Economic Development Incentives – A Primer

Job Creation Incentives

- Job creation incentives are governed by state law and include contributions from local and state governments. Companies must create at least ten (10) jobs and invest a minimum of $100,000 to qualify; minimum wage thresholds also apply. The program is called the Kentucky Business Incentives Act and commonly referred to as "KBI". KRS 154.32-010.
- KBI operates on a "but for" basis – i.e., "but for" the incentive, this project would not have located in Louisville/Kentucky. All projects that receive KBI incentives are competing with another city/state, which is also usually offering incentives.
- All incentives are performance based (company gets credit based on the actual jobs created). Performance is verified by Kentucky Department of Revenue and Cabinet for Economic Development. If company falls short at any point after activation, the incentives may be suspended or terminated.
- Local (Louisville Metro Government) participation is required to trigger state incentive. The local participation triggers at least a 3 to 1 (and in some cases 4 to 1) multiplier return from the state.
- Local can pledge up to 1% of occupational wage assessment (total occupational wage assessment is 1.25%).
- Local incentives are approved by the Metro Council. State incentives are approved by the Kentucky Economic Development Finance Authority (KEDFA), which convenes in open meeting at least once a month. Economic development projects, and the details pertaining to incentive negotiations, are almost always confidential until they are discussed and voted upon at KEDFA.
- Louisville and Southern Indiana have a long-standing agreement to not incent 'river hopping', which reads in part, "Existing jobs will not be incentivized to move from part of the metropolitan area to another."

Tax Increment Financing (TIF)

- Tax increment financing, or "TIF" is governed by state law and provides an incentive for real estate development; a portion of the new taxes (i.e., the increment) generated by a new development are rebated back to the developer to help support the development costs. There are four (4) kinds of TIFs outlined in state law:
  - Local only TIF, which offers a rebate of a portion of local property tax increment. Local TIFs may also include a rebate of local occupational tax, but most local TIFs are local property tax only. KRS 65.7041-.7083.
  - State Property Tax TIF, which requires a minimum capital investment of $10 million, offers a rebate of a portion of the state property tax increment. No more than 20% of the capital investment or square footage shall be devoted to assets that will be utilized for the retail sale of tangible personal property. KRS 154.30-040.
  - Mixed-Use TIF, which requires a minimum capital investment of $20 million, but may not exceed $200 million in investment, offers a rebate of a portion of some or all of the following: state tax, state sales tax, and state withholding tax increments. Projects in a Mixed-Use TIF must have at least two qualified uses, each of which comprises at least 20% of the total finished square footage or capital investment, or

three qualified uses, one of which comprises at least 20%, and the other two, when combined, also comprise at least 20% of the total finished square footage or capital investment. The qualified uses are: retail, residential, office, restaurant or hospitality. KRS 154.30-060.

  - Signature TIF, which requires a minimum capital investment of $200 million and offers a rebate of a portion of some or all the following taxes: state and local property tax, state sales tax, state withholding tax, and local occupational tax increments. No more than 20% of the capital investment or square footage shall be devoted to assets that will be utilized for the retail sale of tangible personal property. Certain additional costs may be recoverable under this program that are not eligible under the other TIF programs. KRS 154.30-050.

- TIFs have a "but for" requirement under Kentucky law, meaning that "but for" the TIF, the new development would not occur.
- Under Kentucky law, a property must meet at least two (2) of seven (7) conditions of blight, such as deteriorating or abandoned structures, abandonment of commercial activity, etc., for the property to potentially qualify for a TIF. KRS 65.7049(3).
- Metro Council approval is required for any Local only TIF. Metro Council and KEDFA approval is required for any State Property Tax, Mixed-Use and Signature TIF.
- For Local only TIFs, the amount of the incentive each year is 80% of the growth (Metro Council can approve up to 100%, historically it has been 80%) in the county and urban services district portion of the property taxes for up to 20 years. The amount of taxes generated prior to the TIF being approved goes to the general fund, along with the 20% of the growth in the new taxes. Each Local only TIF is approved with a cap. If the project generates more revenue than expected, the TIF ends early and Metro captures the upside. If the project generates less revenue than expected, the risk is on the developer. School taxes cannot be pledged as part of the TIF.
- For Local only TIFs that have a residential component, there is a goal that at least 10% of all units will be priced at a level that is affordable for someone making 80% of Area Median Income (AMI) or less.
- Larger projects meeting additional legal criteria may qualify for a state TIF (State Property Tax, Mixed-Use or Signature). The State requires a local government to participate in the project before the State will do so, but this can be a way to leverage local dollars for additional state dollars in support of a project. Under current law, the amount of the State's participation is capped to reflect the net new economic impact the project will have on the State, as calculated by an independent consultant.
- TIFs are performance based. 100% of the taxes are paid in, and then the developer submits a request to have the increment rebated back. Local only TIFs are verified by OMB prior to being rebated. The amount of any state TIF (State Property Tax, Mixed-Use, Signature) increment is verified by the Kentucky Department of Revenue and the Cabinet for Economic Development before any payment is made.

