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Coldstream Research Campus
Tax Increment Financing Feasibility Analysis

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TABLE OF CONTENTS

- I. EXECUTIVE SUMMARY**
- II. INTRODUCTION**
- III. PUBLIC INFRASTRUCTURE**
- IV. STATUTORY REQUIREMENTS**
- V. FUTURE TIF-ELIGIBLE TAX REVENUE ESTIMATES**
- VI. ECONOMIC & FISCAL IMPACT ESTIMATES**
- VII. CONCLUSION**

I. EXECUTIVE SUMMARY

As a part of the University of Kentucky's ("University") mission to excel as a leading research university and promote entrepreneurial growth in the Lexington business community, the University is looking to continue its development of the Coldstream Research Campus over the next several years. The continuation of the Coldstream Research Campus Development Project ("Project") is expected to provide new high-tech laboratories, office and incubator space, and supportive retail and restaurant options within a short walking distance to a new hotel and multi-family housing.

However, this type of development comes at a high – and often prohibitive – cost. In order to make it more affordable, the Commonwealth of Kentucky has created several Tax Increment Financing ("TIF") programs. TIF programs use the increase in state and local tax revenue created by new projects to help finance some of the high public infrastructure costs associated with them. By using the State's TIF Program, the University may be able to offset certain out-of-pocket infrastructure expenditures associated with the development Project.

This analysis examines the feasibility of the Coldstream Research Campus Development Project utilizing the TIF program locally and qualifying for TIF incentives at the State level, and provides quantitative analysis of the potential incentives available given the proposed scope of the project.

Highlights

- **Public Infrastructure Expenditures** – The Project would not happen without certain expenditures on infrastructure. The Project includes several public infrastructure elements, such as; public parking, street/sidewalk/utility/road improvements, and public spaces. This type of project is specifically what the State's TIF Program is designed to incentivize.
- **Need for funding assistance** - Public Infrastructure costs can often make private development prohibitive and are expensive for a private developer and the local government to undertake alone. The Commonwealth's TIF program provides a mechanism to use State tax revenues to help pay for these types of expenditures.

- **State incentives could be utilized** - The State Mixed-Use TIF Program is likely the best fit for the Coldstream Research Campus Development Project. Under the State Mixed-Use TIF Program, sales tax, income tax, and occupational taxes are recoverable, in addition to property taxes. The use of this program could add state tax revenue contributions to local tax contributions in order to finance some of the public infrastructure costs.
- **Project could generate substantial tax revenue** - This analysis estimates that the project elements could generate approximately \$127.9 million in TIF-eligible incremental tax revenue over a 20-year period. After 20% of these estimated revenues are retained by the State and Local governments, up to an estimated \$102.4 million could be available for recovery through the program. Of this amount, approximately \$67.5 million is State tax revenue and \$34.9 million is Local tax revenues.
- **Connecting the Lexington community** - This Project has the potential to further define the aesthetic and economic development environment for Lexington and serves as a gateway to Lexington's high-tech higher education corridor, a 5-mile span that connects the technology and R&D companies located at Coldstream with the Bluegrass Community and Technical College, Transylvania University, Lexington's downtown business center and entrepreneurial community, and the University of Kentucky.

II. INTRODUCTION

The University of Kentucky is looking to continue the development of its Coldstream Research Campus located in the Kentucky Bluegrass Region. This Project will further the University's mission by encouraging new business growth and cutting-edge R&D within the Lexington business community. As a part of its Project plan, the University has already identified several of the project's biggest needs, goals, and objectives.

This continued development of the research campus, which includes: new laboratories, high-tech office space, a new hotel, residential space, retail, restaurant and updated infrastructure, comes at a high cost. Without assistance or incentives being provided by the state and local governments, the University will not be able to complete this development Project as envisioned and it will be difficult to attract innovative companies with growth potential.

Tax Increment Financing

In order to help facilitate this type of development, the Commonwealth of Kentucky has created a number of different Tax Increment Financing programs. This analysis estimates the Project's potential economic and fiscal impacts and summarizes the potential use of Tax Increment Financing ("TIF") in order to fund a portion of the Coldstream Research Campus Development Project (the "Project").

Under Kentucky law, local governments have the authority to establish a "Development Area" (otherwise known as a TIF District) and pledge certain incremental local taxes in order to provide Redevelopment Assistance to an economic development project. Additionally, certain projects may also qualify under one of the Commonwealth's state-level TIF programs, depending upon the overall capital investment and nature/scope of the project.

TIF programs use the increase in state and local tax revenues created after projects are developed (the "increment") in order to help finance some of the high infrastructure and redevelopment costs associated with certain projects. This financing is often structured by the applicable local government issuing tax increment bonds - either as the guarantor or just as a conduit for the bonds. The proceeds of the bonds are used to pay for approved public infrastructure costs. The annual increment is then used to pay principal and interest on the bonds each year until retired.

While receiving final TIF approval at the State level does not ensure that upfront financing will be available, it makes it much more likely that financing can be obtained since incremental revenues will be available to pay for or offset debt service costs. By using the State's TIF Program, the University may be able to recover some of the costly infrastructure expenditures, thus making the Project more feasible.

This analysis examines the potential economic and fiscal impacts of the Project and its ability to utilize TIF incentives based on the proposed scope of the Project as has been provided and described to Commonwealth Economics.

Background

The University of Kentucky's Coldstream Research Campus is a premier business site located in the heart of the Kentucky Bluegrass Region. Once a prominent Kentucky horse farm and home to the first Kentucky Derby winner, Aristides, Coldstream's 735-acre campus has transitioned into a hub of innovation and creativity.

Today, Coldstream is home to over 50 organizations with more than 2,100 employees working in biotechnology, pharmaceuticals and equine health, and a variety of other industry sectors. Beyond an economic driver, Coldstream connects local students, researchers, and resources to a vibrant entrepreneurial community with a national top ten educated workforce.

Adding to Coldstream's appeal is a major recreational amenity that includes a 225-acre city park with lush green spaces, a 1.8 mile section of Lexington's 12-mile running/bicycling Legacy Trail that connects downtown Lexington to the Kentucky Horse Park, and two large fenced in dog park areas.

