



IRB GUIDELINES AND CRITERIA CITY OF COVINGTON, KENTUCKY

POLICY STATEMENT

An industrial revenue bond (IRB) is an economic development tool that provides upfront capital to close a funding gap in large-scale (usually \$10 MM+) real estate developments that will help the City attract significant capital investment, jobs, and/or increase the City's tax base. It acts similar to a property tax abatement by artificially keeping property taxes low over the incentive period.

Kentucky passed IRB legislation to help cities finance commercial real estate developments and attract new payroll tax revenue. In Covington, where real estate taxes often result in less tax revenue than payroll taxes, it can be advantageous to provide an IRB where necessary in order to build the commercial property inventory and capture the long-term payroll tax revenue from the newly created jobs.

The City's objective is to broaden and diversify the tax base, create new job opportunities for the citizens of the City of Covington, and promote the economic growth and welfare of the City of Covington by:

- Creating and retaining quality, value-added (primary) jobs;
- Broadening and diversifying the City's tax base;
- Encouraging capital investments;
- Increasing the City's global competitiveness;
- Promoting the growth and wellbeing of the City of Covington.

SECTION 1. INTRODUCTION AND POLICY OVERVIEW

OVERVIEW. An Industrial Revenue Bond (IRB) is an economic development tool that provides upfront capital to close a funding gap in a large development project that is deemed to be transformational for the city. It acts similar to a property tax abatement by artificially keeping property taxes low for a specified term and it is one of the few economic development tools available to spur large-scale real estate developments that would otherwise never be built.

This tool can be used for new construction or rehabs and is targeted for commercial or mixed-use developments.

HOW IT WORKS. When a bank reviews a development proposal, the bank underwrites the proposal to ensure sufficient cash flow exists to repay their bank loan. One of the metrics they review is the project's net operating income (NOI). This number estimates the revenue remaining after operational expenses, such as property taxes, to repay the bank loan. The lower the net operating income, the smaller the bank loan and the larger the development gap.

Many redevelopment projects face a funding gap. One of the ways a developer can maximize their bank loan is to either increase rents or control expenses. As property tax is one of the largest

budgeted expenses, taxing authorities can agree to an IRB to artificially lower the property taxes and reduce the gap.

To apply, an applicant starts by submitting a Financial Assistance Application to the City. The incentive request is underwritten by City Staff to determine the project’s financial need for public assistance, then forwarded to City Commission for approval. Following Commission approval, the property becomes tax exempt. The City will own the property, but lease it to the Developer for the incentive term. In return, the Developer agrees to a Payment in Lieu of Taxes (PILOT) back to the City, County, and Schools to offset the foregone property tax revenue while the property is off the tax rolls. The remaining funds are reserved to pay the debt service on the bond or are retained by the developer.

EXAMPLE PAST DEAL.

Proposed Project	
What value is subject to taxes?	Full Real Estate Value
How is the value determined?	Assessed by PVA after completion
When does the value increase?	PVA Reassesses every 4 years or upon a sale
PILOT (Years 1-5)	33%
PILOT (Years 6-10)	50%
PILOT (Years 11-15)	50%
PILOT (Years 16-20)	66%
PILOT (Years 21-30)	100%
Tax Rates	Updated Annually

SECTION 2. APPLICATION AND FEES

Application Process. Applications must be submitted to the City’s Economic Development Department. Depending on the exact nature and complexity of the project, the estimated timeframe from application to approval by City Commission is approximately 3-4 months. The Developer will be expected to pay for all city’s costs associated with staff review, underwriting costs, third party review & fees (appraisal, consultant fees, and bond counsel) that will be paid at bond closing.

All applications should be emailed to the Economic Development Director OR delivered to:

City of Covington
 ATTN: Economic Development Department
 20 W. Pike Street

Each application is underwritten like a bank to determine the financial gap in the project. Staff will review all the required attachments to ensure construction costs, budgets, and revenue projections are reasonable, review all sources of funds to ensure all funds have been committed and maximized by the private market before requesting public assistance, and will order an independent appraisal at the developer’s cost. Additionally, the City has contracted with the National Development Council to

provide an independent review of the city's underwriting for City Commission. After all underwriting is completed, the City may provide an offer letter proposal to the developer.

Application Details. Applicants must submit a complete application. Each application submitted will be evaluated by City staff and may be reviewed by the Covington Economic Development Authority (CEDA) on a case-by-case basis to analyze the viability of the proposed project. The following basic evaluation criteria will be used to assure a thorough review of applications seeking funding.

