increase the rate imposed against personal property in any year in which the real property tax rate levied by a taxing authority when applied to the personal property base, will produce a percentage increase in revenue from personal property that is less than the percentage increase in revenue from real property. The rate that may be levied is that which will produce the same percentage increase in revenue from personal property as the percentage increase from real property. A rate increase imposed under these circumstances is not subject to the public hearing or recall provisions.

Business Inventories (KRS 132.028 – cities and urban county governments, 68.246- counties)

Cities, counties and urban county governments can levy a rate on business inventories except business inventories of licensed motor vehicle dealers, that is less than or equal to the prevailing rate of taxation on other tangible personal property.

Personal Property Held for Shipment Out of State (KRS 132.099)

Beginning in 2002, personal property held for shipment out of state is exempt from local ad valorem taxation except that any fire district or other special taxing district may continue to tax such property.

Unmanufactured Agricultural Products (KRS 132.200)

Cities and counties may impose an ad valorem tax not exceeding \$0.015 on each \$100 of the fair cash value of all unmanufactured tobacco and not exceeding \$0.045 on each \$100 of the fair cash value of all other unmanufactured agricultural products that are not actually on hand at the plants of the manufacturing concerns for the purpose of manufacture, nor in the hands of the producer or any agent of the producer for the purpose of sale.

Taxable Capital of Insurance Companies (KRS 136.320)

The county and city in which the principal office of an insurance company is located may impose a tax of \$0.15 per \$100 of taxable capital of the insurance company.

Enterprise Zones (KRS 154.45-090)

A local government may, by an act of the local legislative body, levy an ad valorem tax rate of \$0.001 upon each \$100 of value on qualified property within an enterprise zone regardless of the rates established in KRS Chapter 132.¹⁹ The lower rate may apply to real property as well as personal property.

Aircraft (KRS 132.200)

¹⁹ The Enterprise Zone program includes 10 zones, which are set to expire 20 years after their creation. Four zones have already expired with two additional zones expiring each year from 2005 to 2008. The Enterprise Zone program also includes sales and income tax incentives. The program was replaced with a new incentive program beginning in 2005. The new program does not include authorization for a local property tax rate incentive.

Aircraft may be exempted from local tax at the option of the local taxing district.

Federally Documented Boats (KRS 132.200)

Federally documented boats may be exempted from local tax at the option of the local taxing district.

Special Ad Valorem Tax Levies

In addition to the general ad valorem tax levy described above, local governments are permitted to levy special ad valorem assessments in some circumstances without the creation of a special taxing district. A list of authorized special tax levies can be found in Appendix D. In most cases, the special levies are made in addition to the general levy, and are not considered in determining whether the local government has surpassed the maximum levy permitted under Section 157 of the Constitution.

Special Taxing Districts

A special district is defined as “any agency, authority, or political subdivision of the state which exercises less than statewide jurisdiction and which is organized for the purpose of performing governmental or other prescribed functions within limited boundaries. It includes all political subdivisions of the state except a city, a county, or a school district.”²⁰ A special district may also be formed by two or more counties²¹.

For a special district to legally exist, notification of its existence must be provided to the county clerk of the county where the special district’s principal office will be located.²² The clerk is required to forward a copy of the notification to the Governor’s Office of Local Development (GOLD) state local finance officer and the state local debt officer.

Some special districts have the authority to levy ad valorem taxes. A taxing district is defined as “any special district authorized by statute to levy ad valorem taxes within the meaning of Section 157 of the Constitution of Kentucky or to levy ad valorem taxes under...” the statute goes on to list specific statutory provisions²³.

Because these special districts are independent of the general purpose county government, the taxes they levy are generally not included in the calculation of the permissible county tax levy under statutory or constitutional limits²⁴. Special districts are subject to the maximum property tax rate limits, often referred to as "compensating rate limits" established by KRS 132.023. A list of special districts with taxing authority is included as Appendix E.

Special taxing districts are generally created pursuant to the provisions of KRS 65.182 to 65.190. KRS 65.182 establishes the sole method of establishing a taxing district unless

²⁰ KRS 65.005(1).

²¹ KRS 65.160, 65.188.

²² KRS 65.005(2).

²³ KRS 65.180.

²⁴ See KRS 68.245 and Section 157 of the Kentucky Constitution.

otherwise provided by state law.²⁵ The law as currently written is ambiguous regarding how a special taxing district may be established. KRS 65.182 provides in pertinent part as follows:

- "(1)(a) Persons desiring to form a taxing district shall present a petition to the fiscal court clerk and to each member of the fiscal court ... signed by a number of registered voters equal or greater than twenty-five percent (25%).... At the time of submission to the fiscal court each petition shall be accompanied by a plan of service....
- (b) A majority of the members of the fiscal court may vote to form a taxing district set forth in a plan of service that shall contain those items set forth in paragraph (a) ...as may be germane to the purposes of which the taxing district is being formed."

It is not clear from the statutory language whether paragraphs (a) and (b) as set forth above should be separated by an "or", in which case the provisions establish alternative methods for the creation of a taxing district, or an "and" in which case both provisions would have to be satisfied to establish a taxing district.

The fiscal court is required to notify all planning commissions, cities and area development districts within whose jurisdiction the proposed service area is located, as well as any state agencies required by law to be notified of the creation of the district. The fiscal court is then required to advertise for and hold a public hearing to take testimony of interested parties and to hear recommendations of any planning commission, city and area development district. After the hearing, the fiscal court must set forth its written findings of fact, and shall approve or disapprove the special district.

The taxing district shall have legal effect only after the passage of an ordinance creating the district. A certified copy of the ordinance creating the taxing district must be filed with the county clerk. The effective date of the tax levy shall be the January 1 of the year following the creation of the taxing district²⁶. The decision of a fiscal court to establish a special taxing district may be appealed to the Circuit Court²⁷.

In counties containing a consolidated local government or a city of the first class, a special taxing district can also be created upon vote of the people after a petition is filed and a public hearing is held. The special taxing district can levy an amount not to exceed \$0.10 per \$100 of assessed value of the property subject to local taxation of the district, or a special taxing district in such a county can levy an occupational license fee not to exceed 1% of salaries, wages commissions, or net profits²⁸.

²⁵ Note that KRS 65.180 defines "taxing district" and lists statutes specific special districts governed by the 65.180 to 65.190. Not all taxing districts are listed. For taxing districts not listed, different standards may apply.

²⁶ KRS 65.182.

²⁷ KRS 65.186.

²⁸ KRS 65.192.

LICENSE TAX ON INSURANCE COMPANIES

Cities, counties, charter counties and consolidated local governments are permitted to impose a license tax against insurance companies. KRS 91A.080 provides that the established fees and rates shall take effect on July 1 of each year on a prospective basis only. The tax is based on premiums received for risks located within the corporate limits of the taxing jurisdiction. Cities and counties are permitted to tax different lines of insurance at different rates, and may exempt some lines of insurance entirely.

Local jurisdictions cannot impose the insurance premium tax against the following:

- Premiums received on policies of group health insurance provided for state employees under KRS 18A.225;
- Premiums received on policies issued to public services companies that pay the ad valorem tax;
- Premiums received on health insurance policies issued to individuals through Kentucky Access; and
- Premiums paid to insurers of municipal bonds, leases, or other debt instruments issued by governmental or nonprofit entities.

In addition to the statutorily required exemptions, local jurisdictions may also provide for other exemptions within the locally enacted ordinance. Rates must be filed with the commissioner of insurance at least 100 days prior to the effective date, and the Department of Insurance must provide the information to all insurance companies at least 85 days prior to the effective date. The Department of Insurance publishes a list annually that includes the jurisdictions imposing a tax, the rate, the base, and whether or not a city/county setoff applies.

The Department of Insurance is directed to provide for a reasonable collection fee to be retained by the insurance agent or company for collecting the tax. The collection fee cannot be more than 15% of the fee or tax collected or 2% of the premiums subject to the tax, whichever is less.

Insurance license fees are due 30 days after the end of each calendar quarter. Payments are made directly to the assessing local governmental unit. Annually by March 31, each insurer is required to furnish each city, county or urban county government with a breakdown of all collections in the preceding calendar year by category of insurance²⁹. Any jurisdiction imposing a license tax on insurance companies may request that the Department of Insurance audit the books and records of any insurance company at the expense of the requesting jurisdiction. If the Department of Insurance finds that an insurance company has willfully engaged in a pattern of business conduct that fails to properly collect and remit the fee or tax, the Department may assess a penalty of up to 10% of the additional taxes determined to be due.

Companies that overpay taxes may request a refund. Overpayments of taxes or fees must be refunded within 90 days of notice to the local governmental entity. The statute does not

²⁹ KRS 91A.080(8).

provide for a specific process in seeking a refund and there is no statute of limitations established before which a refund must be requested.

A credit is provided for city license tax against the county license tax in cities/counties where both jurisdictions impose the tax. The credit applies to fees or taxes levied by the county on or after July 1, 1990. There are three cities within counties that imposed the tax prior to July 1, 1990, for which no credit is required. Those counties/cities are Lawrenceburg/Anderson County, Hickman/Fulton County, and Springfield/Washington County.

For the 2005 – 2006 fiscal year, 30 counties and 344 cities will impose some type of insurance premium tax. The range of rates for counties is 2% to 10%. The range of rates for cities is 3% to 15%. In general, the cities provide fewer exemptions than the counties. Of the seven separately identified lines of insurance, the line most frequently taxed is fire insurance (assessed by 370 jurisdictions) and the least frequently taxed is health insurance (assessed by 211 municipalities).

The insurance premium tax is difficult for taxpayers (insurance companies) to comply with because of the number of jurisdictions that impose the tax, the variation among the different jurisdictions regarding the types of premiums subject to the tax, and the rates applied to each type of premium. Each insurer must file a separate return with each locality. Group filings are not permitted. In addition, in those areas where the tax is imposed by both the county and a city within the county, the insurer must determine where the insured risk is located, and which jurisdiction is entitled to tax payment. This is even more complicated in counties that include cities that impose a rate that is lower than the county rate. In this situation, the insurer must pay both the city and the county.

OCCUPATIONAL LICENSE TAX

Any county or city may impose an occupational license tax, however there are different requirements depending on the population of the county or the classification of the city. The occupational license tax is a feasible source of revenue for cities and counties with a strong business and employment base, however the tax is not as productive for jurisdictions that do not have significant business activity. Based on information compiled by the Kentucky Society of Certified Public Accountants, as of March 16, 2004, 130 cities and 57 counties imposed an occupational license tax.

Counties

Over 300,000 (Jefferson County)

KRS 68.180 authorizes the fiscal court of counties having a population of 300,000 or more, to impose, by order or resolution, a license fee at a maximum rate of 1.25% of salaries, wages or other compensation earned within the county for work or services performed within the county, and not to exceed 1.25% of the net profits of businesses, trades professions or occupations. The maximum rate and limitations do not apply to license fees imposed for regulatory purposes, or to license fees imposed by counties on behalf of school districts pursuant to the provisions of KRS 160.482 to 160.488.

Over 30,000 (Based on 2004 population estimates, 33 counties³⁰)

KRS 68.197 allows fiscal courts in each county having a population of 30,000 or more to impose, by ordinance, a license fee at a maximum rate not to exceed 1% of salaries, wages or other compensation earned within the county for work or services performed within the county, and not to exceed 1% of the net profits of businesses, trades professions or occupations. The fiscal court may also provide for an annual fixed amount license fee which a person or entity may elect to pay in lieu of paying a percentage rate. Rate and base limitations do not apply to license fees imposed for regulatory purposes.

Under 30,000

Counties having a population of less than 30,000 may also impose an occupational license tax; however, there is no statutory limit on the rate, as the authority under which these counties may levy the occupational license tax is the general levy authority provided by KRS 67.083.³¹ Counties under 30,000 that have enacted an occupational license fee that is higher than that maximum rate established for counties of over 30,000, that subsequently increase to over 30,000 in population do not have to reduce the higher rate imposed under KRS 67.083 after the 30,000 threshold is crossed³².

Cities

First Class Cities (Louisville)

Cities of the first class are authorized to impose franchise and license fees at a rate of up to 1.25% on wages and net profits³³.

Other Cities

All other cities are permitted to levy franchise and license fees with no maximum rate specified³⁴. Cities of the sixth class are prohibited from imposing a license tax at a percentage rate.

Statutory Exemptions

The following are exempt from the occupational license taxes imposed by counties over 300,000, counties over 30,000, and cities:

- Public service companies and telecommunications service providers;
- Banks, trust companies, and savings and loan companies;
- Income received by members of the Kentucky National Guard for active duty, training, unit training assemblies, and annual field assemblies;
- Income received by precinct workers for election training or work at election; and

³⁰ Counties with over 30,000 population based on 2004 population estimates from the Population Division, U.S. Census Bureau, release date April 14, 2005 (other than Jefferson County) are as follows: Barren, Boone, Boyd, Bullitt, Calloway, Campbell, Christian, Clark, Daviess, Fayette, Floyd, Franklin, Graves, Greenup, Hardin, Harlan, Henderson, Hopkins, Jessamine, Kenton, Knox, Laurel, McCracken, Madison, Marshall, Nelson, Oldham, Pike, Pulaski, Scott, Shelby, Warren, and Whitley.

³¹ See *Casey County Fiscal Court v. Burke*, 743 S.W.2d 26 (Ky 1988)

³² KRS 67.197(9).

³³ KRS 91.200.

³⁴ KRS 92.280, 92.281.

- Any profits, earnings or distributions from an investment fund meeting the requirements of a Kentucky Investment Fund under KRS 154.20-250 to 154.20-284 to the extent the profits, earnings or distributions would not be taxable to an individual.

In addition, KRS 143.100 prohibits any local governmental unit from levying any occupational tax, license, excise, severance or other tax upon the severance, processing, sale, use, transportation, or other handling of coal.

Offset Provisions

Counties over 300,000 (Jefferson County)

KRS 68.190 allows an offset of city license fees paid to Louisville against county license fees paid to Jefferson County. The same offset will apply to taxes paid to any other city within the county if 30 days prior to the beginning of any county fiscal year, the county has contracted with the fiscal court to contribute annually to the support of any joint agencies.

Counties over 30,000

KRS 68.197 provides that cities and counties can enter into an agreement to offset city license fees against county license fees. KRS 68.197 further provides that effective for license fees imposed by counties on or after July 15, 1986, persons who pay a license fee both to a county and a city contained within the county shall be allowed to credit their city license fee against their county license fee.

In a recent decision, the Kentucky Supreme Court determined that the offset requirement applies to any increase in a county occupational tax in effect on July 15, 1986 made after July 15, 1986.³⁵ Thus, under the court ruling, persons who pay a license fee to both a county and a city within the county shall be entitled to offset the city tax against that portion of the county tax levied after July 15, 1986. The case that prompted the Supreme Court decision involved a controversy between Kenton County and the City of Covington. A similar action was also filed in Campbell County. At the time the Kenton and Campbell County taxes were increased, the rate was established assuming that the city set-off would not be required. The impact of the court decision in both Kenton and Campbell Counties was fairly significant. To mitigate the potential harm to Kenton and Campbell Counties, the 2005 General Assembly amended KRS 68.197 to provide that in counties where a license fee has been approved by the voters,³⁶ there shall be no credit of a city license fee against a county license fee except by agreement between the city and county. In addition, the legislature prohibited refund claims based upon the set off provisions of KRS 68.197 unless the refund claims were filed prior to November 18, 2004. Finally, the legislature limited the rate and maximum salary limits for the occupational license taxes in counties where the license tax was approved by the voters to the fee and base in effect on January 1, 2005, with any increase prohibited unless approved by the voters, and with a maximum rate of 1%³⁷.

³⁵ See *City of Covington v. Kenton County*, 149 S.W.3d 258 (Ky 2004)

³⁶ The occupational levies in both Kenton and Campbell were approved when the imposition of the tax required voter approval. The law was changed subsequent to the passage of the Kenton and Campbell levies to allow counties to levy an occupational tax without voter approval.

³⁷ 2005 HB 400.

Counties Under 30,000

In counties under 30,000 that include cities that also impose an occupational license tax, no offset is required.³⁸ If a county adopts an occupational license tax under KRS 67.083 while the county population is under 30,000 and subsequently the county population increases to greater than 30,000, the county will not be required to permit a credit of city taxes against county taxes as required by KRS 68.197 as to the levy imposed prior to the county attaining a population of 30,000. This is true except any county with a population of less than 30,000 that voluntarily granted a credit for city taxes prior to July 15, 2002 must continue to allow the credit after the county reaches 30,000. In addition, any new fee or fee increase adopted after July 25, 2005 will be subject to the city credit to the extent of the fee increase or new fee³⁹.

Recent Legislation to Establish Administrative Uniformity

In 2003, the General Assembly enacted HB 107, which created KRS 67.750 to 67.790. The legislation establishes uniform definitions and an administrative structure for the occupational license tax and net profits tax for all taxing districts imposing such taxes (6th class cities are not included as they are not permitted to levy such taxes on a percentage of income or profits basis). The administrative structure includes allocation and apportionment provisions, mandatory return provisions, and provisions addressing claims for refund, statutes of limitations, auditing and assessment. The provisions of the legislation were originally scheduled to become effective on January 1, 2006, however the effective date was extended to July 15, 2008 through an amendment enacted in 2005. A tax district may voluntarily adopt the provisions through the passage of an ordinance prior to the effective date. Until these new provisions become effective, individual jurisdictions are authorized to establish their own administrative structure and procedures⁴⁰.

OTHER TAXES

The taxes listed in this section are separate local tax levies authorized by the General Assembly other than special ad valorem rates or assessments. Special ad valorem rates and assessments are listed in Appendix D.

Emergency Telephone Service (KRS 65.760)

A city, county or urban county government is authorized to levy a special tax, license or fee not in conflict with the Constitution or statutes to establish and operate 911 emergency telephone service. The special tax, license or fee may include a subscriber charge levied on an individual exchange line basis, limited to a maximum of 25 exchange lines per account per government entity.

