
Tax Increment Financing Development Plan

For The

Red Mile Development Area

**Lexington-Fayette Urban County Government
January 2010**

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1. Introduction.

1.1. Purpose. The Lexington-Fayette Urban County Government ("LFUCG" or "Lexington") intends to establish the Red Mile Development Area (the "Development Area") pursuant to the provisions of KRS 65.7041 to 65.7083, and KRS 154.30-010 to 154.30-090, as the same may be amended (collectively, the "Act"), and to request funding from the Commonwealth of Kentucky (the "State") to support a mixed-use private development (the "Project") within the Development Area, being undertaken by The Lexington Trots Breeders Association, LLC (the "Developer"). The LFUCG proposes to support the Project and provide redevelopment assistance through a pledge of certain new LFUCG and State incremental tax revenues generated from the Project within the Development Area and to undertake certain public infrastructure improvements needed within the Development Area.

The Project proposed by the Developer or its affiliate includes trackside housing, stand-alone apartments, stand-alone retail, mixed-use office/retail, mixed-use residential/retail, and a hotel and entertainment center.

The Project will also include a remodeled grandstand, new entertainment area, three parking structures and a greenway trail and town green park. In order to help ensure the success and support of the Project and encourage other investment in and related to the Development Area, and to encourage and support development within the

territorial limits of Lexington, certain public improvements are needed within the Development Area.

1.2. Size and Location. The Red Mile Race Track in Lexington, Kentucky, a 132-acre horse racing development, opened its doors on September 28, 1875 - the inaugural opening day of the Great Fall Trots at the Red Mile. The Red Mile is known widely for its fast, red clay, one-mile track. As it stands today, the Red Mile is the second oldest harness racing track in the world.

The Red Mile is located on Red Mile Road between two of Lexington's major roadways, South Broadway and Versailles Road. The Red Mile is positioned approximately 1.5 miles Southwest of Downtown Lexington and only about a half mile from the heart of the University of Kentucky's main campus. The Red Mile is a vast plot of land in a unique urban environment, surrounded by blossoming redevelopment opportunities on nearly all sides. Much of the surrounding land is medium-high density residential and some professional office space, as well as industrial/warehouse uses. The Development Area is described more particularly herein and in the site plan and legal description attached as Exhibit "A."

1.3. Current Uses. The Red Mile property as it sits today has been primarily zoned for agricultural use (A-U), a zone that seems to correlate to a horse racing track, but can also be seen as out of context for the urban environment the Red Mile Track is within. As a result, the property was rezoned to Mixed Use Community (MU-3) on January 14, 2010. The Red Mile property is bordered by 6 different zones, including Residential (R-2, R-3, R-4), Business (B-3, B-4) and Office (P-1). The residential zones range from duplex residential development (R-2) to high density

apartment buildings (R-4). The business zones range from Highway Service Business (B-3) to Wholesale and Warehouse Business (B-4). These zones are illustrative of a development pattern taking place in the area surrounding the Red Mile.

The Red Mile Race Track itself includes many interesting site features that passersby may not be able to appreciate without first hand experience. Illustrated in photographs and on the included map are the key site features at the Red Mile. The most well known feature of the grounds, due to its visual impact, is the Standardbred Stable of Memories located near Red Mile Road and visible from the South Broadway and Red Mile Road intersection. The Stable of Memories is one of many culturally rich pieces on site where numerous community functions still take place. Other notable features are the Clubhouse, a 2-story colonial brick building that houses restaurants and track viewing areas as well as banquet space. The Tattersalls Stables, a "world-renowned" horse sale pavilion/arena, is also a part of the Red Mile property and is envisioned to be a major factor in the future operations post development. Of course, the Red Mile is most well known for its track and training facilities that owners and trainers travel from far and wide to utilize with their horses. The Race Track itself, the Stable of Memories and the Tattersalls Stables will remain as is, and they are located on the portion of the Red Mile property that is not included in the Development Area. However, their rich historic fabric will be woven into the redevelopment plans in order to build on the Red Mile's past successes.

