

WITHOUT EDITS

August 25, 2023

To: Co-Chairman Earl Jones
Co-Chairman Jason Nemes

From: Tax Subcommittee

As specified in 2021 HB 314, the Louisville Metro Comprehensive Review Commission was established to submit their findings and recommendations to Kentucky Legislative Research Commission regarding the review of the accomplishments and insufficiencies of the consolidated local government model. The Commission designated subcommittee to review the taxing powers and funding of Louisville Metro Government, the suburban cities, and special service districts within the consolidated local government jurisdiction, i.e., Jefferson County.

The members of the tax subcommittee are Representative Ken Fleming, Senator Michael Nemes, Shelby Somervell of GLI, Mayor’s appointee Marianne Butler, and Councilwoman Cindi Fowler.

This report provides a summary of the findings based on data submitted by Dr. Paul Coomes, University of Louisville Emeritus Professor of Economics, Dr. Matthew Ruther, Associate Professor of Urban and Public Affairs, and Dr. William Hoyt, University of Kentucky Professor of Economics. The committee wishes to express our sincere appreciate for the time, research and thoughtful analysis in putting together their reports.

Louisville Metro Government has county-wide service responsibilities and taxing powers. However, Jefferson County also has 83 cities, seven suburban fire districts and three special taxing districts. However, for the purposes of this report, as agreed upon by the Commission, Jefferson County Public Schools was excluded, but TARC and the Urban Services District (the former City of Louisville) were included.

1. Population Shift

Over the past two decades, population has shifted from the USD to areas in the County that are not incorporated, while the suburban cities posted slight population growth. The County as a whole gained 89,000 residents. The loss of 10,000 residents in the USD was just offset by a gain of 10,000 residents in the suburban cities. Thus, all the net growth in population in the County occurred in the formerly unincorporated area. The long-established suburban cities are located primarily in the eastern and northeastern portion of, and have no or very limited ability to add additional housing units. The less developed portion of the County has absorbed the recent population growth, as shown by the Census results below:

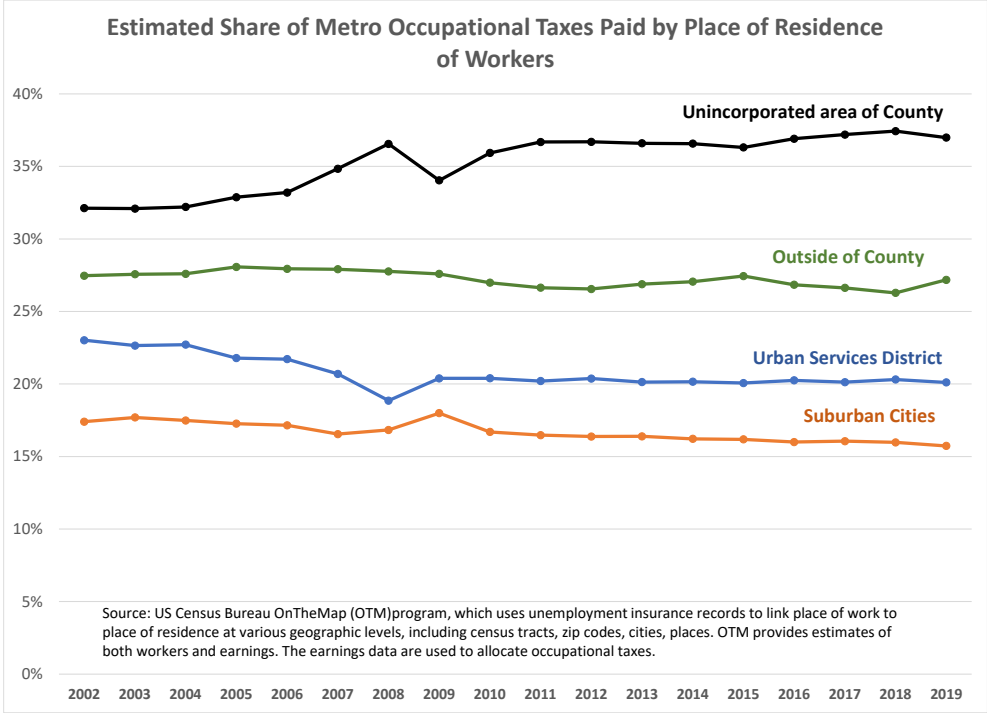
Year	USD	Suburban Cities	Unincorporated	Total
2020	246,161	149,924	386,884	782,969
2000	256,231	140,290	297,083	693,604

The USD remains the most densely populated part of the County, followed by the suburban cities. However, the strong population growth in the unincorporated area has increased its density (population per square mile) by 30 percent since merger.

