



Business Incentives and Economic Development Expenditures: An Overview of Kentucky's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Kentucky's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Kentucky.

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

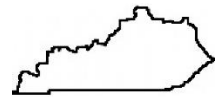
In Fiscal Year (FY) 2014, the most recent year for actual spending data is available for all program types, the State of Kentucky spent approximately \$210 million on economic development program expenditures and spent an estimated \$837 million on economic development tax expenditures.¹

Overview of Business Incentives

Kentucky has a moderate number of incentive programs, with a total of 34 active incentive programs including programs specific to targeted geographic areas. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, tech and product development, site facility improvements, and so forth.²

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Kentucky.



Kentucky’s incentive programs are currently provided through nine different agencies. The responsibility for administering a significant portion of state business incentives falls to the Kentucky Cabinet for Economic Development (KCED). KCED is responsible for administering 11 of Kentucky’s 34 active incentive programs; the Kentucky Economic Development Finance Authority (KEDFA) administers six. Both KCED and KEDFA are governed by the Kentucky Economic Development Partnership (KEDP). The Kentucky Science and Technology Corporation (KSTC) also administers six programs. KSTC is a private non-profit corporation that functions as a venture capital firm offering exclusively direct business financing (See Figure 1).

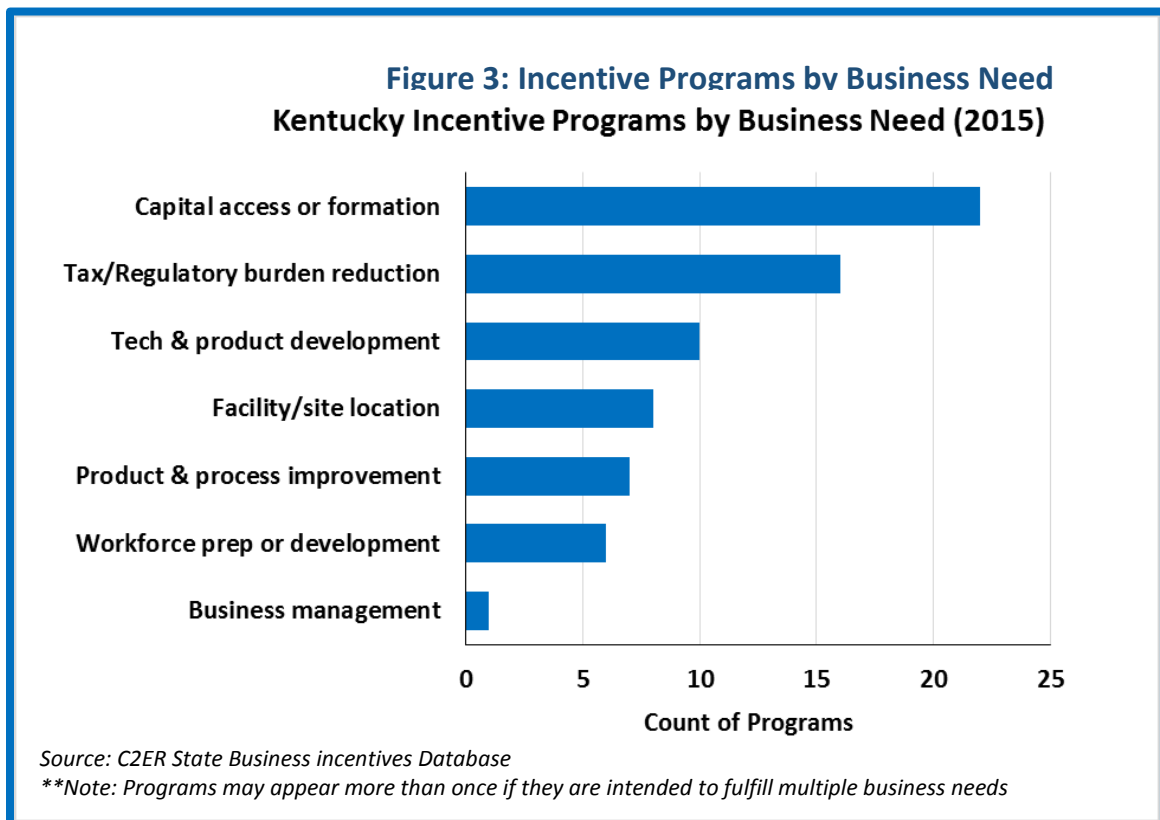
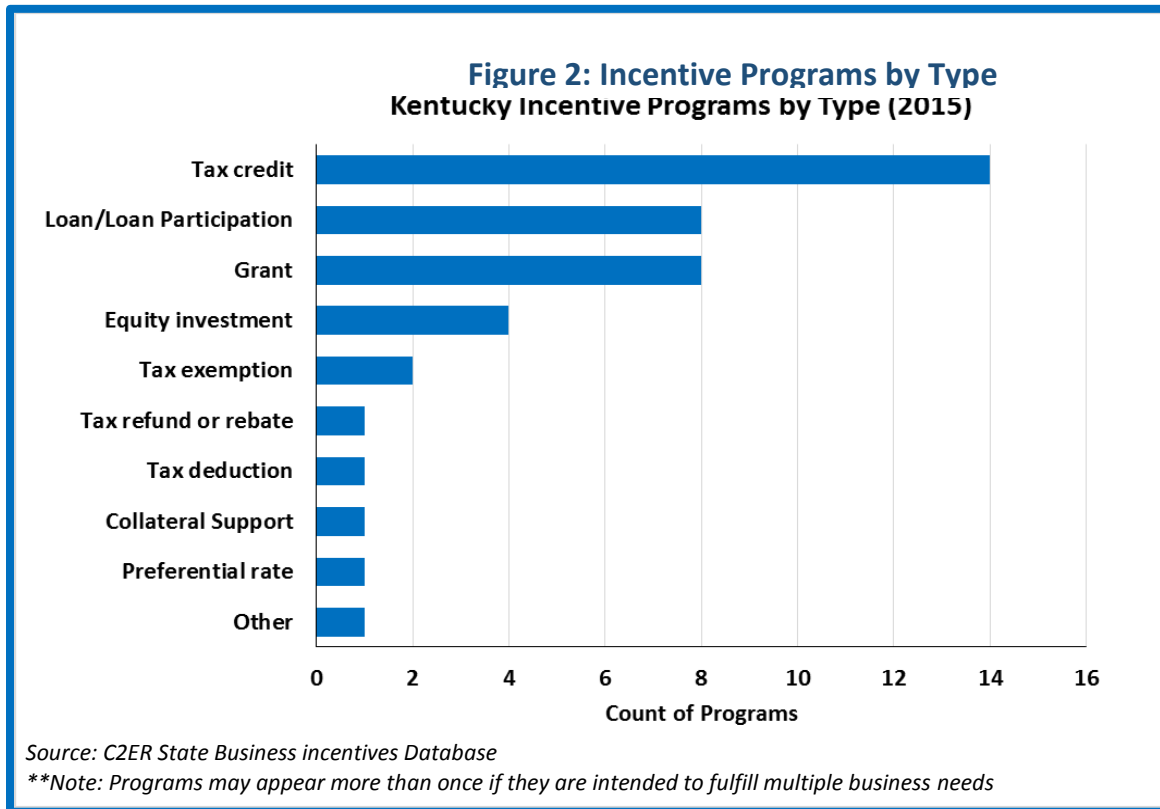
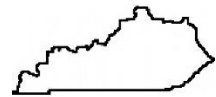
Figure 1: Kentucky State Business Incentives by Agency, 2015

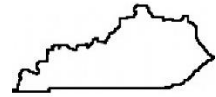
State Agency	Number of Programs
Kentucky Cabinet for Economic Development	11
Kentucky Science and Technology Corporation	6
Kentucky Economic Development Finance Authority	6
Kentucky Department of Revenue	4
Bluegrass State Skills Corporation	2
Kentucky Department of Travel & Tourism	2
Kentucky Governor's Office for Local Development	1
Kentucky Film Office	1
Kentucky Office of Employment and Training	1

Source: C2ER State Business Incentives Database

In regards to incentive type offered, tax credits are the most common. Fourteen different tax credits are provided by the state as of 2015. Following are grants and loans with 8 programs, respectively. Equity investment had 4 different programs. These programs facilitate capital investment for early-stage companies in exchange for partial ownership. Primarily, the KSTC is responsible for administering equity investment incentives. Kentucky is among a handful of states which have long emphasized entrepreneurial support through equity investments (See Figure 2).