Project Description

The proposed Project would promote the addition of new laboratory and incubator space through a mixture of public and private investment. The aim is to provide additional space for innovative businesses and employees to thrive, while also providing complimentary and supportive hospitality, dining, retail, and residential options and the public infrastructure required to attract growing businesses and to support a greater level of density and vertical development.

In working with the state and local governments to help provide the infrastructure needed to support the development Project, the University plans to facilitate the development of first-class laboratory and office space, a new hotel to host business travelers and events, supportive retail and restaurant options for patrons and businesses to utilize, and residential uses, all within close proximity in order to create a truly walkable campus environment. The University has identified the following as the most likely Project elements, to be built out over a projected 6-year period:

Vertical Improvements

- Lab Space ~ 190,000 (sq ft). Estimated cost of \$74.1 million
- Office Space ~ 234,000 (sq ft). Estimated cost of \$47.0 million
- Residential ~ 243,000 (sq ft). Estimated cost of \$27.1 million
- Hotel ~ 125 rooms. Estimated cost of \$11.7 million
- Restaurant Space ~ 21,000 (sq ft). Estimated cost of \$3.5 million
- Retail Space ~15,000 (sq ft). Estimated cost of \$2.5 million
 - Total estimated vertical costs of approximately \$165.9 million

Infrastructure Improvements

- Land preparation
- Roadway and pedestrian connectivity improvements
- Expansion of sidewalks and additional streetscape improvements
- Construction of additional parking
- Sewage and drainage system improvements
- Utility improvements
- Public Space improvements
 - Total estimated Infrastructure costs of approximately \$33.1 million

III. QUALIFYING PUBLIC INFRASTRUCTURE

If the Project successfully applies for participation through a State TIF Program, it may be eligible to recover up to 100 percent of Approved Public Infrastructure costs, certain soft costs and costs related to land preparation, demolition and clearance through the recapture of local and state incremental tax revenues. By law, these Approved Public Infrastructure costs may include:

- land preparation and demolition
- public buildings/structures
- sewers/storm drainage
- curbs, sidewalks, promenades, and pedways
- roads and street lighting
- provision/modification of utilities
- environmental remediation
- floodwalls/floodgates
- public spaces and parks
- parking
- easements of rights of way
- transportation facilities
- public landings
- amenities (fountains, benches, sculptures, etc.)
- river bank modifications
- related soft costs, legal fees, and contingencies;

All of the proposed public infrastructure Project elements discussed in the previous section should qualify under one of these categories of public infrastructure. While these costs may be recoverable, it should be understood that the funding of these anticipated public infrastructure improvements would be on a reimbursement basis that will require proof of the expenditure before funds will be released through the TIF program and that the amount available from State participation will be subject to a cap.

In addition, these funds will not be available until the Project meets a minimum spending threshold (discussed in the next section) and also begins to generate the incremental tax revenues that can then be used to make financing payments or reimburse the out-of-pocket expenditures on these elements.

IV. STATUTORY REQUIREMENTS

While there are three state TIF programs available, the program that best fits this Project is the State Mixed-Use TIF Program. If the Project qualifies for the “State Mixed-Use Program” it would be able to use a variety of incremental taxes in order to finance the qualifying public infrastructure costs:

- State Sales tax
- State Ad Valorem (real property) tax
- State Individual Income tax
- State Corporate Income tax
- Local Ad Valorem (real property) taxes
- Local Occupational taxes

All of the recovered taxes must be generated within the Project’s TIF Footprint.

State Mixed-Use TIF Requirements

The Project will need to meet a number of statutory requirements to qualify for participation in the State Mixed-Use TIF Program, including the following:

- It must have a net positive economic and fiscal impact to the Commonwealth.
- It must not include any retail establishment that exceeds twenty thousand (20,000) square feet of finished space.
- It must meet the required minimum capital investment of \$20,000,000 (and not exceed \$200,000,000).
- It must include pedestrian amenities and public space.
- The development area must be less than the maximum three square miles.
- The development must include at least two of the following: retail, residential, office, restaurant, or hospitality.

Under the mixed-use TIF program, the tax recovery period is limited to 20 years.

If any one of the buildings located within the Development Area houses a single retail tenant over the 20,000 square foot limit, it will not be eligible to be included in the mixed-use TIF program. In other words, the state taxes generated by retail establishments of over 20,000 square feet would not be eligible for recovery through TIF.

Given the plans for the Project, the current conditions in the area, and the location of certain Project elements, the University and Commonwealth Economics have identified the general area shown in Figure 1, on the next page, as a potential Development Area boundary.

Figure 1



V. FUTURE TIF-ELIGIBLE TAX REVENUE ESTIMATES

For the purpose of estimating the amount of potentially available TIF dollars generated within the footprint that may be available to finance bonds or otherwise repay any approved public infrastructure expenditures, it is necessary to calculate the expected tax revenue generated in the new footprint. Fiscal impact measures TIF-eligible tax revenues that result from the spending and income related to the activities at the Project. This analysis estimates the fiscal impacts of the Project and the TIF-eligible tax revenues available as a result of these impacts. Only taxes that are eligible for participation in tax increment financing programs are used in this section of the analysis.

Below is a breakdown of the taxes used to determine the fiscal impacts of the Project:

- State taxes:
 - Property Tax \$0.122 per \$100 of assessed value
 - Sales Tax 6.00 percent of sales
 - Individual Income Tax 4.20 percent of income¹
 - Corporate Income Tax \$0.095 per \$100 of gross receipts
or \$0.75 per \$100 of profits²
- Local taxes:
 - Property Tax \$0.204 per \$100 of assessed value³
 - City Occupational License Fees 2.25 percent of salaries⁴

¹ Although Kentucky has a graduated income tax, Commonwealth Economics is using an effective income tax rate of 4.2 percent on all income earned in the state.

² Corporate income tax rates are graduated and taxpayer-specific. The indicated rates reflect an alternative minimum calculation, used in this study for analytical purposes.

³ Assumes full participation from the Lexington-Fayette Urban County real property tax which may include: full-services of .1738% and general services of .03%. By law, School and library taxes are not eligible for participation in the State TIF programs.

