October 2006 - A Kentucky League of Cities Publication

CITIES UNITED! 2007

Legislative News and Updates

Cities United provides information and strategies on issues affecting communities and citizens across the commonwealth.

KLC is pleased to provide members and stakeholders with this preview of key legislative issues and information affecting Kentucky's communities and citizens. As our mission states, KLC serves as the united voice of cities by supporting community innovation, effective leadership and quality governance.

INSIDE THIS ISSUE

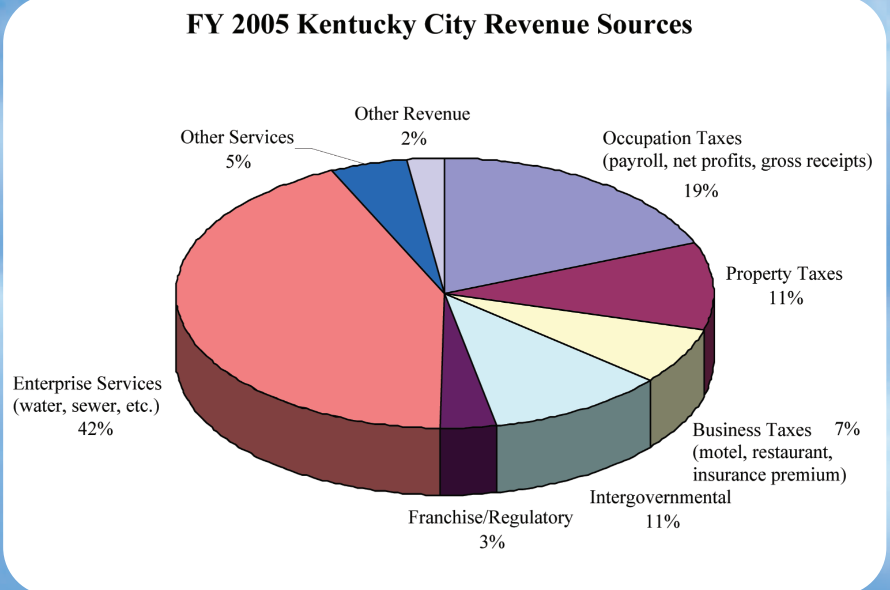
- Pension Costs
- Comprehensive Local Tax Modernization
- What's at Stake for Cities this Session
- KLC Resources

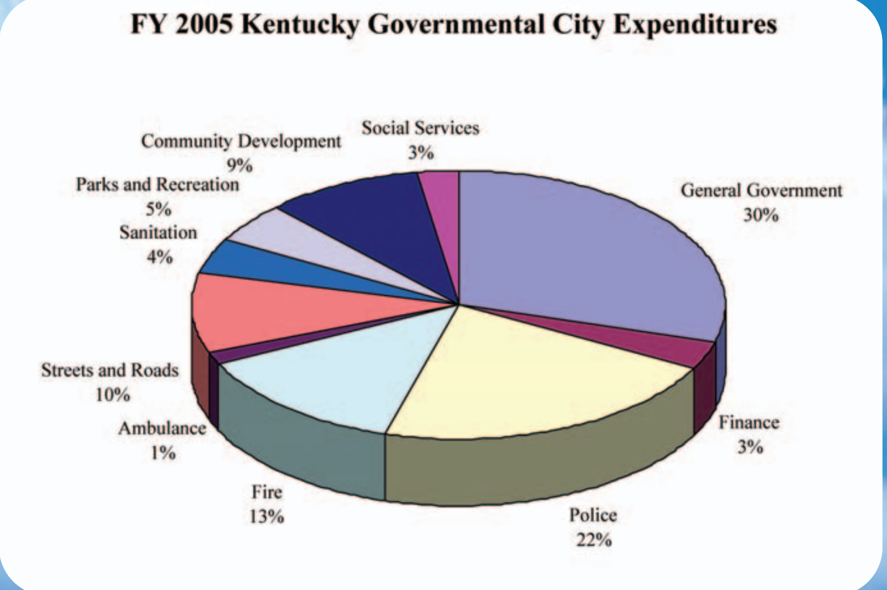
Where Does City Revenue Come From?

