



HOPKINS COUNTY COMPREHENSIVE PLAN

*Economic
Development*

6

CHAPTER 6

ECONOMIC DEVELOPMENT

[INSIDE THIS CHAPTER]

This chapter includes strategies that relate to business growth, job creation, development opportunities, and funding strategies.

- Successful Community Attributes
- Infrastructure
- Tourism
- Incentives
- Programs
- Supporting Organizations & Agencies
- Other Strategies



■ A world-class community is built by leveraging the community's assets for growth, having a high quality of life, working to enhance that quality of life, having economic opportunity across the socio-economic spectrum and personal well-being of citizens. To address each of the elements requires a multifaceted approach.

SUCCESSFUL COMMUNITY ATTRIBUTES

One of the most important goals for successful communities is to have a high level of attachment to the community by residents. Community attributes that play a key role in driving attachment are: Social Offerings, Openness, Aesthetics, Education, Basic Services, Leadership, Economy, Safety and Social Capital.

Of the attributes listed above, three rise to the top as being the most important. Social offerings which can relate to having a vibrant nightlife, being a good place to meet people, having arts and culture opportunities available, having community events that provide social opportunities, and that the community is a place where people care about each other. Openness can mean that the community is a good place for: older people, racial and ethnic minorities, families and young children, gays and lesbians, for young talented college graduates, immigrants, and young adults without children. Aesthetics can mean communities that have a variety of parks, playgrounds, and trails available, the beauty or physical setting of the community.

QUALITY OF LIFE

While quality of life can be directly related to wealth and employment, standard components include, but aren't limited to: physical and mental health, education and education opportunities, recreation, recreation facilities and opportunities, leisure time, the built environment (roads, schools, parks, downtowns), community aesthetics, and social belonging.

ECONOMIC OPPORTUNITY

To have a vibrant and healthy economy, economic opportunity should be available for people across the wage spectrum, from minimum wage to the highest wages available. Opportunity should be across most if not all job sectors, service, manufacturing, retail, and office. Opportunity should also be attractive for large business and the individual starting a business in their garage.

Keeping in mind that this is a never ending journey and not a destination, the value is that this variety is attractive to different parts of the community at different times. The goal may be to have jobs and /or opportunities available to people regardless of where they are on their career path. This provides an important sense of attachment to the community and makes it easy for people to stay in the community or region.

While the coal mining industry has decreased in many parts of eastern and western Kentucky, the coal industry is currently growing in Hopkins County with coal production increasing from 2012 to 2013. In 2013, Hopkins County's total production was 8.96 tons and the coal mine industry employed 975 full-time employees and one preparation plant in the fourth quarter of 2013. While employment dropped by 2.2% from 2012 to 2013, Hopkins County had the fourth-highest direct coal employment of any county in Kentucky. Alliance Coal and Armstrong are currently in operation in Hopkins County, and 5,330 miners were trained for Alliance in 2013.

Source: Energy & Environment Cabinet, Department for Energy Development & Independence (energy.ky.gov).

PERSONAL WELL BEING

Personal well-being directly relates to the individual and their view, both real and perceived, of the world around them and how they are in relationship to that world. Are my family and I safe, are we healthy, can we shop, eat, and live well in this community, are all questions people think about related to their well-being. In today's job market people look for where they want to live and then determine what to do when they get there. Many companies base their decisions on where to locate by determining where people want to live.

The goal is to have a plan that helps address these topics and serve as a guide for future decisions. To meet the needs of the community and business and help satisfy the desire for a high quality of life, economic opportunity, and well-being our strategic goal is to grow & attract well-paying, high value-added, community-minded base/primary businesses by influencing and leveraging the area's distinct capabilities in **Advanced Manufacturing, Science Technology Engineering & Math (STEM) Education Resources, Sustainable Manufacturing, Transportation, and Healthcare.**

Attracting businesses in **Advanced Manufacturing, Science Technology Engineering & Math (STEM) Education Resources, Sustainable Manufacturing, Transportation, and Healthcare sectors** is highly competitive. In order to attract those businesses, incentives or tools may be used to influence companies' decisions to locate in the community. One or more tools may be used to accomplish this goal. Hopkins County is ideally located to attract industry with the intersection of two future interstates, rail, close proximity to the Ohio River, and nearby airports.

INFRASTRUCTURE

TRANSPORTATION

Hopkins County is an attractive location because of the multiple forms of transportation, including the Madisonville Municipal Airport, Ohio River, CSX Railroad and future interstate access.

INTERSTATE INTERCHANGES

Interstate interchanges are marketing opportunities at the entrances into communities like Dawson Springs, Mortons Gap, Earlington, Madisonville and Hanson. Efforts should be made to ensure they are branded as entrances into Hopkins County.

IMPORTANCE OF DOWNTOWNS

Downtowns are a community's living room and have the ability to have a dramatic impact on people's impression of a community. It is the place where everyone ends up that is looking at the community to move to or locate their business to. A successful, vibrant and active downtown says more about a community than all the brochures in the world. Participating in the Kentucky Main Street Program can provide a variety of benefits. There are a variety of reasons to revitalize downtowns.

- Renewed confidence in the viability of the Community
- New job opportunities
- Revitalization helps stabilize the tax base and keeps investment where infrastructure is present.
- Helps preserve the character and importance of the core of the community.



Photo: Downtown Madisonville



Photo: Downtown Dawson Springs



Photo: Downtown Hanson

TOURISM

Tourism can take many forms in a local economy. The following is a list of potential tourism activities that could be implemented in Hopkins County.

- Agri-tourism
- Attractions
- Family Fun
- Food and Dining
- Golf
- History and Heritage
- Horses
- Music and Arts
- Nightlife
- Shopping
- Sports
- Wineries and Breweries

The value in promoting and taking advantage of tourism is that those tourists will come, spend some time and money and then leave. They become temporary tax payers in a sense. Communities can take advantage of their patronage without the burden of having to provide all the services for residents. The downside is that this industry can be subject to changing tastes and the impacts of the economy. However there are a few that seem to survive regardless of the economy. What makes the most sense is to build on the existing community assets and leverage those to promote tourism. Dawson Springs is particularly attractive as a destination for those seeking outdoor recreation as it was named the first Trail Town of Kentucky. Trails have been mapped, wayfinding signage has been added and trails have been cleared. Dawson Springs now boasts many miles of horseback riding, mountain biking, hiking, walking, and water trails.

SPORTS

Sports have a tremendous opportunity for economic impact. Usually parents will give up vacations before they give up their children's sports. By calculating 1.5 spectators per participant and an average of \$100 per day a single week long sporting event can have an impact in the millions of dollars. Existing sports facilities can be used or shared with current users.



Photo: Sports Park

RECREATION

Passive and active recreation from organized sports to hunting, fishing, and hiking has a huge impact on sports / recreation tourism. A focused effort to attract recreation enthusiasts will impact local business and have an economic impact.

HOSPITALITY

Hospitality is critical to the success of a community on a number of levels. Meeting and event space are frequently needed by business, to conduct business, having overnight accommodations is vital and to have a successful tourism trade overnight stays have a big impact on dollars spent in the community.