Reflective of Kentucky’s entrepreneurial support, a majority of state business incentives fulfill business’ need for capital access or formation (See Figure 3). Nearly two dozen of the state’s incentives provide some form of access to capital for entrepreneurs. Beyond providing capital access, another business need fulfilled by Kentucky incentives is tax/regulatory burden reduction. Over a dozen of Kentucky’s incentives seek to reduce businesses’ tax/regulatory burden, in particular their corporate tax burden in exchange for qualified investments that expand on revive a company’s presence within the state. Notably, despite the preference for tax incentives, tax/regulatory burden reduction is not the greatest business need fulfilled in Kentucky – one reason may be the nature of Kentucky’s incentive programs. This is in large part due to many of the state’s business incentives offering tax credits to investors who support the state’s venture capital industry. Although the program employed may function as a ‘tax incentive’, the need it fulfills is to provide capital access or formation. Moreover, there are many Kentucky programs which offer loans and grants to early-stage companies which seek fulfill entrepreneurs’ need for greater access to capital.





Economic Development Program Expenditures

Examining Kentucky's budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³

According to Kentucky's FY 2014-2016 Biennial Budget, which details the state's finances and appropriations for the 2015 and 2016 fiscal years and revised program expenditures, the state spent \$210 million on economic development in FY 2014. This level of spending represents on average a \$1,731 investment per in-state establishment, which is above the national median of \$875 in FY 2014.

State Economic Development Expenditures Function Areas

- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority Business Development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

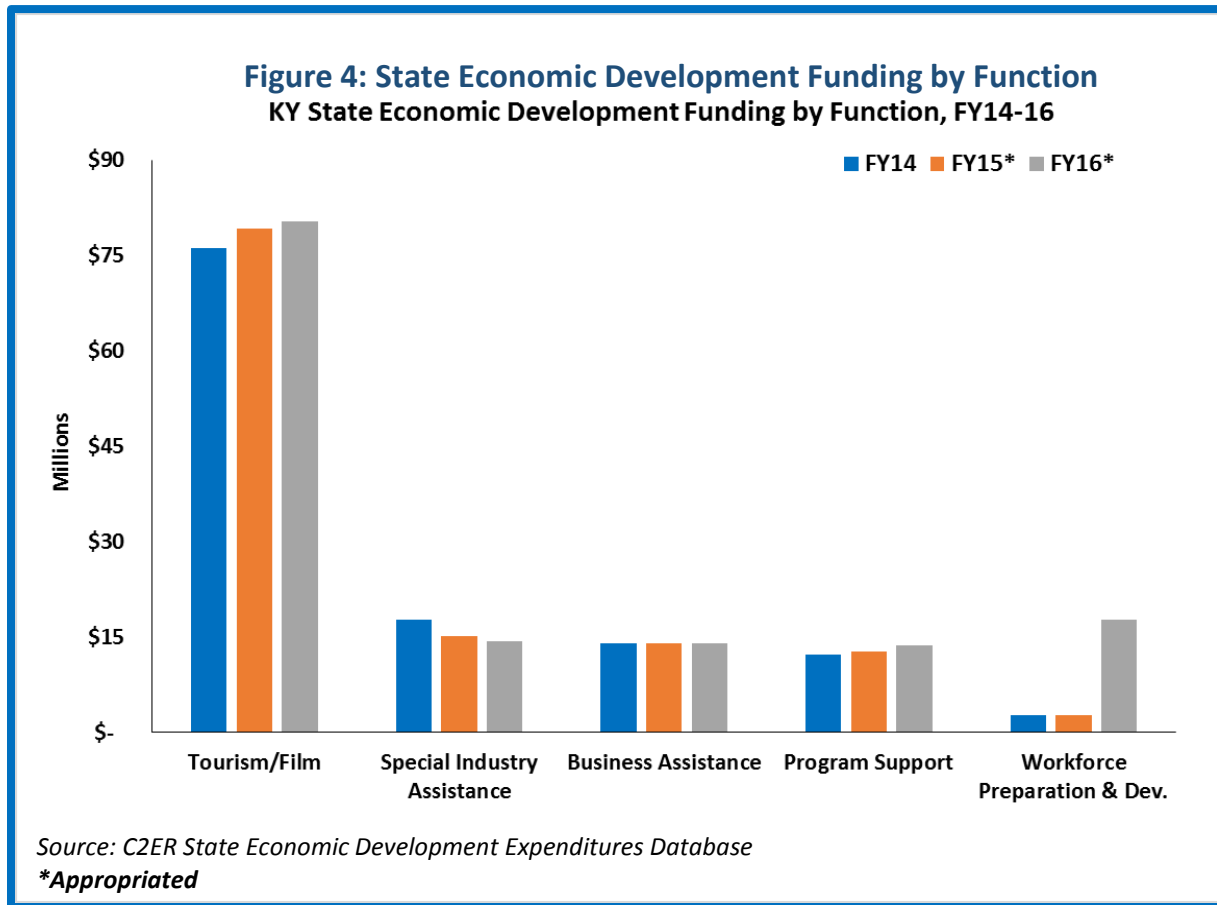
Between FY 2014 and FY 2016, Kentucky has generally held steady its investment in economic development program expenditures. Four of the state's top five economic development function areas have undergone relatively little change (See Figure 4). In FY 2016, Kentucky has proposed an additional \$15 million in funding for Bluegrass State Skills Corporation (BSSC) training grants to support significant manufacturing related investment.⁴ BSSC offers matching grants to offset the cost of employer-provided trainings.

