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MEMORANDUM

TO: Members of the Interim Joint Committee on Appropriations and Revenue

FROM: Jennifer C. Hays, Committee Staff Administrator *Jennifer C. Hays*
Interim Joint Committee on Appropriations and Revenue

DATE: August 16, 2024

SUBJECT: Staff Analysis
Tax Increment Financing Projects

On behalf of multiple members of the Interim Joint Committee on Appropriations and Revenue, a request for information was submitted by staff to the Department of Revenue (DOR) before the start of the 2024 Regular Session. The request included information for each active tax increment financing (TIF) project regarding the total amount of payments issued and the amount of remaining eligible incentive for each project. That information was received by staff on August 28, 2024, for payments issued through the tax year 2022.

The purpose of this correspondence is to provide a brief overview of the TIF program, including the three types of state-participation projects, and to explain a simplified methodology used by staff for evaluating the active projects.

Overview of the Tax Increment Financing Program

Tax increment financing (TIF) is an economic development tool which uses future growth in tax revenues (or the tax increment) to finance the current investments made in projects that spur the revenue growth, which would not be made but for the assistance of the tax increment financing.

For example, the construction of a new mixed-use hotel/retail/office complex in a blighted area may bring with it new jobs and also increase the property value of the area. In turn, income taxes generated from those new jobs; sales taxes generated at new retail establishments; and the increased property taxes generated as a result of the improved property values, can be used to finance some of a developer’s costs relating to portions of the project representing public infrastructure.

All TIF projects begin with the establishment of a development area by a unit of local government, or other authorized local public agency. The local entity must determine that the area meets specified conditions of blight or economic distress, and that it is not reasonably expected to be developed without public assistance. [KRS 65.7049]

From this local determination, there can be two types of TIF programs:

Local Only TIF: Projects involving only the pledge of local taxes under KRS 65.7041 to 65.7083; and

State Participation TIF: Projects involving the pledge of state taxes as well as local taxes under KRS Chapter 154, subchapter 30.

For local only TIF projects, it is not necessary for the local government to seek state approval.

For state participation TIF projects, the Kentucky Economic Development Finance Authority (KEDFA) may pledge the incremental growth, determined by comparing current receipts to the pre-project baseline year receipts, for a term of 20 years to 40 years, based on the type of state participation TIF. State tax revenues may include one or more of the following revenue sources:

1. State real property ad valorem taxes (PROP);
2. Individual income taxes (IND);
3. Corporation income taxes (CORP);
4. Limited liability entity taxes (LLET); and
5. Sales taxes (SU).

These state tax increment payments are in addition to any local tax revenues also pledged.

There are three state participation TIF programs administered by KEDFA, with the following basic terms:

Real Property Ad Valorem Only¹: Projects shall represent new economic activity; result in a minimum capital investment of \$10 million; and not more than 20% of the investment or 20% of the finished square footage shall be devoted to assets that will be utilized for retail sales. KEDFA-approved projects may receive up to 100% of only the state real property ad valorem tax increment from the footprint of the project, not to exceed 100% of approved public infrastructure costs, over a term not to exceed 20 years.

Signature Projects²: This program offers "extraordinary" public support limited to larger projects that will have a "significant impact" on the Commonwealth. Projects shall represent new economic activity and result in a net positive economic impact; result in a minimum capital investment of \$200 million (or a reduced \$150 million in limited cases); and not more than 20% of the investment or 20% of the finished square footage shall be devoted to assets that will be utilized for retail sales. KEDFA-approved projects may receive up to 80% of various identified state tax increments, over a maximum 30-year term, not to exceed 100% of public infrastructure costs, financing costs, and "signature project costs" such as acquisition of land.

Mixed-Use Redevelopment in Blighted Urban Areas³: Projects shall be located in an area that has three or more conditions of blight under KRS 65.7049(3); be a mixed-use project; represent new economic activity; result in a minimum capital investment between \$20 million and \$200 million; not include any retail establishment exceeding 20,000 sq. ft.; include pedestrian amenities and public space; and result in a net-positive impact to the

¹ KRS 154.30-040

² KRS 154.30-050

³ KRS 154.30-060

Commonwealth. KEDFA-approved projects may receive up to 80% of various identified state tax increments, over a maximum 20-year term, not to exceed 100% of public infrastructure costs and expenses for land preparation.