- **Development Team:** Corporate Resolution, Articles of Incorporation, Operating/Partnership Agreement; Resumes of owners and key managers; Outline of the full development team; Past projects that have requested/received city incentives.
- **Owner Financial Strength:** Personal Financial Statements from all 20% or more owners of applicant entity.
- **Financial Information:** 10-year cash flow projection and listing of all project assumptions (excel - rent rates, revenue & expense growth) and a budget that details total project investment (excel).
- **Sources of Funds:** Conditional Bank commitment and/or term sheet; List of any grant requests pending or committed; Tax credits allocated or applied for; Financing Projections (including any IRBs).
- **Cost Verifications:** Purchase agreements, contractor estimates, architect contract.
- **Environmental:** Summary of any Phase 1 and/or Phase 2.
- **Market Information:** Summary of appraisal, market study, comps with sources, and any letters of intent from prospective commercial tenants; Copy of third-party analysis for all financial projections (include lease rates, absorption/capture rates, vacancy, expense escalators, etc.); Estimated post construction value (and eventually as-built appraisal).
- **Goodstanding Review:** Ensures the development team and all affiliates are in good standing with the City pursuant to Commissioner's Ordinance No. O-11-06, including no adverse claims or delinquent obligations.

Fees: The Developer will be expected to pay for all city's costs associated with staff review, underwriting, appraisal (before legislation) and other third party fees (consultant and outside counsel fees) to be paid at closing.

Project Location. Many proposed IRB projects fall within our Tax Increment Financing (TIF) district. While the property is tax exempt, the TIF District will no longer collect any real estate property taxes from those parcels. However, the City will still collect the negotiated PILOT. Therefore, a positive CEDA recommendation is needed.

Eligible Development. The following project types may be eligible:

- Office development: New construction or rehabilitation
- Business parks for targeted industries: New construction or rehabilitation
- Retail/commercial development: New construction or rehabilitation
- Mixed-use or multi-family development: New construction or rehabilitation
- Residential development: New construction or rehabilitation (reduced incentive terms)

Demonstration of Economic Development Impact. Applicant must describe how the planned investment will contribute to economic development activity in the City, including: the experience of the team; borrower capability; what site improvements will occur; the transformational nature of the project; the quality and quantity of jobs created and retained; the need for funding; the timeline for the

project; project sustainability; collateral quality; the soundness of the transaction; and the amount to be invested overall in the project.

Demonstration of Need for Public Assistance. The application should demonstrate that the proposed project shall not occur if not for public assistance.

Project Approval. If an offer letter is provided and agreed to by the applicant, both parties will work toward a term sheet outlining all the business terms. The city will then draft a Development Agreement to specify the project requirements based on these guidelines and staff recommendations. Recommendation by City Staff, CEDA, and approval by the City Board of Commissioners are required.

No Guarantee of Funding. Submission of an application is not a guarantee of funding

SECTION 3. PROJECT REQUIREMENTS

By law ([O-43-18](#)), staff is required to ensure the applicant's project and any IRB offer and development agreement meets ALL incentive terms below. Any exceptions would need to be justified by the applicant when presented to City Commission for approval.

1. **Last to the Table.** City staff underwrites and reviews incentive requests AFTER all other private financing has been maximized and committed.
2. **All Deals Underwritten.** Each development must deliver a positive, long-term return-on-investment for the City to offset the additional city services created by the development.
3. **Commercial vs. Residential Term.** While both development types are important facets of the City's economic development goals, commercial uses contribute greater direct returns on investment and will be prioritized and incentivized accordingly.
 - a. **Commercial:** To capture long-term revenue associated with payroll taxes, commercial IRBs term can be more flexible in order to subsidize the development and attract new payroll tax revenue streams to the City. However, in order to realize a strong return on investment, the City must be cautious about offering employer incentives at the same location.
 - b. **Residential:** At no point will the City's PILOT of the assessed value be less than 100% after 20 years.
 - c. **Mixed-Use:** The Development will be reviewed based on the primary use by square footage. Incentive terms will reflect whether the development is primarily commercial or residential and the number and estimated wages for the types of permanent jobs to be created.
4. **Assessed Value.** After the project is built, the IRB assessed value for determining the PILOT will be determined by the PVA, not negotiated.
5. **Tax Rates.** Property tax rates used for determining annual PILOT payments will reflect the actual tax rates for that calendar year and will not be "locked in" throughout the term.

6. **PAYMENT IN LIEU OF TAXES (PILOT).** PILOT percentages shall gradually increase over the term, not remain static throughout the term. At no point will the City's PILOT on a residential or primarily residential mixed-use project be less than 100% after 20 years.
7. **Assignability.** City IRB benefits are not to be assignable or transferable unless approved in writing after reviewing the proposed sale terms. Otherwise, a sale or transfer triggers a return to the full tax rate, payment of any outstanding balance, and end of City ownership of the property.

SECTION 4. Economic Development Staff

If you have any questions throughout the process, don't hesitate to contact us. We look forward to working with you.