2. Tax and Revenue Distribution

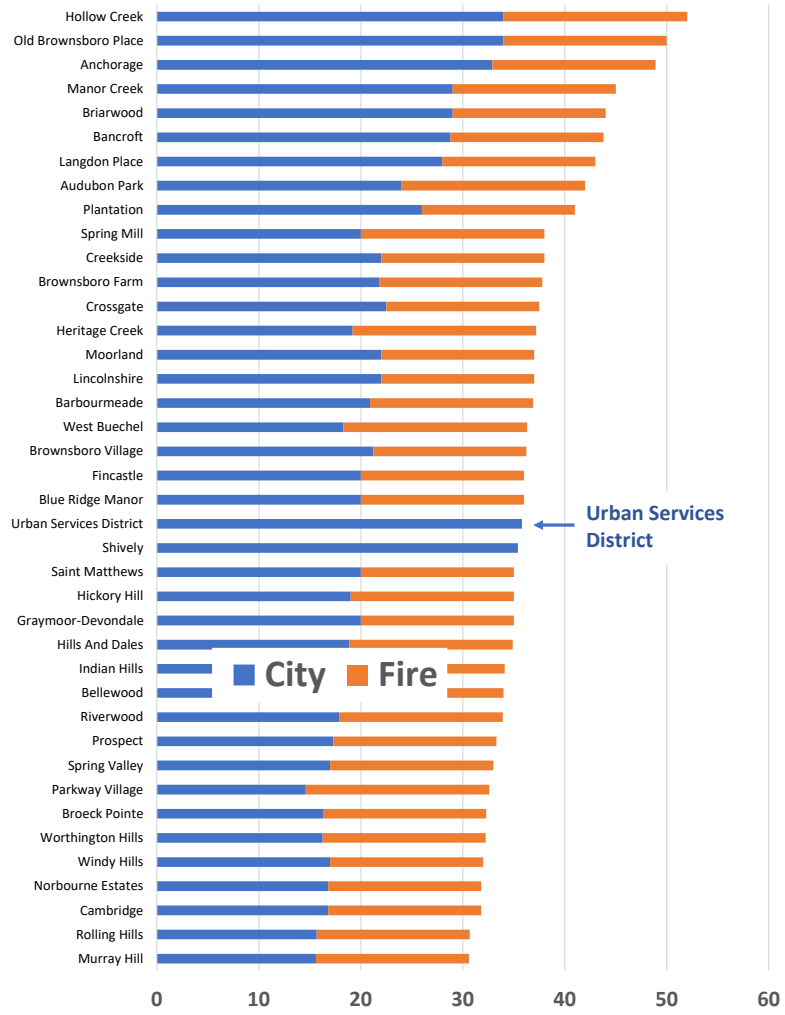
- a. There have been about \$2.5 billion in capital expenditures budgeted by Metro Government since merger. About 60 percent was funded with General Fund (tax) dollars, either through direct appropriation or new debt. It should be noted that some of these dollars involved public private partnerships. About 26 percent was funded by federal grants, and the rest by state programs or other sources. One analysis focused on locally-funded capital projects that were directed geographically by Metro Government, and excludes expenditures on public buildings – which are almost all downtown. They found that almost 60 percent of those capital expenditures have occurred in two downtown zip codes – 40202 and 40203. Another 25 percent occurred in other parts of the USD, including NULU, and the Shawnee and Chickasaw neighborhoods. A second, more comprehensive, analysis that accounted for externally funded projects found that 47 percent of capital expenditures were in the USD. This analysis counted expenditures on public buildings, police, TARC, the Zoo, and most federally funded housing projects as “Community-wide” even though most dollars were deployed in the USD. There was simply not enough detailed data in the historical budget data to precisely allocate all the expenditures to geographic sections of the County.
- b. About 79% of all taxes to Louisville Metro Government are generated by residents and businesses in the suburban cities, unincorporated area of the County, and commuters from other counties. These support services throughout Jefferson County. Residents and businesses in the USD contribute about 21% of the tax revenues to Metro Government. Occupational taxes are the largest source of tax revenues to Metro and TARC, amounting to \$378 million in FY22. About 80% of all occupational taxes are paid by residents outside of the USD.
- c. Property tax rates vary widely among the 83 suburban cities and the USD. Real estate is taxed at a rate of 0.358% in the USD which pays for fire, sanitation and street lights whereas suburban cities rates range from 0.056% to 0.354% and pay for sanitation, street lighting, landscaping, police and several other various items. Fire is not included as a tax levy or expensed by suburban cities tax rate. The property owners within the suburban cities must pay an extra tax to one of the seven suburban Fire and EMS districts outside the USD. These range from 0.10% to 0.20%. For example, a property owner in St. Matthews pays a 0.20% tax to the City of St. Matthews and a 0.35% tax to the St. Matthews-Lyndon Fire and EMS district, with the total rate equivalent to what a USD resident pays. It has been conventional wisdom that the Urban Services District has the highest property tax on real estate in the County. However, when taking into account the extra Fire and EMS property taxes, twenty suburban cities have a higher tax rate than the USD.

