CITY OF SHEPHERDSVILLE
SPECIAL COUNCIL MEETING MINUTES
MONDAY, APRIL 4, 2016

Gloria Taft gave the invocation.
The Pledge of Allegiance was cited.
Mayor James called the meeting to order at 9:18 a.m. and called John Snider to address the Council.

Council members present: Gloria Taft, Bernie Brown, Dana Bischoff James, Ashley Bratcher

John Snider: I would like to introduce Annabeth Bobbitt to talk today about Enhanced and Unenhanced counties and what that is going to change in Shepherdsville as well as Bullitt County over the next few years and in relationship to attracting and retaining new jobs in this area. I would like for her to come forward and discuss it and then we would like to go in to Executive Session to talk about an expansion here in Bullitt County.

Annabeth Bobbitt: Thanks for having me. John asked me to come and explain this a little bit because this is more of our territory and where you all are going to be going. For some people you have no idea what enhanced versus other unenhanced means so I'll start from the beginning and go through why that status is quo and explain it a little bit further on where you've been and where you're going. It's tied to incentive programs that we give to companies who are locating and expanding. One of the programs that is tied to is called the Kentucky Business Investment. We have a lot of alphabet soup in our incentives, it's call the KBI in short term and what that does is allows companies to recover a portion of their investment back to whether it's land, building, equipment, any fixed assets they will be spending to do expansions or to locate. They will be able to recover that either 10 years or 15 years by using a combination of corporate income tax liability that they would have to the State and what we call a wage assessment. I think every State has a wage assessment; in Kentucky we call it a wage assessment, it's basically a payroll tax. The maximums that they can get off that through recovery is 4% or 5% and that's all tied to whether you're enhanced or you're an Other is what we title it. It is 4% in other counties which you'll be going to; and it's 5% in enhanced counties and the biggest difference in that is an enhanced county you as a community, a City, a County you just have to support the project you don't necessarily have to participate with a local occupational tax. It is all coming from the State. The 5% wage assessment on any new employees; so it's a payroll tax, they pay into the State 6%; the State reimburses the company 5% of that; so that's what that means in enhanced. With it being an Other County it's up to 4% wage assessment which is 4%, 3% comes from the State; 1% from the locals. That's the maximums and we at the State level have to participate and match what the locals do. So if you don't participate at a full 1% we match it to the percent you don't; a .5% we match it .5 of 3%. So it's all based on local participation as to what the State will do to match that. I'll go in a little bit further on that. So the employees never see a difference. They never know that they are the ones being used to take this wage assessment. I will say most companies will take the wage assessment because they can take it from a time value of money; they can take it every time the cut payroll or they can work with Revenue to get a refund quarterly, annually; however they want to do that. We at the Cabinet do prepare what the tax incentive amount would be and we use a lot of things to determine that. It's based on we do look at what their wages are because it's a direct reflection of what that's going to be. The higher you pay the higher the average the higher they could get back a better wage assessment. But we look at all things. We look at their investment, we look at their wages, we look at the impact to where they are going, the locations, all of that goes in to perform ROIs and we do our due diligence to figure out what amount is going to be. You don't just want to calculate 4 or 5% on somebody's wages, that's what they are going to get, because more than likely we don't approve them for everything they can recover it's got to be a win win for the State, it's got to be a win win for the Company and for the Community. So we do a lot of due diligence in trying to figure out that tax incentive amount so once you hear the approvals of that's what we do behind the scenes; we take all the information they have and gather it together and figure out what they will be. There are statutory minimums on this program. The wage targets that have to be put in to place for this to happen in enhanced counties is $9.06 without benefits; and $10.42 with benefits. In Other counties it has to be $10.88 without benefits and $12.51 with benefits. Those standards are a lot higher in counties that are considered not enhanced or Other. I'll go in to the classifications and how this is determined. You're probably going why are we now going to be an Other County and it's not a bad thing. Typically it's a good thing, it means you've come out of the criteria that has been put through the Statutes that you're changing some of these things and it's going to be a good thing. There are three main things that make you an Enhanced County and I'll go through those so that you know how in the Statues that's determined so that's not something we just oh throw up in the air as a Cabinet and say this is what we're going