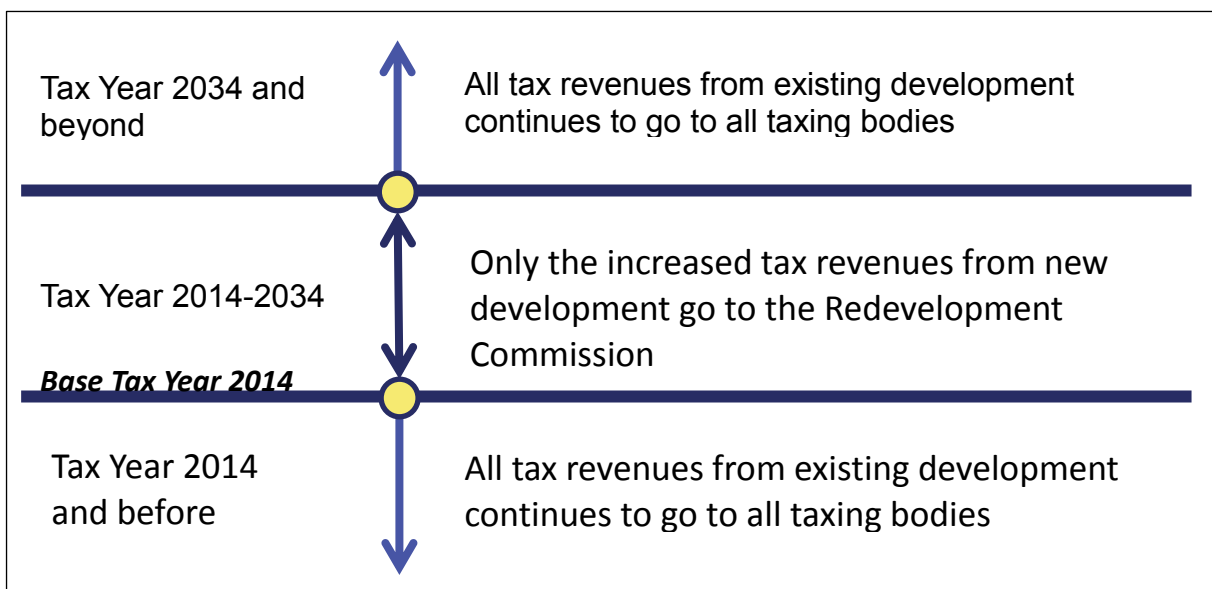
INCENTIVES

TAX INCREMENTAL FINANCE

Tax Increment Financing (TIF) is a method to use future tax revenues to finance current public improvements. The completion of a public improvement or project often results in an increase in property values and often new private investment (new or rehabilitated buildings, etc), which generates additional tax revenue. The increased tax revenues are the “tax increment” that is used to finance debt to pay for the public infrastructure. TIF is designed to focus funding towards public improvements where development would not otherwise occur on its own.

TIF is enabled through state legislation with the purpose of economic development and the goal of enhancing local businesses, attracting new businesses, and considering the best use of the natural attributes of the community. TIF funds can be used for various infrastructure improvements and projects within the designated TIF area, including water expansion/supply, storm drainage, street construction, environmental remediation, park improvements, flood control, land acquisition, demolition and clearance work, utilities, landscaping, parking structure, street lighting, sidewalks, traffic control and much more.

How Does TIF Work



Types of TIF Programs

State statutes authorize two types of TIF development areas: Local Development Areas for vacant land or State Participation Programs for developed land (redevelopment or blighted conditions). With Local Development Areas only revenues from local taxes are considered, whereas State Participation Programs have the potential to capture some state tax revenues for specific projects.

INDUSTRIAL REVENUE BONDS (IRBs)

Industrial Revenue Bonds (IRBs) issued by state and local governments in Kentucky can be used to finance manufacturing projects and their warehousing areas, major transportation and communication facilities, most health care facilities and mineral extraction and processing projects. Bond funds may be used to finance the total project costs, including engineering, site preparation, land, buildings, machinery and equipment, and bond issuance costs. Any portions of such projects financed by private capital are subject to the full state and local property taxes applicable to private ownership. Communities may negotiate for payments by industrial tenants to replace portions of local property taxes lost through public title to the property.

Private leasehold interests in property owned and financed by a governmental unit through industrial revenue bonds, under the provisions of KRS Chapter 103, are taxed by the state at \$0.015 per \$100 of leasehold value with approval from KEDFA. Reduction of local property taxes only on projects financed through IRBs does not require KEDFA approval. (KRS 132.020; 132.195; 132.200)

The Kentucky Private Activity Bond Allocation Committee (KPABAC) approves the private activity cap for the issuance of industrial revenue bonds with tax-free interest earnings (to bond buyers), for qualifying projects within annual ceiling amounts authorized by the Internal Revenue Code. For more information on the KPABAC see the Finance and Administration Cabinet's website.

SHOVEL READY SITES

Four shovel ready sites exist in Hopkins County, including Hopkins County North - Industry & Technology Park (Hanson), Island Ford Industrial Park (Madisonville), Greater Madisonville Industrial Park (Madisonville), and West Hopkins Industrial Park (Dawson Springs). Throughout Hopkins County are other industrial parks that are ready for development but not certified by the State as shovel ready such as Earlington Industrial Park (Earlington). These sites provide additional opportunities for economic growth. This program should be expanded to serve future needs.

SPECIAL ECONOMIC PROJECT INCENTIVES

For economic development projects that will result in the creation of at least 500 new jobs, county fiscal courts may organize a district for purposes of levying taxes. The additional taxes may pay for the establishment, operation, and maintenance of governmental services provided to the district that exceeds the level of services provided to other areas of the county. The additional taxes that may be imposed in the district are a special ad valorem tax not to exceed \$0.10 per \$100 of assessed value and an occupational license tax (KRS 68.600 to 68.606).

BUSINESS IMPROVEMENT DISTRICT

The goal of business improvement districts is to generate funds to improve conditions of that area. By utilizing a public / private partnership in which business and property owners elect to make a collective investment in their commercial district. This district assesses an extra portion of property values in a defined area. The additional revenue is earmarked for a specific list of needs within the district. State statute allows for the creation of such management districts.

PUBLIC PRIVATE PARTNERSHIPS

This can take many forms, but essentially brings entities together that may have mutual interests and limited resources that can be pooled together to achieve more than they could individually. Such partnerships can be between governmental agencies, business, corporations, foundations, and /or health care facilities.

PROGRAMS

WORKFORCE TRAINING

West Kentucky Workforce Investment Board is responsible for managing local workforce development projects through the Workforce Investment Act of 1998 including intensive business services and on-the-job training funding.

Bluegrass State Skills Corporation (BSSC) is a corporation that stimulates economic development through programs of skills training to meet the needs of business and industry.

The BSSC, in cooperation and coordination with other employment and training organizations, has the capability to customize a comprehensive program of skills training services for new, expanding and existing companies.

The **Grant-in-Aid Program** allows BSSC to administer and fund Kentucky's industry-specific training efforts through grants approved by the Board of Directors of the BSSC; to act as a broker of skills training and employment

services; to facilitate and fund new training programs and to administer any special state appropriations for industry specific training. The program allows for a 50 percent reimbursement for eligible training costs. (KRS 154.12-204 to 154.12-208)

The **Skills Training Investment Credit Act** is an economic development initiative, which aids existing companies in their efforts to develop a skilled workforce. It allows companies to recover 50 percent of their approved costs for occupational and skills upgrade training through an income tax credit limited to \$500 per Kentucky resident employed not to exceed \$100,000 per company per biennium (KRS 154.12-2084 to 154.12-2089; and 141.405). For additional information about BSSC go to www.thinkkentucky.com/bssc.

KCTCS-TRAINS (formerly referred to as KY WINS) is a program designed to provide funding for training instruction, job profiling, and pre- and post-training assessments. The program provides workers with high level skills while increasing their productivity and improving the employability of Kentucky's citizens.

KCTCS-TRAINS primary focus for incumbent workers is to provide funding for occupational specific training to build a highly skilled and educated workforce that supports the economic viability of Kentucky. KCTCS-TRAINS will support projects for existing Kentucky companies who require employees to learn new skills for job retention and companies who are contributing to Kentucky's economic development.

For companies that are creating new jobs by relocating into Kentucky or for existing business/industry that are already doing business in Kentucky, workforce education and training programs and services are available at 100% no-cost level after meeting eligibility specifics and minimum requirements. Eligible companies are defined by program requirements for the Kentucky Business Investment (KBI) Program as defined by KRS 154.32.

Madisonville Community College has administered 19 training projects totaling \$1,674,245 through KCTCS-TRAINS.

MCC's Workforce Solutions provides additional services for training and educating workers in Hopkins County. These services include:

- Lean Center for Excellence: Simulation and Implementation
- Miner Training: 40hr/24hr Initial and Annual Refresher Training - 3D Motion Simulators – MERA
- Advanced Integrated Technology: Technical Training (PLC, Welding, Hydraulics, Pneumatics, and Electrical)
- Leadership/Team Building/Supervisory Training
- ACT Job Profiling / Work Profiling System
- Full Service Assessment Center: DiSC, Myers- Briggs Type Indicator, Pearson VUE , International Code Council (ICC), College Level Entrance Proficiency (CLEP), National Occupational

Competency Testing Institute (NOCTI), Bennett Mechanical, Wonderlic Personnel, ACT WorkKeys

- Safety Training: OSHA and NFPA 70E
- Kentucky Professional License Renewal (CEU): Electrical-HVAC-Plumbing-Legal Education
- Training and Development: Computer, Interpersonal Skills
- Community Education/Community Service: Personal and Professional Development

WorkKeys is a national system for teaching and assessing workplace skills that connects knowing with doing and learning with earning. WorkKeys is administered through Madisonville Community College.