⁴ Assumes full participation from the Lexington-Fayette Urban County Government occupational license fees.

The proposed Project, as detailed in Section II, includes a variety of proposed vertical components, each of which has the potential to generate incremental future tax revenues that could be recovered under the Mixed-Use TIF Program to help pay for or partially offset the costs of the public infrastructure components.

Commonwealth Economics has analyzed these project components to estimate the potential annual fiscal impact. This type of development will significantly add to the tax base within the proposed footprint and provide additional incremental revenue recoverable under the Mixed-Use TIF Program⁵.

Baseline Tax Revenue Calculation

In order to properly estimate the tax revenues that may actually be available for a mixed-use TIF project, it is necessary to subtract the baseline tax revenues from the expected future revenues. The baseline tax revenues currently generated within the proposed development area are likely significantly less than will be generated there after the Coldstream Research Campus Development Project is completed.

The baseline taxes for the anticipated footprint, for purposes of this analysis, are assumed to be minimal. Therefore, Commonwealth Economics has not included the value of the baseline taxes for land or operations and the projected incremental property tax revenues are based off the future construction expenditures, alone, and do not include any taxable land value.

Figure 2, on the next page, summarizes the estimated fiscal impact of the Coldstream Project and the recoverable portion of those taxes that may be available for Approved Public Infrastructure repayment and Project development assistance during a 20-year period.

⁵ It is expressly acknowledged that Commonwealth Economics cannot guarantee and shall face no liability regarding the success of any proposed project, bond issue, loan, grant, the ability to obtain funding from any source or the accuracy of any estimated revenue stream. Commonwealth Economics utilized second and third-party sources, including the development team, deemed to be reliable but cannot guarantee their accuracy. Moreover, estimates and analysis presented in this report are based on trends and assumptions (outlined in detail within this document), which usually result in differences between the projected results and actual results. And because events and circumstances frequently do not occur as expected, those differences may be material.

Figure 2

Coldstream Research Campus Development Project									
Incremental Tax Revenue Estimates under the State Mixed-Use TIF Program									
	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 20	20-Year Total
Estimated Incremental Tax Revenues from Project									
State Tax Revenues									
State Property Tax	\$3,976,796	\$67,467	\$111,121	\$121,554	\$136,898	\$180,537	\$210,261	\$256,307	\$3,976,796
State Sales and Use Tax	\$19,265,446	\$388,711	\$745,326	\$760,232	\$777,512	\$872,324	\$975,269	\$1,220,737	\$19,265,446
State Corporate/LLET Tax Revenues	\$1,699,089	\$4,431	\$27,485	\$39,896	\$54,379	\$63,950	\$94,448	\$115,132	\$1,699,089
State Individual Income Tax	\$59,428,299	\$205,829	\$964,869	\$1,312,616	\$1,690,555	\$2,356,069	\$3,311,022	\$4,036,118	\$59,428,299
Total State Tax Revenues	\$84,369,630	\$666,439	\$1,848,800	\$2,234,298	\$2,659,345	\$3,472,880	\$4,591,001	\$5,628,293	\$84,369,630
Local Tax Revenues									
Local Property Tax Revenues	\$6,643,205	\$112,704	\$185,627	\$203,055	\$228,687	\$301,585	\$351,239	\$428,158	\$6,643,205
Local Occupational License Tax	\$36,933,855	\$123,559	\$599,350	\$822,874	\$1,068,792	\$1,454,030	\$2,057,107	\$2,507,602	\$36,933,855
Total Local Tax Revenues	\$43,577,060	\$236,263	\$784,976	\$1,025,929	\$1,297,479	\$1,755,615	\$2,408,346	\$2,935,760	\$43,577,060
Total Estimated Incremental Tax Revenues	\$127,946,691	\$902,702	\$2,633,777	\$3,260,227	\$3,956,824	\$5,228,495	\$6,999,346	\$8,564,053	\$127,946,691
Estimated Incremental Tax Revenues									
(-) Retained by State at 20%	\$16,873,926	\$133,288	\$369,760	\$446,860	\$531,869	\$694,576	\$918,200	\$1,125,659	\$16,873,926
(-) Retained Locally at 20%	\$8,715,412	\$47,253	\$156,995	\$205,186	\$259,496	\$351,123	\$481,669	\$587,152	\$8,715,412
Net Incr. Tax Rev. Available from Project	\$102,357,353	\$722,162	\$2,107,021	\$2,608,181	\$3,165,459	\$4,182,796	\$5,599,477	\$6,851,242	\$102,357,353
Incr. Tax Rev. Available from State TIF Program at 80%	\$67,495,704	\$533,151	\$1,479,040	\$1,787,438	\$2,127,476	\$2,778,304	\$3,672,801	\$4,502,635	\$67,495,704
Incr. Tax Rev. Available from Local Participation at 80%	\$34,861,648	\$189,011	\$627,981	\$820,743	\$1,037,983	\$1,404,492	\$1,926,676	\$2,348,608	\$34,861,648

As shown in Figure 2, over the allowable 20-year TIF period, the new development is estimated to produce an estimated \$127.9 million in additional state and local TIF-eligible tax revenues.

These calculations involve several assumptions regarding the timing of Project components being completed and the revenue generated by each component of the Coldstream Research Campus Development Project. Commonwealth Economics has used information provided by the University, as well as certain industry averages to produce this model. The actual economic and fiscal impact of the Project will ultimately depend upon many different variables.

The estimated fiscal impacts of each project component are conservatively inflated at the rate of 2% per year over the 20-year life of the TIF.

VI. ECONOMIC & FISCAL IMPACT ESTIMATES

When construction of the primary elements for the proposed Coldstream Research Campus Development Project is complete, the laboratories, office space, hotel, restaurants, retail stores, and various activities and transactions occurring within the improved overall area will generate on-going annual economic and fiscal impacts to the local economy. Initial transactions occurring within these components will ripple throughout the economy and generate indirect spending, induced spending, increased earnings, and employment, as well as various tax revenues. It is important to understand that these impacts include economic and fiscal activity that may take place outside of the Project footprint, and therefore, are not all recoverable through the TIF program. These impact estimates, however, assist in quantifying the Project's overall economic value to the Commonwealth.

