

Local Option Sales Tax and Kentucky Cities

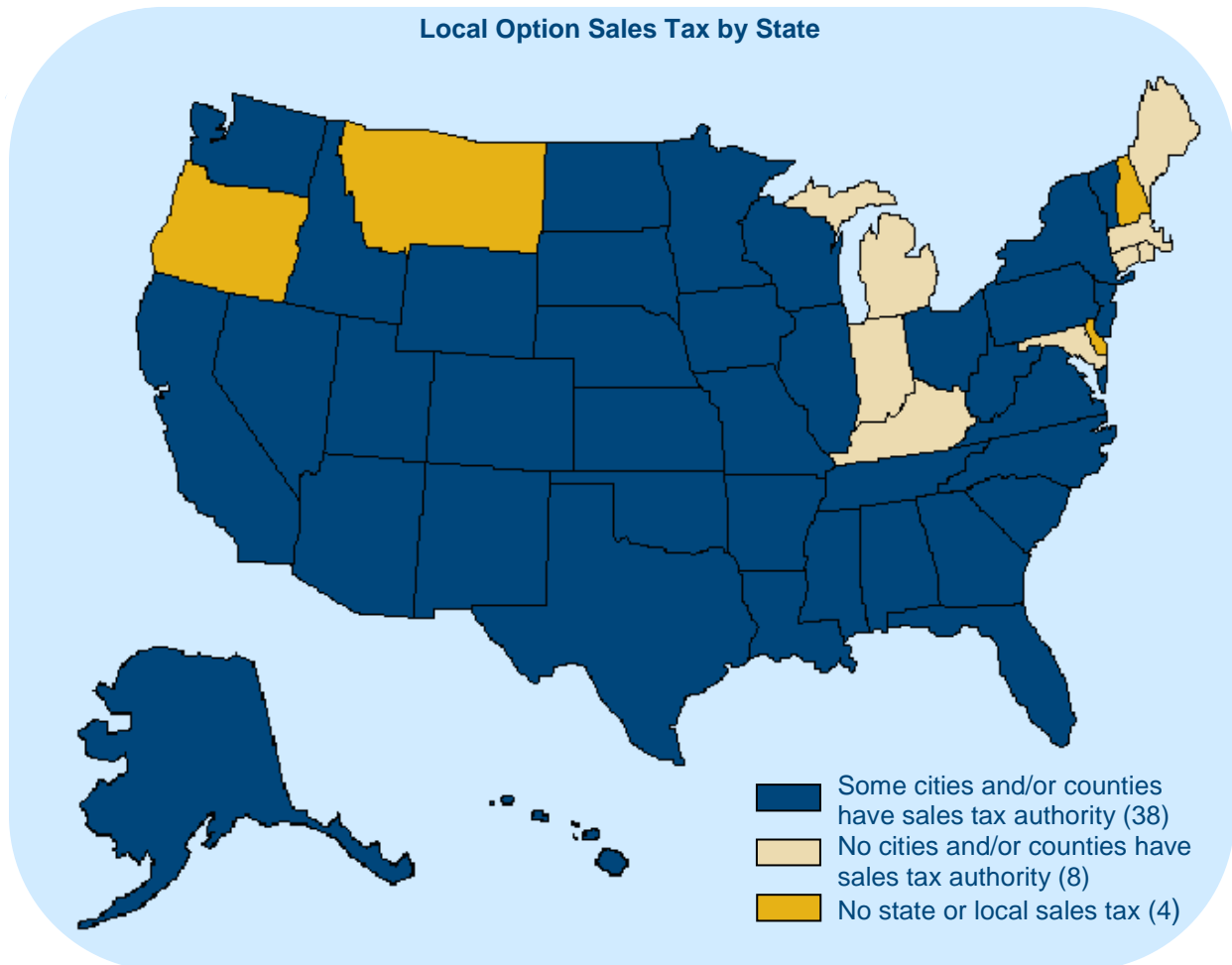
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Since the adoption of the Kentucky Constitution in 1891, Kentucky cities have been preempted from levying a local option sales tax. Section 181 of the Kentucky Constitution does not allow the General Assembly to permit any unit of local government to levy an excise tax, which is a tax paid on the purchase of a specific good. Even though the state collected over \$3 billion in sales and use tax revenue in FY 2012, the cities of the commonwealth are not afforded the same tax option.

