

Just the Facts:

Kentucky Environmental Stewardship Act (KESA)

March 2017

This fact sheet provides an overview of the KESA program. For a full discussion of the program requirements, please see KRS 154.48-010 through 154.48-035. As with all state administered tax incentive programs, any inducements offered to an eligible company under the KESA program are negotiated by Cabinet for Economic Development officials.

Eligible Companies

Any business entity that manufactures an environmental stewardship product which is a unique product that has a substantial positive impact on the environment.

Eligible Projects

A project must have at least \$5,000,000 in eligible costs to participate in the program. Approved companies can potentially recover up to 25 percent of the project's fixed asset cost and 100 percent of employee skills training through the KESA tax incentives.

Minimum Employee Compensation

Pursuant to KRS 154.48-020, any company participating in the KESA 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 154.48-010 equal to 15 percent of the county minimum hourly wage. If employee benefits are less than 15 percent, a company may utilize a combination of wages and employee benefits equivalent to 115 percent of the county minimum hourly wage.

Incentive

A KESA approved company is eligible to receive a 100 percent credit against the Kentucky tax liability generated by the project. The tax liability associated with the project is determined by subtracting the base year tax liability from each year's tax liability after the project is activated. The tax incentive is available for recovery over a ten-year period or until the authorized incentive is realized. In addition, the company is limited to a maximum of 25 percent of the authorized incentive in any single tax year. Any unused incentives remaining after the incentive agreement has expired are not accessible.

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 KESA.
- The company completes its project and provides KEDFA with documentation in connection with the project's eligible costs.
- An Environmental Stewardship Agreement is approved by KEDFA that authorizes the KESA incentives for the company.
- The company activates the Environmental Stewardship Agreement, initiates its 10-year recovery period and begins to utilize the KESA incentives.

Fees

There is a \$500 non-refundable application fee payable upon submission of the KESA 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 KESA amount authorized in the Environmental Stewardship Agreement. In addition, the company will incur legal fees necessary for the preparation of the Environmental Stewardship Agreement.

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To learn more, contact:
Katie Smith
Katie.Smith@ky.gov
Phone: (502) 782-1987
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