



MATTHEW G. BEVIN
Governor

**FINANCE AND ADMINISTRATION CABINET
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WILLIAM M. LANDRUM III
Secretary

DANIEL P. BORK
Commissioner

June 24, 2019

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 2017

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 2017. The Cabinet for Economic Development notified the Department of Revenue that the project is now in compliance with that agency's requirements. Therefore, the 2017 increment can be released. 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 on February 14, 2019 and the Department's records, the Department did not adjust the increment calculation in the Department's preliminary increment letter dated January 16, 2019.

The following is a breakdown of the Department's final property tax increment calculation compared with the amounts your office requested in Exhibit F – Request for Disbursement:

Applicant's Calculation Dept. of Rev. Calculation

Tax receipts for calendar yr.	\$291,433.47	\$53,204.26
Less: old revenues	11,644.81	11,892.89
Tax receipts available for increment	279,788.66	41,311.37
Multiplied by 80%	80%	80%
Calculated Increment	\$223,830.93	\$33,049.10

The following is a breakdown of the final withholding calculation, which is higher than the amount requested by your office in Exhibit F:

Applicant's Calculation Dept. of Rev. Calculation

Tax receipts for calendar yr.	\$291,043.47	\$298,047.47
Less: old revenues	81,861.47	83,580.56
Tax receipts available for increment	209,182.00	214,466.91
Multiplied by 80%	80%	80%
Calculated Increment	\$167,345.60	\$171,573.53

The following is a breakdown of the final 2017 sales tax increment calculation:

Applicant's Calculation Dept. of Rev. Calculation

Tax receipts for calendar yr.	\$213,559.63	\$132,625.76
Less: old revenues	105,839.90	108,062.54
Tax receipts available for increment	109,719.73	24,563.22
Multiplied by 80%	80%	80%
Calculated Increment	\$ 87,775.78	\$19,650.57

The sales tax return data you provided in the additional documentation included the periods 12/2016 through 11/2017 rather than the calendar year return periods of January through December 2017. Furthermore, you made no adjustment for vendor compensation.

The purchase invoice data submitted on February 14, 2019, relates to general business expenses outside the scope of increment calculations. This information is similar to extraneous information your office provided the Department for both the 2015 and 2016 increment periods. Again, this information is not pertinent to the sales tax increment calculation. According to the provisions of the Grant Agreement (Sections 1.11 and 4.3) and KRS 154.30.010(29)(e), the Sales Tax increment relates to Sales Tax under KRS 139.200 for sales made by the verified vendors within the footprint. We calculate the original baseline and the new revenues on the same basis. The only provision for sales tax paid on purchases is found in KRS 139.515, which addresses

construction material purchases for TIF construction that may qualify for a separate sales tax refund outside the increment calculations.

The total final increment for 2017 is **\$224,273.20**, broken down as follows:

Property Tax	\$33,049.10
Withholding Tax	171,573.53
Sales and Use Tax	<u>19,650.57</u>
Total Increment	\$224,273.20

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 Tax Policy and Regulation
Finance & Administration Cabinet
Department of Revenue
501 High Street
Frankfort, KY. 40601

cc: Katie Smith
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