Work Profile System is an advanced computerized system of job analysis. Job applicants progress through a customized assessment center which produces a person/job match that is a measure of the individual's ability to successfully perform the job. Madisonville Community College has certified trainers that can assist you with the entire selection process. This system is administered through Madisonville Community College.

EDUCATION

Hopkins County is home to an abundant array of educational opportunities including:

- *Madisonville Community College* - one of the fastest growing community colleges in the nation.
- *Murray State University* - one of the top public universities in America as ranked by U.S. News & World Report for the 19th consecutive year.
- Two public school districts offering primary and secondary education
- Five private primary schools
- Numerous Head Start and preschool programs

In most cases Murray State University and Madisonville Community College provide most if not all the workforce training opportunities.

Madisonville Community College is involved in improving the economic outcomes of the community. They accomplish this through multiple community and economic development participants and programs. A summary of those efforts and statistics can be found below.

- Adult education enrollment: 769
- GED credential earned: 161
- Workforce Credit, Workforce Non-credit and Community Education enrollment: 7,778
- Assessments administered 11,610
- KCTCS-TRAINS Training Projects: \$1,674,245
- Business Synergy Lab – to train and create successful workers and entrepreneurs

Kentucky Community and Technical College System (KCTCS) –

Kentucky Community and Technical College System serves as the Commonwealth's primary provider of postsecondary education programs, training and services. KCTCS provides statewide access to quality, affordable postsecondary education and training through a system of 16 college districts with more than 60 campuses. KCTCS supplies employers and employees with the following services to enhance the skills of Kentucky's workforce:

- Certificate, diploma, technical degree, associate degree and transfer programs.
- KCTCS-TRAINS — high-level academic and technical skills training for employees of new and existing business. KCTCS-TRAINS provides business and industry access to customized training programs, pre- and post-employment training and training assessment.
- Customized workforce training on the local level. Coordinators at the system level assist the colleges in developing programs that deliver specialized training when and where it is needed.
- IT Fast Track program partners with computer industry leaders to deliver training designed to improve the information technology literacy of Kentucky's workforce. Partnerships include Microsoft, Oracle, Cisco and Nortel.
- Kentucky Manufacturing Skills Standards (KMSS), developed in conjunction with manufacturers throughout the state, provides skills standards certification. KCTCS administers the KMSS assessment and provides targeted instruction to assist individuals in achieving certification.
- WorkKeys — system of job profiling, assessment and targeted instruction that focuses on the foundational skills found in all jobs in the workplace. These skills include reading, math, applied technology, critical thinking skills, teamwork and problem solving.
- The Center for Excellence in Automotive Manufacturing is a multi-faceted partnership between KCTCS and Toyota Motor Manufacturing North America, Inc. that will help create a nationally recognized model for workforce education and training in the automotive industry.
- The North American Racing Academy (NARA), the first horse-racing academy in the United States, is located at the Kentucky Horse Park. The racing academy has a long-term goal of establishing career pathways for individuals interested in working in all aspects of the horse racing industry.
- The Kentucky Coal Academy trains students in all aspects of the coal mining industry.
- On-line degrees and courses available to provide anytime, anywhere learning.

- Assessment centers at the colleges offer a wide array of workplace assessments to assist business and industry in identifying skill levels of existing and potential employees.

INDUSTRIAL ATTRACTION

Hopkins County is ideally located to attract industry with the intersection of two future interstates, rail, close proximity to the Ohio River, and nearby airports. Industrial businesses navigate through a site selection process when they are expanding or starting operations. Communities are recommended for siting operations based on decision makers receiving recommendations from site selection consultants who review data and conduct research. The International Economic Development Council (IEDC) has created a data spreadsheet that contains data elements commonly reviewed by these consultants and allows a side-by-side comparison of communities. Creating an IEDC standard data set will assist Hopkins County in telling their story with reliable and verified data and get the county in front of decision makers. This will help Hopkins County help them rise above communities that don't use the Site Selection Data Standards.

WORK READY PROGRAM

Hopkins County is currently working towards becoming a Certified Work Ready Community. These efforts should continue and be supported in order to build the workforce development in the County.

ENTREPRENEURS ATTRACTION

The Madisonville – Hopkins County Economic Development Corporation has developed a guide for entrepreneurs that are looking to start a business in Hopkins County. Practitioners and researchers have identified a large number of factors that play some role in attracting new business start-ups in a community. Following is a partial list of the top factors:

- Customer base and a sense of customer opportunity
- Low cost of doing business
- Attractive Central Business District
- Existing small businesses near by
- The physical setting of the community
- Good roads/highways to other towns.

AIRPORT

Madisonville Municipal is a local source of transportation traffic and Evansville Regional is the closest commercial facility. Louisville and Nashville International are major hubs.

SUPPORTING ORGANIZATIONS & AGENCIES

Madisonville-Hopkins County Economic Development Corporation is a non-profit corporation governed by an independent Board of Directors. The corporation is located at 755 Industrial Road in Madisonville, Kentucky. Its purposes include, but are not limited to, the following: to engage, directly or indirectly, in economic development, community improvement, educational opportunity enhancement, and culture improvement activities within the Madisonville and Hopkins County area, and to maintain, enhance, improve and enlarge the employment base of the citizens and the residents thereof, and to improve, expand and support any and all types of community improvement, cultural and educational opportunities for said citizens and residents.

Vision: The Madisonville-Hopkins County Economic Development Corporation is the recognized organization for building and retaining prosperity in Hopkins County.

Mission: The Madisonville-Hopkins County Economic Development Corporation will serve as the resource and catalyst for sustained economic growth and development in Hopkins County.

Strategic Plan Objectives:

- To attract primary, wealth-generating new business to Hopkins County.
- To facilitate the retention and creation of wealth and investment in the existing industries of Hopkins County.
- To facilitate the creation of new primary business ventures in Hopkins County thereby achieving wealth-generation, employment opportunities, and additional prosperity.
- To be recognized as a successful, high-performance organization: respected, effective, visible, financially viable, and sustainable.

Source: <http://www.kentuckyedc.com/>

HC Ventures Loan Program is the result of the Madisonville Hopkins County Economic Development Corporation and Hopkins County's leading banks joint effort to improve the odds of getting approval for a loan that matches each client's business needs. HC Ventures provides valuable feedback from experts within the business community to assist in putting together all information needed to apply for a business loan.

Micro Loan Program is available to new and existing businesses through the Madisonville Hopkins County Economic Development Corporation. This loan program assists business start-up's, expansion of existing businesses and the purchase of franchise or existing business.

Innovate Hopkins County is a program that provides a one stop service center for start-up and existing businesses throughout Hopkins County to access trusted advisors, educators and capital in order to establish critical business practices that lead to the successes of business owners and entrepreneurs.

The goals of this program are to assist in expanding the knowledge base of entrepreneurship in Hopkins County and offering training to help entrepreneurs be successful.

They work very closely with Junior Achievement, empowering young people to own their economic success. Through this program students are taught how to generate wealth and effectively manage it and apply entrepreneurial innovation.

They work to promote and assist with “The Next Big Thing” Competition. This program is designed to give students in grades 9 through 12 an entrepreneurial experience in launching a new innovative products or ideas. This fosters a spirit of innovation through a competition among potential entrepreneurs within Hopkins County

1 Million Cups, developed by Kauffman Labs for Enterprise Creation, is an educational program that seeks to activate your local community of entrepreneurs through online curriculum, coaching and experiential learning. Madisonville Hopkins County Economic Development Corporation serves as Community Coordinators for the 1Million Cups Program. 1 Million Cups is a simple way to engage entrepreneurs in our local community. Each week, the 1MC program offers two local entrepreneurs an opportunity to present their startups to a diverse audience of mentors, advisors, and entrepreneurs. Presenters prepare a 6 minute educational presentation and engage in 20 minutes of feedback and questioning after they present. Entrepreneurs gain insight into possible ways they can improve their businesses, gather real-time feedback, connecting with a community that truly cares about their progress and walk away feeling like they have advanced their business. The audience also learns a great deal from the presentations. Whether this is through passively listening or deeply engaging with the entrepreneurs, there is much to learn every week from these dynamic and diverse entrepreneurs.

