

# EVERYTHING YOU WANTED TO KNOW ABOUT CITY PROPERTY TAXES



**BUT WERE  
AFRAID TO ASK**

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*Ad valorem taxes*, or property taxes, are a significant revenue source for Kentucky’s cities. Unlike other types of taxes that can be adopted by cities, the Kentucky Constitution and state law requires cities to annually tax all real and personal property within their jurisdictions unless the property is specifically exempted by law. Here are some of the basics on city property taxes:

## What Are the Maximum Rates for Property Taxes?

The Kentucky Constitution, in Section 157, establishes the maximum rate that a city may impose through its ad valorem tax.

1. \$1.50 per \$100 of assessed value in the case of cities with greater than or equal to 15,000 population
2. \$1.00 per \$100 of assessed value in the case of cities with 14,999 to 10,000 population
3. Seventy-five cents per \$100 of assessed value in the case of cities with less than 10,000 population

Keep in mind that these are NOT mandatory rates; they are maximums. Most cities have implemented significantly lower rates.

## How Can the City Raise the Ad Valorem Tax Rate?

If a city wishes to raise its ad valorem tax rate, it must comply with the “compensating tax rate” limit established in KRS 132.027, in addition to the constitutional limits above. Under the statute, a city cannot levy a tax rate that produces more revenue than would be accrued by using the compensating tax rate, unless a public hearing is held.

## What Is the Compensating Tax Rate?

The compensating tax rate, as defined by KRS 132.010(6), is the property tax rate that produces an amount of revenue approximately equal to that produced in the preceding year. Personal property, new property and net assessment are all excluded from this calculation. As long as the amount of revenue produced by the proposed tax rate is approximately equal to (or less than) the revenue produced in the preceding year, the city does not have to hold a public hearing.

## What If the City Chooses to Adopt a Rate Higher Than the Compensating Tax Rate?

If the city chooses to levy a tax rate for the following year that will produce more revenue than would be produced by the compensating tax rate but not more than the 4 percent compensating tax rate, the city must first

comply with notice and hearing requirements of KRS 132.027(2). The city can have the first reading of the tax levy ordinance and then publish the public hearing notice required by KRS 132.027(2) by either:

1. Publishing a conspicuous advertisement of the hearing for two consecutive weeks in the largest newspaper in the county, or
2. Mailing a single notice to each person owning property in the tax district.

After the public hearing, the city can have the second reading of the ordinance, either at a special meeting or at its next regular meeting. The hearing does not affect the enactment of the tax levy; it is only a forum for citizens to discuss concerns.

Under KRS 132.017, a voter recall of the tax rate increase could occur if a city adopts a tax rate that produces a more than 4 percent increase than the compensating rate would have produced in the preceding year. For example, the city of Smithville increased its tax rate in FY 2011. This increase generated more than 4 percent above what the compensating rate achieved in FY 2010. This means the citizens of Smithville could pursue a voter recall of the new tax rate.

### **Are There Different Limits for Personal Property Taxes?**

Under KRS 132.029, a city may levy a tax rate for personal property (not including motor vehicles) that will produce the same percentage increase in revenue from personal property as the percentage increase in revenue from real property. The personal property tax rate is not subject to the hearing and recall provisions that apply to real property tax rates. However, remember that if the real property rate is reduced by a city legislative body under KRS 132.107(1)(b) to avoid a recall election, the personal property tax rate must also be reduced to match the real property percentage increase in revenue.

### **Can We Have Different Property Tax Rates in Different Areas of the City?**

Kentucky's Constitution, Section 172A, allows differences in ad valorem tax rates within a city's jurisdiction that are related to differences in the provision of governmental services (non-revenue-producing services) and benefits giving land an urban character. Examples of non-revenue-producing services are: police protection, fire protection, streets, street lighting, sidewalks, water and sewer service, etc. The General Assembly has authorized variable ad valorem tax rates for all cities and consolidated local governments in KRS 82.085 and KRS 67C.142. The purpose for this is to allow some tax relief to areas within a taxing district that are not afforded full services.

### **How Do We Assess the Value of Real and Personal Property?**

Cities are required to provide by ordinance for the annual assessment of real and personal property within the city. The assessment can be performed one of two ways.

The first is to use the annual county assessment as the basis for all ad valorem tax levies on real and personal property in the city. If the city chooses the county assessment, it must pay the office of the county property valuation administrator an annual fee based on the formula set out in KRS 132.285. It is important to note that all cities are required to use the county assessment in regards to tax levies on motor vehicles and motorboats.

The second option is for cities to establish their own assessment offices and assess all taxable real and personal property, except motor vehicles and motorboats. If the city decides to do the assessment itself, it must comply with the requirements in KRS 92.

### **How Does the City Assess the Tax on Motor Vehicles and Motorboats?**

If the city decides to assess an ad valorem tax on motor vehicles and motorboats, it must use the assessment as provided by the county clerk. KRS 132.487 states that a city may not levy a tax rate that would exceed the rate that could have been levied on the January 1, 1983, motor vehicle assessment. Any city proposing to levy an ad valorem tax on motor vehicles shall submit to the Department of Revenue on or before October 1 of the preceding year of the assessment date the tax rate to be levied against valuations as of that assessment date. Any city that fails to timely submit the tax rate will receive the rate that was in effect during the prior year.

### **Can the City Fund Special Projects with an Additional Property Tax?**

Pursuant to KRS 65.125, any city may provide funding for a specified project, program or service by enacting what is called a "special ad valorem tax" for that specified purpose. In order to do so, the city must enact the tax by an ordinance that describes the project that the tax will be funding. The tax must be sufficient to cover the costs of the project, program or service. The city must send the ordinance to the county clerk to place on the ballot at the next regular election. If approved by the voters, the city can impose the tax at a rate not higher than that approved by the voters, and the tax can only be used for the specified project, program or service. **KYC**

*For more information on taxes, see Chapter 15 of the 2011 City Officials Legal Handbook, which is available for order at [klc.org](http://klc.org). If you have questions on ad valorem (property) taxes, please contact the KLC Legal Department at 800.876.4552.*