TIFs IN LOUISVILLE METRO

STATE AND LOCAL PARTICIPATION

Project Name	Period	Approved	Activated	Paid to Date
1. Renaissance Zone	20 yrs	2003	2004	12,816,421.69
2. Churchill Downs	20 yrs	2002	2005[1]	
3. U of L Nucleus	30 yrs	2007	2011	11,255,103.55
4. U of L Research Park	30 yrs	2012	2016	857,977.30
5. U of L Shelbyhurst	30 yrs	2014	2018	
6. NULU Hotel	20 yrs	2015	2018	55,490.41
7. Center City	30 yrs	2007, amended 2015	2017	

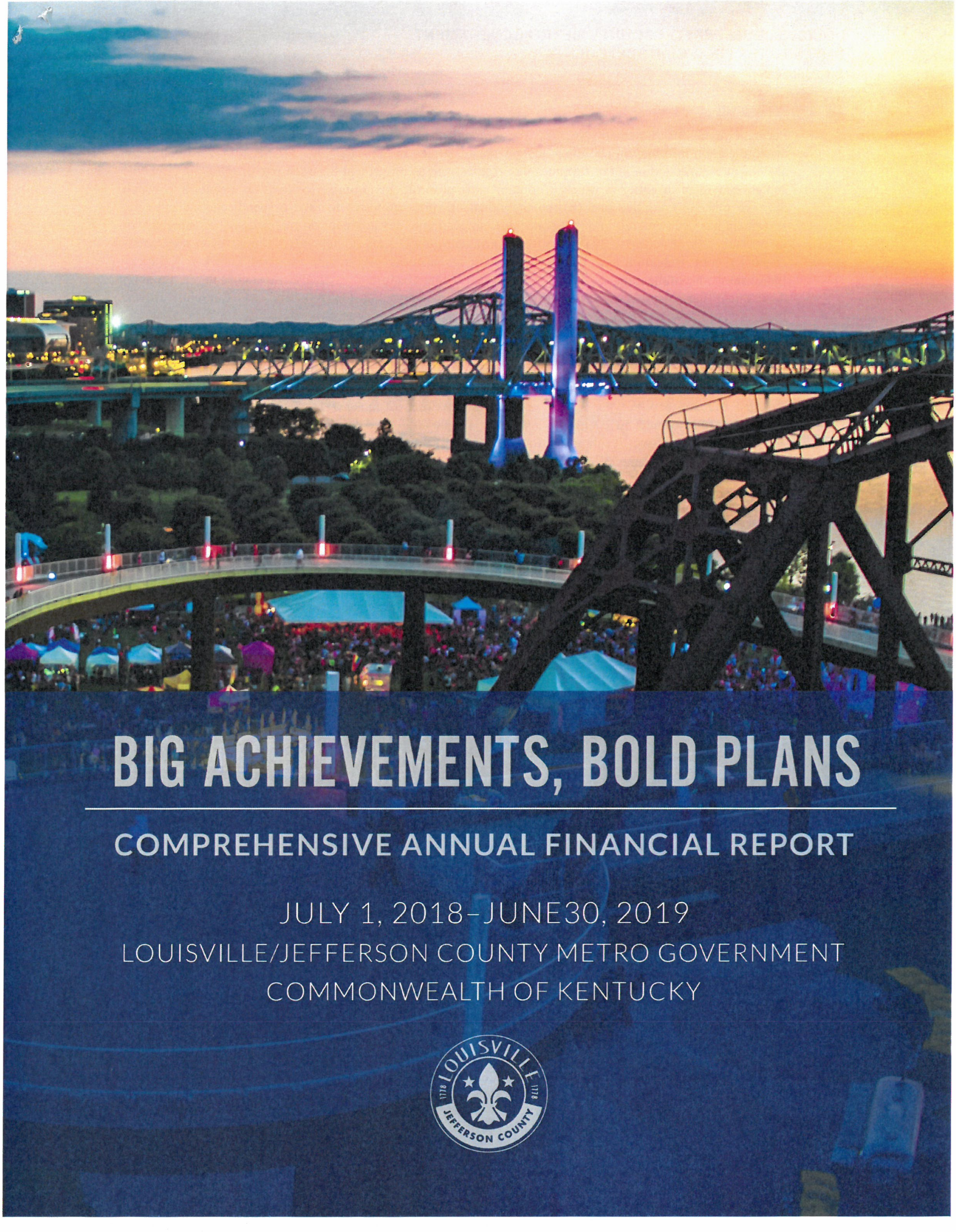
LOCAL PARTICIPATION ONLY

Project Name	Period	Approved	Activated	Paid to Date
1. Appliance Park	10 yrs	2009, amended 2010	2013	2,500,000.00
2. Kentucky Kingdom	10 yrs	2013	2014	437,539.51
3. Main & Clay Housing	20 yrs	2015	2018	110,736.28
4. Cityscape Residential	20 yrs	2015	2017	193,462.07
5. The 800 Building	20 yrs	2015	2017	195,827.12
6. Heritage Green	20 yrs	2016	No	
7. Bradford Mills	20 yrs	2016	2018	1,860.39
8. Mercy	20 yrs	2016	2018	
9. Phoenix Hill	20 yrs	2016	No	
10. First and Main	20 yrs	2016	No	
11. Fourth and Guthrie	20 yrs	2016	No	
12. Main and Shelby	20 yrs	2017	No	
13.Louisville Chemical Bldg	20 yrs	2017	No	
14. 18th and Broadway	20 yrs	2017	No	
15. 11th and Jefferson	20 yrs	2017	No	
16. Derby Vesta Oaks	20 yrs	2018	No	
17. 5th & Broadway	20 yrs	2019	No	

[1] Churchill Downs has activated for state only

Note: The Marriott, Arena and Butchertown TIFs are State-only TIFS

Note: Information last updated 1/27/20



BIG ACHIEVEMENTS, BOLD PLANS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2018–JUNE30, 2019

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

COMMONWEALTH OF KENTUCKY

LOUISVILLE 1778 1778 JEFFERSON COUNTY

10. Tax Abatement