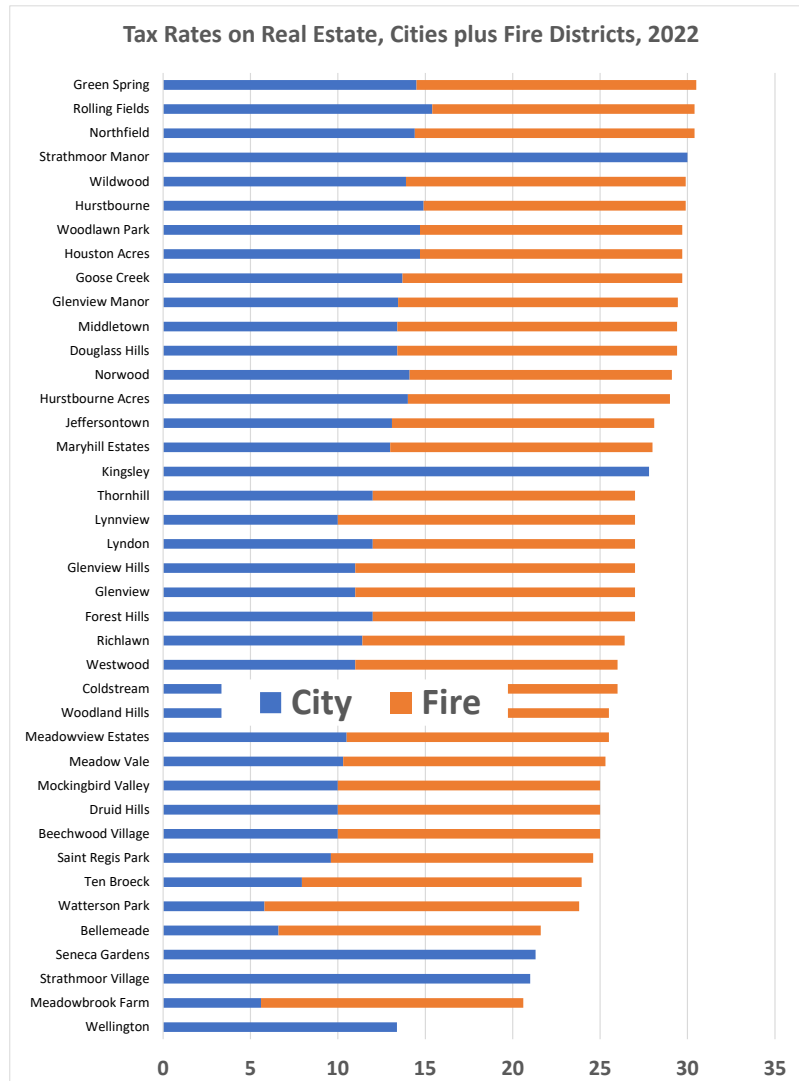
Below illustrates historical changes over the past several decades which has remain relatively flat.



- d. The USD is not sustaining itself with the current tax rate structure. At the time of merger, the USD was to levy a property tax rate sufficient to pay for fire, solid waste management, and street lights in the USD. However, in the last fiscal year, the USD ran a deficit of over \$14 million, which was covered by a Metro General Fund transfer - taxes drawn largely from residents and businesses outside of the USD. See the charts below on City and Fire taxes combined:

Tax Rates on Real Estate, Cities plus Fire Districts, 2022





- e. Suburban cities are self-sustaining and the services of these incorporated entities provide sanitation, road maintenance, street lighting, landscaping and other services. However, a few cities maintain a police department, with seven having police budgets between \$1 and \$10 million. The other suburban cities contract out their police services and/or rely on LMPD only.

- f. There are over 600 Home Owners' Associations (HOAs) in Jefferson County, providing a broad array services paid for by annual fees. Some of the HOAs are located within a municipality, so that the HOA only supplements the garbage, lighting and security already provided by the city. For most HOAs, the annual fee covers garbage pickup, recycling, street lighting, security and landscaping. Most HOAs are in the unincorporated part of the County, which has seen all the net growth in population since merger. The HOA fees, ranging from \$200 to \$1,200 per year, are in addition to taxes paid to Metro Government, such as property, occupational and insurance premiums taxes.

3. Fire

- a. The Urban Services District is still served by the Louisville Fire Department, with its four districts. It is largely funded by property taxes levied on USD residents and businesses, and in FY22 had a budget of \$75.5 million.
- b. Outside the USD, the County is served by suburban fire districts, with one exception – the City of Shively, which has its own fire department.

