CITY LEGISLATIVE PRIORITIES

1. 911 Funding
2. Road Aid Funding Formula
3. Revenue Diversification

Dear City Leaders:

The Kentucky League of Cities was founded in 1927 by a group of city leaders that came together around common legislative issues. Eighty-nine-years later, the Kentucky League of Cities still serves as the united voice of Kentucky cities in Frankfort. KLC strives to support community innovation, effective leadership and quality governance. It is with these three core values that the Kentucky League of Cities Board of Directors has set its ambitious agenda for the 2016 legislative session.

Though the legislature is only in session for a few months each year, the KLC Board of Directors meets throughout the summer and fall to discuss policy issues that impact all Kentucky cities. The 62-member board is made up of city officials who represent each region of the state and cities of all sizes and includes representatives from various affiliate organizations that represent city interests. Once approved by the Board, the League's legislative agenda serves as the basis of KLC's advocacy efforts at the capitol.

As city leaders it is imperative that we do our part to effect policy change in Frankfort. It is vital that you get to know your legislators and let them get to know your city. Take the time to talk with them about what your city needs this legislative session and make them aware of KLC's legislative priorities.

For Kentucky to truly progress, cities must be empowered to do what is best for their own communities and citizens. The KLC 2016 Legislative Agenda helps cities continue to bring value to our state as an important building block in supporting economic competitiveness and prosperity.

I look forward to seeing you at the KLC annual City Day/City Night advocacy event on February 10, 2016, in Frankfort.

Sincerely,

Mayor Roddy Harrison
City of Williamsburg, KLC President

The Kentucky League of Cities was founded in 1927 when cities came together on common legislative issues. Today, nearly 90 years later, the core mission has not changed. KLC is the united voice of Kentucky's cities.

KENTUCKY LEAGUE OF CITIES PRINCIPLES OF ADVOCACY

The Principles of Advocacy were adopted by the KLC Board of Directors to provide a foundation for KLC's legislative positions and strategy. These principles serve as a critical litmus test for the staff members and Board of Directors in the development of KLC's legislative agenda, as well as the review and analysis of all bills considered before the General Assembly.

Home rule: City officials must have the authority to make decisions to meet the needs of their citizens.

In 1980, the Kentucky General Assembly granted all classes of cities broad "home rule" powers. Simply stated, home rule is a city's ability to self-govern in local matters. Home rule creates local autonomy and limits the degree of state interference in local affairs. This principle serves as the cornerstone of KLC's legislative advocacy program.

City officials are elected to serve the needs of the public, which can vary within the context of each city government. Each city government must be afforded the necessary flexibility to adapting their own approach in meeting the unique health, safety and welfare needs of their citizens.

KLC staunchly defends the principle of home rule by opposing legislation that:

- Preempts municipal authority
- Erodes local control
- Imposes unfunded mandates

To ensure that the needs of cities are considered in the formation of public policy, KLC supports city government representation on all state boards, commissions and study committees that engage in work that impacts municipal government.

Adequate, stable and flexible resources: Cities must be able to generate sufficient revenues to provide for the level of services desired by local citizens.

The Kentucky Constitution severely limits the revenue options available to city governments. Many citizens benefit from city infrastructure, amenities, proximity to jobs, commerce, and cultural resources, but the current taxing structure prohibits a city's ability to fairly recoup costs. Kentucky's cities must work to maintain existing revenue streams to cities while expanding the flexibility to respond to the shifting nature of the economy.

KLC will work to ensure that cities have the resources needed to adequately fund services by protecting existing revenue streams and seeking tax reforms that would provide local officials more options to benefit their city's bottom line.

Economic prosperity: Cities must have the ability to encourage economic development and enhance quality of life.

No matter where they are, cities serve as the regional centers of business, arts, culture, government, education and economic development. Strong cities are an essential component to job creation, prosperity and quality of life for all Kentuckians.

Kentucky's cities are operating on a different economic playing field than they were in the 20th century. Local leaders are now trying to adapt their cities to the challenges of an emerging global economy.

KLC supports legislation that provides cities with the tools to create communities with viable quality of life and prosperous economic development opportunities.

The Principles of Advocacy augment the League's mission statement:

The Kentucky League of Cities serves as the united voice of cities by supporting community innovation, effective leadership and quality governance.

2016 Legislative Agenda

911 Funding

Cities will seek an increase in the statewide Commercial Mobile Radio Service (CMRS) fees or a mechanism to assess a local 911 wireless fee, ensure prepaid providers pay fees equivalent to the CMRS fee, eliminate cell provider reimbursement, and incentivize consolidation of Public Safety Answering Points (PSAPs).

