Kentucky UNBRIDLED SPIRIT
Cabinet for Economic Development

Kentucky Economic Development Finance Authority (KEDFA) Tax Increment Financing (TIF)

New legislation enacted during the Regular Session of the 2002 General Assembly clarifies previous TIF legislation enacted by the General Assembly during the 2000 and 2001 Regular Sessions. The new legislation outlines three (3) distinct TIF programs:

Local Revenue Only Development Areas

(For development projects not utilizing state revenues and requiring no review or authorization from the state.) Basic criteria includes the following:

- eligible projects include any public purpose project being developed for residential, commercial, industrial, recreational, or any other use, that makes a contribution to economic development
- eligible costs may be covered by up to 100% of incremental property taxes, excluding state, school and fire district taxes, and by employee wage assessment to be credited against local occupational license taxes not otherwise used as an incentive under a state tax credit program
- limited to no longer than a 20 year time period
- limited to no more than 500 acres approved in a twelve (12) month period
- limited to previously undeveloped land
- allows wage assessment of no more than 2% of gross wages, including wage assessments fees imposed under programs administered by KEDFA
- available for facilities that contribute to economic development as determined by local government
- development areas established before July 15, 2002 are grandfathered under existing law (KRS 65.680-65.699) prior to 2002 HB 372

Infrastructure Development Areas

Applications for approval of development areas are submitted to the Cabinet for Economic Development. The Cabinet determines whether the development area application should be assigned to Kentucky Economic Development Finance Authority (KEDFA) or the Tourism Development Finance Authority (TDFA) for further consideration and approval. Basic criteria includes the following:

- eligible projects include those projects meeting the requirements of the KREDA, KIDA, KJDA, or KEOZ programs, or requirements under the Tourism Development Act
- limited to a geographic area of at least 50 acres of undeveloped land, unless otherwise approved by KEDFA or TDFA, or one acre for brownfield sites
- eligible costs may be covered by up to 100% of incremental real estate taxes, excluding school and fire district taxes
- maximum eligible costs and the percentage of the state's portion of the increment negotiated prior to approval; state participation is limited to a proportional share of the incremental taxes to be used
- each development area is approved for a period not to exceed 20 years

- each subsequent project locating in the development area may be approved for a period not to exceed 20 years and is subject to approval for both apportioned increment and eligibility
- the development area must initially be owned and under the control of a public entity
- infrastructure development includes real estate acquisition and the construction or improvement of roads or facilities needed for improvements to the real estate including site preparation and utility extensions
- local government ordinance must be adopted establishing the development area prior to approval by the appropriate finance authority

Project Specific Development Areas

Applications for approval of development areas are submitted to the Cabinet for Economic Development. The Cabinet determines whether the development area application should be assigned to KEDFA or the TDFA for further consideration and approval. Basic criteria includes the following:

- eligible projects include transportation services, the availability of information technology, or a commercial, industrial, recreational, tourism, or education related project
- development area must be tied directly to a single project or investment resulting in a unique contribution to or preservation of economic vitality and quality of life of a region in the state
- must represent new economic activity in the state
- must result in a net positive economic impact to the state, considering any adverse impacts on existing businesses
- minimum capital investment $10 million
- minimum of twenty five (25) new full-time jobs created for Kentucky residents within two (2) years of final authorization
- limited to no longer than a 20 year time period
- twenty five percent (25%) of project revenues must originate outside of Kentucky
- eligible incremental taxes include: personal income; sales and use; property taxes, excluding school and fire district property taxes; local insurance premium taxes; occupational license fees; and other state taxes as may be determined by the Revenue Cabinet
- limited to 80% of incremental revenues collected not to exceed 25% of approved project costs
- project must not be primarily devoted to retail sale of goods

KEDFA or TDFA will hire a qualified independent consultant to analyze data related to the project and development area and to prepare a project report. The consultant is to be paid by the primary project entity, defined as the project expected to generate the greatest amount of new revenues. The report shall determine the percentage of revenues generated from business not located in Kentucky and the estimated amount of net incremental taxes to be generated for 20 years. The consultant shall make a determination that if not for the designation of the development area and granting of increments, the project or development area would not occur. The Office of State Budget Director, the Finance and Administration Cabinet, and the Revenue Cabinet shall agree to the methodology and assumptions made by the consultant in preparing the report. Based on the consultant's report and prior to approval by the appropriate finance authority, the Office of State Budget Director, the Finance and Administration Cabinet, and the Revenue Cabinet shall certify the net positive economic impact of the project, and the expected amount of incremental state revenues to be generated. Approval shall not be granted if it is determined that there is no projected net positive economic impact to the state.

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