Kentucky continues to heavily invest in its tourism/film industry. Behind manufacturing, tourism/film is one of the state's largest industries. In 1996, Kentucky signed into law the Tourism Development Act (KTDA). The Act remits sales tax for projects, for up to 25% of the total project cost, in exchange for capital investments made towards qualified existing in-state tourist attractions. Each year, developers of these tourist attractions are required to attract at least 50% of its patrons from out-of-state to qualify for the incentive – with a cap of 10 years.⁵

³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

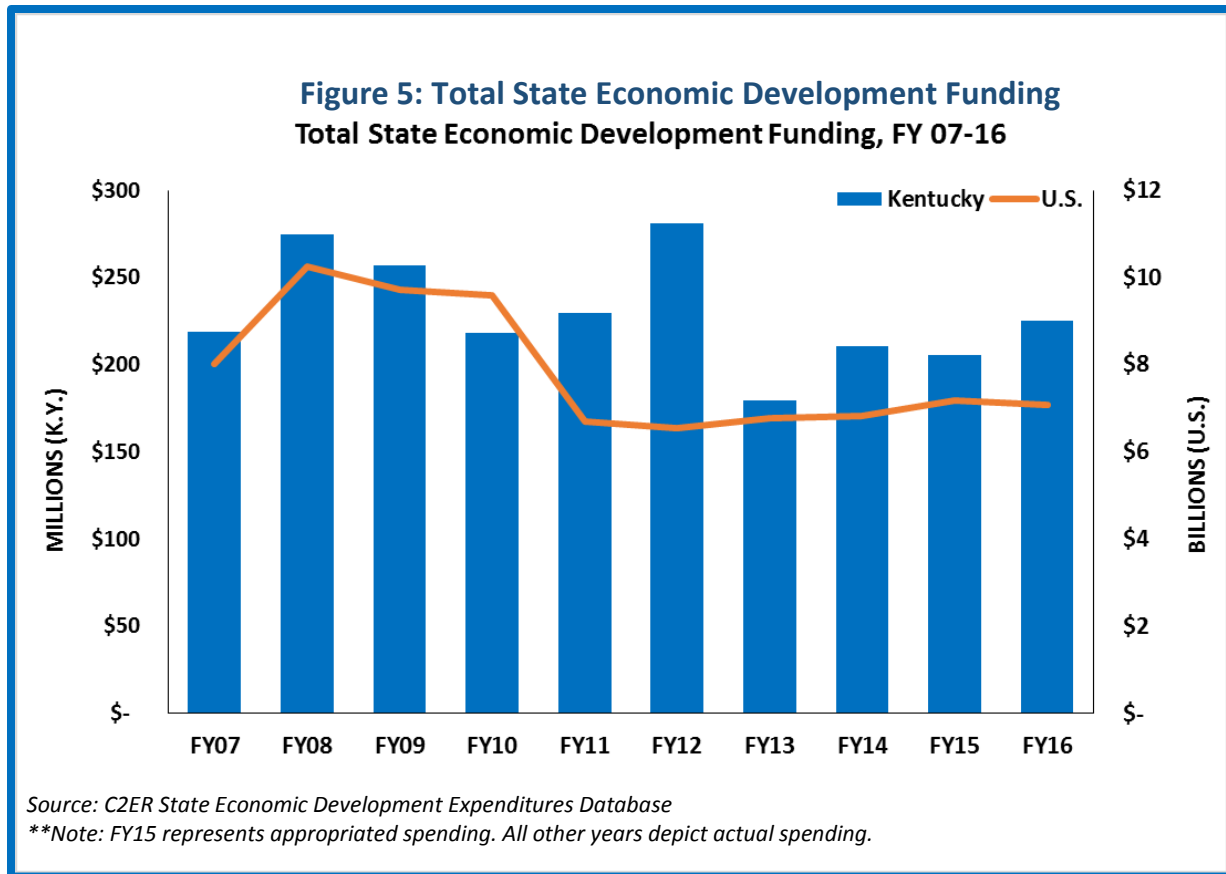
⁴ FY2014-FY2016 Budget of the Commonwealth: Operating Budget Volume 1. State of Kentucky. Accessed at: <http://osbd.ky.gov/Documents/Most%20Recent%20Publications/Budget%20in%20Brief.pdf>

