Cabinet for Economic Development

Muhlenberg Alliance for Progress

Tax Increment Financing Loan Support Program

This fact sheet provides an overview of the Tax Increment Financing Loan Support Program. For the statutory details of the program, please see Kentucky Revised Statute 154.30-052. Some terms of the TIF Loan Support agreement will be negotiated by Cabinet for Economic Development officials subject to approval by the Kentucky Economic Development Finance Authority (KEDFA).

Eligible Agencies

Any agency with a Tax Increment Financing Signature Project approved by the former Tax Increment Financing Commission which executed its tax incentive agreement prior to January 1, 2008, may apply to KEDFA for approval to participate in the Tax Increment Financing (TIF) Loan Support Program.

Description of the TIF Loan Support Program

The Loan Support Program facilitates a supplemental reserve fund to cover debt service related to the bond financing of the TIF project. The Cabinet for Economic Development will extend a loan only in the event that the supplemental reserve fund is utilized to cover debt service and the agency is unable to replace the funds in the supplemental reserve at the end of the fiscal year. Any agency seeking to participate in the loan support program must file an application with KEDFA. As KEDFA, other state agencies and consultants review the application, additional information may be requested.

The supplemental reserve fund is established with funding from the local agency equal to at least 75% of the annual average increment or 200% of the average annual debt service including deposits to debt service reserves, whichever is greater. KEDFA will maintain the reserve for the term of the TIF agreement. If the supplemental reserve is used to cover debt service and the agency is unable to replace those funds at the end of any fiscal year, the Cabinet shall either provide available funds to replenish the supplemental reserve fund or seek funding from the Kentucky General Assembly for that purpose. Those funds used to replenish the supplemental reserve shall constitute a loan from the Cabinet for Economic Development. Collateral must be provided by the agency upon execution of the Loan Support Agreement to secure any future loan for that purpose.

The loan must be repaid by the agency according to the terms and conditions agreed to by the agency, KEDFA and the Cabinet in the Loan Support Agreement. The developers of the project must be a party to the Loan Support Agreement and must be willing to provide security sufficient to indemnify the Cabinet in the event that the agency is unable to repay the loan as agreed.

Prior to entering into a Loan Support Agreement with an agency, KEDFA staff may request assistance from the Office of State Budget Director, the Finance and Administration Cabinet and outside consultants to verify that the agency requesting the loan has the resources available to repay the loan at the end of the term and to verify that the collateral pledged is sufficient to support the total potential loan.

Balances remaining in the supplemental reserve account at the expiration of the Loan Support Agreement and after all loan amounts have been repaid to the Cabinet will be returned to the local agency.

The Process

- The agency must submit an application to Kentucky Economic Development Finance Authority (KEDFA).
- The total amount of the supplemental reserve as well as the required payment assurance and security will be negotiated with the Cabinet.
- The project must then be presented to KEDFA along with a Loan Support Agreement that sets forth the terms and conditions of the repayment of the loan, including but not limited to the following:
    1. Identification of the collateral or other forms of repayment assurance that will be available from the agency if the Cabinet for Economic Development makes a loan to the agency;
    2. A requirement that the developer or developers indemnify the Commonwealth or the agency, as the case may be, if the Cabinet for Economic Development makes a loan to the agency that the agency is not able to repay;

3. Identification of alternative methods for repayment of any loans if incremental revenues are insufficient;
4. A statement that KEDFA has verified that the agency requesting participation in the program has the resources available to maintain an acceptable balance in the account as required by statute;
5. A requirement that any balance remaining in the account of an agency at the expiration of the agreement, and after all required amounts have been repaid must be repaid to the agency; and
6. A statement that the interest rate charged on any loan made by the Cabinet will equal the weighted average of interest rates charged on the other financing used for the TIF development debt or market rates as determined by KEDFA.

- The agreement must be fully negotiated at the time of final approval and all fees due to KEDFA must be paid.
- The agency will be obligated to submit exhibits annually throughout the term of the Loan Support Agreement.

Fees

There is a non-refundable application fee payable upon submission of the TIF Loan Support application equal to $1,000. Fees, which the company may expect to incur as a result of final approval, include a loan origination fee equal to one-fourth of one percent (0.25%) of the final TIF Loan Support amount authorized in the Loan Support Agreement up to a maximum of $50,000. In addition, the agency will pay legal or other consultant fees related to the preparation of the Loan Support Agreement and other legal documents related to the security pledged pursuant to its terms.

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