License Fee on the Rental of Motor Vehicles (KRS 68.200)

A county containing a city of the first, second or third class or an urban county government may levy a license fee on the rental of motor vehicles. The fee may not exceed 3% of the gross rental charges from rental agreements for periods of 30 days or less. The fee shall apply to retailers who receive more than 75% of their gross revenues in the county from

³⁸ See *John David Preston v. Johnson County*, 27 S.W. 3d 790 (Ky 2000).

³⁹ KRS 68.199.

⁴⁰ KRS 68.185, 68.198.

gross rental charges. The fee shall be passed on by the retailer to the renters of motor vehicles. Revenues from the rental of vehicles over 11,000 pounds, from vehicles that are part of services provided by a funeral director, or that are exempt from the state sales and use tax shall not be included in the tax base. The revenues from the tax must be deposited in a separate account and must be used for economic development activities.

Off-site Waste Management Facility Fee (KRS 68.178)

Any county may license off-site waste management facilities located within the county by the imposition of a license fee at a rate not to exceed 2% per annum of the gross receipts of the facility. The proceeds from this fee may be used for general governmental purposes. For hazardous waste facilities involving land disposal, the rate levied can be up to 5% and shall be based on the amount needed to produce sufficient revenue to compensate the county for any additional costs incurred by it.

Solid Waste Landfill Fee (KRS 68.178)

A county or urban-county government may license solid waste landfills located within the county or urban-county area. The license fee may be set at no less than \$0.01 or no more than \$0.50 per ton of waste received by the landfill, or the license fee may be set at 5% of the gross receipts of the landfill. The fee may be increased up to $\frac{1}{4}$ of the base fee per ton for waste received that originates from outside the planning area. The proceeds from this fee shall be used to defray government services provided to the landfill.

License Fee on Cable Television (KRS 68.202)

A county containing a city of the second class may levy a license fee not to exceed 2% on the gross receipts of all cable television systems within its boundaries, including systems franchised by cities within the county. The proceeds from this fee shall be used to provide teleconferencing facilities and equipment and television production services, equipment and facilities pursuant to an arrangement with KET, as specifically authorized by the General Assembly. The maximum combined levy of a city and county against gross receipts of a cable system is 3%.

Transient Room Tax (cities 91A.390, 153.440, 153.450)

Any city, county, urban county government or consolidated local government or combination thereof for the purpose of promoting recreational, convention and tourist activities may create a tourist and convention commission⁴¹. The local governing body or bodies establishing a tourist and convention commission is/are required to levy a transient room tax of up to 3% of the rent for every occupancy of a suite, room or rooms to support the tourist and convention commission.

In addition to the 3% levy, the local governing body may impose an additional 1% levy for the sole purpose of meeting operating expenses of a convention center.

Local governing bodies which have formed multicounty tourist and convention commissions may impose an additional tax not to exceed 1% of room rents. The additional tax revenues shall be used for the purpose of funding regional tourist and convention efforts.

⁴¹ 91A.350.

Counties including cities of the second class except those included in a multicounty tourist and convention commission may levy an additional tax not to exceed 2% on room rates. Proceeds from this levy shall be used for the retirement of bonds to finance the expansion of a convention center or fine arts center. After the retirement of the bonds, the additional tax levied under this section shall be void⁴².

An urban county government is authorized to levy up to 4% on the rent for every occupancy of a suite, room or rooms⁴³. An urban-county government may also impose the following additional levies:

- An additional tax not to exceed 2% of the rent for every occupancy of a suite, room or rooms. The proceeds shall be used for the retirement of bonds used to finance a nonprofit corporation, which is created for the funding, construction and management of a convention center, and to defray the operating expenses of the nonprofit corporation⁴⁴.
- An additional tax not to exceed 1% of the rent for every occupancy of a suite, room or rooms for the purpose of funding the purchase of development rights program created under KRS 67A.845.

A county with a city of the first class may impose the following additional levies:

- An additional tax not to exceed 1.5% on the rent for every occupancy of a suite, room or rooms for the purpose of funding additional promotion of tourist and convention business.
- An additional tax not to exceed 1% of the rent for every occupancy of a suite, room, or rooms. All proceeds from this levy shall be provided to the Kentucky Center for the Arts Corporation and shall be used to defray operating expenses⁴⁵.
- An additional tax not to exceed 2% on room rates may be imposed by a consolidated local government or a county containing a city of the first class, except those included in a multicounty tourist and convention commission. Proceeds from this levy shall be used for the retirement of bonds to finance the expansion of a convention center or fine arts center. After the retirement of the bonds, the additional tax levied under this section shall be void⁴⁶.

Transient room taxes are paid to the local governmental entity on a monthly basis and must be maintained in a separate account⁴⁷.

Restaurant Tax (91A.400)

In addition to the transient room tax discussed above, the legislative bodies of cities of the fourth and fifth class may levy a restaurant tax not to exceed 3% of the retail sales by all restaurants doing business in the city. All receipts from the tax are to be provided to the tourist and convention commission. The authorization provided in this section is the only

⁴² KRS 91A.392.

⁴³ KRS 91A.390.

⁴⁴ KRS 153.450.

⁴⁵ KRS 153.440.

⁴⁶ KRS 91A.392.

⁴⁷ KRS 91A.390.

specific authorization for the levy of a tax on restaurants by units of local government. The Kentucky Supreme Court has held that counties are not permitted to levy a restaurant tax under the general taxing authority permitted by KRS 67.083 because “where the General Assembly has given the power to impose a specific tax to one government entity, a fiscal court may not also impose such a tax without violating the express limitations on its taxing power contained in KRS 67.083”.⁴⁸ The court also found it relevant that the legislature has specifically limited counties from imposing more than a \$10 license fee on a restaurant under the provisions of KRS 137.115.

Bank Franchise Tax (KRS 136.575)

The bank franchise tax was enacted in 1996. It replaced an ad valorem tax on bank shares. Counties, cities and urban county governments are authorized to impose a franchise tax on financial institutions measured by deposits in the institutions located within the jurisdiction at a rate not to exceed 0.025% of the deposits if imposed by a county or city, and 0.050% if imposed by an urban county government.

Any local jurisdiction imposing the tax must notify the Department of Revenue of the rate imposed, and of any subsequent rate changes.

The Revenue Department is required to certify to local jurisdictions that have enacted the franchise tax by October 1 of each year the amount of deposits within the jurisdiction and the amount of tax due. Bills shall be issued by the local taxing jurisdiction to the financial institution by December 1 of each year and payment shall be required with a 2% discount by December 31, or without discount by January 31 of the following year.

Real Estate Transfer Tax (KRS 142.050)

The real estate transfer tax is a mandatory levy imposed by KRS 142.050. The tax is imposed on the grantor named in the deed at a rate of \$0.50 for each \$100 of value. The county clerk, who may retain a 5% fee, collects the tax. Proceeds from the tax are remitted every 3 months to the county treasurer to be deposited in the county general fund.

City License Taxes on Trucks, Tractors and Trailers (KRS 186.270)

All cities may, by ordinance, impose license taxes on motor trucks, truck tractors, semitrailers and trailers. No new or increased tax shall be effective unless the owners or licensees are mailed notice of the new tax at least 10 days prior to the effective date of the tax. This authorization does not specify or limit a rate or base, so cities are free, within constitutional and other statutory limits, to establish a rate and base.

Permissive Annual Flat Fee Levies

Permissive County License Taxes (KRS 137.115)

The fiscal court of each county is authorized to impose the following annual license taxes:

1. Restaurants \$10;
2. Retail outlets serving soft drinks and ice cream \$5 if one category is sold, \$10 if two categories are sold;

⁴⁸ *Russell County Fiscal Court v. Kelley*, 823 S.W.2d 941., 943 (Ky 1991).

3. Owners of billiard tables or bowling alleys where a fee is charged and collected \$30 for the first table or alley and \$5 for each additional table or alley;
4. Retail outlets where tobacco products are sold \$10.

All fees are payable to the county clerk, and shall be credited to the general fund of the county. The fiscal court may allow the clerk a commission not to exceed 5%.

License Fees on Alcohol (KRS 243.060, 243.070)

Counties, consolidated local governments, and cities in which the trafficking of alcoholic beverages is authorized are permitted to levy an annual license fee against various individuals and entities for the privilege of manufacturing and trafficking in alcoholic beverages. Maximum fees are set forth in the statutes and can be found in Appendix F. Any amount paid to any city within a county as a license fee for the same privilege for the same year may be credited against the county license fee.

A special exception is provided for cities of the third or fourth class in which a successful local option election is held to discontinue prohibition. In those cities, the governing body of the city and the governing body of any county containing the city are authorized to impose a regulatory fee upon the gross receipts of each establishment licensed to sell alcoholic beverages. The rate "shall be reasonably estimated to fully reimburse the local government for the estimated costs of any additional policing, regulatory or administrative expenses related to the sale of alcoholic beverages in the city or county." The regulatory license fee is in addition to any other taxes fees or licenses except a credit shall be allowed in a city for any licenses or fees imposed by the city under KRS 243.070, and if the county and city both levy a regulatory license fee, the county fee shall only apply outside the jurisdictional boundaries of the city⁴⁹.

City Tax on Taxicabs or Limousines (KRS 186.281)

Cities of all classes are permitted to impose an annual license tax on all taxicabs or limousines not to exceed \$30 per taxicab or limousine.

Municipal Tax on Coin Machines (KRS 137.410)

Municipal corporations may impose an annual license tax of up to \$10 annually on coin machines that provide music or some form of amusement. Cities of the first class may impose a license tax of up to \$20 annually.

Tax on the Production of Crude Petroleum (KRS 137.120 to 137.160)

KRS 137.150 addresses the process for when a county imposes a tax on the production of crude petroleum, however the statute permitting the imposition of the tax only refers to a tax for state purposes.

User Fees⁵⁰

User Fees In General - KRS 91A.510 to 91A.530 allow local governments to impose user fees on the use of public services if the public service is not also available from a

⁴⁹ KRS 243.075.

⁵⁰ There are several statutes that specifically authorize the imposition of user fees or fees that relate to services provided. This section includes some of those fees but it does not provide a complete list of all authorized fees or charges.

nongovernmental provider. The fee may not generate revenues in excess of the reasonable costs associated with providing the service, and the fees must be maintained in a separate account. (NOTE: These provisions are in a chapter labeled “Finance and Revenue of Cities” however the authority seems to apply to all local governments.)

Fire Department Membership Charges –If a city fire department, county fire department, or volunteer fire department is authorized to collect membership charges or subscriber fees, the local legislative body may adopt an ordinance to require those fees to be added to the property tax bills⁵¹. KRS 75.450 states that any fire department that charges a subscriber fee or membership fee must base that fee on the actual level of service provided. The Governor's Office for Local Development opined in 2002 that it would be improper to mandate that every resident of the fire district subscribe or pay a fee. The method used by local jurisdictions to impose membership fees varies. Some charge each owner based upon a flat fee while others charge for each parcel of land owned in the fire department jurisdictional area. Some local governments distinguish between commercial and residential property in establishing fees. County fire departments formed under KRS Chapter 67 and fire departments formed under the provisions of KRS Chapter 273 are most likely to use membership charges or subscriber fees; however, not all of them do.

Volunteer Fire Department Fees - A fire department that responds to a fire at the property of a non-member or non-subscriber may charge rates set forth in KRS 75.450 for such services.

Parks and Recreation - Cities are authorized to levy various fees, rentals and charges for the use of parks or recreation facilities. The city can delegate the authority to levy fees, rentals and charges to a park commission (KRS 97.090).

Urban Services District - An urban services district, may be created by a county. The urban services district may provide police, fire protection, construction and maintenance of streets and sidewalks, library services, garbage and trash collection, street lighting and street cleaning, parks, playgrounds, sewer, drainage and sewer treatment services and facilities. To support the provision of these services, the district may impose fees (KRS 1080.020).

Local Taxes Imposed Against Cable, Telephone and Direct Broadcast Satellite (DBS) Providers

The General Assembly made significant changes during the 2005 legislative session in the way local governmental units may tax and impose franchise fees against cable, telephone and Direct Broadcast Satellite (DBS) providers⁵². The changes will take effect January 1, 2006, and will impact the continued imposition of franchise fees by local governmental units on cable and telephone providers. In addition, cable and telephone providers are removed from the public service company property tax statutes, which will result in a change in the way these entities report and pay taxes to local governments.

⁵¹ KRS 67.327, 75.450, 95.018, and 273.401.

⁵² 2005 HB 272.

Current Law

Under current law, the taxation of cable, telephone and DBS providers is a bit confusing.

- DBS providers are completely exempt from all local taxation.⁵³
- Most land-line telephone companies and cable providers have some form of local franchise agreement with the counties and cities in which they operate.⁵⁴ These agreements vary by jurisdiction and typically provide for some type of payment as well as the provision of in-kind services to the local jurisdiction. Under Section 164 of the Kentucky Constitution, a franchise agreement cannot be for longer than 20 years.
- Cell phone companies do not have franchise agreements because they do not need to use the public right-of-way in the same manner as land-line telephone companies and cable providers.
- Cable, land-line telephone and cellular telephone companies are all currently taxed as public service companies under the provisions of KRS 136.120. Under the provisions of KRS 136.120, all property owned by a public service company is centrally assessed by the Revenue Department. The assessed value includes a "going concern" or "franchise value" above and beyond what the assets of the company would be worth if valued separately. DBS companies are not taxed under KRS 136.120 and therefore report and pay only on real and personal property subject to tax.
- Cable and telephone providers are subject to the utility gross receipts tax for schools in all school districts that have adopted the tax. DBS providers are not subject to the utility gross receipts tax for schools.

Changes for 2006

The General Assembly has considered telecommunications tax reform legislation in each regular session since 1998. Testimony supporting the passage of telecommunications tax reform focused on the tax inequities among companies providing the same services through different means of delivery, and the complicated and patchwork nature of the local taxing structure. The reforms enacted in 2005 include the following changes:

- **Removal from the PSC Property Tax** - Telephone and cable companies will be removed from the public service company levy and will instead be taxed like all other companies for purposes of the property tax. This means that local jurisdictions will begin valuing, assessing and taxing all real property owned by telephone and cable companies as they do all other property not centrally assessed (local jurisdictions are already responsible for valuing and assessing the assets of DBS providers). Tangible personal property of these companies will continue to be centrally assessed by the Revenue Department, but the tax will be locally collected. Telephone and cable

⁵³ Section 602 of the federal Telecommunications Act of 1996 expressly exempts DBS providers from all taxes or fees imposed by any local taxing jurisdiction. The federal law does permit a state to levy a tax against DBS providers and to distribute the tax proceeds back to local jurisdictions.

⁵⁴ An exception to this generalization is BellSouth, which enjoys a statewide exemption from all local franchise fees and taxes under a charter issued prior to the adoption of the 1891 Kentucky Constitution.

companies will no longer be taxed based on the "going concern value". The removal of this component of the property tax assessment will result in lost revenues for the state, local taxing jurisdictions and sheriffs departments. This revenue will be recouped by the imposition of an internal gross receipts tax, discussed in greater detail below.

- **Prohibition Against Future Franchise Fees** - Local taxing jurisdictions are required to participate in the new tax and distribution scheme, and must agree to relinquish any right to enforce the portion of any contract or agreement that requires the payment of a franchise fee or tax as a part of the participation⁵⁵. These lost revenues will also be recouped through the imposition of the internal gross receipts tax discussed below.
- **Hold Harmless Revenues** - Revenues lost by the state and local taxing jurisdictions and sheriffs offices through the removal of telephone and cable companies from the PSC property tax, and revenues lost by local government taxing jurisdictions from forgoing future franchise fees will be replaced by the imposition of a statewide internal gross receipts tax. The new statewide tax is based on a percentage of gross receipts received by cable, telephone and DBS providers. The tax will be centrally collected by the state. The state will then make monthly distributions back to local taxing jurisdictions based on historical collection information. Local jurisdictions will also share in revenue growth in future years.
- **Utility Gross Receipts Tax for Schools** - DBS providers will automatically be included in the base for the utility gross receipts tax for schools beginning July 1, 2005 unless the school board takes specific action to prevent DBS from being added to the tax base. If the school board elects not to include DBS in their utility gross receipts tax base, cable will also be removed from the base.

Economic Development Incentive Programs

There is very little information available regarding the use of economic development incentive programs by local governments and how the use of incentives impacts the local tax base. There are several programs administered by Kentucky Cabinet for Economic Development that include a local component, typically in the form of wage assessments offering credits against local occupational taxes. In addition, local governments are permitted to offer property tax relief and assessment moratoria as noted above in the discussion about property taxes. Local governmental units can also take advantage of various bonding programs and debt issuance opportunities offering favorable rates and tax incentives to business prospects as well as investors.

There is no centralized source where information regarding the effectiveness of local economic development incentives is compiled. The various programs and authorizations

⁵⁵ The law also provides that if a local jurisdiction continues to impose or enforce a franchise agreement in contravention of the law, then that jurisdiction will be prohibited from sharing in the hold harmless and growth funds, and the provider making payments to the local jurisdiction will receive a credit for the amount paid against the statewide internal gross receipts tax.

that exist for use by local governments generally do not require any reporting or follow up analysis.

Some of the programs and authorizations available to local governments are discussed in greater detail below.

Tax Increment Financing (TIF)

Tax increment financing is a relatively new economic development incentive available to cities and counties. There are two types of tax increment financing programs, one involving only local incentives, and the other involving both state and local incentives. If only local incentives are involved, it is not necessary for the local government to seek state approval.