Evaluation of Data Received

Data Sources. The data received from DOR was presented in memorandum format and is included as an attachment to this correspondence. DOR data contains amounts paid related to each TIF project through the tax year 2022 and the estimated remaining eligible incentives at that point in time.

Publicly available data from the Economic Development Cabinet's website listing active state participation TIF projects was used to complement the DOR information.

https://cedky.com/cdn/1740_TIFProjects.pdf?2024-8-1&52

Staff combined the two sets of data within an evaluation spreadsheet included as the second attachment to this correspondence.

Combined Data. The evaluation spreadsheet links, for each TIF project, the activation date, taxes pledged, estimated project costs, eligible incentive amount, total payments issued, estimated remaining incentive amount, and the term of incentive agreement. The TIF projects are sorted within the evaluation spreadsheet by the activation date so that the oldest projects are listed first.

Performance Evaluation. The last column of the spreadsheet provides an approximation of whether a TIF project is under-performing or over-performing. The percentage identified in the evaluation spreadsheet compares the amount of incentive actually received by the tax year 2022 to the amount of incentive that should have been received by that tax year. If the percentage is less than 100%, the TIF project is under-performing at this stage of their agreement. If the percentage is 100% or greater, the TIF project is over-performing at this stage of their agreement. Under-performing TIF projects are highlighted in the evaluation spreadsheet.

Methodology: The calculation assumes a straight-line distribution of incentives over the term of the agreement (e.g., \$50,000 annually for a \$1 million incentive over 20 years). Staff acknowledges that real-world TIF projects often have variable performance over time, which may not align perfectly with the straight-line assumption. Projects may begin slowly and incentives may increase over time. This limited data only allows for an identification of the real outliers, i.e., those projects that are at the extremes of either running far ahead or far behind.

Examples Related to Outlying Projects. Two examples of outlying projects may be considered when observing the Ovation and The Summit projects.

The Ovation Project. This project should have been claiming approximately \$10 million annually in incentives, totaling \$150 million through the tax year 2022. The project has only been issued a little over \$1 million in payments. The percentage in the last column tells us that the project has only collected approximately 1% of what the project should have collected at this time. This project is running far behind assuming the linear distribution of payments.

The Summit Project. Assuming the linear distribution of payments, this project should have collected about \$11 million through the tax year 2022. However, after nine years of project activity, the project has collected \$23.9 million. This project is running far ahead of the linear distribution.

Caution. The straight-line methodology is a simplified approach and may not fully reflect the nuanced performance patterns of TIF projects.

Attachment A

FINANCE AND ADMINISTRATION CABINET
LEGAL SERVICES FOR
DEPARTMENT OF REVENUE

P.O. Box 423
Frankfort, Kentucky 40602-0423
Phone: (502) 564-9581

August 28, 2024

Senator David Givens, President Pro Tempore
Legislative Research Commission

RE: INFORMATION REQUEST REGARDING TAX INCREMENT FINANCING

Via email only

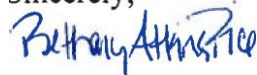
Dear Senator Givens,

The Department of Revenue received your information request dated July 31, 2024, in which you requested information regarding tax increment financing ("TIF"). You requested a determination of the total payments issued for each TIF project and an estimate of the remaining eligible incentive amounts for each project.

Attached is a spreadsheet containing the amounts paid through tax year 2022 and the estimated remaining eligible incentives for each TIF project. Note that the Cabinet for Economic Development has information relating to the TIF project investments over time and could provide the committed investment and actual investment to date for each TIF project, which may also be helpful to the General Assembly in determining the best course of action beyond 2026.

Please accept my apology on behalf of the Department of Revenue for the delay in responding to this request. Do not hesitate to contact me if we can assist you further.