to determine or cities determine it. This is all done through Statutes and Legislatively. They have to have to be considered an Enhanced incentive eligible county you have to have a least one of these three criteria to make you that. Counties with an average annual unemployment rate that exceeds the State average annual unemployment rate in the preceding 5 calendar years; that's looking back a long time. The second thing is counties with an unemployment rate greater than 200% of the Statewide unemployment rate for the preceding year; or counties identified as one of the 60 most distressed counties based on a three part test and that three part test is 3 year unemployment, education attainment and road quality. So my guess is when we looked at these things obviously road infrastructure is getting better, you want your education attainment to be higher and you want your unemployment rate to be below the average so that's not to say that you couldn't drop back in to an Enhanced county at some point. Some fluctuate; they'll go into Other and then out of it and back and forth so that is looked at every year. We will come back and look at those again and see what those numbers are but for 2015-2016 you will be moving in to what we call decertifying. So projects that happen before June 30, 2017 are eligible for Enhanced incentives; projects that happen after that would be considered Other. So what that means if projects go for approval now; there is a three stop process in that Kentucky Business Investment program so the KBI is a three stop process. There is preliminary approval which is the very first approval that allows the company to see what the State support is going to be so it's basically the State and the communities commitment to this company as to what they are going to do and they put their projections as to what the project is going to look like. Then you have a next step which is final approval and a following step which is actually activating the program. So after preliminary they have two years if they are leased and three years if they are owned to go for final approval. So when that June 30, 2017 date play in to it it's that they actually have to have that tax incentive agreement in place which is at final approval before that date to be considered Enhanced; otherwise there are going to go to Other and most projects don't happen that quickly so anything being approved after this month's date would probably be going in to the Other category just because the timing to get things built and equipment purchased and hires made. Then activation you actually have up to two years to activate after you go for finals. The reason I'm talking about these times lines is because you have to think about it in a sense that some of these people are going to be hired before they ever start activating and taking money. So you're technically getting some of these wages in and these new employees paying before you have to actually give anything back because it takes quite some time for a company to get up an going and getting their job and wage targets hit before they go for approval. That three step process is kind of what a County goes through and like I said the County and City and the State doesn't give up anything until they actually start to claim the credits on activation. For example, a company hires 50 people at an average hourly wage of $20.00 an hour, which is a pretty good wage. A 1% wage assessment would be roughly $200,000 or $20,000 a year. I don't know the percentages but I will say that's the worst case scenario that the County or City would give up because a lot of times if they can get it through the State just because the larger chunk is coming from the State they typically take it that way and don't necessarily have to contact the local occupational office to take a wage assessment on that too. Worst case scenario you give it up because that's what you've agreed to in the agreement but not every time does a company use that. I don't know the percentages because we don't keep track of that but there is quite a few that just do it the easy way if they only have to go through one step they only go through one step. Sometimes too we give them an option; there use to be in our incentive programs where you had to choose one or the other, a wage assessment or a corporate income tax to be able to recover that investment back on now though our program is flexible they get to choose one or the other and I will say they typically take the wage assessment because the corporate income tax liability has to be apportioned just to that project so if it's an expansion it's hard to tell what is just the corporate income tax from that piece of it so that they typically go with the wage assessment but not always. We've got some large distilleries here in the State that have a lot of corporate income tax and they typically take it that way. So we give them the flexibility to choose but we do have to have that support. The last thing I'll touch on it the decisions to be made by the communities and it's a mixed bag as to what communities do across the State. All my advice would be is to be consistent so it's not a guessing game as to if you're going to support it or you are not going to support it. I would try to be consistent with your industries so if it's manufacturing paying roughly the same amount of wages and the same type of investment I would