- Thirty-eight states allow one or more local governments to levy a local option sales tax.
- All but one neighboring state allow some form of local option sales tax.
- Kentucky ranks 44th in local taxes collected.

Other States

Thirty-eight states currently allow one or more cities or counties to levy a local option sales tax. A total of 12 states do not allow any of their local governments to have a local option sales tax, although four of those do not collect a sales tax for the state government either.



Of the eight states that have a state sales tax but do not allow their local governments to have one, most are in the Northeast and the Midwest. All of Kentucky's neighboring states except Indiana allow at least one local government to levy a local option sales tax. Local governments in the states where a local option sales tax is not allowed almost exclusively rely on property taxes for tax revenue.

In the states that allow a local option sales tax, there are often a number of restrictions placed on the tax and/or the local governments. These restrictions often include allowing only local governments of certain sizes to levy the tax, capping the tax at a certain amount (such as 0.5% or 1.0%), outlining how the tax must be approved and/or requiring certain uses for the revenue.

It is also important to note that just because a state allows one or more local governments to levy a local option sales tax, those local governments do not always choose to do so. Similarly, referenda do not always pass in their elections; however, cities that propose significant investments in infrastructure and quality of life improvements are often successful at the ballot box.

Case Example: Oklahoma City, Oklahoma

In 1993, Oklahoma City voters approved a one-cent local option sales tax, known as the Metropolitan Area Projects (MAPS) program. The tax generated \$350 million and was used to revitalize the downtown area; improve Oklahoma City's national image; and upgrade cultural, sports, recreation, entertainment and convention facilities. The one-cent sales tax enabled the city to fund all of the projects debt free. The program included a sunset provision that required the tax to end at a certain time.

The original MAPS program was so successful that Oklahoma City voters approved a second MAPS initiative, known as MAPS for Kids. That initiative passed in 2001 and generated over \$500 million over the life of the tax. Along with a \$180 million bond issue from the Oklahoma City Public Schools, the money funded school facility improvements, technology upgrades and transportation projects. When the last facility is constructed in 2013, the program will have built or renovated 70 public school buildings and provided funding for hundreds of other school projects.

In 2008, another short-term one-cent sales tax was approved after the MAPS for Kids project tax expired. That funding made improvements at the downtown arena and built an off-site practice facility for the Oklahoma City Thunder, the city's new NBA franchise.

In 2009, Oklahoma City voters approved MAPS 3, a 10-year construction program to improve the quality of life in the city. Set to expire in December 2017, the tax will fund eight projects at an estimated cost of \$777 million. A few of the projects include a new downtown convention center, a new downtown public park, senior health and wellness centers, Oklahoma River improvements, and a number of trails and sidewalks.

The MAPS programs have been some of the most successful public/private partnerships in the country. A study commissioned by the Greater Oklahoma City Chamber of Commerce concluded that the MAPS initiatives have already resulted in \$5 billion in public and private investment in the city. Businesses continue to invest private dollars to leverage the public investment, particularly in the downtown area. Oklahoma City currently has one of the lowest unemployment rates in the country.

