



Commonwealth of Kentucky
Finance and Administration Cabinet

Department of Revenue

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January 16, 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 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 \$223,830.93. The Department's calculated property tax amount is \$33,049.10. The Department worked with the Fayette County Property Valuation Administrator's Office in computing the property tax increment. Note the 2016 property tax increment amount was \$29,468.22.

The Department's calculation for the property tax old revenues amount is \$11,892.89, which is based on the 2016 old revenues amount of \$11,644.81 grown by the 2017 Consumer Price Index adjustment required by the project grant agreement.

Here is a breakdown of our preliminary property tax increment calculation compared with yours:

	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 Department has made adjustments that increase the withholding tax increment calculation for 2017 from the amount requested. The Department's preliminary calculation reflects a higher receipts amount for 2017 and a higher old revenues amount than what was requested in 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 reported on a W-2G for gambling winnings was excluded from the calculation. Second, any withholding from wages earned outside of the TIF footprint was excluded from the calculation. Under one withholding account, many of the W-2s included withholding for wages earned while working at Red Mile and Keeneland. Our contact provided a breakdown of the amount of withholding that relates only to the wages earned while working at Red Mile.

The Department's calculation for the withholding tax old revenues amount is \$83,580.56, which is based on the 2016 old revenues amount of \$81,861.47 grown by the 2017 Consumer Price Index adjustment required by the project grant agreement.

The following is a breakdown of the preliminary withholding calculation:

	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

For the Sales and Use Tax preliminary calculation, the Red Mile included vendor receipts that are not within the project footprint (Bayou Bluegrass Catering). 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 \$108,062.54, which is based on the 2016 old revenues amount of \$105,839.90 grown by the 2017 Consumer Price Index adjustment required by the project grant agreement. The sales tax increment calculation is as follows:

	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 total preliminary 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 preliminary increment calculation. If you are in agreement with this amount, please let us know. If you are in disagreement with the increment amount, 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
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Office of Tax Policy and Regulation
Finance & Administration Cabinet
Department of Revenue
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Frankfort, KY. 40601

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