KRS 65.684 permits counties and cities to establish or modify a development area, and to issue increment bonds to finance the project. Eligible costs may be covered up to 100% of the incremental property taxes, excluding state, school and fire district taxes. In addition, cities and counties may impose a wage assessment against each person employed in the development area not to exceed 2% of the gross wages of the employee. Any wage assessment paid by the employee may be credited against any local occupational tax levied by the governing body establishing the development area, up to the amount of the tax levied. If the governing body that created the job development assessment fee does not have an occupational tax, the employee cannot receive a credit against any other governmental agency's occupational license fee⁵⁶. The TIF district may exist for up to 20 years for previously undeveloped land of 500 acres or less.

State Incentive Programs

The state incentive programs that include a local wage assessment component are the Kentucky Industrial Revitalization Act (KIRA)⁵⁷, the Kentucky Jobs Development Act (KJDA)⁵⁸, and the Kentucky Economic Opportunity Zone Act (KEOZ)⁵⁹.

Industrial Revenue Bonds (KRS Chapter 103)

Industrial revenue bonds can be used to finance a host of projects. Private leasehold interests in property owned and financed by a local government using industrial revenue bonds are subject to tax by the state at \$0.015 per \$100 of value, and are exempt from local property tax with approval from the Kentucky Economic Development Finance Authority (KEDFA)⁶⁰.

Enterprise Zones (KRS 154.45-090)

A local government may, by an act of the local legislative body, levy an ad valorem tax rate of \$0.001 upon each \$100 of value on qualified property within an enterprise zone regardless

⁵⁶ KRS 65.6851.

⁵⁷ KRS 154.26-010 to 154.26-120.

⁵⁸ KRS 154.24-01 to 154.24-151.

⁵⁹ KRS 154-23.005 to 154.23-079.

⁶⁰ The Kentucky Economic Development Finance Authority is established by KRS 154.20-010. KEDFA is subject to the authority of the Kentucky Economic Development Partnership Board. KEDFA consists of 7 members: 6 persons appointed by the Partnership Board and the Secretary of the Finance and Administration Cabinet who serves as an ex officio member.

of the rates established in KRS Chapter 132.⁶¹ The lower rate may apply to real property as well as personal property.

Government Owned Privately Leased Property

Another development strategy being used by some local jurisdictions is the transfer of private property to a governmental unit with a subsequent lease back to a private entity. Because the property is owned by a public entity, the property is exempt from both state and local property taxes. Any taxing district impacted by the development may negotiate for payments in lieu of taxes from the private developer. These in lieu of payments are intended to offset the loss of property tax revenues. However, there is no requirement that a local governmental entity entering into a leaseback arrangement consider the tax impacts on other taxing jurisdictions that might be impacted by the arrangement. As a further incentive, if the project is acquired through the issuance of industrial revenue bonds under Chapter 103, the leasehold interest is also exempt from local taxes, and enjoys a reduced rate for state property taxes⁶². Projects that qualify under Section 103 must be approved by KEDFA, which requires that the impact on other taxing jurisdictions at least be considered.

Available Data and Data Limitations

Census Data

One potential source of data to support the work of the task force is survey data from the United States Census Bureau. The Census Bureau conducts a government census every five years. The census covers state and local financial information including revenue, expenditure, debt, and assets. The census data is collected through various means with cooperation from state and local government agencies. Tax collections are part of the data series and are available for four separate levels of local governments: Counties, cities, special districts, and school districts. The data is available for all fifty states, but is not available at the individual county or city level of government. The data on each of these levels of local government are available for the years 1972, 1977, 1982, 1987, 1992, 1997, and 2002.

Uniform Financial Information Reports (UFIRs)

Another potential source of data to support the work of the task force is the uniform financial report. Cities, counties, and special districts with ad valorem taxing powers are required by KRS 65.900 to 65.920 to file a UFIR with the Governor's Office of Local Development (GOLD). GOLD is required to provide data from the UFIR in electronic format to the LRC, and is also required to file a copy of each report submitted with the county clerk of the county in which the reporting unit of local government is located.

The UFIR must reflect information about all taxes imposed by the unit of local government, including tax rates and revenues. The report must be filed by May of the year following each fiscal year (eleven months after the close of the fiscal year to which the report relates).

⁶¹ The Enterprise Zone program includes 10 zones, which are set to expire 20 years after their creation. Four zones have already expired with two additional zones expiring each year from 2005 to 2008. The Enterprise Zone program also includes sales and income tax incentives. The program was replaced with a new incentive program beginning in 2005. The new program does not include authorization for a local property tax rate incentive.

⁶² KRS 132.200.

Currently, paper reports are submitted and the information provided is keyed into a database. GOLD is working on the development of an electronic submission system that they hope to have available soon.

KRS 65.920 provides that local governmental units that fail to submit the required UFIR are ineligible to receive county or municipal road aid moneys. In addition other state payments except economic development payments under Chapter 154 or KRS 42.4588 are suspended until the local governmental unit complies with the filing requirement. Despite these penalties, GOLD reports that many jurisdictions, especially special taxing districts, do not report, or if they do report the information provided is incomplete.

GOLD forwards the reports submitted by cities to the Kentucky League of Cities, which maintains a comprehensive database on city budget and finance information.

The UFIR data can be used for limited purposes when accounting for tax collections and rates by local taxing districts. The data has several limitations. First, not all data is reported. For example, an estimated 30 percent of special taxing districts do not consistently report so information from these districts is not available. Second, the UFIR only allows for broad generalizations of tax collections, which may or may not be similar across local taxing jurisdictions. Finally, as with the Census data, but to a greater extent, both response errors and processing errors exist.

Revenue Department Annual Property Tax Rate Document

The Revenue Department prepares a document listing all state and local property tax rates on an annual basis. The Revenue Department contacts each local governmental unit with taxing authority each year to update the information for the rate document. If no response is received, the Revenue Department either publishes the last known rate, or inserts a zero for that rate.

Information on Economic Development Incentives

One of the charges of the Task Force is to examine existing economic development incentives available to local governments and to evaluate how effective those incentives are. There are several statutes that allow local governmental units to provide economic development incentives of various types. However, to evaluate effectiveness of local economic development incentives, it is necessary to have data about the use of incentive programs by units of local government including the number of projects, the size of the projects, the incentives offered, and the return anticipated and actually received. Staff was unable to identify a centralized source where this type of information is reported or collected. Neither the Economic Development Cabinet or GOLD is required to collect or report this type of information.

Appendix A

Property Centrally Assessed and Collected

- **Omitted Personal Property** (KRS 132.310 to 132.330)
- **Railroad Car Lines** (KRS 136.180)
- **Common carrier watercraft** (Beginning in January of 2006, prior to January of 2006 common carrier watercraft were centrally assessed but locally collected.)

Property Centrally Assessed and Locally Collected

- **Distilled Spirits** (KRS 132.130 to 132.180)
Distilled spirits are centrally assessed by the Revenue Department and certified to county clerks. (KRS 132.140, 132.150) Distilled spirits are subject to the same rates as other tangible personal property except in cities of the first class, the combined rate of taxation for city and school purposes shall not exceed \$1.25 for each \$100 of assessed value.
- **Unmined Coal, Oil and Gas Reserves Held Separately from Surface Real Property** (KRS 132.820)
- **Personal Property** (KRS 132.486)
Generally, tangible personal property is assessed centrally but the tax is billed and collected locally by the sheriff, however the local PVA has the authority to override the central assessment system for personal property.
- **Public Service Company Property** -(KRS 136.120 to 136.180).
- **Motor Vehicles** (KRS 132.487)
Motor vehicles are assessed using a centralized assessment system provided by the Revenue Department but the assessment is actually made locally.
- **Watercraft owned or operated by a nonresident** (KRS 136.182)
- **Interstate trucks, tractors, trailers, semitrailers and buses** (KRS 136.1873 to 136.1877)

Appendix B

Local Property Tax Rate Setting Process

Definitions (KRS 132.010)

- **Compensating Rate** – The compensating rate is the rate per \$100 of assessed value and applied to the current year assessment, excluding new property and personal property, that produces an amount of revenue approximately equal to that produced in the preceding year from real property. However, the compensating rate shall not be set at a level that, when applied to the current year assessment of all property produces an amount of revenue that was less than was produced in the preceding year from all classes of taxable property. Property subject to taxation means the total fair cash value of all property subject to full local rates, less the total valuation exempted from taxation by the homestead exemption, and the difference between the fair cash value and the agricultural or horticultural value of agricultural or horticultural land.
- **New Property** – New property means the net difference in taxable value between real property additions and deletions to the property tax rolls for the current year.

Assessment Base and Process for Levy

- The assessment made for state purposes, when supervised as required by law, shall be the basis for the levy of the ad valorem tax for county, school district, and all special taxing district purposes, with the exception of some special taxing districts and school districts that were grandfathered (KRS 132.280).
- Cities may, by ordinance, elect use the annual county assessment for property located within the city. Cities opting to use the county assessment are required to compensate the property valuation administrator. Cities electing to use the county assessment are authorized to establish assessment dates and to adopt procedures that will permit the use of the county assessment. (KRS 132.285)
- If the proposed rate is at or below the compensating rate, no special process is required.
- If the proposed rate exceeds the compensating rate, the taxing district must hold a public hearing to hear comments from the public regarding the proposed rate. (KRS 68.245 – counties, 132.023 – special districts, 132.027- cities and urban county governments).
- Any portion of a rate which will produce revenue from real property exclusive of revenue from new property that is greater than 4% of the revenue produced by the compensating rate is subject to a recall vote or reconsideration by the taxing district. (KRS 68.245- counties, 132.023 – special districts, 132.027 – cities and urban county governments)
- The process for recall is set forth in KRS 132.017.
- Any taxing jurisdiction not seeking to set a rate that is subject to recall shall establish a final tax rate within 45 days of the revenue department's certification of the county tax roll. Any district that fails to meet the deadline shall use the compensating tax rate. (132.0225)

Appendix C

Property Exempt from Local Taxation (KRS 132.200)

AGRICULTURAL EXEMPTIONS

1. Farm implements and farm machinery owned or leased by a person actually engaged in farming and used in his farm operation;
2. Livestock, ratite birds, and domestic fowl;
3. Unmanufactured agricultural products, except cities and counties may each impose ad valorem tax not exceeding \$0.015 on each \$100 of the fair cash value of all unmanufactured tobacco and not exceeding \$0.045 cents on each \$100 of the fair cash value of all other unmanufactured agricultural products that are not actually on hand at the plants of manufacturing concerns for the purpose of manufacture, nor in the hands of the producer or any agent of the producer to whom the products have been conveyed for the purpose of sale;

RETAIL SALE EXEMPTIONS

1. All motor vehicles held for sale in the inventory of a licensed motor vehicle dealer, which are not currently titled and registered in Kentucky and are held on as assignment pursuant to the provisions of KRS 186A.230, and all motor vehicles with a salvage title held by an insurance company;
2. New farm machinery and other equipment held in a retailer's inventory for sale under a floor plan financing arrangement by a retailer, as defined under KRS 365.800;
3. New boats and marine equipment held for retail sale under a floor plan financing arrangement by a dealer registered under KRS 235.220;

BUSINESS AND INDUSTRIAL EXEMPTIONS

1. Machinery actually engaged in manufacturing, products in the course of manufacture, and raw material actually on hand at the plant for the purpose of manufacture. The printing, publication, and distribution of newspaper or operating a job printing plant shall be deemed to be manufacturing;
2. Commercial radio, television, and telephonic equipment directly used or associated with electronic equipment which broadcasts electronic signals to an antenna; however radio or television towers not essential to the production of wave or signal broadcast shall not be included;
3. All privately owned leasehold interests in industrial buildings as defined in KRS 103.200 owned and financed by a tax-exempt governmental unit, or tax exempt statutory authority under the provisions of KRS Chapter 103 – does not apply to the proportion of the value of the leasehold interest created through private financing.
4. Property certified as a pollution control facility as defined in KRS 224.01-300;
5. Property certified as an alcohol production facility as defined in KRS 247.910;
6. Tangible personal property held in a foreign trade zone established pursuant to 19 U.S.C. sec. 81, provided that the zone is activated in accordance with the regulations of the United States Customs Service and the Foreign Trade Zone Board;
7. Property certified as a fluidized energy production facility as defined in KRS 211.390;
8. Machinery or equipment owned by a business, industry, or organization to collect, source, separate, compress, bale, shred or otherwise handle waste material if the

machinery or equipment is primarily used for recycling purposes as defined in KRS 139.095;

MISCELLANEOUS EXEMPTIONS

1. Motor vehicles qualifying for permanent registration as historic motor vehicles under the provisions of KRS 186.043. (Exemption does not apply to the motor vehicle usage tax.)
2. Capital stock of savings and loan associations;
3. Any nonferrous metal that conforms to the quality, shape and weight specifications set by the New York Mercantile Exchange's special contract rules for metals, and which is located or stored in a commodity warehouse and held on warrant;
4. Qualifying voluntary environmental remediation property for a period of 3 years following the issuance of a covenant not to sue by the Natural Resources and Environmental Protection Cabinet; and
5. Biotechnology products held in a warehouse for distribution by the manufacturer or the affiliate of a manufacturer

EXEMPTIONS PERMITTED UPON APPROVAL OF THE LOCAL JURISDICTION

1. Aircraft not in the business of transporting persons or property for compensation or hire or for other commercial purposes;
2. Federally documented vessels not used in the business of transporting persons or property for compensation or hire or for other commercial purposes.

OTHER EXEMPTIONS OUTSIDE KRS 132.200

- Cons Sec 171 Bonds of the state and of counties, municipalities, taxing and school districts shall not be subject to taxation⁶³.
- KRS 41.200 Warrants issued by the state.
- KRS 65.948 Property leased by governmental agencies and used solely for public purposes to the same extent bonds or notes issued by the Commonwealth or any governmental agency are exempt
- KRS 103.285 All properties, real and personal that a city or county may acquire to be rented or leased to an industrial concern according to KRS 103.200 to 103.280 is exempt from taxation to the same extent as other public property for public purposes as long as the property is owned by the city or county.
- KRS 132.030 Deposits in financial institutions.
- KRS 132.047 Credit union accounts (Repealed effective 1/1/06)
- KRS 132.050 Brokers accounts receivable (Repealed effective 1/1/06)
- KRS 132.190 25 fowl
- KRS 132.208 Shares of stock
- KRS 132.210 Fraternal benefit society funds
- KRS 137.190 License, pari-mutuel and admissions taxes on race meetings

⁶³ Note that many statutes creating taxing districts or authorizing the issuance of bonds by public entities also provide for the exemption of the bonds from taxation.

Appendix D Special Ad Valorem and License Tax Levies

Levies listed in this chart are special levies that may be imposed directly by a city or county rather than by or through a separately created special taxing district. Generally these levies are made in addition to any general ad valorem levy imposed by the county or city. The chart does not include all relevant information or requirements for each levy. Levies permitted by special taxing districts are listed in Appendix E.

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Special Levy (KRS 65.125)	Cities or Counties	Ad valorem	Yes	KRS 65.125 permits cities and counties to obtain funding for a special project, program or service through the enactment of a special ad valorem tax. The tax must be enacted by ordinance, and must be placed before the voters. If passed by the voters, the tax must be imposed against the assessed value of all taxable property within the jurisdictional boundaries of the local government. Any tax adopted in this manner shall be in addition to the general rate levied and shall not be subject to recall.
Riverport Authority (KRS 65.580)	Cities or Counties	Ad valorem	No	A city or county may levy an annual tax to support the operation of a riverport authority. The riverport authority may be created upon approval of the Transportation Cabinet. Riverport authorities may also impose fees for usage.
Emergency Services (KRS 65.674)	Counties	Ad valorem	No on initial rate. Subject to recall on rate increases	Local governmental units can establish special taxing districts to support the provision of emergency services, including the establishment of an emergency services board to provide ambulance, fire and emergency squad services (KRS 65.660). If, after an emergency services board is created a fiscal court elects to provide services directly through and agency of county government, the fiscal court may levy a dedicated ad valorem tax exclusive of all other taxes that may be levied by counties and cities at a maximum rate of \$0.10 per \$100 of assessed value. The initial levy is not subject to recall but any subsequent rate increases will be subject to recall.

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
<p>Special Levies for Urban County Governments (KRS 67A.710 to 67A.825) (KRS 67A.840 to 67A.849) (KRS 67A.871 to 67A.894) KRS 67A.924 to 67A.928)</p>	<p>Urban County Governments</p>	<p>Ad valorem License fee Transient room tax</p>	<p>See information for individual levies at right</p>	<ul style="list-style-type: none"> • Special Public Improvement Assessment (KRS 67A.710 to 67A.825). An urban-county government is permitted to assess property owners that will benefit from a public improvement for the cost of the public improvement. The assessment cannot be imposed if more than 50% both in number of lots and in aggregate assessed value of the property to benefited object unless the project is for sanitary sewers, in which case the project can be approved if it will eliminate a public health hazard. • Purchase of Development Rights (KRS 67A.840 to 67A.849) An urban-county government is permitted to place before the public via referendum the question of whether to fund a purchase of development rights program. The program can be funded with existing taxes permitted by law as well as one or more of the following special levies: An ad valorem assessment not to exceed \$0.05 per \$100 of assessed value of all taxable property in the urban-county government subject to the aggregate limits of the Constitution but not subject to recall; a license fee not to exceed \$0.125% on franchises, trades, occupations and professions collected from residents of the urban-county; or a transient room tax not to exceed 1% of rents. • Sanitary Sewers/Wastewater Collection Projects (KRS 67A.871 to 67A.894) An urban county government is permitted to impose a special assessment against property to carry out wastewater collection projects as an alternative and an addition to other authority granted to urban-county governments. • Parking Authority Ad Valorem Levy (KRS 67A.924 to 67A.928) An urban-county government may establish a parking authority, which may issue bonds. If bonds are issued, the parking authority may request that the legislative body of the urban-county government levy an ad valorem tax on all property located within the parking district which assessed for local taxation or an occupational license tax on all businesses, commercial establishments or professional offices within the parking district at a rate which shall not exceed the amount necessary to amortize any bonds issued or proposed to finance projects or provide operating funds for the authority.

