



Commonwealth of Kentucky
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September 21, 2016

VIA FIRST CLASS MAIL

Wesley Holbrook
Lexington-Fayette Urban County Government
Department of Finance
200 East Main Street
Lexington, Kentucky 40507

Re: Red Mile Tax Increment Financing Request for Calendar Year 2015

Dear Mr. Holbrook:

This letter is in response to the request from the Lexington-Fayette Urban County Government for Tax Increment Financing ("TIF") amounts arising from the Red Mile Mixed-Use Redevelopment TIF Project for calendar year 2015. The following paragraphs reflect the Department of Revenue's (the "Department") preliminary calculation of the increment amount.

After reviewing the supplied documentation and the Department's records, the Department has made adjustments to the amounts your office requested in Exhibit F – Request for Disbursement. For real estate property tax, the requested increment amount was \$23,619.71. The Department's calculated property tax amount is slightly higher at \$24,964.49. Here's a breakdown of our preliminary property tax calculation compared with yours:

	Applicant's Calculation	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$46,684.93	\$42,705.35
Less: old revenues	17,160.29	11,499.74
Tax receipts available for increment	29,524.64	31,205.61
Multiplied by 80%	80%	80%
Calculated Increment	\$23,619.71	\$24,964.49

The Department's calculated amount for sales and use tax is significantly different from the requested amount. First, we discovered an error we made in the computation of old revenues for sales and use tax. We previously neglected to include Lexington Trots Breeders Association LLC at 1200 Red Mile Road. We apologize for this error. The recomputed 2009 baseline for sales tax changes from \$87,163.92 to \$94,546.84. A corrected base year letter will be sent. For the 2015 increment calculation, the grown base year (old revenues) for sales tax using the correct numbers is \$104,481.64. Here's a breakdown of the preliminary sales and use tax calculation:

	Applicant's Calculation	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$1,094,331.23	\$53,291.05
Less: old revenues	92,550.37	104,481.64
Tax receipts available for increment	1,001,780.86	-(51,190.59)
Multiplied by 80%	80%	80%
Calculated Increment	\$801,424.69	-(40,952.47)

The large difference in the above sales and use tax calculation stems from the applicant using gross receipts for tax receipts. The increment for any tax included under the grant agreement is computed based on the taxes paid, not gross amounts. The sales tax paid by businesses within the footprint was \$53,291.05. We did not include Bluegrass Bayou Catering in this calculation because they were located outside the footprint during 2015 at 861 South Broadway.

As with the sales tax calculation, the Department's preliminary withholding tax increment calculation for 2015 excludes Bluegrass Bayou Catering. Our withholding calculation is based on amounts paid by businesses located in the footprint. We could not reconcile with your Exhibit F withholding tax receipts figure of \$217,380.26. Also, the request for disbursement used a withholding tax old revenues amount of \$32,211.53. The base year (2009) withholding tax amount is \$73,146.37. Adjusting for inflation, old revenues for withholding tax are \$80,810.92. The following is a breakdown of the withholding calculation:

	Applicant's Calculation	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$217,380.26	\$78,631.18
Less: old revenues	32,211.53	80,810.92
Tax receipts available for increment	185,168.73	-(2,179.74)
Multiplied by 80%	80%	80%
Calculated Increment	\$148,134.98	-(1,743.79)

The total preliminary increment for 2015 is - (17,731.77), broken down as follows:

Property Tax	\$24,964.49
Sales and Use Tax	- (\$40,952.47)
Withholding Tax	- (\$1,743.79)
 Total Increment	 - (17,731.77)

A net negative number of - (17,731.77) means there will be no increment check issued for 2015. This is the Department's preliminary increment calculation. If you are in agreement with this amount, please let us know. If you are in disagreement with the increment amount, please provide an explanation and relevant documentation within thirty days from the date of this letter.

If you have any questions, please let me know.

Sincerely,

Gary C. Morris
Executive Advisor
Office of the Commissioner
Finance & Administration Cabinet
Department of Revenue
501 High Street
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cc: Katie Smith
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