4. Emergency Medical Services

- a. Metro EMS, which is nominally a countywide service, primarily serves the USD, Fairdale and Shively with 11 units while suburban Fire/Ems districts have 28 units. Metro EMS is funded by countywide taxes while suburban districts are funded by property owners within the district.
- b. Since merger in 2003, the suburban fire districts have grown tremendously in size, scope, and budget. The need for better EMS service led to a search for more trained staff, efficiencies and more resources. Many districts merged, and now there seven suburban fire districts. To fund EMS, the districts obtained certificate of need which allowed them to raise property tax rates from the earlier default rate of \$0.10 per \$100 valuation to now between \$0.16 and \$0.20. There is almost no reliance now on volunteers, and staff are now much more trained in medical and emergency skills.
- c. Total revenues to the suburban Fire and EMS districts were \$107 million in FY21. This is larger than the combined revenues of all 83 suburban cities.
- d. All EMS units are dispatched by the central MetroSafe agency downtown. Units are called based on location and availability. Units are routinely called to cross jurisdictions. About 34 percent of dispatches, 30 percent of arrivals, and 31 percent of transports are by units crossing into another jurisdiction. Compensation for EMS runs are only realized if the EMS unit transports a patient. St. Matthews-Lyndon EMS had the highest rate of cross-jurisdiction transports, largely due to its proximity to the USD, where almost one-half of all transports occur. Metro EMS, though a county-wide agency, primarily serves the USD, Fairdale, and Shively. There is a large net flow of suburban EMS units in to the USD versus Metro EMS units to the suburban jurisdictions. We do not have sufficient information about compensation for the EMS transports to determine what percentage of cross-jurisdiction runs and transports are covered by reimbursements or simply covered by taxpayers in their suburban EMS district.

Dispatches	Dispatched to Anchorage	Dispatched to Fern Creek	Dispatched to Highview	Dispatched to Jeffersontown	Dispatched to Okolona	Dispatched to PRP	Dispatched to St. Matthews	Dispatched to Urban Services District (plus Shively and Fairdale)
Originating in Anchorage	63.9%	47.2%	36.9%	60.0%	31.0%	26.5%	43.5%	41.5%
Originating in Fern Creek	15.8%	62.2%	53.8%	62.7%	56.6%	36.3%	27.2%	50.8%
Originating in Highview	9.1%	48.2%	54.9%	45.9%	52.6%	35.8%	20.9%	35.5%
Originating in Jeffersontown	33.3%	47.9%	41.1%	56.3%	41.9%	26.7%	41.2%	50.2%
Originating in Okolona	12.2%	50.2%	51.0%	44.8%	62.0%	44.5%	30.4%	41.9%
Originating in PRP	5.6%	32.1%	23.5%	30.8%	79.4%	44.6%	26.3%	37.6%
Originating in St. Matthews	53.8%	48.4%	37.5%	52.7%	43.8%	20.6%	66.9%	53.9%
Originating with Metro EMS	30.1%	54.1%	45.7%	56.9%	76.4%	55.0%	36.8%	60.1%

Source: MetroSafe database. Shively and Fairdale have fire departments, but not EMS, and so are served primarily by Metro EMS.

5. Roads

- a. Metro Public Works is responsible for all paving and sidewalk repairs outside of the 83 suburban cities. The suburban cities receive state municipal road aid dollars, based on their population sizes. Metro Government received state municipal and county road aid dollars, and uses these to maintain roads throughout the County. Public Works evaluates paving conditions regularly, and budgets paving dollars according to streets and roads in the worst conditions. The construction of new lanes, shoulders, and turning lanes is handled through the annual capital budget of Metro Government.
 - b. Jefferson County as a whole is greatly disadvantaged by the state's "formula of fifths" that redistributes almost one-half of its gas tax revenues back to counties and cities. The current formula is: 1/5 rural population, 1/5 rural miles, 2/5 rural land area and 1/5 distribution. This law was passed in 1946, and allocates most of the funds based on rural land area and rural population, rather than vehicle traffic. Metro and the suburban cities could double their annual allotment by reforming this anachronistic formula to reflect where the people live and vehicles travel.
6. TARC
- a. Since merger in 2003, TARC's revenues from local occupational and net profits taxes have risen from \$32 million to \$72 million, or 119 percent. Adjusting for inflation, those tax revenues have risen 43 percent since merger.
 - b. Meanwhile, since merger bus ridership has dropped 65 percent, and the number of buses in circulation has dropped 23 percent. It has been suggested that some of the decrease in ridership is due to a spoke and wheel route layout, as opposed to a grid – making it very time consuming to move from place of residence to place of work or shopping in much of the County.