Local governments have the ability to assess fees for 911 services on land-based telephone lines while the state sets, collects and distributes the 911 fee for cellular phones. The decline in popularity of landline telephones has left many local governments with decreasing revenues to support ever-more expensive 911 services. To further complicate the issue, evidence shows that as cell phone usage increases and phones are more accessible to more people in emergencies, the demand on 911 services has increased. As this trend continues, the funding disparity for 911 services will continue to grow for local governments.

Phone Line Growth/Decline in Kentucky: 2000-2013

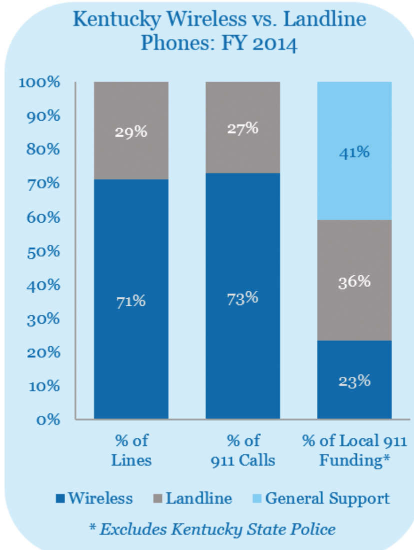
Type of Access	December 2000	December 2013	% Change
Total Landlines	2,223,000	1,599,000	-28%
Total Mobile Wireless Subscribers	1,026,000	4,041,000	294%
Total Number of Lines	3,249,000	5,640,000	74%

Figures are rounded to the nearest 1,000 and are from the Federal Communications Commission.

Legislative Priority

The 911 funding shortfall has forced several cities and counties to sharply increase the fee on the remaining landlines or, more commonly, to supplement 911 services with general fund appropriations. To help replace these lost revenues, KLC will seek legislation to:

- **Increase the current CMRS wireless fee as it is the primary funding methodology now.** The 70-cent statewide 911 wireless fee has not changed since its inception in 1998. Declining revenues from the loss of landlines means that current funding sources are not sustainable. The statewide fee currently set by the General Assembly needs to be raised to support local 911. If the General Assembly is unwilling to do then law should be modified to provide clarity for local governments to assess the fee locally.



- **Require prepaid providers to remit the equivalent of the CMRS fee that postpaid mobile subscribers are required to pay each month.** Kentucky law creates a disparity between prepaid and postpaid mobile wireless subscribers and short changes the 911 system. KLC feels that the disparity needs to be addressed to require prepaid mobile wireless users to pay an equivalent to the fees charged to postpaid users at the point of sale.
- **Change the governance of the Commercial Mobile Radio Service Emergency Telecommunications Board.** The current makeup of the CMRS Board weighs heavily in favor of the providers and PSAPs. Local governments currently have only one representative on the Board. KLC seeks legislation that would increase the number of local government representatives on the CMRS Board.
- **Incentivize further consolidation among PSAPs.** Currently there are 112 PSAPs in Kentucky which shows a great deal of cooperation among the state's 418 cities and 120 counties. KLC will seek legislation that encourages consolidation by increasing available grant funding.
- **Support the repeal of the cost recovery statutes that require taxpayers to pay for the costs of wireless providers for carrying 911 calls.** Many states have repealed their cost recovery statutes as they are now seen as outdated. According to the CMRS FY 2012 Annual Report, repealing the cost recovery statutes would free up approximately $4 million annually for local 911 services.
- **Continue to oppose any measure that removes the ability of local governments to impose local fees for the operation of 911 services.**

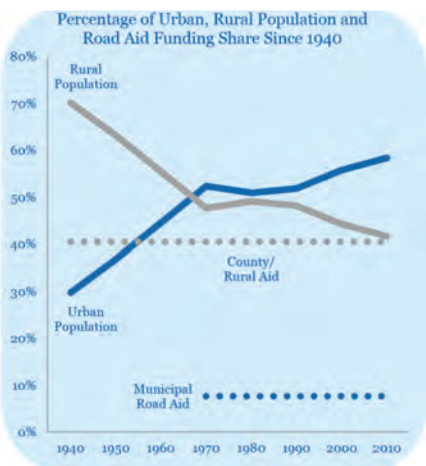
Based on FY 2014 Annual Report:

- Local general fund dollars account for 41 percent of 911 funding with local landline fees accounting for 36 percent of 911 revenue for Kentucky local governments.
- Over 70 percent of all 911 calls in Kentucky came from wireless devices. Yet, wireless accounts for only 23 percent of total 911 revenue for local governments.
- Between 2000 and 2013, the number of landlines dropped by 28 percent in the state. The number of mobile wireless subscribers increased by 294 percent.