support them as you maybe supported one before. If it's distribution same thing, you'll look at how you are going to support those and do it the same way moving forward. To give you an idea of what some communities do I won't tell exactly which communities do it because it's all across the board and I don't know if I'd pinpoint each one but there are several that always give up the full 1% for every eligible project; they say if the State is going to support it we're going to support it at the full percentage as long as they hit the statutory minimums. Some give up .5% for the term, for the 10 years. Some give of .25% or .75%; you can change your percentages also depending on what the wage requirements are so some communities get really involved in this and say let's look at what their wages are going to be if they are in $25,000-$30,000 range we give .5%; if they are $35,000-$45,000 we give .25% or if they are above a certain wage we'll always support it 1%. Some tie it to wages some tie it to investment; they say if it's a million dollar investment we might only go .5 % if they are investing $100 million in our community no matter what those wages are as long as they qualify we would do it. So there can be a matrix put into place but the biggest thing I can say is just be consistent because it is public record as to what those companies do receive as far as the tax incentive amount goes and what their wages and investment are tied to that. There is very few things that become public so it would be best to be consistent because there are other companies that are already locating there; your existing businesses can see what you're giving new or existing companies and it's always good to just be fair to all. That again is always up to you on how you want to do that. I know that you have things in place for roads and other infrastructure that you're using some occupational tax to do that; I think there are ways you can be creative as well to support projects going forward. Anybody have any questions. I can open it up. Gloria Taft: You said that the statutory minimum wages, what were the wages for Other? Ms. Bobbitt: $10.88 and $12.51. Question from the audience: Is here a website or any reading material available? Ms. Bobbitt: There is. ThinkKentucky.com; we have a financial incentives tab that gives you all the information on all our financial incentives but the Kentucky Business Investment (KBI) is the main program that any County or City would have to give participation. Question from the audience: Is there a downside to this for the community? Ms. Bobbitt: I don't know of any because the way I look at it is any business looking to grow and invest in your community is something you didn't have before so it's only continuing to change that landscape. I truly don't. This is a performance based incentive program. They can get the approval but if they do not hit their targets they do not get to take benefit of the full tax incentives. So it's a pro-rated program where if they hit 50% of their job targets or 50% of their wage targets; those are the two that we typically monitor on. They have to hit those, they can be within 90% of that but if they are not; if they fall below that it's pro-rated to the percentage. That's the one good thing about this program there is no fallbacks but its performance based and they do have to perform in order to receive those. So you know what the true impact of those revenues are going to be. Bob Ryan: What is the number of years they have to pay these incentives back? Ms. Bobbitt: It's a 10 year program for an Other County; that can sometimes be negotiated with the company to be shorter where they recover it at a quicker rate. Bob Ryan: What happens if during this 10 years the company doesn't succeed and goes out of business? Ms. Bobbitt: The program is suspended and it will be withdrawn. Bob Ryan: And the City does it get any money back? Ms. Bobbitt: No you wouldn't get any money back because if they've been in business and they've hit their targets up until that point then you would be giving away the wage assessment portion of that to the company. But they have to be employing those people. They have to be in business making an impact to the community. No there wouldn't be any money back because it's truly based on performance. If they do what they say they are going to do the State will just rebate them and the community will just give them a portion of what they are paying in. If they went away you wouldn't get any local occupational tax; there would be nothing to give anyway. Bernie Brown: Who monitors their performance to see if they are meeting criteria? Ms. Bobbitt: We at the Cabinet have a whole monitoring division that monitors them on a yearly basis. They have to fill out exhibits, tell their wages, investments, what they've done the prior year. Bernie Brown: Is that information that you do every year fed back to the community? Ms. Bobbitt: It is not public information. Nicky Rapier: That's a yes or no question. If they are eligible they get it. If they are ineligible they don't release information indirectly. It's either they are eligible or they aren't eligible. Bernie Brown: What happens then if the State determines they are not performing as they committed. Then what? Ms. Bobbitt: It's a pro-rated percentage so whatever they fall below; if they say you don't have 50 jobs and only got to 25 then