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DEPARTMENT OF REVENUE
OFFICE OF TAX POLICY AND REGULATION

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Thomas B. Miller
Commissioner

October 5, 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 2019

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 2019. The following paragraphs reflect the Department of Revenue’s (the “Department”) final 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. The Department’s Old Revenues calculations are based on the average 2019 U.S Department of Labor, Consumer Price Index (“CPI”) adjustment of 1.8%, as required by the project grant agreement.

For real estate property tax, the requested increment amount was \$72,469.45. The Department’s calculated property tax amount is \$32,705.89. The Department worked with the Fayette County Property Valuation Administrator’s Office in computing the property tax increment. In 2018, several of the parcels were paid in the penalty period which resulted in higher receipts for the footprint. In 2019, all the parcels except one paid their taxes at face value, with the one paying in the discount period. This resulted in a decrease in the taxable receipts for 2019.

The Department’s calculation for the property tax “old revenues” amount is \$12,397.52, which is based on the 2018 old revenues amount of \$12,178.31 adjusted for CPI.

Below is a breakdown of our property tax increment amount:

	LFUCG Calculation	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$58,608.81	\$53,245.00
Less: old revenues	12,178.31	12,397.52
Tax receipts available	46,430.50	40,847.48
Multiplied by 80%	80%	80%
Calculated Increment	\$37,144.40	32,677.98

The Department's calculation for the 2019 withholding reflects a lower receipts amount and a higher old revenues amount than what was requested on the Exhibit F. Also, reciprocal employees were found to be working in the TIF footprint. Any withholding from wages earned from employees working outside of the TIF footprint, or reciprocal employees living in another state were excluded from the calculation.

The Department's calculation for the withholding tax "old revenues" amount is \$87,127.05, which is based on the 2018 old revenues amount of \$85,586.49 adjusted for CPI.

The following is a breakdown of our withholding calculation:

	LFUCG Calculation	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$348,201.16	\$334,350.34
Less: old revenues	85,586.49	87,127.05
Tax receipts available	262,614.67	247,223.29
Multiplied by 80%	80%	80%
Calculated Increment	\$210,091.74	\$197,778.63

For the sales and use tax calculation, 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 \$112,647.85, which is based on the 2018 old revenues amount of \$110,656.04 adjusted for CPI. The sales tax increment calculation is as follows:

	LFUCG Calculation	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$178,321.48	\$171,569.54
Less: old revenues	110,656.04	112,647.85
Tax receipts available	67,665.44	58,921.69
Multiplied by 80%	80%	80%
Calculated Increment	\$54,132.35	\$47,137.35

The total increment for 2019 calculated by the Department is **\$256,524.23**, broken down as follows:

Property Tax	\$ 32,677.98
Withholding Tax	197,778.63
Sales and Use Tax	<u>47,137.35</u>
Total Increment	<u>\$ 277,593.96</u>

This is the Department's final increment calculation. We will issue three tax increment check(s) as soon as possible.

If you have any questions, please let me know.

Sincerely,



Gary C. Morris, Executive Director
Office of Tax Policy & Regulation
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cc: Katie Smith
Richard Dobson
Tim Bennett
Tom Crawford
Christy Kinney
Jennifer Stosberg