Sincerely,



Bethany Atkins Rice, Executive Director
Office of Legal Services for Revenue

TEAM 
KENTUCKY

Attachment

cc: Katie Smith, Deputy Secretary

TIF Project	Total Payments Issued to TIF Project	Estimated Remaining Eligible Incentive Amount for TIF Project
21c Museum Hotel Lexington	168,663.80	331,336.20
Louisville Arena Authority	104,381,410.31	345,618,589.69
Ashland Plaza Redevelopment	201,092.98	6,598,907.02
Butchertown Stadium District Redevelopment	1,522,924.00	20,177,076.00
Center City/Central Downtown Revitalization District	16,036,866.26	187,963,133.74
Phoenix Park/CentrePointe/City Center	8,427,871.87	40,405,128.13
Churchill Downs	21,559,626.57	3,440,373.43
Coldstream Research Campus Development		4,634,000.00
Covington Central Riverfront		45,500,000.00
Marriott Convention Center Hotel	32,486,781.84	Maximum Incentive Met
Fountains at Palomar		634,000.00
Fort Mitchell Gateway		13,674,000.00
Gateway Commons	4,298,486.36	16,272,513.64
Hotel NULU	2,389,723.66	1,922,276.34
Lexington Center Project		41,000,000.00
Logistics Air Park Development		800,000.00
Manhattan Harbour	102,180.42	7,897,819.58
Midland Avenue	2,076,016.39	1,923,983.61
Northern Kentucky University Campus Gateway		14,216,000.00
Ovation Project	1,177,175.78	310,249,447.22
Downtown Owensboro Riverfront Revitalization	2,263,647.80	22,236,352.20
Paducah Downtown Riverfront Redevelopment		21,400,000.00
Radcliff Mixed-Use Redevelopment Project at Fort Knox		12,000,000.00
Red Mile	2,062,630.90	23,258,369.10
Louisville Renaissance Zone	41,136,471.29	17,224,115.36
Shelby Street Redevelopment		1,000,000.00
Summit Lexington	23,881,257.35	227,742.65
Turfland Town Center	173,972.11	619,627.89
Belknap/University of Louisville Research Park	186,053.74	709,227,946.26
Nucleus/Louisville Life and Health Sciences	61,005,450.74	540,614,900.26
WKU Gateway to Downtown Bowling Green	34,479,056.43	251,054,259.57
World Peace Hospitality		4,000,000.00
TOTALS	360,017,360.60	2,666,121,897.89

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Attachment B

Tax Increment Financing Active Projects with State Participation										
Project Name	Location	Activation Date	Taxes Pledged	Estimated Project Costs	Eligible Incentive Amount	Total Payments Issued	Estimated Remaining Incentive Amount	Term of Agreement	Years Remaining for Incentive	Issued Payments as a Percentage of Expected Payments
Marriott Convention Center Hotel	Jefferson	1/1/2003	WH SU	100,000,000	32,486,781	32,486,781	-	20	1	Agreement Completed
Renaissance Zone	Jefferson	1/1/2004	WH SU PROP		58,360,587	41,136,471	17,224,115	20	2	78%
Churchill Downs	Jefferson	1/1/2005	CORP SU	127,000,000	25,000,000	21,559,627	3,440,373	20	3	101%
Ovation	Campbell	11/28/2007	WH CORP SU PROP	762,670,066	311,426,623	1,177,176	310,249,447	30	15	1%
WKU Gateway	Warren	1/1/2008	WH SU PROP	531,125,818	285,533,316	34,479,056	251,054,260	30	16	26%
Louisville Arena	Jefferson	1/1/2009	WH SU PROP	435,000,000	250,000,000	104,381,410	345,618,590	45	32	145%
Nucleus	Jefferson	1/1/2011	WH CORP IND	1,090,951,981	601,620,351	61,005,451	540,614,900	30	19	28%
Manhattan Harbour	Fayette	12/10/2011	PROP	473,148,299	8,000,000	102,180	7,897,820	20	9	2%
Phoenix Park/Centre Point/City Center	Fayette	1/1/2013	WH SU PROP	455,294,792	48,833,000	8,427,872	40,405,128	30	21	58%
The Summit	Fayette	10/31/2013	WH SU PROP	155,000,000	24,109,000	23,881,257	227,743	20	11	220%
The Red Mile Project	Fayette	8/25/2015	WH SU PROP	186,891,071	13,786,000	2,062,631	23,258,369	20	13	43%