Pursuant to GASB Statement No. 77, *Tax Abatement Disclosures*, Metro Government is required to disclose certain information about tax abatements as defined in the statement. GASB No. 77 defines a tax abatement as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the city or its citizens. As of June 30, 2019, Metro Government provides tax abatements through seven programs - Kentucky Jobs Retention Act ("KJRA"), Kentucky Business Investment Program ("KBI"), Kentucky Industrial Revitalization Act ("KIRA"), Manufacturing Tax Moratorium, Property Assessment/Reassessment Moratorium, Tax Increment Financing ("TIF"), and the Churchill Downs Incorporated Project.

- KJRA is designed to encourage automobile and househould appliance manufacturers operating in Kentucky to retain existing jobs in the state by granting tax incentives for investment in factility modernization. To qualify for this incentive, the organization must have operated in Kentucky for the last five consecutive years, have an existing workforce of at least 1,000 full-time employees, have KJRA total project investment of at least $100,000,000, and have been previously approved for a Kentucky economic development incentive. The KJRA incentives are realized through up to 100% credit against Kentucky corporate income tax and/or the limited liability entity tax and wage assessments up to 5% of the gross wages of each employee as a result of the project (including up to 1% required local participation).

- KBI provides a wage incentive of up to 1% of the gross wages of each employee for qualified businesses in the Louisville Metro area. An eligible company must be engaged in one of the following activities: manufacturing or agribusiness, operate a regional or national headquarters, or certain nonretail service or technology activities. The minimum requirements for an eligible project are: create a minimum of 10 new, full-time jobs for Kentucky residents; incur at least $100,000 in eligible costs; and meet a minimum level of wages and benefits. The tax incentives involved with this program are available for up to 10 years. The authority for this program is established in Kentucky Revised Statute 154.32.