For analytical purposes, annual impact is estimated based on component type, such as the laboratories, office space, hotel, retailers, and restaurants. Conceptually, annual economic impact would include the "ripple effects" generated from direct spending at the supportive retail and restaurants and the output of the lab and office tenants. This direct spending would then result in indirect spending, induced spending, increased earnings, and employment.

Economic Impact - Definitions

Economic impact reflects the "ripple effect" or "multiplying effect" from initial transaction, or "direct spending," that occurs as a direct result of a project being developed. The "ripples" from these initial transactions include the following:

- **Indirect Impact** – consists of spending that occurs, typically by a business, to generate the initial or direct output. For example, a patron's direct expenditure at a restaurant requires the establishment to purchase goods, services, and other items from suppliers (food, napkins, uniforms, etc). The portion of these store purchases that are within the state economy is counted as an indirect economic impact.
- **Induced Impact** – represents changes to in-state consumption due to the personal spending by employees whose incomes are affected by the project. For example, a newly-employed waiter at a restaurant will spend money on clothes,

food, gas, etc. The amount of the increased income the waiter spends in Kentucky’s economy is considered an induced impact.

- **Labor Income** – measures the change in total personal income, state-wide, that results from the initial spending activities occurring within the project.
- **Total Employment** – measures the change in number of jobs, state-wide, that result from the initial spending activities that occur within the project.

Indirect impact, induced impact, labor income, and total employment impacts are estimated using multiplier factors. IMPLAN is a nationally recognized model commonly used to estimate economic impact. An input-output model analyzes the commodities and income that normally flow through the various sectors of the economy.

One-Time Construction Impact

In addition to the operational aspects of the Project, the initial construction spending will generate a one-time impact to the local community and State. Figure 3, below, shows the estimated economic impacts created solely from the construction of the Project and its ripple effects throughout the economy.

Figure 3

Coldstream Research Campus Development Project Estimated Construction Impact Summary				
Impact Type	Employment	Labor Income	Value Added	Output
Direct Effect	1,422	\$70,158,036	\$92,590,211	\$199,025,030
Indirect Effect	343	\$17,164,363	\$27,735,233	\$55,943,788
Induced Effect	510	\$20,823,119	\$36,728,609	\$66,185,839
Total Effect	2,276	\$108,145,518	\$157,054,053	\$321,154,657

The construction impacts estimated in Figure 3 assume a total construction expenditure of \$199.0 million. The impacts associated with this initial injection into the local economy are estimated to create \$321.2 million in total economic impact, including total employment for 2,276 people and \$108.1 million in total wages during construction.

Annual Impact from Operations

Economic and Fiscal Impact of Laboratories

Figure 4 shows the estimated annual impact of the new laboratories, as well as the multipliers and tax rates utilized for the various impact calculations, and the 20-year total. Laboratory operations are not subject to state sales tax, but the impacts of this direct output will ripple throughout the economy and it is estimated that 50% of the induced spending will be subject to state sales and use tax. Total labor income generated as a result of the laboratories operations is subject to state individual income tax and the laboratory workers' salaries are subject to the local occupational license tax.

Information gathered has been used in order to estimate R&D output generated directly by the new laboratory space. Discussions have indicated that the laboratories will generate, at a minimum, 121 new jobs. In addition, the new laboratories intend to generate new products that become a healthy percentage of sales when compared to industry averages. This information was used in conjunction with the IMPLAN software in order to estimate the economic and fiscal impacts associated with the development.

Economic and Fiscal Impact of Office Space

Figure 5 shows the estimated annual impact of the office space, as well as the multipliers and tax rates utilized for the various impact calculations, and the 20-year total. Revenues generated by the operations of businesses occupying the office space are not subject to state sales tax, but the impacts of this direct output will ripple throughout the economy and it is estimated that 50% of the induced spending will be subject to state sales tax. Total labor income generated as a result of the office operations is subject to state individual income tax and the workers' salaries are subject to the local occupational license tax.

Based on the types of tenants that are expected to locate in these brand-new office spaces, it has been estimated that the office components of the Project will generate approximately \$400 per square foot in revenue by year 2.

Economic and Fiscal Impact of the Hotel

Figure 6 shows the estimated annual impact of the anticipated hotel, as well as the multipliers and tax rates utilized for the various impact calculations, and the 20-year total. Spending by the patrons at the hotel is subject to state sales tax, the impacts of this direct spending will ripple throughout the economy, and it is estimated that 50% of the induced spending is also subject to state sales tax. Net profits received by the hotel are subject to state corporate income tax. Total labor income is subject to state individual income tax and hotel salaries are subject to the local occupational license tax. Additionally, these estimates include local transient room taxes.

In order to estimate the revenues generated by the hotel, which is expected to be located in close proximity to the campuses new entertainment options, regional averages for daily room rate and occupancy rate were examined. Based on the similar hotels in the region and the business that the new office space may be able to bring to the area with the availability of hotel rooms close to the laboratories, it is estimated that the hotel will operate at an average daily rate of \$170. The Hotel is expected to reach occupancy rates of 70% within 1 year of construction.

Economic and Fiscal Impact of Restaurant Space

Figure 7 shows the estimated annual impact of the anticipated restaurant space, as well as the multipliers and tax rates utilized for the various impact calculations, and the 20-year total. Spending by the patrons at a restaurant is subject to state sales tax, the impacts of this direct spending will ripple throughout the economy, and it is estimated that 50% of the induced spending is also subject to state sales tax. Net profits received by the restaurant tenants are subject to state corporate income tax. Total labor income is subject to state individual income tax and restaurant workers' salaries are subject to the local occupational license tax.

Based on average sales per square foot in the region and the types of restaurant tenants that are expected to locate within the Project, it has been estimated that the restaurant components of the Project will generate \$350 per square foot by year 2.