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Tubercular Institutions Tax (KRS 68.090)	Counties	Ad valorem	No	In any county that has established itself as a tubercular district, the fiscal court shall levy a tax sufficient to maintain a tubercular institution. The tax shall not exceed \$0.10 per \$100 of assessed valuation. The tax shall be in addition to any other ad valorem tax levied.
Public Service Programs (KRS 68.510 to 68.550)	Counties and Urban County Governments	Ad valorem License	Yes	The intent of these sections is to provide counties and urban-county governments with the ability to generate additional revenues for public service programs through voted levies of ad valorem and license taxes. A public service program is any newly-instituted or expanded service program performed by the county for the benefits of its citizens. The program must be approved by the voters and shall not include the acquisition of capital facilities, and the ad valorem maximum rate for all public service programs approved by the voters shall not exceed the limits prescribed by the Constitution. The maximum rate for a license tax for each program is 0.5% of salaries, wages commissions, and other compensation earned within the county, or on net profits of businesses, trades and professions earned within the county.
Non-Taxing Water Districts (KRS 74.010 to 74.416)	Counties	Ad valorem benefits based assessments	No - however creation must be initiated by voter action	A water district may be created as a non-taxing district under KRS 65.810. Prior to the creation of the district at least 5 resident freeholders must petition the Public Service Commission for permission to petition the county/judge for the establishment of a water district. Property served by a water district is classified in one of 5 classes based upon the level of benefit it will receive (KRS 74.130). Assessments shall be made against benefited property in accordance with the classification of the property. The assessment amount is based upon the total cost of the improvement, costs of proceedings, wages plus a 5% contingency.
Construction Subdistrict of a Metropolitan Water District (KRS 76.241 to 76.273)		Ad valorem	Initiated by voter petition	A metropolitan sewer district (which is prohibited from levying an ad valorem tax - see KRS 76.140), may establish a construction subdistrict upon the petition of 25% or more of the freeholders of land sought to be included in the district. The district may adopt a method of assessment of benefited property within the subdistrict on the basis of acreage or any other equitable basis.

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Sewer Construction Districts (KRS 76.295 to 76.420)	Jefferson County or a combined District may be established in any county containing a city of the second class	Ad valorem benefits based assessment	Initiated by voter petition	The county judge in any county in which a metropolitan sewer district has been established, upon the petition of 25% of the resident freeholders may establish a sewer construction district to provide sewers and drainage facilities. When the cost of the construction has been determined, the commission shall assess the property benefited in accordance with the classification or as otherwise previously determined.
Supplemental Tax for 3rd and 4th Class Cities in Jefferson County (KRS 82.095)	3rd and 4th class cities in Jefferson County	Ad valorem based upon costs	Subject to recall under KRS 160.485	Any city of the third class or fourth class located in Jefferson County which provides police, fire or garbage collection services for the residents of the city may levy a supplemental tax which shall be in addition to ad valorem property taxes, and which shall not exceed the reasonable cost of providing the services provided. The rate shall be established by an ordinance. Levies under this section may be recalled as provided in KRS 160.485 (School occupational tax).
Louisville - General and Special Levies (KRS 91.280)	Louisville			KRS 91.820 provides very broad authority to the board of aldermen in a city of the first class to "make such separate levies as are required by law or as the board deems necessary or desirable, and a general levy in such amount as in its judgment is necessary and advisable."
Management Districts - Cities of the First Class, Consolidated local governments and Urban County Governments (KRS 91.750 to 91.762)	Louisville, Lexington	Ad valorem - maximum	Voter initiated levy	A management district is an area designated by a local legislative body that is to be benefited by economic improvements and that will therefore be subject to the payment of special assessments for the cost of the economic improvements. A district may be created upon receipt of a petition signed by at least 33% of the owners of real property who together are the owners of at least 51% of the assessed value of property within the proposed district requesting the formation of the district. (KRS 91.754) The district must be established by ordinance, which shall set forth the method of assessment and how the assessment shall be collected. (KRS 91.756)

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Special Assessments by Cities for Improvements (KRS 91A.200 to 91A.290)	Cities	Ad valorem - based on benefits received	No	Cities may finance special improvements through special assessments only as provided in these sections or through other statutory authority. An improvement includes any facility for public use or any services or addition thereto. The cost of any improvement may be financed through a special assessment apportioned on a benefits received basis. The city must prepare a report and hold a public hearing on the proposed improvement and property owners impacted may contest the improvement project. Assessments may coincide with the payment of ad valorem taxes.
Management Districts - Other Cities (KRS 91A.550 to 91A.580)	All cities other than Louisville and Lexington	Ad valorem - maximum levy is for 5 years	Voter initiated levy	A management district is an area designated by a local legislative body that is to be benefited by economic improvements and that he will therefore be subject to the payment of special assessments for the cost of the economic improvements. A district may be created upon receipt of a petition signed by the owners of 51% or more of the properties within the proposed district and who are the owners of real property equal to at least 51% of the assessed value of property within the proposed district requesting the formation of the district. (KRS 91A.560) The district must be established by ordinance, which shall set forth the method of assessment and how the assessment shall be collected. Assessments may not be levied for longer than 5 years. (KRS 91A.565)
Public Parks (KRS 97.590 see 67A.160 for similar language relating to Urban county governments)	Counties and Counties	Ad valorem	Yes	KRS 97.590 permits the levy of a tax not to exceed \$0.05 per \$100 of taxable property within the taxing jurisdiction for the purchase and maintenance of public parks. Such levy shall be subject to the aggregate limits on property taxes set forth in the Constitution, but shall not be subject to the recall provisions of KRS 132.017. A public referendum is required to levy the tax pursuant to the provisions of 83A.120 in the case of as city, county or charter county, in accordance with 67A.160 in the case of an urban-county government. Taxes in effect on June 15, 1998 do not require a public referendum. Funds derived from this levy shall be maintained in a separate park fund, and expenditures from the fund shall be overseen by the park board established pursuant to 97.550 to 97.600 if a park board has been established. If a park board has not been established, funds shall be disbursed by the legislative body.
Care and Custody of Courthouse Grounds (KRS 97.140)	Counties	Ad valorem	No	The fiscal court of a county shall have the jurisdiction to levy and collect property taxes necessary for the purpose of keeping and maintaining the courthouse and grounds. (No additional parameters provided in the statute.)

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Tax for Band or Orchestra (KRS 97.610)	Cities of the 2nd through 6th classes	Ad valorem	Yes	Cities of the second through sixth classes may levy an annual tax not to exceed \$0.01 per \$100 on the assessed valuation of the city for the purpose of providing a fund for the maintenance or employment of a band or orchestra. The tax may be imposed upon receipt of a petition requesting the tax, and the issue being placed upon the ballot and approved by a majority of voters. The tax may be repealed by petition anytime after three years has passed.
Tax to Support a War Memorial (KRS 97.700)	Cities of the 2nd through 6th classes	Ad valorem	No	Cities of the second through sixth classes may levy an annual tax not to exceed \$0.05 per \$100 on assessed valuation of the city for the purpose of maintaining a war memorial and supporting a war memorial commission. This levy shall be imposed only if other resources to support the commission are insufficient.
Urban Renewal Agency (KRS 99.400)	Counties and cities	Not clear	No	A city or county located in whole or in part within the area of operation of an urban renewal agency may levy taxes to support the urban renewal agency. The enabling legislation does not identify specific taxes that may be levied or establish a maximum rate.
Alternative Method to Finance Municipal Improvements (KRS 107.010 to 107.220)	Cities	Ad valorem - based upon benefits		These provisions provide for alternative methods for cities to fund public improvements relating to public rights of way, sewage treatment plants, fire hydrants (3rd to 6th class cities only) or any combination thereof. The assessment is initiated by the adoption of a series of three ordinances by the city administrative body.
Urban Services District (KRS 108.010 to 108.070)	Counties	Ad valorem based upon benefits (Authority under Ch 107)	Voter initiated	An urban services district may be established pursuant to the general provisions for non-taxing districts under KRS 65.810. Appointments to the governing council of an urban services district shall be made by the Governor (KRS 108.050). The urban services district can provide many of the services traditionally provided by cities and counties (KRS 208.020).
Fire Protection Tax (KRS 149.540)	Counties	Ad valorem		Allows counties to impose a tax on each owner of timberland at a rate of \$0.03 per year for each acre of timberland. Money from the assessment shall be deposited in a special county forest fire protection fund.
Library Taxes - Louisville (KRS 173.020 to 173.107)	Louisville	Ad valorem		If Louisville enters into an agreement with the governing authority of any library in the city containing over 50,000 volumes to make the library free and open to the public, the city shall establish an annual tax levy at a rate not to exceed \$0.02 per \$100 of property assessed for city tax purposes. The amount shall be credited to the library fund of the city.

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Library Taxes - Cities of the 2nd through 6th Classes (KRS 173.300 to 173.410)	Counties and cities except cities of the 1st class and a county containing a city of the 1st class.	Ad valorem	Not required but one permissible method of creation does involve a vote of the people.	<p>The governing body may provide library services under any one of four methods:</p> <ol style="list-style-type: none"> 1. May under its own initiative establish an independent library. 2. Upon receipt of a petition signed by a number of taxpayers equal to 5% of the number of votes cast for officers in the last general election of such governmental unit, voter approval required. 3. 2 or more counties on their own initiative or upon petition and vote in each county or upon initiative in one county and voter approval in another provided the aggregate assessed valuation of the property assessable for local taxation is a minimum of \$10 million. 4. Governing body may contract with existing nearby library. <p>Maximum and Minimum Rates:</p> <ul style="list-style-type: none"> • Counties containing a city of the first class – Rate shall be no more than \$0.15 per \$100 worth of property assessed for local taxation • Library regions – Rate shall not be less than \$0.03 and not more than \$0.10 per \$100 worth of property assess for local taxation • All others – Rate shall not be less than \$0.05 and no more than \$0.15 per \$100 worth of property assessed for local taxation⁶⁴
Special Taxes for Road Construction (KRS 178.210)	Counties	Ad valorem maximum 10 year levy	Yes	<p>The fiscal court of any county may submit to the voters at a special election to be held for that purpose, a question of voting a tax not to exceed \$0.20 per \$100 on app property subject to local taxation for the construction of public roads and bridges. The tax may be imposed for up to 10 years. The fiscal court can borrow money and issue bonds for up to 80% of the estimated tax for the year.</p>
Local Air Board (KRS 183.132 to 183.160)	Counties, cities or any combination thereof	Ad vlaorem	No for general levies Yes for assessments to support the issuance of bonds for construction	<ul style="list-style-type: none"> • Any governmental unit participating in a local air board may make an annual levy for airport development. • The authority may issue bonds to acquire, construct, maintain, expand, finance or improve any airport facility. If funds are insufficient to support the bond, then the issuance shall be submitted to a vote of the people. If approved an assessments shall be levied to meet the proposed expenses.

⁶⁴ Note that the statutory language actually refers to minimum and maximum appropriations - the language does not specifically authorize the levy of a tax between the minimum and maximum amounts.

Levy/Statutory Citation (In numerical order)	Governmental Unit That May Levy	Type of Tax	Voter Approval Required?	Comments/Description
Public Road District (184.010 to 184.300)	Board of Directors of the District	Ad valorem - based on benefits received	Creation of the district must be initiated by voters.	<ul style="list-style-type: none"> • May be established in cities of the 1st through 4th classes under the procedures for the creation of non-taxing districts (KRS 65.810). • Assessment is made against each owner of property abutting the improved road in proportion based upon the benefit of that property from the project. • Assessment is for 10 years.
Regional Mental Health Programs (KRS 210.460)	Counties and cities	Ad valorem	No	Authorizes any city or county participating in a mental health district to levy a special tax to support the program.
County Health Department Tax (KRS 212.040)	Counties	Ad valorem	No One permissible method of creation is by voter initiative.	<ul style="list-style-type: none"> • The fiscal court of any county may, by resolution, establish a district for the maintenance of a county health department. • If existing funds are insufficient, the fiscal court shall, at the next county levy, impose a tax at a rate sufficient to create, establish and maintain a county health department. • The voters of a county may also petition to create a county health department.
Drainage District (Drainage and Reclamation Act of 1912) (KRS 267.010 to 267.990)	Board of Directors of the District	Ad valorem - based on benefits received	20 voters may petition for the creation of the district to be placed before the voters.	<ul style="list-style-type: none"> • Assessment is based upon estimated benefits per acre to each class of property (between 1 and 5 mills). Additional assessments may be levied using the same formula if the original assessment is reduced by a court or cannot be collected. • A maintenance assessment may also be levied at a rate not to exceed 10% of the original assessment unless the county has 75 or more separate drainage districts or if a petition signed by a majority of the landowners, in which case the maintenance levy shall not exceed 30% of the original assessment. • The number of assessments is restricted based upon the maintenance fee.

Appendix E

Independent Taxing Districts

This chart identifies statutorily authorized special districts with taxing powers and provides some basic information about each district. The chart does not include all relevant information or requirements for each district. Specific statutes should be consulted for this information. Number of districts by category provided by GOLD. Absence of a number for a type of district does not necessarily mean that there are no such districts.

Procedure for Creating a Special Taxing District Under KRS 65.180 - 65.192

- **Definition of "taxing district"** - KRS 65.180 defines a taxing district as "any special district authorized by statute to levy ad valorem taxes within the meaning of Section 157 of the Constitution of Kentucky..." the statute also lists several specific sections of KRS which establish taxing districts.
- **Creation of a taxing district** - KRS 65.182 is the general statute establishing the process for the creation of a special taxing district except as otherwise provided by state law.
- Many of the statutes authorizing special taxing districts reference the provisions of KRS 65.182 as the process that must be used to create the district.
- The provisions of KRS 65.182 are ambiguous regarding how a special taxing district is created.
- KRS 65.182(1)(a) provides that persons desiring to create a taxing district shall present a petition to the fiscal court signed by voters equal to or greater than 25% of an average of the voters living in the proposed district and voting in the last 4 general elections. The petition must be accompanied by a plan of service. The requirements for a valid petition are set forth in KRS 65.184.
- KRS 65.182(1)(b) provides that a majority of the members of the fiscal court may vote to form a taxing district.
- **What is not clear is whether there is one method for creating a taxing district - requiring a petition followed by a vote of the fiscal court, or whether a district can be created by a petition OR upon the initiative of the fiscal court. The ambiguity is created because there is no "and" or "or" separating the two subparts of section (1).**
- After a taxing district has been proposed, the fiscal court must notify all planning commissions, cities and area development districts within the proposed district and any state agencies required to be notified by law.
- The fiscal court clerk must schedule a hearing no earlier than 30 days and no later than 90 days with the information to be published in accordance with Chapter 424.
- Following the hearing, the fiscal court shall set forth written findings of fact and shall approve or disapprove the district.
- The taxing district shall be of legal effect only upon enactment of an ordinance by the fiscal court. The ordinance must be filed with the county clerk.
- Appeal from the decision of the fiscal court to establish a taxing district may be made to the Circuit Court. (KRS 65.186)
- There is a special alternative for creating taxing districts in Jefferson County set forth in KRS 65.192, which requires a vote of the people. This method for creating a district may also be used to create a fire protection district or volunteer fire district in any other county.
- A taxing district may be created by two or more counties acting together (KRS 65.188).

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
Rescue squad (39F.160)	Not clear what body may levy the tax Ad valorem	The district must be created in accordance with 65.182 or 65.188.	(\$0.10) per \$100 of the assessed valuation of all property in the district.	<ul style="list-style-type: none"> The district can include more than one county. Taxes shall be collected by the sheriff in the same manner as county ad valorem taxes. The sheriff's fee shall be 4% of the tax collected.
Emergency Services Board (65.660 to 65.679)	Tax levied by the Emergency Services Board Ad Valorem	<ul style="list-style-type: none"> Created through legislative action of the legislative body of a county with a county wide fire protection district that has entered into an interlocal agreement to provide fire service to the largest city in the county (KRS 65.660). Once an emergency services district is created, no additional districts of the type absorbed into the emergency services board may be created (KRS 65.662). 	Rate not to exceed (\$0.10) per \$100 of the assessed valuation of all property in the district (KRS 65.670).	<ul style="list-style-type: none"> Results in the merger of separately created ambulance districts, fire protection districts and local rescue squad districts. Any separate existing ad valorem taxes levied by a district merged into the emergency services board may still be imposed. The emergency services board levy may be imposed in addition to those levies, but the aggregate cannot exceed the maximum rate for emergency services boards (KRS 65.676). Sheriff shall receive 4% of the amount collected (KRS 65.670). Fees may also be charged (KRS 65.670). Multicounty boards are permitted (KRS 65.662).

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Industrial Taxing District (68.600)</p> <p>(NOTE: Reference in KRS 68.604(3)(b) to 68.178 appears to be inaccurate)</p>	<p>Tax levied by the county</p> <p>Ad Valorem</p> <p>Occupational License Tax</p>	<ul style="list-style-type: none"> District is created by the act of the legislative body of the county. A county that includes property that will be used in an economic development project that will result in the creation of at least 500 new jobs may levy taxes to pay for the establishment, operation, and maintenance of the level of governmental services that exceeds the level of services provided to the rest of the county. It appears that the taxing district can be managed directly by the fiscal court, or the fiscal court may establish a board of trustees to manage and control the district (KRS 68.606). 	<p>Ad valorem tax not to exceed (\$0.10) per \$100 of the assessed valuation of all property in the district.</p> <p>Occupational license tax may be assessed</p>	<ul style="list-style-type: none"> Taxes shall be collected in the same manner as are other county ad valorem and occupational taxes. Administered by the fiscal court.
<p>Fire Protection District or Volunteer Fire Department District (75.010 to 75.260)</p> <p>157 Districts</p>	<p>Tax may be levied by the district trustees</p> <p>Ad valorem</p>	<ul style="list-style-type: none"> A district must be created pursuant to KRS 65.182 (KRS 75.010). Some districts are also created under KRS Chapter 273⁶⁵. KRS 273.401 provides that if a fire department created under Chapter 273 is authorized to collect membership charges or subscriber fees, that those charges or fees may be included as part of the annual property tax bills. 	<p>Maximum rate of \$0.10 per \$100 of assessed value within the district (KRS 75.040).</p> <p>If the district is the primary provider of ambulance service in the district it may levy up to \$0.20 per \$100 of assessed value (KRS 75.040).</p>	<ul style="list-style-type: none"> Rate shall be subject to the same delinquency date, discounts, penalties and interest as applied to valorem taxes (KRS 75.040). Sheriff shall receive 1% of the amount collected (KRS 75.040).