The organizers for Hopkins County are Aaron Spencer, Arctic Refrigeration & Foodservice Equipment, Marion Miller, CMR Inc., Mark Lee and Ruthann Padgett, Madisonville-Hopkins County Economic Development Corporation.

Source: <http://www.1millioncups.com/Events/Start.aspx> and <http://hopkins.sites.1millioncups.com/>

Madisonville-Hopkins County Chamber of Commerce works with city and county governments, state and federal officials, area businesses and industry, and others to advocate for projects and initiatives that will encourage economic development in our region.

Mission: The Chamber's mission is to promote business and commerce for the Hopkins County area through leadership in economic, governmental, social and educational development.

In pursuing its mission, the Chamber is an advocate, catalyst and service provider focusing on those issues which affect the area's economic vitality.

The Chamber acts as an advocate by representing the business community, especially regarding local and state legislative issues. As a united voice of the business community, the Chamber resolves problems that are too large for individual citizens and individual businesses to resolve on their own. The Chamber seeks a consensus on key issues, communicates the business community perspective and ultimately influences decisions made by legislators.

The Chamber acts as a catalyst by identifying issues affecting economic growth and focusing resources to address and resolve those issues. It sponsors and supports a variety of efforts and organizations in agreement with the Chamber's mission. The Chamber encourages the involvement of corporate citizens within the community and provides a forum for discussing topics of interest to the business community.

The Chamber acts as a service provider by initiating and managing programs which are responsive to member needs. In addition to managing programs which encourage small business development, the Chamber is a clearinghouse of information.

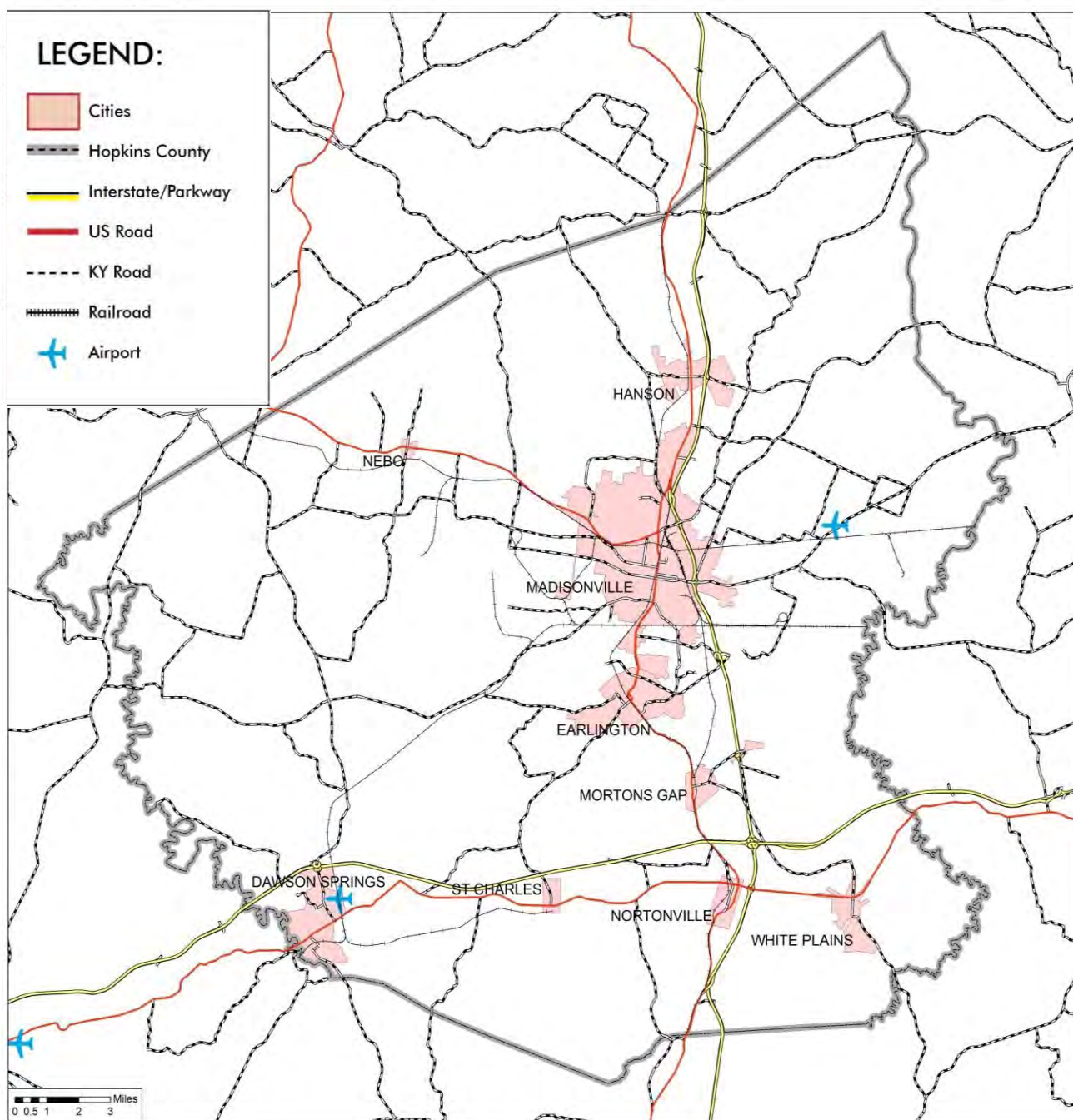
The geographic scope of the Chamber extends throughout Hopkins County. A larger geographic scope of influence and involvement may be required based on a particular issue.

As the area grows and becomes more diverse, coordination and cooperation with other organizations is increasingly important to achieve the Chamber's goals. Therefore, the Chamber seeks to establish coalitions around issues as needed. Routine liaison is sought and maintained with area Chambers of Commerce.

Source: <http://www.madisonville-hopkinschamber.com/>

Hopkins County Tourist & Convention Commission works to promote the counties variety of assets that allow visitors to experience a variety of outdoor recreation activities, including scenic trails, tranquil lakes, rolling grasslands and dense forests. Madisonville offers a variety of delectable dining, a state-of-the-art fine arts theatre and gallery, and a wide selection of comfortable and hospitable accommodations.

Source: <http://visitmadisonvilleky.com/>

*Figure: Economic map*

OTHER STRATEGIES

Kentucky offers a number of progressive incentives for businesses. The following list should be considered as a general summary. Additional information on each business incentive is available.

FINANCIAL INCENTIVES

A company seeking incentives under each of the following seven programs is subject to an application process, internal staff review and approval by the Kentucky Economic Development Finance Authority (KEDFA).

Kentucky Business Investment (KBI) program – An eligible company must be engaged in one of the following activities: 1) manufacturing; 2) agribusiness; 3) regional or national headquarters operations; or 4) certain nonretail service or technology activities. The minimum requirements for an eligible project are as follows: 1) create a minimum of 10 new, full-time jobs for Kentucky residents; 2) incur at least \$100,000 in eligible costs; and 3) meet a minimum level of wages and benefits. The tax incentives involved with this program are available for up to 15 years for enhanced incentive counties or up to 10 years for all other counties. The incentive may be taken as: 1) up to 100 percent credit against the Kentucky income tax imposed on corporate income or limited liability entity tax arising from the project; 2) a wage assessment of up to 5 percent of the gross wages of each employee in enhanced counties or up to 4 percent (including up to 1 percent required local participation) of the gross wages of each employee in other counties. (KRS 154.32-010 to KRS 154.32-100)

Kentucky Reinvestment Act (KRA) – To be eligible, a company must be a permanent Kentucky company engaged in manufacturing. Requirements of the program include: 1) incurring eligible equipment and related costs of at least \$2,500,000; 2) establishing an employment retention base of at least 85 percent of existing employment; 3) not having received incentives under the Kentucky Industrial Revitalization Act (KIRA) within the previous 5 years; and 4) the applicant certifying the project would not be economically feasible without the incentives. Approved costs for recovery include eligible equipment and related costs up to: 50 percent of the eligible equipment and related costs; and 100 percent of the job skills upgrade training costs. The incentive is available for up to 10 years and may be recovered via Kentucky income tax credits of up to 100 percent of tax imposed on the corporate income or limited liability tax generated by or arising from the project. The maximum incentive claimed in any single year may not exceed 20 percent of the authorized incentive. (KRS 154.34-010 to KRS 154.34-120)