- KIRA provides a wage incentive up to 1% of the required local participation of gross wages of each employee. Eligible companies must invest in the rehabilitation of manufacturing or agribusiness operations that are in imminent danger of permanently closing or that have closed temporarily and meet the following criteria: employ or intend to employ a minimum of 25 full-time employees engaged in manufacturing or agribusiness operations at the same facility, whether acquired, owned, or leased, located and operating within Kentucky on a permanent basis for a reasonable period of time preceding the request for approval. The tax incentives remain in place until the authorized incentive amount is realized or for the term of the tax incentive agreement, whichever occurs first. The authority for this program is established in Kentucky Revised Statute 154.26.

- Manufacturing Tax Moratorium program allows tax relief for companies that locate or expand a facility in the Louisville Metro area. The Manufacturing Tax Moratorium allows both real and personal property taxes to be abated for five years. The abatement applies to a new manufacturing company locating in, or moving into, the Louisville Metro area or the increased value of a building/equipment for an existing manufacturing company that is expanding its operations for a new product line in the Louisville Metro area. This program is established by Louisville Metro Ordinance 38.20, et seq.

- Property Assessment/Reassessment Moratorium program allows the waiver of the local incremental tax value of real property tax for added improvements from the assessment of a structure for five years. The following properties are eligible: structures older than 25 years if improvements are at least 25% of the property's value and structures older than 25 years and in a qualifying target area if improvements are at least 10% of the property's value. This program is established by Louisville Metro Ordinance 154.

10. Tax Abatement, continued

- TIF enables Metro Government to finance certain redevelopment costs with the incremental tax revenue generated by the net increase in assessed valuation resulting from the redevelopment. TIF also allows for the abatement of up to 100% of incremental property taxes and occupational license taxes or fees for periods of up to 20 or 30 years depending on the type of development area. A TIF may be granted but may not be activated until sometime later in its grant period. Some agreements require Metro Government to make infrastructure changes and/or make best effort to facilitate the project's progress. There are currently 14 TIFs active and 23 TIFs approved. Payments are made by appropriation rather than a tax liability reduction. Authority for the program is contained in Kentucky Revised Statute 65.7041 et seq. and Kentucky Revised Statute 154.30.

- The City of Louisville (the "City"), prior to merger, entered into an agreement which the City issued Industrial Building Revenue Bonds, authorized under Louisville Metro Ordinance 85, Series 2002, to finance construction of improvements at Churchill Downs while simultaneously Churchill Downs convey the land, improvements, fixtures, machinery and equipment, and other tangible personal property to the City. The City simultaneously entered into a lease, dated January 1, 2002, of the same in which the borrower is obligated to remit rental payments sufficient to pay the debt service on bonds and assume the responsibilities of the borrower. The lessee has an option to purchase any part or all of the property for $1.00 at the end of the 30-year lease or on any first day of each month during the term of the lease with a 15-day notice. Pursuant to Kentucky Revised Statute 103.285, the leased premises are exempt from taxations by the City (lessor) so long as the City holds title to the property. Under the terms of the lease, the lessee shall make payment to Jefferson County School District in lieu of taxes equal to the amounts which would have been due and payable by lessee absent the application of Kentucky Revised Statute 103.285. This tax relief shall continue until the debt is extinguished or the property is transferred back to the borrower.

Metro Government has reported abatement amounts for all known program participants during the year. A summary of the taxes forgone on Metro Government's abatement programs for the year ended June 30, 2019 are as follows:

Abatement Name	Tax Abated	Source	Abatement Amount
Kentucky Jobs Retention Act, Kentucky Business Investment Program, & Kentucky Industrial Revitalization Act*	Occupational License Fees	Louisville Metro Revenue Commission	$ 6,591,340
Manufacturing Tax Moratorium	Property Tax	Economic Development Department	117,278
Property Assessment/Reassessment Moratorium	Property Tax	Jefferson County Property Valuation Administrator	519,422
Tax Increment Financing	Property Tax & Occupational License Fees	Economic Development Department	5,414,309
Churchill Downs Incorporated Project	Property Tax & Personal Property Tax	Jefferson County Property Valuation Administrator	53,935

*Amounts for the three programs are combined.