



Kentucky Economic Development Finance Authority (KEDFA)

Kentucky Rural Economic Development Act (KREDA)

This fact sheet provides an overview of the KREDA program. For a full discussion of the program requirements, please see KRS 154.22-010 through 154.22-102. As with all state administered tax incentive programs, any inducements offered to an eligible company under the KREDA program are negotiated by Cabinet for Economic Development officials.

Eligible Companies

Any business entity that establishes new manufacturing plants or expands existing manufacturing operations in qualifying Kentucky counties is eligible.

Qualified Counties

Kentucky counties are designated KREDA eligible by meeting at least one of the three following criteria: (1) counties with an average annual unemployment rate exceeding the state average annual unemployment rate in the five preceding calendar years; (2) counties with an unemployment rate greater than 200 percent of the statewide unemployment rate for the preceding year; and (3) counties meeting a three part test (three-year unemployment, education attainment and road quality). Once a company is operating under a KREDA agreement, the company maintains its KREDA benefits regardless of the county's KREDA status.

Eligible Projects

All fixed assets of the project are potentially eligible for recovery through the KREDA tax incentives. The project's real estate must be acquired by the approved company through either the acquisition of title or through a capital lease as defined under FASB13. The project must also create a minimum of 15 new jobs for Kentucky residents and the project's total capital investment must exceed \$100,000.

Tax Incentives

A KREDA approved company is eligible to receive a 100 percent credit against the Kentucky income tax liability on taxable income generated by the project and may also utilize the Job Development Assessment Fee (JDAF). The JDAF entails a withholding equal to 4 percent of the gross wages from the employees hired as a result of the KREDA approved project. The employees recoup the JDAF through a state income tax credit equal to the amount of JDAF withheld. As a convenience, the JDAF is offset against normal state income tax withholding for each pay period and the employee receives credit on the W-2 statement as if the JDAF was withheld and remitted to the state. The total KREDA incentives (the tax credit and job development assessment fee) are limited to the amount authorized in an incentive agreement over a maximum term of fifteen years. Any unused incentives remaining after the incentive agreement has expired are not accessible.

Minimum Employee Compensation

Pursuant to KRS 154.22-040, any company participating in the KREDA program is required to compensate at least 90 percent of its employees whose jobs were created as a result of the project with a minimum hourly wage established for the county in which the project locates. In addition, the participating company must provide its new employees with benefits as defined in KRS 154.22-010 equal to 15 percent of the county minimum hourly wage. If employee benefits are less than 15



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percent, a company may utilize a combination of wages and employee benefits equivalent to 115 percent of the county minimum hourly wage.

The Process

- The company makes application to KEDFA.
- The total amount of incentive available to a project is negotiated with the Cabinet.
- KEDFA preliminarily approves the company, authorizes its project and enters into a memorandum of agreement with the company that sets forth the maximum incentives available under KREDA.
- The company completes its project and provides KEDFA with documentation in connection with the project's fixed asset costs.
- An Incentive Agreement is approved by KEDFA that authorizes the KREDA incentives for the company.
- The company activates the Incentive Agreement, initiates its 15-year recovery period and begins to utilize the KREDA incentives.

Fees

There is a \$500 non-refundable application fee payable upon submission of the KREDA application. Fees which the company may expect to incur as a result of final approval include an administrative fee equal to 1/4 of 1 percent (\$40,000 maximum) of the final KREDA amount authorized in the Incentive Agreement. In addition, the company will incur legal fees necessary for the preparation of the Incentive Agreement.

2004/2005 KREDA QUALIFIED COUNTIES

1. Allen	14. Clinton	27. Hardin	40. Lewis	53. Muhlenberg	66. Taylor
2. Ballard	15. Crittenden	28. Harlan	41. Lincoln	54. Nelson	67. Todd
3. Bath	16. Cumberland	29. Harrison	42. Livingston	55. Nicholas	68. Trimble
4. Bell	17. Edmonson	30. Hickman	43. Logan	56. Ohio	69. Union
5. Boyd	18. Elliott	31. Hopkins	44. Magoffin	57. Owsley	70. Wayne
6. Bracken	19. Estill	32. Jackson	45. Marion *	58. Pendleton	71. Webster
7. Breathitt	20. Fleming	33. Johnson	46. Marshall	59. Perry	72. Whitley
8. Breckinridge	21. Floyd	34. Knott *	47. Martin	60. Pike *	73. Wolfe
9. Butler	22. Fulton	35. Knox	48. McCreary	61. Powell	
10. Carlisle	23. Graves	36. Lawrence	49. McLean	62. Pulaski	
11. Carter	24. Grayson	37. Lee	50. Menifee	63. Robertson	
12. Casey	25. Green	38. Leslie	51. Monroe	64. Rockcastle *	
13. Clay	26. Hancock	39. Letcher	52. Morgan	65. Russell	

* Denotes a county that has been decertified, however, projects may be approved through June 30, 2005.



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