Kentucky Enterprise Initiative Act (KEIA) – An eligible company must incur a minimum investment of \$500,000 and is eligible to receive a refund of sales and use tax paid for the following items purchased during the term of the

project and not to exceed the approved recovery amount authorized in the KEIA agreement:

- Building and construction materials
- Research and development equipment
- Electronic processing equipment purchases totaling a minimum of \$50,000

The term of the agreement is negotiated with KEDFA and may be extended by approval of KEDFA for good cause shown. However, the term shall not be extended beyond seven (7) years from the date of original approval. The maximum sales and use tax refund incentive available for commitment by KEDFA in each fiscal year for all projects is limited to \$20,000,000 for building and construction materials and \$5,000,000 for equipment used for research and development or electronic processing. (KRS 154.31-010 to 154.31-030)

Kentucky Environmental Stewardship Act (KESA) – To be eligible, the company must manufacture an environmental stewardship product, which is defined as any new or improved product that has a reduced adverse effect on human health and the environment or provides for improvement to human health or the environment when compared with existing products that serve the same purpose. The minimum requirements for an eligible project are: 1) incur at least \$5 million of qualified eligible costs; and 2) meet a minimum level of wages and benefits. Approved costs for recovery include: 1) up to 100 percent of the costs of providing the necessary skills training needed to produce the product; and 2) up to 25 percent of the equipment costs. The costs incurred must go towards the construction, rehabilitation or improvement of facilities necessary to produce the environmental stewardship product. The incentive is available for up to 10 years and may be recovered via Kentucky income tax credits of up to 100 percent of tax imposed on the corporate income or limited liability tax generated by or arising from the project. The maximum incentive claimed in any single year may not exceed 25 percent of the total authorized inducement. Also, an approved company under this program is not entitled to claim a recycling tax credit. (KRS 154.48-010 to 154.48-035)

Kentucky Industrial Revitalization Act (KIRA) – An eligible company must invest in the rehabilitation of either: 1) manufacturing or agribusiness operations that are in imminent danger of permanently closing or that have closed temporarily; or 2) coal mining and processing facilities that have closed, been temporarily suspended, or severely reduced. Eligible entities include manufacturing or agribusiness companies that retain or create 25 jobs and coal mining and processing companies that intend to employ a minimum of 500 persons and intend on having a raw production of at least three million tons from the economic revitalization project facility. Approved costs for recovery include up to 75 percent of the costs of the rehabilitation or construction of buildings and updated machinery and equipment.

The incentive is available for up to 10 years and may be taken as: 1) up to 100 percent credit against the Kentucky income tax imposed on corporate

income or limited liability entity tax arising from the project; 2) a wage assessment of up to 5 percent of the gross wages of each employee whose job is preserved or created by the approved project. (KRS 154.26-010 to 154.26-120)

Incentives for Energy Independence Act (IEIA) – To be eligible, a company must construct, retrofit, or upgrade a facility to: 1) increase the production and sale of alternative transportation fuels; 2) increase the production and sale of synthetic natural gas, chemicals, chemical feed stocks, or liquid fuels from coal, biomass resources, or waste coal through a gasification process; 3) increase the production and sale of energy-efficient alternative fuels; or 4) generate electricity for sale through alternative methods such as solar power, wind power, biomass resources, landfill methane gas, hydropower, or other renewable resources. For an alternative fuel facility or gasification facility using coal, oil shale or tar sands as the primary feedstock to qualify, it must be carbon capture ready and have a minimum capital investment of \$100,000,000. An alternative fuel facility using natural gas or gas liquids as the primary feedstock to qualify must have a minimum capital investment of \$1,000,000. For an alternative fuel facility or gasification facility using biomass resources as the primary feedstock to qualify, it must be carbon capture ready and have a minimum capital investment of \$25,000,000. The minimum capital investment for an energy-efficient alternative fuel facility that produces a homogeneous fuel from a process designed to densify coal, waste coal or biomass resources is \$25,000,000. Renewable energy facilities that meet the minimum electrical output requirement of at least one megawatt of power for wind, hydro, biomass, landfill methane, or generation of 50 kilowatts for solar, also qualify. The minimum capital investment for these projects is \$1,000,000.

Approved costs for recovery include up to 50 percent of the capital investment. KEDFA will negotiate the amount of incentives and the types of incentives that will be made available to an approved company. The incentives are available for up to 25 years and include: 1) sales and use tax refunds up to 100 percent of tax paid on tangible personal property to construct, retrofit or upgrade a facility; 2) severance tax incentives up to 80 percent of taxes paid on the purchase or severance of coal; 3) tax credits up to 100 percent of tax paid on corporate income or limited liability entity tax arising from the project; and 4) wage assessments up to four percent of gross wages of each employee.

Additionally, advanced disbursement of post construction incentives using a formula based on the percentage of labor component in construction and the utilization of Kentucky residents in the construction phase may be available. Advance disbursements repayments may be based upon incentives earned in the future. (KRS 154.27-010 to 154.27-090)

Kentucky Small Business Investment Credit – An eligible small business is any business organized for profit with 50 or fewer full-time employees that is not an affiliate or subsidiary of a larger corporate structure, unless the

total number of all employees in the larger structure is less than 50. A small business that meets the following requirements may be eligible for an income tax credit during the year of approval by KEDFA, not to exceed \$25,000: 1) create at least one new, full-time job that must be in place for 12 months and pay no less than 150 percent of the federal minimum wage; and 2) expend at least \$5,000 on qualifying equipment or technology. An eligible company may not apply until one year after both of the minimum requirements are achieved. The maximum credit available for commitment by KEDFA in each fiscal year for all projects is limited to \$3,000,000. (KRS 154.60- 010 to 154.60-030)

INCOME TAX CREDITS

Unemployment Tax Credit – An Unemployment Tax Credit of \$100 dollars is allowed for each eligible person hired for at least 180 consecutive days. To qualify for the credit, the company must hire a worker who has been unemployed for at least 60 days. Credits cannot be claimed for close relatives, dependents, a person with 50 percent or more ownership in a corporation or persons for whom the company receives federal payments for on-the-job training. (KRS 141.065)

Recycling Equipment Credit – Income tax credits are allowed for up to 50 percent of the installed costs of equipment used exclusively to recycle or compost postconsumer waste (*excluding secondary and demolition wastes*) and for machinery used exclusively to manufacture products composed substantially of postconsumer waste materials. For the year the equipment is purchased, the credit is limited to 10 percent of total credit allowed and 25 percent of the taxpayer's state income tax liability. The unused portion of the total allowable recycling credits can be carried forward to succeeding tax years, with the credit claimed during any tax year limited to 25 percent of the taxpayer's state income tax liability. For equipment sold, transferred or otherwise disposed of, there is a formula for calculating an allowable tax credit for equipment with a useful life of five or more years or for equipment with a useful life of five or less years. For equipment with a useful life of five or more years the formula is as follows: 1) Less than one year, no credit; 2) Between one and two years, 20 percent of the allowable credit; 3) Between two and three years, 40 percent of the allowable credit; 4) Between three and four years, 60 percent of the allowable credit; 5) Between four and five years, 80 percent of the allowable credit; and 6) Over five years is 100 percent of the allowable credit. For equipment with a useful life of less than five years the formula is as follows: 1) Less than one year, no credit; 2) Between one and two years, 33 percent of the allowable credit; 3) Between two and three years, 66 percent of the allowable credit; and 4) Over three years is 100 percent of the allowable credit. (KRS 141.390 and 141.0205)

Corporate Income Tax Credit for Use of Kentucky Coal – A corporation income tax credit is allowed for up to four and a half percent of the value of Kentucky coal (*excluding transportation costs*) used for industrial heating or processing. The credit is allowed for 10 years following either the installation or conversion to coal burning units. The credit in any year cannot

exceed the corporation's income tax liability minus other credits. Unused credits cannot be carried forward. (KRS 141.041)

Biodiesel Fuel Tax Credit – A state income tax credit is allowed for producers or blenders of “biodiesel” fuel or “blended biodiesel” fuel with a blend of at least two percent. “Biodiesel” or “blended biodiesel” producers receive a \$1 credit per gallon produced or blended. Unused credits cannot be carried forward. (KRS 141.423)

