2017 Legislative AGENDA

November 2016

CITY LEGISLATIVE PRIORITIES

1. Road Aid Formula Modernization
2. CERS Pension Stability and Spiking Reform
3. Community Development Funds (CDF)

Dear City Leaders and Friends:

Home rule (or as I like to call it municipal liberty); adequate, stable and flexible resources (our city "tool box"); and economic prosperity (captured opportunity). These are the pillars of the Kentucky League of Cities Principles of Advocacy that guide our legislative goals. The Kentucky League of Cities was founded in 1927 by a group of city leaders who came together around common legislative issues. Nearly 90 years later, KLC still serves as the united voice for cities in Frankfort. It is with our principles of advocacy and our core values of community innovation, effective leadership and quality governance that the KLC Board of Directors has set its ambitious agenda for the 2017 legislative session.

Although the legislature is only in session for 30 days in 2017, the legislative process is continual. The KLC Board of Directors continues to meet over the summer and fall to discuss policy issues that affect all Kentucky cities. The Board of Directors is made up of 62 city officials who represent each region of the state, cities of all sizes and 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 in Frankfort.

As city leaders, it is vital that you get to know your legislators and develop a collaborative relationship with them. It is also critical that your legislators get to know your city. We encourage you to invite your legislators to a city council or commission meeting and involve them in what you are trying to accomplish. Talk with them about what your community needs during the 2017 legislative session and use this agenda as your guide as you explain how these issues will impact your city.

As the mayor of Sadieville and the President of KLC, I understand how important constructive advocacy is to moving our cities forward. Our cities must be empowered to do what is best for their own communities. All Kentucky cities deserve the same chance for greatness, and KLC's legislative agenda helps to improve life in Kentucky cities and bring them closer to reaching their full potential through creating and capturing opportunities to make our local communities better. Advocacy for cities is a core part of KLC's mission. We as city officials need to be willing to step up and do our part to help the General Assembly know that cities are the heart of Kentucky and are united.

I look forward to seeing you at the annual KLC City Day/City Night event in Frankfort on February 8, 2017.

Sincerely,

Claude Christensen

Mayor Claude Christensen
City of Sadieville, 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 adapt their own approaches to meet 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.

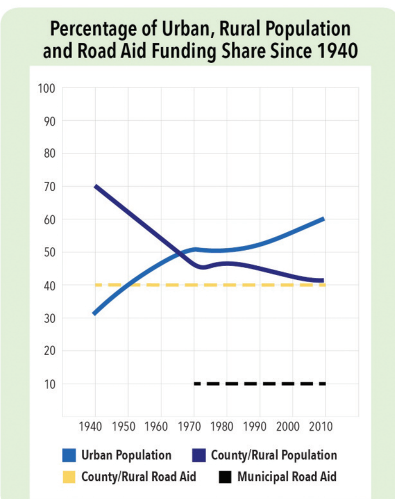
2017 Legislative Agenda

Kentucky League of Cities

Road Aid Formula Modernization

Cities support the restructuring of the road aid funding formulas to ensure that city governments receive a more fair allocation of state gas tax revenues for the construction and maintenance of city streets.

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



In 1948, the General Assembly established the county road aid and rural secondary funding formulas. At that time, less than 30 percent of Kentuckians lived in cities. In 1972, the General Assembly created the municipal road aid program, when not even half of Kentuckians lived in a city. As you can see in the chart above, Kentucky's urban population has steadily increased while the rural population has steadily decreased. In fact, the latest data from the United States Census Bureau shows that 55 percent of Kentuckians live in a city. Over the past five years, the population of Kentucky cities has increased four percent, while the unincorporated population declined by half a percent. Despite the rapid growth of Kentucky cities, the funding formulas for municipal road aid, county road aid and rural secondary road aid have remained unchanged.