Tom West, AICP



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Ross Patten, EDFP



Assistant Director
859.292.2144
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EXAMPLE DEAL–

Below is an example of a \$10 MM assessed property that received an IRB with a PILOT approved by the City, County, and Schools for a 20 year term. The rate gradually increases over the incentive term to fill the project’s upfront funding gap.

In this example, this incentive package offered provided the applicant \$2.17 MM of incentives (nominal) to attract more commercial bank financing and deliver an adequate return on investment for the developer & investors.

In return, this completed development attracted a large commercial user that created new payroll tax revenue for the city, new job opportunities for residents, and renovated a long-time vacant property.

Example	Proposed Development						
	Rate	PVA Value	Taxes Collected (All)	City's PILOT	County PILOT	School PILOT	Forgone Taxes
33%	Year 1	\$ 10,000,000	\$ 186,222	\$ 10,791	\$ 5,247	\$ 35,508	\$ 134,676
33%	Year 2	\$ 10,000,000	\$ 186,222	\$ 10,791	\$ 5,247	\$ 35,508	\$ 134,676
33%	Year 3	\$ 10,000,000	\$ 186,222	\$ 10,791	\$ 5,247	\$ 35,508	\$ 134,676
33%	Year 4	\$ 10,000,000	\$ 186,222	\$ 10,791	\$ 5,247	\$ 35,508	\$ 134,676
33%	Year 5	\$ 10,000,000	\$ 186,222	\$ 10,791	\$ 5,247	\$ 35,508	\$ 134,676
50%	Year 6	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 7	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 8	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 9	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 10	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 11	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 12	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 13	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 14	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
50%	Year 15	\$ 10,000,000	\$ 186,222	\$ 16,350	\$ 7,950	\$ 53,800	\$ 108,122
66%	Year 16	\$ 10,000,000	\$ 186,222	\$ 21,582	\$ 10,494	\$ 71,016	\$ 83,130
66%	Year 17	\$ 10,000,000	\$ 186,222	\$ 21,582	\$ 10,494	\$ 71,016	\$ 83,130
66%	Year 18	\$ 10,000,000	\$ 186,222	\$ 21,582	\$ 10,494	\$ 71,016	\$ 83,130
66%	Year 19	\$ 10,000,000	\$ 186,222	\$ 21,582	\$ 10,494	\$ 71,016	\$ 83,130
66%	Year 20	\$ 10,000,000	\$ 186,222	\$ 21,582	\$ 10,494	\$ 71,016	\$ 83,130
	Total over 20 years		\$ 3,724,440	\$ 325,365	\$ 158,205	\$ 1,070,620	\$ 2,170,250

APPLICATION

SECTION I -APPLICANT INFORMATION

Applicant Name(s): _____

Name of Business: _____

Type of Business: _____ Federal Tax I.D. _____

Address: _____ City: _____ State: _____ Zip: _____

Telephone: _____ Mobile: _____

Email: _____

Are you in good standing with the City (taxes current, no lawsuits, active permits, etc.) ? Yes | No

Purpose of Application (Please Check)

New Construction

Renovation

Ownership & Management

Sole Proprietorship

Corporation

Partnership

LLC

Limited Partnership

Other: _____

List all properties, partners, and/or stockholders with at least 20% ownership in business:

Name & Title: _____

Address: _____

Phone: _____ Percent Ownership: _____

Name & Title: _____

Address: _____

Phone: _____ Percent Ownership: _____

Name & Title: _____

Address: _____

Phone: _____ Percent Ownership: _____

SECTION II - PROPERTY INFORMATION

Property Address: _____

Do you own the property? Yes | No Acquisition Cost \$ _____ Acquisition Date: _____

Is the property subject to an existing mortgage? Yes | No

Name & Address of Mortgage: _____

Current Balance \$ _____

If you do not own this property, is it under option? Yes | No

Purchase price stated in option? \$ _____ Option expiration date: _____

Name & Address of Current Owner: _____

Attach a copy of the option agreement and provide any information regarding the agreement.

Is the property occupied? Yes | No What percentage of existing structure is occupied? _____%

Size of existing structure to be renovated or addition to be constructed: _____ SF

Size of new building to be constructed: _____ SF

Total SQ FT/units to be constructed/renovated:

Office: _____ SF Industrial _____ SF Retail: _____ SF

Please describe your proposed project.

Please describe the benefits this project will bring to Covington (attach additional page if necessary).