Kentucky Clean Coal Incentive – The “Kentucky Clean Coal Incentive Act” provides for an income, or public service corporation property tax credit for new clean coal facilities constructed at a cost exceeding \$150 million and used for purposes of generating electricity. Before the credit is given, the Environmental and Public Protection Cabinet must certify that a facility is reducing emissions of pollutants released during electric generation through the use of clean coal equipment and technologies. The amount of credit will be \$2 per ton of coal mined in Kentucky and used in the facility and not already receiving tax credit. Any unused portions of this credit shall not be carried forward. (KRS 141.428)

Certified Historic Structures Income Tax Credit – A “Certified Historic Structures” tax credit on income, or franchise tax for financial institutions, is available for the rehabilitation of a certified historic structure. The credit is 30 percent of the qualifying expenses for an owner-occupied property and 20 percent for all other properties. There is a seven year carry forward for any unused credit. The maximum credit an owner-occupied property owner may take is \$60,000. (Creates a new section of KRS 151)

Voluntary Environmental Remediation Property Income Tax Credit – An income tax credit of up to \$150,000 per taxpayer shall be granted for expenditures to remediate contamination on qualifying voluntary environmental remediation property. The amount of the allowable credit for any tax year is limited to 25 percent of the maximum credit approved. The credit may be carried forward for up to 10 years. (KRS 132.020(1)(c); 132.200(21); 141.418; 224.01-400; and 224.01-405)

Major Recycling Project Tax Credit – A “Major Recycling Project” is one where the taxpayer: 1) Invests more than \$10,000,000 in recycling or composting equipment; 2) Has 750 or more full-time employees and pays more than 300 percent of the federal minimum wage; and 3) Has plant and equipment with a total cost of over \$500,000,000. A taxpayer with a “major recycling project” is entitled to an income tax credit for up to 10 years and up to 50 percent of the installed costs of the equipment. In each taxable year, the amount of credits claimed for all major recycling projects is limited to 1) 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer; or 2) \$2,500,000, whichever is less. A taxpayer with one or more projects will be entitled to a tax credit equal to the total for each major recycling project, but he may not take the standard recycling credit and the major project credit on the same equipment. (KRS 141.390)

G.E.D. State Income Tax Credit – A state income tax credit is provided an employer for the portion of the time given to an employee to study for the General Educational Development (G.E.D.) test. The credit is calculated by multiplying 50 percent of the hours released for study by the employee's (student's) hourly salary. The credit shall not exceed \$1,250. (KRS 151B.127)

Insurance Coverage Affordability and Relief to Small Employers (ICARE) – The plan known as the Insurance Coverage Affordability and Relief to Small Employers (ICARE) Program establishes a consumer-driven health plan for small businesses. It is a four year pilot program that allows employers and small employer-organized association groups that will insure 2 – 25 employees or individuals to be eligible to participate. To qualify for the program the employer must do the following: 1) Pay wages that must be less than 300 percent of the federal poverty level wages and 2) pay at least 50 percent of the premium cost. The incentive will be \$40 per month per covered employee or \$60 per month per employee depending on the type of coverage the employee has. These incentives will be reduced by one fourth of the amount each year at renewal until the incentive zeros out at the end of four years.

Broadband Loan/Grant Program – The program is administered by the Kentucky Infrastructure Authority with input from Connect Kentucky, the area development districts, and other interested businesses and government entities. Public or private providers can apply for funding for broadband applications to cover areas currently unserved by a broadband provider.

Order of Use of Credits – State statutes (KRS 141.0205) specify the order in which Kentucky income tax credits must be taken when a taxpayer is entitled to more than one (1) business incentive tax credit for a tax year:

Individual Income Tax Nonrefundable Credit Order:

1. Credit for individual members of flow through entities for tax paid at corporate level.
2. Economic development credits for KIDA, KREDA, KJDA, KIRA, KEOZ, KRA, KBI, KJRA, IEIA or Skills Training (See discussion of Bluegrass State Skills Corporation);
3. Certified rehabilitation credit;
4. Health insurance credit;
5. Credit for tax paid to other states;
6. Credits for hiring unemployed persons;
7. Recycling or composting equipment credit;
8. Kentucky Investment Fund Act (KIFA) credit;
9. Coal incentive credit;
10. Research facilities credit;
11. Employer GED incentive credit;
12. Voluntary environmental remediation credit;
13. Biodiesel credit;
14. Environmental stewardship credit; and

15. Clean coal incentive credit.

Corporation Income Tax Nonrefundable Credit Order:

1. Economic development credits for KIDA, KREDA, KJDA, KIRA, KEOZ, KRA, KBI,
2. KJRA, IEIA or Skills Training
3. (See discussion of Bluegrass State Skills Corporation);
4. Certified rehabilitation credit;
5. Health insurance credit;
6. Credit for hiring unemployed persons;
7. Recycling equipment credit;
8. Coal conversion credit;
9. Kentucky Investment Fund Act (KIFA) credit;
10. Coal incentive credit;
11. Research facilities credit;
12. Employer GED incentive credit;
13. Voluntary environmental remediation credit;
14. Biodiesel credit;
15. Environmental stewardship credit; and
16. Clean coal incentive credit.

DIRECT LOAN PROGRAM

Kentucky Economic Development Finance Authority (KEDFA) – KEDFA encourages economic development, business expansion, and job creation by providing business loans to supplement other financing. KEDFA provides loan funds at below market interest rates. The loans are available for fixed asset financing (land, buildings, and equipment) for business startup, locations, and expansions that create new jobs in Kentucky or have a significant impact on the economic growth of a community. The loans must be used to finance projects in agribusiness, tourism, industrial ventures, or the service industry. No retail projects are eligible.

KEDFA may participate in the financing of qualified projects with a secured loan based on a percent of a project's fixed asset cost. The maximum loan amount is \$500,000 and the minimum is \$25,000. Small businesses with projects of less than \$200,000 may receive loans on fixed assets for up to 50 percent of the project costs if enough jobs are created. Interest rates are fixed for the life of the loan and are determined by the length of the loan term. Rates range from one to five percent depending upon the term and are amortized monthly, quarterly, or semi- annually. Project owners must inject a minimum of 10 percent towards the fixed assets. KEDFA loan funds are disbursed at the completion of the project, so the business must obtain interim financing. The KEDFA loan commitment can assist in securing the interim financing. (KRS 154.20-010 to 154.20-180)

Small Business Direct Loans – The Small Business Loan Program is designed to help small businesses acquire funding needed to start or grow their small business. A small business must be engaged in manufacturing,

agribusiness, or service and technology. Loan funds may be used to acquire land and buildings, purchase and install equipment, or for working capital. The minimum loan amount is \$15,000 and the maximum is \$100,000. The approved company must create one new full-time job within one year of the loan closing. KEDFA may fund up to 100 percent of the project costs and the loan may be used in conjunction with other lenders. The term of the loan may range from three to 10 years. (KRS 154.12-325 and 154.12-330)

Community Development Block Grant (CDBG) Loans – Businesses in Kentucky can obtain low-interest loans through the federally funded CDBG system. Cities and counties lend the grant funds to businesses for the creation or retention of jobs. Terms of the loans are based upon the financial analysis of the borrower. Interest rates usually are below the market rate and usually are fixed for the life of the loans. Security for CDBG loans can be subordinate to that of other lenders.

Federal regulations require that at least 51 percent of those hired for projects that use CDBG loans be low and moderate-income individuals. The use of federal funds for construction activities will trigger payment of prevailing wages under the provisions of the Davis-Bacon Act, and borrowers must comply with federal procurement and environmental review requirements.

Linked Deposit Program – The linked deposit program provides loans up to \$100,000 for small businesses and agribusinesses. Credit decisions are the responsibility of the lender making the loan. The state will purchase certificates of deposit from participating lenders through the State Investment Commission, at the Wall Street Journal prime interest rate less four percent, but never less than two percent. Lenders will make loans to eligible companies at a rate equal to Wall Street Journal prime and never greater than five percent. Loan terms are for up to seven years. Loans will be reviewed by the Kentucky Agriculture Finance Corporation (for agribusiness loans) and the Cabinet for Economic Development (for small business loans) to assure loans comply with the statute.

Local Financial Assistance – Several local governments and area development districts offer loans and other financial incentives for economic development projects. The levels and terms of financial assistance provided generally are negotiable and are based upon the availability of funds, jobs created, economic viability of the project, and other locally determined criteria.