⁵ Review of Kentucky's Economic Development Incentives. Anderson Economic Group. Kentucky Legislative Research Commission. June 11, 2012. Accessed at: http://www.lrc.ky.gov/Lrcpubs/AEG%20KY%20Incentive%20Report_jun112012.pdf



Overall, Kentucky’s spending patterns are much in line with nation. Between FY 2007 and FY 2009 state spending on economic development program expenditures rose by nearly \$38 million or 17 percent from \$219 million to \$257 million, before falling by 15 percent to \$218 million in FY 2010. Unlike the country as a whole, Kentucky did not experience a sharp decline between FY 2010 to FY 2011, but rather funding levels between these years held relatively steady. During the following year, FY 2012, state spending increased by more than \$60 million. This increase can be attributed in some part to greater state spending on business development and efforts to increase Kentucky’s foreign direct investment. Kentucky boasts the second highest Japanese foreign direct investment per capita in the U.S.⁶ In the same year, the Kentucky Economic Development Partnership also adopted a new statewide strategic plan. Funding for economic development program expenditures sharply declined in FY 2013, as state spending returned to normal. It has since risen slightly in recent years. (See Figure 5.)

⁶ Governor Beshear returns from economic development trip to Taiwan and Japan. Cabinet for Economic Development. State of Kentucky. May 2012. Accessed at: <http://www.thinkkentucky.com/newsroom/newsletters/may2012/nlmay2012.htm>



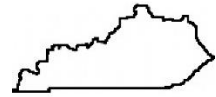
Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁷ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [Tax Expenditure Analysis Fiscal Years: 2014-2016](#) published by the Governor’s Office for Economic Analysis and the Office of State Budget Director in April 2014, is used for the analysis in this section. For a large number of tax expenditures the estimates for FY 2014 impact is recorded. However, in some cases, tax incentives are described as ‘minimal’ or ‘substantial’; so expenditures for these items are not reflected in the aggregate total.

In FY 2014, the Commonwealth of Kentucky’s economic development tax expenditure totaled approximately \$837 million, which is significantly greater than the \$210 million Kentucky invested in economic development program expenditures for that fiscal year. Kentucky mainly administers its tax expenditures through the Kentucky Department of Revenue, although entities such as the Kentucky Economic Development Finance Authority, have the authority to approve applications for tax incentives and in some cases allocate tax credits for qualified applicants.

⁷ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



For FY 2014, a total of 76 economic development tax expenditures were recorded. Of these items, 55 percent provided special industry assistance; 42 percent were aimed at domestic/out-of-state recruitment; and 3 percent were considered targeting workforce development. Kentucky's primary vehicle for economic development tax expenditures was the state's sales and use tax; and the single largest recorded item was \$176 million in sales tax expenditures for poultry, seed, fertilizers, and livestock meant for human consumption. The largest beneficiary of Kentucky's tax preference is the state's agriculture industry netting an estimated \$295 million in economic development tax expenditures representing approximately 35 percent of all line items reported in FY 2014. Aside from general commerce, rounding out the top five industries benefiting from Kentucky's tax preference are: warehousing at nearly \$88 million; manufacturing at roughly \$65 million; and energy and motor at \$54 million and \$38 million, respectively.