⁶⁵ Chapter 273 provides for the creation of charitable and educational societies.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/ Assessment	Other Information
Fire Protection Subdistrict (KRS 75.015)	Tax levied by trustees of the fire district Ad Valorem	<ul style="list-style-type: none"> A fire protection subdistrict may be created within a fire protection district or volunteer fire department district. An ad valorem tax may be imposed against property in the subdistrict in addition to the regular levy to support the district. Fire protection subdistricts may be formed after the receipt of a petition by the fiscal court and a hearing. 	Limited to amount stated in the petition not to exceed the totals noted to the right.	<ul style="list-style-type: none"> Tax is administered in the same manner as the fire protection district tax. Maximum levy shall be (\$0.10) per \$100 of valuation when combined with the tax for fire and emergency services levied on the entire district if neither the fire district or fire subdistrict operates an ambulance service or \$0.20 per \$100 if either the district or subdistrict operates an emergency ambulance service. Subdistrict taxes must be separately stated on the tax bill.
Sanitation Tax District (Jefferson County only) (76.274 to 76.279) 13 Districts ⁶⁶	Tax levied by the board of directors Ad Valorem	<ul style="list-style-type: none"> Tax may be imposed to establish a comprehensive sewage or sewage treatment system or storm water and surface drainage system or both (KRS 76.278). Notice of imposition of tax must be published (KRS 76.278). Subject to recall (KRS 76.278). 	No statutory maximum established - only subject to constitutional limits (KRS 76.278).	<ul style="list-style-type: none"> Tax may be levied upon all real property within the district (KRS 76.278). Sheriff shall receive 1% of the amount collected KRS 76.278).

⁶⁶ Data from GOLD indicates that there are 13 districts existing under this authority, however since these provisions only relate to Jefferson County and since several of the districts referencing this statute are not in Jefferson County, it is possible that the GOLD data has referenced the authorizing statutes incorrectly.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Mass Transit Programs (96A.210 - 96A.370) 10 Districts</p>	<p>Tax levied by the governing body of the Mass Transit Board upon voter approval Ad Valorem Occupational Sales Tax</p>	<p>Governing body may, after approval of the voters, by resolution or ordinance choose one of the following:</p> <ol style="list-style-type: none"> 1. Ad valorem tax; 2. Occupational license tax - rate may not exceed 1% salaries, wages, etc. or net profits; or 3. Sales tax upon all retailers at a rate not to exceed (0.5%) of the gross receipts of any retailer derived from retail sales as defined in KRS Chapter 139 (KRS 96A.320)⁶⁷. 	<p>Ad valorem tax - Rate may not exceed Constitutional limits (KRS 96A.320) Occupational license tax- see rate at left Sales tax - see rate at left.</p>	<ul style="list-style-type: none"> • A transit authority may be established by a city, a county or by counties and cities together. • If a sales tax is levied, it will be collected and administered under the state sales tax provisions, with the local portion remitted by the Revenue Dept to the authority (KRS 96A.320).
<p>Regional Park Authority (97.095)</p>	<p>Tax may be levied by the regional park authority Ad valorem</p>	<ul style="list-style-type: none"> • A regional park authority may be formed by 2 or more counties. • May be established by a vote of the fiscal court or through a petition effort and vote of the people. • Ad valorem tax cannot be levied until a public referendum has been conducted. 	<p>Maximum levy not to exceed \$0.05 per \$100 of taxable property within the boundaries of the authority.</p>	<p>The purpose of a regional park authority is to acquire, build, operate or maintain parks and green space in 2 or more counties.</p>
<p>Flood Control District (104.450 to 104.680) 4 Districts</p>	<p>Board of directors may levy tax Ad valorem</p>	<ul style="list-style-type: none"> • Flood control districts may be established by the Secretary for natural resources and environmental protection (KRS 104.460). • Establishment of the district requires that a petition of signed by 70% of the impacted landowners be filed with the Secretary (KRS 104.480). 	<p>Rate shall not exceed (\$0.15) per \$100 of assessed valuation of property within the district (KRS 104.670).</p>	<p>County clerk, PVA or Sheriff shall not receive any additional compensation for collection of this tax (KRS 104.680).</p>

⁶⁷ NOTE: Section 181 of the Constitution does not allow the General Assembly to authorize the imposition of excise taxes by local governments other than license taxes, which are expressly authorized. A sales tax is an excise tax. Therefore, the constitutionality of this provision is questionable.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
County Community Improvement District (107.310 to 107.500)	Board of commissioners may request fiscal court to levy tax (107.350) Ad valorem	<ul style="list-style-type: none"> • Authorized for counties containing cities of the first through fourth classes - district to be created in accordance with KRS 65.182 (KRS 107.320). • District includes all property in the county, including property in incorporated cities (KRS 107.320). • Board is required to determine the nature and approximate cost of the project or projects to be financed through the issuance of bonds to be retired through the levy of a tax (KRS 107.360). • Tax shall not be imposed if no bonds are issued or outstanding (KRS 107.350). • Levy must be submitted to the voters for approval (KRS 107.360). 	Rate shall not exceed (\$0.10) per \$100 of assessed value of said property and which shall not exceed the amount necessary to amortize any bonds issued or proposed to finance the projects, plus the operating expenses of the district (KRS 107.350).	<ul style="list-style-type: none"> • The purpose of the district is to provide for the acquisition, construction or equipping of buildings and facilities that serve a county purpose by any governmental unit within the district (KRS 107.330). • Tax shall be collected in the same manner as are county ad valorem taxes (KRS 107.350).

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/ Assessment	Other Information
<p>Emergency Ambulance Service District (108.080 to 108.180) 24 Districts</p>	<p>District may levy tax by ordinance (108.105) Ad Valorem</p>	<ul style="list-style-type: none"> District may be created by fiscal court or city legislative body pursuant to KRS 65.182 or pursuant to an alternative method provided in KRS 108.105 (KRS 108.100). District may also be created within a city by the citizens of a city through the filing of a petition with the city legislative body (KRS 108.100). Cities and counties may join together to establish an ambulance service district (KRS 108.090). Not subject to vote or recall. 	<p>Rate shall not exceed (\$0.10) per \$100 of the assessed valuation of all property in the district (KRS 108.100)</p>	<ul style="list-style-type: none"> If district consists solely of a single city, the tax shall be collected in the same manner as are the other city ad valorem taxes (KRS 108.100). In all other districts the tax shall be collected by the Sheriff whose fee shall be 4% of the amount collected (KRS 108.100). Note: (KRS 108.100)(4)(d)) states that the sheriff shall be entitled to a fee of 1% of the amount of the tax collected by him for all special ad valorem taxes except the tax for the ambulance district.
<p>Waste Management District (109.011 to 109.310) 7 Districts</p>	<p>Any county or waste management district may levy an annual tax.⁶⁸ Ad valorem</p>	<ul style="list-style-type: none"> District may be created by a single county or two or more counties in accordance with KRS 65.182 (KRS 109.115). District may also be established by a citizen petition, which will place the issue before the voters for consideration (KRS 109.270). 	<p>Rate shall not exceed (\$0.10) per \$100 of assessed valuation of real property within the area subject to taxation for county purposes (KRS 109.056)</p>	<p>In lieu of or in addition to the ad valorem tax, the authority may, if authorized by all member counties, collect fees from persons receiving services from the area. Fees must be limited to an amount reasonable expected to yield revenues needed for operation and maintenance of the system (KRS 109.056).</p>

⁶⁸ For a district to levy a tax, the tax must be authorized by all counties comprising the district. KRS 109.056

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
Area Planning Commission (147.610 to 147.705)	Tax may be levied by the area planning commission Ad Valorem	<ul style="list-style-type: none"> • May be established in any 2 or more adjacent counties, one of which has a city with a population of more than 50,000 but less than 200,000 to consolidate planning operations (KRS147.610). • Must be approved by the county fiscal courts and the legislative bodies of cities representing more than 2/3 of the population. Requires ordinance by each body and a contract among bodies (KRS 147.620). • Tax levied for the purpose of defraying all expenses necessary and incidental to carry out the continuing activities of the commission (KRS 147.660). 	Rate shall not exceed (\$0.05) per \$100 of the assessed valuation of property within the counties affected (KRS 147.660).	<ul style="list-style-type: none"> • Shall conform to the collection of taxes for counties and the same provisions concerning the nonpayment applies (KRS 147.660). • Sheriff's fee not to exceed 4% for collection (KRS 147.660).
Cooperative Extension District (164.605 to 164.675) 113 Districts	The specific authorization to levy was repealed in 1978. See discussion under "other information". Ad valorem	<ul style="list-style-type: none"> • Each county fiscal court is authorized to establish a countywide extension district as well as an extension board (KRS 164.620). • KRS 164.670 provides that revenues from a cooperative extension education tax (which tax is not referenced elsewhere) shall be due and payable before the fifteenth of each month following collection. This reference is unusual as the tax previously authorized was an annual ad valorem tax and not a monthly tax. 	Rate shall not exceed (\$0.50) per \$100 which is the maximum rate for taxing districts – see OAG 83-264	<ul style="list-style-type: none"> • The statute originally authorizing the levy of a tax by the extension district board was repealed in 1978 so no explicit statutory authority for this levy currently exists. • There are two subsequent Attorney General Opinions that provide that the District has the authority to levy a tax by implication. OAG 79-283 and 83-264.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Public Library Districts (173.450 to 173.650)</p> <p>There are a total of 104 library districts listed by GOLD - data does not indicate under what KRS section the districts were formed.</p>	<p>Tax may be levied by the board</p> <p>Ad valorem</p>	<ul style="list-style-type: none"> • May be established in 1 or in 2 or more counties that are contiguous to each other (KRS 173.460). • Districts shall be organized under KRS 65.182 (KRS 173.470). • Counties outside existing district and contiguous thereto, may be annexed by petition and voter approval (KRS 173.620). 	<p>Rate shall not exceed \$0.20 per \$100 of the assessed valuation of all property in the district.</p> <p>If the rate was established prior to July 13, 1984, the rate may be increased or decreased by voter approval. The increase shall not exceed \$0.20 per \$100 of the assessed valuation of all property in the district. (KRS 173.610)</p>	<ul style="list-style-type: none"> • Tax shall be collected in the same manner as are other county ad valorem taxes (KRS 173.470). • Taxes are in addition to all other ad valorem taxes (KRS 173.470). • The Department of Libraries and Archives must be notified of the creation of a district (KRS 173.480). • May issue revenue bonds (KRS 173.600).
<p>Library Districts Formed by Petition (173.710 to 173.800)</p> <p>NOTE: There are no provisions in KRS 173.710 to 173.800 establishing a process for the creation of a library taxing district or establishing a maximum rate.</p> <p>It appears that the provisions of these sections apply only to districts organized prior to July 13, 1984. See KRS 173.720.</p>	<p>Ad valorem</p>	<ul style="list-style-type: none"> • The county or two or more counties contiguous to each other may be organized into a public library district (KRS 173.715). • Counties outside the district may be annexed by petition of 51% of the qualified voters (KRS 173.795). 	<p>Rate may not be increased or decreased unless 51% of the number of qualified voters petition the action. Fiscal court shall order the change.</p> <p>Any increase shall not exceed \$0.20 per \$100 of the assessed valuation of all property in the district. (KRS 173.790)</p>	<p>Tax to be collected in the same manner as are other county ad valorem taxes (KRS 173.720)</p>

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
Subdivision Road District (179.700 to 179.990)	Tax may be levied by the board of trustees Ad Valorem	<ul style="list-style-type: none"> • District may be created in accordance with KRS 65.182 (KRS 179.705). • Tax may be levied provided that the property is subject to county tax for the purposes of defraying the expenses of maintaining the roads within the subdivision tract (KRS 179.720). • The board of trustees may by petition change the territorial limits of an established district with proper notice to the freeholders of the territory (KRS 179.710). 	Rate shall not exceed (\$0.10) per \$100 of valuation as assessed for county taxes (KRS 179.705, 179.720).	<ul style="list-style-type: none"> • Shall conform to the collection of taxes for counties and the same provisions concerning the nonpayment applies (KRS 179.720). • Sheriff's fee shall be 4% of the amount collected (KRS 179.720) . • Subdivision road district means a district in a county or counties which has been established for the maintenance of public roads which are not state roads or county roads within the district (KRS 179.700).

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Mental Health and Mental Retardation Taxing District (210.370 to 210.480) 9 Districts</p>	<p>Fiscal Court may levy the tax Ad Valorem</p>	<ul style="list-style-type: none"> • A community mental health-retardation board shall, with the approval of the Cabinet for Health Services, request the fiscal court to impose a tax to meet the needs of the mental health and mental retardation services program and clinic if the fiscal courts have not contributed a sufficient proportionate share of the cost of the program (KRS 210.480). • A mental health and mental retardation taxing district was created by operation of law in each county that participated in the establishment of a regional community mental health and mental retardation services program under KRS 210.380, KRS 210.470 (KRS 210.470). • No vote of the people is required for the levy of the tax. 	<p>Rate may not be in excess of (\$0.04) per \$100 of full assessed valuation (KRS 210.480)</p>	<ul style="list-style-type: none"> • Shall be collected in the same manner as are other county ad valorem taxes (KRS 210.480). • Not subject to compensating tax rate as defined in KRS 132.010 (KRS 210.480). • Under KRS 210.460, a fiscal court is authorized to make a special levy to support a regional mental health program.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/ Assessment	Other Information
<p>Public Health Taxing District (212.720 to 212.760) 110 Districts</p>	<p>If created after 6/13/68 the county or city-county levy the tax.</p> <p>If created before 6/13/68 the board may levy upon approval by the Cabinet for Health Services.</p> <p>Ad valorem</p>	<ul style="list-style-type: none"> County or city-county board of health shall, with the approval of the Cabinet for Health Services, impose the tax by resolution to meet the public health needs of the county or city-county health department if they have not appropriated a sufficient amount to meet the needs of the health department and the standards prescribed the Cabinet for Health Services (KRS 212.725). <ul style="list-style-type: none"> Effective 6/13/68, a public health taxing district was established by operation of law in every county except Jefferson County (KRS 212.750). Two or more counties may establish a joint district (KRS 212.740). 	<p>For districts created prior to 6/13/68 and counties containing cities of the first class, rate may not be in excess of the maximum approved by the electorate in KRS 212.720 (KRS 212.725)⁶⁹</p> <p>Maximum rate shall not exceed (\$0.10) per \$100 of valuation for districts created on or after 6/13/68. (KRS 212.755)</p>	<ul style="list-style-type: none"> The tax shall be collected in the same manner as other county ad valorem taxes (KRS 212.755). Not subject to compensating tax rate as defined in KRS 132.010 (KRS 210.480) Note: KRS 212.760 provides for a maximum rate of (\$0.04) per \$100. This maximum rate appears to be in conflict with 212.755 which permits a levy of up to \$0.10 per \$100 of assessed value. It appears that this may have and oversight in the amendment process and that 212.760 should have been amended as well to increase the minimum rate.

⁶⁹ Note that this rate references KRS 212.720 as establishing a rate as approved by the electorate, however KRS 212.720 does not include any provisions requiring a vote or establishing a rate. As originally enacted in 1956, KRS 212.720 did require a vote of the people.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Hospital District (216.310 to 216.360) 9 Districts</p>	<p>Fiscal court may levy the tax. Ad valorem</p>	<ul style="list-style-type: none"> • The Secretary of the Cabinet for Health Services shall serve as the secretary of hospital districts (KRS 216.315). • A hospital district may be created in accordance with the provisions of KRS 65.182 and 216.320 (KRS 216.317). • The Secretary shall be notified after the provisions of KRS 65.182 have been complied with, at which time the Secretary will establish the district and certify its existence to the county clerk, the county judge, and the Governor's Office for Local Development (KRS 216.320). 	<p>Rate shall not exceed (\$0.10) per \$100 of the assessed valuation of the property within the district. Rate is established by the board but levied by the county. (KRS 216.317)</p>	<ul style="list-style-type: none"> • Shall be collected in the same manner as other county ad valorem taxes (KRS 216.317). • May be established by a county or 2 or more counties (KRS 216.310). • The tax shall be imposed in addition to other taxes. • NOTE: A hospital district may be created with a levy of zero cents. Any subsequent tax rate change shall be subject to KRS 132.023. (KRS 216.317)⁷⁰

⁷⁰ This applies to boards created after 1/1/94.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/ Assessment	Other Information
<p>Sanitation District (220.010 to 220.613) (does not apply to Louisville) 6 Districts</p>	<p>Board of Directors may levy the tax Ad valorem</p>	<ul style="list-style-type: none"> • The Secretary of the Natural Resources and Environmental Protection Cabinet serves as the Commissioner of Sanitation Districts and may establish a sanitation district within any county upon the receipt of a petition containing the signatures of 60% of the freeholders within the territory of the proposed district (KRS 220.020, 220.040). • The board of directors may levy 1,2 or 3 annual taxes, which need not be in successive years to be used to pay the expenses of organization, surveys and plans, and for the other incidental expenses that may be necessary up to the time money is received from the sale of bonds (KRS 220.360). 	<p>Rate shall not exceed (\$0.15) per \$100 of assessed valuation of property within the district (KRS 220.360)</p>	<ul style="list-style-type: none"> • Collection shall conform to the collection of taxes in the county including the same provisions for nonpayment (KRS 220.360). • County clerk, PVA, and sheriff shall not receive compensation for listing or collecting the tax (KRS 220.360) • May impose user fees (KRS 220.515). • Districts may cross two or more counties. • The powers of the fiscal court over the sanitation district are to be stated in the ordinance creating the district. • A sanitation district may establish a construction subdistrict when 25% or more of the freeholders file a petition with the district. Property included in a construction subdistrict shall be assessed based on the benefits to the property (KRS 220.553).

