



Commonwealth of Kentucky
Finance and Administration Cabinet

Department of Revenue

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May 14, 2018

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 2016

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 2016. The following paragraphs reflect the Department of Revenue's (the "Department") final calculation of the increment amount.

After reviewing additional documentation submitted by your office and the Department's records, the Department adjusted the Withholding Tax amounts in the Department's preliminary letter dated November 22, 2017. The Department has increased its Withholding Tax receipts calculation to \$273,329.92. This amount is slightly greater than your original Exhibit F Withholding Tax receipts calculation of \$273,302.92. However, the Department's Withholding Tax receipts for each individual business now matches your corresponding figures. The Department's calculation for the Old Revenues Withholding Tax amount remains \$81,861.47, which is based on the 2015 Old Revenues amount of 80,810.92 grown by the Consumer Price Index adjustment required by the project grant agreement.

The following is a breakdown of the final Withholding Tax calculation:

	Applicant's Calculation	Dept.'s Prelim. Calculation	Dept.'s Final Calculation
Tax receipts for calendar yr.	\$273,302.92	\$251,525.36	\$273,329.92
Less: old revenues	38,742.42	81,861.47	81,861.47
Tax receipts available for increment	234,560.50	169,663.89	\$191,468.45
Multiplied by 80%	80%	80%	80%
Calculated Increment	\$187,648.40	\$135,731.12	\$153,174.76

For Real Property Tax, the requested increment amount was \$25,204.15. The Department's calculated Property Tax amount remains unchanged from its preliminary calculation amount of \$29,468.22. Here is a breakdown of the final Property Tax calculation compared with yours:

	Applicant's Calculation	Dept.'s Final Calculation
Tax receipts for calendar yr.	\$35,875.06	\$48,480.09
Less: old revenues	4,369.87	11,644.81
Tax receipts available for increment	31,505.19	36,835.28
Multiplied by 80%	80%	80%
Calculated Increment	\$25,204.15	\$29,468.22

For the Sales and Use Tax final calculation, there were no changes from the preliminary calculation. We carefully reviewed the additional Sales and Use Tax information you submitted in response to the Department's preliminary letter and do not feel our preliminary numbers should change. The additional information includes Sales Tax paid on construction materials and Sales Tax paid on general business expenses (utilities, supplies, etc.). This information is similar to additional information your office provided us during the computation of the 2015 increment. The 2015 additional information submitted did not result in a change to the increment calculation.

None of the Sales Tax paid on construction materials for the project relate to the Sales Tax increment calculation. By statute and grant agreement (see 1.11 and 1.13 of Grant Agreement and KRS 154.30.010(28(e))), the Sales Tax increment relates to Sales Tax under KRS 139.200 for sales made within the footprint. In calculating the old revenues, we are determining the amount of Sales Tax reported and remitted by retailers within the footprint for sales they made within the footprint. We calculate the new revenues on the same basis. Furthermore, KRS 139.515 addresses qualifying construction material purchases for TIF construction that may qualify for a Sales Tax refund. Again, these calculations and refund claims are separate and distinct from the annual increment process.

Here is a breakdown of the Department's final 2016 Sales and Use Tax calculation:

	Applicant's Calculation	Dept.'s Final Calculation
Tax receipts for calendar yr.	\$226,251.47	\$113,366.92
Less: old revenues	93,745.09	105,839.90
Tax receipts available for increment	132,506.38	7,527.02
Multiplied by 80%	80%	80%
Calculated Increment	\$106,005.11	\$6,021.62

The total final increment for 2016 is **\$171,245.84**, broken down as follows:

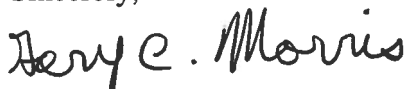
Property Tax	\$29,468.22
Withholding Tax	\$153,174.76
Sales and Use Tax	<u>\$6,021.62</u>

Total Increment	\$188,664.60
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This is the Department's final increment calculation. Three separate refund checks will be issued to your agency for the respective tax amounts listed.

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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