its pro-rated 50% and the maximum recovery is pro-rated 50%. So the maximums they can recover all self-adjusts. Dana Bischoff James: You said in 10 years for the Other as far as the longevity on the program, what is the Enhanced? Ms. Bobbitt: 15. Faith Portman: Is the County going to do this? Have you went to the County? Ms. Bobbitt: I think we are; I can't speak on behalf of the County. John Snider: If you're inside the City limits it applies to the City. If you're outside the City limits it's County. Faith Portman: Have you contacted other cities in Bullitt County and the County? John Snider: I invited them all this morning. Ms. Bobbitt: Yes all counties and cities are made aware of their designation when it happens. When it legislatively comes out they do know what they're going to become. Gary Board: Is this just for new businesses? Ms. Bobbitt: No it's for new and expanding. We look at it just from the standpoint of new growth; so it's always going to be new business and we do have a lot of matrix out there to recover what an existing business has done so we baseline them at their employment levels; they have to provide information that states where they currently are so we can truly just measure the growth. Nicky Rapier: One thing it is new jobs like when you all dealt with the Game Stop project; the jobs that were moving from Louisville are not eligible for this; just the new jobs. So if jobs are already in Kentucky they are not eligible for this it has to be either new jobs or jobs from out of State. So if you had a project move in from Taylorsville to Shepherdsville they wouldn't be eligible unless they increased jobs much like your Game Stop. It's new Kentucky jobs. Ms. Bobbitt: That's correct but I will say it can be somebody working in Kentucky at a different business. We don't monitor if they were hired from somewhere else. We always want the opportunities for all businesses. If that company had incentives if they lost a person they have to back fill it to hit their baseline. We do a good job of monitoring where each business is, if they have incentives through the State and locals to make sure that we baseline them at the correct employment and then any growth. We always want to look at growth and we measure unemployment rates to see that but we always want good opportunities. If somebody is going to leave one business to go to another that means they are getting paid more and there is more opportunity there for them so we're always looking for better opportunities. Gary Board: Is this full time or part time employees? Ms. Bobbitt: It has to be full time Kentucky residents. If they are living in Indiana coming over here they are not eligible to receive incentives. Frank Cramer: How about contract workers. If they have 50 employees to start out with that are full time and over a period of time 20 of them leave and they hire 20 contractors would they still be eligible for that? Ms. Bobbitt: They have to be full time employees with that company. Temp agencies and contracting services typically are not considered eligible because they are not taking the risk on those employees and paying the benefits and that's not the company that made the investment. So it all has to be tied together in order for it to be eligible. Frank Cramer: You just said typically so typically what other option is there where they could possibly do this? Ms. Bobbitt: You can have a temp agency hire the people for a probationary period of time; but they have to become full time employees of that company eventually. Frank Cramer: Do they get the break during their probationary period or only after they have been hired full time. Ms. Bobbitt: Only they've been hired full time. Frank Cramer: And it wouldn't be retroactive? Ms. Bobbitt: No it would not be. Dana Bischoff James: Would that be only on employees or could it also be paid on a pay increase or also as far as building, infrastructure, and such. I guess what is the definition? Ms. Bobbitt: They have to have eligible investments of at least $100,000 made. Eligible investments would be expanding the building, buying more equipment, infrastructure improvements in the building. Anything that they would need to do; putting on a new line, it doesn't necessarily have to be building on to their building but they have to make some kind of eligible investment to be able to say that is an expansion that hits the minimum.

Mayor James asked for a motion to adjourn to Executive Session to discuss a possible business expansion in Shepherdsville. Dana Bischoff James made motion to adjourn to Executive Session. Gloria Taft 2nd. 3-0-1 (BB) Not voting. Mayor James asked that Annabelle Bobbitt, Nicky Rapier and John Snider to join in Executive Session.

Gloria Taft made motion to return to Regular Session. Ashley Bratcher 2nd. Motion carried 3-0-1 Not voting.

City Attorney Joe Wantland: Report from the meeting; the Mayor has been authorized by the Council to send a Letter of Support for the project as proposed by the Economic Development Agency, Bullitt County and this should be coming back at our next meeting but the Mayor has been authorized to send a letter in support of the project.

Dana Bischoff James made motion to adjourn. Ashley Bratcher 2nd. Motion carried 3-0-1 Not voting Meeting adjourned at 10:17 a.m.

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Honorable Brian James, Mayor Tammy Richmond, City Clerk