Analysis of Available Outcomes

In June 2012, the Kentucky Legislative Research Commission (KLRC) commissioned a [report](#) evaluating the state's economic development incentives. KLRC is the administrative and research arm of the state's legislative branch. The report prepared by the Anderson Economic Group (AEG) cites the C2ER State Business Incentives Database among state and federal resources as a reference for its analysis of state incentives. The intention of the report was to evaluate the state's return on investment in business incentives aimed at creating or retaining jobs. In all, from 2001 to 2010, a total 577 unique firms receiving state business incentives created or maintained a total of approximately 387,438 jobs, exceeding the combined job requirement (222,425) by 165,013 jobs. The report also outlined recommendations to improve the states reporting on business incentives. These recommendations include: statutorily requiring KCED incentives be reported to the agency's website; producing one comprehensive annual report; and maintaining consistent data definitions.⁸

The Kentucky Economic Development Partnership (KEDP) also provides an analysis of available outcomes including [business and economic reports](#) on business incentives and financial programs; new and expanding industries; facility closing reports; and an overall review of the Kentucky economy.

Conclusion

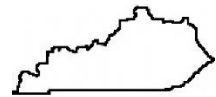
In summary, Kentucky administers a moderate number of incentives, with an emphasis on providing companies and entrepreneurs access to capital. The primary vehicle for the state's incentives is tax credits. Kentucky's per establishment investment is above the national average. While the state is producing good returns on its investments of business incentives, there remain opportunities for better reporting and more consistent metrics for evaluating incentive performance.

⁸ Review of Kentucky's Economic Development Incentives. Anderson Economic Group, LLC. Kentucky Legislative Research Commission. June 11, 2012. Accessed at: http://www.lrc.ky.gov/Lrcpubs/AEG%20KY%20Incentive%20Report_jun112012.pdf

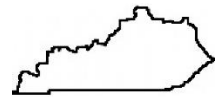


Appendix A: Full List of Kentucky's State Business Incentives (2015)

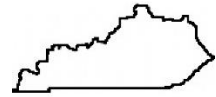
Program Name	Program Provider	Needs	Type Name
Competitive Grant-in-Aid Program (GIA)	Bluegrass State Skills Corporation (BSSC)	Workforce prep or development	Grant
Skills Training Investment Tax Credit (STIC)	Bluegrass State Skills Corporation (BSSC)	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Kentucky Microenterprise Loan Program	Community Ventures Corporation	Capital access or formation	Loan/Loan Participation
Kentucky Investment Fund Act (KIFA)	Kentucky Cabinet For Economic Development	Capital access or formation; Tech & product development; Tax/Regulatory burden reduction	Tax credit
Direct Loan Program	Kentucky Cabinet for Economic Development	Capital access or formation	Loan/Loan Participation
Industrial Revenue Bonds (IRB)	Kentucky Cabinet for Economic Development	Business management; Capital access or formation; Product & process improvement; Facility/site location	Other
High-Tech Pool Funding Resources	Kentucky Cabinet for Economic Development	Capital access or formation; Product & process improvement; Tech & product development; Workforce prep or development	Equity investment; Grant; Loan/Loan Participation
Kentucky Enterprise Initiative	Kentucky Cabinet For Economic Development	Product & process improvement; Tech & product development; Tax/Regulatory burden reduction	Tax refund or rebate
Kentucky Environmental Stewardship Act (KESA)	Kentucky Cabinet For Economic Development	Tech & product development; Product & process improvement; Tax/Regulatory burden reduction	Tax credit
Small Business Loan Program	Kentucky Cabinet For Economic Development	Capital access or formation	Loan/Loan Participation
Kentucky Collateral Support Program (KYCSP)	Kentucky Cabinet for Economic Development	Capital access or formation; Facility/site location	Collateral Support