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/ Assessment	Other Information
<p>Soil and Conservation District 262.100 to 262.660 121 Districts</p>	<p>Board of Directors may levy the tax. Ad Valorem</p>	<ul style="list-style-type: none"> The state Soil and Water Conservation Commission oversees and supervises local soil conservation districts (KRS 262.090). Any 25 landowners may petition the Soil and Conservation Commission for a soil and conservation district if the county maintains a full time county agriculture extension agent. Referendum must be held on the creation of the district (KRS 262.100, 263.120). Board of directors shall levy a millage tax on all real property within the boundaries of the county if the funds for the approved budget are not adequately supplied by the fiscal court (KRS 262.200). 	<p>None</p>	<ul style="list-style-type: none"> Tax shall be collected in the same manner as other county taxes. (KRS 262.200) Two or more districts may be consolidated.
<p>Watershed Conservancy District (A subdistrict of a Soil and Conservation District) 262.700 to 262.990 69 Districts</p>	<p>Board of Directors may levy the tax. Ad Valorem</p>	<ul style="list-style-type: none"> 25 or more landowners or if there are less than 50 landowners a majority of those involved may petition the board of supervisors of the soil conservation district for a watershed conservancy district. Must be presented to the voters in the proposed district. The tax may be levied on the real property within the district for the administration, construction and maintenance of works of improvement within the district. Board shall levy a tax sufficient to meet budget needs. 	<p>Tax shall be by millage rate or per acre rate sufficient to meet budget needs.</p>	<ul style="list-style-type: none"> Collection shall conform to the collection of taxes in the county including the same provisions for nonpayment. Sheriff's fee not to exceed 4% for collection. A special assessment may be made to support a special watershed project based on an amount per acre according the benefits received with assessments over a period of time not to exceed 30 years. Must be presented to voters.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Levee District 266.010 to 266.990</p> <p>2 Districts both in Fulton County</p>	<p>Board of Directors may levy the tax.</p> <p>Ad Valorem</p>	<ul style="list-style-type: none"> • May be created in counties of less than 200,000 population (KRS 266.010). • Must be created pursuant to KRS 65.182. Any district created prior to 1914 is grandfathered (KRS 266.010). • Provisions apply only to levees that have or may receive government aid (KRS 266.010). Board may levy an annual tax for the purpose of building or repairing its levee (KRS 266.150). 	<p>Rate shall not exceed (\$0.50) per \$100 on all property within the territory protected by the levee (KRS 266.150).</p>	<ul style="list-style-type: none"> • Shall be collected in the same manner as county revenue. (KRS 266.150) • Additional assessments may be levied to pay the interest and principal of any bonds or any liability incurred in the reconstruction, repair or maintenance of any public levy constructed under the laws other than the general laws of the state pertaining to drainage of lands, to pay the interest and principal of the bonds or other liability (KRS 266.170).

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/ Assessment	Other Information
<p>Drainage, Levee, or Reclamation District (Drainage and Reclamation Act of 1918)⁷¹ 268.010 to 268.990 Any county may establish a district.</p>	<p>Board of Directors may levy tax</p>	<ul style="list-style-type: none"> District must be created pursuant to KRS 65.182 (KRS 268.020). <u>Preliminary Tax</u> – Assessed upon each acre of land within the district to be used to pay the expenses incurred in establishing the district making surveys, assessing benefits and damages and other expenses of the board (KRS 268.180). <u>Drainage Assessment</u> is based upon estimated benefits per acre to each class of land by reason of the proposed improvement, and each tract of land shall be assessed according to the benefits to cover the costs of the improvement, administrative costs and bond interest. (KRS 268.340) <u>Maintenance Assessment</u> – used to maintain and preserve any improvement and defray current expenses of the district. Apportioned based upon the same formula as the drainage assessment (KRS 268.470). 	<p><u>Preliminary Tax</u> - Not to exceed (\$0.50) per acre (KRS 268.180).</p> <p><u>Maintenance Assessment</u> Rate shall not exceed 10% of the original construction estimate but shall not exceed 2% of the original cost of construction unless written consent is given by at least 2/3 of the owners of the property affected (KRS 268.470).</p>	<ul style="list-style-type: none"> Preliminary tax is due when levied but no later than December 1 of the year in which it is levied. (KRS 268.180) The county treasurer will collect the tax until the tax becomes delinquent as which time the Sheriff will collect the tax in the same manner as general state and county taxes (KRS 268.180). Tax shall be a lien on the property from the time of the levy. (KRS 268.180) Sheriff shall receive 4% on the amount collected. (KRS 268.470) Sheriff shall collect drainage assessments on an annual basis at the same time he collects city and county taxes. (KRS 268.420). The Sheriff shall collect the maintenance assessment at the same time as other assessments (KRS 268.470).

⁷¹ KRS Chapter 267 also includes provisions regarding the creation of drainage and reclamation districts, however the provisions governing districts created under Chapter 267 (known as the Drainage and Reclamation Act of 192) are not detailed here as those districts are created pursuant to the non-taxing district statutes.

Independent Taxing Districts

District Type/ Statute (In numerical order)	Imposition and Type of Tax	Limitations	Maximum Rate/Assessment	Other Information
<p>Misc. Provision to ditches, drainage and reclamation 269.010 to 269.270</p>	<p>Board of Directors may levy the tax (269.140) Ad Valorem</p>	<ul style="list-style-type: none"> • Imposing a tax for the removal of any ponds, pools, swamps drainage district—requires approval by 2/3 of the voters in the county (KRS 269.080). • A taxing district may be created in part of a county where any pond, marsh land or swamp land exists if the voters living in the area desire to make improvements. 2/3 of the voters living in the area must approve the levy of a tax to make needed improvements (KRS 269.100). • Taxes shall be levied annually ratably allocable to all uncollected assessment installments sufficient to provide for the payment of the interest on the refunding bonds as it accrues. 	<p>Rate shall not exceed (\$0.50) per \$100 (KRS 269.070-269.200)</p> <p>Taxes may be levied for the payment of refunding bonds. (KRS 269.040)</p>	<ul style="list-style-type: none"> • Board of Drainage Commissioners may refund any part of the bonded indebtedness of the drainage, levee or reclamation district and issue 40 year refunding bonds. • All taxes shall be collected and enforced at the same time and manner as provided for all other taxes levied by the district. (KRS 269.010-269.060) • Taxes shall be assessed on July 1 and are due between October 1 and December 1 of that year. Discounts are permitted if taxes are paid prior to December 1. (KRS 269.170).

Appendix F

Alcohol License Fees - Counties and Consolidated Local Governments

The fiscal court of each county or a consolidated local government in which traffic in alcoholic beverages is not prohibited under KRS Chapter 242 may impose license fees for the privilege of trafficking in alcoholic beverages. These licenses may be issued by the county or consolidated local government administrator. Any amount paid to any city within the county as a license fee for the same privilege for the same year may be credited against the county license fee.

The license fees shall not exceed the following:

- (a) Retail package licenses, per annum:
 - 1. In counties containing cities of the first class or a consolidated local government \$1,200.00
 - 2. In counties containing cities of the second class \$1,000.00
 - 3. In counties containing cities of the third class \$800.00
 - 4. In counties containing cities of the fourth class \$600.00
 - 5. In all other counties \$400.00
- (b) Retail drink license, motel drink license, restaurant drink license, or supplemental bar license, per annum:
 - 1. In counties containing cities of the first class or a consolidated local government \$1,600.00
 - 2. In counties containing cities of the second class \$1,000.00
 - 3. In counties containing cities of the third class \$800.00
 - 4. In counties containing cities of the fourth class \$600.00
- (c) Special temporary liquor license, per event:
 - 1. In counties containing cities of the first class or a consolidated local government \$266.66
 - 2. In counties containing cities of the second class \$166.66
 - 3. In counties containing cities of the third class \$133.34
 - 4. In counties containing cities of the fourth class \$100.00
- (d) Restaurant wine license, per annum:
 - 1. New applicants \$600.00
 - 2. Applicants for renewal \$400.00
- (e) Special temporary wine license, per event \$50.00

- (f) Special private club license, per annum \$300.00
- (g) Special Sunday retail drink license, per annum \$300.00
- (h) Retail malt beverage license, per annum:
 - 1. New applicants \$400.00
 - 2. Applicants for renewal \$150.00
- (i) Special temporary malt beverage license, per event \$25.00
- (j) 1. Limited restaurant license or limited golf course license, per annum
(includes distilled spirits, wine, and malt beverages), new applicants:
 - a. In counties containing cities of the first class or a consolidated local
government \$2,000.00
 - b. In counties containing cities of the second class \$1,400.00
 - c. In counties containing cities of the third class \$1,200.00
 - d. In counties containing cities of the fourth, fifth,
or sixth class \$1,000.00
- 2. Renewals for limited restaurant licenses or limited golf course licenses are
\$250.00 less than the applicable licensing fee for new applicants.

Appendix F

Alcohol License Fees - Cities and Consolidated Local Governments

The legislative body of any city or a consolidated local government in which traffic in alcoholic beverages is not prohibited under KRS Chapter 242 may impose license fees for the privilege of manufacturing and trafficking in alcoholic beverages. Only those licenses set out in this section shall be issued, and the fee for each shall not exceed the specified amount:

- (1) Distilled spirit licenses as set forth in KRS 243.030:
 - (a) Distiller's license, per annum \$500.00
 - (b) Rectifier's license, per annum \$3,000.00
 - (c) Blender's license, per annum \$3,000.00
 - (d) Wholesaler's distilled spirits and wine license, per annum \$3,000.00
 - (e) Distilled spirits and wine retail package license, per annum:
 1. In counties containing cities of the first class or a consolidated local government \$1,200.00
 2. In counties containing cities of the second class \$1,000.00
 3. In counties containing cities of the third class \$800.00
 4. In counties containing cities of the fourth class \$600.00
 5. In all other counties \$400.00
- (2) Distilled spirits and wine retail drink license, motel drink license, airport drink license, restaurant drink license, or supplemental bar license, per annum:
 - (a) In counties containing cities of the first class or a consolidated local government \$1,600.00
 - (b) In counties containing cities of the second class \$1,000.00
 - (c) In counties containing cities of the third class \$800.00
 - (d) In counties containing cities of the fourth class \$600.00
- (3) Distilled spirits and wine special temporary liquor license, per event:
 - (a) In counties containing cities of the first class or a consolidated local government \$266.66
 - (b) In counties containing cities of the second class \$166.66
 - (c) In counties containing cities of the third class \$133.33
 - (d) In counties containing cities of the fourth class \$100.00
- (4) Special temporary wine license, per event \$50.00
- (5) Distilled spirits and wine special temporary auction license, per event \$200.00
- (6) Special private club license, per annum \$300.00
- (7) Distilled spirits and wine special Sunday retail drink license, per annum \$300.00
- (8) Extended hours supplemental license, per annum \$2,000.00
- (9) Nonresident special agent or solicitor's license, per annum \$40.00
- (10) Restaurant wine license, per annum:
 - (a) New applicants \$600.00

(b)	Applicants for renewal	\$400.00
(11)	Caterer's license, per annum	\$800.00
(12)	Riverboat license, per annum	\$1,200.00
(13)	Horse race track license, per annum	\$2,000.00
(14)	Convention center or convention hotel complex license, per annum	\$2,000.00
(15)	Bottling house distilled spirits license or wine storage license, per annum	\$1,000.00
(16)	Automobile race track license, per annum.....	\$2,000.00
(17)	Souvenir retail liquor license, per annum	\$1,000.00
(18)	Malt beverage licenses as follows:	
(a)	Brewer's license, per annum	\$500.00
(b)	Microbrewery license, per annum	\$500.00
(c)	Malt beverage distributor's license, per annum	\$400.00
(d)	Retail malt beverage license, per annum	\$200.00
(e)	Special temporary retail malt beverage license, per event	\$25.00
(f)	Malt beverage brew-on-premises license, per annum	\$100.00
(19)	Limited restaurant license or limited golf course license, per annum (includes distilled spirits, wine, and malt beverages), new applicants:	
(a)	In counties containing cities of the first class or a consolidated local government	\$1,800.00
(b)	In counties containing cities of the second class	\$1,200.00
(c)	In counties containing cities of the third class	\$1,000.00
(d)	In counties containing cities of the fourth, fifth, or sixth class	\$800.00.

Appendix G

KENTUCKY CITIES BY CLASS

There are 433 Cities in total

<u>City</u>	<u>County</u>
1st Class	
<u>(Greater than 100,000)</u>	
Louisville (Louisville/Jefferson County Metro Government)	Jefferson
N=1	
2nd Class	
<u>(Greater than 20,000, less than 100,000)</u>	
Ashland	Boyd
Bowling Green	Warren
Covington	Kenton
Frankfort	Franklin
*Henderson	Henderson
Hopkinsville	Christian
*Jeffersontown	Jefferson
*Lexington	Fayette
*Newport	Campbell
Owensboro	Daviess
Paducah	McCracken
*Radcliff	Hardin
Richmond	Madison
N=13	
3rd Class	
<u>(Greater than 8,000, less than 20,000)</u>	
Campbellsville	Taylor
Danville	Boyle
Erlanger	Kenton
*Flatwoods	Greenup
Florence	Boone
Glasgow	Barren
*Hazard	Perry
*Independence	Kenton
Mayfield	Graves
*Maysville	Mason
Middlesboro	Bell
Murray	Calloway

<u>City</u>	<u>County</u>
Nicholasville	Jessamine
Paris	Bourbon
*Pikeville	Pike
*Prospect	Jefferson Oldham
Shively	Jefferson
Somerset	Pulaski
Winchester	Clark
N=19	
<u>4th Class</u> <u>(Greater than 3,000, less than 8,000)</u>	
Albany	Clinton
Alexandria	Campbell
*Anchorage	Jefferson
*Augusta	Bracken
Barbourville	Knox
Bardstown	Nelson
*Beaver Dam	Ohio
Bellevue	Campbell
Benton	Marshall
*Berea	Madison
*Calvert City	Marshall
*Carlisle	Nicholas
Carrollton	Carroll
*Catlettsburg	Boyd
Cave City	Barren
Central City	Muhlenberg
Columbia	Adair
*Corbin	Whitley & Knox
Crescent Springs	Kenton
Cumberland	Harlan
Cynthiana	Harrison
Dawson Springs	Hopkins, Caldwell
Dayton	Campbell
Douglass Hills	Jefferson
*Earlington	Hopkins
*Edgewood	Kenton
*Elizabethtown	Hardin
*Elkhorn City	Pike
*Elkton	Todd
Elsmere	Kenton
*Eminence	Henry
*Falmouth	Pendleton
Flemingsburg	Fleming
Fort Mitchell	Kenton
*Fort Thomas	Campbell
Fort Wright	Kenton
Franklin	Simpson

<u>City</u>	<u>County</u>
Fulton	Fulton
*Georgetown	Scott
Graymoor-Devondale	Jefferson
Grayson	Carter
Greenville	Muhlenberg
Guthrie	Todd
*Harlan	Harlan
Harrodsburg	Mercer
*Hickman	Fulton
Highland Heights	Campbell
Hillview	Bullitt
*Hodgenville	Larue
Horse Cave	Hart
Hurstbourne	Jefferson
*+Indian Hills	Jefferson
*Irvine	Estill
*Jackson	Breathitt
*Jenkins	Letcher
LaGrange	Oldham
Lawrenceburg	Anderson
Lebanon	Marion
Leitchfield	Grayson
London	Laurel
Ludlow	Kenton
*Lyndon	Jefferson
*Madisonville	Hopkins
*Manchester	Clay
Marion	Crittenden
*Martin	Floyd
Middletown	Jefferson
Monticello	Wayne
*Morehead	Rowan
Morganfield	Union
Mount Sterling	Montgomery
Mount Washington	Bullitt
Oak Grove	Christian
*Olive Hill	Carter
*Owingsville	Bath
Paintsville	Johnson
Park Hills	Kenton
*Pineville	Bell
Pioneer Village	Bullitt
Prestonsburg	Floyd
Princeton	Caldwell
Providence	Webster
Russell	Greenup
Russellville	Logan
*Saint Regis Park	Jefferson
*Salyersville	Magoffin

<u>City</u>	<u>County</u>
Scottsville	Allen
Shelbyville	Shelby
Shepherdsville	Bullitt
Southgate	Campbell
*Springfield	Washington
*St. Matthews	Jefferson
Stanford	Lincoln
*Stanton	Powell
*Sturgis	Union
Taylor Mill	Kenton
*Vanceburg	Lewis
Versailles	Woodford
Villa Hills	Kenton
Vine Grove	Hardin
Warsaw	Gallatin
*West Liberty	Morgan
Williamsburg	Whitley
Wilmore	Jessamine
N=105	
<u>5th Class</u> <u>(Greater than 1,000, less than 3,000)</u>	
*Adairville	Logan
Auburn	Logan
Audubon Park	Jefferson
Barbourmeade	Jefferson
*Bardwell	Carlisle
Beattyville	Lee
Beechwood Village	Jefferson
*Benham	Harlan
*Bloomfield	Nelson
Brandenburg	Meade
Brodhead	Rockcastle
*Bromley	Kenton
*Brooksville	Bracken
*Brownsville	Edmonson
*Burgin	Mercer
Burkesville	Cumberland
Burnside	Pulaski
*Butler	Pendleton
Cadiz	Trigg
Calhoun	McLean
Camargo	Montgomery
*Campbellsburg	Henry
Clay	Webster
Clay City	Powell
Clinton	Hickman