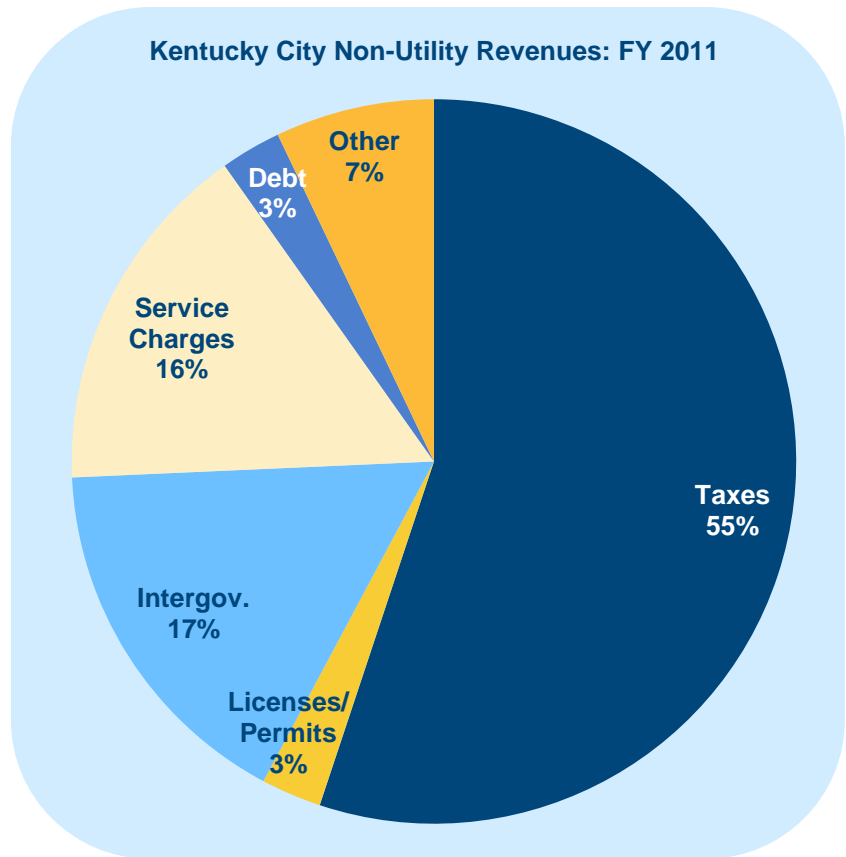
Kentucky Tax Collections

Each year, the U.S. Census Bureau conducts an Annual Survey of State and Local Government Finances to gather statistics on revenues, expenditures, debt and assets of state and local governments throughout the country. The local government data combines all counties, municipalities, public school systems and special districts.

The commonwealth and its local governments collected almost \$13.8 billion in taxes in FY 2010, according to data from the U.S. Census Bureau. Over \$9.5 billion of that was collected by the state, which represents 69 percent of all taxes paid. In other words, for every one dollar paid in taxes in 2010, 69 cents went to the state government while only 31 cents went to local governments. That proportion ranks Kentucky as the 10th most centralized tax collection state in the country. This means the state plays a larger role in redistributing tax dollars compared to most states. That is largely, though not exclusively, due to the role the state plays in local public schools funding.

Kentucky state and local governments collected \$3,173 per resident in taxes in FY 2010, which gives it a per capita tax collection rank of 40th among the 50 states. When isolating just tax revenues collected by the state, Kentucky's rank jumps to 25th highest (\$2,196 collected per capita). When looking at just local tax revenues, Kentucky ranks 44th, with only \$977 collected per capita. That means only residents in Arkansas, Delaware, Idaho, Mississippi, Vermont and West Virginia paid less in taxes to their local governments than Kentucky residents in FY 2010.

Local general sales taxes generated over \$62 billion nationwide in FY 2010. Local governments that do not have the option of levying a local sales tax are forced to rely more heavily on property taxes, business- or income-related taxes, intergovernmental revenue and/or service charges/fees. In Kentucky, just over 55 percent of non-utility city revenues in FY 2011 came from taxes, mostly occupational license and property taxes. In that same year, around 17 percent of non-utility city revenues came from intergovernmental sources, mostly from the federal and state governments. The next largest portion – 16 percent – came from service charges, such as parking, parks and recreation, and franchise fees.



Potential Impact

It is difficult to get a specific handle on exactly how much revenue a local option sales tax would produce in Kentucky cities. Unfortunately, the Kentucky Department of Revenue currently does not designate in what cities the state's sales tax is generated. In fact, even information recorded by county can easily be skewed when statewide businesses file all sales tax revenue in only one county.

