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OPINION

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How Kentucky Local Governments Establish Property Tax Rates

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COMMUNITY PUBLISHER

Kentucky cities, counties, school boards and special taxing districts are entering the annual property tax-setting season, when officials determine how much revenue to collect from property owners.

Under Kentucky's House Bill 44, taxing districts generally have three choices:

Adopt the compensating rate

Adopt a rate producing up to 4% more revenue from existing real property; or

Adopt a rate producing more than 4% additional revenue, making the excess subject to voter recall.

The 4% provision applies to a district's total revenue from existing real property. It does not necessarily mean the numerical tax rate will increase by 4%, nor does it limit an individual property owner's bill to a 4% increase.

How taxes are calculated

Real property includes land, homes, commercial buildings and permanent improvements. Rates are commonly expressed in cents per $100 of assessed value. A rate of 20 cents per $100 produces a $200 tax on property assessed at $100,000.

A property tax bill may include separate rates established by the state, county, city, school board and special districts such as libraries, fire departments, health departments and extension services. Property inside a city is generally subject to both city and county taxes.

The county property valuation administrator establishes most local assessments. Fiscal courts, city councils, school boards and special-district boards establish their respective tax rates.

The compensating rate

The compensating rate is designed to produce approximately the same revenue from real property that existed during both the previous and current tax years.

When assessments on existing property rise, the compensating rate generally decreases to offset that increase. The district still receives additional revenue from qualifying new property added to the tax rolls.

New property may include newly constructed homes and businesses, major improvements, newly taxable property and certain property annexed into the jurisdiction. A higher assessment on an existing home caused by changing market values is not treated the same as new construction.

The compensating rate should not be described as producing no additional revenue. In a growing community, it maintains approximately the same revenue from existing property while generating additional taxes from new development.

The 4% option

The 4% rate allows a district to collect approximately 4% more from existing real property than it would receive under the compensating calculation. Revenue from new property is added to that amount.

Suppose a district collected $300,000 from existing real property last year and expects $15,000 from new development this year. The compensating rate would produce approximately $315,000.

Under the 4% option, the district could collect approximately $312,000 from existing property, plus revenue from new development. Its total revenue increase could therefore exceed 4%.

Public notice and hearings

A city or county can generally adopt the compensating rate without conducting a House Bill 44 public hearing.

A proposed rate above the compensating rate, including the 4% rate, requires a hearing. The district must disclose the previous rate and revenue, the proposed and compensating rates, expected revenue from new and personal property, and how the additional money will be used.

State law requires the notice to be published twice in consecutive weeks in the newspaper with the largest circulation in the county. The hearing must be held seven to 10 days after the second notice is published.

A rate producing more than 4% additional revenue from existing real property is subject to recall. Qualified voters generally have 45 days to complete the petition process. A valid petition ordinarily requires signatures equal to at least 10% of the votes cast in the affected jurisdiction during the previous presidential election.

A rate producing no more than the permitted 4% increase requires a hearing but is not subject to recall under House Bill 44.

What it means for taxpayers

The 4% provision applies to a district's overall revenue, not each property owner's bill. An individual bill can rise by more than 4% if the property's assessed value increases faster than the community average.

Taxpayers should look beyond whether the numerical rate increased or decreased. The important questions are how much total revenue will be collected, how much will come from new development and why additional money is needed.

For a growing community, the compensating rate already allows revenue to increase through new taxable development. Choosing the 4% rate allows the government to collect that growth revenue while also increasing collections from existing property owners.

Jeff Jobe is community publisher for JOBEnews, which serves a 10-county region and has the largest paid print readership and online audience in the communities it covers. He can be reached at jobe@jobeinc.com.

Legislative Update

Representative
Rebecca Raymer

Week in Review

It has been a busy and rewarding week traveling throughout Butler and Muhlenberg counties, visiting with local leaders, learning more about the needs of our communities, and celebrating the progress we are making across Kentucky.

On Monday, I attended the Butler County Farm Bureau Legislative Dinner. Agriculture is a vital part of our local economy and Kentucky's heritage, and I am always grateful for the opportunity to hear directly from the farmers and agricultural leaders who feed our families and strengthen our rural communities. Our farmers face rising costs, unpredictable weather, workforce challenges, and burdensome regulations. I will continue supporting policies that protect family farms, strengthen our agricultural economy, and ensure the voices of Kentucky farmers are heard in Frankfort.

Wednesday began at the Muhlenberg County Opportunity Center, where I toured the facility, learned more about the services it provides, and listened to the needs of its clients and staff. The center plays an important role in helping individuals reach their full potential and remain active, valued members of the community.

Afterwards, I met with Malcolm West, the new mayor of Central City, to discuss the city's future and opportunities for continued growth. I look forward to working with Mayor West and other local officials as we build on Central City's strengths and address the needs of its residents.

I ended the day at Greenville City Hall, where I helped present a $12.25 million check for upgrades to the city's wastewater treatment facility. This investment is critical to Greenville's infrastructure, but its impact extends far beyond the city limits. The facility also serves Paradise Park, making these improvements important to tourism and economic development throughout Muhlenberg County. What is good for Greenville is good for Central City and Muhlenberg County as a whole.

On Thursday evening, I attended the Muhlenberg Matters Rally hosted by the Muhlenberg County Republican Party. It was a wonderful opportunity to visit with friends and talk about the progress Kentucky has made under conservative leadership.

Since Republicans became the majority, we have lowered Kentucky's individual income tax, passed responsible budgets, strengthened the state's financial position, and created an environment where businesses and families can succeed. Fiscal responsibility means living within our means, preparing for the future, and respecting the taxpayers who work hard for every dollar they earn. Because we have taken these steps, we have been able to invest in our communities, providing more funding for education,

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