2. The Development Area

2.1. Assurances Regarding the Size and Taxable Assessed Value of the Development Area and Other Matters. The LFUCG finds in accordance with the Act that:

(a) The Development Area is a contiguous area consisting of 79.89 acres, more or less, which is less than three square miles in area;

(b) The establishment of the Development Area will not cause the assessed taxable value of real property within the Development Area and within all "development areas" and "local development areas" established by the LFUCG (as those terms are defined in the Act) to exceed twenty percent (20%) of the total assessed taxable value of real property within Lexington. The assessed value of taxable real property within the Development Area for calendar year 2009 was \$5,332,000. The LFUCG has previously established three other development areas pursuant to the Act, the Phoenix Park/Courthouse Development Area, the Lexington Distillery District Development Plan, and the Showprop Lexington Development Area. The combined real property assessed valuation for those three development areas is \$19,373,200 and when combined with the real property assessed value for the proposed Development Area, the total real property assessed value for all development areas established by the LFUCG will be approximately \$24,705,200. The total assessed value of taxable real property within Lexington for the calendar year 2009 is approximately \$22 Billion. Therefore, the assessed value of taxable real property within

all development areas is significantly less than twenty percent (20%) of the assessed value of taxable real property within Lexington; and

(c) That the Development Area constitutes previously developed land as required by KRS 65.7043.

2.2. Statement of Conditions and Findings Regarding the

Development Area. Pursuant to KRS 65.7049(3), a development area shall exhibit at least three of the following conditions to qualify for designation as a "development area" under the Act and to qualify for a pledge of State incremental revenues pursuant to KRS 154-30.060:

- (a) Substantial loss of residential, commercial, or industrial activity or use;
- (b) Forty percent (40%) or more of the households are low-income households;
- (c) More than fifty percent (50%) of residential, commercial, or industrial structures are deteriorating or deteriorated;
- (d) Substantial abandonment of residential, commercial, or industrial structures;
- (e) Substantial presence of environmentally contaminated land;
- (f) Inadequate public improvements or substantial deterioration in public infrastructure; or

(g) 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.

The LFUCG has reviewed and analyzed the conditions within the Development Area and finds that the Development Area exhibits four of the qualifying characteristics:

(1) A substantial loss of commercial activity has occurred.

On site, the Red Mile Race Track, like most of the horse racing industry, has been in a state of economic decline for years. Declining attendance has increased the financial losses suffered in the operation of the Race Track. Only contributions from owners who are dedicated to the sport have enabled the Developer to preserve the core commercial venture - standardbred racing.

(2) More than fifty percent (50%) of the commercial structures are deteriorating or deteriorated. In fact, one hundred percent (100%) of the buildings could be considered as either deteriorating or deteriorated. The grandstand, clubhouse and paddock area stand unchanged. No upgrades have been made to their basic infrastructure since original construction. Renovations of those structures will be necessary. Many of the stables, which constitute more than fifty percent (50%) in number of the structures in the Development Area, could be considered as deteriorated. Some stables have been demolished because of their deteriorated condition.

(3) Public improvements and public infrastructure are inadequate. Limited public infrastructure currently exists within the proposed development site. In addition, public infrastructure connecting to the site is inadequate to handle the increased services that will be needed. Having to construct the necessary public infrastructure creates a heavy financial burden for the potential future development of this land. Examples of public infrastructure needed to enable construction of the Project and growth in the Development Area include:

- **Utilities** – A vast expansion of sanitary sewer lines, storm sewer lines, water service lines, and utility conduits, including electric, gas, telephone and cable, to accommodate the large increase in utility usage that the Project will require.
- **Roadways** – The creation of new internal roads and an expansive walkway system to handle the increased vehicular and pedestrian traffic this development will draw.
- **Parking** – Open grade parking will provide 1,768 parking spots, while the three proposed parking structures will add an additional 164, 104 and 104 spots respectively.
- **Red Mile Road** – Improvements at Red Mile Road's intersections with both South Broadway and Versailles Road and a widening of Red Mile Road to improve the flow of traffic, both vehicular and pedestrian, that will result from this Project.
- **Storm Water Management** – The traditional storm water management plan to control detention and post development water quality consists of surface detention located at the lowest point on-site. Underground storm water facilities will be constructed at various locations on-site to enhance infiltration and groundwater

recharge while maximizing the site's open spaces and usages. Each of these underground storm water facilities will include sump volume to store the portion of storm water runoff generated from the site and will use a solar pump system to pump runoff to irrigate the open spaces and greenway areas.