In FY 2005, general taxes accounted for only 37 percent of all city revenue statewide. More specifically, occupation taxes accounted for 19 percent of city budgets, while property taxes and business taxes accounted for only 11 and seven percent, respectively. The largest proportion of city revenues came from enterprise services, which includes such things as water and sewer bills. Franchise and regulatory revenues - which includes franchise fees, permits and business licenses - made up three percent of city revenues. Intergovernmental revenues made up 11 percent of city budgets statewide, and other services and revenue made up five and two percent, respectively.

Where Does City Revenue Go?

Over the past decade, for every $1.00 increase in city revenues, city expenditures have increased by $1.20. Current revenue options are not keeping pace with rising expenditures, which are largely attributable to rapidly increasing health insurance and pension costs. Given significant increases in contribution rates for employees covered under hazardous duty and increasing homeland security pressures, cities have spent more on police and fire expenditures. At the same time, a proportionate decrease occurred in the general government and finance categories.





Kentucky League of Cities

CITIES UNITED!

CITIES MAKE LIFE MORE LIVABLE.

Special issue of KLCDirect

KENTUCKIANS DESERVE A BETTER FUTURE

Wanted: Comprehensive Local Tax Modernization
Needed: A Constitutional Amendment

The Kentucky Constitution limits local governments to only a few significant revenue options, making it extremely restrictive compared to other states. In fact, every surrounding state allows cities to collect income or sales taxes or to share state general funds. The Kentucky Constitution forces local governments to rely heavily on business-related taxes as opposed to consumption-based taxes.

In June 2006, the Task Force on Local Taxation issued 11 consensus recommendations and one minority recommendation. The task force determined that the most necessary and significant change needed for Kentucky to develop a modern, efficient local tax system is to amend the Kentucky Constitution to allow more flexibility in local taxation and in the fiscal relationship between the state and local governments. A constitutional amendment would give state legislators the flexibility to alter tax laws so they reflect that every Kentucky community is different.

Passage of a constitutional amendment is not easy: it requires a two-thirds (2/3) majority in both the House of Representatives and the Senate and requires a simple majority of the voting public. Such hurdles usually require extensive lobbying, an expensive public awareness campaign and a united front from local leaders. If a constitutional amendment passed, the General Assembly would still have to grant specific taxing authority to local governments by statute. It is likely any amendment would restrict local sales taxes by requiring a public referendum approval.

Ratification of a constitutional amendment would encourage both the General Assembly and local governments to eliminate unfair tax burdens, enhance service provision, foster more business-friendly communities, and improve intergovernmental cooperation. Without an amendment, city services will be threatened, major quality of life projects will not be funded and the state's economic competitiveness will suffer.

Local governments have simply run out of significant revenue options while their expenditures continue to climb. Increased flexibility at the local level will only happen by amending the 1891 Kentucky Constitution.

GOAL

- Increased flexibility of local revenue options

BENEFITS

- Improved economic competitiveness with neighboring states
- Reduced intergovernmental competition for limited revenue sources
- Modernized revenue structure based in the 21st century

WITHOUT THE AMENDMENT

- Cities will not have funds to invest in major quality of life projects
- Businesses will continue to be taxed more heavily at the local level
- City services will be threatened without new revenue sources

DIRECTOR'S MESSAGE

We Are "Cities United!"

Here in Kentucky, we are fortunate to have elected and appointed city officials who have chosen to serve the public. In the interest of those citizens, it has never been more important to lend your support to our legislative efforts in Frankfort.

At the Kentucky League of Cities (KLC), we are here to assist you with daily issues and challenges. In addition, we are here to help all Kentucky cities prepare for the future. KLC is proud to be the unified voice of Kentucky's cities. With your involvement, we have gained considerable ground in recent sessions because we've worked together as Cities United. Some recent examples include the bills on publications cost savings, eminent domain and smoking policy for government buildings.

In 2007, the harsh realities of local revenue sources will become more apparent. Issues at stake affect all cities, if not right now, in the future. Please help build consensus by explaining them to your employees, your constituents, and your legislators.

In particular, I'm asking you to discuss your budget concerns with your legislators and ask them to help create more options for cities to take care of themselves. We need our state government to create the changes that give cities more options to deliver the services that our citizens demand.

With your support, we can continue to increase the level of influence for cities in Frankfort.