Program Name	Program Provider	Needs	Type Name
Kentucky Loan Participation Program (KYLPP)	Kentucky Cabinet for Economic Development	Capital access or formation; Facility/site location	Loan/Loan Participation
Kentucky Capital Access Program (KYCAP)	Kentucky Cabinet for Economic Development	Capital access or formation; Facility/site location	Loan/Loan Participation
Recycling Equipment Tax Credit	Kentucky Department of Revenue	Capital access or formation; Product & process improvement; Tax/Regulatory burden reduction	Preferential rate; Tax credit; Tax exemption
Property Tax Exemptions	Kentucky Department of Revenue	Capital access or formation; Product & process improvement; Tech & product development; Tax/Regulatory burden reduction	Tax exemption
Clean Coal Incentive Tax Credit	Kentucky Department of Revenue	Capital access or formation; Facility/site location; Tax/Regulatory burden reduction	Tax credit
Biodiesel Tax Credit	Kentucky Department of Revenue	Tech & product development; Tax/Regulatory burden reduction	Tax credit
Tourism Development Incentive Program	Kentucky Department of Travel & Tourism	Capital access or formation; Facility/site location; Tax/Regulatory burden reduction	Tax credit
Kentucky Tourism Development Loan Program	Kentucky Department of Travel & Tourism	Capital access or formation	Loan/Loan Participation
VenCap Kentucky	Kentucky Economic Development Finance Authority	Capital access or formation	Equity investment
Kentucky Business Investment Program (KBI)	Kentucky Economic Development Finance Authority (KEDFA)	Capital access or formation; Workforce prep or development; Facility/site location; Tax/Regulatory burden reduction	Tax credit
Kentucky Reinvestment Act (KRA)	Kentucky Economic Development Finance Authority (KEDFA)	Tax/Regulatory burden reduction	Tax credit

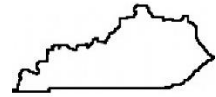


Program Name	Program Provider	Needs	Type Name
Incentives for Energy Independence Act (IEIA)	Kentucky Economic Development Finance Authority (KEDFA)	Tax/Regulatory burden reduction	Tax deduction; Tax credit
Kentucky Small Business Tax Credit Program	Kentucky Economic Development Finance Authority (KEDFA)	Tax/Regulatory burden reduction	Tax credit
Angel Investment Tax Credit	Kentucky Economic Development Finance Authority (KEDFA)	Capital access or formation; Tax/Regulatory burden reduction	Tax credit
Kentucky Film Incentive	Kentucky Film Office	Tax/Regulatory burden reduction	Tax credit
Local Government Economic Development Fund (LGEDF)	Kentucky Governor's Office for Local Development	Capital access or formation; Workforce prep or development; Facility/site location	Grant
Unemployment Tax Credit	Kentucky Office of Employment and Training	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Kentucky Enterprise Fund	Kentucky Science and Technology Corporation (KTSC)	Capital access or formation; Product & process improvement; Tech & product development	Grant; Loan/Loan Participation
Kentucky SBIR-STTR Matching Funds Program	Kentucky Science and Technology Corporation (KTSC)	Tech & product development	Grant
Research and Development Excellence Program (RDE)	Kentucky Science and Technology Corporation (KTSC)	Tech & product development	Grant
Rural Innovation Fund	Kentucky Science and Technology Corporation (KTSC)	Capital access or formation	Equity investment; Grant
Kentucky New Energy Ventures	Kentucky Science and Technology Corporation (KTSC)	Tech & product development; Capital access or formation	Equity investment
Kentucky Commercialization Fund Program (COMM)	Kentucky Science and Technology Corporation (KTSC)	Capital access or formation	Grant



Appendix B: KY Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Business Assistance	Other Business Assistance	\$14,042,000
Business Finance	Other Business Finance	\$6,779,200
Community Assistance	Funding for targeted geographic zones	\$29,914,400
Community Assistance	Grants to local/regional dev. Orgs	\$50,838,500
Program Support	Policy and planning	\$3,265,100
Program Support	Secretary/Director's Office	\$9,024,000
Special Industry Assistance	Agriculture/agribusiness	\$8,223,500
Special Industry Assistance	Energy and environment	\$6,580,200
Special Industry Assistance	Other Special Industry Assistance	\$2,954,700
Tourism/Film	Major events/festivals	\$47,458,500
Tourism/Film	Other Tourism/Film	\$12,924,900
Tourism/Film	Tourism development	\$15,815,600
Workforce Preparation and Development	Customized training	\$2,787,600
TOTAL		\$210,608,200

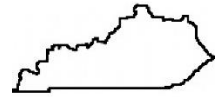


Appendix C: KY Economic Development Tax Expenditures (2015)