(4) A combination of factors substantially impairs or arrests the growth and economic development of the city or county and impedes the development of commercial or industrial property due to the Development Area's present condition and use. As noted in Section 1.3, most of the Development Area has been zoned for agricultural use. It and the surrounding lands as a whole were initially agricultural in nature - horse racing, horse sales, tobacco warehouses, suppliers to farmers, and even a restaurant (the Coach House) frequented by horse farm owners and racing fans. The lifespan of that model has expired, and surrounding properties already have or are converting to other uses. Much of the land surrounding the proposed Project has been converted to large apartment complexes providing student housing. This dominant residential use impairs the development of commercial properties in that area of Lexington and arrests the growth of economic activities there. The development of the Red Mile Project will alleviate this single usage by creating mixed usage of entertainment, hotel, retail, offices, and residential; but the inadequacy of the public infrastructure in the Development Area impedes its development.

2.3. Assurances the Development Area Is Not Reasonably Expected to Develop Without Public Assistance. The LFUCG finds that the Development Area is not reasonably expected to be developed without public assistance. Despite its appealing location and storied history, no interest has been

shown in redeveloping the property to bring new economic activity to the area, other than the proposed Project. The public infrastructure costs associated with any successful redevelopment of the Development Area are too high to occur without the help of the public. It is estimated that the total cost of public infrastructure improvements needed within the Development Area to successfully redevelop the Red Mile site as an urban mixed-use development is approximately \$54 million. Without public funding, including the critical pledge of State incremental revenues under the Commonwealth Participation Program for Mixed-Use Redevelopment in Blighted Urban Areas, as provided in the Act, the proposed Project within the Development Area would not be possible.

2.4. Assurances the Public Benefits of Redeveloping the Development Area as Proposed Justify the Public Costs Proposed. The LFUCG finds that the public benefits of redeveloping the Development Area justify the public costs proposed. As detailed in the Commonwealth Economics Report, attached hereto as Exhibit "B", (the "Report"), the public investment is expected to reach \$54 million, but the private investment within the Development Area will reach \$133 million and support 2,099 new construction jobs and approximately 1,767 new permanent jobs within the Development Area. The proposed improvements will encourage new visitation to the area and provide necessary amenities for existing residents and new visitors alike. While the LFUCG will pledge eighty percent (80%) of new ad valorem property taxes and occupational taxes to pay for the public projects proposed, it will generate significant new revenues from the twenty percent (20%) of those new incremental revenues not pledged and one hundred (100%) of the other local taxes generated from

the Project. Under the Act, school systems may not participate in the pledge of incremental revenues. Therefore, the local school system will receive significant new revenues from the Project within the Development Area.

Besides the new jobs and capital investment created directly by the Project, the Project will have a significant multiplier effect on the economy of Lexington and the State. According to the Report, upon the opening and stabilization of the Project, the annual economic and fiscal impact of the Project is estimated to include \$177 million of total spending, \$70.3 million of increased earnings, support for 1,767 jobs, and \$11.2 million in State and LFUCG tax revenues. Of these tax revenues, approximately \$6.2 million are net new to the State in the first year of stabilization.

The \$241.8 million in tax revenue that is expected to be created over the 20-year period is much greater than the amount of taxes created in the Development Area without the Project. Furthermore, the analysis shows that the "net new" amount of taxes from this Project will include \$136.4 million in net new tax revenue to the State and \$17.6 million for the LFUCG, for a total estimated net new fiscal impact of \$154 million.

The fiscal benefits far exceed the existing tax revenue from the Development Area, which is estimated at \$119,811 annually (by end of 2009 estimates). In a 20-year period, which begins at full operation, the Project is estimated to generate a total of about \$241.8 million of State and LFUCG tax revenues. By contrast, if the site remains "as-is", tax revenues are estimated to amount to \$3.5 million during the same period. As a result, incremental tax revenues are estimated to amount to \$238.4 million. After

20 percent is retained, such amount translates to an estimated \$170.6 million of cash available from the State and an estimated \$20.1 million from the LFUCG.

Based on research and analysis documented in the Report, the Project is estimated to have a significant economic and fiscal impact to the local economy. Its construction is estimated to generate a one-time impact that includes over \$233.5 million of total spending throughout the state, \$98.3 million of earnings, support for 2,565 jobs, and \$10.1 million of state and local tax revenues. Upon project opening and in the first year of stabilization, annual economic and fiscal impact is estimated to include \$177 million of total spending, \$70.3 million of increased earnings, support for 1,767 jobs, and \$11.2 million of state and local tax revenues.

It is proposed that the incremental revenues from the LFUCG and State will be used to fund the capital costs of the "approved public infrastructure" (as defined in the Act) needed for the Project within the Development Area. The estimated cost of the approved public infrastructure needed for the Project is approximately \$54 million. It is estimated that approximately \$190.7 million in LFUCG and State incremental revenues from the Project will be available over 20 years to pay for approved public infrastructure costs needed for the Project. The net present value of this \$190.7 million is dependent upon many variables in the tax-exempt financing/bonding market.