It is clear that large cities serving as regional economic centers, particularly those with a strong retail base, generally would fare best with the approval of a local option sales tax. To help get a gauge of economic activity throughout the country, the U.S. Census Bureau conducts an Economic Census every five years. The most recent complete dataset available is from the 2007 Economic Census.

Using 2007 Economic Census data from the U.S. Census Bureau, estimates can be calculated for most cities with a population greater than 5,000. (Note: The Census Bureau does not calculate individual sales for cities with populations below 5,000.) The primary revenue components of a local option sales tax are

from the retail trade and accommodation/food service sectors. Assuming that the exemptions that apply to the state sales tax would also apply to any local option sales tax (only items subject to the state tax would be subject to the local tax), then not all retail trade would be subject to the tax. For instance, most groceries are exempt from the state sales tax, which cost the state an estimated \$484 million in tax revenue in FY 2012.

The estimates of what a one-percent local option sales tax would produce for all cities above 10,000 population are listed to the right. Most notably, Louisville¹ and Lexington would produce the most revenue at \$88.2 million and \$55.6 million, respectively. If the tax were levied throughout Jefferson County and the other incorporated cities in the county did not levy a tax, an estimated \$121 million would be produced. The next cities that would benefit most from a local option sales tax include Bowling Green, Florence, Paducah, Owensboro and Elizabethtown.

A local option sales tax could have a significant impact on the quality of life of those who live, work and play in any of these cities. A tax of this nature would enable local voters to determine what significant investments, if any, are best suited for their community.

Residents in other states have frequently supported a local option sales tax in favor of local quality of life projects. These taxes typically sunset after a set time and require another affirmative vote of the general public to be extended. The local option sales tax has consistently proven to be an effective funding tool for public projects, such as infrastructure and other quality of life investments.

Questions? Contact the KLC research team at 1-800-876-4552.

Estimated Sales Tax Revenue by City: Population Greater than 10,000

City	2010 Pop.	2013 Total Sales Tax Revenue
Ashland	21,684	\$7.4 million
Bardstown	11,700	\$3.7 million
Berea	13,561	\$2.2 million
Bowling Green	58,067	\$18.6 million
Covington	40,640	\$5.1 million
Danville	16,218	\$4.7 million
Elizabethtown	28,531	\$11.0 million
Erlanger	18,082	\$2.2 million
Florence	29,951	\$17.9 million
Fort Thomas	16,325	\$0.6 million
Frankfort	25,527	\$4.9 million
Georgetown	29,098	\$5.1 million
Glasgow	14,028	\$5.1 million
Henderson	28,757	\$6.5 million
Hopkinsville	31,577	\$6.5 million
Independence	24,757	\$0.9 million
Jeffersontown	26,595	\$10.0 million
Lawrenceburg	10,505	\$1.3 million
Lexington	295,803	\$55.6 million
Louisville ¹	597,337	\$88.2 million
Lyndon	11,002	\$2.2 million
Madisonville	19,591	\$5.3 million
Mayfield	10,024	\$2.5 million
Middlesborough	10,334	\$3.4 million
Murray	17,741	\$4.9 million
Newport	15,273	\$2.8 million
Nicholasville	28,015	\$6.7 million
Owensboro	57,265	\$12.2 million
Paducah	25,024	\$15.9 million
Radcliff	21,688	\$3.4 million
Richmond	31,364	\$7.7 million
Saint Matthews	17,472	\$9.8 million
Shelbyville	14,045	\$2.8 million
Shepherdsville	11,222	\$2.4 million
Shively	15,264	\$2.3 million
Somerset	11,196	\$7.3 million
Winchester	18,368	\$4.8 million

¹ Does not include other incorporated cities within Jefferson County.
Estimates are based on sales receipts reported in the 2007 Economic Census. KLC has prepared local option sales tax revenue estimates for almost all cities above 5,000 population.