Economic and Fiscal Impact of Retail Space

Figure 8 shows the estimated annual impact of the anticipated retail space, as well as the multipliers and tax rates utilized for the various impact calculations, and the 20-year total. Spending by the patrons at the retail establishments is subject to state sales tax, the impacts of this direct spending will ripple throughout the economy, and it is estimated that 50% of the induced spending is also subject to state sales and use tax. Net profits received by the retail space tenants are subject to state corporate income tax. Total labor income is subject to state individual income tax and retail workers' salaries are subject to the local occupational license tax. It should also be noted that the retail impact calculations use a retail margin to calculate the output generated by the retail stores. Because the retail trade experiences a large amount of leakage, a margin is applied to the price paid by a customer (total revenues) in order to estimate direct output generated by the establishment. The impact multipliers are then calculated based on this reduced direct impact. Sales tax, however, is still calculated based on the total store sales (prices paid at the register).

Based on average sales per square foot in the region and the types of retail tenants that are expected to locate within the Project, it has been estimated that the retail components of the Project will generate \$250 per square foot by year 2.

Figure 4

Coldstream Research Campus Development Project Laboratory Space Estimates of Annual Economic and Fiscal Impact									
	Rate/ Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 20	20-Year Total
Sources of Impact									
Available Sq Footage		40,000	90,000	90,000	90,000	190,000	190,000	190,000	
Vacancy Rate		10%	10%	10%	10%	10%	10%	10%	
Total Output Per Sq Foot	\$300	\$12,000,000	\$27,540,000	\$28,090,800	\$28,652,616	\$61,698,633	\$68,120,276	\$83,038,237	
Total Output w/ Occupancy		\$10,800,000	\$24,786,000	\$25,281,720	\$25,787,354	\$55,528,770	\$61,308,249	\$74,734,413	
Estimated Net Profit	0%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Lab Employment	4.459	48	111	111	111	248	248	248	
Average Salary		\$67,730	\$69,085	\$70,466	\$71,876	\$73,313	\$80,944	\$98,670	
Direct Labor Income	0.302	\$3,261,438	\$7,634,700	\$7,787,394	\$7,943,142	\$18,151,149	\$20,040,335	\$24,429,056	
Economic Impact (Multiplier Effects)									
Direct		\$10,800,000	\$24,786,000	\$25,281,720	\$25,787,354	\$55,528,770	\$61,308,249	\$74,734,413	\$1,121,671,655
Indirect	0.495	\$5,342,490	\$12,261,015	\$12,506,235	\$12,756,360	\$27,468,694	\$30,327,658	\$36,969,246	\$554,862,926
Induced	0.364	\$3,931,621	\$9,023,071	\$9,203,532	\$9,387,603	\$20,214,638	\$22,318,594	\$27,206,241	\$408,332,227
Total Output		\$20,074,111	\$46,070,085	\$46,991,487	\$47,931,317	\$103,212,102	\$113,954,500	\$138,909,900	\$2,084,866,808
Labor Income	0.594	\$6,419,164	\$14,731,980	\$15,026,620	\$15,327,152	\$33,004,468	\$36,439,600	\$44,419,669	\$666,684,616
Total Employment	11.215	121	278	278	278	623	623	623	623
Fiscal Impact (Tax Revenues)									
State Tax Revenues									
State Sales and Use Tax	6.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Induced Spending	50% Taxable	\$117,949	\$270,692	\$276,106	\$281,628	\$606,439	\$669,558	\$816,187	\$12,249,967
State Individual Income Tax	4.20%	\$269,605	\$618,743	\$631,118	\$643,740	\$1,386,188	\$1,530,463	\$1,865,626	\$28,000,754
State Corporate income and LLE Tax	0.095% or 0.75%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total State Tax Revenues		\$387,554	\$889,435	\$907,224	\$925,368	\$1,992,627	\$2,200,021	\$2,681,813	\$40,250,721
Local Tax Revenues									
Local Occupational License Fee	2.25%	\$73,382	\$171,781	\$175,216	\$178,721	\$408,401	\$450,908	\$549,654	\$8,211,400
Total Local Tax Revenues		\$73,382	\$171,781	\$175,216	\$178,721	\$408,401	\$450,908	\$549,654	\$8,211,400
Total Tax Revenues		\$460,936	\$1,061,216	\$1,082,440	\$1,104,089	\$2,401,028	\$2,650,929	\$3,231,467	\$48,462,121

Figure 5

Coldstream Research Campus Development Project Office Space Estimates of Annual Economic and Fiscal Impact									
	Rate/ Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 20	20-Year Total
Sources of Impact									
Available Sq Footage		0	64,000	104,000	144,000	164,000	234,000	234,000	
Vacancy Rate		5%	5%	5%	5%	5%	5%	5%	
Total Revenue Per Sq Foot	\$400	\$0	\$26,112,000	\$43,280,640	\$61,125,581	\$71,007,550	\$111,860,664	\$136,357,526	
Total Revenue w/ Occupancy		\$0	\$24,806,400	\$41,116,608	\$58,069,302	\$67,457,172	\$106,267,631	\$129,539,649	
Estimated Net Profit	10%	\$0	\$2,480,640	\$4,111,661	\$5,806,930	\$6,745,717	\$10,626,763	\$12,953,965	
Office Employment	4.645	0	115	191	270	313	456	456	
Average Salary		\$0	\$101,075	\$103,097	\$105,159	\$107,262	\$118,426	\$144,360	
Direct Labor Income	0.470	\$0	\$11,647,121	\$19,691,206	\$28,366,242	\$33,611,160	\$54,007,807	\$65,835,215	
Economic Impact (Multiplier Effects)									
Direct		\$0	\$24,806,400	\$41,116,608	\$58,069,302	\$67,457,172	\$106,267,631	\$129,539,649	\$1,889,228,353
Indirect	0.339	\$0	\$8,412,362	\$13,943,491	\$19,692,499	\$22,876,120	\$36,037,548	\$43,929,569	\$640,676,337
Induced	0.445	\$0	\$11,047,419	\$18,311,097	\$25,860,904	\$30,041,750	\$47,325,814	\$57,689,904	\$841,359,398
Total Output		\$0	\$44,266,182	\$73,371,196	\$103,622,705	\$120,375,042	\$189,630,993	\$231,159,122	\$3,371,264,089
Labor Income	0.728	\$0	\$18,066,620	\$29,945,423	\$42,292,151	\$49,129,382	\$77,395,226	\$94,344,349	\$1,375,934,080
Total Employment	10.548	0	262	434	613	712	1,036	1,036	1,036
Fiscal Impact (Tax Revenues)									
State Tax Revenues									
State Sales and Use Tax	6.00%	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Induced Spending	50% Taxable	\$0	\$331,423	\$549,333	\$775,827	\$901,252	\$1,419,774	\$1,730,697	\$25,240,782
State Individual Income Tax	4.20%	\$0	\$758,798	\$1,257,708	\$1,776,270	\$2,063,434	\$3,250,599	\$3,962,463	\$57,789,231
State Corporate income and LLE Tax	0.095% or 0.75%	\$0	\$18,605	\$30,837	\$43,552	\$50,593	\$79,701	\$97,155	\$1,416,921
Total State Tax Revenues		\$0	\$1,108,825	\$1,837,878	\$2,595,649	\$3,015,279	\$4,750,075	\$5,790,314	\$84,446,935
Local Tax Revenues									
Local Occupational License Fee	2.25%	\$0	\$317,875	\$535,564	\$768,896	\$908,030	\$1,454,278	\$1,772,757	\$25,764,554
Total Local Tax Revenues		\$0	\$317,875	\$535,564	\$768,896	\$908,030	\$1,454,278	\$1,772,757	\$25,764,554
Total Tax Revenues		\$0	\$1,426,700	\$2,373,443	\$3,364,546	\$3,923,309	\$6,204,352	\$7,563,071	\$110,211,488