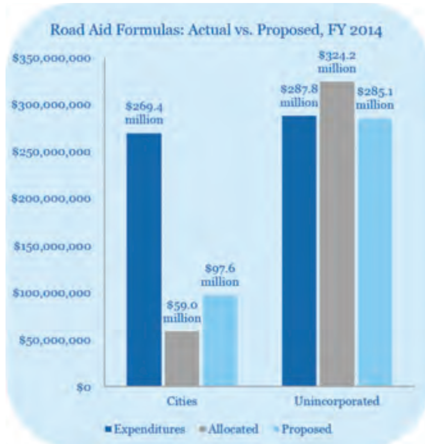
ROAD AID FORMULA MODERNIZATION

Cities support the restructuring of the road aid formulas for a fair allocation to local governments with higher traffic areas by considering road usage in road aid funding calculations.

Kentucky cities spend more than a quarter of a billion dollars a year on constructing and maintaining around 10,000 miles of city streets. Only around one-third of that money comes from inter-governmental sources, such as the state municipal road aid program and federal grants.



Kentucky's gas tax generated over $886 million in FY 2014, much of which was shared with local governments for highway and bridge construction, reconstruction and maintenance. Unfortunately, the funding schemes for municipal road aid, county road aid and rural secondary do not take into account lane miles, traffic counts or other measures related to use and/or maintenance need. The formulas, which have not been altered in nearly 70 years, skew heavily in favor of rural, low population counties, where roads and highways are less used.



State law allocates 40.5 percent of the total of shared road aid funds through the county road aid program and the rural secondary program (18.3 percent and 22.2 percent, respectively). The municipal road aid program gets 7.7 percent of the motor fuels tax revenues. Currently 61 percent of annual vehicle miles traveled on major and minor local roadways in Kentucky are on rural roads that receive 84 percent of road aid funds allocated to local governments.

Legislative Priority

KLC supports the restructuring of the road funding formulas for a more equitable allocation to local governments with higher traffic areas that have more frequent needs for repair and maintenance. KLC proposes consolidating all three separate road programs into one "Local Road Aid Program." This program would do the following:

- Retain the total 48.2 percent of Kentucky motor fuels taxes, but would not divide among three different funds.
- Allocate funds to cities and counties based on a new "formula of thirds" (see right) that:
  - Eliminates equal shares to counties and references to "urban" and "rural" populations;
  - Reduces the influence of land area;
  - Increases the influence of population and road miles.
- Require counties to spend road aid dollars based on the current proportional split between county road aid and rural secondary aid, to ensure the state's roadways are adequately maintained.
- Increase road aid dollars for all cities and six counties (Boone, Christian, Laurel, Oldham, Pulaski, and Warren).
- Allocate enough funds to counties to cover almost 100 percent of total road fund expenditures in a year.
- Simplify administration for the Department for Local Government and Transportation Cabinet.

Current "Formula of Fifths"

- 1/5 divided equally among all counties
- 1/5 divided by rural road miles
- 1/5 divided by rural population
- 2/5 divided by rural land area

Proposed "Formula of Thirds"

- 1/3 divided by incorporated vs unincorporated population
- 1/3 divided by incorporated vs unincorporated road miles
- 1/3 divided by incorporated vs unincorporated land area

2016 Legislative Agenda

Revenue Diversification

KLC will seek an amendment to the Kentucky Constitution to permit cities to ask their voters to approve a temporary local sales tax for the funding of specific local projects. Additionally, cities want to expand the availability of the restaurant tax to all cities.

The Kentucky Constitution severely limits the revenue options available to city governments. Cities continue to struggle with the one-two punch of a slow economic recovery and rising expenditures. Many cities are unable to acquire the resources necessary to maintain city infrastructure, essential services and amenities that contribute to high quality of life.

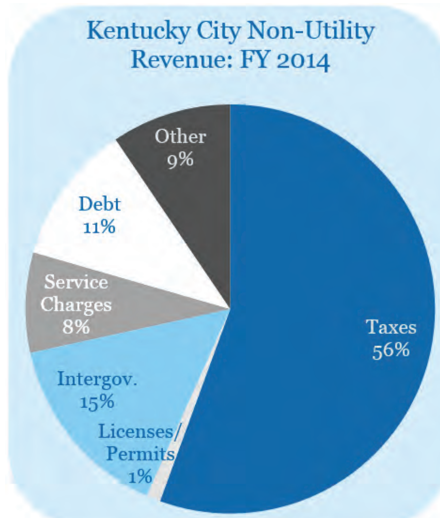
To provide a balanced budget, most cities have spent the last of their rainy day funds, cut funding for city departments and programs, reduced personnel and have foregone important community projects. City officials need more revenue options and greater flexibility to tailor their tax policies to fit the unique needs of their communities so they may effectively continue to serve the people of Kentucky.