After subtracting the baseline "old revenues" as required by the Act, the estimated net new incremental tax revenue generated by the Project is \$120.4 million. This amount far exceeds the estimated \$54 million in approved public infrastructure costs. As a result, the Project represents an enormous benefit to Lexington and the State.

In addition, the significant investment represented by the Project will act as a catalyst for other development in the area.

2.5. Assurances Regarding the Area Immediately Surrounding the Development Area. Pursuant to the Act the establishment of a development area requires a finding that the area immediately surrounding the Development Area has not been subject to growth and development through investment by private enterprise or, if the area immediately surrounding the Development Area has been subject to growth and development through investment by private enterprise, that there are certain special circumstances within the Development Area that would prevent its development without public assistance. The LFUCG finds that portions of the area immediately surrounding the Development Area has been subject to growth and development through investment by private enterprise, but that certain special circumstances within the Development Area would prevent its development without public assistance as follows:

(a) Commercial activity. Commercial activity in the surrounding area has been in a state of decline as the former agricultural related uses are no longer viable in this area.

(b) Infrastructure. The area bordering Red Mile Road is in need of improvements within the right-of-way including new pedestrian facilities (sidewalks, greenway trail, cross walks at new and existing intersections), road widening along Red Mile Road, new signaled intersections at specified locations along Red Mile Road coordinating with the Development Plan, improvements at intersections of Red Mile Road and South Broadway as well as Red Mile Road and Versailles Road,

a major sanitary sewer pump station and forced main to connect to the public sanitary sewer, and storm sewer facilities to protect and enhance existing karst features on site.

(c) **Housing.** Private development of surrounding lands has primarily been construction of large student housing projects, the majority of which are made up of medium-high density rental units. This concentration of residential development prevents diversified economic growth, but public infrastructure is needed for the proposed mixed use Project to be built in the Development Area.

2.6. Development Area Description. The Development Area includes the real property within the boundaries described on the site plan and legal description attached hereto as Exhibit "A."

2.7. Existing Uses and Conditions. The Red Mile property as it sits today is primarily zoned for agricultural use (A-U), a zone that seems to correlate to a horse racing track, but can also be seen as out of context for the urban environment the Red Mile Track is within. The Red Mile property is bordered by 6 different zones, including Residential (R-2, R-3, R-4), Business (B-3, B-4) and Office (P-1). The residential zones range from duplex residential development (R-2) to high density apartment buildings (R-4). The business zones range from Highway Service Business (B-3) to Wholesale and Warehouse Business (B-4). These zones are illustrative of a development pattern taking place in the area surrounding the Red Mile.

The Red Mile property is currently used as a horse racing track for standardbred harness and quarter horse races. In addition to hosting live racing, the Red Mile simulcasts races from around the world and allows wagering on these races 365 days a

year. The facility is also the host of numerous horse sales throughout the year along with other events such as receptions and corporate meetings. The Red Mile will not be able to function profitably for a sustained period of time if changes are not made that will attract more visitors and allow more live racing days throughout the year.

2.8. Changes in the Zoning Ordinance, Zoning Map, Comprehensive Plan or Other Codes or Plans Necessary to Implement the Development Plan. A portion of the development area needed a zone change from Agricultural to Mixed Use Community (MU-3). Council has approved the text amendment for the MU-3 zone. The Planning Commission unanimously approved the rezoning from agricultural to MU-3 on November 19, 2009. Council approved the rezoning on January 14, 2010.

2.9. Certification of Compliance with the Comprehensive Land-Use Plan. The Red Mile property is one of a handful in Lexington that received special notation in the 2007 Comprehensive Plan as "property [that] should be reviewed through a Small Area Plan, with strong consideration for high-density residential and mixed-use."

The Red Mile Development Plan has been created through the process of the Developer collaborating with the working group that was assembled by the consultant team and representatives from LFUCG. Its purpose was to have an open and transparent design process, allowing local residents and stake holders to voice their opinions and concerns in regards to the concepts being presented to them. After the working group sessions, a series of meetings with city officials and an open public forum

were held to further expand the public process to all levels of the community. The Development Plan was submitted to the LFUCG for certification of compliance with the duly adopted Comprehensive Plan. The Planning Commission approved such certification at its December 10, 2009 meeting. Attached as Exhibit "C" is the documentation of certification.