Project Investment

Scope of Budget:	Estimated Project Cost:
Acquisition	\$ _____
Construction	\$ _____
Public Infrastructure Improvements	\$ _____
Design	\$ _____
Soft Costs	\$ _____
Other (Please Specify _____)	\$ _____
TOTAL PROJECT COST	\$ _____

Estimated Project Start Date: _____ Months to Complete Construction: _____
Current PVA's value of property (value of all parcels involved): _____
Estimated post-construction PVA value of property: _____

Sources of Project Funds

Scope of the Project:	
Owner Equity	\$ _____
Bank Loan	\$ _____
Private Financing	\$ _____
Other (Please Specify _____)	\$ _____
(GAP)	\$ (_____)
TOTAL	\$ _____

Name of Bank: _____
Address: _____
Contact Name & Phone: _____

Have you approached Energize Kentucky about financing (<https://www.kypace.org/>)?

SECTION IV - JOB CREATION/RETENTION

Incentives are geared towards projects that spur growth within the City of Covington. Please include the number of jobs (estimates are fine) that will be created as a result of this project.

Breakout the total number of new employees the project will create within the next three years:

Full Time: _____ Part Time: _____ Total annual payroll: \$ _____
During the first twelve months of the agreement: _____ positions

During the second twelve months of the agreement: _____ additional positions

During the third twelve months of the agreement: _____ additional positions

Temporary Construction Jobs: _____ Total Annual Payroll: \$ _____

Length of Construction Period: _____

Brief Description of Job Types Created and Projected Salaries (attach additional page if necessary).

SECTION V - REQUIRED APPLICATION DOCUMENTS

Please provide the following documentation as an attachment. If you believe that a particular item is not applicable to your project, please include an explanation of why you believe it is not applicable. **Please ensure that all sections are complete and ALL REQUIRED DOCUMENTS below are submitted with the application.**

Attachment Number	Attached (Yes/No)	Attachment Description
#1	<input type="checkbox"/> Yes <input type="checkbox"/> No	Development Team: Articles of Incorporation with State, Outline the full development team, Operating/Partnership Agreement; Resumes of owners and key managers;
#2	<input type="checkbox"/> Yes <input type="checkbox"/> No	Owner Financial Strength: Personal Financial Statements from all 20% or more owners of applicant entity are REQUIRED.
#3	<input type="checkbox"/> Yes <input type="checkbox"/> No	Financial Information: Provide 10-year cash flow projection and list all project assumptions (excel - rent rates, revenue & expense growth). Budget that details total project investment (excel)
#4	<input type="checkbox"/> Yes <input type="checkbox"/> No	Sources of Funds: Conditional Bank commitment and/or term sheet; List of any funding requests pending or committed; Tax credits allocated or applied for; any project gap and public subsidy request
#5	<input type="checkbox"/> Yes <input type="checkbox"/> No	Cost Verifications: Purchase agreements, contractor estimates, architect contract.
#6	<input type="checkbox"/> Yes <input type="checkbox"/> No	Environmental: Summary
#7	<input type="checkbox"/> Yes <input type="checkbox"/> No	Market Information: Copy of Appraisal (or one will be ordered at developer's cost). Summary of all assumptions including lease rates, absorption/capture rates, vacancy, expense escalators, etc.);

SECTION VI - DEVELOPER CERTIFICATIONS

Has the applicant:

1. Been convicted of a felony? Yes | No
2. Been convicted of or enjoined from any violation of state or federal securities law? Yes | No
3. Been a party to any consent order or entry with respect to an alleged state or federal securities law violation? Yes | No
4. Been a defendant in a civil or criminal action? Yes | No
5. Owe any delinquent taxes to the Commonwealth of Kentucky or a political subdivision of the Commonwealth? Yes | No
6. Owe any monies to the Commonwealth or a state agency for the administration or enforcement of any environmental laws of the Commonwealth? Yes | No
7. Owe any money to the Commonwealth, a state agency, or a political subdivision of the Commonwealth that are past due, whether the amounts owed are being contested in a court of law or not? Yes | No
8. Received City development assistance and/or enacted development agreements with the City within the past 5 years? Yes | No
 - a. If yes, are the applicant and its affiliates currently in compliance with said agreement? Yes | No
 - b. If yes, have the applicant and its affiliates had any agreements with the City of Covington or other political subdivision of the Commonwealth of Kentucky terminated for non-compliance? Yes | No

Certification

I certify that all the information included in and attached as part of this application is complete and correct to the best of my knowledge. I understand that the City will rely on the accuracy of this information. I authorize the verification of all financial and other information in connection with this application. The Covington BOC may adopt legislation from time to time that can impact eligibility, benefits and evaluation criteria. Staff of the Economic Development Department makes every effort to update these applications and program guidelines as quickly as possible once changes are adopted. It is the responsibility of the applicant to assure that the application and guidelines being followed are the most recently adopted at the time of submission.

Signature: _____

Date: _____

Signature: _____

Date: _____

Signature: _____

Date: _____

Signature: _____

Date: _____