KNOWLEDGE-BASED ECONOMY

High-Tech Construction and Investment Pool – The Department of Commercialization and Innovation in the Cabinet for Economic Development administers two pools of funds:

The High-Tech Construction Pool is used for projects with special emphasis on the creation of high-tech jobs and knowledge-based

companies. The commissioner recommends funding of companies to KEDFA for approval; and

The High-Tech Investment Pool is used to build and promote technology-driven industries and research-intensive industries with the goal of creating clusters of innovation-driven industries in Kentucky. The commissioner recommends funds to be used to support loans and grants, or secure an equity or related position to KEDFA for approval. (KRS 154.12- 278)

Kentucky Innovation and Commercialization Centers – The Kentucky Innovation and Commercialization Centers (ICCs) are public-private partnerships dedicated to creating and growing high-growth, knowledge driven companies that are primarily seeking private investments through angels and venture capitalists. Six regional ICCs and seven local Innovation Centers (ICs) comprise the main network, which is administered by the Kentucky Science and Technology Corporation under contract with the Department of Commercialization and Innovation in the Cabinet for Economic Development. See www.startupkentucky.com to locate the offices serving each region.

The ICC and IC network is the statewide infrastructure that provides business-building talent and related services to Kentucky's entrepreneurs, faculty and scientists using a best practices model. The centers also link scientists and entrepreneurs with the innovation-related funding tools created under the Kentucky Innovation Act.

Commonwealth Seed Capital LLC – Commonwealth Seed Capital, LLC, (CSC) is an independent fund that makes debt or equity investments in early-stage Kentucky business entities to facilitate the commercialization of innovative ideas and technologies.

Investments are typically made in these specified innovation areas: health and human development; information technology and communications; bioscience; environmental and energy technologies; and materials science and advanced manufacturing.

CSC invests in companies that have a significant Kentucky presence, the prospect for substantial growth, and the potential to generate an appropriate rate of return.

Small Business Innovation Research Incentive Program – The Department of Commercialization and Innovation, through a competitive process, matches Phase I and Phase II federal SBIR and STTR awards received by Kentucky businesses. Awards of up to \$150,000 support Phase I exploration of the technical merit or feasibility of an idea or technology, and awards of up to \$500,000 support Phase 2 full-scale research and development.

Statewide Student Business Plan / Concept Competition – The annual "Idea State U" student business plan and business concept program/contest supports entrepreneurship and the development of new ventures by teams of

graduate and undergraduate students at the state's public universities. Participating teams compete for up to \$100,000 in combined prizes and awards. <http://www.ideastateu.com/>

Kentucky New Energy Ventures Fund – The Kentucky New Energy Ventures Fund (KNEV) provides seed stage capital to support the development and commercialization of alternative fuel and renewable energy products, processes, and services in Kentucky. The funds exist to stimulate private investment in Kentucky-based technology companies with high growth potential.

KNEV makes grants up to \$30,000 and investments ranging from \$250,000 to \$750,000+. Qualified companies must be Kentucky-based and funds are to be used for business development activities (KRS 154.20.400-420). For more information and funding guidelines, please visit www.startupkentucky.com.

The Kentucky Science and Technology Corporation administers these funds under contract to the Department of Commercialization and Innovation in the Cabinet for Economic Development.

Research Facilities State Income Tax Credit – A state income tax credit is provided for investment in facilities used to pursue research. The income tax credit is equal to five percent of the qualified cost for "construction of research facilities" for "qualified research" as defined in Internal Revenue Code Section 41. The credit is available to new and existing businesses that construct, remodel, expand, or equip research facilities, but does not include replacement property. Any unused credit may be carried forward for 10 years. (KRS Chapter 141.395)

Kentucky Enterprise Fund and Rural Innovation Fund – The Kentucky Enterprise Fund and the Rural Innovation Fund provide seed-stage capital to Kentucky-based companies that are commercializing a technology-based product or process. The funds exist to stimulate private investment in Kentucky-based technology companies with high growth potential.

- The *Kentucky Enterprise Fund* makes grants up to \$30,000 and investments up to \$750,000 in small and medium-sized Kentucky-based companies for business development activities. Please visit www.startupkentucky.com for details. (KRS 164.6019 and 164.6021)
- The *Rural Innovation Fund* makes grants up to \$30,000 and investments up to \$100,000 in small, rural (located outside of Fayette and Jefferson Counties), Kentucky-based companies working in partnership with a Kentucky postsecondary institution or unaffiliated third party. (KRS 164.6027 and 164.6029). Please visit www.startupkentucky.com for details.

The Council on Postsecondary Education (CPE) plays a major role in commercializing research and development work and in supporting innovation and commercialization through both the Kentucky Enterprise Fund and the Rural Innovation Fund. The Kentucky Science and Technology Corporation administers these funds under contract with CPE. For more information and funding guidelines, please visit www.startupkentucky.com.

Kentucky Science and Engineering Foundation and Kentucky Commercialization Fund – Small businesses having their principal business located in Kentucky are eligible to apply for R&D Excellence Program awards under the “emerging technologies” category, with awards ranging from \$20,000 to \$50,000 per year (maximum \$100,000 over two years). The R&D Excellence Program makes proactive investments in existing and emerging areas of research leading to innovation and technology development in five state-identified focus areas through a peer-review system. Emerging technologies are the subject of research and development activities, which are conducted to help the company further define and develop a new product or process technology. (KRS 154.12-320)

The foundation also administers the SBIR/STTR Phase Zero and Phase Double Zero Grant Program. This is a seed grant program to assist Kentucky’s small companies in developing competitive, high quality Phase 1 and Phase 2 proposals to any of the federal agencies participating in the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. Companies are eligible to apply for up to \$4,000 to assist the preparation of a federal proposal. The goal of the Phase Zero and Phase Double Zero program is to increase the number of winning proposals funded for Kentucky companies. Each year the foundation offers SBIR conferences with panels from participating federal agencies and workshops on SBIR/STTR proposal writing for interested companies.

The foundation also administers the Kentucky Commercialization Fund Program. Seed funds are provided to faculty members of Kentucky’s universities for commercializing products, processes, or services through work undertaken at a Kentucky university. Awards may not exceed \$75,000 each year, for a maximum of \$150,000 over two years. (KRS 164.6035 and 164.6037)

The foundation is administered by the Kentucky Science and Technology Corporation under a contract with the Council on Postsecondary Education. For more information and funding guidelines, please visit <http://ksef.kstc.com>.

KENTUCKY INVESTMENT FUND ACT

KIFA offers a 40 percent tax credit to certain personal and corporate investors in approved investment funds. The purpose of KIFA is to encourage capital investment in Kentucky, to encourage the establishment of small businesses in Kentucky, to provide additional jobs, and to encourage

the development of new products and technologies in Kentucky through capital investments.

To be eligible for the program, an investment fund must meet the following requirements: 1) be managed by a fund manager (person or entity); and 2) have a minimum of \$500,000 in committed cash contributions from at least four unaffiliated investors with no investor having more than a 40 percent capital interest in the fund's total capitalization.

Qualified investments eligible for this tax credit are investments in Kentucky-based small businesses that meet the following criteria at the time an investment is made: 1) 50 percent of the company's assets, operations and employees are located in Kentucky; 2) the company's net worth is less than \$5 million (or \$10 million, if it is a knowledge-based business) or its net income in each of the prior two years is less than \$3 million; and 3) the company has no more than 100 employees. Any investment not in a qualified small business may be made by a fund, but shall not be eligible for the tax credits. Nonprofit entities may transfer tax credits for some or no consideration. (KRS 154.20-250 to 154.20-284)

ECONOMIC DEVELOPMENT GRANT PROGRAMS

Local Government Economic Development Fund (LGEDF) - Single and Multi-County Coal Severance Funds

The program is funded through an allocation of coal severance tax receipts. Grants are provided to eligible coal producing counties to assist in diversifying local economies beyond a dependence on coal. Funds may be used to support nonrecurring investments in public health and safety, economic development, public infrastructure, information technology development and access, and public water and wastewater development. The availability of funds is dependent on the level of the tax receipts remaining after the obligations of these funds by budget line-item appropriations are met. For additional information, please visit: <http://dlg.ky.gov/grants/stategrants/coaldevelopment.htm>

KENTUCKY'S TAX ADVANTAGES

Corporation Taxation

- Net operating losses can be carried forward for up to 20 years. (KRS 141.010 and 141.011)
- A multi-state corporation sustaining a tax loss only at its Kentucky facility during its first year of operation can carry the loss forward as a deduction from its second year Kentucky taxable income, provided separate accounting can be used for the Kentucky activity. (KRS 141.012)
- The top corporation income tax rate is six percent beginning January 1, 2007

- The corporation license tax was eliminated for taxable years ending on or after December 31, 2005.