<u>City</u>	<u>County</u>
Cloverport	Breckinridge
Cold Spring	Campbell
*Columbus	Hickman
*Corydon	Henderson
Crestview Hills	Kenton
Crestwood	Oldham
*Crittenden	Grant
*Crofton	Christian
*Drakesboro	Muhlenberg
Dry Ridge	Grant
Eddyville	Lyon
Edmonton	Metcalfe
Evarts	Harlan
*Ferguson	Pulaski
*Fleming-Neon	Letcher
*Fredonia	Caldwell
Goshen	Oldham
*Grand Rivers	Livingston
Greensburg	Green
Greenup	Greenup
*Hardin	Marshall
Hardinsburg	Breckinridge
Hartford	Ohio
Hawesville	Hancock
Hebron Estates	Bullitt
*Hindman	Knott
Hollow Creek	Jefferson
Hurstbourne Acres	Jefferson
*Hustonville	Lincoln
+Indian Hills-Cherokee	Jefferson
Irvington	Breckinridge
Jamestown	Russell
Jeffersonville	Montgomery
Junction City	Boyle Lincoln
*Kuttawa	Lyon
La Center	Ballard
*Lakeside Park	Kenton
*Lancaster	Garrard
Lebanon Junction	Bullitt
*Lewisburg	Logan
Lewisport	Hancock
Liberty	Casey
Livermore	McLean
Louisa	Lawrence
Loyall	Harlan
Lynch	Harlan
Lynnview	Jefferson
*McKee	Jackson
*Meadow Vale	Jefferson

<u>City</u>	<u>County</u>
Midway	Woodford
*Millersburg	Bourbon
Minor Lane Heights	Jefferson
Morgantown	Butler
*Morton's Gap	Hopkins
*Mt. Olivet	Robertson
Mt. Vernon	Rockcastle
Muldraugh	Meade Hardin
Munfordville	Hart
New Castle	Henry
*North Middletown	Bourbon
*Northfield	Jefferson
Nortonville	Hopkins
Orchard Grass Hills	Oldham
Owenton	Owen
*Park City	Barren
*Perryville	Boyle
Pewee Valley	Oldham
*Plantation	Jefferson
*Powderly	Muhlenberg
Raceland	Greenup
*Ravenna	Estill
Rolling Hills	Jefferson
Russell Springs	Russell
*Sandy Hook	Elliott
Sebree	Webster
Silver Grove	Campbell
Simpsonville	Shelby
Smiths Grove	Warren
South Shore	Greenup
Tompkinsville	Monroe
*Union	Boone
Uniontown	Union
Walton	Boone Kenton
Watterson Park	Jefferson
West Buechel	Jefferson
West Point	Hardin
Whitesburg	Letcher
White Plains	Hopkins
*Wickliffe	Ballard
*Wilder	Campbell
*Williamstown	Grant Pendleton
Windy Hills	Jefferson
Woodlawn Park	Jefferson
Worthington	Greenup
N=119	

<u>City</u>	<u>County</u>
6th Class (Less than 1,000)	
Allen	Floyd
Arlington	Carlisle
Bancroft	Jefferson
Barlow	Ballard
Bedford	Trimble
Bellefonte	Greenup
Bellemeade	Jefferson
Bellewood	Jefferson
Berry	Harrison
Blackey	Letcher
Blaine	Lawrence
Blueridge Manor	Jefferson
Bonnieville	Hart
Booneville	Owsley
Bradfordsville	Marion
Bremen	Muhlenberg
Briarwood	Jefferson
+Broadfields	Jefferson
Broeck Pointe	Jefferson
Brownsboro Farm	Jefferson
Brownsboro Village	Jefferson
Buckhorn	Perry
California	Campbell
Cambridge	Jefferson
Campton	Wolfe
Caneyville	Grayson
Carrsville	Livingston
Centertown	Ohio
+Cherrywood Village	Jefferson
Clarkson	Grayson
Coal Run Village	Pike
Coldstream	Jefferson
Concord	Lewis
Corinth	Grant Harrison Scott
Crab Orchard	Lincoln
Creekside	Jefferson
+Crescent Park	Kenton
Crestview	Campbell
Crossgate	Jefferson
Dixon	Webster
Dover	Mason
Druid Hills	Jefferson
Ekron	Meade
Eubank	Pulaski Lincoln
Ewing	Fleming
Fairfield	Nelson

City	County
+Fairmeade	Jefferson
Fairview	Kenton
Fincastle	Jefferson
Fordsville	Ohio
Forest Hills	Jefferson
Fountain Run	Monroe
Fox Chase	Bullitt
Frenchburg	Menifee
Gamaliel	Monroe
Germantown	Bracken Mason
Ghent	Carroll
Glencoe	Gallatin
Glenview	Jefferson
Glenview Hills	Jefferson
Glenview Manor	Jefferson
Goose Creek	Jefferson
Gratz	Owen
Green Spring	Jefferson
Hanson	Hopkins
Hazel	Calloway
Hickory Hill	Jefferson
Hills and Dales	Jefferson
Hiseville	Barren
Hollyvilla	Jefferson
Houston Acres	Jefferson
Hunters Hollow	Bullitt
Hyden	Leslie
Inez	Martin
Island	McLean
+Keeneland	Jefferson
Kenton Vale	Kenton
Kevil	Ballard
Kingsley	Jefferson
Lafayette	Christian
Lakeview Heights	Rowan
Langdon Place	Jefferson
Latonia Lakes	Kenton
Lincolnshire	Jefferson
Livingston	Rockcastle
Lone Oak	McCracken
Loretto	Marion
Mackville	Washington
Manor Creek	Jefferson
Maryhill Estates	Jefferson
McHenry	Ohio
Meadowbrook Farm	Jefferson
Meadowview Estates	Jefferson
Melbourne	Campbell
Mentor	Campbell

City	County
Milton	Trimble
Mockingbird Valley	Jefferson
Monterey	Owen
Moorland	Jefferson
Murray Hill	Jefferson
Nebo	Hopkins
New Haven	Nelson
Norbourne Estates	Jefferson
Norwood	Jefferson
Oakland	Warren
Old Brownsboro Place	Jefferson
Park Lake	Oldham
Parkway Village	Jefferson
Pembroke	Christian
Pippa Passes	Knott
Pleasureville	Henry Shelby
Plum Springs	Warren
+Plymouth Village	Jefferson
Poplar Hills	Jefferson
Prestonsville	Carroll
Raywick	Marion
Richlawn	Jefferson
River Bluff	Oldham
Riverwood	Jefferson
+Robinswood	Jefferson
Rochester	Butler
Rockport	Ohio
Rolling Fields	Jefferson
Ryland Heights	Kenton
Sacramento	McLean
Sadieville	Scott
Salem	Livingston
Salt Lick	Bath
Sanders	Carroll
Sardis	Mason
Science Hill	Pulaski
Seneca Gardens	Jefferson
Sharpsburg	Bath
Slaughters	Webster
Smithfield	Henry
Smithland	Livingston
Sonora	Hardin
South Carrollton	Muhlenberg
South Park View	Jefferson
Sparta	Gallatin Owen
+Springlee	Jefferson
Spring Mill	Jefferson
Spring Valley	Jefferson
St. Charles	Hopkins

<u>City</u>	<u>County</u>
Stamping Ground	Scott
Strathmoor Manor	Jefferson
Strathmoor Village	Jefferson
Sycamore	Jefferson
*Taylorsville	Spencer
Ten Broeck	Jefferson
Thornhill	Jefferson
Trenton	Todd
Upton	Hardin Larue
Vicco	Perry
Wallins	Harlan
Warfield	Martin
Water Valley	Graves
Waverly	Union
Wayland	Floyd
Wellington	Jefferson
Westwood	Jefferson
Wheatcroft	Webster
*Wheelwright	Floyd
Whitesville	Daviess
Wildwood	Jefferson
Willisburg	Washington
+Winding Falls	Jefferson
Wingo	Graves
Woodburn	Warren
Woodbury	Butler
Woodland Hills	Jefferson
Woodlawn	Campbell
*Worthington Hills	Jefferson
Worthville	Carroll
*Wurtland	Greenup
N=176	

+ The Cities of Indian Hills (4th class), Indian Hills-Cherokee (5th class), Winding Falls (6th class), and Robinswood (6th class) in Jefferson County were merged November 1999.

+ The cities of Plymouth Village, Broadfields, Springlee, Cherrywood Village, and Fairmeade were merged with the City of Saint Matthews in 2000. And the City of Keeneland was merged with the City of Lyndon in 2000.

*Staff notation only

+ The City of Crescent Park, in Kenton County, merged with the City of Ft. Mitchell in 2000.

Appendix B

SENATE MEMBERS

David L. Williams
President, LRC Co-Chair
Katie Kratz Stine
President Pro Tem
Dan Kelly
Majority Floor Leader
Ed Worley
Minority Floor Leader
Richie Sanders, Jr.
Majority Caucus Chairman
Johnny Ray Turner
Minority Caucus Chairman
Dan Seum
Majority Whip
Joey Pendleton
Minority Whip



LEGISLATIVE RESEARCH COMMISSION

State Capitol 700 Capital Avenue Frankfort KY 40601

502/564-8100

Capitol FAX 502-223-5094
Annex FAX 502-564-6543
lrc.ky.gov

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Minority Caucus Chairman
Joe Barrows
Majority Whip
Ken Upchurch
Minority Whip

MEMORANDUM

To: Senator Damon Thayer
 Representative Charlie Hoffman
 Chairpersons on the Task Force on Local Taxation

From: Barry Boardman, Ph.D.
 LRC Staff Economist

Date: October 25, 2005

Subject: The Composition of Local Government Revenues

This report provides a discussion of the primary revenue components of Kentucky's local governments. The composition of local government revenues is examined using finance data collected by the U.S. Census Bureau on local governments—counties, cities, special districts, and school districts. The census data is used to portray the types of revenue sources used by local governments, how tax collections are distributed across the different local governments, and to provide a comparison of Kentucky's local government revenues with the nation. There is tremendous variation in available tax bases across Kentucky at each local taxing division, however, the census data does not allow for a review of individual, local government finances. The data, therefore, provides a way to present an overview of how the "average" local government generates revenue.

Local governments in Kentucky have several unique features relative to other local governments in the U.S. The most noticeable difference is that Kentucky's local governments rely on the property tax far less, on average, than U.S. local governments.

Conversely, Kentucky's local governments obtain a comparatively larger share of revenues from income (wages and profits) by levying an occupational tax. The comparative differences between these two tax sources have increased over time. Another feature of Kentucky's local government finances is the degree of revenue that is collected at the state-level and returned to local governments. Kentucky's state and local tax structure is considerably more centralized at the state-level than the vast majority of the states. An additional distinction is Kentucky's local governments use of local charges such as user fees as a revenue source. The reliance on user fees and other miscellaneous revenues increased during the 1980s and is a significant source of local revenue.

Characteristics of Kentucky's Local Government and Taxing District Revenues

To highlight the various characteristics of each type of local government's revenues, the census data was collapsed into nine categories (Appendix A provides information on what revenues are included in each category):

- Property Tax
- Income Tax
- Public Utility Tax
- Motor Vehicle and Operator Licensing Tax
- Other Select Sales and Excise Taxes
- Taxes Not Elsewhere Classified (NEC)
- Fees and Charges
- Other Revenue
- Intergovernmental State Transfers (IGR)

Tables 1 presents the distribution of the revenue generated from each of these nine categories by Kentucky's local governments. Total revenue is the summation of the nine categories, direct federal transfers are excluded. Because intergovernmental transfers from the state represent a large share of total local revenue, especially for counties and school districts, much of the analysis that follows will concentrate on "own-source revenues" by excluding these transfers. Thus, **local revenues-own sources** represents the sum of the first eight revenue categories. This approach will allow for a more precise examination of the revenues generated specifically by local governments.

Table 1: Composition of Kentucky's Local Government Revenue by Revenue Source

Year	Name	Property Tax	Occ. Income Tax	Public Utility Tax	Motor Veh & Oper Lic	Other Select Sales Taxes	Taxes NEC	Fees and Charges	Other Revenue	IGR
1972	COUNTIES	39.2%	10.1%	0.2%	0.1%	0.0%	4.1%	25.2%	3.4%	17.7%
1977	COUNTIES	29.8%	8.8%	0.0%	1.4%	0.5%	1.6%	19.0%	13.8%	25.2%
1982	COUNTIES	22.3%	9.1%	0.0%	1.3%	0.5%	0.9%	18.5%	12.2%	35.2%
1987	COUNTIES	17.0%	1.9%	0.1%	1.6%	0.5%	7.4%	18.8%	31.4%	21.2%
1992	COUNTIES	15.3%	3.8%	0.1%	1.2%	1.3%	6.9%	21.2%	28.6%	21.6%
1997	COUNTIES	13.3%	9.7%	0.5%	1.3%	0.9%	2.0%	25.2%	30.7%	16.4%
2002	COUNTIES	12.5%	9.4%	0.7%	1.0%	0.7%	1.6%	23.9%	30.1%	20.1%
1972	CITIES	21.1%	20.8%	0.4%	1.3%	1.0%	4.0%	26.3%	23.7%	1.4%
1977	CITIES	19.1%	26.8%	0.8%	1.0%	2.2%	1.8%	21.0%	21.2%	6.1%
1982	CITIES	19.6%	28.8%	1.6%	0.0%	3.2%	3.8%	23.3%	13.5%	6.3%
1987	CITIES	13.7%	21.9%	1.3%	0.0%	7.2%	2.4%	24.5%	21.7%	7.2%
1992	CITIES	13.1%	22.3%	1.6%	0.3%	0.7%	8.9%	27.7%	18.0%	7.4%
1997	CITIES	12.8%	23.2%	1.7%	0.2%	0.5%	9.1%	19.6%	25.1%	7.6%
2002	CITIES	12.2%	26.4%	1.5%	0.1%	0.3%	9.1%	23.2%	17.1%	9.9%
1972	SPECIAL DISTR.	21.4%	0.0%	0.0%	0.0%	0.0%	0.0%	46.6%	17.2%	14.8%
1977	SPECIAL DISTR.	26.5%	0.0%	0.0%	0.0%	0.0%	0.0%	43.2%	16.9%	13.4%
1982	SPECIAL DISTR.	14.8%	0.0%	0.0%	0.0%	0.0%	0.0%	58.5%	14.9%	11.8%
1987	SPECIAL DISTR.	12.6%	0.0%	0.0%	0.0%	0.0%	0.0%	62.8%	17.6%	7.1%
1992	SPECIAL DISTR.	15.1%	0.0%	0.0%	0.0%	0.0%	4.1%	55.7%	17.5%	7.7%
1997	SPECIAL DISTR.	27.0%	0.0%	0.0%	0.0%	0.0%	1.1%	49.4%	14.3%	8.2%
2002	SPECIAL DISTR.	31.3%	0.0%	0.0%	0.0%	0.0%	2.5%	41.5%	15.9%	8.8%
1972	SCHOOL DISTR.	26.5%	2.3%	1.1%	0.0%	0.0%	0.5%	8.1%	1.4%	60.1%
1977	SCHOOL DISTR.	25.8%	3.0%	1.7%	0.0%	0.0%	0.0%	7.6%	1.9%	60.0%
1982	SCHOOL DISTR.	13.3%	2.9%	2.7%	0.0%	0.0%	0.0%	3.7%	3.3%	74.2%
1987	SCHOOL DISTR.	13.9%	3.6%	2.5%	0.0%	0.0%	1.4%	2.8%	3.7%	72.1%
1992	SCHOOL DISTR.	16.0%	2.9%	3.1%	0.0%	0.0%	1.8%	1.9%	1.3%	73.0%
1997	SCHOOL DISTR.	19.4%	3.0%	3.1%	0.0%	0.0%	1.4%	2.4%	3.2%	67.5%
2002	SCHOOL DISTR.	22.9%	3.2%	3.4%	0.0%	0.0%	0.2%	2.3%	2.3%	65.8%
1972	ALL LOCAL GOVERNMENTS	26.8%	7.9%	0.8%	0.3%	0.3%	1.8%	15.2%	7.3%	39.7%
1977	ALL LOCAL GOVERNMENTS	25.0%	9.5%	1.2%	0.5%	0.6%	0.7%	13.2%	8.7%	40.7%
1982	ALL LOCAL GOVERNMENTS	16.4%	9.2%	1.8%	0.3%	0.7%	0.9%	12.8%	7.6%	50.3%
1987	ALL LOCAL GOVERNMENTS	14.5%	7.3%	1.6%	0.4%	1.8%	3.0%	14.0%	14.9%	42.5%
1992	ALL LOCAL GOVERNMENTS	15.2%	7.3%	2.0%	0.3%	0.4%	4.6%	14.3%	11.7%	44.3%
1997	ALL LOCAL GOVERNMENTS	17.0%	8.8%	2.1%	0.3%	0.3%	3.2%	13.2%	14.4%	40.6%
2002	ALL LOCAL GOVERNMENTS	18.3%	9.7%	2.1%	0.3%	0.3%	2.7%	14.3%	13.3%	39.1%

It is apparent from Table 1 that the property tax, fees and charges, state transfers, and other revenue represent the primary sources for local revenues. For cities, the occupational income tax is a significant source of revenue relative to total revenues collected. Notable for counties and cities, is how the property tax has been a declining revenue source. For counties, cities, and special districts non-tax sources of revenue are an important source of revenue. Non-tax revenue sources include user fees, charges, and other revenues such as interest income. In 2002, over half (50.2 percent) of county revenues were generated from these sources. Likewise, they represented 40.3 percent of city revenues and 57.4 percent of the revenue of special districts. Another important source of revenue for local governments are transfers from the state. In 2002, just over 39 percent of total revenues of local governments were transfers from the state. What follows is an analysis of each of these major revenue sources and, where appropriate, a comparison with local governments in the rest of the nation.