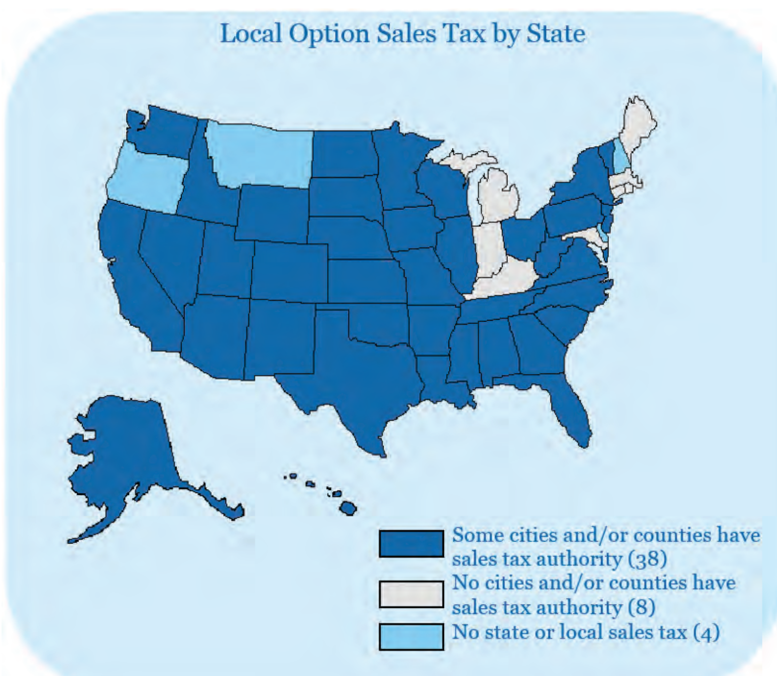
Legislative Priority

KLC will support an amendment to the Kentucky Constitution to permit cities to ask voters to decide on a temporary local sales tax. If approved by voters of a city, the tax would only be for a specific community project and for a definite period of time as defined in the ballot initiative.

In addition, the amendment would impose a one percent cap on the total tax within the boundaries of a single county and would also require the tax to be on the same tax base as the state sales tax.

Thirty-eight states allow one or more local governments to levy a local option sales tax. All but one neighboring state allows for some form of local sales tax. Kentucky is one of the most centralized states for the collection of tax revenue and ranks 44th in local taxes collected nationwide.





The Kentucky League of Cities will seek legislation that would expand the authority to impose a restaurant tax to all cities. The proposal would allow cities to retain a maximum of 75 percent of the revenues for quality of life enhancements and require the city to provide at least 25 percent to local tourism commissions. Any city imposing the restaurant tax would be prohibited from imposing a net profits or gross receipts tax on restaurants, but participating cities could still impose payroll taxes on restaurant employees and maintain their regulatory business licensing requirements.

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

Kentucky League of Cities

Additional Legislative Priorities

Abandoned & Blighted Properties

Abandoned, blighted and code-deficient properties continue to be a major source of concern in almost every Kentucky city. Not only do these properties result in threats to health and safety, but they also bring down property values, place a strain on code enforcement resources, and can keep communities from attracting economic development opportunities and achieving the quality of life they want for their citizens. Incentivizing property owners or other stakeholders to take responsibility for these properties and finding successful methods to reintegrate the properties into the community continue to be a top priority.

Legislative Priority

KLC will work to improve existing legislation addressing these issues to make Kentucky's current laws more efficient and effective. KLC will also pursue legislation offering new solutions to this ongoing problem, including: landbank authorities, updating vacant properties review commission laws, nonjudicial foreclosure, automatic liens for bankruptcy protection, deed filing requirements, blighted property receiverships, transferring real property under surplus statutes for blight elimination, criminal enforcement of continued code violations, recording of mortgage assignments, automatic liens for nuisance enforcement, and nuisance and code lien attachment clarification.