In FY 2014, Kentucky's gas tax generated over $886 million. State law allocates 40.5 percent of the total shared road aid funds through the county road aid and the rural secondary road aid programs (18.3 percent and 22.2 percent, respectively). The municipal road program receives 7.7 percent of the motor fuels tax revenues. In FY 2014, cities received less than $60 million from the road aid fund which covered less than one-quarter of all the funds necessary for the construction and maintenance of city roads. Conversely, the same data shows that counties spent less than $290 million on road projects over the same time period, yet county and rural secondary roads received almost $325 million from the road aid programs. The funding schemes used to allocate the money in these funds do not take into account lane miles, traffic counts or other measures related to use and/or maintenance needs. Instead, they skew heavily in favor of rural, low population counties, where roads and highways are less used.

Legislative Priority

KLC supports the restructuring of the road funding formulas for a more fair allocation to local governments with higher traffic areas, and thus more frequent needs for repair and maintenance. Cities will seek reform that will help to provide more funding to urban areas by including elements of road usage in calculations.

Local governments receive 48.2 percent of Kentucky motor fuels tax collections.

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

Most of those funds are allocated to counties according to the "formula of fifths," which is heavily skewed to favor rural areas.

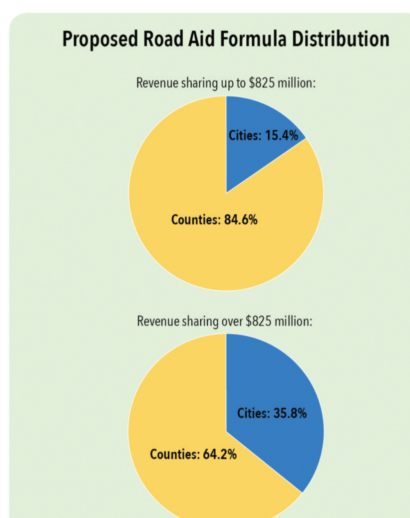
KLC proposes maintaining the current Formula of Fifths for amounts available for revenue sharing up to $825 million which would hold counties harmless and maintain their current funding levels. For amounts available for revenue sharing above $825 million, KLC proposes changing the formula to one that provides more funding to urban areas.

Proposed New Formula

- 1/2 divided by incorporated vs. unincorporated population
- 1/2 divided by incorporated vs. unincorporated road miles

This new formula eliminates equal shares to counties, references to "urban" and "rural populations," and land area while increasing the influence of population and road miles.

KLC's proposal also requires counties to spend road aid dollars received over the hold harmless amount based on the current proportional split between county road aid and rural secondary aid, to ensure the state's roadways are adequately maintained.



CERS Pension Stability and Spiking Reform

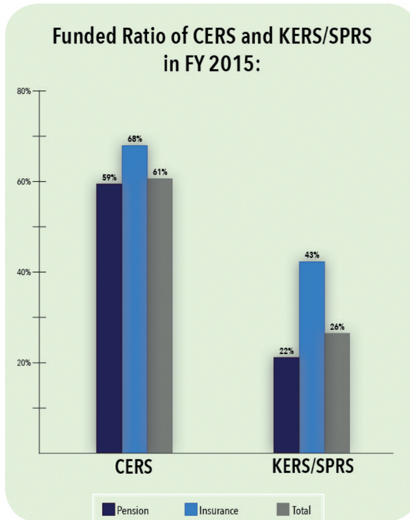
Kentucky cities support CERS pension stability by separation of CERS from KRS and support addressing the anti-spiking provisions of Senate Bill 2.

CERS Pension Stability

Since the passage of Senate Bill 2 in 2013, the County Employees Retirement System (CERS) has seen its funding ratio increase and employer contributions trend downward while the Kentucky Employees Retirement Systems (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 is set to undergo financial hurdles of "persistent funding shortfalls, elevated contribution levels, unsustainable payout ratios and in the worst-case scenario, the potential for the complete depletion of the asset base." According to the same study, CERS is on an upward trajectory and has the probability of being fully funded in the next 20 years. CERS pays nearly 63 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 supports the long-term solvency of CERS by separating CERS from the Kentucky Retirement System (KRS) and providing for new governance of CERS. Kentucky cities believe that separation from KRS will ensure adequate investment strategies and the continued stability of CERS.