Comparison of Kentucky and U.S. Local Tax Structures

One of the most common methods for evaluating differences in states' tax structures is by comparing the percent of state tax revenues to total state and local tax revenues. Figure 1 shows that in each of the seven census years, Kentucky had a higher percent of state and local tax revenues raised at the state-level than the national average. In fact, in 2002, only six states had a higher percent than Kentucky. When you consider all sources of revenue, and not just taxes, the difference between Kentucky and the national average narrows slightly. It does not change its relative standing with other states.

Figure 1: Percent of State Taxes to Total State and Local Taxes

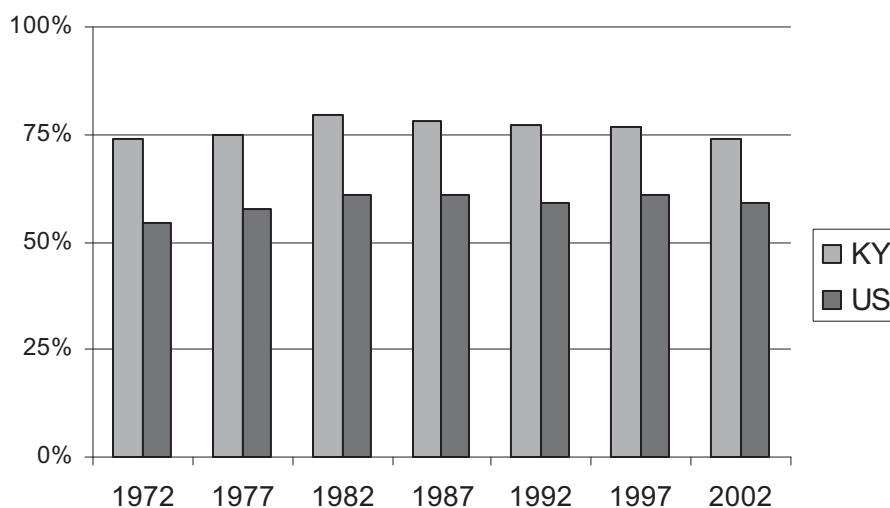


Table 1 shows that state transfers to local governments (IGR) are an important source of revenue for local governments in Kentucky. Thus, some of the money collected by the state is transferred to local governments. In 2002, 30.7 percent of the state's revenues were transferred to local governments. This however is lower than the national average of state transfers to local governments

of 47.7 percent. Part of the reason Kentucky is below the national average in monies returned to local governments and yet generates more money at the state-level is that federal transfers that pass through state government on their way to local governments are included as state transfers. Additionally many transfers are determined by population size. When you control for population differences Kentucky transfers 39.1 percent, which is slightly higher than the national average of 37.1 percent.

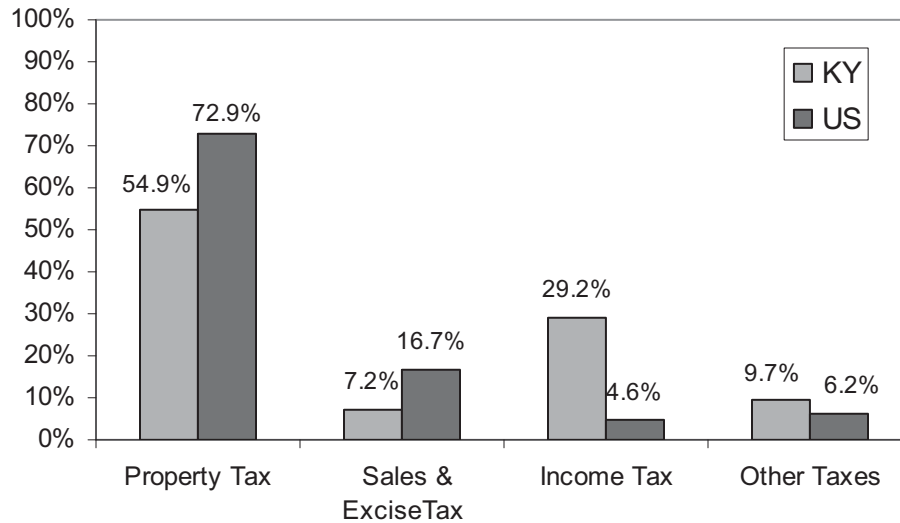
In order to better understand the relationship between state and local tax revenues in Kentucky, Table 2 breaks down the composition of tax collections for each type of local government. During the past seven censuses spanning thirty years, Kentucky has generated approximately 75 percent of all its tax revenue at the state-level and there has been only slight fluctuations in this relationship.

Table 2: Percent of Kentucky's Total State and Local Taxes by Type of Government

Year	STATE	COUNTIES	CITIES	SPECIAL DISTR.	SCHOOL DISTR.
1972	73.8%	4.9%	8.3%	0.1%	12.9%
1977	75.1%	5.0%	7.9%	0.3%	11.7%
1982	79.4%	4.8%	8.0%	0.4%	7.4%
1987	78.0%	5.1%	8.4%	0.4%	8.1%
1992	77.0%	4.8%	8.1%	0.7%	9.5%
1997	76.7%	4.4%	7.7%	0.9%	10.3%
2002	74.0%	5.2%	8.6%	1.3%	11.0%

A comparison of Kentucky's and the nation's local government tax structure can also be made by examining the amount of revenue generated by different taxes. Figure 2 presents the percent of total taxes collected in Kentucky and the nation for four major tax classifications; property, sales & excise, income, and other taxes such as license taxes and taxes not elsewhere classified.

In 2002, Kentucky's local governments relied more heavily on occupational income taxes and other types of taxes than the U.S. on average. This is in contrast to most local government in the U.S., which rely mostly on property and general sales & excise taxes as their sources of tax revenue. Interestingly, Kentucky's tax structure has not converged to the U.S. average over the past thirty years, rather it has moved further away from the average local government tax structure.

Figure 2: Percent of Local Taxes by Type of Tax, 2002

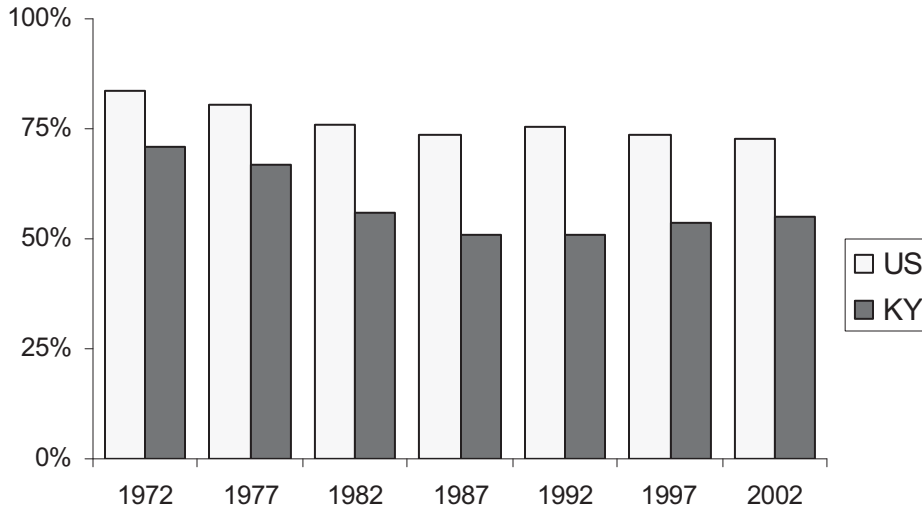
Property Tax

The property tax represents an important revenue source for local governments, but as previously noted, Kentucky relies on it less than most other states. Nonetheless, the property tax is the second largest source of local revenue in Kentucky based on the nine categories discussed at the beginning of this report (state transfers was the largest source total revenue in 2002). It is important to recognize that much of the property tax revenue is generated by school districts. When examining the composition of revenue for counties and cities, it is user fees, charges, and other revenue such as interest earnings on revenue that are relatively more important than the property tax as a source of revenue.

Figure 3 presents a comparison of property tax collections as a percent of total local taxes for Kentucky and the U.S. Since the 1970s, the percent contribution of the property tax has declined in Kentucky, but in 1997 and 2002 there were slight increases. Noteworthy is the effect property tax limitation efforts of the late 70s had on the revenue generated from the property tax, by example HB44 in Kentucky. This effect is equally noticeable in both Kentucky and the U.S. However, the effect in Kentucky appears larger.¹

¹ Factors other than the implementation of HB44 may have constrained revenue collections. If, however, the emergence of HB44 was a representation of voter sentiment regarding the use of property tax collection, then lower collections might be expected independent of HB44 direct effect on collections. That, however, is an empirical question, which cannot be answered using this data

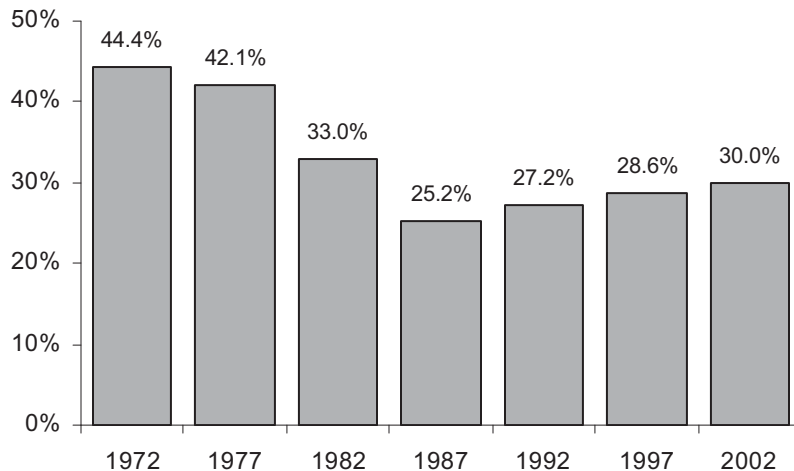
Figure 3: Percent of Local Property Taxes to Total Local Taxes



Kentucky school districts raise a significant amount of their revenue through property taxes. In 2002, nearly 60 percent of all property tax revenue generated through local taxes were raised by school districts. Kentucky is similar to the U.S. in this respect. When comparing Kentucky with the U.S. average property tax collection the difference becomes more pronounced if school district revenues are excluded. For example in 2002, local governments in the U.S., other than school districts, collected on average 16.5 percent of total tax collections through the property tax, Kentucky generated 5.8 percent.

Figure 4 shows that in Kentucky dependence on local property taxes, measured as the percent of total local revenues-own source, has declined. The property tax has rebounded somewhat from a low of 25.2 percent of revenues in 1987, but remains well below the share of revenue reached in the 70s.

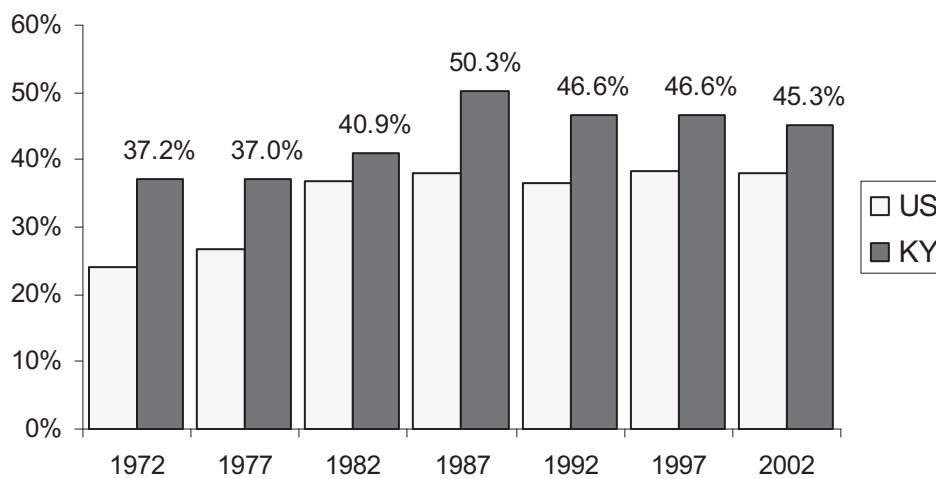
Figure 4: Percent of Local Property Taxes to Total Local Revenue-Own Source



User Fees, Charges and Other Revenues

While the property tax has declined in relative importance as a revenue source for local governments, user fees and other revenues (which in recent census years is predominately interest income) have become an increasingly important source of revenue. Figure 5 shows the percent of local revenue-own source derived from these fees and other sources and compares these sources of revenue with the U.S.

Figure 5: Percent of Local User Fees and Other Revenues to Total Local Revenue-Own Source

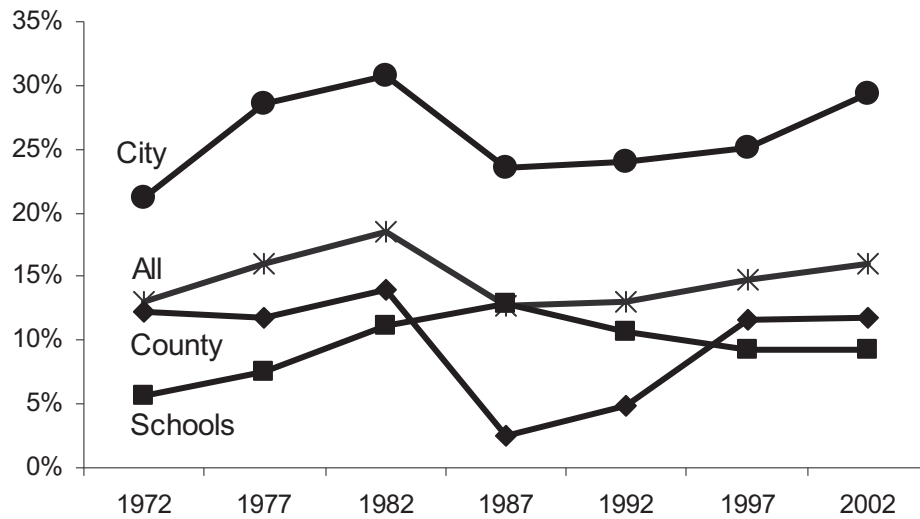


User fees along with other non-tax sources of revenue play an important role in local government finances in Kentucky. Compared with the U.S., Kentucky's local governments are more reliant on these types of non-tax revenues, however, the difference between the two has narrowed slightly in the past two census years.

Occupational Income Tax

The occupational income tax is another important revenue source, however, it is not equally available to all local governments. Statutory provisions determine whether a local government can assess an occupational tax and the maximum tax rate that can be assessed. Currently, all counties and cities can levy the occupational tax, but are allowed different rates based on the size of the local government (6th class cities are restricted to a flat-fee). School districts can also levy the tax. The occupational tax, while labeled as an income tax by the census bureau, may be better thought of as a license tax since it is based solely on income related to employment and may include wages and salary, company profits or both. The occupational tax ignores all other potential sources of income such as interest and capital gains, plus it does not allow for filing of exemptions or deductions. Figure 6 below shows the percent of local revenue generated from the occupational income tax by the different local governments and how collections have changed over time.

Figure 6: Percent of Occupational Income Tax to Total Local Revenue-Own Source



Based on data compiled by the Kentucky Society of CPAs, in 2005, 139 cities and 59 counties are levying an occupational tax. Two school districts (Jefferson and Fayette) are also levying the tax. It is clear from the chart above that for cities this tax represents an important source of revenue generating just over 29 percent of the cities revenues. Since 1987, both cities and counties have increased their use of the occupational tax for their revenues.

Conclusions

Local governments in Kentucky, including school and special districts, have several unique features relative to local governments in the U.S. The most obvious difference is that Kentucky's local governments rely far less on the property tax. In 1972, Kentucky's local governments received 44.4 percent of their local own-source revenues from property taxes. By 2002, reliance had declined to 30 percent. On the other hand, Kentucky's local governments obtain a comparatively larger share of revenues from income taxes. These two comparative differences have increased over time. Another feature of Kentucky's local government finances is the degree of revenue that is collected at the state-level and returned to local governments. In 2002, 74 percent of all state and local taxes were collected by the state. This compares with 59.1 percent for the U.S.

An additional source of local revenue is charges such as user fees. The reliance on user fees and other miscellaneous revenues increased in the 1980s and has remained near 46 percent of total local revenues for the last three censuses. Kentucky's local governments have always relied more on these types of revenues than the U.S. Occupational taxes for some local governments in Kentucky are another important source of revenue. The reliance on the occupation tax by local governments is a unique feature of Kentucky's tax structure. In 2002, 29 percent of local government tax collections in Kentucky were from the occupational income tax, the U.S. average was less than 5 percent.

About the Data

The Census of Government Finances is a government financing survey of five different taxing districts in each state. The tax districts are the state, counties, cities, school districts, and special districts. The census surveys these localities every five years for information on tax collections, fees and charges, and intergovernmental transfers. The data is aggregated at each taxing level, which does not allow for analysis of individual or regional taxing districts. Thus, the aggregated data provides the overall or "average" structure and may not be at all representative of any individual local government.

Because the data is collected through a survey instrument, it is subject to missing data and reporting errors especially for smaller localities such as the special districts. Generally, the smaller the taxing district, the greater the chance for error. State-level data represents actual, non-survey type data, while special districts data (the smallest taxing district) represents an estimation of finances based on survey data. The data is combined into revenue categories, which may not always be appropriate for Kentucky. For example, the premium insurance tax is not specifically accounted for in the local government data, but is captured in the category for other select sales taxes not elsewhere classified.

Because the data is aggregated by local government and by revenue categories, one is required to discuss in broad, general terms local government tax structures. Finally, as with any aggregated or averaged data, the data can be dominated by a few large localities. When the data is dominated by one or more localities, the results tend to be less representative of the typical, smaller localities.