City Occupational/Net Profits Tax

- Cities can exempt new manufacturing facilities from city occupational (income) taxes for up to five years. (KRS 91.260 and 92.300)
- Counties having a population of 30,000 or more and cities of all classes are prohibited from collecting license fees or occupational taxes on investment partnerships if that investment would not be taxable if individually held. (KRS 68.180, 68.197, 91.200 and 92.281)

Property Taxes

- Exemption of manufacturing machinery from all local property taxes. The state rate is only 15 cents per \$100 of assessed value. (KRS 132.020 and 132.200)
- Exemption of certified pollution control facilities and equipment from all local property taxes. The state rate is only 15 cents per \$100 of assessed value. (KRS 132.020; 132.200 and 224.01-300)
- A brownfield incentives program provides a state property tax rate of \$0.015 per \$100 value assessed on all qualifying voluntary environmental remediation property provided the purchaser has obtained a covenant not to sue from the Environmental and Public Protection Cabinet. The rate shall apply for three years following the issuance of the covenant not to sue; after which the regular rate will apply. The local property taxes are exempt for the three-year period. (New Chapter of KRS 132)
- Exemption of raw materials and products in the course of manufacture from all local property taxes. The state rate on these inventories is only five cents per \$100 of assessed value. (KRS 132.020 and 132.200)
- Exemption of tangible personal property located in a federally designated and activated foreign trade zone (or sub-zone) from all local property taxes. The state rate is only one- tenth of one cent per \$100 of assessed value. (KRS 132.020 and 132.200)
- Exemption of intangible property (money in hand, notes, bonds, accounts receivable, mortgage receivables, intercompany intangible personal property due from affiliates, patents, copyrights, trademarks and other credits) from state and local taxation, except for financial institutions and life insurance companies. (KRS 132.208)
- Favorable tax treatment for finished goods inventories. The state rate on these inventories is only five cents per \$100 of assessed value. Cities, counties, and urban- county governments may levy rates on these business inventories that are less than the prevailing rate of taxation on other tangible personal property in their respective jurisdictions. (KRS 132.020; 68.246; and 132.028)
- Favorable tax treatment for finished goods in a transit status may occur if the goods are located in a warehouse or distribution center

pending subsequent shipment out-of-state. These goods shall be exempt from state, city, county (general levy), urban county, and school district property taxation. Fire and special taxing districts may exempt these goods at their discretion. (KRS 132.020; 132.095)

- Private leasehold interest, in industrial buildings owned and financed by a governmental unit through industrial revenue bonds approved by KEDFA under the provisions of KRS Chapter 103, are taxed by the state at \$0.015 per \$100 of leasehold value and are exempt from local property taxes. (KRS 132.020; 132.195 and 132.200)
- Cities may exempt the property of a new manufacturing facility from city taxes for up to five years. (KRS 91.260 and 92.300)
- Exemption of machinery and equipment owned by a business and used to collect, separate, compress, bale, shred, or handle waste materials for recycling from all local property taxes. The state rate is \$0.45 per \$100 of assessed value. (KRS 132.020; 132.200(16); and 139.095)
- State laws limit the increase in local property tax revenues from real estate, exclusive of new property, to four percent annually for each local taxing jurisdiction (county, city, and school district). Increases larger than four percent must be approved by voters. (KRS 132.023 and 132.027)
- State laws limit the increase in state property tax revenues from real estate, exclusive of new property, property approved for tax increment financing and KRS Chapter 103 industrial revenue bond property receiving the reduced state rate of \$0.15 per \$100 of leasehold value, to four percent annually. (KRS 132.020)
- Cities and counties may grant a five year moratorium from increases in property assessment values on business commercial facilities 25 years old or older and undergoing rehabilitation. (KRS 99.600 and 132.452)
- Assessment of property for taxation is made only once annually on January 1, allowing businesses to plan purchases or assets and levels of inventories to their best tax advantages. (KRS 132.220)
- State property tax rate of \$0.015 per \$100 of value is used for aircraft not used in the business of transporting persons or property for compensation or hire. Local taxing districts may exempt or adopt tax rates lower than other tangible property for above classification of aircraft. (KRS 132.020; 132.200)

State Sales and Use Tax

Major exemptions for businesses include (state taxes only):

- Items purchased for resale. (KRS 139.260)
- Machinery for new and expanded industry (manufacturing, extraction of minerals, ores, coal, clay, stone, and natural gas). Replacement machinery for manufacturing is exempt when it increases consumption of recycled materials not less than 10 percent, performs a different function, manufactures a different product, or has a

greater productive capacity. Repair parts, replacement parts, and spare parts are taxable. (KRS 139.480; 139.170; and 103 KAR 30:120)

- Raw materials which enter into and become a part of the manufactured product. (KRS 139.470)
- Supplies used directly in manufacturing which have a useful life of less than one year (lubricating and compounding oils, grease, machine waste, abrasives, chemicals, solvents, fluxes, anodes, filtering materials, fire brick, catalysts, dyes, refrigerants, explosives, etc.), excluding repair, replacement, or spare parts of any kind. (KRS 139.470)
- Industrial tools that have a useful life of less than one year, limited to hand tools (such as jigs, dies, drills, cutters, rolls, reamers, chucks, saws, spray guns, etc.) and tools attached to a machine (such as molds, grinding balls, grinding wheels, dies, bits, cutting blades, etc.), excluding repair, replacement, or spare parts of any kind. (KRS 139.470)
- Materials and supplies that are not reusable after one manufacturing cycle, excluding repair, replacement, or spare parts of any kind. (KRS 139.470)
- Energy and energy-producing fuels used in manufacturing, industrial processing, mining, or refining to the extent that they exceed three percent of the cost of production. "Cost of production" is the total of all costs as defined according to accepted accounting principles and includes direct and indirect materials and labor, overhead expenses, depreciation on plant equipment and plant buildings, insurance and taxes on plant equipment, compensation insurance, rent on plant buildings, miscellaneous factory expenses, and office and administrative expenses allocated to the cost of production. (KRS 139.480 and 103 KAR 30:140)
- Pollution control equipment and facilities approved by the Kentucky Department of Revenue. Included is equipment for air pollution control, water pollution control, disposal or reclaiming of solid or hazardous wastes, sound emission control, and pretreatment of raw materials for environmental protection. (KRS 139.480 and 224.01-300)
- Refund for approved manufacturing, technology and tourism projects on building construction materials, building fixtures and research and development (R&D) equipment. See section on Kentucky Enterprise Initiative Act. (KRS 154.31)

MISCELLANEOUS BUSINESS INCENTIVES

Utility Incentive Rates – Electric and gas utility companies regulated by the Kentucky Public Service Commission (excluding municipal systems) can offer economic incentive rates for certain large industrial and commercial customers. The special discount rates can be granted for up to five years for both new and expanding operations. Gas utility companies also can offer a discount or waiver of gas main extension costs. The specific discount terms are set by contracts negotiated with the utility companies, subject to approval by the Public Service Commission.

Coal Incentive Tax Credit – An electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit. Only coal that is subject to Kentucky's coal severance tax qualifies for the credit. The credit is equal to \$2 per ton of Kentucky coal purchased by the company that is above the amount of Kentucky coal purchased during the base year. The base year amount is the amount of coal purchased in 1999 for existing companies. For new entities, the base year amount will be zero. The nonrefundable credit may be taken against corporation income tax, individual income tax, corporation license tax and public service company property tax. (KRS 141.0405)

Kentucky Information Highway (KIH) – Companies approved for economic development incentives administered by KEDFA may receive access and use of the Kentucky Information Highway on the same terms as state agencies. (KRS 45A.605)

Kentucky Captive Insurer Law (KRS 304.49-010 to 304.49-230) – Permits companies to establish wholly-owned insurance subsidiaries to insure some or all of their own risks. As part of an overall risk-management program, a Captive offers a multitude of potential advantages over the commercial insurance market.

The information provided herein by the Division of Research and Site Evaluation -- Kentucky Cabinet for Economic Development is for informational purposes only.