Spiking Reform

KLC strongly supported the historic pension reform legislation of 2013, which was critical for helping cities manage their costs. Senate Bill 2 contained provisions to address the practice of "spiking," which occurs when an employee participating in KRS increases their creditable compensation more than 10 percent in a fiscal year during the last five years of employment prior to retirement. Retirement benefits are calculated using creditable compensation, which 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 increase of the 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. These examples include leave under workers' compensation and unpaid leave under the Family Medical Leave Act (FMLA). The total potential cost of spiking bills to Kentucky cities through September 2016 is about $1.5 million, and city leaders feel that this unforeseen burden on taxpayers needs to be addressed.

Legislative Priority

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

2017 Legislative Agenda

Community Development Funds (CDF)

Kentucky cities support the reallocation of consumer-based restaurant funds.

Current state law allows only former fourth and fifth class cities to collect consumer-based restaurant revenue and 100 percent of these collected funds are only available to the tourism commission. KLC seeks to open up this revenue option for all cities in the commonwealth and to reallocate the collected revenue for community development funds, to create more options for funding tourism development.

The Kentucky Constitution severely limits the revenue options that are available to city governments. City officials need additional funding options and greater flexibility to tailor their tax policies to fit the unique needs of their communities so that they may continue to effectively serve the people of Kentucky. Our local leaders must be equipped with the tools necessary to help our cities progress and raise the quality of life of residents across the state.

Legislative Priority

KLC will seek legislation that allows all cities not currently utilizing consumer-based restaurant revenue for tourism to join previous fourth and fifth class cities in this revenue option. The proposal would allow cities to retain a maximum of 75 percent of the revenues for community development funds such as quality of life enhancements. The city would be required to provide at least 25 percent of the revenues to the local tourism commission. Any city that chooses to utilize this option would be prohibited from imposing a net profits or gross receipts tax on restaurants, but participating cities could still maintain their regulatory business licensing requirements.

All of the consumer-based restaurant revenue retained by a city government must be used for community development. Specifically, funds must be used for the construction, operation and maintenance of infrastructure that supports local tourism, recreation and/or economic development. These types of investments stimulate growth and create real jobs.

This legislation also guarantees stable funding for marketing, branding and promotional activities due to the requirement that 25 percent of the proceeds be turned over to tourism agencies. Elected leaders may choose to invest more funds into this effort if they deem it to be in the best interest of the citizens that they were elected to serve. In fiscal year 2014, tourism commissions received $13.8 million from consumer-based restaurant revenue statewide. If all cities were allowed this as a revenue option and enacted a 3 percent consumption-based tax, tourism commissions could receive at least $43.5 million.

KLC's proposal allows the elected leaders who vote in favor of this revenue option to have a more direct say in how funds are used for local tourism and community development.

Estimated Community Development Funds (CDF) for Sample Cities:

City	2015 Pop.	CDF 75%	Tourism 25%
Ashland	21,108	$2,087,000	$696,000
Bowling Green	63,616	$5,766,000	$1,922,000
Carrollton	3,886	$215,000	$72,000
Fort Wright	5,781	$560,000	$187,000
Murray	18,954	$1,415,000	$472,000
Richmond	33,533	$2,576,000	$859,000
Somerset	11,439	$1,092,000	$364,000

Additional Legislative Priorities

Issue:
Drug Abuse

Drug abuse continues to plague Kentucky cities, and its consequences have a devastating impact on the quality of life of citizens across our state. Every city in the commonwealth has been impacted by drug abuse.

Legislative Priority

The Kentucky League of Cities Board of Directors has adopted the following statement:

"All citizens of every city in the Commonwealth are impacted by drug abuse. Drug abuse and its social, criminal and economic consequences have a devastating negative impact on the quality of life in Kentucky communities. Therefore, the Kentucky League of Cities strongly supports legislation that proactively addresses drug abuse and its consequences."