Tax Increment Financing Active Projects with State Participation

Turfland Town Center Mixed Use	Fayette	9/28/2015	PROP	38,600,000	793,600	173,972	619,628	20	13	63%
21C Museum Hotel	Fayette	12/31/2015	PROP	36,556,250	500,000	168,664	331,336	20	13	96%
The U of L Research Park/Belknap	Jefferson	6/28/2016	WH SU PROP	1,113,303,500	709,414,000	186,054	709,227,946	30	24	0%
Hotel NuLu	Jefferson	1/1/2017	WH SU PROP	72,998,230	4,312,000	2,389,724	1,922,276	20	15	222%
Midland Ave Redevelopment Project	Fayette	2/1/2017	WH SU PROP	167,269,239	4,000,000	2,076,016	1,923,984	20	15	208%
Center City/Omni	Jefferson	12/27/2017	WH SU PROP	706,000,000	204,000,000	16,036,866	187,963,134	30	25	47%
Gateway Commons	Daviess	1/1/2018	WH SU PROP	198,851,200	20,571,000	4,298,486	16,272,514	20	16	104%
Downtown Owensboro Riverfront	Daviess	1/1/2018	WH SU PROP	153,898,990	24,500,000	2,265,648	22,236,352	20	16	46%
Butchertown Stadium District	Jefferson	1/1/2019	WH SU PROP	193,100,000	21,700,000	1,522,924	20,177,076	20	17	47%
Ashland Plaza Redevelopment Project	Boyd	12/31/2020	SU PROP	43,450,000	6,800,000	201,093	6,598,907	20	18	30%
Shelby Street Redevelopment Project	Jefferson	3/31/2022	PROP	114,725,000	1,000,000	-	1,000,000	20	20	Agreement Just Beginning
Fort Mitchell Gateway	Kenton	6/28/2022	WH SU PROP	134,900,440	13,674,000	-	13,674,000	20	20	Agreement Just Beginning
Fountains at Palomar	Fayette	12/31/2022	PROP	46,877,436	634,000	-	634,000	20	20	Agreement Just Beginning
Lexington Center Project	Fayette	1/1/2023	WH SU PROP	679,283,821	41,000,000	-	41,000,000	30	30	Agreement Just Beginning
Coldstream Research Campus Project	Fayette	5/31/2023	WH SU PROP	199,025,029	4,634,000	-	4,634,000	20	20	Agreement Just Beginning

Tax Increment Financing Active Projects with State Participation										
World Peace Hospitality Mixed-Use Redevelopment Project	Campbell	10/28/2023	WH SU PROP	45,595,751	4,000,000	-	4,000,000	20	20	Agreement Just Beginning
Logistics Air Park Development Project (LAP 2)	Jefferson	12/9/2023	PROP	48,862,998	800,000	-	800,000	20	20	Agreement Just Beginning
Northern Kentucky University Campus Gateway	Campbell	12/12/2023	WH SU PROP	112,672,500	14,216,000	-	14,216,000	20	20	Agreement Just Beginning
Covington Central Riverfront	Kenton	5/26/2024	WH SU PROP	394,377,661	45,500,000	-	45,500,000	30	30	Agreement Just Beginning
Radcliff Mixed-Use Redevelopment Project at Fort Knox	Hardin	8/25/2024	WH SU PROP	94,824,969	12,000,000	-	12,000,000	20	20	Agreement Just Beginning
Paducah Downtown Riverfront Redevelopment Project	McCracken	3/25/2025	WH SU PROP	156,344,483	21,400,000	-	21,400,000	20	20	Agreement Just Beginning