Figure 6

Coldstream Research Campus Development Project Hotel Estimates of Annual Economic and Fiscal Impact									
	Rate/ Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 20	20-Year Total
Sources of Impact									
Hotel ~ Available Rooms		125	125	125	125	125	125	125	
Occupancy Rate		70%	70%	70%	70%	70%	70%	70%	
Total Room Revenue	\$170	\$5,429,375	\$5,537,963	\$5,648,722	\$5,761,696	\$5,876,930	\$6,488,606	\$7,909,574	
Total Other Sales	\$15	\$479,063	\$488,644	\$498,417	\$508,385	\$518,553	\$572,524	\$697,904	
Total Hotel Revenue		\$5,908,438	\$6,026,606	\$6,147,138	\$6,270,081	\$6,395,483	\$7,061,130	\$8,607,478	
Estimated Net Profit	10%	\$590,844	\$602,661	\$614,714	\$627,008	\$639,548	\$706,113	\$860,748	
Hotel Employment	9.881	58	58	58	58	58	58	58	
Average Salaries		\$28,079	\$28,640	\$29,213	\$29,797	\$30,393	\$33,557	\$40,905	
Direct Labor Income	0.277	\$1,639,249	\$1,672,034	\$1,705,474	\$1,739,584	\$1,774,376	\$1,959,054	\$2,388,076	
Economic Impact (Multiplier Effects)									
Direct		\$5,908,438	\$6,026,606	\$6,147,138	\$6,270,081	\$6,395,483	\$7,061,130	\$8,607,478	\$143,559,491
Indirect	0.306	\$1,810,133	\$1,846,335	\$1,883,262	\$1,920,927	\$1,959,346	\$2,163,276	\$2,637,021	\$43,981,460
Induced	0.289	\$1,708,052	\$1,742,214	\$1,777,058	\$1,812,599	\$1,848,851	\$2,041,281	\$2,488,310	\$41,501,183
Total Output		\$9,426,623	\$9,615,155	\$9,807,458	\$10,003,607	\$10,203,679	\$11,265,687	\$13,732,809	\$229,042,133
Labor Income	0.472	\$2,786,224	\$2,841,949	\$2,898,788	\$2,956,763	\$3,015,899	\$3,329,796	\$4,059,002	\$67,697,918
Total Employment	14.425	85	85	85	85	85	85	85	85
Fiscal Impact (Tax Revenues)									
State Tax Revenues									
State Sales and Use Tax	6.00%	\$388,711	\$396,486	\$404,415	\$412,504	\$420,754	\$464,546	\$566,279	\$9,444,663
Induced Spending	50% Taxable	\$51,242	\$52,266	\$53,312	\$54,378	\$55,466	\$61,238	\$74,649	\$1,245,035
State Transient Room Tax	1.00%	\$54,294	\$55,380	\$56,487	\$57,617	\$58,769	\$64,886	\$79,096	\$1,319,195
State Individual Income Tax	4.20%	\$117,021	\$119,362	\$121,749	\$124,184	\$126,668	\$139,851	\$170,478	\$2,843,313
State Corporate income and LLE Tax	0.095% or 0.75%	\$4,431	\$4,520	\$4,610	\$4,703	\$4,797	\$5,296	\$6,456	\$107,670
Total State Tax Revenues		\$561,406	\$572,634	\$584,086	\$595,768	\$607,684	\$670,932	\$817,862	\$13,640,680
Local Tax Revenues									
Local Transient Room Tax	9.50%	\$515,791	\$526,106	\$536,629	\$547,361	\$558,308	\$616,418	\$751,410	\$12,532,356
Local Occupational License Fee	2.25%	\$50,177	\$51,181	\$52,204	\$53,248	\$54,313	\$59,966	\$73,099	\$1,219,171
Total Local Tax Revenues		\$565,968	\$577,287	\$588,833	\$600,609	\$612,622	\$676,384	\$824,508	\$13,751,527
Total Tax Revenues		\$1,127,373	\$1,149,921	\$1,172,919	\$1,196,378	\$1,220,305	\$1,347,315	\$1,642,370	\$27,392,207