Sincerely,

Sylvia L. Lovely

Sylvia L. Lovely, KLC Executive Director/CEO

> *"A constitutional amendment will allow Kentucky communities and businesses to truly compete with other states for business."*

KLC Direct

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The voice of Kentucky cities.

KLC Direct is published monthly by the Kentucky League of Cities (KLC). KLC is a voluntary association of nearly 400 cities and provides a multitude of services to assist in improving local government. Please address any correspondence to KLC Direct, Kentucky League of Cities, 100 East Vine Street, Suite 800, Lexington, Kentucky 40507-3700. Phone (859) 977-3700 or 1-800-876-4552. Fax (859) 977-3703. www.klc.org.

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Is your home town your favorite city?

People are the key to Kentucky's future.

Cities and the people in them create a composite of Kentucky and define how the world sees us. Cities are more than places, buildings and services. Great cities, big and small, give people a feeling, a spirit, a sense of pride.

Without the ability to thrive locally, Kentucky cannot truly be competitive nationally or globally. And, it's more than just creating jobs and raising school test scores. In order to create a truly great Commonwealth and keep people in Kentucky, we must have great places to live.

Become an Effective Advocate for your City!

1. Invite your legislators to a city council meeting
2. Educate legislators on local issues
3. Include legislators in local projects
4. Create a call tree within your city

CITY ISSUES

Uniform Financial Information Report (UFIR)

Since 1998, the Kentucky League of Cities has taken the lead in creating and updating a database of city financial information. This data comes from the uniform financial information reports (UFIR), which must be completed annually by every city. While these reports provide a wealth of financial information, many KLC member city officials believe the UFIR could be made simpler and easier to fill out.

The last significant overhaul of the UFIR form occurred in 1998, but it has not been revised to reflect changes in accounting standards or generally accepted accounting principles. Since most of the UFIR requirements are written into statutes, most improvements and modifications require legislative approval. This summer, the Task Force on Local Taxation recommended improving the current financial database to provide more relevant information about local government finances.

During the 2007 session, KLC and its partners will lobby for amendment of the current UFIR statutes to enable the Governor's Office for Local Development (GOLD) to reduce the paperwork burden on city officials while improving the financial information collected.

Road Aid Formulas

The world of transportation has changed significantly since 1948: the Kentucky State Police had just started patrolling, foreign cars came only from Europe and the United States interstate system was still on the drawing board.

Despite these and many other significant changes to transportation in Kentucky since 1948, one thing has not changed: the state's road aid formulas. These formulas distribute a portion of the gas tax paid by gasoline consumers in the state to city and county governments. The Task Force on Local Taxation recently recommended that the General Assembly study the road aid formula, largely because it has not been significantly adjusted in almost 60 years.

By statute, 18.3 percent of motor fuels tax collections is assigned to County Road Aid, 22.2 percent goes to Rural Secondary Road Aid and 7.7 percent is for Municipal Road Aid. Municipal Road Aid is distributed to all active and incorporated cities based on population, but County Road Aid and Rural Secondary Road Aid relies on a "formula of fifths." This formula provides one-fifth each for (1) equal shares to counties, (2) percent of the state's rural road mileage and (3) percent of the state's rural population, and two-fifths is based on the percent of the state's rural land area. As a result, these formulas largely redistribute gas tax revenues collected from more urban areas to more rural areas of the state.

Since 1948, Kentucky has become a more urban state. Over 53 percent of the state's population now lives in cities, in addition to the thousands of Kentuckians who commute to and from work each day in those communities. However, the road aid formulas continue to redistribute gas tax revenue from urban, fast-growing counties to rural, slow-growing counties. In FY 2003, 36 counties were considered "donor" counties, meaning they paid more into the road fund than they received. These more populated counties represent over half of the state's population.