Retirement Anti-Spiking Legislation

The historic pension reform legislation in 2013 (SB 2) contained provisions to address the practice of "spiking," which occurs when an employee participating in the Kentucky Retirement Systems (KRS) increases their creditable compensation more than 10 percent in a fiscal year during the last five years prior to retirement. Creditable compensation is what is used to calculate retirement benefits. It includes all salary, wages (including overtime), tips, fees and qualified transportation expenses paid to the employee. When a spike occurs, the last employer upon retirement is required to pay the full actuarial cost of the resulting increased retirement benefit, which includes the employee's and employer's cost. While unfortunately there are some examples of agencies artificially inflating an employee's compensation at the end of their career to intentionally boost pension benefits, there are many scenarios that can cause an employee's creditable compensation to increase that are not due to abuse - such as leave under workers' compensation and unpaid leave under the Family Medical Leave Act (FMLA). While KLC strongly supported Senate Bill 2 and the intent of the spiking language, which was to address the abuse of spiked pensions, the unforeseen burden on taxpayers needs to be addressed.

Legislative Priority

KLC will seek legislation to maintain Senate Bill 2 provisions that prohibit the abuse that caused exorbitant artificial spikes while making considerations for valid increases in compensation. This modification will remove the financial burden from individual employers. The bill will also provide relief to employers to authorize necessary work and allow employees to work without fear of being penalized for legitimate increases of their creditable compensation.

Prevailing Wage

Current Kentucky law requires contractors for any public construction project that exceeds $250,000 in cost to pay the local prevailing wage. A 2006 state study concluded that these laws can cost the taxpayers of cities and other local governments 18 percent to 30 percent more on their construction projects than a comparable construction project completed by entities not subject to prevailing wage.

Legislative Priority

KLC will support legislation that repeals the existing state prevailing wage law or makes significant amendments to the statutes by raising the threshold or manner of calculating the rates to more accurately reflect the reality of wages within each area.

Additional Legislative Priorities

Drug Abuse

There is not a city in the commonwealth that is not impacted by drug abuse. Drug abuse and its social, criminal and economic consequences have a devastating impact on the quality of life in Kentucky.

Legislative Priority

KLC will continue to support legislation that addresses the drug problem in Kentucky and urges the General Assembly to pass legislation to combat all aspects of drug abuse. KLC supports legislation that enhances the penal code for drug traffickers while providing more treatment options to addicts in an effort to treat the source of addiction.

Police and Fire Incentive Pay

The police and fire unions have supported legislation in 2014 and 2015 that would have increased the incentive pay for police and fire from $3,100 annually to $4,000, as this figure has not been changed since 2001.

Legislative Priority

KLC will support legislation that provides for an increase in the incentive pay on the condition that the legislation includes a reimbursement to employers for the additional costs associated with administering the increased incentive pay amount.

CERS Separation from KRS

Since the passage of Senate Bill 2 in 2013, the County Employees Retirement System (CERS) has seen its funding ratio increase and employer contributions steadily decline while the Kentucky Employees Retirement System (KERS) has had a decrease in their funding ratio. KERS is now the worst funded system in the country. According to the asset liability study performed by R.V. Kuhns, Inc., the plan would undergo financial hurdles of "persistent funding shortfalls, elevated contribution levels, unsustainable payout ratios and in the worst-case scenario, the potential for complete depletion of the asset base." CERS is on an upward trajectory and has the probability of being fully funded in the next 20 years, according to the Kuhns study.

The June 2014 Comprehensive Administrative Financial Report states that CERS pays nearly 62 percent of the total expenditures of KRS including expenses from lawsuits filed against the system, salaries of employees, fees and other administrative costs.

Legislative Priority

KLC will seek legislation that explores options for the separation of the County Employees Retirement System from the Kentucky Retirement Systems to ensure adequate investment strategies and long-term solvency of CERS.

Rehiring of Retired Police Officers

Many cities are faced with understaffed police departments, and hiring a new recruit is costly and comes with a long waiting period. These cities' budgets are strained due to large amounts of overtime. Sheriffs' offices are permitted to rehire retired police officers without making employer contributions to retirement or reimbursing or otherwise providing health insurance benefits to the rehired retiree.

Legislative Priority

KLC will seek legislation that provides the same benefit for police departments that has been afforded to sheriff departments. The legislation will allow police departments to rehire retired police officers without making employer contributions to retirement or providing or reimbursing the state for health insurance benefits to the rehired retiree.

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CITYDAY

FEBRUARY 10, 2016, 8:00 A.M. TO 4:30 P.M. EST
FRANKFORT CONVENTION CENTER, CAPITOL ANNEX AND STATE CAPITOL

FEBRUARY 10, 2016, 4:30 P.M. TO 7:30 P.M. EST
FRANKFORT CONVENTION CENTER, FRANKFORT, KENTUCKY

CITYNIGHT

Please mark your calendar for KLC's annual day of city advocacy at the Capitol and evening of networking with city representatives, legislators and government leaders.
Watch for a postcard invitation in January and visit klc.org for a complete schedule of events.

klc.org