Kentucky Historic Tax Credits
An Impact Analysis

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2016 Cornerstone Award Keynote Speaker
Background

• **Base Program**
  - Statewide Annual Cap = $5 million
  - Project Cap = $400,000

• **Weaknesses**
  - Oversubscribed each year
  - Variable awards below cap (avg. less than $150K)
  - Underutilized – too much uncertainty
  - Competitive States caps include $60M (Ohio), $140M (Missouri) to uncapped (Illinois, Virginia, North Carolina)
Background

- **Limited-term Enhanced Historic Tax Credit (EHTC) program**
  - Must meet the following criteria:
    1. Project is in Lexington or Louisville
    2. Development is within ½ mile of a Tax-Increment Financing (TIF) district
    3. QRE of $15 million
    4. Construction process began by July 1, 2015
EHTC Structure

- 20% of QRE’s up to $30 million with $15 million threshold

- Earned 25% per year over a four year period starting post-completion
Projects Qualifying for limited-term EHTC Program

1. 21c Museum Hotel (Lexington)
2. 111 Whiskey Row
3. Bradford Mills Lofts
4. Edison Building
5. Germantown Mill Lofts
6. Old Fayette County Courthouse
7. Starks Building
Economic Impact Analysis
Baker Tilly Virchow Krause LP, Chicago

- Estimated Total Development Cost for seven EHTC projects: $305.2 million
- Qualifying Rehabilitation Expenses: $205.9 million (est.)
- Kentucky HTCs: $33.8 million (Four annual allocations of $8.45 million)
Return on Investment for State of Kentucky

• 100% returned by end of the second year ($33.8 million)

• $42.4 million inflow and $16.9 million outflow by Year 2
  o $2.5 in for each $1 out

• NPV for Commonwealth
  o $47.4 million due to inflow/outflow timing

• Within 10 years, $164.8 million in direct taxes will be generated from the seven developments

• Within 20 years, $364.7 million new direct KY states
# Return on Investment for State of Kentucky

## EHTC Impact on State Tax Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflow (in $million)</th>
<th>Outflow (in $million)</th>
<th>Net (in $million)</th>
<th>Cumulative Net $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constr.</td>
<td>$16.00</td>
<td>$0.00</td>
<td>$16.00</td>
<td>$16.00</td>
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<td>$4.55</td>
<td>$20.55</td>
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<td>$8.45</td>
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<td>$16.90</td>
<td>$0.00</td>
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<tr>
<td>10 Year</td>
<td>$164.74</td>
<td>$33.80</td>
<td>$130.94</td>
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</table>

20-year $22.76 $0.00 $22.76 $364.80

## EHTC Impact on State Tax Revenue (cont.)

- **Indirect & Induced to State (in $million)**: $7.71
- **Direct to Local (in $million)**: $1.93
- **Direct to Schools (in $million)**: $1.26
Return on Investment for State of Kentucky

Project Development and Economic Impacts
20 Year Projection
(Values in millions)
Jobs and Economic Activity

• EHTC program will create more than 2,374 direct jobs
  o 1,100 ripple effect jobs

• Total impact on Kentucky economy: $255.5 million by the end of the *first year of operation*
## Impact on Local and School District Revenue

<table>
<thead>
<tr>
<th>Source</th>
<th>Revenue</th>
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</thead>
<tbody>
<tr>
<td>State of Kentucky</td>
<td>$12.9 million</td>
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<tr>
<td>City/County</td>
<td>$1.9 million</td>
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<tr>
<td>School District</td>
<td>$1.3 million</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$16.1 million</strong></td>
</tr>
</tbody>
</table>

*Property taxes, hotel room tax, payroll, sales & use, corporate income*
Bottom Line

• Program funds itself
  o More paid into the State than goes out each year *from inception*

• Strong positive impact on state, local, school tax revenue

• Creates jobs
  o Stimulates revitalization of urban core and adjacent neighborhoods

• Increases local property values

“Based on the projected tax revenues to be collected by the State of Kentucky, the program is anticipated to never be an out of pocket expense for the State.”

(Baker Tilly, 2016)