



**Andy Beshear**  
Governor

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Finance and Administration Cabinet  
**DEPARTMENT OF REVENUE**  
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**Holly M. Johnson**  
Secretary

**Thomas B. Miller**  
Commissioner

January 6, 2020

VIA FIRST CLASS MAIL

Linda Gorton, Mayor  
Lexington-Fayette Urban County Government  
200 East Main Street  
Lexington, Kentucky 40507

Re: Red Mile Tax Increment Financing Request for Calendar Year 2018

Dear Mayor Gorton:

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 2018. 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 adjusted the amounts your office requested in Exhibit F – Request for Disbursement. For real estate property tax, the requested increment amount was \$72,469.45. The Department’s calculated property tax amount is \$53,851.81. The Department worked with the Fayette County Property Valuation Administrator’s Office in computing the property tax increment.

The Department’s calculation for the property tax “old revenues” amount is \$12,178.31, which is based on the 2017 old revenues amount of \$11,892.89 grown by the 2018 Consumer Price Index adjustment of 2.4% required by the project grant agreement.

Below is a breakdown of our property tax increment amount:

|                               | <b>LFUCG Calculation</b> | <b>Dept. of Rev. Calculation</b> |
|-------------------------------|--------------------------|----------------------------------|
| Tax receipts for calendar yr. | \$72,469.45              | \$53,851.81                      |
| Less: old revenues            | 18,065.00                | 12,178.31                        |
| Tax receipts available        | 54,404.45                | 41,673.50                        |
| Multiplied by 80%             | 80%                      | 80%                              |
| Calculated Increment          | <b>\$43,523.56</b>       | <b>\$33,338.80</b>               |

The Department's calculation for withholding reflects a lower receipts amount for 2018 and a higher old revenues amount than what was requested on the Exhibit F.

The amount of withholding receipts in our calculation were taken directly from the W-2s filed under the withholding account for each business in the TIF. We made two adjustments to the amounts reported. First, any withholding from wages earned outside of the TIF footprint were excluded from the calculation. Second, reciprocal employees living in other states were found to have been included in the withholding receipts for the TIF footprint. These receipts were also excluded from the calculation.

The Department's calculation for the withholding tax old revenues amount is \$85,586.49, which is based on the 2017 old revenues amount of \$83,580.56 grown by the 2018 Consumer Price Index adjustment of 2.4% required by the project grant agreement.

The following is a breakdown of our withholding calculation:

|                               | <b>LFUCG Calculation</b> | <b>Dept. of Rev. Calculation</b> |
|-------------------------------|--------------------------|----------------------------------|
| Tax receipts for calendar yr. | \$348,471.75             | \$336,278.28                     |
| Less: old revenues            | 33,911.61                | 85,586.49                        |
| Tax receipts available        | 314,560.14               | 250,691.79                       |
| Multiplied by 80%             | 80%                      | 80%                              |
| Calculated Increment          | <b>\$251,648.11</b>      | <b>\$200,553.43</b>              |

For the Sales and Use Tax calculation, the Red Mile included vendor receipts that are not within the project footprint. Both old revenues and new revenues are based on sales by retailers made within the footprint subject to sales tax under KRS 139.200. Our lower increment amount reflects this adjustment.

The Department's old revenues amount for sales tax is \$110,656.04, which is based on the 2017 old revenues amount of \$108,062.54 grown by the 2018 Consumer Price Index adjustment of 2.4% required by the project grant agreement. The sales tax increment calculation is as follows:

|                               | <b>LFUCG Calculation</b> | <b>Dept. of Rev. Calculation</b> |
|-------------------------------|--------------------------|----------------------------------|
| Tax receipts for calendar yr. | \$160,979.56             | \$138,946.06                     |
| Less: old revenues            | 97,435.05                | 110,656.04                       |
| Tax receipts available        | 63,544.51                | 28,290.00                        |
| Multiplied by 80%             | 80%                      | 80%                              |
| Calculated Increment          | <b>\$50,835.60</b>       | <b>\$22,632.00</b>               |

The total increment for 2018 calculated by the Department is **\$256,524.23**, broken down as follows:

|                   |                         |
|-------------------|-------------------------|
| Property Tax      | <b>\$ 33,338.80</b>     |
| Withholding Tax   | <b>200,553.43</b>       |
| Sales and Use Tax | <b><u>22,632.00</u></b> |

|                 |                             |
|-----------------|-----------------------------|
| Total Increment | <b><u>\$ 256,524.23</u></b> |
|-----------------|-----------------------------|

This is the Department's preliminary increment calculation. If you are in agreement with this amount, please let us know via letter or email, and we will issue the increment check(s) immediately. If you are in disagreement with the increment amount and request a recalculation by the Department, 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 Tax Policy and Regulation  
Finance & Administration Cabinet  
Department of Revenue  
501 High Street  
Frankfort, KY. 40601

cc: Katie Smith  
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