Description	Total Funds
Agricultural Exemption	\$110,000
Agricultural Products	\$3,800,000
Agricultural Use	\$7,800,000
Aircraft	\$1,700,000
Aircraft Refund	\$210,000
Allowance for Collecting and Reporting	\$1,000,000
Aquaculture	\$260,000
Biodiesel and Renewable Diesel Tax Credit	\$750,000
Business Inventories	\$68,100,000
Carlines	\$1,000,000
Charter Bus Exemption	\$60,000
Charter Bus Repair & Replacement Parts	\$42,000
Coal Conversion Credit	\$8,000
Coal Purchased for Alternative Energy or Gasification Facility	-
Coal Royalties*	Minimal
Coin-Operating Bulk Vending Machines	\$15,000
Commercial Motor Vehicle Exemption	Minimal
Consolidation of the KEDFA Economic Development Tax Credit Programs	\$780,000
Construction of Research Facilities Credit	\$190,000
Dealer's Monthly Reporting Allowance	\$13,000
Deductibility of Patronage Dividends	\$13,600,000
Domestic Production Activities	\$6,500,000
Energy and Energy Producing Fuels	\$50,500,000
Equine Water	\$1,500,000
Ethanol and Cellulosic Ethanol Credit	\$186,000
Farm Chemicals	\$9,000,000
Farm Machinery, Attachments, and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities or Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo	\$60,200,000
Film Industry Tax Credit	\$1,500,000
Fuel Used for Farm Purposes	\$18,900,000
Horses Less Than Two Years of Age	\$10,600,000
Horses Purchased for Breeding	\$10,800,000
Inactive Crude Oil & Natural Gas Wells	\$200,000
Insurance Company Transfers	\$110,000
Interstate Cargo and Passenger Aircraft, Parts and Supplies	-
Interstate Trucks, Tractors, Semi-Trailers and Buses	\$4,000,000
In-Transit Goods	\$19,500,000



Description	Total Funds
Intrastate Railroads and Railway Companies	\$199,000
Jet Fuel	\$28,700,000
Kentucky Investment Fund Tax Credit	\$154,000
Kentucky Small Business Investment Credit	\$130,000
KIDA Economic Development Credit	\$2,100,000
KIRA Economic Development Credit	\$4,100,000
KJDA Economic Development Credit	\$4,900,000
KREDA Economic Development Credit	\$8,300,000
Large Truck Exclusion	\$12,900,000
Limestone Sold or Used for Agricultural Purposes	Minimal
Livestock, Poultry, Ratite Birds, Embryos and Semen, Alpacas, Llamas, Buffalo, Farm Work Stock and Feed, Seeds and Fertilizers	\$176,200,000
Locomotives and Rolling Stock	\$11,200,000
Machinery for New and Expanded Industry	\$66,200,000
Machinery Used in Farming and Livestock & Domestic Fowl	\$5,300,000
Malt Beverage Excise Tax at Reduced Rate	\$14,000
Mfg. Machinery, Pollution Control Equip and Radio, Television & Telephonic Equip.	\$64,600,000
Motor Vehicles with a Salvage Title	Minimal
Net Operating Loss Deduction	\$52,800,000
New and Replacement Machinery and Equipment for Energy Efficient Projects	\$2,000,000
Non-Highway Use	\$37,700,000
Occasional Sales	Substantial
Property Certified as a Fluidized Bed Energy Production Facility	Minimal
Railroad Companies	\$23,100,000
Railroad Improvement Tax Credit	-
Reduced Rate for "Low Volume" Spirits	\$43,000
Repair Parts for Large Trucks	\$1,900,000
Sales to Motion Picture Companies	Minimal
Semi-Trailers and Trailers	\$4,500,000
Skills Training Investment Tax Credit	\$385,000
Thin Seam Tax Credit	\$2,300,000
Tourism Attraction Project Credit/Refund	\$6,200,000
Twine and Wire	Minimal
Unemployment Tax Credit	\$70,000
Vessels and Maritime Supplies	\$16,200,000
Water Used for Farm Purposes	\$11,200,000
Watercraft	\$52,000
Watercraft Refund	\$775,000
Agricultural and Horticultural Land Assessment Protection	\$100,000



Description	Total Funds
Alcohol Production Facilities	Minimal
Qualified Farming Operation Credit	-

*Data represents amount of tax credits used for FY 2014.