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Downtown developers eye plan to redistribute tax revenue

by Chris Harris

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John Farris, at right, president of Commonwealth Economics, will be helping Somerset determine if a Tax Increment Financing plan is an opportunity to revitalize downtown. Farris held a press conference Wednesday at the the Downtown Somerset Development Corporation office, accompanied by Casey Bolton, left, a senior associate at the firm.

Chris Harris photo
Commonwealth Journal



The agency tasked with keeping downtown Somerset alive is banking on the potential of new tax revenue to help revitalize the center of Pulaski County's commercial hub.

A Tax Increment Financing (TIF) district could be the key, according to plans unveiled by the Downtown Somerset Development Corporation (DSDC) on Wednesday. The organization has initiated a study that they hope will bring millions of dollars in economic vitality to the area. Officials are optimistic it could have an impact on the long-discussed Virginia Cinema makeover, breathing new life into the defunct downtown theater.

"It's too early to be certain about anything," said DSDC President Jamey Tilley, "but our board feels it's an avenue that should be explored."

Under a "TIF" plan, local and state governments would rebate as much as 80 percent of any new tax revenue that results from a development back to its own certain area. This tax money would pay for infrastructure work needed to create the development.

In other words, a project like the Virginia Cinema could end up producing the kind of revenue that would allow it to pay for itself under the proposed plan. Likewise, new developments in the area around the facility could produce financing for it and overall downtown revitalization.

Rather than these projects being solely paid for up front, the tax revenue generated will essentially help retroactively pay for the costs.

Officials stressed that taxpayers won't be paying anything more than they are now, with no change in the rates, and that this isn't a special taxing district of any sort. However, government agencies get new tax revenues that wouldn't exist without the new development.

Commonwealth Economics of Lexington will soon begin a study to determine if a TIF is feasible for Somerset. Commonwealth Economics President John Farris — a former Secretary of Finance for the state — has been involved with practically every TIF project in the state since the legislation enabling such an approach was formed eight years ago. (TIF funding was opened up to all Kentucky cities in 2007 after initially only being available in Louisville.)

Farris called the plan a "public-private" partnership, and a "win" for all parties involved.

"Basically, it's a redirection of tax funds, mostly sales taxes," said Farris. "The new tax revenues that result from the development are used to create the development."

Farris noted that downtown redevelopments typically feature high-cost public infrastructure and can have a hard time recouping costs, because of the nature of older buildings and other factors.

"If you wanted to put modern utilities or broadband or other infrastructure type services into the Virginia theater, that's going to have a high cost, maybe prohibitively high for a private developer," said Farris. "By using the TIF, the reimbursement of the TIF dollars is feasible when it wouldn't otherwise be feasible."

DSDC Executive Director Gib Gosser said that the idea to look into a TIF grew out of a Chamber of Commerce visit to Bowling Green, Ky., last summer, where some \$200 million is being spent on major improvements.

Similar TIF projects have been initiated in the Kentucky cities Louisville, Lexington, Dayton, Georgetown, and Versailles, according to the DSDC. Farris specifically noted the Red Mile redevelopment plan in Lexington and the KFC Yum! Center in Louisville as examples of TIF success stories.

Gosser specifically had the Virginia Cinema in mind when the idea of TIF funding first came on the radar — he said it's a plan the city has been working on since last June — but has seen wider potential for how the plan could help downtown Somerset.

"If successful, this (plan) could touch every building in the downtown area," said Gosser. "It's got some great potential. Everything has some stumbling blocks along the way ... but it's much, much broader than a single project. It's an entire community project."

Still, the Virginia Cinema may be the centerpiece of the plan. Since the DSDC has struggled for years to find the money to redevelop the theater, using the Virginia Cinema along with a growing number of restaurants and clubs could bring people back to the central business district where they would help produce the spending to pay for the revitalization itself.

Officials noted that in order for the plan to work and realize public sector improvements, there must be a great deal of private investment in the TIF district.

"Most of the income in a successful TIF project comes from redirecting sales tax funds that would have otherwise gone to Frankfort," said Farris.

"Without some retail spending in the TIF district, there is no new sales tax revenue to pay for the improvements."

Farris said that communities respond positively to TIF set-ups when they understand the benefits. "The states often times will match the local revenue in taxes 5- or 10-to-1," he said. "So, the sales tax is the big Kahuna, sometimes generating enough dollars to help pay, whereas the local taxes are smaller."

"You're really using money that's created here in Somerset, rather than sending it to Frankfort and diverting it all over the state ... it comes right back into the area."

Farris' study will help the DSDC determine the feasibility of a TIF district, the possible boundaries, and how much money could be expected under certain conditions.

"First, you want to look at the tax generation that's going on now; that creates the baseline," said Farris. "Then you want to look at what redevelopment opportunities are, if it will fit within the statute. Also, what are the potential new revenues to come out of that? There's excitement with the new laws passed (in Somerset) with the 'wet/dry' issue that there could be some more establishments open downtown. So we're going to model that out and look at potential tax revenue sources from new entities."

Officials expect the initial phase of the work to take three months. At that time, the DSDC will decide whether or not to proceed by the response from state and local governments, which will be asked to support the concept.

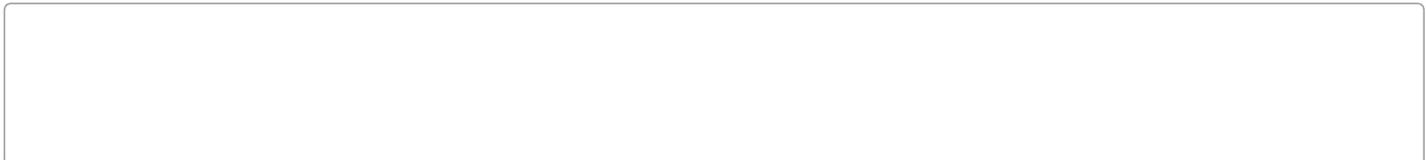
Still, the DSDC has reason to be optimistic about the future of the TIF strategy.

"I think, just at first glance, (downtown Somerset) looks ripe for redevelopment," said Farris. "The Virginia is a central part of that but it won't be the only part of that. I think we've identified a five-block area we want to look at closely and see what components will be most feasible."

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