Figure 7

Coldstream Research Campus Development Project Restaurant Space Estimates of Annual Economic and Fiscal Impact									
	Rate/ Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 20	20-Year Total
Sources of Impact									
Available Sq Footage		0	10,000	10,000	16,000	21,000	21,000	21,000	
Vacancy Rate		5%	5%	5%	5%	5%	5%	5%	
Total Revenue Per Sq Foot	\$350	\$0	\$3,570,000	\$3,641,400	\$5,942,765	\$7,955,876	\$8,783,930	\$10,707,562	
Total Revenue w/ Occupancy		\$0	\$3,391,500	\$3,459,330	\$5,645,627	\$7,558,083	\$8,344,734	\$10,172,184	
Estimated Net Profit	10%	\$0	\$339,150	\$345,933	\$564,563	\$755,808	\$834,473	\$1,017,218	
Restaurant Employment	22.838	0	77	77	81	84	84	84	
Average Salaries		\$0	\$20,307	\$20,713	\$21,127	\$21,550	\$23,793	\$29,003	
Direct Labor Income	0.464	\$0	\$1,572,832	\$1,604,289	\$1,719,175	\$1,806,165	\$1,994,152	\$2,430,860	
Economic Impact (Multiplier Effects)									
Direct		\$0	\$3,391,500	\$3,459,330	\$3,563,110	\$3,670,003	\$4,254,540	\$5,717,745	\$84,389,759
Indirect	0.309	\$0	\$1,047,923	\$1,068,881	\$1,100,948	\$1,133,976	\$1,314,589	\$1,766,698	\$26,075,170
Induced	0.422	\$0	\$1,430,419	\$1,459,028	\$1,502,799	\$1,547,883	\$1,794,420	\$2,411,551	\$35,592,731
Total Output		\$0	\$5,869,842	\$5,987,239	\$6,166,856	\$6,351,862	\$7,363,549	\$9,895,994	\$146,057,659
Labor Income	0.689	\$0	\$2,335,187	\$2,381,891	\$2,453,347	\$2,526,948	\$2,929,425	\$3,936,902	\$58,105,809
Total Employment	28.038	0	95	95	100	103	103	103	103
Fiscal Impact (Tax Revenues)									
State Tax Revenues									
State Sales and Use Tax	6.00%	\$0	\$203,490	\$207,560	\$213,787	\$220,200	\$255,272	\$343,065	\$5,063,386
Induced Spending	50% Taxable	\$0	\$42,913	\$43,771	\$45,084	\$46,436	\$53,833	\$72,347	\$1,067,782
State Individual Income Tax	4.20%	\$0	\$98,078	\$100,039	\$103,041	\$106,132	\$123,036	\$165,350	\$2,440,444
State Corporate income and LLE Tax	0.095% or 0.75%	\$0	\$2,544	\$2,594	\$4,234	\$5,669	\$6,259	\$7,629	\$115,030
Total State Tax Revenues		\$0	\$347,024	\$353,965	\$366,145	\$378,437	\$438,399	\$588,390	\$8,686,642
Local Tax Revenues									
Local Occupational License Fee	2.25%	\$0	\$43,020	\$43,880	\$51,384	\$57,644	\$63,644	\$77,582	\$1,212,734
Total Local Tax Revenues		\$0	\$43,020	\$43,880	\$51,384	\$57,644	\$63,644	\$77,582	\$1,212,734
Total Tax Revenues		\$0	\$390,044	\$397,845	\$417,529	\$436,081	\$502,043	\$665,972	\$9,899,376

Figure 8

Coldstream Research Campus Development Project Retail Space Estimates of Annual Economic and Fiscal Impact									
	Rate/ Assumption	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 20	20-Year Total
Sources of Impact									
Available Sq Footage		0	10,000	10,000	10,000	15,000	15,000	15,000	
Vacancy Rate		5%	5%	5%	5%	5%	5%	5%	
Total Revenue Per Sq Foot	\$250	\$0	\$2,550,000	\$2,601,000	\$2,653,020	\$4,059,121	\$4,481,597	\$5,463,042	
Total Revenue w/ Occupancy		\$0	\$2,422,500	\$2,470,950	\$2,520,369	\$3,856,165	\$4,257,517	\$5,189,890	
Output w/ Retail Margin	0.458	\$0	\$1,109,505	\$1,131,695	\$1,154,329	\$1,766,123	\$1,949,943	\$2,376,970	
Estimated Net Profit	10%	\$0	\$242,250	\$247,095	\$252,037	\$385,616	\$425,752	\$518,989	
Retail Employment	14.889	0	17	17	17	26	26	26	
Average Salaries		\$0	\$27,020	\$27,561	\$28,112	\$28,674	\$31,659	\$38,592	
Direct Labor Income	0.402	\$0	\$446,374	\$464,407	\$483,169	\$754,034	\$832,515	\$1,014,831	
Economic Impact (Multiplier Effects)									
Direct		\$0	\$1,109,505	\$1,131,695	\$1,154,329	\$1,766,123	\$1,949,943	\$2,376,970	\$36,314,806
Indirect	0.348	\$0	\$386,077	\$393,798	\$401,674	\$614,561	\$678,526	\$827,119	\$12,636,536
Induced	0.394	\$0	\$437,135	\$445,878	\$454,795	\$695,837	\$768,260	\$936,505	\$14,307,707
Total Output		\$0	\$1,932,717	\$1,971,371	\$2,010,798	\$3,076,522	\$3,396,728	\$4,140,593	\$63,259,049
Labor Income	0.644	\$0	\$714,082	\$728,363	\$742,931	\$1,136,684	\$1,254,991	\$1,529,827	\$23,372,355
Total Employment	20.311	0	23	23	23	36	36	36	36
Fiscal Impact (Tax Revenues)									
State Tax Revenues									
State Sales and Use Tax	6.00%	\$0	\$145,350	\$148,257	\$151,222	\$231,370	\$255,451	\$311,393	\$4,757,398
Induced Spending	50% Taxable	\$0	\$13,114	\$13,376	\$13,644	\$20,875	\$23,048	\$28,095	\$429,231
State Individual Income Tax	4.20%	\$0	\$29,991	\$30,591	\$31,203	\$47,741	\$52,710	\$64,253	\$981,639
State Corporate income and LLE Tax	0.095% or 0.75%	\$0	\$1,817	\$1,853	\$1,890	\$2,892	\$3,193	\$3,892	\$59,467
Total State Tax Revenues		\$0	\$190,272	\$194,078	\$197,959	\$302,878	\$334,402	\$407,634	\$6,227,736
Local Tax Revenues									
Local Occupational License Fee	2.25%	\$0	\$15,494	\$16,009	\$16,542	\$25,642	\$28,311	\$34,511	\$525,996
Total Local Tax Revenues		\$0	\$15,494	\$16,009	\$16,542	\$25,642	\$28,311	\$34,511	\$525,996
Total Tax Revenues		\$0	\$205,766	\$210,087	\$214,502	\$328,520	\$362,713	\$442,145	\$6,753,732

Summary of Annual Impacts

Figure 9 summarizes the total economic and fiscal impact from business activities occurring over the 20-year period and is shown by specific project components and total combined operational tax revenues for the entire Project. Projections assume an annual inflation rate of two (2) percent.

