



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

***This fact sheet provides an overview of the TIF program. For a full discussion of the program requirements, please see KRS Chapter 65 and 154. As with all state administered incentive programs, any inducements offered under the TIF program are negotiated by Cabinet for Economic Development officials and presented as a recommendation to the Kentucky Economic Development Finance Authority for approval.***

### **Overview**

Tax Increment Financing (TIF) is a tool to use future gains in taxes to finance the current improvements that will create those gains. When a public project is carried out, there is an increase in the value of surrounding real estate, and often new investment (new or rehabilitated buildings, for example). This increased site value and investment creates increases in values of taxable properties and taxable activities, which increases tax revenues. The increased tax revenues are the "tax increment." Tax Increment Financing dedicates that increased revenue to finance debt issued to pay for the public infrastructure of the project. TIF is designed to channel funding toward the public improvements in distressed or underdeveloped areas where development would not otherwise occur. TIF creates funding for public projects that may otherwise be unaffordable to localities.

The first step for all programs is the establishment of a TIF development area by a city, a county, or one of the eligible agencies identified in statute as eligible. The statutes authorize two types of TIF development areas. A development area on vacant land is eligible for local participation only. A development area which includes a developed area in need of redevelopment or other blight conditions may be eligible for both state and local participation. There are three separate state participation programs available, each of which has its own distinct requirements for eligibility.

### **Local Development Areas**

There are two types of local tax development areas that can be established. Statute provides detailed requirements for the establishment of a development area, including public hearing requirements, ordinance requirements, and parameters for agreements establishing the development area and pledging financial support. Support at the local level can be provided through the entire development area, or on a project by project basis.

The two types of local development areas are as follows:

*Local Only Development Areas* – The local only TIF development area may be established by a local government or eligible agency on vacant land. The local government may pledge up to 100 percent of incremental property taxes and occupational license taxes or fees for up to 20 years.

All local only development areas are subject to the following conditions:

- The land must be a previously undeveloped tract of land;
- The maximum size cannot exceed 1,000 acres in a calendar year; and
- The total amount of property within a city or county that may be in a TIF development area cannot exceed 20 percent of the total value of taxable real property within the jurisdiction(s) establishing the TIF development area.

*Blighted Urban Redevelopment Areas* – These development areas may be established by a local government or eligible agency in an area that meets two of seven specified blight/deterioration conditions established in KRS 65.7049(3), such as abandonment or deterioration of structures, presence of environmentally contaminated land, and deterioration of public infrastructure. The local government may pledge up to 100 percent of incremental property taxes and occupational license taxes or fees for up to 30 years. Projects in this type of development area are eligible for state participation if they meet certain requirements.

All blighted urban redevelopment areas are subject to the following conditions:

- The maximum size cannot exceed three square miles; and
- The total amount of property within a city or county that may be in a TIF development area cannot exceed 20 percent of the total value of taxable real property within the jurisdiction(s) establishing the TIF development area.

### **State Participation Programs**

There are three state participation programs available. State participation is limited to a specific project within the development area. Only the tax revenues generated within the footprint of the specific identified project are included in the increment. The footprint is defined as the actual perimeter of a discreet, identified project within a development area within which capital investments are made.

### **Commonwealth Participation Program for Real Property Ad Valorem Tax Revenues**

- The project must represent net positive impact in the Commonwealth as certified by a qualified independent outside consultant on contract with CED;
- The minimum capital investment is \$10 million;
- Not more than 20 percent of the approved project costs or 20 percent of the finished square footage shall be devoted to retail;
- Up to 100 percent of the state real property incremental tax revenue may be pledged from the footprint of the project;
- The amount of state revenues pledged shall not exceed 100 percent of approved public infrastructure costs; and
- Amounts can be pledged for a maximum of 20 years.

### **Commonwealth Participation Program for Signature Projects**

- Requires a minimum capital investment of \$200,000,000;
- Not more than 20 percent of the approved project costs or 20 percent of the finished square footage shall be devoted to retail;
- The project must result in a net positive economic impact to the Commonwealth, as certified by the consultant's report;
- State taxes that may be pledged include real property ad valorem taxes, individual and corporate income taxes, the limited liability entity tax, and sales taxes;
- Up to 80 percent of incremental state revenues may be pledged from the footprint of the project;
- May recover up to 100 percent of approved public infrastructure costs less sales taxes paid, signature project costs less sales taxes paid, and financing costs related to public infrastructure costs over a period of up to 30 years;
- Qualifies for a sales tax refund on the purchase of construction materials that do not qualify as an approved public infrastructure cost or an approved signature project cost.

### **Commonwealth Participation Program for Mixed Use Redevelopment in Blighted Urban Areas**

- Defines mixed use as including at least two of the following: retail, residential, office, restaurant, or hospitality – to qualify as a use, the use must comprise at least 20 percent of the total finished square footage or 20 percent of the total capital investment. In addition the area cannot include any retail establishment that exceeds twenty thousand (20,000) square feet of finished square footage.
- To qualify a project must:
  - Be located in an area with at least three of the following blight/deterioration conditions;
    - Substantial loss of residential, commercial, or industrial activity or use;

- Forty percent (40%) or more of the households are low-income households;
  - More than fifty percent (50%) of residential, commercial, or industrial structures are deteriorating or deteriorated;
  - Substantial abandonment of residential, commercial, or industrial structures;
  - Substantial presence of environmentally contaminated land;
  - Inadequate public improvements or substantial deterioration in public infrastructure; or
  - Any combination of factors that substantially impairs or arrests the growth and economic development of the city or county; impedes the provision of adequate housing; impedes the development of commercial or industrial property; or adversely affects public health, safety, or general welfare due to the development area's present condition and use.
- Be a mixed use project;
  - Represent new economic activity in the Commonwealth;
  - Result in a minimum capital investment of at least \$20 million but not over \$200 million; and
  - Result in a net positive impact to the Commonwealth.
  - May recover up to 100 percent of approved public infrastructure costs, and costs related to land preparation, demolition and clearance over up to 20 years.

**Process**

- After establishing local TIF development area by local ordinance, local agency submits TIF application for state increments to CED.
- CED staff reviews TIF application for completeness and evaluate whether, based solely on information submitted by the applicant, the project is likely to meet the minimum requirements for the program.
- CED staff presents TIF project to KEDFA board for preliminary approval.
- Upon KEDFA preliminary approval, CED staff works with Department of Revenue and the Office of State Budget Director to develop criteria for TIF consultant's report.
- Consultant researches potential TIF project and projections submitted by local agency and determines if the projections are accurate and if the project results in a net positive impact for the commonwealth.
- If the consultant's report reflects a net positive impact to the commonwealth, CED staff negotiates the TIF available to the project and drafts a grant agreement detailing the specific taxes, amounts of increments available, and infrastructure expenditures along with reporting requirements.
- CED staff presents the TIF project to KEDFA Board for final approval.
- Upon final approval, the TIF project can activate and increments can begin to accrue.

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