Pension Costs

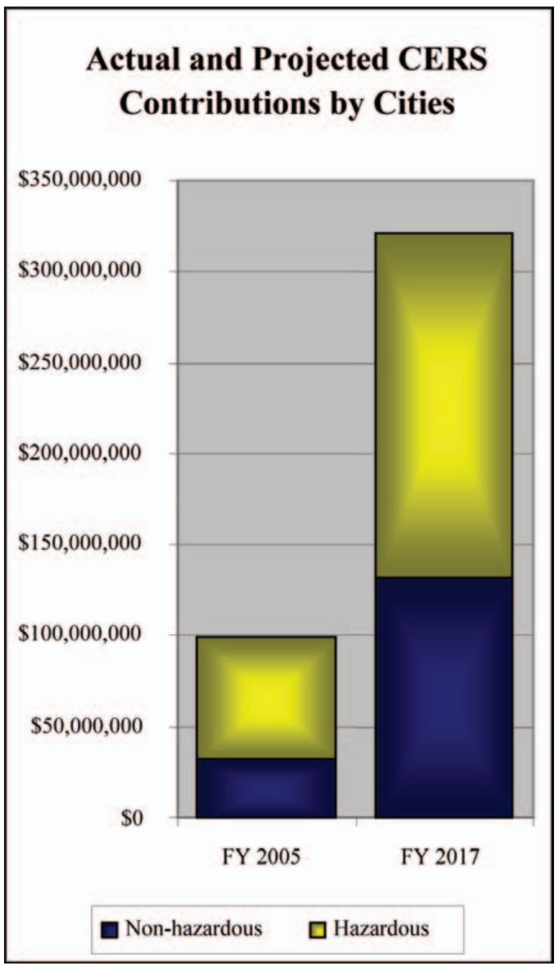
Almost all full-time city employees are enrolled in the County Employees Retirement System (CERS), a defined-benefit pension program created by the Kentucky General Assembly. Most police, fire and emergency medical staff are covered under hazardous duty while other city employees are categorized under non-hazardous duty. This program provides generous benefits to retirees, and requires cities to pay a varying percentage of an employee's salary into CERS.

Mandated increases in employer contribution rates have cost cities millions of dollars in the past few years, and the worst is yet to come, both hazardous and non-hazardous duty employer contribution rates are expected to almost double by 2016. Without any structural changes to the system, cities will pay CERS over $2.5 billion from FY 2006 to FY 2017. On average, cities will pay over two-and-a-half times more for CERS contributions in FY 2017 than in FY 2006, even without hiring additional employees.

The main cost-driver for CERS, as is the case with most defined-benefit retirement plans, is health insurance coverage for retirees. CERS has an inviolable contract (KRS 78.852) to provide health insurance benefits to all retired members of CERS (entering prior to July 1, 2003). This means the health insurance benefit cannot be reduced for those employees who entered the system before the beginning of FY 2004. Recent legislative changes have reduced the 100 percent health insurance coverage defined-benefit (for employees entering after July 1, 2003), but the financial impact will not be felt for at least 15 years.

Many legislators and officials have suggested using a defined-contribution plan, such as a 401(k), instead of a defined-benefit plan. Defined-contribution plans do not provide health insurance benefits and typically have a lower employer contribution rate. However, converting from a defined-benefit plan to a defined-contribution plan would create numerous problems. These include additional costs in the foreseeable future, greater demands for social services and financial assistance, and increased turnover and instability with public employees.

Other solutions to solve increasing employer contribution rates must deal with the level of benefits provided and what legislative changes are required to achieve those. Incorporating cost of living adjustments (COLA) into payment options would reduce some of the burden on current funds. In addition, the state could try to reduce the cost of insurance premiums, possibly including outsourcing the management of retiree health insurance.



The Top Five Best Ways to Communicate with a Legislator

1. Face to face meeting at home
2. Face to face meeting in Frankfort
3. Phone call
4. Email
5. Letter

Telecommunications Tax Hold Harmless

KLC is working with the revenue department, budget office and legislative leaders to revise the state's new telecommunications tax in a way that will eliminate a revenue shortfall that is plaguing cities. The tax, which took effect January 1, 2006, was billed as a revenue-neutral replacement for taxes and fees that were dropped in the name of tax modernization.

When distribution of telecommunications tax revenue to local governments and schools started in April, it quickly became apparent that cities were not being held harmless as they had been promised. Most cities are experiencing a shortfall of between 12 and 15 percent compared to what they had been collecting from public service property taxes and franchise fees paid by cable and phone companies. The statewide total shortage for all local governments and schools is about $5.5 million.

State Budget Director Brad Cowgill has assured KLC that a good faith effort will be made to come up with a legislative fix for the telecommunications tax hold harmless in time for the 2007 General Assembly. The search for a solution is complicated by the fact that state government is also collecting less than expected from the telecommunications tax, an indication that the rates of the two taxes that produce the revenue may have been set too low.