Figure 9

Coldstream Research Campus Development Project 20-Year Total Operational Impact Estimates of Annual Economic and Fiscal Impact						
	Retail	Restaurant	Lab	Office	Hotel	20-Year Total
Economic Impact (Multiplier Effects)						
Direct	\$36,314,806	\$84,389,759	\$1,121,671,655	\$1,889,228,353	\$143,559,491	\$3,275,164,064
Indirect	\$12,636,536	\$26,075,170	\$554,862,926	\$640,676,337	\$43,981,460	\$1,278,232,428
Induced	\$14,307,707	\$35,592,731	\$408,332,227	\$841,359,398	\$41,501,183	\$1,341,093,246
Total Output	\$63,259,049	\$146,057,659	\$2,084,866,808	\$3,371,264,089	\$229,042,133	\$5,894,489,738
Labor Income	\$23,372,355	\$58,105,809	\$666,684,616	\$1,375,934,080	\$67,697,918	\$2,191,794,779
Total Employment	36	103	623	1,036	85	1,882
Fiscal Impact (Tax Revenues)						
State Tax Revenues						
State Sales and Use Tax	\$4,757,398	\$5,063,386	\$0	\$0	\$9,444,663	\$19,265,446
Induced Spending	\$429,231	\$1,067,782	\$12,249,967	\$25,240,782	\$1,245,035	\$40,232,797
State Individual Income Tax	\$981,639	\$2,440,444	\$28,000,754	\$57,789,231	\$2,843,313	\$92,055,381
State Corporate Income and LLE Tax	\$59,467	\$115,030	\$0	\$1,416,921	\$107,670	\$1,699,089
Total State Tax Revenues	\$6,227,736	\$8,686,642	\$40,250,721	\$84,446,935	\$13,640,680	\$153,252,713
Local Tax Revenues						
Local Transient Room Tax	\$0	\$0	\$0	\$0	\$12,532,356	\$12,532,356
Local Occupational License Fee	\$525,996	\$1,212,734	\$8,211,400	\$25,764,554	\$1,219,171	\$36,933,855
Total Local Tax Revenues	\$525,996	\$1,212,734	\$8,211,400	\$25,764,554	\$13,751,527	\$49,466,210
Total Tax Revenues	\$6,753,732	\$9,899,376	\$48,462,121	\$110,211,488	\$27,392,207	\$202,718,923

As shown in Figure 9, over a 20-year period, the impact of the business activity occurring within the anticipated development is estimated to include \$5.9 billion of total output, \$2.2 billion of labor income, support for 1,882 jobs annually throughout the Commonwealth, and \$153.3 million of state tax revenues and \$49.5 million of local tax revenues (before including property tax impacts created by Project construction).

Figure 10 summarizes the total statewide estimated fiscal impact from business activities occurring over the 20-year period immediately following Project completion, as well as estimated incremental property tax revenues generated as a result of the Project’s construction.⁶

Figure 10

Coldstream Research Campus Development Project		
Estimated <u>Total</u> 20-Year Fiscal Impact		
	Tax Rate	20-Year Total
Estimated Tax Revenues from Project		
State Tax Revenues		
State Property Tax	0.12%	\$3,976,796
State Sales and Use Tax	6.00%	\$59,498,244
State Transient Room Tax	1.00%	\$1,319,195
State Individual Income Tax	4.20%	\$92,055,381
State Corporate Income Tax	0.75%	\$1,699,089
Total State Tax Revenues		\$158,548,704
Local Tax Revenues		
Lexington-Fayette County Property Tax	0.345%	\$10,640,372
Lexington-Fayette County School Property Tax	0.75%	\$23,395,080
Local Transient Room Tax	9.50%	\$12,532,356
Lexington-Fayette County Occupational License Tax	2.25%	\$36,933,855
Total Local Tax Revenues		\$83,501,663
Total Tax Revenues		\$242,050,367

⁶ It should be understood that these impacts include estimated tax revenues generated off-site as a result of initial activity occurring within the Project, as well as some local taxes (school, fire and other property taxing districts, as well as local transient room tax) that are not recoverable through TIF participation. While not all of these tax revenue streams may be recoverable, they are expected to be generated by the Project.

VII. CONCLUSION

This Project will provide extensive benefits to the Lexington Business Community and surrounding region of Kentucky and should be able to meet the statutory qualifications of the State's Mixed-Use TIF Program. The Coldstream Research Campus Development Project is positioned to provide brand new research laboratories to the bluegrass region, multi-family housing options and a hotel within a short walking distance to new entertainment (retail/restaurant) options, and provide high tech office space to the rest of the campus.

This mixed-use development project will only be made possible through a partnership between the public sectors and the University in order to provide support for the necessary infrastructure costs. The improved streetscapes, public spaces, and utilities will encourage new business growth in the area by making it a sustainable work location and a more feasible investment.

It is important that the State Mixed-Use TIF Program allow the University's Project to use the increase in tax revenue generated within its footprint to help alleviate the high costs associated with qualifying public infrastructure needs. Preliminary estimates show that approximately \$127.9 million in TIF-eligible incremental tax revenue could be generated within the TIF footprint. If 20 percent is retained by both the State and Local governments, approximately \$102.4 million of this incremental tax revenue could be available over 20 years to cover costs that qualify as approved public infrastructure.