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.

Issue:
Prevailing Wage

Current Kentucky law requires contractors for any public construction project that exceeds $250,000 in cost to pay the local prevailing wage. The most recent state study concluded that the prevailing wage law can cost the taxpayers of cities and other local governments 18 percent to 30 percent more on their construction projects than comparable projects 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.

Issue:
Unfunded Mandates

Unfunded mandates allow one governmental entity to freely spend the tax revenue raised by another governmental entity without consequences. By passing an unfunded mandate, the General Assembly hands down the responsibility of financing measures to local governments.

Legislative Priority

KLC will seek legislation that prohibits the General Assembly from making mandates unless they are fully funded by the state or the programs are approved for funding by a vote of the local legislative body. KLC will continue to staunchly oppose unfunded mandates as they impose on home rule.

Issue:
Police & Fire Incentive Pay

Prior to 2016, the incentive pay amount for police and fire had been unchanged since 2001. The 2016 budget bill included funds to increase the incentive pay amount to $4,000. KLC supported the increase with the stipulation that cities be provided reimbursement for the administrative costs. The potential cost of this increase to cities is $5 million annually.

Legislative Priority

KLC will support codifying the $4,000 incentive pay amount in the 2016 budget bill along with provisions that reimburse cities for the increased administrative costs.

Additional Legislative Priorities

Issue:
LIFT

Kentucky ranks 44th in local taxes collected nationwide and its cities are limited in the types of revenue options available. Kentucky cities are preempted from levying a local option sales tax while 38 states, including all but one surrounding state, have this ability.

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 the voters of a city, the tax would only be for a specific initiative, such as particular projects or to reduce other taxes, and for a definite period of time as defined in the ballot initiative.

Issue:
Economic Development

Kentucky cities are home to about three-quarters of the jobs in the state. The economic recovery in our cities after the Great Recession has been tepid and tax revenues are just now rebounding. Kentucky cities are not equipped with the economic development tools they need to drive economic growth in the 21st century.

Legislative Priority

Kentucky cities will support an ambitious economic development agenda that includes right-to-work legislation and reforms in the areas of business investment, the environment, tourism, historic preservation and tax increment financing.

Business Investment Legislation – KLC will support reforms to the Kentucky Business Investment Program (KBI), the Kentucky Reinvestment Act (KRA), the Small Business Tax Credit and the SBIR-STTR (Small Business Innovation Research-Small Business Technology Transfer) program. In addition, Kentucky cities will support the creation of a Jobs Kentucky program.

Environment Legislation – Kentucky cities will support legislation that addresses the identification and remediation of brownfield sites.

Tourism – KLC will support legislation that expands and intensifies the economic opportunities presented through tourism such as the expansion of a recreational trail system.

Historic Preservation – Kentucky cities will support raising the annual and per project cap on the historic tax credit.

Tax Increment Financing (TIF) – KLC will support a collaborative effort between the executive and legislative branches of state government to define a uniform definition of "net new" to eliminate any uncertainly and confusion in the current statutes. KLC will also support the inclusion of enterprise zones as a qualifying activity within the structure of TIF.

Issue:
Protect Home Rule and City Budgets

City leaders will vigorously oppose any legislation that attempts to preempt local home rule authority or impose unfunded costs on city taxpayers.

KLC Advocacy Staff

Jon Steiner
Executive Director/CEO
jsteiner@klc.org

J.D. Chaney
KLC Deputy Executive Director
jchaney@klc.org

Bryanna Carroll
Governmental Affairs Manager
bcarroll@klc.org

Bert May
Contract Lobbyist

Carl Breeding
Contract Lobbyist

Rusty Cress
Contract Lobbyist

1-800-876-4552 klc.org

CITYDAY

FEBRUARY 8, 2017, 9:00 A.M. TO 4:30 P.M. EST
THOMAS D. CLARK CENTER FOR KENTUCKY HISTORY, CAPITOL ANNEX & STATE CAPITOL

FEBRUARY 8, 2017, 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.