> *"One size does NOT fit all for Kentucky's community revenue options."*

Tax Increment Financing (TIF)

Tax increment financing (TIF) for community development is a local financing tool that would permit local governments to capture increases in property or other taxes that result from public investment in infrastructure. The captured value of the increase in local tax revenues is used to finance the infrastructure expenditures, either immediately or over the term of a bond issue. These improvements spur redevelopment and reuse of physically deteriorated or obsolete areas by improving the livability of the area, thereby making it more attractive to developers and businesses.

Current Kentucky law reserves the use of TIF to either undeveloped land or major projects representing broad new economic activity for the state. The KLC-supported TIF version would add community redevelopment projects as another option.

Among many other projects, brownfield remediation would be a likely use of TIF. The Environmental and Public Protection Cabinet estimates that there are 8,000 brownfield sites throughout the Bluegrass State. Since many brownfields are located in Kentucky cities, TIF would help many communities remediate and reclaim these currently unusable properties.

A majority of states currently allow TIF for community redevelopment, including five of Kentucky's seven neighboring states. These states have found that TIF for community redevelopment is an effective economic development tool that increases tax revenues without raising rates and encourages public-private partnerships. This financing tool enhances local flexibility but does not cost the state or school districts any money.

Did You Know?

THANK FOR YOUR SUPPORT!

2006 KLC Legislative Awards

The awards are given to individuals who have supported issues important to Kentucky cities during the 2006 session.

KLC BIG HITTERS

Senator Damon Thayer (R-Georgetown)

Senator Damon Thayer represents the 17th District, which encompasses Scott, Owen, Grant and southern Kenton counties. As chairman of the Senate State and Local Government Committee, he has been instrumental in helping KLC on numerous legislative priorities. Senator Thayer also serves as a member of the Agriculture and Natural Resources; Licensing, Occupations and Administrative Regulations and the Transportation Committees.

Senator Thayer originally hails from the Village of Reese in Michigan. There he was originally inspired to public service by his grandfather, William Woizeschke, who served his municipal government as a firefighter, police officer, Justice of the Peace, councilmember and mayor.

He is a 1989 graduate of Michigan State University and has spent his professional career in the thoroughbred horse racing industry. He works full-time as vice president of the Breeders' Cup Event Management for the National Thoroughbred Racing Association in Lexington. Senator Thayer, his wife Carrie and children, Daniel and Katie, reside in Georgetown, along with three horses, two cats and two dogs.

Representative Rob Wilkey (D-Franklin)

Representative Rob Wilkey was first elected to the General Assembly in 1996 representing the people of Warren, Allen and Simpson counties. He sponsored and testified about an eminent domain bill, which KLC supported. As amended, the bill passed both chambers unanimously and was signed by the governor.

But Representative Wilkey actually began his public service career in 1990 as the city attorney for the City of Franklin, where he served until he entered the General Assembly. He is chairman of the Budget Committee on Transportation, a member of both the House Appropriations and Revenue and Rules Committees and is vice chairman of the House Judiciary Committee.

Representative Wilkey received his undergraduate degree from the University of Kentucky and his law degree from the University of Louisville. He is married to Terry Wilkey and has two children, Grace and Seth. He is a devoted Presbyterian and in his other life he serves as General Counsel for Commonwealth Brands, a subsidiary of Houchens Industries, the largest 100 percent employee-owned company in America.

KLC wants to thank both Senator Damon Thayer and Representative Rob Wilkey for their continued leadership and public service in the interest of Kentucky's cities.

FRIENDS OF KENTUCKY CITIES

Thanks and congratulations to the 2006 "Friend of Kentucky Cities" legislators:

Representative Joe Bowen (R-Owensboro)

Representative Larry Clark (D-Louisville)

Representative Jon Draud (R-Edgewood)

Representative Dennis Horlander (D-Louisville)

