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December 9, 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 your October 31, 2016 request for consideration of additional information related to Tax Increment Financing ("TIF") amounts arising from the Red Mile Mixed-Use Redevelopment TIF Project for calendar year 2015. As a result of the additional information submitted, the Department of Revenue (the "Department") has adjusted the preliminary increment amount provided in our September 21, 2016 letter. The following paragraphs provide our position on the additional information submitted and establishes the final increment amount for 2015.

No additional adjustments to the property tax part of the increment are needed. The Department stands by its adjustments to the amounts your office originally 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 final 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 has made adjustments that increase the withholding tax increment calculation for 2015 based on the information provided with your October 31, 2016 letter. The new information allowed us to adjust the withholding increment amount to a refund amount of \$102,906.48. We included KRM Wagering Company, Inc. which moved into the TIF in Sept of 2015. We also added the contractors that worked within the TIF zone, WG&T Builders, Inc. and DW Wilburn, Inc.

We did not include the withholding on the gambling winnings as it is not defined as new revenues within the grant agreement. Section 1.1 of the Grant Agreement defines new revenues as including only income taxes paid by any employee of an area business in the form of withholding tax and attributable to work or services performed in the footprint. This treatment of gambling winnings is consistent with the base year which also excluded withholding for gambling winnings.

We continued to exclude Bluegrass Bayou Catering from the withholding calculation as that business was not located in the footprint during 2015. Adjusting for inflation, old revenues for withholding tax are \$80,810.92. The following is a breakdown of the revised and final withholding calculation:

	Applicant's Revised Calculation	Department's Revised Calculation
Tax receipts for calendar yr.	\$254,980.26	\$209,444.03
Less: old revenues	80,810.92	80,810.92
Tax receipts available for increment	174,169.34	128,633.11
Multiplied by 80%	80%	80%
Calculated Increment	\$148,134.98	\$102,906.48

The additional information provided did not change the Department's calculated amount for sales and use tax. KRM Wagering had no taxable sales reported for 2015. 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 only relates to sales tax under KRS 139.200 which is attributable to 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. Here's a breakdown of the final sales and use tax calculation:

	Applicant's Revised Calc.	Dept. of Rev. Calculation
Tax receipts for calendar yr.	\$1,094,331.23	\$53,291.05
Less: old revenues	104,481.64	104,481.64
Tax receipts available for increment	989,849.59	-(51,190.59)
Multiplied by 80%	80%	80%
Calculated Increment	\$791,879.67	-\$40,952.47

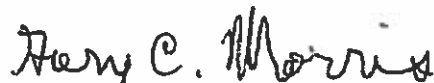
The total final increment for 2015 is \$86,918.50, broken down as follows:

Property Tax	\$24,964.49
Sales and Use Tax	- (\$40,952.47)
Withholding Tax	\$102,906.48
 Total Increment	 \$86,918.50

Based on the revised and final 2015 increment calculation provided in this letter, a check in the amount of \$86,918.50 will be issued.

If you have any questions, please let us know.

Sincerely,


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