3. The Development Program.

The Project proposed for the Development Area includes the following approved public infrastructure and public improvement elements, in addition to the private portions of the Project, as described more particularly on the site plan attached hereto as Exhibit "A." A breakdown of approved public infrastructure costs is attached hereto as Exhibit "D."

3.1. Private Development. It is estimated that the total development potential on site, in terms of dollars, is in the neighborhood of \$190 million. The list of the potential private development projects are:

- Trackside Housing
- Stand-alone Apartments
- Stand-alone Retail
- Mixed Use Office/Retail
- Mixed Use Residential/Retail
- Hotel/Entertainment Center

3.2. Public Projects.

- *Intersection Improvements at South Broadway and Versailles Road*

Left turn, through, and right turn lanes will be constructed to help ease time delays at these traffic lights during peak hours.

- *Red Mile Widening*

The median will be extended along Red Mile Road, which could potentially require the widening of Red Mile Road.

- *Red Mile Greenway Trail*

The creation of the Red Mile Greenway Trail, as well as the Town Green, the central open space pedestrian spine and the centerpiece for the Project's main street would connect South Broadway to Versailles Road and beyond. The Greenway Trail includes a trail, tree plantings, pedestrian lighting, pedestrian seating and other facilities. It is a major component of the Project that will eventually connect the Red Mile to the University of Kentucky, as well as to the proposed Town Branch Trail. The Red Mile Greenway Trail proposed will lie in the existing right-of-way between Red Mile Road and the proposed development.

- *Town Green: Park and Streetscape*

The Town Green is the centerpiece for the Red Mile Development Plan. The current location coincides with the idea that there will eventually be an addition to the grandstand that will serve as a termination point of the town green axis. It will also include the potential hotel/entertainment center, with an associated parking structure. The Town Green provides open green space, gathering area and a central pedestrian spine that runs along the main commercial/mixed-use corridor.

- New Intersections

Five intersections, including two with signals, will be constructed at the proposed entrance/exits from the development area. Each intersection will need lighting, cross walks and other pedestrian amenities.

- Utilities

The site will need a major sanitary sewer pump station and forced main to connect to existing trunk line. The site will also need a major infrastructure upgrade and treatment of urban runoff to protect and enhance the karst features on site.

4. Redevelopment Assistance and Finance Plan.

The proposed "redevelopment assistance", as defined in the Act, to be provided in the Development Area is estimated to cost a total of \$54 million, not including

interest/financing expenses. The LFUCG will pledge eighty percent (80%) of its incremental tax revenues from real property taxes and occupational taxes from the Project for over the applicable 20-year period and, in accordance with the Act, will create a special fund for the deposit of pledged incremental revenues. In addition, the LFUCG and/or the Agency will submit an application to the Kentucky Economic Development Finance Administration ("KEDFA") to request State participation in the form of a pledge of eighty (80%) of incremental State tax revenues generated from the Project during the 20-year period.

The LFUCG will establish a special fund for the deposit of pledged incremental revenues. Pledged incremental revenues deposited into this special fund will be used solely to pay debt service and costs of issuance on increment bonds, including "financing costs" (as defined by the Act), issued by the LFUCG to finance the redevelopment assistance described herein and other "approved public infrastructure costs" (as defined in the Act) or, if increment bonds are not issued, to pay directly for such redevelopment assistance and approved public infrastructure costs, and any other purposes in compliance with this Development Plan, the Act, and all agreements and documents entered into in connection therewith. The LFUCG will enact an ordinance establishing the Development Area and adopting this Development Plan. The development ordinance will designate the Department of Finance and Administration (the "Agency"), organized by the LFUCG, to oversee, administer and implement the development ordinance.

As set forth in more detail in the Report, the Project is estimated to generate approximately \$238.4 million in incremental tax revenues over the 20 year period

beginning in 2013. Approximately \$190.7 million of this total will be available for debt service (\$170.6 million for state participation and \$20.1 million for local participation). The "activation date" (as defined in the Act) is expected to occur immediately following completion phase 2 of the Project, which is projected to be finished by 2013. This sets the timeframe of financial obligations at 20 years, beginning in 2013 and ending in 2032.

5. Conclusions.

The Development Area's mix of private investment and public improvements will allow the LFUCG to create an environment welcoming to visitors and residents alike. The proposed assistance is critical to the successful redevelopment of the Development Area and the significant amount of private investment and economic benefit that will come with this Project.