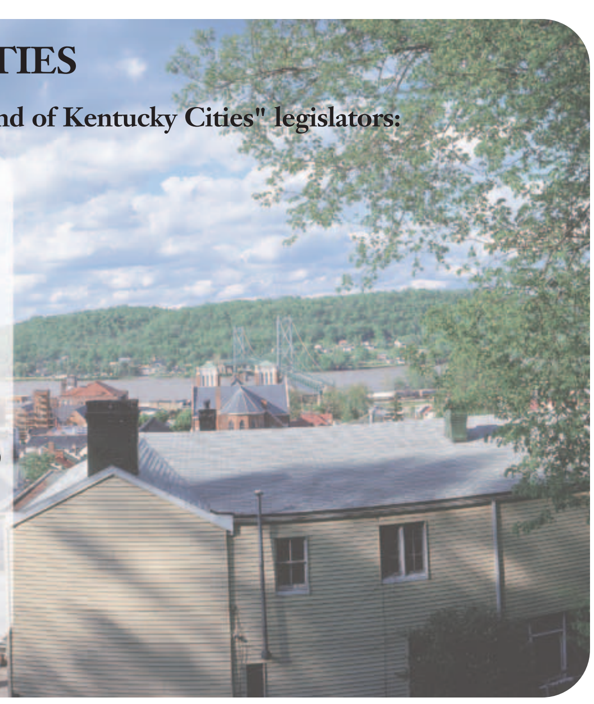
Representative Steve Nunn (R-Glasgow)

Representative Ruth Ann Palumbo (D-Lexington)

Representative Arnold Simpson (D-Covington)

Senator Jack Westwood (R-Erlanger)

Senator Ed Worley (D-Richmond)

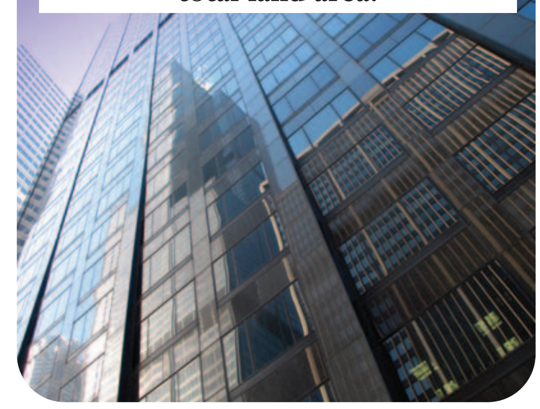


"The public has no say in the current taxing structure. With an amendment, communities and citizens will decide what fits their needs."

Did You Know?

. . . Over 53 percent of Kentucky residents live in cities.

City boundaries encompass about 3.5 percent of the state's total land area.



When Interacting with a Legislator, Always Remember to…

1. Be informed
2. Be on time
3. Be prepared
4. Be brief and focused
5. Be factual
6. Ask questions of staff
7. Be courteous
8. Follow up

MARK YOUR CALENDAR

FIRST DAY OF SESSION:
January 2

CITY OFFICIALS ACADEMY:
January 17-19, Bowling Green
January 24-26, Lexington

CITY NIGHT:
March 6, Frankfort Convention Center

TARGET ADJOURNMENT DATE:
March 27

KLC LEGISLATIVE COMMITTEE

The Kentucky League of Cities Legislative Committee is a group of city officials who actively participate in the legislative policy development process and recommend courses of action to the Executive Board. Members are appointed each year by the KLC President.

The following city officials served on the 2005-2006 KLC Legislative Committee:

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Mayor David L. Willmoth, Jr., Elizabethtown

Mayor Glenn V. Caldwell, Williamstown (Vice Chairman)
Mayor Bradley H. Collins, Morehead (Ex officio)
Mayor David W. Cartmell, Maysville (Ex officio)
Mayor Stephen Gilmore, Ashland
Councilmember Bill Sheckles, Bardstown
Mayor Elaine N. Walker, Bowling Green
Mayor Irvin T. Callery, Covington
City Clerk Charleen M. McIlvain, Cynthiana
Mayor Darrell Pickett, Glasgow
Mayor Richard G. Liebe, Hopkinsville
Mayor Michael D. Miller, Jackson
Mayor Clay S. Foreman, Jeffersontown
Councilmember Bill Farmer, Lexington
Mayor Teresa Ann Isaac, Lexington
Mayor Jerry E. Abramson, Louisville Metro
Councilmember Kevin J. Kramer, Louisville Metro
Mayor Karen L. Cunningham, Madisonville
Mayor Thomas L. Guidugli, Newport
City Attorney David C. Fowler, Owensboro
Mayor William F. Paxton, Paducah
Mayor Connie Lawson, Richmond
Mayor J.P. Wiles, Somerset
Mayor Mike Haydon, Springfield

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